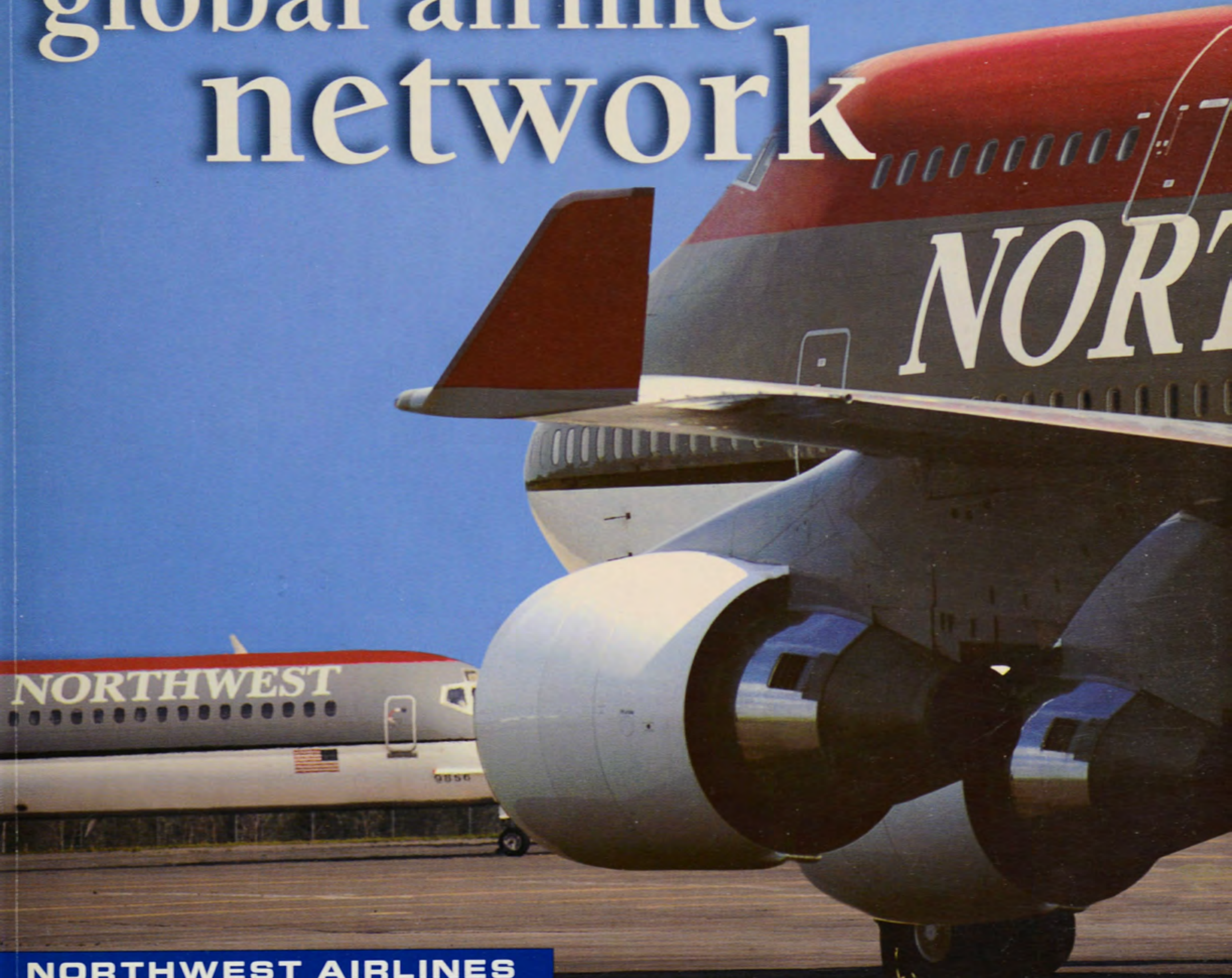
building a global airline network



NORTHWEST AIRLINES
1998 ANNUAL REPORT

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, WITH KLM ROYAL DUTCH AIRLINES, A EUROPEAN HUB IN AMSTERDAM. NORTHWEST AIRLINES AND ITS ALLIANCE PARTNERS, INCLUDING CONTINENTAL AIRLINES, SERVE MORE THAN 500 CITIES IN 90 COUNTRIES ON SIX CONTINENTS AND OFFER CUSTOMERS AN INDUSTRY LEADING GLOBAL AIRLINE NETWORK.

THE COMPANY

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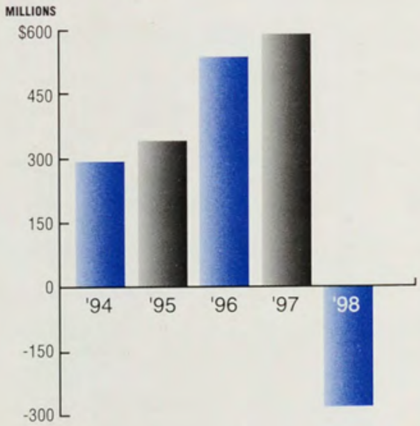
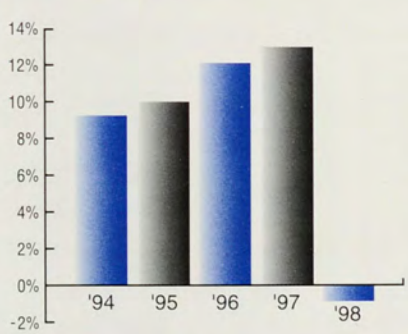
CONDENSED FINANCIAL HIGHLIGHTS

Northwest Airlines Corporation	*Year Ended December 31*		
(Dollars in millions, except per share data)	**1998**	1997	Percent Change
Financial			
Operating Revenues	**$ 9,044.8**	$ 10,225.8	(11.5)
Operating Expenses	**9,236.2**	9,068.6	1.8
Operating Income (Loss)	**$ (191.4)**	$ 1,157.2	(116.5)
Operating Margin	**(2.1)%**	11.3%	(13.4) pts.
Net Income (Loss)	**$ (285.5)**	$ 596.5	(147.9)
Earnings (Loss) Per Common Share			
Before Extraordinary Item:			
Basic	**$ (3.48)**	$ 5.89	
Diluted	**$ (3.48)**	$ 5.29	
Number of Common Shares Outstanding	**84.0**	97.0	
Operating Statistics			
Scheduled Service:			
Available Seat Miles (ASM) (millions)	**91,310.7**	96,963.6	(5.8)
Revenue Passenger Miles (RPM) (millions)	**66,738.3**	72,031.3	(7.3)
Passenger Load Factor	**73.1%**	74.3%	(1.2) pts.
Revenue Passengers (millions)	**50.5**	54.7	(7.7)
Revenue Yield Per Passenger Mile	**11.26¢**	12.11¢	(7.0)
Passenger Revenue Per Scheduled ASM	**8.23¢**	9.00¢	(8.6)
Cargo Ton Miles (millions)	**1,954.4**	2,282.8	(14.4)
Operating Revenue Per Total ASM (RASM)	**9.12¢**	9.76¢	(6.6)
Operating Expense Per Total ASM (CASM)	**9.21¢**	8.63¢	6.7

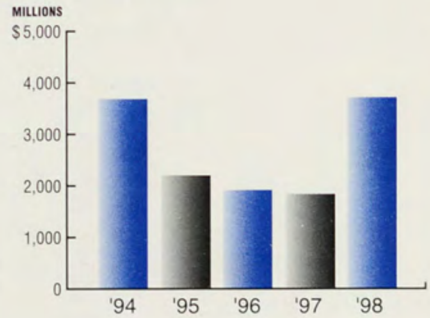
Net Income (Loss)



Return on Capital



Long-Term Debt



From the Chairman and the President & CEO

Our vision in the 1990s has been to create a global airline that is preferred by our customers because we provide the most convenient and reliable air transportation network. Long-term alliances are the most economic way to expand globally due to the revenue, cost and capital synergies shared by the partners. Worldwide coverage also diversifies risks among various international regions. Diversity has served us well as strong domestic and trans-Atlantic markets have helped offset Asian weakness.

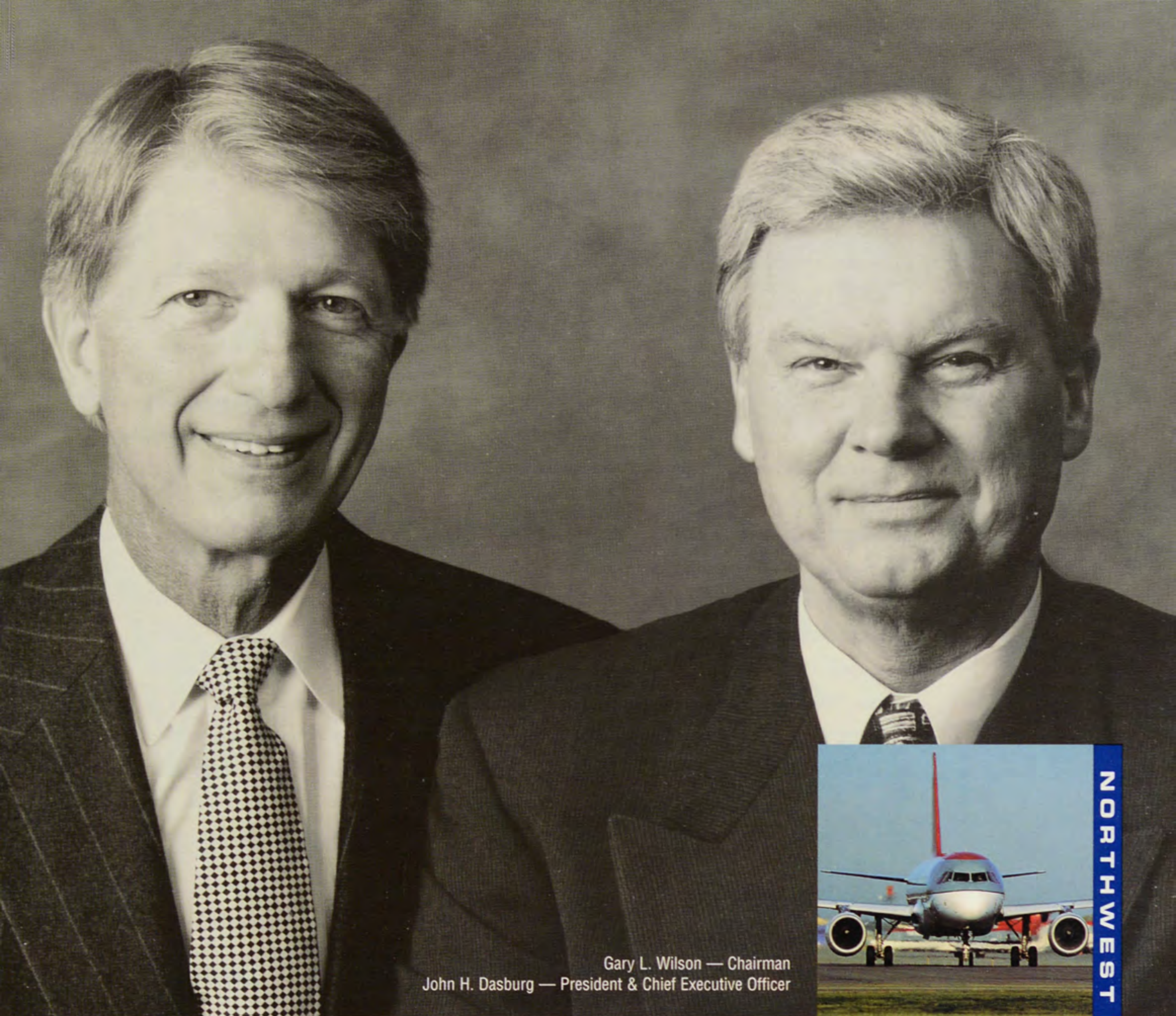
Northwest is the leader in creating global networks and made great progress in 1998. We concluded a long-term alliance agreement with Continental Airlines, the first such agreement between two large domestic carriers. Northwest also purchased 13.5 percent of Continental, representing 50.3 percent of the voting shares. The combination of our two complementary systems will allow Northwest and Continental to compete effectively with American, United and Delta on a global basis. We expect the alliance synergies to provide significant future profit growth for both Northwest and Continental beginning in 1999.

NORTHWEST AIRLINES

KLM and Northwest continued to increase trans-Atlantic market share and revenues while realizing substantial joint cost savings. KLM concluded an alliance agreement with Alitalia that will increase their European scope and provide new alliance hubs in Milan and Rome.

The strong foundation of our global network is now established with Northwest, Continental, KLM and Alitalia working closely together to provide the scope our customers demand, the opportunities our employees seek, and the profit growth our shareholders expect as we move into the 21st Century.

Our goal was to negotiate labor contracts with all unions in 1998. Unfortunately, we experienced a 15-day strike before an agreement was reached with the pilots' union. Strikes hurt all parties involved in the dispute and some that are not — most importantly, our customers. The strike and preceding work slowdowns throughout 1998 are the reasons for Northwest's 1998 loss. We have reached agreement with five unions, covering eight contracts, as of February 1999. These contracts are for terms ranging from four to six years. We are negotiating with the union representing our flight attendants and awaiting the outcome of a representation election with our mechanics. Our objective is to promptly conclude agreements on fair terms with our remaining unions. The prime cause of protracted negotiations in our industry is The Railway Labor Act, which governs airline labor relations. Many industry and union leaders agree this is an anachronism that should be changed for the benefit of air transportation companies and their employees and customers.



Gary L. Wilson — Chairman
John H. Dasburg — President & Chief Executive Officer

FOR NORTHWEST AIRLINES, 1998 WAS A YEAR OF EXTREMES. WE CONTINUED TO DEVELOP OUR GLOBAL ALLIANCE NETWORK: WE ADDED A LONG-TERM ALLIANCE AGREEMENT WITH CONTINENTAL AIRLINES AND ACQUIRED A SIGNIFICANT OWNERSHIP INTEREST IN THEM; WE STRENGTHENED OUR ALLIANCE AND JOINT VENTURE WITH KLM ROYAL DUTCH AIRLINES; AND WITH KLM, WE WELCOMED ALITALIA TO OUR GLOBAL NETWORK. BUT WE WERE UNABLE TO REACH A NEGOTIATED SETTLEMENT WITH OUR PILOTS UNION AND SUFFERED A COSTLY STRIKE, RESULTING IN A LOSS FOR THE YEAR.

In 1999, government intervention continues to be one of the major challenges to offering the world's most reasonably priced and efficient air transportation service to our customers. Northwest pays 15 percent of U.S. passenger revenues in transportation and fuel taxes to the government. A presidential commission recommended in 1993 that the government reduce taxes on airlines. Instead, taxes have increased and government is proposing more tax increases in 1999. In addition, Congress is concerned about high ticket prices and industry concentration in airline hubs — all this in an industry that ranks in the lower quartile of profit margins and return on capital. It's time that government either re-regulated the airline industry or let us compete freely. If deregulation is to continue to be national policy, then the industry should not be re-regulated indirectly through a series of ad hoc government interventions to the detriment of our employees, customers, and shareholders.

strengthening world alliances

As we enter the 10th year under new ownership and management, our challenge is to renew the spirit and enthusiasm that propelled Northwest from service oblivion to the industry's leading carrier in on-time performance and service from 1990 to 1996. We are committed to giving Northwest people the tools, training and leadership to return our service to industry leading levels that will make Northwest our customers' preferred carrier. We thank the vast majority of our employees who performed at superior levels during a tumultuous year. We encourage all Northwest people to put 1998 behind us and work together to regain the loyalty of the many customers whom we inconvenienced.

To our customers we apologize for the service problems caused by labor disruptions during the past two years. In addition to safety, which is our highest priority, we are dedicated to consistently meeting five customer requirements:

- On-time performance
- Reliable luggage, mail and freight delivery
- Cleanliness of aircraft and facilities
- Courteous service
- Prompt and fair problem resolution

Northwest has been an industry leading service provider in the past, and we pledge to return to those levels.

Our customers tell us that they want convenient and frequent service to popular destinations. Expansion of our hubs in Detroit, Minneapolis/St. Paul, Memphis, Tokyo and Osaka, and the hubs operated by our alliance partners in Newark, Houston, Cleveland, Amsterdam, Milan and Rome provide our passengers with a global network that can meet their requirements. Hubs are being scrutinized but are vital to travelers throughout the world and are critically important to the communities they serve. This key issue is discussed more fully on page 13.

Thank you for your interest and support.

...building a global airline network

Gary L. Wilson
Chairman

John H. Dasburg
President & Chief Executive Officer

Northwest/Continental Alliance Transforms "Big Three" into "Big Four"

In January 1998, Northwest and Continental Airlines announced the first-ever alliance between two major U.S. airlines. In November 1998, the carriers began implementing this alliance which, in effect, forms a fourth major U.S. airline network to rival the domestic industry's three largest networks. This improved position in the North American market is critical not only to Northwest's ability to compete domestically, but also to its ability to continue to attract new partners as global alliance building in the airline industry continues.

While the two airlines will remain separate companies, the growth generated by the alliance will help stimulate employment at both Northwest and Continental.

Unlike the Northwest/KLM trans-Atlantic alliance, in which the two partners share equally most revenues and costs for joint venture routes, Northwest and Continental will remain independent competitors and will benefit individually from the incremental revenues and profits generated by linking each airline's network. Benefiting from Northwest's long experience as KLM's global partner, the Northwest/Continental alliance is, from the start, more deeply integrated than announced alliances between other major U.S. carriers.

For instance, Northwest and Continental will share designator codes on substantially all of their domestic and many of their international routes. Northwest's midwest and northern tier strengths compliment Continental's southern tier and eastern U.S. strengths. Because there is virtually no overlap in their end-on-end route structures, code-sharing under the alliance agreement adds 52 destinations to Northwest's route system and 40 to Continental's, thus enabling new online service in more than 2,000 potential markets.

The code-sharing agreement contemplates new online service on the majority of each partner's flights from the U.S. to trans-Atlantic, trans-Pacific and South American destinations. The alliance also dramatically expands travelers' airport lounge privileges, allowing members in either carrier's airport clubs liberal use of 37 domestic airport lounges.

The Northwest/Continental alliance offers reciprocity between the Northwest WorldPerks® and Continental OnePass® frequent flyer programs, both already recognized as among the industry's best. WorldPerks and OnePass members are able to earn and redeem miles on either carrier. In addition, members in the continental U.S., Alaska and Canada now enjoy increased opportunities for award travel thanks to fewer blackout dates and expansion of the "off peak" redemption period from 10 weeks to nine months.

IN 1998, NORTHWEST STRENGTHENED ITS POSITION IN AN INDUSTRY-LEADING GLOBAL AIRLINE ALLIANCE. NORTHWEST IMPLEMENTED AN ALLIANCE WITH CONTINENTAL AIRLINES – THE FIRST SUCH ALLIANCE BETWEEN MAJOR U.S. CARRIERS – AND FURTHER INTEGRATED OPERATIONS WITH KLM ROYAL DUTCH AIRLINES. NORTHWEST'S ALLIANCE-BUILDING WORK ENTERS A NEW PHASE IN 1999 WITH THE LAUNCH OF A GLOBAL AIRLINE ALLIANCE.

Continental people have earned high distinction for customer service.

Strengthening the "Alliance for Life"

The global link between Northwest and KLM is the world's most fully integrated airline alliance. Today, the alliance provides service to more than 500 cities in 90 countries on six continents. The number of alliance flights and passengers we carry has more than doubled over the last five years. By coordinating passenger service systems and procedures, Northwest and KLM now operate as one airline from the traveler's point of view for reservations, ticketing, luggage handling, airport lounge privileges and accumulation and redemption of frequent flyer benefits. Total revenues on joint venture routes exceeded $2 billion in 1998.

In September 1997, Northwest and KLM signed a long-term enhanced commercial cooperation agreement that made the alliance between them virtually permanent.

With the agreement as a governing framework and a Northwest/KLM Alliance Steering Committee to guide implementation, Northwest and KLM are now further synchronizing inventory management, developing broad and deep links between their respective information systems and more closely coordinating product development, marketing and sales, purchasing, catering, ground-handling and other services.

For example, in April 1998, Northwest assumed responsibility for KLM's sales, marketing and operations in North America while KLM assumed similar responsibilities for Northwest in Europe, Africa and the Middle East. In most instances, this integration now results in a single person representing one "product" — the Northwest/KLM alliance.

Amsterdam's Schiphol Airport is cleared to add about 20,000 flights per year through 2010.

Alliance Plane — a Northwest Airlines DC10 aircraft will display this paint scheme for at least a year, to commemorate the Northwest/KLM alliance.

Global Alliance Takes Wings

In 1999, Northwest expects to evolve its participation in alliances to a new level with the launch of our fully operational global "branded" alliance.

The cornerstone partners will be Northwest and Continental in North America and KLM and Alitalia in Europe. Northwest and Continental bring the convenience and scope of their combined domestic route structures as well as their respective strengths in Asia and Latin America. KLM and Alitalia, Europe's fifth and seventh largest carriers respectively, have a combined 15 percent share of European air travel.

Alitalia is expected to join the Northwest/KLM alliance subject to receipt of U.S. antitrust immunity. With Alitalia as an additional European partner, Northwest will benefit from online access to both Rome and Milan's Malpensa Airport, a new facility with substantial capacity for expansion.

Benefiting from the alliance experience, technology and expertise developed by Northwest, KLM and their respective regional partners, this global alliance is well positioned to compete against the alliance offerings of the other major carriers. The cornerstone partners and their regional partners together provide online service to more than 530 cities in 97 countries on six continents.

Northwest/KLM people—evolving a global alliance

Improving Airport Convenience and Comfort in Detroit

Construction began in 1998 on the new Midfield Terminal at Detroit Metro Airport, Northwest's busiest hub. Completion is scheduled for 2001. The terminal, which amounts to an entirely new passenger facility for Detroit, will be welcome relief from the congestion and capacity constraints at the current Davey Terminal.

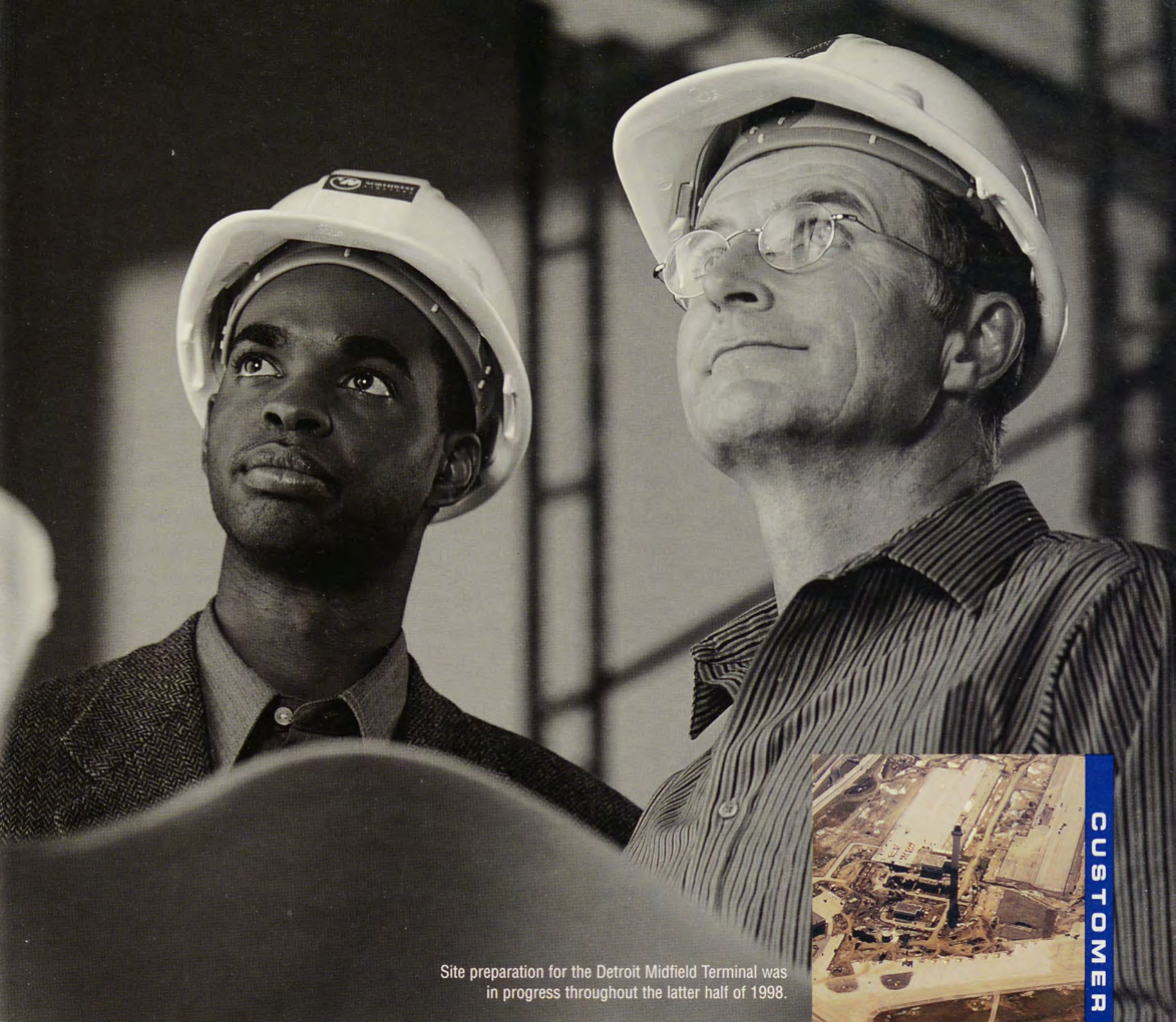
In the interim, Northwest continues to work with Wayne County to improve passenger comfort at the Detroit Airport. For instance, curbside check-in at the Davey Terminal was renovated and personnel were added to speed check-in. Northwest also opened a new WorldClub on the F concourse and added an automated passenger connector to the C concourse which was recently expanded by six new gates.

The design for the new Midfield Terminal was completed as the year ended. In June 1998, the airport issued $1 billion in general airport revenue bonds to fund the Midfield Terminal project. Progress on the new terminal is more visible with each passing month. Site preparation was in progress throughout the latter half of 1998.

The Midfield Terminal will provide Northwest with 74 new jet gates and a large regional aircraft facility. Domestic and international departures and arrivals will be consolidated in the same building, easing connections. Thanks to favorable conditions in the municipal bond market and increased revenues from higher passenger volumes, the new Midfield Terminal will benefit from an additional $174 million in upgrades over and above those in the plans for the terminal.

The additional amenities include substantially more concession space, enlarged Northwest WorldClubs℠, higher quality finishes, larger ticketing areas and significant luggage handling system upgrades. Passengers originating in Detroit will also benefit from a 750-foot covered curbside drop-off area and a new, 12,000-space parking facility.

The new Detroit Midfield Terminal's high arched ceilings, bathed in natural light, will give the terminal a spacious feel.



Site preparation for the Detroit Midfield Terminal was in progress throughout the latter half of 1998.

CUSTOMER SERVICE

NORTHWEST CONTINUES TO MODERNIZE THE FACILITIES MOST IMPORTANT TO CUSTOMERS, UPGRADE AND SIMPLIFY ITS FLEET AND INTRODUCE INNOVATIVE INFORMATION SYSTEMS TECHNOLOGY TO SERVE CUSTOMERS MORE EFFECTIVELY AND EFFICIENTLY.

Adding Airport Convenience and Comfort in Minneapolis/St. Paul, Memphis and Hong Kong

At Minneapolis/St. Paul International Airport, major renovations have brought nationally known retailers and restaurants to the main terminal, while the interior finishes such as carpet, tile and wall coverings have been renovated. Additional moving walkways have been added to the Green Concourse.

In 1999, extension of the airport's Green Concourse will begin. When completed in 2002, the Green Concourse will have 12 new gates for jets and a new regional aircraft facility.

Memphis has embarked on a major rehabilitation of its airfield and will add a new 11,100-foot runway which will support the Northwest/KLM alliance to service the trans-Atlantic market. Additional improvements to the terminal facility include more moving sidewalks, gate expansions for Northwest and its airlink partner and interior renovations are planned for 1999 as part of a new agreement released with the airport in 1998.

In Asia, Northwest's service is benefiting from the opening of the new Chek Lap Kok airport serving Hong Kong. An increase in available gates means most passengers no longer have to be bussed to and from the terminal. In addition, Northwest's WorldClub at Chek Lap Kok has three times the capacity of the Northwest lounge at the former Hong Kong airport. Northwest is streamlining customer service processes and has improved luggage handling and on-time performance. Northwest Cargo operations will benefit from access to Chek Lap Kok's "Super Terminal 1," a high capacity, high efficiency cargo-handling facility designed to handle 22 freighters daily.

In 1998, Northwest opened new airport WorldClubs at Detroit, Washington, D.C. (Dulles), Philadelphia and Seattle.

Hubs — Keystones for Convenience & Commerce

Hub airports are the keystones of the U.S. air transportation system and are responsible for much of the service expansion and fare reductions that have occurred since deregulation. In the growing public discussion about hubs, four truths are fundamental for Northwest Airlines:

Hubs enable frequent service to many cities.
Hub airports often offer nonstop flights to twice the number of cities as comparably sized non-hubs, with more daily departures per city served. This is the experience at Northwest's two largest hubs in Detroit and Minneapolis/St. Paul. Since 1990, North American destinations from Detroit have grown 52 percent while international service has increased by 100 percent. In Minneapolis/St. Paul, the growth has been 26 percent for North America and 50 percent internationally.

Hub markets also produce economic benefits for the larger community. Economists generally agree that cities with hub airports have a more favorable industrial infrastructure that serves to attract business to the region and foster economic growth. For example, U.S. cities that are home to an airline hub have attracted more high-technology employment during the 1990s.

Hub development improves airline economics.
As the airline industry evolved to a deregulated environment, the need to efficiently expand service to more markets — and to abandon unprofitable routes — resulted in the hub-and-spoke structure of today. Economics are improved because it allows all routes emanating from the hub to be served at lower unit costs than would prevail if traffic flows could not be combined at a hub.

Ticket prices debunk the "hub-premium" myth.
Travelers starting their trips from an airline hub generally pay no more for their flights than do travelers originating elsewhere, for trips of the same length. Average fares at hubs are higher only because business demand is greater at hubs and more unrestricted tickets are sold.

At Northwest hubs, about 70 percent of customers systemwide fly on discount fares, compared to 90 percent systemwide. These fares are significantly below the comparable walk-up fares, which carry a premium price but impose no restrictions.

Northwest is a strong but fair competitor.
Hub market residents generally enjoy expanded service by the hub airline without a restriction in their choice of carriers. About 97 percent of Northwest's customers have other air alternatives for domestic service to and from the Detroit and Minneapolis/St. Paul hubs. Travelers from these cities have at least two carriers other than Northwest from which to choose for a typical domestic flight. In recent years new entrant carriers have established service in all three of Northwest's hubs.

Fleet Modernization Brings Comfort and Added Simplicity

Northwest continues to modernize and upgrade its aircraft fleet while also simplifying the fleet's composition. This ongoing program will have the dual benefits of improving passenger comfort and reliability while reducing training, maintenance and operating costs.

Northwest plans to dispose of the eight remaining MD80 aircraft from its fleet and take delivery of the first 10 of 50 Airbus A319s in 1999. The A319s are twin-engine, 125-seat aircraft, virtually identical to the 150-seat A320s already in Northwest's fleet.

Northwest was the first North American carrier to operate the A320 and, with the 1998 delivery of 13 new A320s and seven more in 1999, the A320 fleet will grow to 70 by mid-1999. The growth in the Northwest Airbus fleet will create efficiencies in training, maintenance and operations. In addition, Airbus A319s and A320s offer the widest passenger cabin of any single-aisle aircraft. This enhances passenger seating comfort and in-flight service.

Northwest has accelerated by a number of years the delivery of three new 747-400 aircraft to the second half of 1999. The three new 747-400s join a fourth 747-400 scheduled for delivery in the spring of 1999.

During 1998, Northwest also completed the replacement of the interior on the DC9 fleet. All 173 of Northwest's DC9s are now equipped with new seats, larger overhead bins, new sidewall and ceiling panels, an improved cabin lighting system, and redesigned lavatories and galleys. The refurbishment initiative also included a reconfiguration of the seating plan to provide more First Class seats on all Northwest DC9s.

Similar comprehensive refurbishment of 54 widebody aircraft in Northwest's fleet began in late 1997 and is scheduled for completion in 1999 on the 747 fleet. Northwest's 26 international DC10s, and 18 747-200s will see complete replacement of their interiors, including wall coverings, expansion of overhead bins, upgraded lavatories and new countertops, flooring, wall coverings and lighting in their galleys. Ultra-thin plasma screens will provide in-flight video programming for World Business Class℠ passengers as Northwest becomes the first commercial carrier to adopt the lighter, higher resolution plasma technology. Northwest's 747-400s, all less than 10 years old, will receive new wall coverings and a general interior upgrade.

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 Airlines WorldVacations℠ product combines the strength of Northwest, KLM and other partners' worldwide route network with MLT's land service buying power. MLT Vacations, celebrating its 30th year, offers charter service to Las Vegas, Orlando, Mexico, the Caribbean and Costa Rica for value-conscious customers from nine U.S. origin markets, including Minneapolis/St. Paul, Detroit and Dallas/Ft. Worth.

From London to Las Vegas or the Caribbean to China, MLT Inc. offers vacation packages to just about anywhere its customers would like to go.

MLT Inc. is among the top vacation wholesale companies in the U.S., serving a million customers in 1998

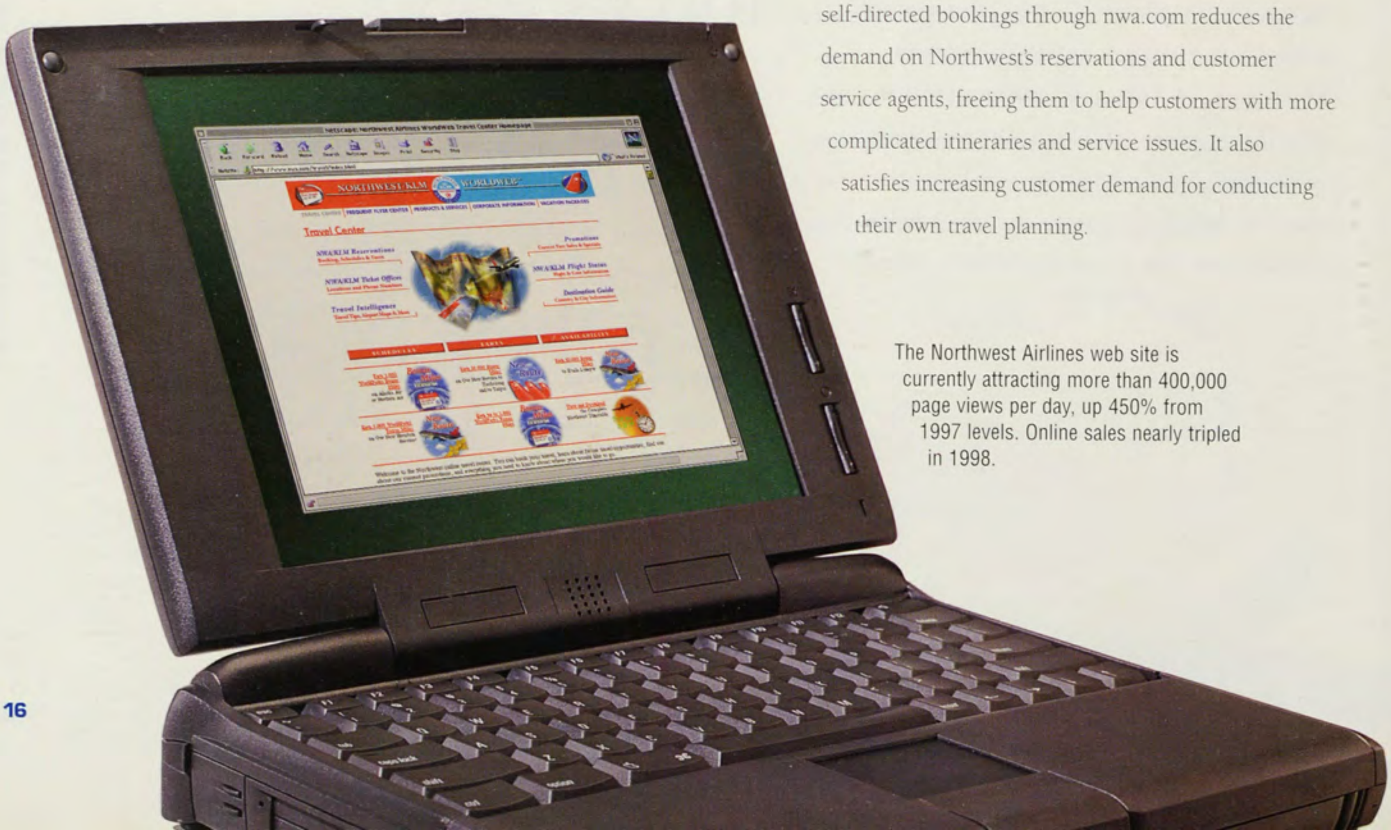
New Technology Builds Revenues, Enhances Customer Convenience, Reduces Costs

Northwest Airlines is an airline industry leader in employing new technologies to serve customers better and more efficiently.

Northwest's web site (www.nwa.com), an award-winner since its introduction, earned additional accolades in 1998. The site was named "best airline web site" by the *Dow Jones Business Directory* and by the Web Marketing Association. Most important, however, the site is doing what it is intended to do — generate revenue for Northwest, enhance customer service and reduce sales and distribution costs.

Revenue from online bookings in 1998 was nearly triple the 1997 level, reaching $84 million. More than one million customers have registered with nwa.com to purchase tickets online, most who have subscribed to electronic mail services that notify them of special fares and promotions, such as the deeply discounted fares for weekend travel offered every Wednesday night.

During 1998, Northwest became the first airline to allow participants in its WorldPerks® frequent flyer program to redeem mileage awards online. Northwest's web site now also permits online mileage credit requests. In cooperation with KLM Royal Dutch Airlines, the web site's expanded booking capability now allows customers from the U.S., Canada, Japan, the United Kingdom, Sweden, Norway, Denmark and Germany to arrange their travel online. The continuing growth in customers' self-directed bookings through nwa.com reduces the demand on Northwest's reservations and customer service agents, freeing them to help customers with more complicated itineraries and service issues. It also satisfies increasing customer demand for conducting their own travel planning.



The Northwest Airlines web site is currently attracting more than 400,000 page views per day, up 450% from 1997 levels. Online sales nearly tripled in 1998.

the quick way to check-in

Complementing the growth in customer use of nwa.com has been increasing customer acceptance for electronic tickets. Northwest E-Tickets℠ are available for travel from North America to almost all of Northwest's destinations worldwide. Electronic tickets cost Northwest significantly less to process while eliminating the worry of misplaced tickets for customers and simplifying itinerary changes. By the end of 1998, 52 percent of Northwest's North American customers were using electronic tickets.

To further enhance the convenience of electronic ticketing, Northwest continues to add Electronic Service Centers℠ at airports nationwide. E-Ticket customers can use Electronic Service Centers to obtain boarding passes, make current day flight or seat changes, obtain WorldPerks® Gold upgrades and, at some locations, check their own bags. The easy-to-use touch screen technology helps minimize lines at check-in, again freeing Northwest customer service personnel to assist customers with nonroutine needs. Electronic Service Centers are now available at 18 Northwest stations in North America, including Detroit, Minneapolis/St. Paul, Memphis, Baltimore, Boston, Chicago O'Hare, Indianapolis, Kansas City, New York City (La Guardia), Los Angeles, Milwaukee, Newark, Philadelphia, Phoenix, San Francisco, Seattle/Tacoma, Tampa and Washington, D.C. (National).

In 1998, more than half of Northwest's North American customers flew on Northwest E-Tickets. Nearly one-fourth of those used self-serve check-in technology in the 18 airports where they are available.

Connecting with the Community

The 1998 partners of the Northwest AirCares℠ charitable assistance program were St. Jude Children's Research Hospital, the Juvenile Diabetes Foundation International, the United Negro College Fund and the March of Dimes.

Starting in 1998, Northwest enabled customers to donate frequent flyer miles to AirCares partners. Partners redeem the miles for travel necessary for their organizations' administrative or program purposes. In 1998, Northwest passengers donated more than 51 million frequent flyer miles to Northwest AirCares partners.

Each quarter, Northwest Airlines selects a different nonprofit organization and promotes its mission to Northwest passengers through in-flight programming, cabin announcements and coverage in *WorldTraveler*, Northwest's in-flight magazine. Through this program, Northwest has helped its AirCares partners increase their visibility and raise more than $4 million.

In 1998, Northwest sent relief supplies to flood-stricken communities along China's Yangtze River. Similarly, nearly 50 tons of relief supplies flew from Detroit to Honduras on a Northwest 747 to assist Central American survivors of Hurricane Mitch. Northwest "Jam Against Hunger" events and a Northwest co-sponsored "Walk for Hunger Relief" raised cash and food donations for the Minnesota Food Bank Network.

Northwest employees also volunteer their time and talents under AirCares initiatives. In St. Paul, Minnesota, more than 250 Northwest people participated in a two-week Habitat for Humanity work camp, helping renovate a century-old row house in a historic St. Paul neighborhood. Northwest's annual Garage Sale was the single largest fund raiser for the United Way of St. Paul. In Detroit, Northwest provides volunteer and corporate support to dozens of nonprofit and community organizations including the African World Festival, C.S. Mott Children's Hospital and numerous community cultural programs and events. In Memphis, Northwest people volunteer their time and expertise to work with school students through Northwest's Adopt-A-School program. At Tokyo Narita, employees received special recognition from the City Council for their efforts to coordinate blood drives.

In 1998, Northwest again received multiple honors and awards from charitable and nonprofit organizations in recognition of the contributions made by the Company and its people. The Partners Award, presented by the Courage Center and the Minnesota Business Partnership, honored Northwest's achievements in employing people with disabilities. Additionally, the Hazelden Foundation, the Memorial Blood Centers of Minnesota and the National Marrow Donor Program all recognized Northwest and its people on separate occasions for contributions to their causes.

Northwest Cargo shipped 200,000 pounds of relief supplies to China in 1998.

NORTHWEST'S COMMITMENT TO THE COMMUNITIES IT SERVES IS CARRIED OUT THROUGH THE AWARD-WINNING NORTHWEST AIRCARES CHARITABLE ASSISTANCE PROGRAM. SINCE 1992, NORTHWEST AIRCARES HAS RAISED MORE THAN $4 MILLION AND PRICELESS GOODWILL FOR ITS CHARITY PARTNERS THROUGH THE FUND-RAISING AND AWARENESS CAMPAIGN.

One of eight Northwest Cargo main deck freighters delivers supplies to Shanghai for Chinese flood victims.


Judith Brant


Berniece Epple


Midori Kushige


Richard Lien


Gary Meyers

Northwest Airlines 1998 President's Award Honorees

Each year Northwest Airlines bestows its highest honor — the President's Award — on a select number of outstanding achievers. Ten Northwest people received the prestigious award for their service in 1998. These people epitomize Northwest's values and guiding principles and have made a significant contribution to achieving the airline's mission.

Judith Brant
Manager — Northwest WorldPerks® Marketing Operations, Minneapolis/St. Paul

Judith Brant is responsible for the administration of the WorldPerks® free travel program, the backbone of the program's operations. A 33-year employee, she has consistently contributed to Northwest's success through her commitment to the customer, fellow employees and her values and guiding principles. Throughout her career at Northwest, Judith has been recognized and commended for the integrity of her behavior by her co-workers, her industry peers and by her partners with travel agencies and suppliers.

Berniece Epple
Flight Attendant, Minneapolis/St. Paul

Bernie Epple celebrated her 52nd year as a Northwest flight attendant in 1998 by continuing her excellent care for passengers, especially on her preferred route, the Minneapolis/St. Paul-London service. As the most senior flight attendant at Northwest, Bernie not only lives by the airline's values and guiding principles, but she has done so for longer than any flight attendant in Northwest's 72-year history. Bernie always projects polished professionalism and, as lead flight attendant, can be counted on to offer customer service that inspires her peers and motivates her crew.

Midori Kushige
Analyst — Human Resources Planning, Tokyo

The 1998 downturn of the Asian economy created an extraordinary challenge for Northwest, with its 51-year tradition of serving the region. Midori Kushige was instrumental in performing the human resources support functions needed as the airline restructured in Japan. During her 13 years with Northwest, she has been truly committed to the needs of the airline and its customers. Since she joined the human resources team in 1991, Kushige-san has supported her co-workers and dedicated the extra effort necessary to achieve success.

Richard Lien
Director — Air Traffic Control & Systems Development, Minneapolis/St. Paul

Dick Lien has been instrumental in exploring Northwest's new routes over China and Mongolia, as well as developing the further use of Russian airspace. Northwest was the first U.S. airline to use the Polar 2 Route, which saves up to one hour and 20 minutes between Detroit and Beijing. Permission to fly the route was the direct result of more than a year of negotiations by Dick and numerous Russian aviation officials. Before joining Northwest in 1996, Dick had an extensive and varied career as a regional manager with the Federal Aviation Administration (FAA).

Gary Meyers
Lead Quality Service Assistant, Honolulu

Gary Meyers is motivated by the pleasure of serving Northwest's customers. Gary knows Honolulu's WorldPerks® International Gold Elite and WorldPerks® Gold card members by name and they also know him. Because of his unparalleled work performance, Gary's reputation is recognized throughout Asia. He also leads with a supreme personal commitment. Gary regularly trains new quality service assistants (QSAs) in better methods to meet customer expectations and resolve problems on the spot.


Thomas Niederer


Harold Peters


William Tarras


Amy Tellor


David "Lamar" Thomas

Thomas Niederer
Boeing 727 Captain, Minneapolis/St. Paul

In addition to being a first-class pilot, Tom Niederer contributes his time and personal resources to Pilots for Kids and Santa's Flight of Fantasy. Tom plays Santa for underprivileged children and visits hospitals during the holiday season. He also has volunteered his time to be the captain for taxi flights, enabling underprivileged children to "fly" with Santa to the North Pole and return to a holiday party at the airport, sponsored by other Northwest volunteers. Tom is an example of the giving spirit of Northwest people.

Harold Peters
Manager — Customer Service, Dallas/Ft. Worth

Harold Peters was recently promoted as manager-customer service in charge of Northwest's operations at Dallas/Fort Worth. After more than 40 years of service, Harold continues to learn, accept new challenges and understand the importance of caring about the people who work with him. Harold has set a standard of leadership for all Northwest managers. Recently, Harold's colleagues conveyed their genuine sense of respect and admiration. At a gathering of Northwest leaders in late 1998, 500 people spontaneously stood in applause for more than five minutes.

William Tarras
Information Services Account Manager — Flight Operations Business Results Team, Minneapolis/St. Paul

Bill Tarras has played a key role in automating flight crew scheduling for Northwest pilots and flight attendants. His proactive and creative thinking has helped to improve the efficiency of all pilot and flight attendant schedulers and these internal customers have cited him on numerous occasions for the service that he and his staff provide. His knowledge of crew contracts and FAA regulations sets him apart from his peers. Bill is also a mentor to his colleagues and is sought out frequently for advice.

Amy Tellor
Manager — Benefits, Minneapolis/St. Paul

In addition to her benefits manager duties, Amy Tellor totally redesigned the human resources communications process which provided employees with more timely and accurate information, not only about benefits but also for other human resources programs. She is dedicated to the notion that satisfied employees lead to satisfied customers. Her leadership and take-charge attitude in pressure situations have earned the trust of colleagues in many departments. Amy is often selected to lead critical initiatives because of her clear communications and her discerning direction.

David "Lamar" Thomas
Lead Parts & Materials Inspector, Atlanta

Improving the quality and output of jet engine maintenance was a critical goal of the Atlanta maintenance base in 1998. The leadership of Lamar Thomas was significant in fulfilling that goal. Process changes that Lamar helped implement resulted in a significant reduction in the cycle-time required for heavy maintenance checks on the JT8D engines that Northwest uses to power its DC9 and Boeing 727 aircraft. Northwest's cycle-time is now among the lowest in the world. The methods Lamar developed have been institutionalized in other areas in Atlanta's engine maintenance operations. Lamar leads by example and displays outstanding personal ownership and responsibility to get the job done.

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Robert H. Nazarian
Treasurer

Northwest experienced a challenging year in 1998. The airline's financial performance suffered from labor disruptions and a pilots strike. Additionally, earnings were negatively impacted by settlement provisions for labor agreements and other non-recurring charges. Northwest estimates these actions had a negative pretax impact of $1.3 billion. Despite these difficulties in 1998, Northwest continues to focus on its principal financial goal of maximizing shareholder value.

Maximize Return on Assets

Northwest continually seeks to deploy existing assets where they can generate maximum returns and invest in additional assets only when they can produce superior returns. Since 1992, Northwest has been in the forefront in focusing on core strategic strengths and expanding beyond its core asset base largely through the use of long-term domestic and international alliances and code-share agreements.

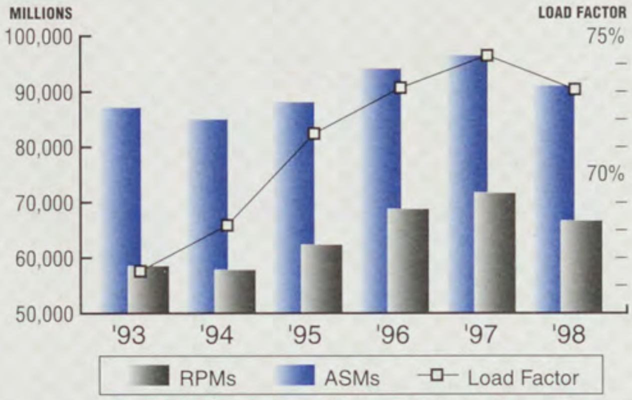
As an innovator of alliances, Northwest continues to lead in creating the premier air transportation network by adding Continental Airlines to our global alliance network. Together with KLM and its new strategic partner, Alitalia, the Northwest alliance network is well positioned to compete effectively in the global marketplace and capitalize on the significant alliance synergies and revenue opportunities. Long-term alliances have proven to be a cost effective and capital efficient way to enhance the value of the enterprise while improving its strategic and operating flexibility.

1998 Performance

Capacity – Through strategic route structure rationalization and, as a result of the labor disruptions and subsequent pilots strike, Northwest's capacity declined by 5.8% in 1998. Northwest expects to increase ASMs in 1999 by approximately 9%. Prudent capacity reductions were initiated in the Pacific entity at the onset of a weakening Asian economic environment with 1999 Asian capacity expected to remain flat over 1998. We believe that the Asian economic environment has stabilized and Northwest is positioned to benefit from the inevitable recovery in the region. In the Atlantic entity, Northwest expects to realize capacity growth as we capitalize on our joint venture alliance with KLM. Joint venture trans-Atlantic capacity will grow approximately 9% versus 1998 on a strike-neutralized basis.

Despite the labor disruptions in 1998, Northwest still experienced a 73.1% load factor for the year, which was only 1.2 points lower than a 1997 record level.

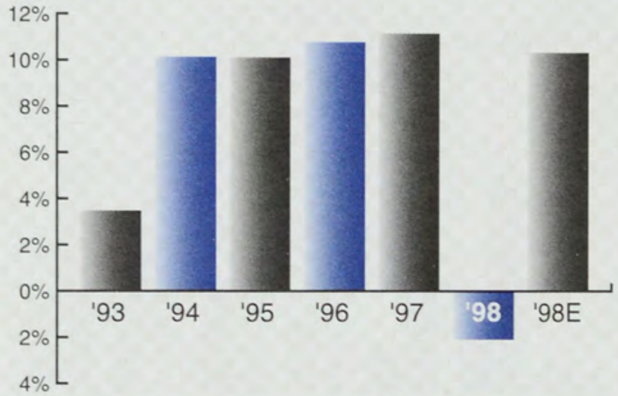
Scheduled ASMs and RPMs



Results – Operating results for 1998 were disappointing. We estimate that the labor disruptions, the strike and other non-recurring charges cost Northwest $1.3 billion in lost revenue and increased expenses. As a result, Northwest reported a 1998 operating loss of $191 million and a net loss of $286 million. Adjusting 1998 for the impact of the strike and non-recurring expenses, Northwest's pro forma operating profit of $1.05 billion and net income of $543 million were near 1997 record financial performance. Unit costs in 1998 increased by 6.7% versus 1997, but much of this increase is attributed to the labor disruptions and the resulting ASM decrease experienced during the year. At Northwest, we continue to recognize the need to be vigilant in cost control and expect to be involved in meaningful initiatives throughout 1999 to minimize unit cost increases. We believe that Northwest will continue to have a competitive cost structure.

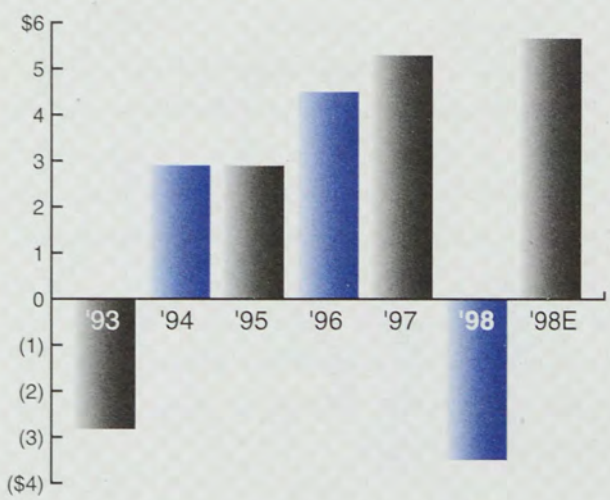
As a result of the strike, Northwest's operating margin deteriorated to a negative 2.1%. However, adjusting for 1998's labor disruptions and non-recurring charges, we estimate that Northwest would have generated an industry competitive 10.3% operating margin.

Operating Margins



Earnings Per Share – Diluted 1998 earnings per share were a disappointing loss of $3.48, but adjusting for the $1.3 billion pretax impact of 1998's labor disruptions and non-recurring charges, we estimate Northwest would have had diluted earnings per share of $5.67.

Diluted EPS



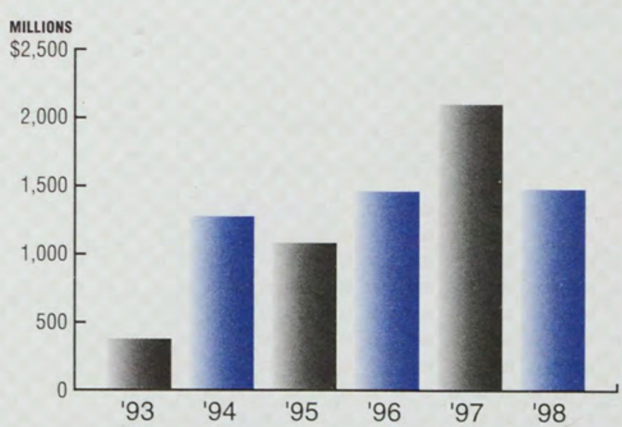
Fleet Initiatives – Northwest continued its strategy of identifying and employing the aircraft best suited to the Company's route structure while making the most efficient use of invested capital. Several major fleet transactions have been completed.

- Northwest acquired 10 AVRO RJ85 regional aircraft in 1998, which are operated by Mesaba.
- Northwest took delivery of 13 A320s, which were financed with leveraged leases and long-term debt.
- Northwest decided to retire seven of the oldest Boeing 747-100/200 aircraft in the fleet which were operated primarily in the Pacific region. Four of these aircraft will be replaced by the accelerated delivery of four new Boeing 747-400 aircraft in 1999.
- 10 DC9-10s were removed from the fleet.
- Northwest continued the life extension initiatives on the DC9 fleet. Northwest's entire fleet of DC9s will be complete with new interiors and hushkitted engines in 1999.
- In 1999, Northwest ordered 54 new 50 seat regional jets to be delivered starting April 2000 with options for up to 70 additional aircraft.

Capital Structure Management

Northwest's financial strategy is to minimize capital costs while allowing the Company to maintain adequate levels of liquidity in order to maximize strategic and operating flexibility. To this end, liquidity at year-end was approximately $1.5 billion:

Liquidity



Northwest completed several significant financial transactions during the year.

- The issuance of $200 million 7 5/8% senior unsecured notes due in 2005 and $200 million of 7 7/8% senior unsecured notes due in 2008.
- Northwest accelerated the repurchase of 18.2 million shares of common stock from KLM for $780 million. The transaction was financed through cash payments in 1998 and senior unsecured notes of $237.7 million.
- Northwest's financial exposure to the new Detroit Metro Airport was minimized with the timely issuance of $1.02 billion in general airport revenue bonds by Wayne County, Michigan at a rate of 5.27%.
- Northwest completed the purchase of 13.5% of Continental's common stock for approximately $465 million, which allows for 50.3% of the fully diluted voting power of Continental as of December 31, 1998.

Growth in return on capital will be aided by our prudent fleet decisions and continued commitment to alliances, specifically with Continental and KLM, where earnings will grow with minimal capital investment.

Operational Developments

Northwest made significant progress on strengthening the foundation of the global alliance network to enhance its competitive advantage.

- In early 1998, Northwest and KLM successfully integrated European and North American workforces to further capture alliance cost synergies by eliminating redundant operations.
- Northwest and Continental began implementation of the initial phases of our alliance, including frequent flier reciprocity, joint lounge access, and code-sharing in Pacific and domestic city pairs. Additional international and domestic code-sharing is planned for in 1999.
- Northwest implemented a long-term cooperation agreement with Air China that will generate online` access to 99% of the China-U.S./Canada traffic flows.
- Northwest extended the current commercial cooperation agreement with Alaska Airlines and Horizon Air.

Outlook

Northwest will rebound from the difficulties experienced in 1998 and focus on returning to an industry leading service provider enhancing shareholder value in 1999 and beyond. With strong system growth through our alliance network and sound financial management, Northwest expects to capitalize on its strengths and generate future profit growth. Our alliance partnerships, especially the new agreement with Continental, and the industry leading joint venture relationship with KLM and its partner Alitalia, place the Company in a strong competitive position to further improve shareholder value. Our global network provides diversity among international regions, which makes earnings less volatile. Strong domestic and trans-Atlantic markets have helped offset recent Asia weakness. We are confident Asia's dynamic growth will revive as we move into the 21st century from which Northwest is well positioned to benefit.

Northwest Airlines Corporation ("NWA Corp." and, together with its subsidiaries, the "Company") incurred a net loss of $285.5 million for the year ended December 31, 1998, compared with net income of $596.5 in 1997. Loss per share was $3.48 in 1998 compared with diluted earnings per share of $5.21 in 1997. An operating loss of $191.4 million was reported in 1998 compared to operating income of $1.16 billion in 1997.

The year ended December 31, 1998 was affected by labor-related disruptions which included the pilots' strike. Because of these events, year-over-year comparisons are not a useful measure of the underlying operating and financial performance of the Company. However, for continuity of reporting and as a measure of the impact of the labor disruptions, the traditional comparisons are presented herein. The Company estimates the cost of the labor disruptions in lost revenue and incremental expenses to be approximately $1.04 billion on a pretax basis for the year ended December 31, 1998.

Northwest Airlines, Inc. ("Northwest") is the principal indirect operating subsidiary of NWA Corp., accounting for more than 95% of the Company's 1998 consolidated operating revenues and expenses. The Company's operating results are significantly impacted by both general and industry economic environments. Small fluctuations in revenue per available seat mile ("RASM") and cost per available seat mile ("CASM") can have significant impacts on the Company's profitability. The Company acquired Express Airlines I, Inc. ("Express") on April 1, 1997; the operating results of Express are included in the consolidated financial statements commencing on that date.

Results of Operations — 1998 Compared to 1997

Operating Revenues – Operating revenues were $9.04 billion, a decrease of $1.18 billion (11.5%). Operating revenue per total service available seat mile ("ASM") decreased 6.6%. System passenger revenue decreased $1.22 billion (13.8%) primarily attributable to a decrease in scheduled service ASMs and a decrease in passenger RASM due to the labor disruptions. The decrease in RASM was also a result of a weaker Asian economic environment and weaker foreign currency exchange rates. Passenger revenue included $93.6 million and $100.1 million of Express revenues for the years ended December 31, 1998 and 1997, respectively.

Domestic passenger revenue was lower due to decreased capacity and yields resulting from the labor disruptions.

The following analysis by market is based on information reported to the U.S. Department of Transportation ("DOT") and excludes Express:

	System	Domestic	Pacific	Atlantic
1998				
Passenger revenue (in millions)	$ 7,512.9	$ 5,190.1	$ 1,619.9	$ 702.9
Increase/(decrease) from 1997:				
Passenger revenue (in millions)	$ (1,209.1)	$ (691.8)	$ (573.1)	$ 55.8
Percent	(13.9) %	(11.8) %	(26.1) %	8.6 %
Scheduled service ASMs (capacity)	(5.8) %	(6.3) %	(12.1) %	22.2 %
Passenger RASM	(8.6) %	(5.8) %	(15.9) %	(11.1) %
Yield	(7.0) %	(5.4) %	(13.4) %	(5.4) %
Passenger load factor	(1.2) pts.	(.3) pts.	(2.2) pts.	(5.1) pts.

Pacific passenger revenue decreased due to the labor disruptions, an unfavorable general economic environment in the Pacific and weaker Asian currencies, of which the largest impact was due to the Japanese economy and yen. The average yen per U.S. dollar exchange rate for the year ended December 31, 1998 and 1997 was 133 and 120, respectively, a weakening of the yen of 10.8%. In response to the continued weak Asian economic environment, lower demand and increased competition, the Company reduced capacity in the region during 1998.

Atlantic passenger revenue increased due to an increase in capacity which resulted primarily from new flying (including service to Mumbai and Delhi, India from Amsterdam) and the initiation of Philadelphia-Amsterdam and Seattle-Amsterdam service and increases in Minneapolis/St. Paul-Amsterdam and Detroit-Amsterdam services, offset by a decrease in RASM as a result of the labor disruptions.

Cargo revenue decreased $155.9 million (19.7%) due to 14.4% fewer cargo ton miles and a 6.2% decrease in cargo revenue per ton mile due to the labor disruptions, a weaker Asian economic environment and weaker Asian currency exchange rates. Other revenue increased $190.5 million (31.0%) due to increased revenue from KLM Royal Dutch Airlines ("KLM") joint venture alliance settlements and MLT Inc.

Operating Expenses – Operating expenses increased $167.6 million (1.8%). Operating capacity decreased 5.9% to 91.4 billion total service ASMs which contributed to the 6.7% increase in operating expense per total service ASM. Salaries, wages and benefits increased $236.7 million (7.8%) due primarily to an increase in average full-time equivalent employees of 4.0%, retroactive compensation related to collective bargaining agreements and the impact of settled contracts. Aircraft fuel and taxes decreased $296.7 million (21.3%) due to a 17.4% decrease in the average fuel price per gallon from 64.86 cents to 53.60 cents and a 6.0% decrease in fuel gallons consumed as a result of the labor disruptions. Commissions decreased $163.3 million (19.1%) due to lower revenues as a result of the labor disruptions, a lower effective commission rate caused by a shift in revenue mix and changes to the Company's commission structure which began in September 1997. Aircraft maintenance, materials and repairs increased $140.6 million (22.7%) due to higher utilization of outside suppliers as a result of increased scheduled overhauls and timing of check cycles, and decreased employee productivity due to the labor disruptions. 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 $239.4 million (12.2%), due primarily to increased business for MLT Inc., claims, advertising and promotions, as well as the accelerated retirement of seven of the Company's oldest Boeing 747 aircraft resulting in a fleet disposition charge of $65.9 million recorded in the fourth quarter. See Note A to the Consolidated Financial Statements for additional discussion of the fleet disposition charge.

Other Income and Expense – Interest expense-net increased $78.0 million (33.3%) primarily due to additional borrowings to fund the Company's cash requirements. This level of increase is expected to continue into 1999 due to the higher level of borrowings. The foreign currency loss for the year ended December 31, 1998 was primarily attributable to balance sheet remeasurement of foreign currency-denominated assets and liabilities. Other, net increased primarily due to the sale of an equity investment in GHI Limited.

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 ASM decreased .9%. System passenger revenue increased $223.8 million (2.6%) due to an increase in scheduled service ASMs and the inclusion of Express revenues of $100.1 million. These increases were offset by a decrease in passenger RASM driven by unfavorable foreign currency exchange rates and the reinstatement of federal ticket taxes in March 1997.

The following analysis by market is based on information reported to the DOT and excludes Express:

	System	Domestic	Pacific	Atlantic
1997				
Passenger revenue (in millions)	$ 8,722.0	$ 5,881.9	$ 2,193.0	$ 647.1
Increase/(decrease) from 1996:				
Passenger revenue (in millions)	$ 123.7	$ 165.5	$ (58.4)	$ 16.6
Percent	1.4 %	2.9 %	(2.6)%	2.6 %
Scheduled service ASMs (capacity)	3.2 %	2.2 %	5.6 %	1.7 %
Passenger RASM	(1.7)%	.7 %	(7.7)%	.9 %
Yield	(3.4)%	(2.0)%	(7.4)%	(1.4)%
Passenger load factor	1.2 pts.	1.8 pts.	(.4) pts.	1.9 pts.

Domestic passenger revenue increased as a result of an increase in capacity and an increase in RASM. The Company increased frequencies to ten cities and entered six new markets. The increase in RASM was due to an increase in passenger load factor offset by a 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 two months in 1997 versus eight months in 1996.

Pacific passenger revenue decreased due to a decrease in RASM which was partially offset by an increase in capacity related to the 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 decrease in yield, which was largely attributable to a weaker Japanese yen. The average yen per U.S. dollar exchange rate for the year ended December 31, 1997 and 1996 was 120 and 108, respectively, a weakening of the yen of 11.2%. Atlantic passenger revenue increased due to an increase in capacity and an increase in RASM.

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 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 being included in maintenance materials and repairs expense. Other expenses 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 year 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.

Liquidity and Capital Resources

At December 31, 1998, the Company had cash and cash equivalents of $480 million and borrowing capacity of $1.0 billion under its revolving credit facilities, providing total available liquidity of $1.48 billion.

Cash flows from operating activities were $88.3 million for 1998, a decrease of $1.52 billion compared with 1997 due primarily to the labor disruptions as well as higher than normal sale proceeds of frequent flyer miles in 1997 of $387.7 million. Cash flows from operating activities were $1.61 billion for 1997 and $1.37 billion for 1996. Net cash used in investing and financing activities during 1998, 1997 and 1996 was $348.7 million, $1.43 billion and $1.66 billion, respectively.

Investing Activities – Investing activities in 1998 consisted primarily of the purchase of 13 Airbus A320 aircraft, ten RJ85 aircraft and three used DC10 aircraft, costs to commission aircraft before entering revenue service, engine hushkitting, aircraft modifications, deposits on ordered aircraft and ground equipment purchases. On November 20, 1998, NWA Corp. issued 2.6 million shares of common stock and paid $399 million in cash to acquire the beneficial ownership of 8.7 million shares of Class A Common Stock of Continental Airlines, Inc. ("Continental"). The Company funded its investment in Continental with cash from its general working capital. In a related transaction, Northwest and Continental entered into a thirteen-year global strategic commercial alliance that connects the two carriers' networks and includes extensive code-sharing, frequent flyer reciprocity and other cooperative activities.

Investing activities in 1997 consisted primarily of costs to commission aircraft before entering revenue service, deposits on ordered aircraft, 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. Capital expenditures for 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.

Financing Activities – Financing activities in 1998 included the Company's repurchase of its remaining Common Stock held by KLM, the issuance of $400 million of unsecured notes, the incurrence of $240 million of debt secured by six Boeing 757 aircraft, the payment of debt and capital lease obligations, and the sale and leaseback of 13 A320 aircraft and four RJ85 aircraft. During the third quarter, in anticipation of potential labor disruptions, the Company borrowed the $2.08 billion available under its credit facilities, and subsequently repaid such borrowings. In October 1998, the Company borrowed $835 million to fund its cash requirements.

On May 1, 1998, NWA Corp. purchased from KLM the remaining 18.2 million shares of NWA Corp. Common Stock which had been reclassified as redeemable common stock. The Company had previously agreed to repurchase the shares over a three-year period ending in September 2000. The purchase price of $780.4 million was paid with a combination of $336.7 million of cash and three senior unsecured 7.88% notes with principal amounts of $206 million, $137.7 million and $100 million. The Company repaid the first note on September 29, 1998; the remaining two notes are due on September 29, 1999 and 2000, respectively.

The Company's Credit Agreement was amended in December 1997 to increase its existing revolving credit facility from $500 million to $675 million and to extend the availability period to December 2002. In addition, the facility added a new $175 million 364-day unsecured revolving credit facility due in December 1998. In December 1998, $10.2 million of the $175 million 364-day revolver was converted into a term loan due December 2002. The remaining $164.8 million was renewed for another 364 days; however, to the extent this facility is not renewed for an additional 364-day period, the Company may borrow up to the entire non-renewed portion of the facility and all such borrowings mature in December 2002. In May 1998, the Company provided certain collateral to secure its previously unsecured term loan and revolving credit facilities under the Credit Agreement.

In May 1998, the Company obtained a secured 364-day $1.0 billion additional revolving credit facility. This revolving credit facility was renewed in February 1999, which extended the expiration date from May 11, 1999 to February 8, 2000 and reduced the amount available from $1.0 billion to $750 million. Interest is calculated at a floating rate based on the London Interbank Offered Rate plus 2.25% with a .5% per annum commitment fee payable on the unused portion of such revolving credit facility.

In February 1999, the Company completed an offering of $421.2 million of pass through certificates to be used to finance, directly or through leveraged lease arrangements, the acquisition of four new Boeing 747-400 aircraft scheduled for delivery in 1999.

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. On September 29, 1997, the Company repurchased 6.8 million shares of NWA Corp. Common Stock held by KLM 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.

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 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.

See Note D to the Consolidated Financial Statements for maturities of long-term debt for the five years subsequent to December 31, 1998.

Capital Commitments – The current aircraft delivery schedule provides for the acquisition of 102 aircraft over the next eight years. See Notes K and N to the 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, but excluding those costs discussed below, are projected to be approximately $250 million in 1999, 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, 1998, the Company hushkitted 130 of these aircraft and plans on completing the remaining aircraft by December 31, 1999 for $68 million. The aging aircraft modifications are expected to aggregate $147 million during the next three years for these aircraft. Capital expenditures for engine hushkits and aging aircraft modifications were $157 million in 1998. 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 $31 million in 1998, which completed the interior refurbishment of the DC9 aircraft. Aircraft system upgrade costs are expected to aggregate $27 million during the next three years.

The Company completed the interior refurbishment of three 747 aircraft and five DC10 aircraft and plans to refurbish the interiors of 25 additional 747 aircraft and 21 additional DC10 aircraft. The program to refurbish the interiors of the Company's international 747 and DC10 aircraft is estimated to aggregate $67 million during the next three years. As of December 31, 1998, the Company hushkitted 10 of its 29 Boeing 727-200 aircraft. Remaining costs are estimated to aggregate approximately $13 million in 1999.

In February 1999, the Company entered into an agreement to purchase 54 Canadian Regional Jet aircraft, with options to purchase up to 70 additional aircraft. The scheduled delivery for such aircraft is nine in 2000, 22 in 2001, 10 in 2002, eight in 2003 and five in 2004. Committed expenditures for these aircraft, including estimated amounts for contractual price escalations and its predelivery deposits, will be approximately: $50 million in 1999, $175 million in 2000, $400 million in 2001, $200 million in 2002, $150 million in 2003 and $100 million in 2004. Financing has been arranged for the committed aircraft. The Company has not yet selected the operator of these aircraft.

Working Capital – The Company operates, like its competitors, with a working capital deficit, which aggregated $1.59 billion at December 31, 1998. The working capital deficit is primarily attributable to the $1.11 billion air traffic liability for advance ticket sales.

Labor Agreements – The labor cost savings discussed in Note C to the Consolidated Financial Statements improved the Company's 1993 to 1996 cash flow from operating activities. The Company's 1993 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 in 1996. Contract negotiations began at that time with the unions.

On August 28, 1998, Northwest ceased its flight operations as a result of a strike by its pilots represented by Air Line Pilots Association, International ("ALPA"). The Northwest Master Executive Council ("Northwest MEC") of ALPA announced the commencement of the strike as a result of the failure to reach agreement with Northwest on the terms of a new collective bargaining agreement. The strike followed the expiration of a 30-day "cooling off" period that began July 30, 1998, when an impasse was declared by the National Mediation Board ("NMB"). The cessation of flight operations lasted 18 days. On September 13, 1998, a new four-year agreement was ratified. The agreement provides for lump sum retroactive payments to pilots equal to 3.5% of salaries since October 31, 1996, wage increases of 3% annually through 2001, 2.5 million stock options to be granted over a three-year period, elimination of the "B pay scale" over three years, enhanced vacation benefits and a profit sharing plan. The agreement also permits the implementation of the Continental alliance.

On October 28, 1998, the Company and its 15 meteorologists reached and ratified an agreement on a new six-year contract. On October 30, 1998, the 260 members of the Aircraft Technical Support Association, the Company's fourth largest union, ratified a new six-year agreement. On December 1, 1998, the 170 members of the Transport Workers Union ratified a new five-year contract. On December 23, 1998, the Company and its 148 flight kitchen employees represented by the International Association of Machinist and Aerospace Workers ("IAM") signed a new four-year contract.

The Company and the IAM reached a tentative agreement in June 1998, which was not ratified by the covered employees, who included mechanics and related employees, clerks, agents, equipment service employees and stock clerks. In November 1998, at a representation election, a majority of the mechanics and related employees elected the Aircraft Mechanics Fraternal Association to be their collective bargaining representative. The IAM is protesting the election and certification of the vote is currently under review by the NMB. The remaining ground employees continue to be represented by the IAM.

On February 16, 1999, the IAM ratified a new four-year agreement. The agreement provides for lump sum retroactive payments equal to 3.5% of salaries since October 2, 1996, a 14% wage increase over the duration of the contract and a 50% increase in pension benefits. The Company estimates the increased costs under the six ratified agreements will be approximately $145 million for 1999 based on current levels of employment.

The Company remains in direct negotiations with the International Brotherhood of Teamsters ("IBT"), which represents its flight attendants. Contract negotiations are being mediated by the NMB. Because the terms of new labor agreements will be determined by collective bargaining, the Company cannot predict the outcome of the negotiations at this time.

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 Note O to the Consolidated Financial Statements for accounting policies and additional information.

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, 1998 cost per gallon of fuel based on projected 1999 fuel usage which would result in an increase to aircraft fuel expense of approximately $80 million in 1999, net of gains realized from fuel hedge instruments outstanding at December 31, 1998. As of December 31, 1998, the Company had hedged approximately 10% of its 1999 fuel requirements, including 40% 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 financial instruments to hedge its exposure to the Japanese yen. The result of a uniform 10% strengthening in the value of the U.S. dollar from December 31, 1998 levels relative to each of the currencies in which the Company's revenues and expenses are denominated would result in a decrease in operating income of approximately $60 million for the year ending December 31, 1999, net of gains realized from yen hedge instruments outstanding at December 31, 1998. This is due to the Company's foreign currency-denominated revenues exceeding its foreign currency-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 1999 foreign currency-denominated revenues and expenses and foreign currency-denominated assets and liabilities as of December 31, 1998.

In 1998, the Company's yen-denominated revenues exceeded its yen-denominated expenses by approximately 38 billion yen (approximately $286 million) and its yen-denominated liabilities exceeded its yen-denominated assets by an average of 16.4 billion yen ($125 million). In general, each time the yen strengthens (weakens), the Company's operating income is favorably (unfavorably) impacted due to net yen-denominated revenue exceeding expenses 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 $20 million due to the average yen being weaker in 1998 compared to 1997. The yen to U.S. dollar exchange rate at December 31, 1998, 1997 and 1996 was 113 yen to $1, 131 yen to $1 and 116 yen to $1, respectively. There was no material impact on 1998 earnings associated with the Japanese yen put options purchased to hedge its 1998 net yen-denominated cash flows. As of December 31, 1998, the Company had entered into forward contracts to hedge approximately 35% of its 1999 yen-denominated ticket sales, which also represents approximately 95% of the Company's excess of yen-denominated revenues over expenses.

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 floating rate debt instruments. The Company has mitigated this risk by limiting its floating rate indebtedness to approximately 46% of long-term debt and capital leases at December 31, 1998. If long-term interest rates average 10% more in 1999 than they did during 1998, the Company's net interest expense would increase by approximately $14 million. If short-term interest rates average 10% more in 1999 than they did during 1998, the Company's interest income from cash equivalents and short-term investments would increase by approximately $3 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's floating rate indebtedness, cash equivalent and short-term investment balances at December 31, 1998.

Market risk for fixed-rate indebtedness is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates and amounts to approximately $50 million. The fair values of the Company's indebtedness 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, as amended (the "Code"), and Treasury regulations limit the 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 tax year if the corporation experiences more than a 50% ownership change, as defined therein, over a three-year testing period ending on the 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 before that time. If such an ownership change did occur as a result of the offering, management believes that, even as limited by the Code, the Company would use the NOLs, AMTNOLs and credits significantly earlier than their expiration, and the annual limitation would not adversely impact the Company. However, if the Internal Revenue Service (the "IRS") were to successfully assert that an ownership change had occurred on any date prior to November 1995 (including August 1, 1993, when the Company entered into labor agreements that provided stock for labor cost savings), the Company's ability to use its NOLs, AMTNOLs and credits would be significantly impaired because the value of NWA Corp's stock on certain prior testing dates was relatively low. Such value would adversely affect the annual limitation.

Year 2000 Readiness – The Year 2000 issue is the result of computer programs being written using two digits to identify the applicable year and not taking into account the change in century that will occur in the year 2000. As a result, such systems may fail completely or create erroneous results when the year 2000 is defined by the system as "00." The Company uses a significant number of information technology ("IT") and non-IT ("embedded operating systems") systems that are essential to its operations. As a result, the Company implemented a Year 2000 project to modify its computer systems to function properly in 2000 and in the years after that. The Year 2000 project is being coordinated through a senior-level task force that reports periodically to senior management and the Board of Directors.

The Company is also reviewing the Year 2000 readiness of third parties 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 U.S. and foreign governmental agencies and 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. As part of this review, the Company is actively involved in airline industry Year 2000 review efforts led by the Air Transport Association and the International Air Transport Association. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its systems or equipment to operate properly beyond 1999, or failure of those operated by other parties such as the air traffic control and related systems of the FAA and international aviation and local airport authorities.

The five phases of the Company's Year 2000 project used for identifying and modifying the various programs and systems include inventory, assessment, conversion, testing and implementation. The Company has completed all phases for 91% of its internal IT systems and anticipates completion of the remaining systems in the first quarter of 1999. The Company is approximately 80% completed with the assessment phase of the impact of Year 2000 on its non-IT systems and third party relationships, which is expected to be completed in the second quarter of 1999 with all phases anticipated to be completed in 1999. To some extent, the Company's readiness in this area is dependent on the readiness of third parties.

As a precautionary measure, the Company is also developing entity-wide contingency plans designed to allow continued operation in the event of failure of the Company's or third parties' systems. Contingency plans are expected to be in place by the end of the second quarter of 1999 and are expected to be executed as necessary.

The Company has spent $25 million of its initial estimated cost of $55 million, of which $15 million has been spent and expensed during 1998. The Company now estimates that the total project costs will be somewhat less than the estimated $55 million. The costs associated with the Year 2000 project are being funded through cash from operations and are not expected to have a material effect on the Company's business, financial condition or results from operations. Maintenance or modification costs associated with making existing computer systems Year 2000 compliant will be expensed as incurred. A majority of the estimated total Year 2000 compliance cost has been funded by reallocating existing resources rather than incurring incremental costs.

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.

This section captioned "Year 2000 Readiness" is a "Year 2000 Readiness Disclosure" as defined in section 3(9) of the "Year 2000 Information and Readiness Disclosure Act" (Public Law 105-271), enacted in October 1998.

The Euro – Effective January 1, 1999, certain European countries adopted a common currency, the "euro." Full conversion to the euro is scheduled to be completed by July 1, 2002. The Company has developed a plan to modify the Company's operating systems to properly handle the euro through the full conversion. Costs associated with the euro project were accounted for in accordance with the existing accounting policies and funded through cash from operations. Management does not believe the implementation of this single currency plan will have a material effect on the Company's business, financial condition or results from operations.

U.S. Transportation Taxes – The United States passenger ticket tax and other transportation taxes, which were reinstated in the first quarter of 1997, expired on September 30, 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. Over a five-year period on a sliding scale, the passenger ticket tax will be reduced from 10% to 7.5% and a $3 per passenger segment fee will be phased in. The fee for international arrivals and departures was increased from $6 per departure to $12 for each arrival and departure. The departure tax on travel between the U.S. 48 states and Alaska or Hawaii remained at $6. Additionally, a 7.5% tax was added on the purchase of frequent flyer miles.

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 $1.08 billion terminal at Detroit Metropolitan Wayne County Airport. The new terminal is scheduled to be completed in 2001 and has been funded by the County's issuance of airport revenue bonds payable primarily from future passenger facility charges and federal and State of Michigan grants. 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.

Regulation – In April 1998, the DOT issued proposed competition guidelines, which would severely limit major carriers' ability to compete with new entrant carriers. In addition, the Department of Justice is investigating competition at major hub airports. The outcomes of the DOT guidelines and the investigations are unknown. However, to the extent that restrictions are imposed upon Northwest's ability to respond to competition, Northwest's business may be adversely impacted.

New Accounting Standards – See Note A to the Consolidated Financial Statements for recent accounting standards.

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 the Company's 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 BALANCE SHEETS

Northwest Airlines Corporation

(In millions)	December 31 1998	1997
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 480.0**	$ 740.4
Short-term investments	**47.9**	437.7
Accounts receivable, less allowance (1998—$23.5; 1997—$21.2)	**664.7**	664.8
Flight equipment spare parts, less allowance (1998—$158.8; 1997—$148.9)	**386.6**	376.1
Deferred income taxes	**114.3**	84.8
Prepaid expenses and other	**176.6**	294.0
	1,870.1	2,597.8
Property and Equipment		
Flight equipment	**6,168.4**	5,246.7
Less accumulated depreciation	**1,485.8**	1,295.6
	4,682.6	3,951.1
Other property and equipment	**1,654.5**	1,489.0
Less accumulated depreciation	**678.6**	612.4
	975.9	876.6
	5,658.5	4,827.7
Flight Equipment Under Capital Leases		
Flight equipment	**873.3**	907.1
Less accumulated amortization	**263.3**	270.0
	610.0	637.1
Other Assets		
Investments in affiliated companies	**675.9**	185.9
International routes, less accumulated amortization (1998—$263.4; 1997—$239.9)	**704.3**	727.8
Other	**762.0**	359.9
	2,142.2	1,273.6
	$ 10,280.8	$ 9,336.2

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

(In millions, except share data)	December 31 1998	1997
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Air traffic liability	$ 1,107.2	$ 1,222.5
Accounts payable	682.6	504.9
Accrued compensation and benefits	504.2	376.5
Accrued aircraft rent	207.7	207.5
Accrued commissions	150.3	183.9
Other accrued liabilities	424.0	439.7
Current maturities of long-term debt	319.2	227.4
Current obligations under capital leases	57.6	55.9
Short-term borrowings	8.9	53.7
	3,461.7	3,272.0
Long-Term Debt	3,681.5	1,841.9
Long-Term Obligations Under Capital Leases	597.3	649.4
Deferred Credits and Other Liabilities		
Deferred income taxes	1,112.7	1,161.5
Long-term pension and postretirement health care benefits	500.1	407.3
Other	579.4	674.1
	2,192.2	2,242.9
Mandatorily Redeemable Preferred Security of Subsidiary Which Holds Solely Non-Recourse Obligation of Company - Note F (Redemption value 1998—$631.8; 1997—$551.0)	564.1	486.3
Redeemable Stock		
Preferred, liquidation value (1998—$263.7; 1997—$311.3)	260.7	306.2
Common	—	848.5
	260.7	1,154.7
Common Stockholders' Equity (Deficit)		
Common stock, $.01 par value; shares authorized—315,000,000; shares issued and outstanding (1998—108,953,764; 1997—103,780,875)	1.1	1.0
Additional paid-in capital	1,444.6	1,273.6
Accumulated deficit	(648.5)	(362.2)
Accumulated other comprehensive loss	(68.1)	(101.8)
Treasury stock (1998—28,978,351; 1997—6,800,000 shares repurchased and 18,177,874 shares to be repurchased)	(1,205.8)	(1,121.6)
	(476.7)	(311.0)
	$ 10,280.8	$ 9,336.2

CONSOLIDATED STATEMENTS OF OPERATIONS

Northwest Airlines Corporation

(In millions, except per share amounts)	**1998**	1997	1996
	Year Ended December 31		
Operating Revenues			
Passenger	**$ 7,606.5**	$ 8,822.1	$ 8,598.3
Cargo	**633.5**	789.4	745.8
Other	**804.8**	614.3	536.4
	9,044.8	10,225.8	9,880.5
Operating Expenses			
Salaries, wages and benefits	**3,260.6**	3,023.9	2,709.4
Stock-based employee compensation	**—**	—	242.8
Aircraft fuel and taxes	**1,097.1**	1,393.8	1,396.9
Commissions	**691.9**	855.2	868.4
Aircraft maintenance materials and repairs	**761.0**	620.4	556.2
Other rentals and landing fees	**450.4**	456.7	454.0
Depreciation and amortization	**427.0**	396.0	377.7
Aircraft rentals	**345.1**	358.9	346.3
Other	**2,203.1**	1,963.7	1,875.0
	9,236.2	9,068.6	8,826.7
Operating Income (Loss)	**(191.4)**	1,157.2	1,053.8
Other Income (Expense)			
Interest expense	**(328.9)**	(244.7)	(269.8)
Interest capitalized	**16.8**	10.6	7.3
Interest of mandatorily redeemable preferred security holder	**(22.5)**	(24.3)	(27.2)
Investment income	**79.3**	68.0	71.2
Foreign currency gain (loss)	**(21.5)**	1.8	19.1
Other, net	**38.2**	16.0	18.0
	(238.6)	(172.6)	(181.4)
Income (Loss) Before Income Taxes and Extraordinary Item	**(430.0)**	984.6	872.4
Income tax expense (benefit)	**(144.5)**	378.8	336.3
Income (Loss) Before Extraordinary Item	**(285.5)**	605.8	536.1
Loss on extinguishment of debt, net of taxes	**—**	(9.3)	—
Net Income (Loss)	**(285.5)**	596.5	536.1
Preferred stock requirements	**(0.8)**	(13.5)	(37.5)
Preferred stock transaction	**—**	—	74.5
Net Income (Loss) Applicable To Common Stockholders	**$ (286.3)**	$ 583.0	$ 573.1
Earnings (Loss) Per Common Share:			
Basic			
Before effects of extraordinary item and preferred stock transaction	**$ (3.48)**	$ 5.89	$ 5.05
Loss on extinguishment of debt	**—**	(.10)	—
Preferred stock transaction	**—**	—	.75
Earnings (loss) per common share	**$ (3.48)**	$ 5.79	$ 5.80
Diluted			
Before effects of extraordinary item and preferred stock transaction	**$ (3.48)**	$ 5.29	$ 4.52
Loss on extinguishment of debt	**—**	(.08)	—
Preferred stock transaction	**—**	—	.68
Earnings (loss) per common share	**$ (3.48)**	$ 5.21	$ 5.20

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Northwest Airlines Corporation

(In millions)	1998	1997	1996
		Year Ended December 31	
Cash Flows From Operating Activities			
Net income (loss)	**$ (285.5)**	$ 596.5	$ 536.1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**427.0**	396.0	377.7
Income tax expense (benefit)	**(144.5)**	378.8	336.3
Net refunds (payments) of income taxes	**7.9**	(114.3)	(256.6)
Pension and other postretirement benefit contributions (in excess of) less than expense	**(26.2)**	(125.8)	14.7
Stock-based employee compensation	**—**	—	242.8
Sale proceeds of frequent flyer miles in excess of (less than) revenue	**(78.0)**	387.7	31.3
Other, net	**68.4**	(1.8)	(40.2)
Changes in certain assets and liabilities:			
Decrease in accounts receivable	**44.3**	39.5	18.6
Decrease (increase) in flight equipment spare parts	**(46.2)**	(136.7)	12.2
Decrease (increase) in prepaid expenses and other	**91.4**	(13.3)	(6.6)
Increase (decrease) in air traffic liability	**(140.4)**	108.1	91.0
Increase (decrease) in accounts payable and other liabilities	**84.2**	82.3	(60.7)
Increase in accrued compensation and benefits	**85.9**	10.3	75.7
Net cash provided by operating activities	**88.3**	1,607.3	1,372.3
Cash Flows From Investing Activities			
Capital expenditures	**(1,067.6)**	(724.3)	(1,205.3)
Purchases of short-term investments	**(256.8)**	(632.0)	(501.2)
Proceeds from maturities of short-term investments	**640.9**	469.3	511.2
Investments in affiliated companies	**(414.6)**	(36.7)	—
Other, net	**(15.0)**	37.8	(46.6)
Net cash used in investing activities	**(1,113.1)**	(885.9)	(1,241.9)
Cash Flows From Financing Activities			
Repurchase of common and preferred stock	**(436.7)**	(524.4)	—
Payment of long-term debt	**(1,731.8)**	(346.8)	(487.2)
Payment of capital lease obligations	**(618.5)**	(61.0)	(63.2)
Payment of short-term notes payable	**—**	—	(379.2)
Proceeds from long-term debt	**2,909.6**	250.6	184.8
Proceeds from sale and leaseback transactions	**669.0**	168.0	350.0
Other, net	**(27.2)**	(26.8)	(27.1)
Net cash provided by (used in) financing activities	**764.4**	(540.4)	(421.9)
Increase (Decrease) In Cash and Cash Equivalents	**(260.4)**	181.0	(291.5)
Cash and cash equivalents at beginning of period	**740.4**	559.4	850.9
Cash and cash equivalents at end of period	**$ 480.0**	$ 740.4	$ 559.4
Cash and cash equivalents and unrestricted short-term investments at end of period	**$ 480.0**	$ 1,039.9	$ 752.1
Available to be borrowed under credit facilities	**$ 1,003.7**	$ 1,079.2	$ 726.8

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

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (DEFICIT)

Northwest Airlines Corporation

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 1996	91.3	$ .9	$ 968.4	$ (1,517.8)	$ (270.3)	$ —	$ (818.8)
Net income	—	—	—	536.1	—	—	536.1
Other comprehensive income	—	—	—	—	157.4	—	157.4
Comprehensive income, net of tax							693.5
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
Series C Preferred Stock converted to Common Stock	1.0	—	32.0	—	—	—	32.0
Other	.5	.1	5.1	(.5)	—	—	4.7
Balance December 31, 1996	97.6	1.0	1,150.0	(945.2)	(112.9)	—	92.9
Net income	—	—	—	596.5	—	—	596.5
Other comprehensive income	—	—	—	—	11.1	—	11.1
Comprehensive income, net of tax							607.6
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
Series C Preferred Stock converted to Common Stock	1.8	—	57.7	—	—	—	57.7
Other	.9	—	7.9	2.0	—	—	9.9
Balance December 31, 1997	103.8	1.0	1,273.6	(362.2)	(101.8)	(1,121.6)	(311.0)
Net loss	—	—	—	(285.5)	—	—	(285.5)
Other comprehensive income	—	—	—	—	33.7	—	33.7
Comprehensive loss, net of tax							(251.8)
Common Stock carrying value over repurchase price	—	—	—	—	—	68.1	68.1
Shares issued to purchase an interest in Continental Airlines, Inc.	2.6	.1	65.4	—	—	—	65.5
Accretion of Series C Preferred Stock	—	—	—	(.8)	—	—	(.8)
Tax benefit related to stock issued to employees	—	—	12.0	—	—	—	12.0
Series C Preferred Stock converted to Common Stock	1.4	—	46.3	—	—	—	46.3
Common Stock held in rabbi trusts	—	—	31.5	—	—	(151.5)	(120.0)
Other	1.2	—	15.8	—	—	(.8)	15.0
Balance December 31, 1998	109.0	$ 1.1	$1,444.6	$ (648.5)	$ (68.1)	$(1,205.8)	$(476.7)

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

Note A — Summary of Significant Accounting Policies

Basis of Presentation – Northwest Airlines Corporation ("NWA Corp.") 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 and Continental Airlines, Inc. ("Continental") are accounted for by the equity method. Other investments are accounted for by the cost method.

On November 20, 1998, NWA Corp. effected a holding company reorganization. As a result, Northwest Airlines Holdings Corporation (formerly known as Northwest Airlines Corporation and prior to the reorganization the publicly traded holding company, "Old NWA Corp.") became a direct wholly-owned subsidiary of NWA Corp. NWA Corp. is now the publicly traded holding company. Pursuant to the reorganization, each share of Common Stock and Series C Preferred Stock of Old NWA Corp. was converted into one share of Common Stock and Series C Preferred Stock, respectively, of NWA Corp. with the same rights and privileges as such shares of Old NWA Corp. References to NWA Corp., Common Stock and Series C Preferred Stock for time periods prior to November 20, 1998 refer to Old NWA Corp. and the Common Stock and Series C Preferred Stock of Old NWA Corp., respectively.

Certain prior year amounts have been reclassified to conform to 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 21 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, a trans-Atlantic alliance with KLM Royal Dutch Airlines ("KLM") that operates through a hub in Amsterdam and a global alliance with Continental.

The year ended December 31, 1998 was affected by labor-related disruptions which included work actions, a 30-day cooling off period, an 18-day cessation of flight operations due to the pilots' strike during the third quarter, a seven-day gradual resumption of flight operations and a rebuilding of traffic demand.

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 four to 25 years for flight equipment and three 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 estimated useful life of the asset.

International Routes – 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.

Impairment of Long-Lived Assets – The Company evaluates impairment of long-lived assets in compliance with Statement of Financial Accounting Standards ("SFAS") No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."* The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

In 1998, the Company accelerated the retirement of its seven oldest Boeing 747 aircraft and recorded a fleet disposition charge of $65.9 million in other operating expenses. These retirements are earlier than scheduled as a result of decreased demand in the Pacific, the timing of major overhauls and the opportunity to accelerate the delivery of certain new Boeing 747-400 aircraft in partial replacement of the retired aircraft. The Company considered recent transactions involving sales of similar aircraft and market trends in aircraft dispositions to reduce the aircraft net book value to reflect the fair market value of these assets. The fleet disposition charge included a $13.5 million write-down of related spare parts to their estimated fair market value.

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 $137.3 million, $109.8 million and $120.4 million in 1998, 1997 and 1996, 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 Currency – 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.

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.

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 March 1998, Statement of Position No. 98-1, *"Accounting for the Costs of Computer Software Developed for or Obtained for Internal Use"* ("SOP 98-1") was issued. SOP 98-1 defines the type of costs that should be capitalized versus expensed as incurred. The Company adopted SOP 98-1 on January 1, 1999, which did not have a material impact on the Company's financial condition or results of operations.

Note B — Earnings (Loss) Per Share Data

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

	Year Ended December 31		
	1998	1997	1996
Numerator:			
Income (loss) before extraordinary item	**$ (285.5)**	$ 605.8	$ 536.1
Preferred stock requirements	**(.8)**	(13.5)	(37.5)
Preferred stock transaction	—	—	74.5
Income (loss) applicable to common stockholders for basic earnings (loss) per share	**$ (286.3)**	$ 592.3	$ 573.1
Effect of dilutive securities:			
Series C Preferred Stock	—	1.1	.9
Income (loss) applicable to common stockholders after assumed conversions for diluted earnings per share	**$ (286.3)**	$ 593.4	$ 574.0
Denominator:			
Weighted-average shares outstanding for basic earnings (loss) per share	**82,341,741**	100,616,605	98,731,917
Effect of dilutive securities:			
Series C Preferred Stock	—	9,981,547	10,216,939
Employee stock options	—	1,319,177	1,482,406
Common stock repurchase obligation	—	280,253	—
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share	**82,341,741**	112,197,582	110,431,262

For additional disclosures regarding the outstanding Series C Preferred Stock, the employee stock options and the limited KLM option, see Notes C, G and H.

Note C — Labor Agreements and Series C Preferred Stock

In 1993, the Company entered into labor agreements which provided for wage and other compensation savings (the "Actual Savings") by domestic employees, including management, and other cost reductions which aggregated $897 million over 36 to 39 month periods (depending on the labor group) (collectively, the "Wage Savings Period") which ended between August and November 1996. As part of the 1993 labor agreements, the Company issued to trusts for the benefit of participating employees 9.1 million shares of a new class of Series C cumulative, voting, convertible, redeemable preferred stock, par value of $.01 per share (the "Series C Preferred Stock") and 17.5 million shares of 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, 1996	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
Series C Preferred Stock converted to Common Stock	—	—	(1.0)	(46.3)	—	—	1.4	46.3
Withdrawals from trusts	—	—	—	—	—	—	(3.4)	—
Accretion	—	—	—	.8	—	—	—	—
Balance December 31, 1998	**—**	**9.1**	**5.6**	**$ 260.7**	**—**	**17.5**	**10.3**	**$ 683.3**

NWA Corp. has authorized 25,000,000 shares of Series C Preferred Stock. The Series C Preferred Stock ranks senior to Common Stock with respect to liquidation and certain dividend rights. As long as the 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, 1998, 3.5 million shares of Series C Preferred Stock have been converted into Common Stock and the remaining 5.6 million shares outstanding are convertible into 7.7 million shares of Common Stock.

All the outstanding shares of Series C Preferred Stock are required to be redeemed in 2003 for a pro rata share of Actual Savings ($263.7 million as of December 31, 1998). NWA Corp. has the option to redeem such shares in cash, by the issuance of additional Common Stock, or by the use of cash and stock. 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 will 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 will receive three additional Board of Directors positions. The financial statement carrying value of the Series C Preferred Stock is being accreted over 10 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.

The Company recognized stock-based 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. The final measurement dates for 1996 coincided with the end of the Wage Savings Period for each of the labor groups.

The Company was required to adopt the provisions of the Emerging Issues Task Force ("EITF") Issue No. 97-14, *"Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust"* on September 30, 1998. As a result, the Company revised its consolidation of the assets and liabilities of the non-qualified rabbi trusts established as part of the 1993 labor agreements. The 4.0 million shares of Common Stock as of December 31, 1998 that are held in the trusts are recorded similar to treasury stock and the deferred compensation liability is recorded in other long-term liabilities. The Company elected to record the difference between the market value of the common shares and the cost of the shares in the trusts at the date of adoption as a credit to common stockholders' equity deficit, net of tax. After the adoption date, but prior to settlement through either contribution to the qualified trusts or diversification, increases or decreases in the deferred compensation liability will be recognized in earnings to the extent that the Common Stock market price exceeds the average historical cost of the shares of \$38.04 per share or falls below the September 30, 1998 price of \$25.06 per share, respectively. For the purpose of computing diluted earnings per share, the shares held by the rabbi trusts are considered potentially dilutive securities. The Company has classified the diversified assets held by the rabbi trusts as trading and recorded them at fair market value.

Approximately 90% of the Company's employees are members of collective bargaining units. In 1998, the Company signed new agreements with five collective bargaining groups, including the pilot group. The durations of the new agreements range from four to six years. In November 1998, at a representation election, a majority of the mechanics and related employees elected the Aircraft Mechanics Fraternal Association to be their collective-bargaining representative. The International Association of Machinists and Aerospace Workers ("IAM") is protesting the election and certification of the vote is currently under review. The remaining ground employees continue to be represented by the IAM. In 1999, the IAM ratified a new four-year tentative agreement for the remaining ground employees. The Company is presently in mediated negotiations with the union representing its flight attendants, but cannot predict the ultimate outcome of the negotiations.

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, 1998):

	December 31	
	1998	1997
Revolving credit facilities due 2002, 7.6% (a)	**$ 824.8**	$ —
Unsecured notes due 2004 through 2008, 8.0% weighted average rate (b)	**648.9**	249.7
Equipment pledge notes due through 2013, 7.1% weighted average rate	**482.5**	248.4
Aircraft notes due through 2016, 6.0% weighted average rate (c)	**362.2**	—
Secured notes due through 2009, 6.5% weighted average rate (d)	**348.9**	348.9
NWA Trust No. 2 aircraft notes due through 2012, 9.8% weighted average rate (e)	**258.3**	330.9
Secured notes due through 2016, 6.1% (f)	**240.0**	—
Unsecured notes due 1999 and 2000, 7.9% (g)	**237.7**	—
Sale-leaseback financing obligations due through 2020, 9.9% imputed rate (h)	**223.0**	223.0
NWA Trust No. 1 aircraft notes due through 2006, 8.6% weighted average rate (i)	**195.1**	208.7
Term loans due through 2002, 7.6% weighted average rate (a)	**160.2**	150.0
Term certificates paid in 1998 (j)	**—**	135.0
Senior unsecured floating rate note paid in 1998	**—**	76.0
Other	**19.1**	98.7
Total long-term debt	**4,000.7**	2,069.3
Less current maturities	**319.2**	227.4
	$ 3,681.5	$ 1,841.9

(a) The Company's Credit Agreement was amended in December 1997 to increase its existing revolving credit facility from $500 million to $675 million and to extend the availability period to December 2002. In addition, the facility added a new $175 million, 364-day unsecured revolving credit facility due in December 1998. In October 1998, the Company borrowed the available $835 million under its Credit Agreement. Interest is calculated at floating rates based on the London Interbank Offered Rate ("LIBOR") plus 2%. In December 1998, $10.2 million of the $175 million, 364-day revolver was converted into a term loan due December 2002. The remaining $164.8 million was renewed for another 364 days; however, to the extent this facility is not renewed for an additional 364-day period, the Company may borrow up to the entire non-renewed portion of the facility and all such borrowings mature in December 2002.

In May 1998, the Company obtained a secured 364-day, $1.0 billion additional revolving credit facility. In addition, the Company provided certain collateral to secure its previously unsecured term loan and revolving credit facilities under the Credit Agreement described above. Commitment fees are payable by the Company on the unused portion of all of its revolving credit facilities at a rate per annum equal to .375% and are not considered material. At December 31, 1998, $1.0 billion remained available to be borrowed in the aggregate under both revolving credit facilities.

$150 million of the floating rate term loans is payable in three equal installments beginning in 2001 with final maturity in 2002.

(b) In March 1997, the Company issued $150 million of 8.375% notes due 2004 and $100 million of 8.70% notes due 2007. In March 1998, the Company issued $200 million of 7.625% notes due 2005 and $200 million of 7.875% notes due 2008. Interest on the notes is payable semi-annually.

(c) During 1998, the Company secured long-term debt financing on 13 Airbus A320 aircraft delivered during the year. Interest on the notes is payable semi-annually. The Company combined these debt financings with fully-defeased German cross border transactions.

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

(e) 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.

(f) In August 1998, the Company borrowed $240 million under an existing credit facility. The floating rate notes are secured by six Boeing 757 aircraft and principal payments are due semi-annually beginning in 2008.

(g) On May 1, 1998, in conjunction with its repurchase of Common Stock from KLM, the Company issued three senior unsecured 7.88% notes with principal amounts of $206.0 million, $137.7 million and $100.0 million. The Company repaid the first note on September 29, 1998; the remaining two notes are due on September 29, 1999 and 2000, respectively. See Note G.

(h) 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.

(i) 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.

(j) 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, issued through a master trust floating rate Term Certificates. The Receivable Program provided 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 paid these certificates in full in 1998.

Maturities of long-term debt for the five years subsequent to December 31, 1998, are as follows (in millions):

1999	$ 319.2
2000	168.0
2001	148.0
2002	1,046.3
2003	107.9

The debt and lease agreements of the Company contain certain restrictive covenants, including limitations on indebtedness, equity redemptions and the declaration of dividends, as well as requirements to maintain certain financial ratios, including collateral coverage ratios. At December 31, 1998, the Company was in compliance with the covenants of all of its debt and lease agreements. Various assets, principally aircraft and international route authorities, having an aggregate book value of $5.1 billion at December 31, 1998, were pledged under various loan agreements.

Cash payments of interest, net of capitalized interest, aggregated $277.4 million in 1998, $231.3 million in 1997 and $263.3 million in 1996.

The weighted average interest rates on short-term borrowings outstanding at December 31 were 5.99%, 6.24% and 5.69% for 1998, 1997 and 1996, respectively.

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, 1998, the Company leased 113 of the 409 aircraft it operates. Of these, 25 were capital leases and 88 were operating leases. Expiration dates range from 1999 to 2009 for aircraft under capital leases, and from 1999 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-one of the 113 aircraft lease agreements provide the Company with purchase options at the end of the lease terms which approximate fair market value.

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

	Year Ended December 31		
	1998	1997	1996
Gross rental expense	**$ 629.8**	$ 627.1	$ 596.5
Sublease rental income	**(86.8)**	(79.5)	(62.2)
Net rental expense	**$ 543.0**	$ 547.6	$ 534.3

At December 31, 1998, 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
1999	$ 103.6	$ 495.8
2000	102.9	484.5
2001	103.9	472.8
2002	278.6	476.2
2003	84.5	456.7
Thereafter	223.1	4,442.3
	896.6	6,828.3
Less sublease rental income	—	(472.6)
Total minimum operating lease payments	—	$ 6,355.7
Less amounts representing interest	241.7	
Present value of future minimum capital lease payments	654.9	
Less current obligations under capital leases	57.6	
Long-term obligations under capital leases	$ 597.3	

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 of interest and principal are made semi-annually throughout the term. The rate of interest varies from period to period and is capped at 6%. The obligation is non-recourse to the Company. The Company has 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 carrying value is being accreted over 12 years from October 1995 to the ultimate maturity value of 71.4 billion yen ($631.8 million based on the December 31, 1998 exchange rate). Such accretion is included as a component of "Interest of mandatorily redeemable preferred security holder" in the Consolidated Statements of Operations.

Note G — Redeemable Stock

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.

On September 29, 1997, NWA Corp. entered into an agreement with KLM 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 shares were repurchased for $273.1 million. Concurrently with that purchase, all of KLM's existing governance rights under various stockholder and other agreements were canceled, and NWA Corp. and KLM entered into a customary standstill agreement. The remaining 18.2 million shares of Common Stock to be repurchased were reclassified to redeemable common stock from common stockholders' equity deficit on that date. In addition, on the same day, NWA Corp. repurchased from KLM and others all of the Series A and B Preferred Stock outstanding for $251.3 million in cash.

On May 1, 1998, NWA Corp. purchased from KLM the remaining 18.2 million shares of Common Stock which the Company had previously agreed to repurchase over the three-year period. The purchase price of $780.4 million was paid with a combination of $336.7 million cash and three senior unsecured 7.88% notes. The $68.1 million excess of the financial statement carrying value of the redeemable Common Stock over the repurchase price was transferred to common stockholders' equity deficit on the same date. As of May 1, 1998, earnings (loss) per share calculations do not include the 18.2 million shares repurchased. In certain limited circumstances (e.g., the failure of the Northwest/KLM 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 13.3 million shares of Common Stock.

Note H—Stock Options and Stockholder Rights Plan

On April 30, 1998, NWA Corp. amended its Second Amended and Restated Certificate of Incorporation to combine and reclassify the existing separate classes of voting Class A and non-voting Class B Common Stock into a single class of Common Stock.

Stock Option Plans – 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):

	1998		1997		1996	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**5,204**	**$ 27.09**	4,774	$ 20.11	3,509	$ 10.56
Granted	**509**	**43.35**	1,454	39.26	1,836	35.04
Forfeited	**(485)**	**33.36**	(154)	36.24	(118)	15.55
Exercised	**(1,169)**	**13.08**	(870)	7.49	(453)	7.92
Outstanding at end of year	**4,059**	**32.41**	5,204	27.09	4,774	20.11
Exercisable at end of year	**1,910**	**24.35**	1,894	15.55	1,907	9.16
Reserved for issuance	**7,948**		7,948		7,948	
Available for future grants	**163**		187		1,487	

At December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$ 4.740 to $ 27.375	1,072	5.7 years	$ 14.30	966	$ 13.04
31.875 to 39.875	2,102	8.2	35.78	800	34.57
40.000 to 64.406	885	8.8	46.34	144	43.39

The weighted-average fair value of all options granted during 1998, 1997 and 1996 is $17.65, $16.50 and $14.89 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 5.5%, 6.1% and 6.4% for 1998, 1997 and 1996, respectively, and expected lives of six years and volatility of 30% for all years presented.

In September 1998, in conjunction with the labor agreement reached between Northwest and the Air Line Pilots Association, International ("ALPA"), NWA Corp. established the 1998 Pilots Stock Option Plan ("the Pilot Plan"). The Pilot Plan has reserved for issuance 2.5 million shares of Common Stock. Options under the Pilot Plan will be granted over a three-year period. The initial option grant was for 1.0 million shares of Common Stock with an exercise price of $27.875 per share. These options became exercisable on November 1, 1998. The weighted average fair value of the options granted under the Pilot Plan is $10.84. 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 4.7%, an expected life of six years and volatility of 30%. On each of the next three anniversaries of the initial grant date, an additional 500,000 options will be granted with an exercise price equal to the closing market price of the Common Stock on the applicable grant date.

Assuming the Company had accounted for its employee stock options using the fair value method (instead of the intrinsic value method), the 1998 net loss would have increased to $300 million, bringing the loss per share to $3.65 in 1998. The pro forma effect of SFAS 123 is immaterial to the Company's 1997 and 1996 net income and earnings per share. In addition, because the fair value method was applied only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

Stockholder Rights Plan – Pursuant to the Stockholder Rights Plan (the "Rights Plan"), each share of Common Stock has attached to it 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 (25% or more in the case of certain Institutional Investors [as defined in the Rights Plan]) 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 (25% or more in the case of certain Institutional Investors) of NWA Corp.'s outstanding Common Stock. If any person or group acquires beneficial ownership of 19% or more (25% or more in the case of certain Institutional Investors) 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, 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.

Note I—Accumulated Other Comprehensive Income (Loss)

The following table sets forth information with respect to accumulated other comprehensive income (loss) (in millions):

	Foreign Currency Translation Adjustment	Deferred Loss on Hedging Activities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 1996	$ (39.3)	$ —	$ (231.0)	$ (270.3)
Before tax amount	(.1)	—	250.6	250.5
Tax effect	—	—	(93.1)	(93.1)
Net-of-tax amount	(.1)	—	157.5	157.4
Balance at December 31, 1996	(39.4)	—	(73.5)	(112.9)
Before tax amount	9.2	—	8.6	17.8
Tax effect	(3.4)	—	(3.3)	(6.7)
Net-of-tax amount	5.8	—	5.3	11.1
Balance at December 31, 1997	(33.6)	—	(68.2)	(101.8)
Before tax amount	(10.9)	(33.0)	97.5	53.6
Tax effect	4.0	12.1	(36.0)	(19.9)
Net-of-tax amount	(6.9)	(20.9)	61.5	33.7
Balance at December 31, 1998	**$ (40.5)**	**$ (20.9)**	**$ (6.7)**	**$ (68.1)**

Note J—Income Taxes

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

	Year Ended December 31		
	1998	1997	1996
Current:			
Federal	**$ (45.0)**	$ 108.5	$ 175.0
Foreign	**3.4**	3.7	4.1
State	**1.0**	10.9	22.3
	(40.6)	123.1	201.4
Deferred:			
Federal	**(89.7)**	236.8	112.1
Foreign	**(3.4)**	—	16.6
State	**(10.8)**	18.9	6.2
	(103.9)	255.7	134.9
Total income tax expense (benefit)	**$ (144.5)**	$ 378.8	$ 336.3

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

	Year Ended December 31		
	1998	1997	1996
Statutory rate applied to income before income taxes and extraordinary item	**$ (150.5)**	$ 344.6	$ 305.3
Add (deduct):			
State income tax (benefit) net of federal benefit	**(6.5)**	19.2	18.5
Adjustment to valuation allowance and other income tax accruals	**6.4**	5.8	6.2
Other	**6.1**	9.2	6.3
Total income tax expense (benefit)	**$ (144.5)**	$ 378.8	$ 336.3

The net deferred tax liabilities listed below include a current net deferred tax asset of $114.3 million and $84.8 million and a long-term net deferred tax liability of $1.11 billion and $1.16 billion as of December 31, 1998 and 1997, respectively.

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

	December 31	
	1998	1997
Deferred tax liabilities:		
Financial accounting basis of assets in excess of tax basis	**$ 1,489.4**	$ 1,452.0
Expenses other than depreciation accelerated for tax purposes	**313.0**	309.4
Other	**15.9**	12.4
Total deferred tax liabilities	**1,818.3**	1,773.8
Deferred tax assets:		
Pension and postretirement benefits	**84.7**	128.3
Expenses accelerated for financial reporting purposes	**547.9**	409.3
Leases capitalized for financial reporting purposes	**80.4**	105.1
Alternative minimum tax credit carryforwards	**103.2**	54.4
Other tax credit carryforwards	**3.7**	—
Total deferred tax assets	**819.9**	697.1
Net deferred tax liability	**$ 998.4**	$ 1,076.7

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 $103.2 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. During 1998, the Company generated $3.4 million of foreign tax credit for both regular and alternative minimum tax purposes and $.3 million of general business credit. These credits are available for carryforward at December 31, 1998.

Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury regulations limit the amounts of NOLs, AMTNOLs and credits that can be used to offset taxable income (or used as a credit) in any single tax year if the corporation has more than a 50% ownership change (as defined in the Code) over a three-year testing period ending on the 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 an offering of outstanding Common Stock by existing stockholders in November 1995 triggered an ownership change, but that no ownership change occurred before that time. If such an ownership change did occur as a result of the offering, management believes that, even as limited by the Code, the Company would use the NOLs, AMTNOLs and credits significantly earlier than their expiration and the annual limitations would not adversely impact the Company. However, if the IRS were to successfully assert that an ownership change had occurred on any date prior to November 1995, (including August 1, 1993 when the Company entered into labor agreements that provided stock for labor cost savings), the Company's ability to use its NOLs, AMTNOLs and credits would be significantly impaired because the value of NWA Corp.'s stock on certain prior testing dates was relatively low. Such value would adversely affect the annual limitation described above.

Note K — Commitments

The Company's firm aircraft orders for 102 new aircraft as of December 31, 1998, adjusted to reflect a January 1999 revised delivery schedule, includes seven Airbus A320 aircraft in 1999, 50 Airbus A319 aircraft (10 per year beginning in 1999), 25 Boeing 757-200 aircraft from 2004 through 2006, 16 Airbus A330 aircraft (eight each in 2004 and 2005) and four Boeing 747-400 aircraft in 1999. Committed expenditures for these aircraft and related equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately: $963 million in 1999, $290 million in 2000, $363 million in 2001, $498 million in 2002, $466 million in 2003 and $3.01 billion from 2004 to 2006.

The Company has substitution rights with respect to the Airbus A330 aircraft and has the option to purchase four Boeing 747-400 aircraft in 2002. The Company also has options to purchase 50 additional Airbus A319 and/or A320 aircraft for delivery from 2000 through 2003 and 50 roll-over options which replace the initial 50 options and would be 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 and is available for use at the option of the Company. The Company plans on financing its four Boeing 747-400 aircraft to be delivered in 1999 with enhanced equipment trust certificates.

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 and Other Postretirement Health Care 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 1998, 1997 and 1996, the Company made contributions of $150 million, $133 million and $85 million, respectively, in excess of its minimum requirement.

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.

The following is a reconciliation of the beginning and ending balances of the benefit obligation and the fair value of plan assets (in millions):

	Pension Benefits		*Other Benefits*	
	1998	1997	**1998**	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 4,251.3**	$ 3,699.0	**$ 347.1**	$ 313.6
Service cost	**132.7**	113.2	**12.4**	10.3
Interest cost	**309.6**	286.4	**25.0**	23.8
Amendments	**180.2**	(.6)	**6.1**	—
Actuarial gain	**316.9**	308.1	**4.8**	14.6
Foreign exchange gain (loss)	**7.0**	(11.6)	**—**	—
Benefits paid	**(176.4)**	(143.2)	**(18.8)**	(15.2)
Benefit obligation at end of year	**5,021.3**	4,251.3	**376.6**	347.1
Change in plan assets:				
Fair value of plan assets at beginning of year	**3,758.1**	3,008.7	**5.3**	5.1
Actual return on plan assets	**608.2**	623.6	**.3**	.4
Employer contributions	**184.9**	269.4	**18.7**	15.0
Benefits paid and other	**(176.6)**	(143.6)	**(18.8)**	(15.2)
Fair value of plan assets at end of year	**4,374.6**	3,758.1	**5.5**	5.3
Funded status	**(646.7)**	(493.2)	**(371.1)**	(341.8)
Unrecognized net actuarial loss	**363.7**	324.7	**86.9**	85.0
Unrecognized prior service cost	**337.5**	181.9	**6.2**	—
Net amount recognized	**$ 54.5**	$ 13.4	**$ (278.0)**	$ (256.8)

Amounts recognized in the Consolidated Balance Sheets as of December 31 were as follows (in millions):

	Pension Benefits		*Other Benefits*	
	1998	1997	**1998**	1997
Prepaid benefit cost	**$ 195.4**	$ 125.4	**$ —**	$ —
Accrued benefit liability	**(287.4)**	(256.6)	**(278.0)**	(256.8)
Intangible asset	**135.9**	36.4	**—**	—
Accumulated other comprehensive income	**10.6**	108.2	**—**	—
Net amount recognized	**$ 54.5**	$ 13.4	**$ (278.0)**	$ (256.8)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $451.4 million, $271.8 million and $2.7 million, respectively, as of December 31, 1998 and $1.28 billion, $1.19 billion and $1.03 billion, respectively, as of December 31, 1997.

Weighted-average assumptions for pension and other benefits as of December 31 were as follows:

	1998	1997	1996
Discount rate	**6.9%**	7.1%	7.6%
Rate of future compensation increase	**3.9%**	3.5%	3.5%
Expected long-term return on plan assets	**10.5%**	10.5%	10.5%

For measurement purposes, a 6.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 4.5% for 2002 and remain at that level thereafter.

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

	Pension Benefits			*Other Benefits*		
	1998	1997	1996	**1998**	1997	1996
Service cost	**$ 132.7**	$ 113.2	$ 115.7	**$ 12.4**	$ 10.3	$ 10.3
Interest cost	**309.6**	286.4	267.2	**25.0**	23.8	22.1
Expected return on plan assets	**(356.5)**	(301.2)	(256.8)	**(.4)**	(.4)	(.4)
Amortization of prior service cost	**20.2**	20.3	20.2	**—**	—	—
Recognized net actuarial loss	**25.7**	17.2	38.8	**2.9**	2.1	3.2
Other events	**4.7**	2.2	—	**—**	—	—
Net periodic benefit cost	**$ 136.4**	$ 138.1	$ 185.1	**$ 39.9**	$ 35.8	$ 35.2

Assumed health care cost trend rates have a significant impact on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (in millions):

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 5.8	$ (4.9)
Effect on accumulated postretirement benefit obligations	48.8	(41.5)

Note N — Related Party Transactions

On November 20, 1998, the Company issued 2.6 million shares of Common Stock and paid $399 million in cash to acquire the beneficial ownership of 8.7 million shares of Class A Common Stock of Continental. These shares represent 13.5% of Continental's outstanding common stock and, together with additional Continental shares for which the Company holds a limited voting proxy, 50.3% of its fully diluted voting power as of December 31, 1998.

In connection with the Company's investment in Continental and Northwest's alliance with Continental, the Company entered into agreements with Continental which contain certain restrictions on the Company's ability to vote shares of Continental common stock, to aquire additional shares of Continental common stock and to affect the composition and conduct of Continental's Board of Directors for a ten-year period. Due to the restrictions in these agreements, the

Company will account for its investment under the equity method. The Company will recognize its interest in Continental's earnings on a one-quarter lag. The difference between the cost of the Company's investment and the proportionate share of the underlying equity of Continental of $312 million will be amortized over 40 years.

In a related transaction, Northwest and Continental entered into a 13-year global strategic commercial alliance that connects the two carriers' networks and includes extensive code-sharing, frequent flyer program reciprocity and other cooperative activities. The two airlines have no plans to merge their operations and will retain separate boards, management and headquarters. In December 1998, Northwest and Continental began implementing their alliance. Since then they have initiated code-sharing (the joint designation of flights under the Northwest "NW" code and the Continental "CO" code) to several points in Asia and to many domestic cities. Northwest anticipates that it will add additional code-sharing with Continental in 1999; however, further international code-sharing is subject to certain regulatory approvals. Other joint activities anticipated to be implemented include airport facility coordination, joint purchasing and certain coordinated sales programs.

The Company has an investment in WORLDSPAN, an affiliate that provides computer reservations services, which it accounts for using the equity method. The Company recorded expenses for certain reservation system services provided by this affiliate of $83.0 million, $78.6 million and $77.1 million in 1998, 1997 and 1996, respectively.

The Company owns 28.5% 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 has warrants in Mesaba Holdings, Inc. stock and if the Company were to exercise all its warrants when fully vested, its ownership would increase to 40.9% as of December 31, 1998.

Northwest and Mesaba signed a 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, 1998, the Company has leased 48 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.

In addition, as of December 31, 1998, the Company has leased or subleased 18 Avro Regional Jet aircraft to Mesaba under a Regional Jet Services Agreement consummated in October 1996. The Company has agreed to lease 18 additional Avro Regional Jet aircraft to Mesaba, with ten scheduled for delivery in 1999 and eight in 2000. Committed expenditures for these aircraft, including contractual price escalations, are approximately $225 million in 1999 and $175 million in 2000.

On April 1, 1997, 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 O — Risk Management and Financial Instruments

Effective October 1, 1998, the Company adopted SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* which requires the Company to recognize all derivatives on the balance sheet at fair value. The Company uses derivatives as cash flow hedges to manage the price risk of fuel and its exposure to foreign currency fluctuations. SFAS No. 133 requires that for cash flow hedges, which hedge the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the derivative's gain or loss is reported in earnings immediately. The cumulative effect of adoption was immaterial.

Risk Management – The Company uses derivative financial instruments to manage specific risks and does not hold or issue them 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 1998, the Company's yen-denominated revenues exceeded its yen-denominated expenses by approximately 38 billion yen. From time to time, the Company uses forward contracts, collars or put options to hedge a portion of its anticipated yen-denominated ticket sales. The changes in market value of such instruments have historically been highly effective at offsetting exchange rate fluctuations in yen-denominated ticket sales.

At December 31, 1998, the Company recorded $15.0 million of unrealized losses in accumulated other comprehensive loss as a result of forward contracts to sell 47.5 billion yen ($405.8 million) at an average forward rate of 117 with various settlement dates through November 1999. Hedging gains or losses are recorded in passenger revenue when transportation is provided. These forward contracts hedge approximately 35% of the Company's anticipated 1999 yen-denominated ticket sales, which also represents approximately 95% of the Company's excess of yen-denominated revenues over expenses.

Counterparties to these financial instruments expose the Company to credit loss in the event of nonperformance, but the Company does not expect any of the counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gains, if any, 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. It is the Company's policy to participate in foreign currency hedging transactions with a maximum span of 12 months.

Fuel – The Company is exposed to the effect of 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. To further manage the price risk of fuel costs, the Company primarily utilizes futures contracts traded on regulated exchanges. The changes in market value of such contracts have historically been highly effective at offsetting fuel price fluctuations. It is the Company's policy to participate in hedging transactions with a maximum span of 12 months.

At December 31, 1998, the Company recorded $5.9 million of unrealized losses in accumulated other comprehensive loss as a result of the fuel futures contracts, which if realized, will be recorded in fuel expense when the related fuel inventory is utilized throughout 1999. As of December 31, 1998, the Company had hedged approximately 10% of its 1999 fuel requirements, including 40% for the first quarter.

Fair Values of Financial Instruments – The financial statement carrying values equal the fair values of the Company's cash and cash equivalents and short-term investments. As of December 31, these amounts were (in millions):

	Cash and Cash Equivalents		*Short-Term Investments*	
	1998	1997	**1998**	1997
Held-to-maturity debt securities:				
Commercial paper	**$ 320.4**	$ 372.4	**$ 19.5**	$ 176.3
Other	**109.1**	281.1	**22.8**	122.1
Available-for-sale debt securities	**27.3**	68.8	**5.6**	139.3
Cash	**23.2**	18.1	**—**	—
	$ 480.0	$ 740.4	**$ 47.9**	$ 437.7

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):

	1998		*1997*	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt	**$ 4,000.7**	**$ 4,074.2**	$ 2,069.3	$ 2,239.7
Mandatorily Redeemable Preferred Security of Subsidiary	**564.1**	**519.6**	486.3	434.1
Series C Preferred Stock	**260.7**	**196.0**	306.2	432.9
Redeemable Common Stock	**—**	**—**	848.5	767.7

The Company considers all unrestricted investments with a remaining maturity of three months or less on their acquisition date to be cash equivalents. The Company classifies investments with a remaining maturity of more than three months on their acquisition date 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 were $63.1 million and proceeds from sales of such securities during 1998 and 1997 were $139.3 and $74.5 million, respectively. At December 31, 1998 and 1997, short-term investments included $47.9 and $138.2 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 Security and redeemable common stock not actively traded, fair values were estimated using discounted cash flow analysis, 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 Common Stock.

Note P—Segment Information

The Company is managed as one cohesive business unit, of which revenues are derived primarily from the commercial transportation of passengers and cargo. Geographic operating revenues are based on allocation guidelines provided by the U.S. Department of Transportation, which classifies flights between the U.S. and foreign destinations into regions, and thus, differs from the definition of foreign operations under generally accepted accounting principles. The following table shows the operating revenues for each region (in millions):

	Year Ended December 31		
	1998	1997	1996
Domestic	**$ 6,093.0**	$ 6,793.0	$ 6,492.7
Pacific, principally Japan	**2,015.7**	2,670.9	2,699.1
Atlantic	**936.1**	761.9	688.7
Total operating revenues	**$ 9,044.8**	$ 10,225.8	$ 9,880.5

Note Q—Quarterly Financial Data (Unaudited)

Unaudited quarterly results of operations for the years ended December 31, 1998 and 1997, are summarized below (in millions, except per share amounts):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1998:				
Operating revenues	$ 2,428.5	$ 2,476.0	$ 1,928.1	$ 2,212.2
Operating income (loss)	156.4	120.2	(275.8)	(192.2)
Net income (loss)	$ 71.0	$ 48.6	$ (223.8)	$ (181.3)
Basic earnings (loss) per common share	$ .72	$ .56	$ (2.91)	$ (2.31)
Diluted earnings (loss) per common share	$ .66	$ .51	$ (2.91)	$ (2.31)
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

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 shares outstanding and other dilutive potential common shares.

Note R — Condensed Consolidated Financial Information of Northwest Airlines, Inc.

Northwest Airlines Holdings Corporation 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 in the financial statements of Northwest, condensed financial information of Northwest consists of the following (in millions):

Condensed Consolidated Statements of Operations

	Year Ended December 31		
	1998	1997	1996
Operating revenues	**$ 8,642.7**	$ 9,882.9	$ 9,651.3
Operating expenses	**8,862.2**	8,773.9	8,641.7
Operating income (loss)	**(219.5)**	1,109.0	1,009.6
Other income (expense)	**(239.4)**	(212.9)	(183.6)
Income (loss) before income taxes and extraordinary item	**(458.9)**	896.1	826.0
Income tax expense (benefit)	**(159.3)**	342.6	308.8
Income (loss) before extraordinary item	**(299.6)**	553.5	517.2
Loss on extinguishment of debt	**—**	(9.3)	—
Net income (loss)	**$ (299.6)**	$ 544.2	$ 517.2

Condensed Consolidated Balance Sheet Data

	December 31	
	1998	1997
Current assets	**$ 1,601.9**	$ 2,015.0
Noncurrent assets	**7,242.4**	6,114.6
Current liabilities	**3,598.8**	3,164.7
Long-term debt and obligations under capital leases	**3,955.2**	2,016.9
Deferred credits and other liabilities	**1,001.2**	1,191.0
Mandatorily redeemable preferred security of subsidiary	**564.1**	486.3

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, 1998 and 1997, and the related consolidated statements of operations, common stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1998. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Ernst + Young LLP

Minneapolis, Minnesota
January 18, 1999

FIVE-YEAR SUMMARY

Northwest Airlines Corporation

	Year Ended December 31				
	1998 (1)	1997	1996	1995	1994
Statements of Operations					
(In millions, except per share data)					
Operating revenues					
Passenger	**$ 7,606.5**	$ 8,822.1	$ 8,598.3	$ 7,762.0	$ 7,010.1
Cargo	**633.5**	789.4	745.8	751.2	755.8
Other	**804.8**	614.3	536.4	571.7	559.0
	9,044.8	10,225.8	9,880.5	9,084.9	8,324.9
Operating expenses	**9,236.2**	9,068.6	8,826.7	8,171.5	7,485.3
Operating income (loss)	**(191.4)**	1,157.2	1,053.8	913.4	839.6
Operating margin	**(2.1)%**	11.3%	10.7%	10.1%	10.1%
Income (loss) before extraordinary item	**$ (285.5)**	$ 605.8	$ 536.1	$ 342.1	$ 295.5
Net income (loss)	**$ (285.5)**	$ 596.5	$ 536.1	$ 392.0	$ 295.5
Earnings (loss) per common share:					
Basic	**$ (3.48)**	$ 5.89 (2)	$ 5.05 (2)	$ 3.11 (2)	$ 3.00
Diluted	**$ (3.48)**	$ 5.29 (2)	$ 4.52 (2)	$ 2.90 (2)	$ 2.90
Balance Sheets *(In millions)*					
Cash, cash equivalents and unrestricted short-term investments	**$ 480.0**	$ 1,039.9	$ 752.1	$ 970.9	$ 968.3
Total assets	**10,280.8**	9,336.2	8,511.7	8,412.3	8,070.1
Long-term debt, including current maturities	**4,000.7**	2,069.3	2,060.4	2,467.1	4,013.5
Long-term obligations under capital leases, including current obligations	**654.9**	705.3	772.2	841.2	890.3
Mandatorily redeemable preferred security of subsidiary	**564.1**	486.3	549.2	618.4	—
Redeemable stock	**260.7**	1,154.7	602.6	945.5	795.0
Common stockholders' equity (deficit) (3)	**(476.7)**	(311.0)	92.9	(818.8)	(1,370.7)
Operating Statistics (4)					
Scheduled service:					
Available seat miles (ASM) (millions)	**91,310.7**	96,963.6	93,913.7	87,472.0	85,015.6
Revenue passenger miles (millions)	**66,738.3**	72,031.3	68,639.1	62,515.2	57,873.2
Passenger load factor	**73.1%**	74.3%	73.1%	71.5%	68.1%
Revenue passengers (millions)	**50.5**	54.7	52.7	49.3	45.5
Revenue yield per passenger mile	**11.26¢**	12.11¢	12.53¢	12.42¢	12.11¢
Passenger revenue per scheduled ASM	**8.23¢**	9.00¢	9.16¢	8.87¢	8.25¢
Operating revenue per total ASM (5)	**9.12¢**	9.76¢	9.85¢	9.58¢	8.93¢
Operating expense per total ASM (5)	**9.21¢**	8.63¢	8.78¢	8.66¢	8.08¢
Cargo ton miles (millions)	**1,954.4**	2,282.8	2,215.8	2,246.3	2,322.3
Cargo revenue per ton mile	**32.4¢**	34.5¢	33.7¢	33.4¢	32.5¢
Fuel gallons consumed (millions)	**1,877.1**	1,996.3	1,945.1	1,846.2	1,792.8
Average fuel cost per gallon	**53.60¢**	64.86¢	67.21¢	55.66¢	56.23¢
Number of operating aircraft at year end	**409**	405	399	380	361
Full-time equivalent employees at year end	**50,565**	48,984	47,536	45,124	43,673

(1) 1998 was affected by labor-related disruptions which included work actions, a 30-day cooling off period, an 18-day cessation of flight operations due to the pilots' strike, a seven-day gradual resumption of flight operations and a rebuilding of traffic demand.

(2) 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).

(3) No dividends have been paid on Common Stock for any period presented.

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

(5) 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

	1998		1997	
Quarter	**High**	**Low**	High	Low
1st	**65 5/16**	**45 1/2**	41 3/4	33 1/8
2nd	**62 3/16**	**37**	43 3/4	33 7/8
3rd	**44 1/2**	**25 1/16**	42 19/32	35 1/4
4th	**27 5/8**	**18 5/8**	49 1/8	40 1/2

No dividends were declared during the years ended 1998 or 1997.

Stock Listing

The Company's Common Stock is quoted on the Nasdaq National Market under symbol NWAC. As of January 31, 1999 the Company had 1,270 stockholders of record.

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 1999 Annual Meeting of Stockholders will be held at the Equitable Life Building, New York, New York on Friday, April 23, 1999 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

Northwest Airlines & Partners
International Route System
Northwest Airlines
KLM Royal Dutch Airlines
Air China
Continental Airlines
Kenya Airways
Northwest Cargo
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New York (Newark)
Philadelphia
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Abu Dhabi
Muscat
Karachi
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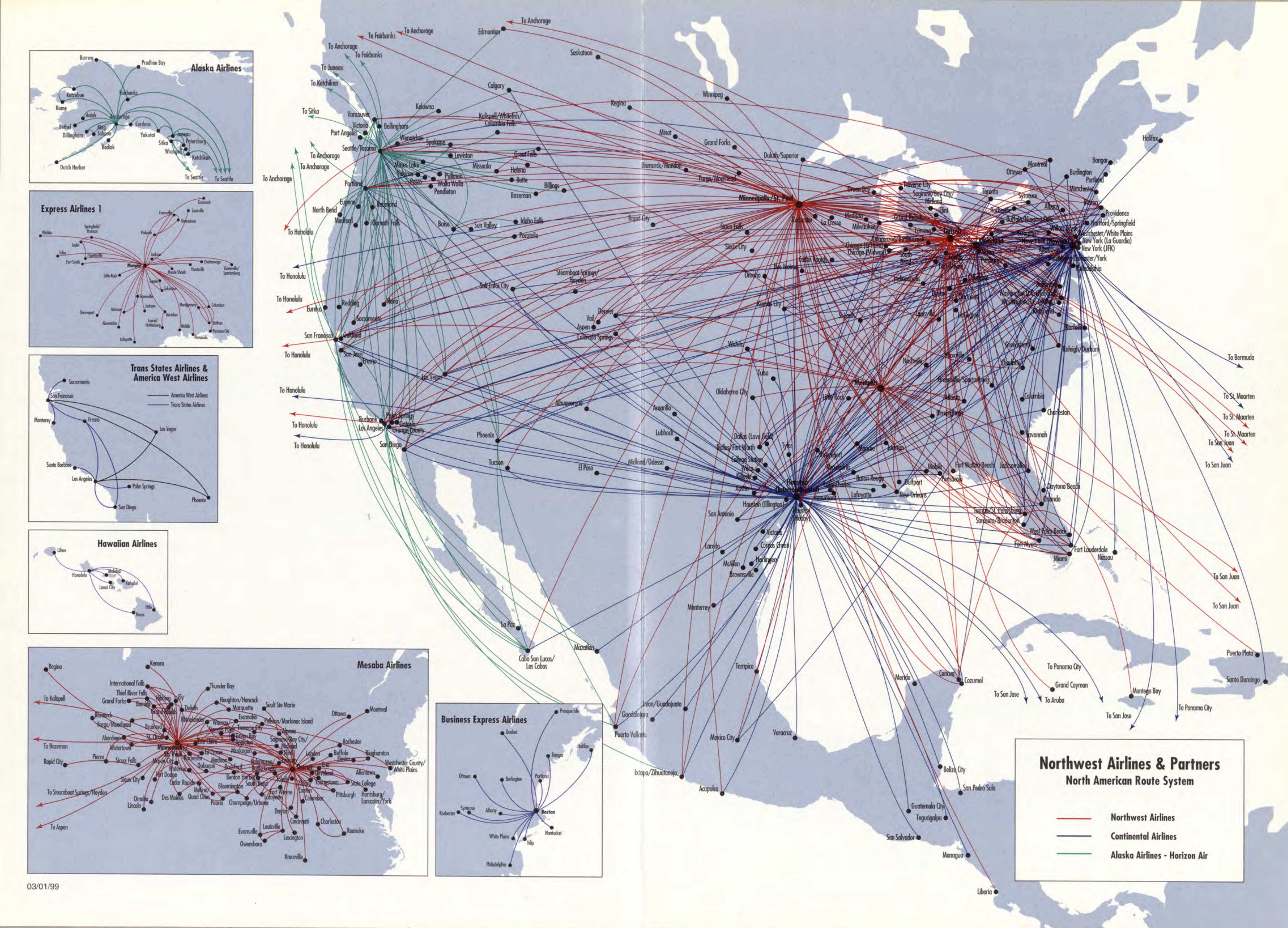
Northwest Airlines & Partners
North American Route System
Northwest Airlines
Continental Airlines
Alaska Airlines - Horizon Air
Alaska Airlines
Express Airlines 1
Trans States Airlines & America West Airlines
America West Airlines
Trans States Airlines
Hawaiian Airlines
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To Bozeman
To Steamboat Springs/Hayden
To Aspen

03/01/99

NORTHWEST
AIRLINES

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www.nwa.com

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