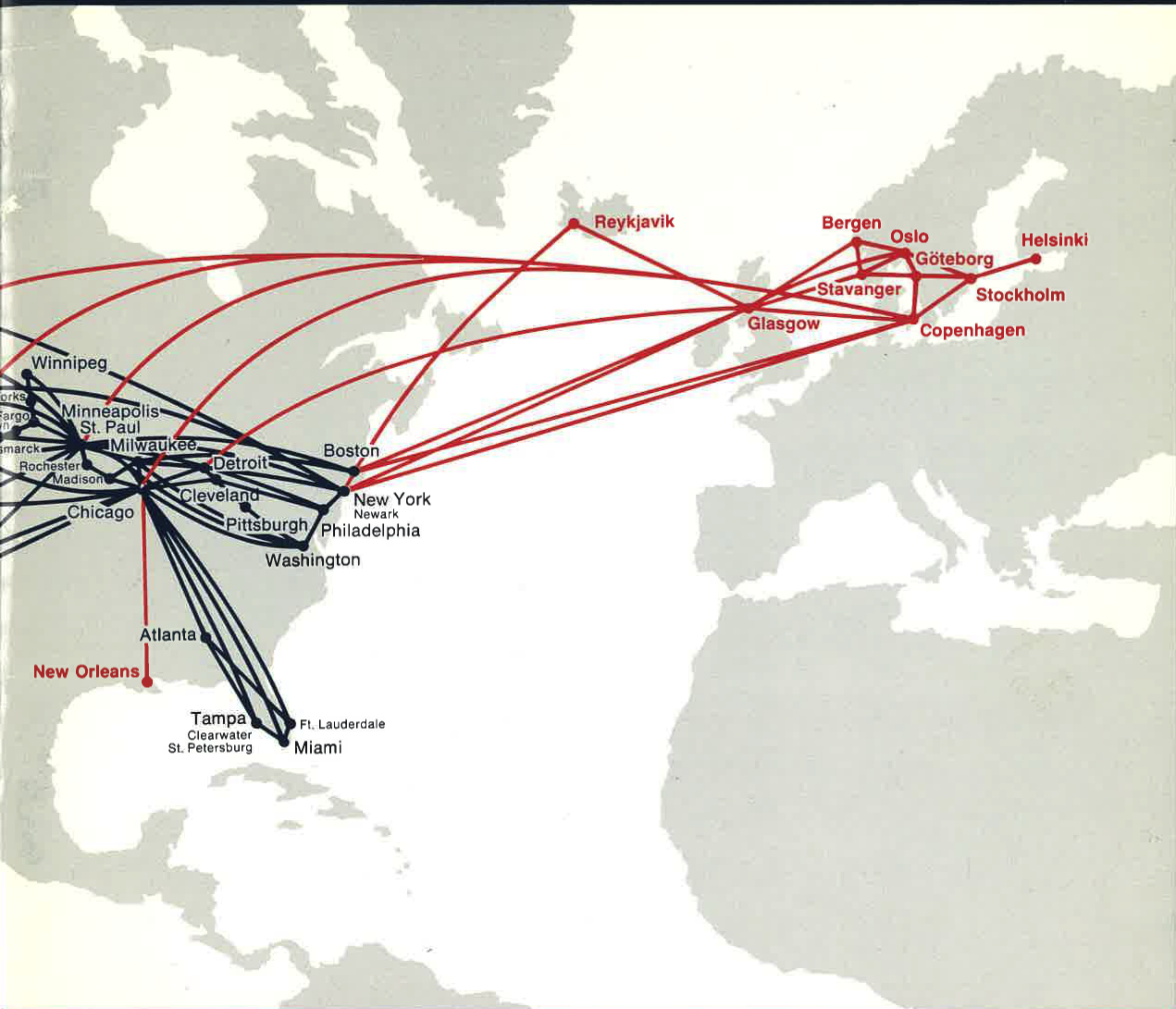
1977 Annual Report



NORTHWEST ORIENT

CITIES PRESENTLY SERVED BY NORTHWEST ORIENT

North America

Anchorage
Atlanta
Billings
Bismarck/Mandan
Boston
Bozeman
Butte
Chicago
Cleveland
Detroit
Edmonton
Fargo/Moorhead
Ft. Lauderdale/Hollywood
Grand Forks
Great Falls
Helena
Hilo
Honolulu
Jamestown
Los Angeles/Long Beach/Ontario
Madison
Miami
Milwaukee
Minneapolis/St. Paul
Missoula
New Orleans
New York
Newark
Philadelphia
Pittsburgh
Portland
Rochester
San Francisco/Oakland/San Jose
Seattle/Tacoma
Spokane
Tampa/St. Petersburg/Clearwater
Washington, D. C./Baltimore
Winnipeg

The Orient

Hong Kong
Manila
Okinawa
Osaka
Seoul
Taipei
Tokyo

OTHER CITIES AUTHORIZED FOR SERVICE BY NORTHWEST ORIENT

Europe (Service to these European cities was authorized by the United States government on January 26, 1978. Service to some of these points will begin in 1978.)

Bergen
Copenhagen
Glasgow
Göteborg
Helsinki
Oslo
Reykjavik
Stavanger
Stockholm

Mainland China (Service to Mainland China by Northwest Airlines was authorized by the United States government on July 20, 1946. The operation of these routes has been suspended for many years.)

Dairen
Harbin
Nanking
Peking
Shenyang
Shanghai

DESCRIPTION OF BUSINESS

Northwest Airlines, Inc., incorporated in the State of Minnesota, is a scheduled air carrier engaged in commercial transportation of passengers, mail and property and operates under certificates of public convenience and necessity issued by the Civil Aeronautics Board. The present route system covers approximately 30,500 route miles and serves directly cities in 18 states of the 48 contiguous states, as well as Alaska, Hawaii, the District of Columbia, Canada, countries in Asia, including Japan, Korea, Taiwan, Hong Kong and the Philippines and countries in Europe including Norway, Sweden, Denmark, Iceland, Finland and Scotland. The European countries were recently awarded to Northwest Airlines and service will begin to some of these points this year. Authorizations to serve Shanghai, Peking and other points in continental China remain in effect although presently inoperative.

Highlights of 1977

	1977	1976
Total Operating Revenues	$1,046,354,772	$963,808,065
Operating Income	104,583,565	102,948,027
Net Earnings for the Year	92,718,790	51,737,015
Per Common Share	4.29	2.39
Per Dollar of Revenues	8.8¢	5.4¢
Stockholders' Equity	747,671,847	665,743,992
Per Common Share	34.60	30.81
Dividends Paid	10,803,648	9,707,217
Operating Expenses:		
Per Available Ton-Mile	22.9¢	21.6¢
Per Revenue Ton-Mile	54.4¢	50.5¢
Revenue Traffic:		
Passengers Carried	10,354,808	9,818,343
Passenger-Miles Flown	11,100,412,000	10,758,683,000
Ton-Miles, Mail, Freight and Express	566,428,000	571,449,000
Common Shares at Year End	21,606,686	21,606,036
Employees:		
Number at Year End	11,445	11,208
Total Wages and Benefits Paid	$279,194,841	$249,521,454

NWA'S FAMOUS RED TAIL . . . is pictured here with the terminal building of Dulles International Airport framed in the background. The photograph was taken April 18, 1977 when a Northwest Orient charter flight, bearing 52 Minnesota businessmen bound for Cuba on a historic first trade mission and talks with Cuban president Fidel Castro, paused for a State Department briefing in Washington, D. C.

FROM THE CHAIRMAN

51st Annual Report to the Shareholders

1977 was an excellent year for Northwest Orient Airlines. Operating revenues were $1,046,354,772 — exceeding one billion dollars for the first time in the Company's history.

Total profit for 1977 was $92,718,790 — earnings per share reached $4.29 — an increase in earnings of 79% in 1977 over 1976.

Financial Strength

The financial strength of Northwest increased again in 1977. Debt was reduced $21,000,000 during the year that ended December 31, 1977 — from $125,000,000 to $104,000,000.

At year-end 1977, Northwest stockholders' equity was $747,671,847. Retained earnings were $596,475,570 — highest in the U.S. airline industry. Debt as a per cent of equity was only 13.9% — which is the lowest in the U.S. airline industry.

Dividend Increase for 1978

The Board of Directors on March 13, 1978 increased the dividend by 25 cents per share to an annual rate of 75 cents. This was the second increase in two years. The new quarterly dividend rate of 18¾ cents becomes effective with the payment to be made on March 31, 1978. Northwest has paid dividends for 91 consecutive quarters.

New Orleans Service

Northwest began serving the Twin Cities-Chicago-New Orleans market on June 8, 1977 — the first new route granted to the Company by the Civil Aeronautics Board in seven years.

Development of this market was expected to take at least one year to be profitable, but response to Northwest's new service has been excellent and on December 15, 1977 a fourth daily flight was added in each direction. New Orleans' growing importance as a national convention site and as an oil and gas exploration center makes this a key city on our route system.

New Trans-Atlantic Routes

President Carter approved new routes for Northwest Airlines from the U.S. to six northern European countries on January 26, 1978. In doing so, he confirmed the unanimous recommendation of the Civil Aeronautics Board that Northwest become 'the North Country specialist' among U.S. airlines.

The new trans-Atlantic authority permits Northwest to provide service between a combination of nine U.S. points (Los Angeles, Seattle, Portland, Minneapolis/St. Paul, Chicago, Detroit, Washington, D.C./Baltimore, Boston and New York/Newark) and Scotland, Denmark, Norway, Sweden, Finland and Iceland.

The Company is now developing plans for its trans-Atlantic services which will begin in the summer of 1978. The opportunity to link Europe with the U.S. and Asia on Northwest's route structure is a welcome one. It comes 30 years after Northwest successfully pioneered service to the Orient via Anchorage and the North Pacific.

Aircraft Fleet Modernization

Northwest Airlines continued its program for acquiring cost-efficient, modern jet aircraft to improve its position in the industry. At year-end 1977, Northwest was operating a fleet of 110 fan-jet airplanes — 21 Boeing 747 airplanes, 22 McDonnell-Douglas DC-10-40's, 65 Boeing 727's and two Boeing 707's. With this fleet, Northwest provided 97% of its available seat-miles in international transportation with wide-bodied jet airplanes — Boeing 747's and DC-10-40's. On a system basis (international and domestic) 75% of the Company's available seat-miles were provided in "wide-cabin" airplanes. The percentage of wide-cabin seats will increase further in 1978 and 1979.

During the year 1977, Northwest Airlines took delivery of one additional 747F all-cargo airplane and nine advanced-model Boeing 727-200's. These ten aircraft deliveries represent a capital investment of $127,500,000 and brought the cost of Northwest's flight equipment to more than $1,510,000,000.

During the year 1977, the Company sold thirteen older jet airplanes — six Boeing 707-320's and seven Boeing 727-100's. A pre-tax gain of $51,054,000 was realized from these transactions.

Northwest in March 1978 ordered six additional Boeing 747-200B wide-bodied jet airplanes. The cost of these additional airplanes is approximately $300,000,000, which includes the cost of additional spare engines and other spare parts. First delivery of the new 747-200B's will be in May 1979. Five of the aircraft will be delivered in 1979 and the sixth in 1980. These new Boeing 747's have been purchased to provide for the further development of our recently awarded trans-Atlantic routes to Scandinavia and Scotland. They will also be used on Northwest's trans-Pacific route system and in high-density city-pair markets within the U.S.

Together with our present 21 Boeing 747's (17 passenger aircraft and four all-cargo freighters) and 22 DC-10-40's, the six new 747's will give Northwest Airlines a total of 49 wide-bodied aircraft — one of the largest fleets of the new generation jumbo jets in the world.

Two advanced model Boeing 727-200A's, previously ordered, were delivered in February 1978, and two more will be delivered in the last quarter of 1978.

Two Officers Elected

The Board of Directors elected two new corporate officers during 1977. Mr. Robert E. Strite, age 44, was elected Vice President-Comptroller, and Mr. Steven D. Wheeler, age 32, was elected Assistant Secretary of the corporation.

Outlook for 1978

Passenger traffic, both domestic and international, has resumed its growth during the last quarter of 1977 and has continued into the first two months of 1978. We expect that the growth will continue through 1978 and forecast that revenue passenger-miles will increase 8% to 10% over last year.

Cargo traffic, which showed little growth in 1977, increased during the last two months of 1977. The improvement has continued into 1978 and Northwest expects that cargo revenue will increase approximately 10% to 12% in 1978 over the previous year.

Northwest Airlines continues to have good cost controls and, if the above sales forecasts are achieved, 1978 will be another successful year for Northwest Airlines.

Sincerely,

Donald W. Nyrop

Donald W. Nyrop
Chairman and
Chief Executive Officer

March 15, 1978

THE BOARD OF DIRECTORS . . . of Northwest Airlines is pictured here. Seated, left to right: M. Joseph Lapensky; Donald G. McNeely; Raymond H. Herzog; Donald W. Nyrop; James H. Binger and Hadley Case. Standing, left to right: Lyman E. Wakefield, Jr.; Malcolm S. Mackay; Melvin R. Laird and James N. Land, Jr.

SALES AND MARKETING HIGHLIGHTS

NWA Records First Billion Dollar Year as 10 Million Passenger Figure Surpassed

Two new milestones were reached by Northwest Orient in 1977 as the Company exceeded one billion dollars in operating revenues for the first time in history and carried more than 10 million passengers for another first.

A number of sales records were established in 1977:

- A new single month record of 998,279 revenue passengers was set in August.
- A new single month cargo revenue record of $12,043,781 was established in November.
- For the second consecutive year, more than 500,000 passengers were carried on Northwest Orients' trans Pacific services in 1977.

The continued expansion and growth of Northwest Orient's partnership with its travel agents was evident in 1977. Travel agency revenue totaled $432 million — an increase of more than $54 million compared to 1976.

The 56 'Travel Fairs' held for nearly 8,000 travel agents in 1977 enabled them to meet with top tour operators, cruise lines and representatives of major tourist attractions in areas served by Northwest Orient.

Tour Sales Show Gain

Tour programs produced by Northwest Orient and selected tour wholesalers produced $90 million in revenues during 1977. This was a 26 per cent increase over 1976.

NWA's Orient tours remained a very popular attraction with more than 40,000 tourists participating in 1977 Northwest Orient programs.

Cargo Gains Domestically

Domestic cargo revenue increased by 6 per cent in 1977 over 1976. This offset a decline in eastbound trans Pacific cargo volume caused by a stagnant import market resulting from the weakened U.S. dollar overseas.

Also helping make up the deficit in eastbound trans Pacific traffic was a 26 per cent gain in westbound cargo traffic from the U.S. to the Orient. A special sales effort was launched to obtain shipments of fresh seafood products to Japan. Included were shipments of whole tuna from Boston to Tokyo, sea urchins from the West Coast and salmon roe from Alaska.

Containerized traffic represented 46 per cent of NWA's domestic system freight traffic in 1977.

Convention Sales Grow

Over 43,000 delegates flew on Northwest Orient flights to their domestic and international conventions during 1977.

Northwest Orient became the first airline to develop Travel Agent Seminars specializing in convention sales techniques. These seminars were attended by more than 200 travel agents in major on-line cities and the response has been excellent.

New Orleans Service Begun

On June 8, 1977, Northwest Orient began its first scheduled service in the New Orleans-Chicago market under new authority granted by the Civil Aeronautics Board.

An aggressive sales and advertising program was launched in the key markets — New Orleans, Chicago and Minneapolis/St. Paul — using newspaper advertising like that pictured at right. Special food service was also introduced.

Originally estimated to take at least one year to be profitable because of the market dominance of the entrenched competitor, the Chicago-New Orleans route has literally 'taken off' for Northwest Orient. On December 15, 1977, a fourth daily flight providing night coach service in each direction was added.

LIVELY ADVERTISING . . . like this two color newspaper advertisement helped launch the new Chicago-New Orleans service prior to its start on June 8, 1977. Newspaper and radio were used in 23 NWA system cities.

DIXIELAND DINING . . . Regal Imperial food service is offered on Chicago-New Orleans flights by Northwest Orient featuring the fine wines, liqueur, entrees and desserts displayed here.

Chicago-Tokyo Non Stop Service Launched; 'Wide Cabin Airline' Emphasis Continues

The first nonstop service to be offered in the Chicago-Tokyo market was introduced by Northwest Orient on June 8, 1977. It gave NWA the fastest service to the Orient from 35 states in the U.S.

This service advantage was announced in newspapers and radio in all on-line cities, in 22 off-line cities, regional and national magazines and the travel trade press with messages like those shown below. A similar advertising program in the Orient promoted the Tokyo-Chicago service.

In selected cities, newspaper advertising highlighted the difference between Northwest Orient's full-size 747 and the shorter and more condensed seating of the smaller B747-SP.

'Wide Cabin' Theme

Continuing emphasis was placed on 'The Wide Cabin Airline' theme throughout 1977 and into 1978 in Northwest Orient advertising.

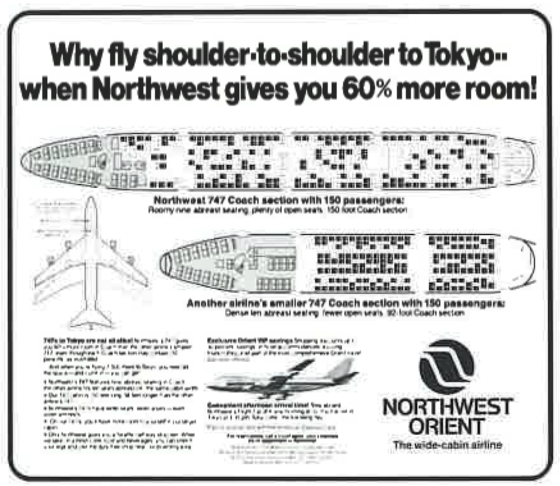
With 75 per cent of its system seat miles and 97 per cent of its international available seat miles in modern, wide cabin jet aircraft, NWA advertising reflected this marketing advantage. These 747 and DC 10 aircraft are clearly preferred by the public in all opinion surveys.

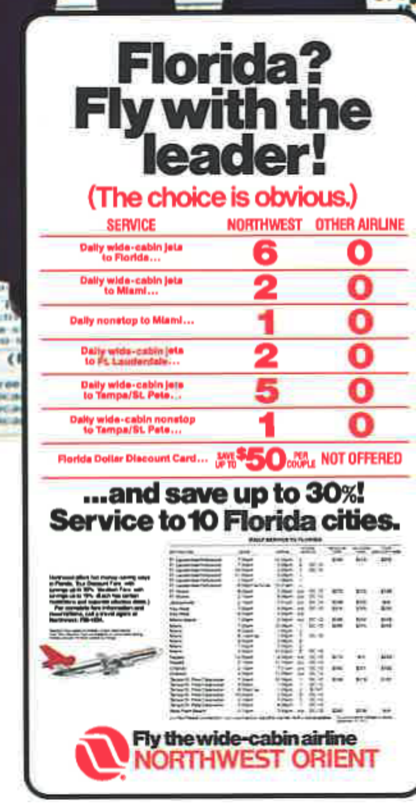
'The Wide Cabin Airline' theme also generated a musical jingle which was adapted for use in all radio and television commercials.

New Uniforms Introduced

A completely 'new look' was introduced for Northwest Orient's flight attendants on November 14, 1977. Over one year in the design and development, the program to develop new uniforms involved the fitting and distribution of more than 32,000 pieces of clothing.

With the navy blue and red uniforms keyed to Northwest Orient's corporate colors, the 'new look' has been welcomed by both the 2,200 NWA flight attendants and the more than 10 million passengers they served in 1977.





Financial Review and Management Analysis for 1977

Operating Revenues

Operating revenues in 1977 surpassed the billion dollar mark for the first time and amounted to a record $1,046,354,772. This compares with previous highs of $963,808,065 in 1976 and $800,562,989 in 1975.

Passenger revenues increased to $861,053,058 in 1977 and compare with $786,414,179 in 1976 and $659,849,499 in 1975. This reflects both an increase in traffic and an increase in fares granted by the Civil Aeronautics Board. The system scheduled passenger-mile yield increased to 7.76¢ in 1977 from 7.30¢ in 1976 and 6.94¢ in 1975.

Cargo revenues amounted to $121,185,084 in 1977 and compare with $119,882,259 in 1976 and $88,307,610 in 1975. The system cargo revenue ton-mile yield increased to 26.45¢ in 1977 from 25.65¢ in 1976 and 22.86¢ in 1975.

Revenues from commercial charter and other income amounted to $13,619,005, while military charter revenues were $12,251,605 in 1977. These compare with $13,249,974 and $12,704,567 in 1976 and $12,561,055 and $16,457,917 in 1975, respectively. The higher military charter revenues in 1975 reflected the increased activity from evacuation of personnel from Vietnam. The Military Airlift Contract expires on September 30, 1978 and the Company will seek a renewal contract for the 1979 fiscal year.

Fares and Rates

The Civil Aeronautics Board approved a number of fare and rate increases in 1977 as a result of inflationary pressures including higher fuel costs.

Domestic 48 state fares were increased on February 15, 2%; April 1, 8% first class only; August 18, 1½%; September 10, .5%; and November 4, 3.0%. Mainland-Hawaii fares were increased on January 1, 2% on regular fares and 4.5% on promotional fares and on July 15, 2%. Canada transborder fares were increased 4% on June 15. North Pacific discount fares were increased 5% on August 1.

Cargo bulk rate increases were granted for the domestic 48 states of approximately 12% and Mainland-Hawaii, 15%, effective August 21.

Current inflationary trends have caused some U. S. carriers to apply to the Civil Aeronautics Board for a 3% domestic 48 state fare increase for effectiveness on May 1, 1978.

Operating Expenses

Operating expenses in 1977 increased to $941,771,207 and compare with $860,860,038 in 1976 and $750,863,340 in 1975.

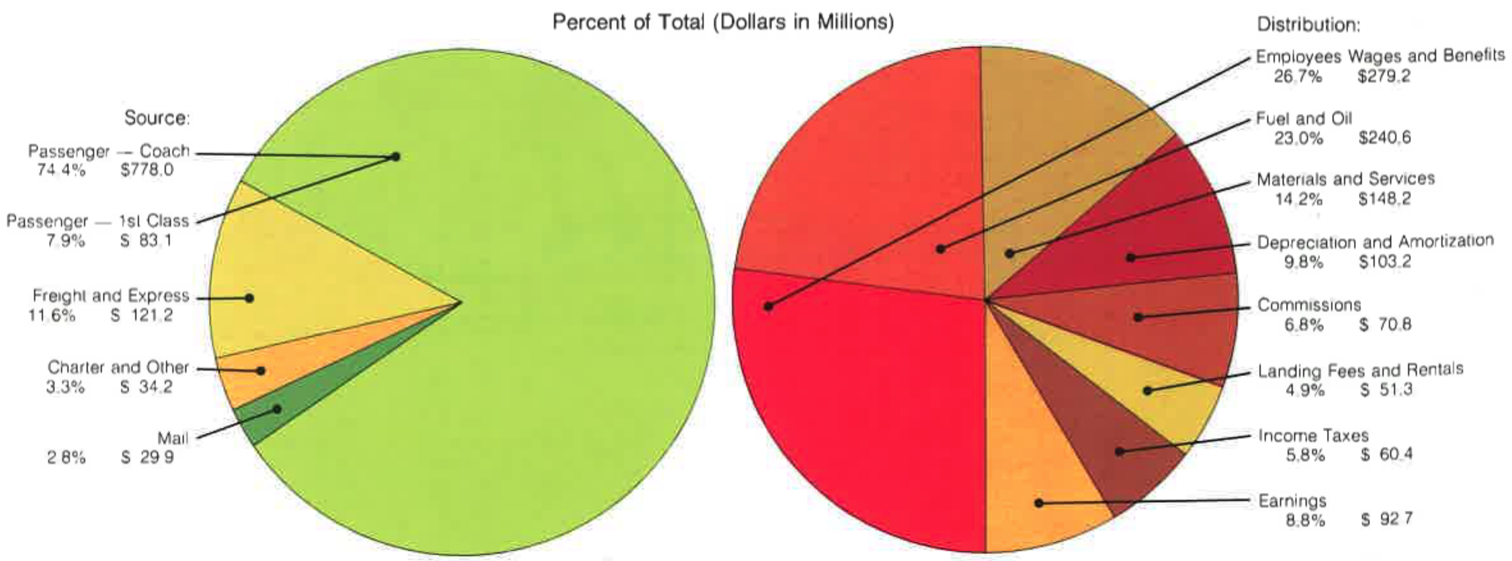
Inflationary trends and development of the new Chicago-New Orleans and Chicago-Tokyo nonstop routes have contributed to expense increases in 1977. The Company continues to maintain strict cost control policies and procedures to minimize the effect of inflation. Operating expense per available ton-mile increased to 22.92¢ in 1977 from 21.61¢ in 1976 and 20.61¢ in 1975. This is the lowest operating cost level in the U. S. airline industry.

Depreciation and amortization expense amounted to $103,152,530 in 1977 and compares with $102,713,531 in 1976 and $98,879,815 in 1975. Increases between the years reflect the addition of new aircraft purchased to replace older, less productive aircraft.

Major inflationary increases continued in the cost of labor, materials and supplies and aircraft fuel. The system fuel analysis chart (on this page) shows the dramatic climb in fuel costs since the base year of 1973. The Company spent approximately 23¢ for fuel out of each revenue dollar in 1977 compared to only 13¢ in 1973.

SOURCE AND DISTRIBUTION OF REVENUES

Percent of Total (Dollars in Millions)



Earnings and Dividends

Record earnings were achieved in 1977, amounting to $92,718,790 or $4.29 per average share of common stock. This compares to $51,737,015 or $2.39 per share in 1976.

Included in the earnings before related income taxes were gains from sale of flight equipment amounting to $51,053,719, compared with $9,118,984 in 1976. Interest on long-term debt, net of capitalized interest, was $6,517,695 this year compared to $14,035,036 in 1976. This is a result of reduction of long-term debt.

The Company continued its uninterrupted dividend payment policy in 1977. Increased quarterly payments resulted in an annual rate of $.50 per common share compared with $.45 in 1976. This is the 23rd consecutive year in which the Company has paid dividends.

The principal market on which Northwest Airlines' common stock is traded is the New York Stock Exchange. The following table shows the sales price range for the years 1977 and 1976 and the dividends paid per share for the same period.

Quarter		Sales Price of Common Shares 1976	Sales Price of Common Shares 1977	Dividends Per Share 1976	Dividends Per Share 1977
1st	High	32¾	30⅝	$.1125	$.1250
	Low	23	22½		
2nd	High	34	28⅜	.1125	.1250
	Low	25⅜	22¾		
3rd	High	36¼	26⅜	.1125	.1250
	Low	27¼	20¾		
4th	High	31	24¼	.1125	.1250
	Low	26	19⅜		

Taxes on Earnings

Income taxes on earnings in 1977 amounted to $60,425,200 and compare with $46,527,200 in 1976. The current year consists of a normal tax provision of $75,276,100, of which $19,891,300 has been deferred for future payments as a result of the Company's use of accelerated methods of computation of depreciation for income tax purposes. Investment tax credits generated from the purchase of flight and ground equipment and applied against the income tax provision amounted to $14,850,900 in 1977, up from $1,848,200 in 1976.

The Tax Reform Act of 1976 allowed the airline industry to apply unutilized investment tax credits at the rate of 100% of the current tax liability in 1977. As a result, prior period investment tax cred-

System Fuel Analysis

	Year Ended December 1973	1974	1975	1976	1977	% Change 1977/1976
Price Per Gallon (Includes Sales Taxes)	12.66¢	27.20¢	31.67¢	33.29¢	37.48¢	+12.6%
Gallons Used (000)	616,930	587,302	593,821	618,325	633,955	+ 2.5%
Fuel Cost (000)	$78,134	$159,753	$188,049	$205,853	$237,602	+15.4%
Revenue Ton-Miles (000)	1,254,074	1,411,862	1,494,669	1,705,987	1,731,199	+ 1.5%
Revenue Ton-Miles Per Gallon	2.03	2.40	2.52	2.76	2.73	− 1.1%
Total Revenues (000)	$584,348	$758,991	$800,563	$963,808	$1,046,355	+ 8.6%
Fuel Cost % of Revenues	13.37%	21.05%	23.49%	21.36%	22.71%	+ 6.3%

Financial Review for 1977
(continued)

its which could not be applied to tax returns, but which were offset against deferred income taxes, were reduced from $53,527,600 in 1976 to $16,103,800 in 1977.

Cash Flow

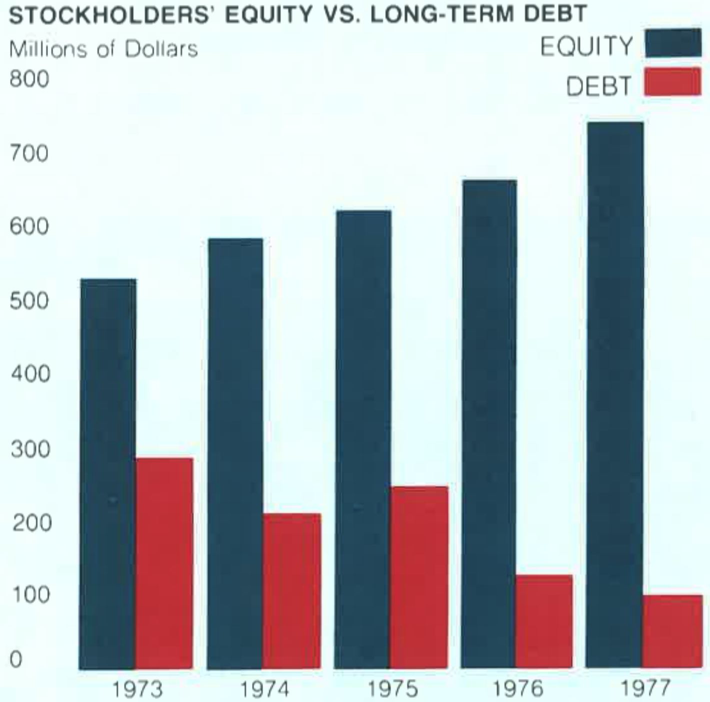
Funds from all sources amounted to $273,364,266 in 1977 compared to $196,966,856 in 1976.

Net earnings provided funds of $92,718,790 in 1977 compared to $51,737,015 in 1976. Additional benefits derived from owning equipment rather than procurement through leasing arrangements have provided funds through depreciation and amortization of $103,152,530 in 1977 compared with $102,713,531 in 1976. Funds from deferred taxes of $59,558,000 and other sources of $17,934,946 were generated in 1977. This compares with $36,765,400 and $5,750,910 respectively, in 1976.

Funds used in 1977 amounted to $164,398,932, down from $215,300,475 in 1976.

Funds required for the purchase of flight equipment and other property and advance deposits on aircraft scheduled for delivery during 1978 amounted to $131,595,284. Payments for reduction of long-term debt amounted to $22,000,000 and cash dividends amounted to $10,803,648.

STOCKHOLDERS' EQUITY VS. LONG-TERM DEBT



Traffic and Services

Scheduled operations in 1977 showed gains in both traffic and capacity over 1976.

Revenue passenger-miles in scheduled service increased 3.2% and available seat-miles increased 3.3%. Revenue ton-miles increased 1.8% and available ton-miles flown increased 3.4%. The increase in revenue ton-miles includes an increase in passenger ton-miles of 3.2% and a decrease in cargo ton-miles of 2.0%. The reduction in cargo ton-miles reflects the slowdown in the Japanese economy and the decline in the value of the U. S. dollar.

On June 8 this year, the Company began serving its new route authority between Chicago and New Orleans with three daily round trips and also began non-stop round trip services between Chicago and Tokyo four times a week. Passenger acceptance of these new services has exceeded our expectations. On July 1, 1977 all trans-Pacific all-cargo service was converted to B-747F operations. This permits use of larger containers that produce efficiencies for both the airline and the shippers.

Financial Condition

The Company continued to improve its financial position in 1977 and enhanced its ranking as one of the strongest carriers in the airline industry.

Effective December 3, 1977, the Company terminated the Revolving Credit Agreement with banks which provided for a maximum credit of $104,600,000 at termination. The Company's long-term debt arrangements are described in Note B to the Financial Statements.

Internally generated cash provided the Company with funds for all of its financial needs in 1977, including the reduction of long-term debt by $22,000,000 and the purchase of one 747F all-cargo airplane and nine 727-200 passenger airplanes and related spare parts. Existing financial arrangements and internally generated cash will be used to cover the purchase of four additional 727-200 passenger airplanes to be delivered in 1978 and six 747-200 passenger airplanes to be delivered — five in 1979 and one in 1980.

Stockholder equity at December 31, 1977 amounted to $747,671,847, compared with $665,743,992 in 1976. Book value per common share at year end increased to $34.60 compared with $30.81 a year ago. Total outstanding debt at year end amounted to $104,000,000 compared with $125,000,000 in 1976. Outstanding debt was 13.9% of stockholder equity at year end, down from 18.8% in 1976. This advantageous debt to equity ratio continues to be the lowest of the U. S. trunkline carriers.

Statements of Earnings
NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31 1977	1976
Operating Revenues		
Passenger	$ 861,053,058	$786,414,179
Cargo	121,185,084	119,882,259
Mail	29,893,962	25,137,346
Charter and other transportation	25,870,610	25,954,541
Nontransport	8,352,058	6,419,740
	1,046,354,772	963,808,065
Operating Expenses		
Flying operations	351,480,978	309,198,914
Maintenance	105,146,793	87,175,964
Passenger service	86,526,853	77,085,717
Aircraft and traffic servicing	148,871,186	138,940,753
Reservations, sales and advertising	122,031,763	123,568,082
Administrative and general	24,561,104	22,177,077
Depreciation and amortization	103,152,530	102,713,531
	941,771,207	860,860,038
	104,583,565	102,948,027
Other Income (Expenses)		
Interest on long-term debt, net of capitalized interest of $2,362,672 (1976 — $835,938) — Note A	(6,517,695)	(14,035,036)
Gain on sale of flight equipment	51,053,719	9,118,984
Other	4,024,401	232,240
	48,560,425	(4,683,812)
Earnings Before Income Taxes	153,143,990	98,264,215
Income taxes — Note D	60,425,200	46,527,200
Net Earnings	$ 92,718,790	$ 51,737,015
Average shares of Common Stock outstanding during the year	21,606,544	21,605,493
Earnings per share of Common Stock	$4.29	$2.39

See notes to financial statements

Statements of Financial Position

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

ASSETS	December 31 1977	December 31 1976
Current Assets		
Cash and short-term investments	$ 129,717,280	$ 14,544,179
Accounts receivable, less allowance of $1,300,000 (1976 — $1,200,000)	83,413,519	75,517,199
Flight equipment spare parts, less allowance for depreciation of $15,728,241 (1976 — $13,247,969)	29,731,581	23,764,942
Maintenance and operating supplies	7,714,326	6,933,321
Prepaid expenses	5,707,249	2,820,483
Total Current Assets	256,283,955	123,580,124
Other Assets	16,064,461	16,058,113
Property and Equipment		
Flight equipment	1,510,447,264	1,448,401,928
Less allowance for depreciation	547,490,198	523,865,169
	962,957,066	924,536,759
Advance payments on new flight equipment — Note E	13,145,496	31,501,595
	976,102,562	956,038,354
Other property and equipment	127,595,835	122,445,236
Less allowance for depreciation	76,595,835	66,559,527
	51,000,000	55,885,709
	1,027,102,562	1,011,924,063
	$1,299,450,978	$1,151,562,300

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1977	December 31 1976
Current Liabilities		
Accounts payable and accrued expenses	$ 122,060,666	$ 100,485,107
Employee compensation	27,029,098	21,934,578
Unredeemed ticket liability	22,041,670	17,887,086
Income taxes	3,302,315	11,388,481
Current maturities of long-term debt	4,000,000	3,000,000
Total Current Liabilities	178,433,749	154,695,252
Long-Term Debt — Note B	100,000,000	122,000,000
Deferred Credits and Other Liabilities		
Income taxes — Note D	261,349,600	201,791,600
Other	11,995,782	7,331,456
	273,345,382	209,123,056
Stockholders' Equity — Note C		
Common Stock $1.25 par value, authorized 40,000,000 shares; issued and outstanding 21,606,686 shares (1976 — 21,606,036 shares)	27,008,357	27,007,545
Capital surplus	124,187,920	124,176,019
Retained earnings	596,475,570	514,560,428
	747,671,847	665,743,992
Commitments and Contingencies — Notes E and F		
	$1,299,450,978	$1,151,562,300

See notes to financial statements

Statements of Changes in Financial Position

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31 1977	1976
Funds Provided		
Net earnings	$ 92,718,790	$ 51,737,015
Items not affecting working capital:		
Depreciation and amortization	103,152,530	102,713,531
Increase in deferred income taxes	59,558,000	36,765,400
Amortization of deferred investment credit	-0-	(522,200)
Total From Operations	255,429,320	190,693,746
Proceeds from sale of flight equipment less gain included in earnings	15,780,836	5,976,395
Other	2,154,110	296,715
Total Provided	273,364,266	196,966,856
Funds Used		
Flight equipment and other property additions	118,449,788	50,091,663
Advance deposits on aircraft	13,145,496	31,501,595
Cash dividends	10,803,648	9,707,217
Reduction of long-term debt	22,000,000	124,000,000
Total Used	164,398,932	215,300,475
Increase (Decrease) in Working Capital	$108,965,334	($ 18,333,619)
Changes in working capital consist of:		
Increase (decrease) in current assets:		
Cash and short-term investments	$115,173,101	($ 34,617,989)
Receivables	7,896,320	3,025,071
Recoverable income taxes	-0-	(6,040,800)
Inventories	6,747,644	(73,758)
Prepaid expenses	2,886,766	194,224
	132,703,831	(37,513,252)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	21,575,559	(359,316)
Other accrued liabilities	(2,991,646)	4,417,292
Unredeemed ticket liability	4,154,584	(337,609)
Current maturities of long-term debt	1,000,000	(22,900,000)
	23,738,497	(19,179,633)
Increase (decrease) in working capital	$108,965,334	($18,333,619)

See notes to financial statements

Statements of Stockholders' Equity

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings
Balance December 31, 1975	21,604,136	$27,005,170	$124,140,834	$472,530,630
Exercise of stock options	1,900	2,375	35,185	
Net earnings for 1976				51,737,015
Cash dividends — $.45 a share				(9,707,217)
Balance December 31, 1976	21,606,036	27,007,545	124,176,019	514,560,428
Exercise of stock options	650	812	11,901	
Net earnings for 1977				92,718,790
Cash dividends — $.50 a share				(10,803,648)
Balance December 31, 1977	21,606,686	$27,008,357	$124,187,920	$596,475,570

See notes to financial statements

APPLICATION OF INVESTMENT TAX CREDIT

Period	Available* and Reflected in Earnings	Applied† on Tax Returns
1962-1976	$124,757,700	$ 71,230,100
1977	14,850,900	52,274,700
Total	$139,608,600	$123,504,800
Applied on Returns	123,504,800	
To be Applied	$ 16,103,800	

*The Company uses the flow-through method of accounting for investment credits and records the credits as a reduction of income tax expense in the year earned.

†Investment credits are applied on tax returns as allowed by income tax regulations. Credits not applied currently are offset against deferred taxes.

NORTHWEST AIRLINES FLEET

Aircraft Type	Year End 1976	Year End 1977	On Order
B727 & B727C-100	32	25	—
B727-200	31	40	4
B707-320B & 320C	8	2	—
DC10-40	22	22	—
B747	17	17	6
B747F	3	4	—
Total	113	110	10

See Note E to financial statements

Notes to Financial Statements

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

December 31, 1977

Note A — Accounting Policies

A summary of significant accounting policies of the Company which have been consistently followed in preparing the accompanying financial staten.ents is set forth below:

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of intercompany accounts and transactions.

Short-Term Investments

Short-term investments are stated at cost which approximates market.

Flight Equipment and Property

Provision for depreciation is computed by the straight line method over the estimated useful lives of the assets. Useful lives are estimated at fifteen years with 10% residual values for 747 and DC-10 aircraft and ten years with 15% residual values for all other aircraft. Useful lives of buildings vary from 5-30 years and other equipment from 4-10 years.

Depreciation of flight equipment spare parts, rotables and assemblies is provided by the straight line method at rates which depreciate the cost of these assets, less residual value, over the estimated useful lives of the related aircraft.

The Company charges all expenditures for maintenance and repairs and minor renewals and betterments to operating expense. Expenditures which materially increase values or extend useful lives are capitalized. Book value of assets sold or otherwise disposed of is eliminated from the accounts in the year of disposal and the resulting gain or loss is included in operations.

Interest on the Company's long-term debt relating to deposits advanced to manufacturers prior to the delivery of new aircraft is capitalized and amortized over the useful life of the aircraft. If the Company did not follow a policy of capitalizing interest, net earnings would have been increased by $15,000 in 1977 and by $731,000 ($.03 a share) in 1976.

Pension Plans

The Company has several pension plans covering substantially all of its employees. The policy is to fund pension costs accrued which includes the amortization of prior service costs over a period of thirty years.

Income Taxes

Income taxes are provided at statutory rates to earnings before income taxes regardless of when such taxes are paid. Deferred income taxes arise principally from timing differences between financial and tax methods of accounting for depreciation and capitalized interest.

Note A — Accounting Policies (Continued)

The Company uses the flow-through method of accounting for investment credits. Investment credits not applied on tax returns are offset against deferred income taxes to the extent they are applicable to deferred taxes becoming payable in the investment credit carryover periods.

Earned Revenue

Passenger and cargo sales are recognized as earned revenue when the transportation is provided.

Earnings Per Share

Earnings per share are based on the average number of shares of Common Stock outstanding during each year. No material dilution would result upon exercise of outstanding stock options.

Note B — Long-Term Debt

	December 31 1977	1976
Term Credit with banks is payable $12.5 million quarterly beginning April 1, 1981. Interest is paid based on a formula related to prime commercial loan rates; however, total interest paid shall not exceed 7⅞% per annum on borrowings over the term of the loan	$100,000,000	$100,000,000
Revolving Credit Agreement with banks was terminated by the Company effective December 3, 1977. Interest on funds borrowed was at ¼% above the prime commercial loan rate prior to July 1, 1976 and ½% above thereafter	-0-	18,000,000
Note purchase agreements with twelve insurance companies are payable $3,000,000 annually to October 1, 1978 when the balance is due. Interest is at 6% per annum	4,000,000	7,000,000
	104,000,000	125,000,000
Less current maturities	4,000,000	3,000,000
	$100,000,000	$122,000,000

The Company was in compliance with the covenants of the debt agreements at the end of both years. At December 31, 1977 approximately $178,000,000 of retained earnings was unrestricted under the terms of the agreements.

The required long-term debt payments are $37,500,000 in 1981, $50,000,000 in 1982 and $12,500,000 in 1983.

Notes to Financial Statements

Note C — Stockholders' Equity

	Shares 1977	Shares 1976
Cumulative Preferred Stock, $25 par value:		
Authorized	1,000,000	1,000,000
Issued December 31	None	None

Common Stock options at prices which were not less than 100% of market at date of grant are as follows:

	Shares	Price Per Share
Outstanding December 31, 1975	81,000	$19.13/20.06
Exercised	(1,900)	19.13/20.06
Outstanding December 31, 1976	79,100	19.13/20.06
Exercised	(650)	19.13/20.06
Lapsed	(1,150)	19.13/20.06
Outstanding December 31, 1977	77,300	19.13/20.06
Options exercisable:		
At December 31, 1976	56,450	$19.13/20.06
At December 31, 1977	77,300	19.13/20.06

Shares available for future stock options and other plans were 330,286 and 329,136 at December 31, 1977 and 1976, respectively, of which 70,150 and 69,000, respectively, were available for additional grants under the 1973 Stock Option Plan.

Note D — Taxes on Earnings

The provision for taxes on earnings consists of the following:

	Year Ended December 31 1977	1976
Current:		
Provision for the year	$55,384,800	$20,494,300
Investment credit applied	(52,274,700)	(9,956,700)
	3,110,100	10,537,600
Deferred:		
Provision for the year	19,891,300	27,881,100
Investment credit:		
Earned during the year	(14,850,900)	(1,326,000)
Transferred to current (earned in prior years, applied on tax return in current year)	52,274,700	9,956,700
Deferred amortized over eight years	-0-	(522,200)
	57,315,100	35,989,600
Total income tax expense	$60,425,200	$46,527,200
The deferred expense consists of:		
Net current items	($ 2,242,900)	($ 775,800)
Net noncurrent items	59,558,000	36,765,400
	$57,315,100	$35,989,600

Notes to Financial Statements

Note D — Taxes on Earnings (Continued)

The Company's effective tax rate was 39.5% for 1977 and 47.3% for 1976. The rates are lower than the statutory federal rate of 48% primarily because of investment tax credits earned.

Investment credits not applied on tax returns but offset against deferred income taxes at December 31, 1977 will expire $1,227,100 in 1983 and $14,876,700 in 1984.

Note E — Commitments

The Company does not lease any aircraft or related flight equipment.

At December 31, 1977 the Company has contracted to purchase four B727-200 jet aircraft for delivery in 1978 which will require expenditures of $42,536,000, of which $13,145,000 has been deposited and the remainder is payable in 1978.

On February 25, 1978 the Company contracted to purchase six B747-200 jet aircraft for delivery in 1979 and 1980 which will require expenditures of $89,041,000 in 1978, $153,961,000 in 1979 and $30,453,000 in 1980.

Leased property consists of space in air terminals, land and buildings at airports, and ticket, sales and reservation offices under noncancelable operating leases which expire in various years through 2008. Portions of these facilities are subleased under noncancelable operating leases expiring in various years through 1988.

Future minimum rental commitments at December 31, 1977 for noncancelable operating leases with initial or remaining terms of one year or more, of which $163,736,000 is for air terminal and airport facilities, are as follows:

1978	$ 12,451,000
1979	11,671,000
1980	10,908,000
1981	10,614,000
1982	10,470,000
Thereafter	120,305,000
	176,419,000
Sublease rental income	(7,068,000)
	$169,351,000

Rental expense for all operating leases consisted of:

	1977	1976
Minimum	$14,984,000	$15,116,000
Sublease rental income	(610,000)	(617,000)
	$14,374,000	$14,499,000

Notes to Financial Statements

Note F — Contingencies

The Company is a defendant in a class action brought in 1970 in federal court in Washington, D.C. by certain of its female cabin attendants alleging violations of certain provisions of the Equal Pay Act of 1963 and the Civil Rights Act of 1964. The trial judge held that provisions of both statutes had been violated by the Company. The Company appealed that decision. The Court of Appeals for the District of Columbia affirmed the trial judge on all substantive issues and remanded the case for further consideration including (1) a redetermination as to whether plaintiffs seeking recovery under the Equal Pay Act may be entitled to liquidated damages which could effectively double the Company's liability to certain of the plaintiffs and (2) a determination of the appropriate statute of limitations applicable to the alleged Civil Rights Act violations which could also increase the Company's liability. After a denial of a motion for rehearing by the Court of Appeals, the Company petitioned the Supreme Court of the United States to review the decision of the Court of Appeals. That petition was denied on February 21, 1978. The case will now be remanded to the trial court to decide the unresolved issues and to identify specific plaintiffs and the amounts to which they are entitled.

Last year, while the Company's motion for rehearing was pending, it estimated that its ultimate liability might range from approximately $1 million to an amount in excess of $26 million. If all the issues that are to be decided by the trial court upon remand are resolved against the Company, liability could ultimately reach $50 million. However, either party has the right to seek appellate review of the case again following the trial court's further decision, so that no specific amount of ultimate liability may be estimated as probable.

The Company has brought action against the unions that represented the plaintiffs in the class action described above. The Company seeks indemnification and contribution from the unions for any liability for which the Company may ultimately be held responsible. The District Court held that the unions may be liable for contribution under the Civil Rights Act but not under the Equal Pay Act. Both parties have appealed the decision to the Court of Appeals. The outcome of the lawsuit cannot be predicted.

The Company is a defendant, along with other airlines, in a number of legal actions alleging noise and air pollution resulting from aircraft operations around certain airports. Company management does not believe that these actions will result in material liability to the Company.

Note G — Pension Plans

The Company's pension expense was $26,359,000 in 1977 and $23,636,000 in 1976. Unfunded prior service costs at January 1, 1977 were estimated by consulting actuaries to be $24,161,800.

At December 31, 1977 the market value of the assets in all pension funds was $180,444,966. The value of vested benefits was estimated by consulting actuaries to be $191,347,781 or $10,902,815 in excess of the fund assets.

Notes to Financial Statements

Note H — Export Sales

Northwest Airlines, Inc. is a scheduled air carrier engaged in commercial transportation of passengers, mail and cargo, and operates under certificates of public convenience and necessity issued by the Civil Aeronautics Board. Operating revenues include export sales of $183,349,000, principally associated with countries in Asia. Revenue from sales consummated in foreign countries is considered to be export sales.

Note I — Replacement Cost of Property and Equipment (Unaudited)

As required by the Securities and Exchange Commission, the Company's annual report on Form 10-K contains specific information with respect to replacement cost of property and equipment at December 31, 1977 and the approximate effect which replacement cost would have had on the computation of depreciation expense for the year then ended.

The Company's fleet modernization program substantially mitigates the impact of replacement cost assumptions on its historical cost financial statements. Moreover, since the Company is regulated and entitled to a fair rate of return on its investment, any increased cost would justify higher fares and rates to its customers.

Note J — Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1977:

	Operating Revenues	Operating Expenses	Net Earnings	Earnings Per Share of Common Stock
1977				
First quarter	$ 238,555,071	$227,892,025	$12,160,183	$ .56
Second quarter	251,588,606	224,975,908	27,238,413	1.26
Third quarter	281,319,813	243,295,659	29,401,907	1.36
Fourth quarter	274,891,282	245,607,615	23,918,287	1.11
	$1,046,354,772	$941,771,207	$92,718,790	$4.29
1976				
First quarter	$214,714,469	$210,026,554	$ 5,298,109	$ .25
Second quarter	238,381,535	209,921,881	12,816,786	.59
Third quarter	267,069,988	222,513,430	21,371,128	.99
Fourth quarter	243,642,073	218,398,173	12,250,992	.56
	$ 963,808,065	$860,860,038	$51,737,015	$2.39

Income taxes for interim periods are calculated at statutory rates less a pro rata portion of investment tax credits.

10 Year Summary*

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

(Dollars in thousands except per share figures)

	1977	1976	1975	1974	1973	1972†	1971†	1970†	1969	1968
Operating Revenues										
Passenger	$ 861,053	$ 786,414	$ 659,849	$ 628,488	$ 476,794	$ 277,891	$ 331,966	$ 260,335	$ 350,504	$ 301,277
Cargo	121,185	119,882	88,308	76,157	55,280	34,694	39,641	30,053	51,006	43,902
Mail	29,894	25,137	23,280	22,911	18,415	13,309	19,443	18,958	29,386	28,605
Charter and other transportation	25,871	25,955	29,019	27,322	28,517	20,009	31,588	20,800	35,090	41,060
Nontransport	8,352	6,420	107	4,113	5,342	46,598	2,881	48,894	1,952	1,446
Total Operating Revenues	$ 1,046,355	$ 963,808	$ 800,563	$ 758,991	$ 584,348	$ 392,501	$ 425,519	$ 379,040	$ 467,938	$ 416,290
Operating Expenses										
Depreciation and amortization	$ 103,152	$ 102,713	$ 98,880	$ 96,213	$ 87,642	$ 81,054	$ 77,245	$ 69,173	$ 60,833	$ 49,817
Other	838,619	758,147	651,983	584,993	445,401	296,348	330,108	258,784	324,979	268,529
Total Operating Expenses	$ 941,771	$ 860,860	$ 750,863	$ 681,206	$ 533,043	$ 377,402	$ 407,353	$ 327,957	$ 385,812	$ 318,346
Operating income	$ 104,584	$ 102,948	$ 49,700	$ 77,785	$ 51,305	$ 15,099	$ 18,166	$ 51,083	$ 82,126	$ 97,944
Interest expense on long-term debt	(6,518)	(14,035)	(16,120)	(19,554)	(14,758)	(8,356)	(13,051)	(6,296)	(2,334)	(3,894)
Other income and (deductions) — net	55,078	9,351	13,509	40,148	19,133	10,510	6,685	(227)	1,181	674
Earnings before taxes	$ 153,144	$ 98,264	$ 47,089	$ 98,379	$ 55,680	$ 17,253	$ 11,800	$ 44,560	$ 80,973	$ 94,724
Income taxes	60,425	46,527	3,693	33,631	3,830	(429)	(9,561)	121	29,507	44,673
Net Earnings (1)	$ 92,719	$ 51,737	$ 43,396	$ 64,748	$ 51,850	$ 17,682	$ 21,361	$ 44,439	$ 51,466	$ 50,051
Earnings per average share as reported each year (1)	$ 4.29	$ 2.39	$ 2.01	$ 3.00	$ 2.40	$ .83	$ 1.01	$ 2.11	$ 2.55	$ 5.47
Cash dividends	10,804	9,707	9,710	9,722	9,722	9,620	9,518	9,465	9,117	7,320
Dividends per share as paid each year	.50	.45	.45	.45	.45	.45	.45	.45	.45	.80
Stockholders' equity	747,672	665,744	623,677	589,991	534,965	492,837	477,054	465,210	426,797	306,717
Number of shares outstanding at end of year	21,606,686	21,606,036	21,604,136	21,604,136	21,604,136	21,604,136	21,149,756	21,149,756	20,914,272	9,149,628
Book value per share at end of year (2)	$ 34.60	$ 30.81	$ 28.87	$ 27.31	$ 24.76	$ 22.81	$ 22.56	$ 22.00	$ 20.41	$ 33.52
Recomputed per share figures after stock splits (3)										
Earnings per average share (3)	4.29	2.39	2.01	3.00	2.40	.83	1.01	2.11	2.55	2.74
Dividends per share (3)	.50	.45	.45	.45	.45	.45	.45	.45	.45	.40
Book value per share at end of year (3)	34.60	30.81	28.87	27.31	24.76	22.81	22.56	22.00	20.41	16.76
Assets and Long-Term Debt										
Flight property at cost	$ 1,510,447	$ 1,448,402	$ 1,420,670	$ 1,282,556	$ 1,216,632	$ 1,008,041	$ 1,012,568	$ 929,181	$ 697,938	$ 582,646
Flight property at net book value	962,957	924,537	977,062	907,935	861,231	682,020	709,433	668,129	492,241	424,522
Total assets	1,299,451	1,151,562	1,215,146	1,121,153	1,085,632	920,418	944,302	923,126	742,732	627,538
Long-term debt	100,000	122,000	246,000	213,900	284,000	208,000	252,500	260,915	112,000	160,000
Unit Expenses										
Per available ton-mile	22.9¢	21.6¢	20.6¢	19.9¢	15.8¢	16.9¢	14.5¢	18.0¢	15.2¢	14.6¢
Per revenue ton-mile	54.4¢	50.5¢	50.2¢	48.2¢	42.5¢	49.6¢	42.1¢	43.5¢	34.5¢	30.8¢
Per cent of operating revenues	90.0%	89.3%	93.8%	89.8%	91.2%	96.2%	95.7%	86.5%	82.4%	76.5%
Statistics — Scheduled Services										
Revenue plane-miles (000)	111,271	108,474	104,104	105,295	108,853	79,025	100,992	83,177	123,966	107,646
Available seat-miles (000)	22,968,489	22,228,259	20,910,966	20,016,107	19,593,379	12,963,054	15,614,614	10,234,060	13,504,111	10,840,758
Revenue passenger-miles (000)	11,100,412	10,758,683	9,471,282	9,173,875	8,007,850	4,565,618	5,553,043	4,506,256	6,208,725	5,458,128
Passenger load factor	48.3%	48.4%	45.3%	45.8%	40.9%	35.2%	35.6%	44.0%	46.0%	50.3%
Revenue passengers carried	10,354,808	9,818,343	8,865,263	8,948,373	7,987,299	5,150,636	6,089,273	4,682,812	7,517,780	7,173,805
Freight and express ton-miles (000)	458,143	467,399	386,309	317,437	251,865	150,973	161,345	110,215	198,494	169,416
Total revenue ton-miles (000)	1,676,470	1,647,317	1,428,381	1,330,803	1,140,983	672,035	813,403	655,339	942,050	836,085
Statistics — Total Operations										
Revenue plane-miles (000)	114,643	112,279	107,721	110,519	115,726	84,098	110,045	89,938	135,563	121,077
Available ton-miles (000)	4,109,110	3,982,743	3,642,650	3,431,038	3,370,694	2,236,069	2,806,407	1,819,439	2,535,137	2,186,234

*Not covered by Accountants' Report.

†Strikes adversely affected 1970 and 1972 and the strike recovery period of 1971.

(1) See Financial Review pages 10 through 12 for Management's Discussion and Analysis of the Summary of Operations.

(2) Per share figures reflect the increase in outstanding shares resulting from stock issues in 1969, 1970 and 1972.

(3) The stock was split "two-for-one" in 1969. The recomputations in this section are shown to provide comparability on an adjusted basis and follow the form recommended by the Accounting Principles Board. These figures, of course, do not reflect the way the corporation was operated.

Report of Ernst & Ernst, Independent Accountants

To the Stockholders and Board of Directors
Northwest Airlines, Inc.
Saint Paul, Minnesota

We have examined the statements of financial position of Northwest Airlines, Inc. and subsidiaries as of December 31, 1977 and 1976, and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiaries at December 31, 1977 and 1976, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Saint Paul, Minnesota
February 13, 1978, except for Notes E and F
as to which the date is February 25, 1978

Ernst & Ernst

E&E

Notice to Stockholders

Any person who either owns, as of December 31 of the year preceding issuance of this annual report, or subsequently acquires, beneficially or as trustee, more than 5 per centum, in the aggregate, of any class of the capital stock or capital of the air carrier, shall file with the Civil Aeronautics Board (CAB) a report containing the information required by Section 245.12 of the CAB's Economic Regulations on or before April 1, as to capital stock or capital owned as of December 31 of the preceding year, and, in the case of stock subsequently acquired, a report under Section 245.13 of such Economic Regulations, within 10 days after such acquisition, unless such person has otherwise filed with the CAB a report covering such acquisition or ownership.

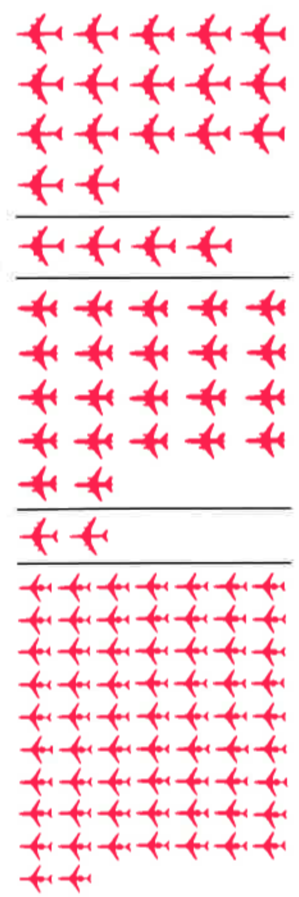
A bank or broker which holds, as trustee, more than 5 per centum of any class of the capital stock or capital of an air carrier to the extent that it holds such shares on the last day of any quarter of a calendar year, shall file with the CAB, within 30 days after the end of the quarter, a report in accordance with the provisions of Section 245.14 of the CAB's Economic Regulations. Any person required to report under the CAB's regulations who grants a security interest in more than 5 per centum of any class of the capital stock or capital of the air carrier shall, within 30 days after granting such security interest, file with the CAB a report containing the information required in Section 245.15 of the CAB's Economic Regulations.

Any stockholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Operating Rights, Civil Aeronautic Board, Washington, D. C. 20428.

BOEING'S 3000TH JET . . . was delivered to Northwest Orient on August 9, 1977 in a ceremony held at the Boeing Company's plant at Renton, Washington. Accepting delivery of the jet as thousands thronged the area was NWA chairman and chief executive Donald W. Nyrop.

Northwest Orient's Fan-Jet Fleet

Total 110 as of December 31, 1977



17 **Boeing 747 Fan-Jets**
12 with range of 5,460 miles with 369 passengers.
5 with range of 6,670 miles with 363 passengers.

22 **McDonnell Douglas DC10-40 Fan-Jets**
Range of 5,100 miles with 236 passengers.

40 **Boeing 727-200 Fan-Jets**
Range of 1,760 miles with 128 passengers.

4 **Boeing 747F Freighters**
All cargo aircraft capable of carrying a structural payload of 262,900 pounds.

2 **Boeing 707-320 Fan-Jets**
Range of 5,420 miles with 165 passengers.

25 **Boeing 727-100 Fan-Jets**
Range of 2,380 miles with 93 passengers.

FINLAND . . . Pictured here is a park in Tapiola, a modern suburban area outside Helsinki.

ICELAND . . . A view of new apartments in the eastern part of Reykjavik, capital city of Iceland.

SWEDEN . . . A glimpse of downtown Stockholm, capital of Sweden and often called the Venice of the North.

NORWAY . . . This picturesque scene of Bergen's harbor shows the rugged beauty of Norway.

President Approves Trans Atlantic Award to NWA; Service to Northern Europe Will Begin in 1978

President Jimmy Carter has approved the award to Northwest Orient Airlines of new routes between nine points in the United States and six northern European countries.

In signing the award on January 23, 1978, the President approved the entire Civil Aeronautics Board recommendation of September 12, 1977. This added Boston and Minneapolis/St. Paul as co-terminals on the route and removed the restriction between New York and Copenhagen which would have prohibited NWA from carrying local traffic between those points.

Under the new Trans Atlantic authority granted Northwest Orient, scheduled service is authorized from nine U.S. points (Los Angeles, Seattle, Portland, Minneapolis/St. Paul, Chicago, Detroit, Boston, Washington, D.C./Baltimore and New York/Newark) to six northern European countries — Norway, Sweden, Denmark, Iceland, Finland and Scotland.

Service patterns are still being formulated but inauguration of Trans Atlantic flights by NWA will definitely begin in 1978.

DENMARK . . . A launch motors through the canals of Nyhavn, the famous port section of Copenhagen.

SCOTLAND . . . Castles and kilts are a part of Scottish heritage. Both are pictured here at Eilean Donan castle.

Operating Highlights of 1977

Personnel

Seven labor agreements covering Northwest employees were successfully negotiated in 1977. These new contracts covered Japanese and Korean employees, flight dispatchers, radio and teletype operators, flight duplicator instructors, Canadian agent personnel and Anchorage flight kitchen employees.

Northwest Orient, an Equal Opportunity Employer, hired 739 new employees in 1977 and promoted 332 others. A total of 129 employees was recognized for 25 years of service at the annual service award banquet.

At year-end 1977, total system employment was 11,445.

Properties

Improvements in Northwest Orient facilities completed in 1977 included:

- Detroit — where a new ticket office was completed at the Detroit Plaza hotel.
- Anchorage — where remodeling of the ticket counter and gate holding areas was completed and a third upper level loader was installed.
- New Orleans — where new airport and downtown city ticket office facilities were established in connection with the beginning of service to that city.
- Minneapolis — where the existing downtown city ticket office was completely remodeled.

Computer Services

An increasing number of information systems for more efficient operation of the airline were computerized in 1977.

A cargo container inventory program is but one example. This program keeps track of individual cargo containers by station and by airline — providing more effective utilization of these units.

Insta-Res, Northwest Orient's computerized reservations service, was extended to Osaka, Japan, providing greatly improved service to passengers, travel agencies and commercial accounts at that location.

A mini-computer system was installed in the Orient Region main office in Tokyo. It currently handles payroll and disbursements for this area. In the near future, accounting for NWA's owned and operated hotel facility at the new Narita International Airport will also be handled by this unit.

Transportation Services

Increased use of Northwest Orient's 747 freighter aircraft for carrying outsize cargo was evident in 1977. Two examples include the movement of 53 foot long cranebooms from the Twin Cities to Hong Kong and of 65 foot length pipe from New York to Seoul.

NWA's reservations offices handled 7 per cent more calls in 1977 than in the prior year. Additionally, a new computerized ticket printer system was installed in Anchorage.

Introduction of nonstop service between Chicago and Tokyo was preceded by development of special menus and expanded entertainment programs.

Maintenance and Engineering

Floor modification work, including venting structural reinforcement, was completed on NWA's entire fleet of 22 DC 10-40 aircraft in 1977. A similar program for the 747 aircraft is scheduled for completion by June 30, 1978.

In addition to regular maintenance and overhaul operations, conditioning of 13 used aircraft — seven 727-100's and six 707-320's — was also performed prior to delivery to purchasers.

Route Development

Northwest Orient is an applicant for new and improved route authority in a number of cases now before the Civil Aeronautics Board. These include: New Orleans to the Yucatan Peninsula; Los Angeles/San Francisco to Anchorage and Seattle to Fairbanks; Minneapolis/St. Paul and Milwaukee to Memphis; Seattle to Atlanta nonstop; Atlanta to Sarasota/Bradenton, Tallahassee and Daytona Beach; Pittsburgh to Los Angeles; Oakland to Portland/Seattle; Minneapolis/St. Paul to Las Vegas/Phoenix/San Diego; Reno/Las Vegas to San Diego/Los Angeles/San Francisco; Chicago to Syracuse/Albany/Boston and Des Moines/Quad Cities/Peoria to Atlanta.

Other NWA applications not yet under active CAB consideration include: Billings/Great Falls to Los Angeles/San Francisco via Bozeman; the addition of Atlantic City to Northwest Orient's route system; the addition of Fort Myers and elimination of a current restriction which prevents NWA from operating single-plane service between its California cities and Rochester, Madison and Milwaukee.

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Steven D. Wheeler
Assistant Secretary

Robert J. Wright
Vice President-Sales

**As of March 15, 1978*

Co-Registrars and Transfer Agents:
Northwestern National Bank, Minneapolis, Minnesota
Northwestern Trust Co., New York, New York

Stock Listed:
Common Stock listed on New York Stock Exchange,
Pacific Coast Stock Exchange and Midwest Stock Exchange

General Offices:
Minneapolis-St. Paul, International Airport, St. Paul, Minnesota 55111

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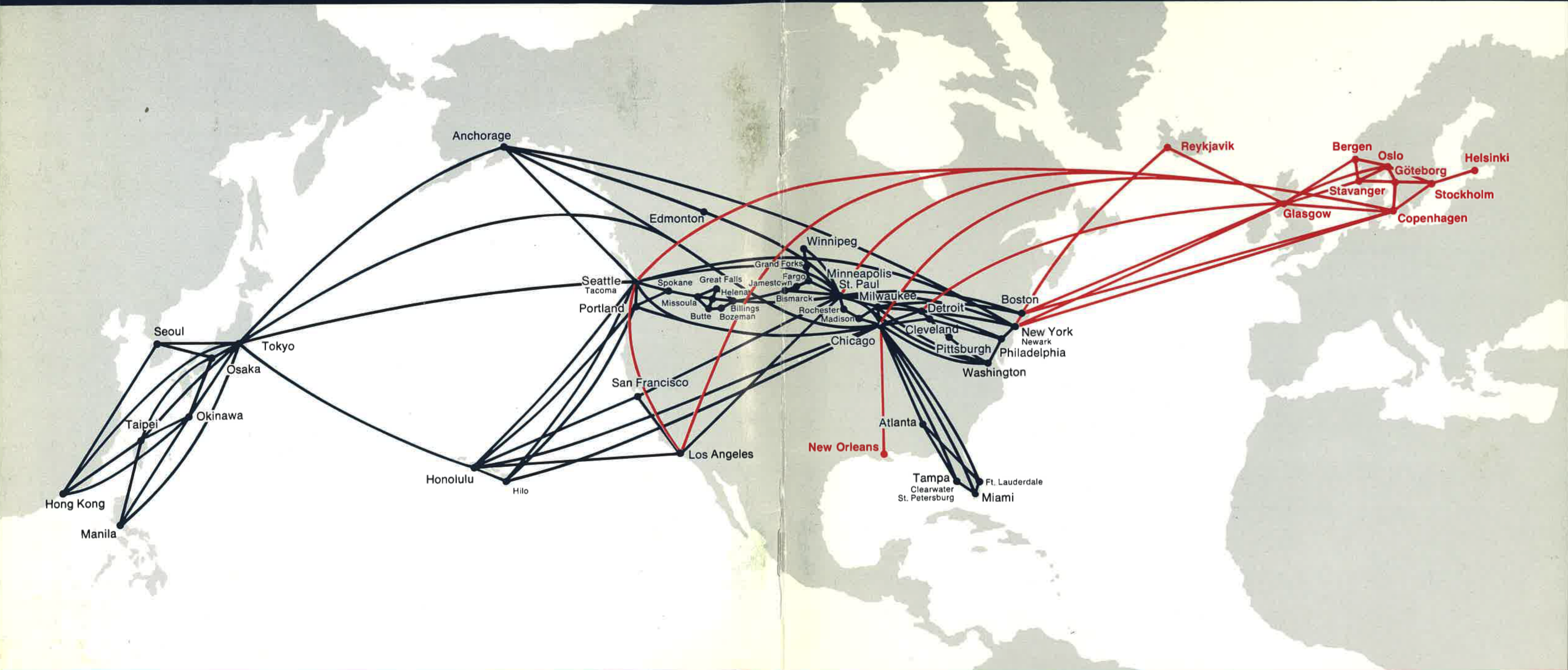
1977 Annual Report



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