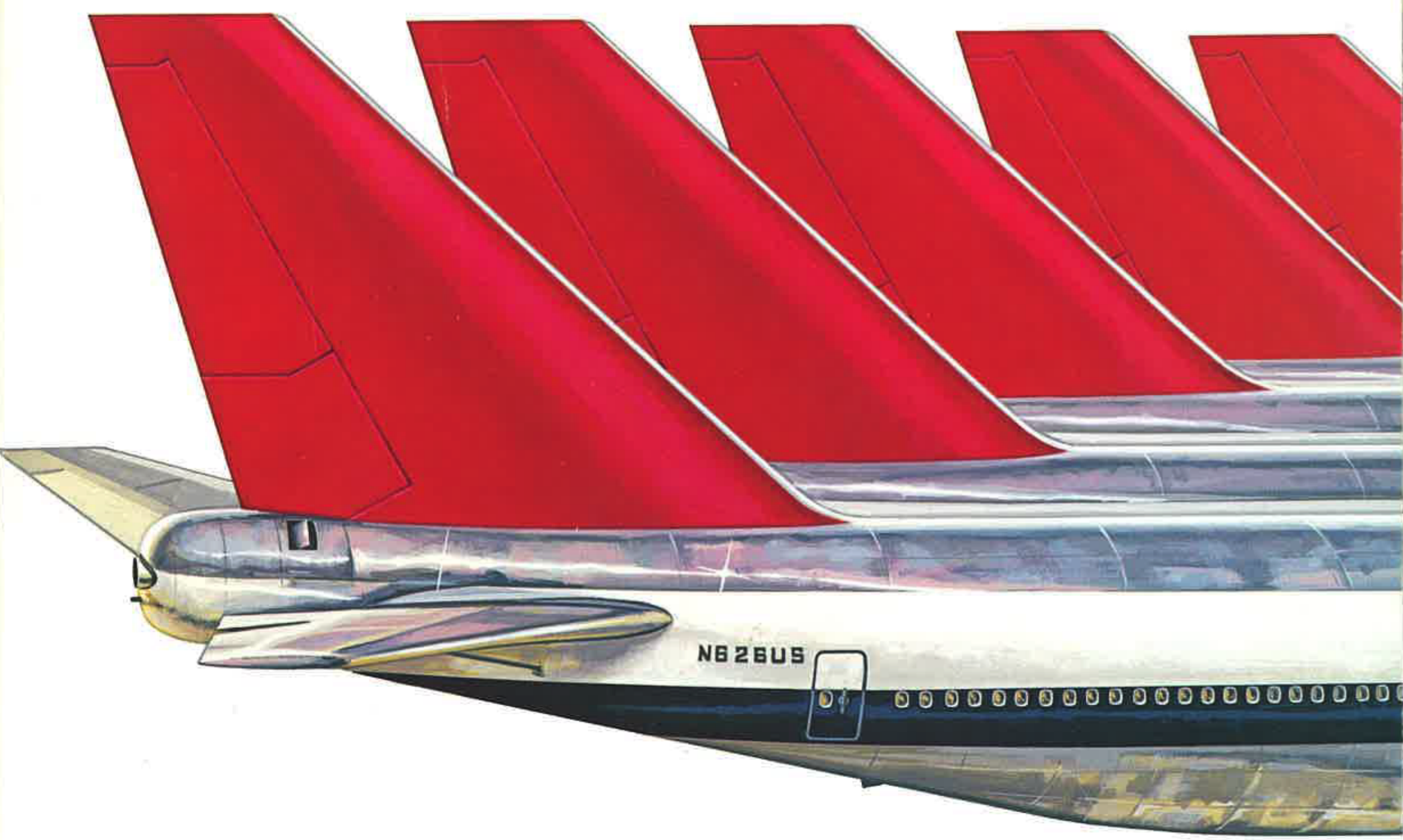
Northwest Orient Airlines Annual Report 1981

Northwest Orient Airlines now serves 16 countries.



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 31,000 route miles and serves directly cities in 21 states of the 48 contiguous states, as well as Alaska, Hawaii, the District of Columbia, Canada, countries in Asia, including Japan, Guam, Korea, Taiwan, Hong Kong and the Philippines and countries in Europe including Sweden, Denmark, England, Netherlands, Ireland, Germany, Norway, and Scotland.

Northwest Orient Airlines Highlights

	1981	1980	1979
Total Operating Revenues	$1,854,290,000	$1,639,330,000	$1,310,558,000
Operating Income (Loss)	1,747,000	(24,134,000)	55,352,000
Net Earnings for the Year	10,460,000	7,084,000	72,475,000
Per Common Share	.48	.33	3.35
Per Dollar of Revenue	.6¢	.4¢	5.5¢
Stockholders' Equity	832,510,000	839,042,000	849,122,000
Per Common Share	38.43	38.76	39.24
Dividends Paid	17,326,000	17,317,000	17,306,000
Operating Expenses:			
Per Available Ton-Mile	41.0¢	37.0¢	29.4¢
Per Revenue Ton-Miles	83.9¢	80.6¢	63.4¢
Revenue Traffic:			
Passengers Carried	11,145,000	11,501,000	11,636,000
Passenger-Miles Flown	14,251,932,000	13,810,889,000	13,298,161,000
Ton-Miles, Mail, Freight & Express	761,622,000	667,260,000	626,401,000
Common Shares at Year End	21,661,000	21,647,000	21,640,000
Employees:			
Number at Year End	13,096	12,748	12,814
Total Wages and Benefits Paid	$444,054,000	$403,452,000	$351,403,000

Northwest Orient Airlines Fleet

Total 111 as of March 26, 1982

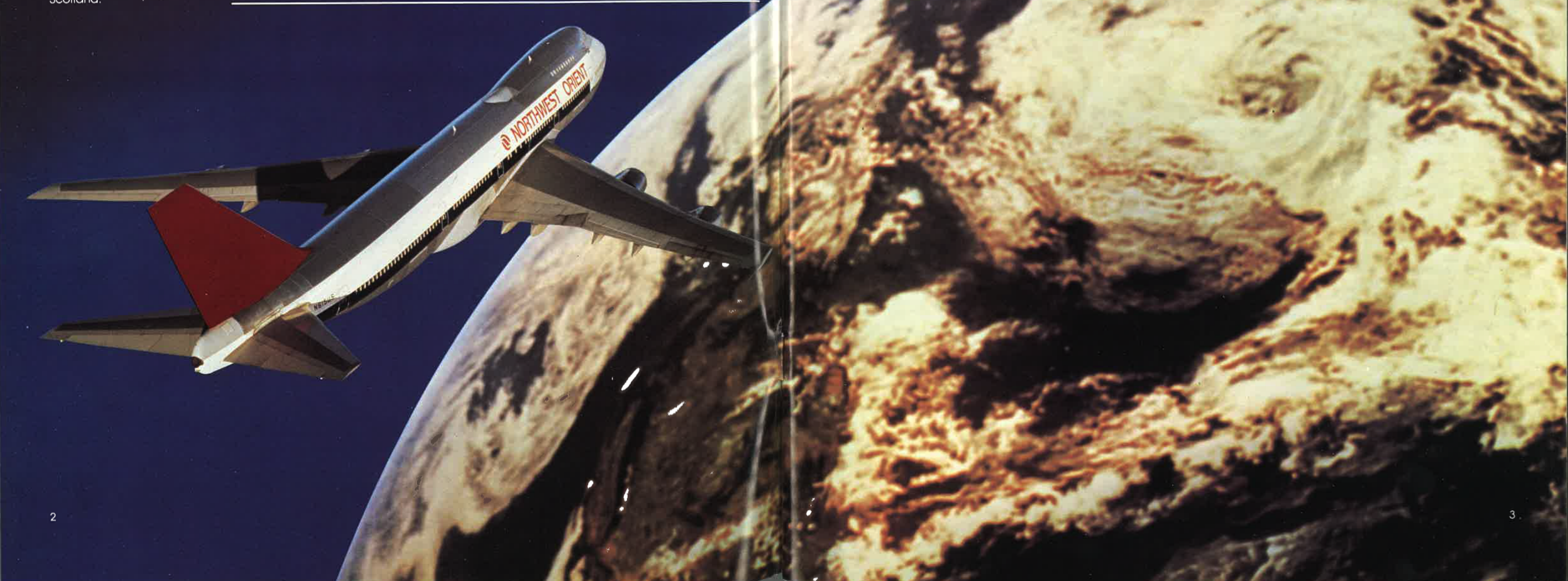
22 McDonnell Douglas DC10-40's
Range of 5,400 miles with 236 passengers.

5 Boeing 747F Freighters
All cargo aircraft capable of carrying a structural payload of 261,600 pounds.

24 Boeing 747's
With ranges up to 6,660 miles with 367 passengers.

52 Boeing 727-200's
Range of 1,760 miles with 146 passengers.

8 Boeing 727-100's
Range of 2,350 miles with 93 passengers, or 2,150 miles with 111 passengers.



From The President
The 55th Annual Report to Shareholders

Northwest Airlines earned a net profit of $10,460,000 in 1981. This was a favorable result against the backdrop of rising costs, recession-softened traffic, severe price-cutting by some carriers, and reduced air traffic control capacity following the PATCO strike. With a $26 million improvement in operating income and a $3 million gain in net earnings over 1980, Northwest Airlines was one of only four major U.S. carriers to report a net profit for 1981.

Progress in 1981

Significant progress was made in a number of areas to strengthen the company and enhance its ability to meet the serious challenges now at hand.

• We took delivery of two Boeing 727-200's early in the year. Final payments of $20 million were made from internally provided funds. Major ground equipment additions were also made during the year.

• We met competition from old and new carriers alike and increased our market share of total traffic through an aggressive marketing program which included a new advertising look.

• We began new services: Boston to London; Twin Cities to Oslo; Los Angeles nonstop to Tokyo; Tokyo to Guam; and Taipei to Manila. We also began a new cargo service to Houston.

Your company's unique financial strength shows in the fact that total debt of all kinds represented only 13% of invested capital at year end; and our long-term debt, now down to $12.5 million, contrasts widely with debt of many other airlines now in the hundreds of millions in most cases.

Difficulties in 1982

The airline industry is in crisis as we move into 1982. The deepening economic slump has brought two successive years of depressed traffic, and strong measures are required to fend off crippling effects of the continuing downturn. We have already begun.

• Company officers' salaries have been frozen at the level set over a year ago in January 1981.

• Six hundred management employees have already started a new program entitled "Ten Percent More Work—Not Ten Percent Less Pay". Under this plan, effective from mid-February, each manager will work an extra half-day per week.

• Cutbacks in some poor flights have been made in February and March to accommodate the deepening recession in traffic.

• Along with these cutbacks, job reductions equivalent to 560 fewer employees for the near term have been accomplished by unpaid leaves of absence; advanced vacations; and approximately 200 layoff notices.

These efforts will do much to keep Northwest Airlines in shape to retain its strong position in the industry.

Fleet Update

While soaring interest rates and depressed profits have occasioned a delay in new fleet orders at this time, Northwest Airlines has nonetheless embarked on a strong program to increase the capacity and economic value of its present fleet of 106 passenger airplanes.

In recent months Northwest Airlines began a major modification and seat reconfiguration program with its fifty-two 727-200 aircraft. In addition Northwest has implemented plans to improve seating capacity in its 24 Boeing 747's and 22 McDonnell Douglas DC-10 aircraft during 1982 and 1983.

New slimline, lighter seating, providing greater comfort levels than before, improved the Boeing 727-200 capacity from 128 to 146 passenger seats. The airline's 747 reconfiguration will increase capacity from 367 to 394 seats while providing a more spacious and comfortable executive class compartment which broadens the appeal to business travelers.

The DC-10 modification to follow in 1983 will involve complete refurbishment of the aircraft's interior and an improved seating capacity from the current 236 to a total of 292 seats.

Northwest Airline's modification program to improve its total passenger fleet seating capacity will provide a gain of new seats equivalent to 14 new airplanes at an overall cost of $33,000,000. This additional capacity in Northwest Airlines aircraft plus complete rework of the DC-10 interiors will require a low capital cost outlay of about $12,000 per seat compared with the new-airplane cost of $150,000 to $200,000 per seat.

New Officers Elected

Two corporate officer changes have been made in the past year. Bruce Fillips was elected Vice President-Comptroller and James Thorne was elected Vice President-Properties.

A special note of gratitude must be extended to Lyman E. Wakefield, Jr. who retired this year from our board of directors. Elected a member of the board in March 1954, Lyman E. Wakefield, Jr. served with distinction as a director of Northwest Airlines for more than 27 years.

In Summary

We have an outstanding fleet, a sound route structure, excellent facilities and a highly trained and dedicated group of employees. We thank you for your confidence in 1981 and we will work to maintain your trust as we direct our efforts to maximize the opportunities for Northwest Airlines throughout 1982.

M. Joseph Lapensky

M. Joseph Lapensky
President and Chief Executive Officer
March 26, 1982

Geirangerfjord in Norway.

Marketing Highlights

Northwest Orient's 1981 marketing efforts were directed toward expanding the airline's share of high-yield commercial traffic while heightening its emphasis on customer service and convenient scheduling.

Responding to an increasingly competitive environment, Northwest restructured its already strong sales department. A new Market Planning Division was created enabling Northwest to improve its planning and execution of marketing strategies appropriate in the price-sensitive, deregulated environment of today.

New market strategies included strengthening of existing traffic hubs and introducing service in selected new markets, while utilizing flexible pricing policies and service combinations to increase traffic and market share.

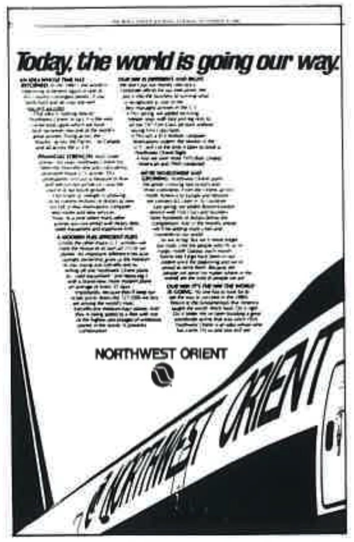
Advertising

Northwest Orient initiated a major reorganization of its domestic system advertising agencies with the appointment of Grey Advertising, Inc. and Colle McVoy, Inc.

Grey's priority assignment was to reposition Northwest Orient Airlines in the domestic marketplace. This effort resulted in what may well be Northwest's most effective communication package ever.

After assessing results of an intense nationwide research project, Northwest developed a significant advertising strategy to increase identity and market share by concentrating advertising weight in eight major domestic stronghold markets. Substantial television time was purchased in these

Marketing Highlights
(continued)



cities. "The World Is Going Our Way" was chosen as the overall advertising theme to highlight the strong work ethic, fiscal conservatism and efficiency which characterizes Northwest and underscores the resultant benefits to the traveling public.

"The American Winner" was introduced as the airlines' campaign theme throughout Europe embodying characteristics similar to the domestic campaign.

Post advertising research demonstrates substantially improved consumer awareness of Northwest Airlines as a major worldwide carrier with one of the most modern, well-maintained fleets in the industry.

Convention, Incentive and Charter Sales Increase

Convention, Incentive and Charter Sales showed strong gains in 1981. Northwest Airlines has continued to maintain industry leadership in the Convention and Incentive market. Anticipating the needs of the expanding corporate meetings market, Northwest refined its nationwide convention coordination service to include greater emphasis on arranging air travel for business meetings. The new program called Northwest Orient Meeting Services, provides the corporate planner with toll-free phone access to a network of experienced conference and convention consultants. In addition, Northwest has developed special incentive air fares to attract more national corporations to the airline's European and Orient destinations.

Charter Sales increased by 73% with the operation of 747 charters to San Juan and Las Vegas through a major midwest tour operator.

Fare Agreements Reached

Northwest Orient Airlines concluded special low fare "Round The World" agreements with eight airlines to further enhance its international traffic.

In the U.S., economic conditions led to increased fare competition. One-way, deep discount fares replaced the round-trip advance purchase discount fares. Where necessary, Northwest Orient met the low-fare competition.

Northwest continues to offer substantial savings on first-class, executive and economy-class fares to London through its Boston and Twin Cities gateways. These routes play a key role in generating new business through the London market and contributed greatly to Northwest's 45.5% increase in Atlantic passenger revenue.

Tour Sales

Northwest's Tour Sales carried out a program to position its tour products in a way to attract more discretionary traffic during an economically sluggish year.

Tourism to Northwest's Orient destinations showed good growth in 1981. Although Northwest did not fly directly into the People's Republic of China, travel to China became a highlight in promotional efforts for Pacific travel.

In the Atlantic market, Northwest's tour programs produced strong traffic gains in the Twin Cities–London market during the peak summer season of 1981. The Boston–London nonstop route complemented the potential of the Twin Cities–London segment by building a strong nationwide tour base for 1982 and beyond.

Northwest's computerized engine testing facility.

More contract bulk agreements were reached with major tour operators to stimulate leisure traffic in the domestic 48 states and to Hawaii.

Cargo Market Share Expanded

In spite of a stagnant economy, Northwest Airlines expanded its cargo market share by anticipating freighter service needs in key world markets.

In 1981, Northwest provided a necessary link in the energy equipment supply chain by inaugurating 747 all-freighter service between the oil rich North Sea development through Prestwick, Scotland and Houston, Texas, and linked the Texas oil equipment supply base with the oil rigs of Alaska's North Slope through Anchorage and on to the oil-producing areas in South-east Asia.

With a continuing improvement in yield, freight ton-miles were up 16.4 percent for 1981, led by a gain of 44 percent for Atlantic ton-miles. Pacific ton-miles were up 12 percent and domestic ton-miles climbed 13 percent in this period.

Total freight revenue for 1981 was up 16.6 percent for the year, with increases of 5.5 percent in domestic revenue, 28 percent in Pacific revenue and 17 percent in Atlantic revenue.

Freighters continue to carry the majority of our freight revenue ton-miles with 56 percent of the total moving in the 747F.

Northwest's position in the eastbound transatlantic cargo market was strengthened when final approval was obtained from airport authorities in Boston for construction of the most advanced state-of-the-art cargo facility. Northwest's already strong position in the East Coast's high-technology electronic components market will be enhanced by this facility.

Plans were laid during 1981 for the opening of the San Francisco market to Northwest's 747 freighter service during early 1982. This promises a substantial market share of high-technology electronic equipment moving from California to the Orient. In addition, shipments of California produce continue to expand through this gateway.

Recognizing that much of westbound transpacific freight is moved by Japanese freight consolidators, Northwest transferred key Orient employees to serve as International Customer Service Managers in the major shipping communities of New York, Chicago, Los Angeles and San Francisco.

Report of Ernst & Whinney, Independent Auditors

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, 1981 and 1980, and the related statements of earnings, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. 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, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Saint Paul, Minnesota, February 18, 1982

Notice to Stockholders

Northwest Airlines, Inc.

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 Aeronautics Board, Washington, D.C. 20428.

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

Stock Listed: Common Stock listed on New York Exchange, Pacific Coast Stock Exchange and Midwest Stock Exchange. There were 9,113 stockholders of record as of March 10, 1982.

Statements of Earnings

Northwest Airlines, Inc.
(In Thousands)

Year Ended December 31	1981	1980	1979
Operating Revenues			
Passenger	**$1,521,856**	$1,347,830	$1,067,214
Freight	**221,691**	190,837	160,716
Mail	**59,786**	57,305	38,685
Charter and other transportation	**21,766**	16,303	15,093
Nontransport	**29,191**	27,055	28,850
	1,854,290	1,639,330	1,310,558
Operating Expenses			
Flying operations	**858,997**	776,862	526,887
Maintenance	**156,450**	139,833	111,647
Passenger service	**147,650**	133,922	114,654
Aircraft and traffic servicing	**248,766**	226,153	198,509
Reservations, sales and advertising	**271,344**	229,148	169,341
Administrative and general	**35,847**	33,468	27,767
Depreciation and amortization	**133,489**	124,078	106,401
	1,852,543	1,663,464	1,255,206
OPERATING INCOME (LOSS)	**1,747**	(24,134)	55,352
Other Income (Expenses)			
Interest, net of capitalized interest of (1981—$672; 1980—$3,393; 1979—$6,240)	**(14,135)**	(15,831)	(1,635)
Gain on sale of flight equipment	**16,975**	143	15,544
Other	**3,322**	3,719	15,099
	6,162	(11,969)	29,008
EARNINGS (LOSS) BEFORE INCOME TAXES	**7,909**	(36,103)	84,360
Income taxes (credit)—Note D	**(2,551)**	(43,187)	11,885
NET EARNINGS	**$ 10,460**	$ 7,084	$ 72,475
Average shares of Common Stock outstanding during the year	**21,656**	21,646	21,632
Earnings per share of Common Stock	**$.48**	$.33	$3.35

See notes to financial statements.

Statements of Financial Position

Northwest Airlines, Inc.
(Dollars In Thousands)

December 31	1981	1980
Assets		
Current Assets		
Cash and short-term investments	**$ 34,570**	$ 20,514
Accounts receivable, less allowance of $1,700 (1980—$1,600)	**138,112**	124,957
Flight equipment spare parts, less allowance for depreciation of $23,369 (1980—$19,883)	**41,418**	42,654
Maintenance and operating supplies	**18,868**	16,920
Prepaid expenses	**11,583**	7,332
TOTAL CURRENT ASSETS	**244,551**	212,377
Other Assets	**50,498**	37,445
Property and Equipment		
Flight equipment	**1,992,015**	1,995,168
Less allowance for depreciation	**881,050**	794,673
	1,110,965	1,200,495
Advance payments on new flight equipment		9,166
	1,110,965	1,209,661
Other property and equipment	**190,397**	169,423
Less allowance for depreciation	**104,030**	96,367
	86,367	73,056
	1,197,332	1,282,717
	$1,492,381	$1,532,539

December 31	1981	1980
Liabilities and Stockholders' Equity		
Current Liabilities		
Commercial paper	**$ 45,551**	$ 34,168
Accounts payable and accrued expenses	**152,183**	142,343
Employee compensation	**36,030**	30,141
Air traffic liability	**88,233**	107,013
Income taxes	**1,735**	800
Current maturities of long-term debt	**50,000**	37,500
TOTAL CURRENT LIABILITIES	**373,732**	351,965
Long-Term Debt—Note B	**12,500**	62,500
Deferred Credits and Other Liabilities		
Income taxes—Note D	**256,014**	260,100
Other	**17,625**	18,932
	273,639	279,032
Stockholders' Equity—Note C		
Common Stock $1.25 par value, authorized 40,000,000 shares; issued and outstanding 21,661,367 shares (1980—21,647,280 shares)	**27,077**	27,059
Capital surplus	**125,256**	124,940
Retained earnings	**680,177**	687,043
	832,510	839,042
Commitments and Contingencies—Note F		
	$1,492,381	$1,532,539

See notes to financial statements.

Statements of Changes in Financial Position

Northwest Airlines, Inc.
(In Thousands)

Year Ended December 31	1981	1980	1979
Funds Provided			
Net earnings	**$ 10,460**	$ 7,084	$ 72,475
Items not affecting working capital:			
Depreciation and amortization	**133,489**	124,078	106,401
Increase (decrease) in deferred income taxes	**(4,086)**	(53,228)	22,669
TOTAL FROM OPERATIONS	**139,863**	77,934	201,545
Proceeds from sale of flight equipment less gain included in earnings	**6,274**	433	2,818
TOTAL PROVIDED	**146,137**	78,367	204,363
Funds Used			
Flight equipment and other property additions	**50,676**	145,709	193,634
Advance deposits on aircraft		9,166	96,503
Cash dividends	**17,326**	17,317	17,306
Reduction of long-term debt	**50,000**	37,500	
Other	**17,728**	9,136	15,708
TOTAL USED	**135,730**	218,828	323,151
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 10,407**	$(140,461)	$(118,788)
Changes in Working Capital Consist of			
Increase (decrease) in current assets:			
Cash and short-term investments	**$ 14,056**	$ (54,069)	$(109,445)
Receivables	**13,155**	13,525	31,650
Recoverable income taxes		(21,726)	21,726
Inventories	**712**	17,875	5,058
Prepaid expenses	**4,251**	3,608	(2,334)
	32,174	(40,787)	(53,345)
Increase (decrease) in current liabilities:			
Commercial paper	**11,383**	34,168	
Accounts payable and accrued expenses	**9,840**	(21,057)	64,098
Other accrued liabilities	**6,824**	1,594	(14,485)
Air traffic liability	**(18,780)**	47,469	15,830
Current maturities of long-term debt	**12,500**	37,500	
	21,767	99,674	65,443
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 10,407**	$(140,461)	$(118,788)

See notes to financial statements.

Statements of Stockholders' Equity

Northwest Airlines, Inc.
(In Thousands)

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings
Balance January 1, 1979	21,626	$27,033	$124,551	$642,107
Exercise of stock options	14	16	246	
Net earnings for 1979				72,475
Cash dividends—$.80 a share				(17,306)
Balance December 31, 1979	21,640	27,049	124,797	697,276
Exercise of stock options	7	10	143	
Net earnings for 1980				7,084
Cash dividends—$.80 a share				(17,317)
Balance December 31, 1980	21,647	27,059	124,940	687,043
Exercise of stock options	14	18	316	
Net earnings for 1981				10,460
Cash dividends—$.80 a share				(17,326)
Balance December 31, 1981	21,661	$27,077	$125,256	$680,177

See notes to financial statements.

Notes to Financial Statements

Northwest Airlines, Inc.

December 31, 1981

Note A—Accounting Policies

A summary of significant accounting policies of the Company is set forth below:

Basis of Presentation: The financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of inter-company accounts and transactions.

Short-Term Investments: Short-term investments are stated at cost which approximates market and amounted to $19,098,000 and $1,943,000 at December 31, 1981 and 1980, respectively.

Flight Equipment and Property: Provision for depreciation is computed by the straight line method over the estimated useful lives of the assets. Depreciation of flight equipment spare parts, rotables and assemblies is provided by the straight line method at rates which depreciate cost, less residual value, over the estimated useful lives of the related aircraft.

Pension Plans: The Company has several noncontributory pension plans covering substantially all of its employees. The Company's policy is to annually fund pension costs accrued, which includes amortization of prior service costs over periods of ten to 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.

Notes to Financial Statements

Northwest Airlines, Inc.

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.

Operating Revenues: Passenger and cargo revenues are recognized when the transportation is provided.

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

Note B—Long-Term Debt and Credit Arrangements

Long-term debt consists of borrowings from banks 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 shall not exceed 7⅞% per annum over the term of the loan. The debt matures in 1983.

The Company has line of credit arrangements with banks for short-term borrowings up to $125,000,000 through April 15, 1982. Borrowings under the credit lines bear interest at the prime rate. Commitment fees which are ⅜% per annum on outstanding balances of commercial paper amounted to $171,000 in 1981. At December 31, 1981, $45,551,000 of the lines were assigned to support outstanding commercial paper.

Note C—Stockholders' Equity

	Shares	
	1981	1980
Cumulative Preferred Stock, $25 par value:		
Authorized	1,000,000	1,000,000
Issued	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 at January 1, 1980	90,395	$19.13/24.00
Exercised	(7,691)	19.13/24.00
Lapsed	(18,939)	19.13/24.00
Outstanding at December 31, 1980	63,765	22.75/24.00
Exercised	(14,087)	22.75/24.00
Lapsed	(5,560)	22.75/24.00
Outstanding at December 31, 1981	44,118	22.75/24.00
Options exercisable:		
At December 31, 1980	63,765	22.75/24.00
At December 31, 1981	44,118	22.75/24.00

Shares available for stock option and other plans were 308,787 and 303,227 at December 31, 1981 and 1980, respectively.

Notes to Financial Statements

Northwest Airlines, Inc.

Note D—Taxes on Earnings

(Dollars In Thousands)

Reconciliation of the Company's effective income tax rate and the statutory federal income tax rate follows:

	Year Ended December 31		
	1981	1980	1979
Statutory rate applied to pre-tax income	$ 3,637	$(16,607)	$38,806
Add (deduct):			
Investment tax credit earned	(4,837)	(24,554)	(27,396)
Rate change on timing differences	(1,390)	(1,521)	(553)
Other	39	(505)	1,028
Total income tax expense (credit)	$(2,551)	$(43,187)	$11,885

Federal, foreign and state income taxes (credit) consisted of the following:

	1981		1980		1979	
	Current	Deferred	Current	Deferred	Current	Deferred
Federal provision (credit)	$ 22	$(3,598)	$9,274	$(52,222)	$(14,516)	$23,175
Foreign	788		620		695	
State	(207)	444	(825)	(34)	825	1,706
	$603	$(3,154)	$9,069	$(52,256)	$(12,996)	$24,881

The deferred income tax expense (credit), which results from timing differences in recognizing items for financial reporting and income tax purposes, consists of the following:

	1981	1980	1979
Accelerated depreciation	$ 1,919	$ 3,273	$19,176
Investment tax and other credits	(11,064)	(60,218)	(2,431)
Prepaid expenses	1,525	1,958	
Interest	5,452	6,217	6,101
Deferred employee benefits	(25)	(1,893)	2,752
Rate change on timing differences	(1,160)	(318)	(553)
Other	199	(1,275)	(164)
	$(3,154)	$(52,256)	24,881

Investment tax credits of $72,924 not applied on tax returns but offset against deferred income taxes at December 31, 1981 will expire $535 in 1990; $1,268 in 1991; $7,878 in 1992; $6,320 in 1993; $27,395 in 1994; $24,732 in 1995; and $4,796 in 1996.

Note E—Commitments

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

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 2029. Portions of these facilities are subleased under noncancelable operating leases expiring in various years through 1991.

Notes to Financial Statements

Northwest Airlines, Inc.

Note E—Commitments (continued)

Future minimum rental commitments at December 31, 1981 for noncancelable operating leases with initial or remaining terms of one year or more, of which $263,774,000 is for air terminal and airport facilities, are as follows:

1982	$18,435,000
1983	17,024,000
1984	16,243,000
1985	15,665,000
1986	14,666,000
Thereafter	189,471,000
	271,504,000
Sublease rental income	(6,426,000)
	$265,078,000

Rental expense for all operating leases consisted of:

	1981	1980	1979
Minimum	$25,238,000	$24,352,000	$22,029,000
Sublease rental income	(917,000)	(988,000)	(842,000)
	$24,321,000	$23,364,000	$21,187,000

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 by the trial court. 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 was then remanded to the trial court. In subsequent proceedings, the Court of Appeals has held that the original decision by the trial court was not a final decision and both the rulings of the trial court and the Court of Appeals may be reconsidered under appropriate circumstances.

On remand the trial court decided that a three year rather than a two year statute of limitations is applicable to the alleged Civil Rights Act violations thereby increasing the Company's potential liability for back pay by the additional year, has determined that plaintiffs under the Equal Pay Act are entitled to liquidated damages equal in amount to the back pay which the court had already awarded, has ruled that longevity acquired by plaintiffs prior to the effective dates of the Equal Pay Act and the Civil Rights Act should not be considered in calculating back pay, and has denied a motion by plaintiffs to award a higher rate of compound interest in place of lower simple interest originally awarded by the trial court. Other matters remain to be decided by the trial court before a final judgment can be entered. When a final judgment is entered, either party may seek appellate review of that final judgment.

The ultimate outcome of the litigation cannot be predicted and, therefore, no specific amount of ultimate liability may be estimated as probable. The Company estimates that its ultimate liability may range from approximately $1 million to approximately $50 million.

Notes to Financial Statements

Northwest Airlines, Inc.

Note F—Contingencies (continued)

The Company brought an action against the unions that represented the plaintiffs in the class action described above seeking contribution from the unions for any liability for which the Company may ultimately be held responsible. The Supreme Court held, in a decision dated April 20, 1981, that unions may not be held liable in a suit for contribution by an employer under either the Civil Rights Act of 1964 or the Equal Pay Act of 1963.

The Company is also involved in other legal actions relating to environmental issues (primarily noise and air pollution), alleged employee discrimination, and other matters relating to the Company's business. While the Company is unable to predict the ultimate outcome of these actions, it is the opinion of management that their disposition will not have a material adverse effect on the Company's financial position.

Note G—Pension Plans

The Company's pension expense was $27,254,000 in 1981, $33,692,000 in 1980 and $29,691,000 in 1979.

Actuarial assumptions were revised in 1981 principally to update rates of pay increase and investment return to levels more reflective of actual plan experience. These changes reduced pension expense for 1981 by approximately $9.8 million.

Accumulated plan benefit information, as estimated by consulting actuaries using a 7% interest assumption, and plan net assets for the Company's plans are:

	Year Ended December 31	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$323,205,000	$273,038,000
Non-vested	30,362,000	41,988,000
	$353,567,000	$315,026,000
Net assets available for benefits	$363,213,000	$343,765,000

Note H—Export Sales

Northwest Airlines, Inc. is a scheduled air carrier engaged in commercial transportation of passengers, freight and mail, and operates under certificates of public convenience and necessity issued by the Civil Aeronautics Board. Export sales were $453,000,000 in 1981, $375,000,000 in 1980 and $255,000,000 in 1979, principally associated with countries in Asia and Europe. Revenue from sales consummated in foreign countries is considered to be export sales.

Notes to Financial Statements

Northwest Airlines, Inc.

Note I—Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1981:

	(In Thousands)			
	Operating Revenues	Operating Expenses	Net Earnings (Loss)	Earnings (Loss) Per Share of Common Stock
1981				
First quarter	$ 418,939	$ 438,017	$ (7,384)	$ (.34)
Second quarter	470,802	467,461	3,402	.16
Third quarter	527,322	498,174	17,537	.81
Fourth quarter	437,227	448,891	(3,095)	(.15)
	$1,854,290	$1,852,543	$ 10,460	$ .48
1980				
First quarter	$ 358,104	$ 389,923	$(10,903)	$ (.50)
Second quarter	382,056	401,002	(5,203)	(.24)
Third quarter	481,718	456,455	17,475	.81
Fourth quarter	417,452	416,084	5,715	.26
	$1,639,330	$1,663,464	$ 7,084	$ .33

The changing circumstances in the airline industry caused by the impact of deregulation and increased fares resulted in a significant increase in advance ticket purchases and a corresponding increase in advance payment of related travel agent commissions. Accordingly, in the fourth quarter of 1980, the Company deferred $4,256,000 in commissions paid applicable to revenue to be realized in future periods. The impact on 1980 net earnings amounted to $2,149,000 ($.10 per share).

Note J—Supplemental Information on the Effects of Changing Prices (Unaudited)

AS REQUIRED BY FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) STATEMENT NO. 33, "FINANCIAL REPORTING AND CHANGING PRICES", THE COMPANY MUST PROVIDE SUPPLEMENTAL INFORMATION CONCERNING THE EFFECT OF CHANGING PRICES ON ITS FINANCIAL STATEMENTS. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level on the exchange value or purchasing power of the dollar (called "general inflation") and (2) the specific price changes in the individual resources used by the Company. Because there is presently no consensus on which aspect of inflation (if any) should be reported, FASB has devised an experiment requiring certain large, publicly held companies to present supplemental information reflecting both types of inflation measurements.

IT IS IMPORTANT THAT FINANCIAL STATEMENT USERS UNDERSTAND WHAT THE INFLATION ADJUSTED DATA IS INTENDED TO REPRESENT, AND ALSO RECOGNIZE ITS INHERENT LIMITATIONS. THE COMPANY HAS SERIOUS RESERVATIONS ABOUT THE USEFULNESS OF THIS DATA.

The Company believes that the following information is essential for a proper understanding and assessment of the data presented:

Note J—Supplemental Information on the Effects of Changing Prices (Unaudited) (continued)

THE SUPPLEMENTAL INFORMATION ON CHANGING PRICES DOES NOT REFLECT A COMPREHENSIVE APPLICATION OF EITHER TYPE OF INFLATION ACCOUNTING. During the experimental period the FASB decided to focus on those items most affected by changing prices, that is: (1) the effect of *both* general inflation and specific price changes on properties and related depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

Statement of Earnings Adjusted for Changing Prices
Year Ended December 31, 1981
(Dollars In Thousands)

	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Operating revenues	$1,854,290	$1,854,290	$1,854,290
Depreciation and amortization	133,489	223,392	262,075
Other operating expenses	1,719,054	1,719,054	1,719,054
Gain on sale of flight equipment	(16,975)	(7,552)	
Other expenses, net	10,813	10,813	10,813
	1,846,381	1,945,707	1,991,942
Earnings (loss) before income taxes	7,909	(91,417)	(137,652)
Income tax credit	2,551	2,551	2,551
Net earnings (loss)	$ 10,460	$ (88,866)	$ (135,101)

	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Other Information		
Purchasing power gain from holding net monetary liabilities during the year	$ 38,876	$ 38,876
Increase in specific prices (current costs) of property and equipment held during the year*		$316,474
Less effect of increase in general price level		213,874
Excess of increase in specific prices over increases in the general price level		$102,600

*At December 31, 1981, current cost of property and equipment, net of accumulated depreciation, was $2,530,814,000 (historical amount—$1,197,332,000).

Notes to Financial Statements

Northwest Airlines, Inc.

Note J—Supplemental Information on the Effects of Changing Prices (Unaudited) (continued)

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices
In Average 1981 Dollars

(In thousands of dollars, except per share data)	Year Ended December 31 1981	1980	1979	1978	1977
Operating revenues	$1,854,290	$1,809,374	$1,642,116	$1,101,536	$1,570,397
Historical Cost Information Adjusted for General Inflation					
Net earnings (loss)	(88,866)	(69,189)	16,335		
Per share data	(4.10)	(3.20)	.75		
Net assets at year end	1,552,650	1,622,243	1,659,633		
Current Cost Information					
Net earnings (loss)	(135,101)	(98,758)	(25,014)		
Per share data	(6.23)	(4.56)	(1.15)		
Excess of increase in specific prices of property and equipment over increase in the general price level	102,600	150,280	42,699		
Net assets at year-end	2,179,059	2,223,397	2,182,717		
Other Information					
Purchasing power gain from holding net monetary liabilities during the year	38,876	58,209	59,315		
Cash dividends declared per common share	.80	.88	1.00	1.05	.75
Market price per common share at year-end	27.00	26.21	34.62	39.73	35.46
Average consumer price index	272.4	246.8	217.4	195.4	181.5

Statement of Earnings
The accompanying supplemental statement of earnings presents income data under three measurement methods. These are:

a. **As Reported in the Primary Statements—**This amount is net earnings as reported in the primary financial statements on the historical cost basis of accounting. Under generally accepted accounting principles the effects of changing prices generally are not recognized for assets and liabilities.

Notes to Financial Statements

Northwest Airlines, Inc.

Note J—Supplemental Information on the Effects of Changing Prices (Unaudited) (continued)

b. **Adjusted for General Inflation—**This represents the historical amounts of revenues and expenses stated in dollars of the same (constant) general purchasing power, as measured by the average level of the Consumer Price Index (CPI) for 1981. Under this measurement method, historical amounts of depreciation expense and the gain on the sale of properties are adjusted to reflect the change in the level of the CPI that has occurred since the date the related properties were acquired. The amounts of revenues and other costs and expenses already approximate average 1981 constant dollars and remain unchanged from those amounts presented in the primary financial statements.

c. **Adjusted for Changes in Specific Prices** (Current Costs)—Income under current cost accounting attempts to deal with a different issue than income adjusted for general inflation. The specific prices of the Company's property have risen at a different rate than the general inflation rate as measured by the CPI. Current cost accounting measures properties at their current cost (rather than their historical cost) at the balance sheet date; depreciation is computed on average current cost for the year.

Income Taxes
Current tax laws do not recognize deductions for current cost depreciation expense; therefore, no adjustments have been made to the provisions for income tax.

Purchasing Power Gain From Holding Net Monetary Liabilities During the Year
When prices are increasing, the holding of monetary assets (e.g., cash and receivables) results in a loss of general purchasing power. Similarly, liabilities are associated with a gain of general purchasing power because the amount of money required to settle the liabilities represents dollars of diminished purchasing power. The net gain in purchasing power is shown separately in the accompanying supplemental data. The amount has been calculated based on the Company's average net monetary liabilities for the year multiplied by the change in the CPI for the year. Such amount does not represent funds available for distribution to stockholders.

Increases in Current Cost of Properties
Under current cost accounting, increases in specific prices (current cost) of properties held during the year (including realized gains and losses on those sold) are not included in income from continuing operations but are presented separately. The current cost increase is reduced by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balances of properties.

Current Cost Measurements
The current cost of property and equipment has been estimated by management using pricing data furnished to the airline industry by the Air Transport Association. Flight equipment represents approximately 93% of the property and equipment.

Current cost depreciation is based on the average current cost of properties during the year. The depreciation methods (straight-line), salvage values and useful lives are the same as those used in preparing the primary financial statements.

Current cost calculations involve a substantial number of judgments as well as use of various estimating techniques that have been employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead represent reasonable approximations of the price changes that have occurred in the business environment in which the Company operates.

Current cost does not purport to represent the amount at which the assets could be sold.

10 Year Summary*

Northwest Airlines, Inc.

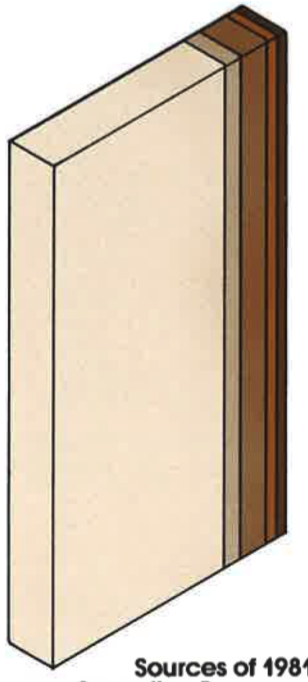
(Dollars In Thousands Except Per Share Figures)

Years Ended December 31	1981	1980	1979	1978†	1977	1976	1975	1974	1973	1972†
Operating Revenues										
Passenger	**$ 1,521,856**	$ 1,347,830	$ 1,067,214	$ 557,401	$ 861,053	$ 786,414	$ 659,849	$ 628,488	$ 476,794	$ 277,891
Freight	**221,691**	190,837	160,716	87,077	121,185	119,882	88,308	76,157	55,280	34,694
Mail	**59,786**	57,305	38,685	18,944	29,894	25,137	23,280	22,911	18,415	13,309
Charter and other transportation	**21,766**	16,303	15,093	10,997	25,871	25,955	29,019	27,322	28,517	20,009
Nontransport	**29,191**	27,055	28,850	115,743	8,352	6,420	107	4,113	5,342	46,598
TOTAL OPERATING REVENUES	**$ 1,854,290**	$ 1,639,330	$ 1,310,558	$ 790,162	$ 1,046,355	$ 963,808	$ 800,563	$ 758,991	$ 584,348	$ 392,501
Operating Expenses										
Depreciation and amortization	**$ 133,489**	$ 124,078	$ 106,401	$ 104,970	$ 103,152	$ 102,713	$ 98,880	$ 96,213	$ 87,642	$ 81,054
Other	**1,719,054**	1,539,386	1,148,805	617,907	838,619	758,147	651,983	584,993	445,401	296,348
TOTAL OPERATING EXPENSES	**$ 1,852,543**	$ 1,663,464	$ 1,255,206	$ 722,877	$ 941,771	$ 860,860	$ 750,863	$ 681,206	$ 533,043	$ 377,402
Operating income (loss)	**$ 1,747**	$ (24,134)	$ 55,352	$ 67,285	$ 104,584	$ 102,948	$ 49,700	$ 77,785	$ 51,305	$ 15,099
Interest expense	**(14,135)**	(15,831)	(1,635)	(3,376)	(6,518)	(14,035)	(16,120)	(19,554)	(14,758)	(8,356)
Other income and (deductions)—net	**20,297**	3,862	30,643	45,126	55,078	9,351	13,509	40,148	19,133	10,510
Earnings (loss) before taxes	**$ 7,909**	$ (36,103)	$ 84,360	$ 109,035	$ 153,144	$ 98,264	$ 47,089	$ 98,379	$ 55,680	$ 17,253
Income taxes (credit)	**(2,551)**	(43,187)	11,885	47,194	60,425	46,527	3,693	33,631	3,830	(429)
Net Earnings[1]	**$ 10,460**	$ 7,084	$ 72,475	$ 61,841	$ 92,719	$ 51,737	$ 43,396	$ 64,748	$ 51,850	$ 17,682
Earnings per average share[1]	**$ .48**	$ .33	$ 3.35	$ 2.86	$ 4.29	$ 2.39	$ 2.01	$ 3.00	$ 2.40	$ .83
Cash dividends	**17,326**	17,317	17,306	16,210	10,804	9,707	9,710	9,722	9,722	9,620
Dividends per share	**.80**	.80	.80	.75	.50	.45	.45	.45	.45	.45
Stockholders' equity	**832,510**	839,042	849,122	793,691	747,672	665,744	623,677	589,991	534,965	492,837
Number of shares outstanding at end of year	**21,661,367**	21,647,280	21,639,589	21,626,284	21,606,686	21,606,036	21,604,136	21,604,136	21,604,136	21,604,136
Book value per share at end of year	**$ 38.43**	$ 38.76	$ 39.24	$ 36.70	$ 34.60	$ 30.81	$ 28.87	$ 27.31	$ 24.76	$ 22.81
Assets and Long-Term Debt										
Flight property at cost	**$ 1,992,015**	$ 1,995,168	$ 1,779,770	$ 1,525,442	$ 1,510,447	$ 1,448,402	$ 1,420,670	$ 1,282,556	$ 1,216,632	$ 1,008,041
Flight property at net book value	**1,110,965**	1,200,495	1,094,556	922,615	962,957	924,537	977,062	907,935	861,231	682,020
Total assets	**1,492,381**	1,532,539	1,528,921	1,392,865	1,299,451	1,151,562	1,215,146	1,121,153	1,085,632	920,418
Long-term debt	**12,500**	62,500	100,000	100,000	100,000	122,000	246,000	213,900	284,000	208,000
Unit Expenses										
Per available ton-mile	**41.0¢**	37.0¢	29.4¢	27.9¢	22.9¢	21.6¢	20.6¢	19.9¢	15.8¢	16.9¢
Per revenue ton-mile	**84.7¢**	80.6¢	63.4¢	65.7¢	54.4¢	50.5¢	50.2¢	48.2¢	42.5¢	49.6¢
Per cent of operating revenues	**99.9%**	101.5%	95.8%	91.5%	90.0%	89.3%	93.8%	89.8%	91.2%	96.2%
Statistics—Scheduled Services										
Revenue plane-miles (000)	**120,139**	120,709	116,105	66,420	111,271	108,474	104,104	105,295	108,853	79,025
Available seat-miles (000)	**24,813,981**	24,904,355	24,028,928	14,302,037	22,968,489	22,228,259	20,910,966	20,016,107	19,593,379	12,963,054
Revenue passenger-miles (000)	**14,251,932**	13,810,889	13,298,161	7,018,305	11,100,412	10,758,683	9,471,282	9,173,875	8,007,850	4,565,618
Passenger load factor	**57.4%**	55.5%	55.3%	49.1%	48.3%	48.4%	45.3%	45.8%	40.9%	35.2%
Revenue passengers carried	**11,144,785**	11,501,148	11,636,170	6,574,901	10,354,808	9,818,343	8,865,263	8,948,373	7,987,299	5,150,636
Freight and express ton-miles (000)	**616,285**	529,434	504,753	302,153	458,143	467,399	386,309	317,437	251,865	150,973
Total revenue ton-miles (000)	**2,186,815**	2,048,349	1,956,217	1,079,681	1,676,470	1,647,317	1,428,381	1,330,803	1,140,983	672,035
Statistics—Total Operations										
Revenue plane-miles (000)	**120,761**	121,243	117,027	67,471	114,643	112,279	107,721	110,519	115,726	84,098
Available ton-miles (000)	**4,519,768**	4,495,666	4,265,640	2,594,632	4,109,110	3,982,743	3,642,650	3,431,038	3,370,694	2,236,069

*Not covered by Accountants' Report.
†Strikes adversely affected 1972 and 1978.
[1] See Financial Highlights pages 24 through 27 for Management's Discussion of the Summary of Operations.

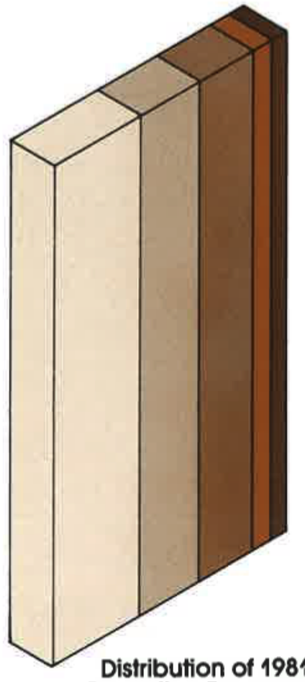
Financial Highlights and Management Discussion for 1981

Passenger—Coach	$1,388.0	74.9%
Passenger—First Class	133.9	7.2
Freight	221.7	12.0
Mail	59.8	3.2
Charter and Other	50.9	2.7
	$1,854.3	100.0%

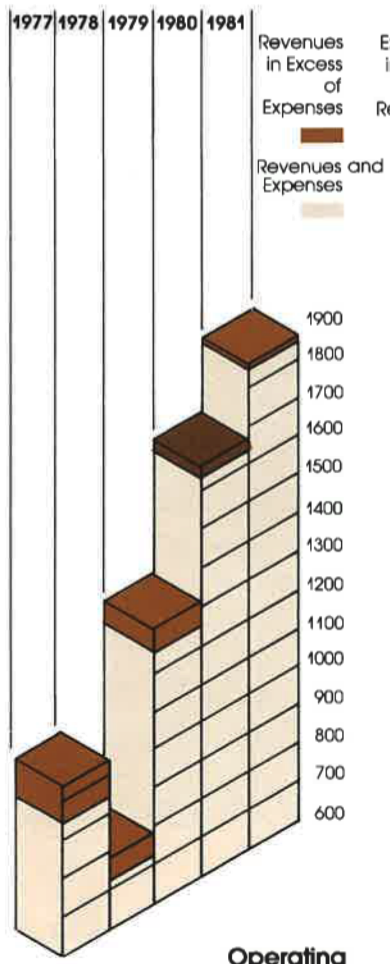


Sources of 1981 Operating Revenues
(Dollars in Millions)

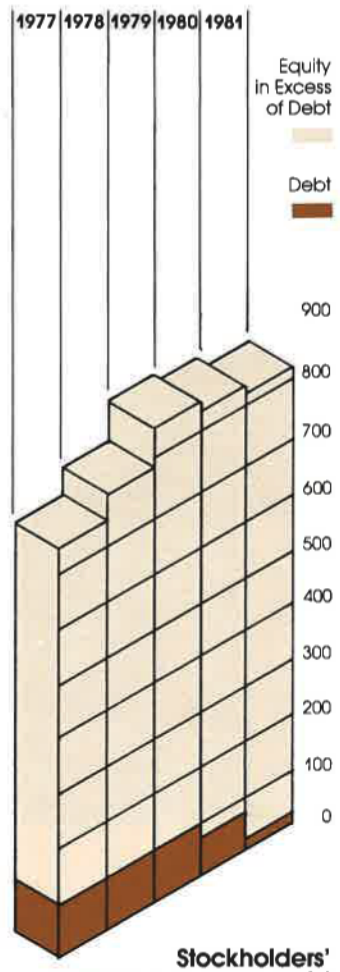
Fuel and Oil	$702.7	37.9%
Employee Wages and Benefits	444.0	24.0
Landing Fees, Rentals, Materials and Services	401.7	21.7
Commission	170.6	9.2
Depreciation and Amortization	133.5	7.2
	$1,852.5	100.0%



Distribution of 1981 Operating Expenses
(Dollars in Millions)



Operating Revenues and Expenses
(Dollars in Millions)



Stockholders' Equity vs. Long-Term Debt
(Dollars in Millions)

Revenues
Total operating revenues increased 13% in 1981 to a new record of $1,854,290,000. The prior year's revenue of $1,639,330,000 was a 25% improvement over 1979's $1,310,558,000 total. Scheduled passenger revenues for 1981 increased $174,026,000 due to a 3.2% increase in traffic and a 9.4% increase in yield (revenue per passenger mile) from 9.76¢ to 10.68¢. In 1981 Northwest was one of only two major U.S. airlines to achieve a traffic gain in the second consecutive year of traffic decline for the industry.

Northwest implemented passenger fare increases in its domestic markets during 1981 including a 15% increase in the 48 states; a 15% increase Mainland-Alaska; and a 16% increase Mainland-Hawaii. Fare adjustments on international routes were also implemented during the year with Atlantic fares increasing 22% and Pacific fares 10%. However, offsetting these general fare increases was the increased availability of a greater number and variety of special discount fares resulting from continued price competition. The use of these special discounts during 1981 increased dramatically over the prior year with a depressive effect on revenue per passenger mile.

Freight revenues increased by $30,854,000 to $221,691,000 during 1981 which resulted entirely from a 16.4% increase in freight volume. Mail revenues increased by $2,481,000 over the prior year to $59,786,000 and charter and other transportation revenues increased $5,463,000 to $21,766,000.

Expenses
Operating expenses for 1981 totaled $1,852,543,000 compared with $1,663,464,000 in 1980 and $1,255,206,000 in 1979. As a result of Northwest's cost control the rate of increase in these expenses moderated during 1981. The current year total increase was 11.4% over the prior year. The increase in 1980 operating expenses over 1979 was 32.5%. Operating expenses per available ton-mile increased to 41.0¢ in 1981 from 37.0¢ in 1980 and 29.4¢ in 1979. Northwest continues to be the most efficient trunk carrier in the industry.

Northwest's jet fuel bill for 1981 amounted to $702,700,000 compared to $631,273,000 in 1980 and $395,260,000 in 1979. The average cost of jet fuel in 1981 was $1.077 per gallon compared to $0.951 in 1980, an increase of 13.2%. Fuel costs began to moderate in late 1981. The impact and effect of inflation and changing prices is discussed in Footnote J to the financial statements.

Depreciation and amortization expenses totaled $133,489,000 in 1981 compared with $124,078,000 and $106,401,000 for 1980 and 1979, respectively. This increase in depreciation and amortization expense reflects the addition of two new fuel efficient aircraft in 1981 following the purchase of seven new aircraft in 1980.

Earnings and Dividends
Net earnings of $10,460,000 in 1981 are up 47.7% from 1980 earnings of $7,084,000. 1979 net earnings were $72,475,000. Earnings per average share of common stock outstanding were 48¢ in 1981, 33¢ in 1980 and $3.35 in 1979.

Gain from disposal of property was $16,975,000 in the current year, up substantially from the 1980 gain of $143,000. 1979 gains totaled $15,544,000. The 1981 gain reflects the sale of seven Boeing 727-100C aircraft. Five additional B-727-100C aircraft are scheduled for sale in 1982. No aircraft were sold in 1980.

While Northwest achieved only a modest increase in net earnings during the year, a substantial improvement of $25,881,000 was made in operating income. The problems that plagued the industry in 1980 continued in 1981, specifically higher operating costs and a deepening of the U.S. recession. The latter resulted in a traffic depression for the industry. However, despite increased competition systemwide, Northwest was able to achieve significant operating improvements in the Pacific and Domestic entities. Additional start up costs were incurred with the new Boston-London route in the Atlantic. With fuel prices stable, reasonable traffic growth in the Domestic system and modest yield improvement, coupled with a strong competitive posture in the Pacific, further profit improvements should be made in 1982.

Northwest Airlines continued its dividend payment policy with quarterly payments for the 27th consecutive year. A cash dividend of 80¢ per share was paid in 1981 which totaled $17,326,000. Common stock of Northwest is principally traded on the New York Stock Exchange. A table showing the sales prices and dividends paid per share in 1981 and 1980 is included in the accompanying graphs and charts.

Taxes on Earnings
Income tax credits were $2,551,000 in 1981 and $43,187,000 in 1980. Income tax expense in 1979 was $11,885,000. Earned investment tax credits were $4,837,000 in 1981 compared to $24,554,000 in 1980 and $27,396,000 in 1979. Decreased earned investment tax credits in 1981 reflect the receipt of only two new aircraft compared to seven in 1980. In 1982, earned investment tax credits will approximate 1981 levels. Investment tax credits are applied on tax returns as allowed by income tax regulations. Credits not applied currently are offset against deferred taxes and as of December 31, 1981, these credits totaled $72,924,000. No investment tax credit benefits were "sold" during the year as the Company believes it will be in a position to apply all of its credits on tax returns. The Company continues to use

Northwest Orient Airlines authorized routes.

Financial Highlights and Management Discussion for 1981
(continued)

accelerated depreciation methods for income tax purposes as provided by law.

Cash Flow, Liquidity, and Capital Resources
During 1981 funds generated from all sources totaled $146,137,000 including $23,249,000 of proceeds from the sale of equipment. Also included in the total were the benefits from the Company's long-standing policy of owning its own fleet rather than leasing which provided funds through depreciation and amortization of $133,489,000. Funds were used during 1981 to pay off $37,500,000 of long-term debt, to acquire over $50 million of flight equipment and other property, and to pay over $17 million in cash dividends to shareholders.

The Company has no orders or commitments for the purchase of additional aircraft. Funds for working capital and capital expenditure requirements during the last three years have been provided primarily by on-going business operations. Capital expenditures during this period exceeded $390 million and included the acquisition of eight 747 aircraft and eight 727-200 aircraft. With total debt of all kinds as of December 31, 1981, at only 13% of stockholders' equity, and the Company's commercial paper rating of A-1/P-1, the highest quality, Northwest believes it will have no difficulty in generating adequate cash to meet corporate needs. Unused lines of credit at year-end totaled $79,449,000.

The Company's remaining $12.5 million of long-term debt is scheduled for repayment in January 1983. Stockholders' equity at December 31, 1981, totaled $832,510,000 and the book value per share of common stock outstanding was $38.43.

Quarter		Sales Price of Common Shares 1981	1980	Dividends Per Share 1981	1980
1st	High	31⅝	31¼	$.20	$.20
	Low	23¾	20⅜		
2nd	High	38¾	25¾	$.20	$.20
	Low	28	20½		
3rd	High	32¾	31¼	$.20	$.20
	Low	26	24⅞		
4th	High	33¼	27½	$.20	$.20
	Low	26¼	22⅝		

Traffic and Service
During a year when overall demand for air transportation was again declining, Northwest's 1981 scheduled operations produced gains in both passenger and freight traffic compared to 1980 and 1979. This growth was primarily the result of improved international operations with the greatest growth in the Atlantic.

Prospects for traffic growth in the Domestic 50 States are a function of a general economic upturn in the second half of the year. Northwest expects significant traffic increases in both the Pacific and the Atlantic. Overall the Company expects systemwide traffic growth exceeding the industry average. Northwest's 1981 3.2% increase in system traffic also produced an increase in the Company's total system market share. This was accomplished profitably. During 1981 Northwest carried 11,144,785 passengers.

Financial Condition
Despite the current economic recession and adverse conditions affecting the airline industry during 1981, Northwest posted a profit for the 33rd consecutive year. With its very small debt and large stockholders' equity, Northwest remains one of the strongest carriers in the entire airline industry. This strong balance sheet, excellent liquidity, and modern fleet of aircraft puts the Company in a position to respond to anticipated increases in demand with the recovery of the domestic economy. In the meantime, Northwest continues its long-standing history of efficient operation and stringent cost controls in an effort to combat the current period of soft traffic and cutthroat price competition.

Selected Financial Data (In Thousands)

Year Ended December 31	1981	1980	1979	1978*	1977
Operating Revenues	$1,854,290	$1,639,330	$1,310,558	$ 790,162	$1,046,355
Net Earnings	10,460	7,084	72,475	61,841	92,719
Total Assets	1,492,381	1,532,539	1,528,921	1,392,865	1,299,451
Long-Term Debt	12,500	62,500	100,000	100,000	100,000
Per Common Share:					
Earnings	.48	.33	3.35	2.86	4.29
Cash Dividends	.80	.80	.80	.75	.50

*Operating results were affected by a major strike which extended from April 29 through August 15, 1978.

More comfortable slimline seating was added to Northwest's 727-200 fleet.

Service Highlights

Throughout 1981, Northwest Airlines continued to build on its sterling reputation for fine service and outstanding revenue leadership. Northwest's 13,096 employees exhibited enthusiastic dedication to customer satisfaction and contributed significantly to Northwest's 1981 results.

Automated Systems
Northwest Airlines activated its new $15 million POLARIS computerized reservation system late in 1981. Recognized as one of the most advanced in the airline industry, POLARIS insures Northwest a leadership position in respect to full-function reservation systems. A major advantage of the new POLARIS system is its capability to display more than half-a-million schedules and to show availability status for virtually all direct and connecting flights throughout the world.

Northwest's POLARIS comprehensive North American fares display data base is updated weekly by computer tape, and provides the most current fare information available. The new hardware and software has the vast expansion capacity needed as the airline adds routes, fares and services. The efficiency of POLARIS is unsurpassed, resulting in increased agent productivity. New reservations can be made and stored in a single input to the computer. The software in Northwest's new POLARIS system provides greater flexibility and ease of update to respond to changes in the marketplace.

In late 1981, the company signed contracts for a new corporate wide video display screen communications system.

This new system will be installed at all company locations during 1982. The system features new video display terminals with increased capabilities and larger screens, new administrative printers and new ATA/IATA ticket printers. Major benefits will include improved communications capability at all levels of the company while at the same time significantly reducing line maintenance and energy costs.

The sixth Automatic Call Distribution system was brought on-line in early 1982. These systems, costing more than $1 million each, are now located in reservation centers in the Twin Cities, Chicago, Cleveland, Seattle, New York and Los Angeles. The Automatic Call Distribution system reduces reservation response time, permits call load balancing, increases reservation sales productivity and insures reliability with its uninterruptible back-up power supply.

Northwest installed new telecommunications equipment to accommodate the speech and hearing-impaired on its United States reservation system. The Telecommunications Device for the Deaf provides a printed record of the conversation and accommodates yet another dimension for meeting the needs of the traveling public.

The usage of MAPPER Automated Systems was widely expanded in 1981. This highly sophisticated data base and development system continues to tighten control of 115,000 expendable items in Northwest's Purchasing and Stores Department. The MAPPER system has been used to generate statistical data and planning data used in marketing forecasts. In addition this year, a new accounts payable system was installed.

Seating Capacity Improved
Northwest began a program to improve 727-200 seating capacity while enhancing passenger comfort and enlarging carry-on luggage storage facilities. The airline's 727-200 capacity has moved from 128 to 146 seats. Total seat additions are equal to seven new 727-200 aircraft.

During 1982, reconfiguration of the Northwest 747 fleet will improve capacity from 367 to 394 seats with the addition of a tenth seat across in the airplane's tourist section. This conforms to the most common configuration among worldwide airlines operating the 747 aircraft. Northwest's 747 executive class compartment will be made more spacious and comfortable with the addition of custom designed eight-abreast seats. Executive seating will be available on the main deck and the upper lounge of the aircraft. The luxurious 22 sleeper seats in the first-class section will remain. The 747 seating reconfiguration will provide increased capacity equal to two new 747 aircraft.

Northwest has also developed a plan to reconfigure its DC-10 fleet throughout 1983. This will involve complete refurbishing of the aircraft's interior and improve seating capacity from the current 236 to 292 seats. The objective will be achieved by reducing the first-class cabin size on the DC-10, limiting the number of first-class seats to 22 and installing 270 completely new, more comfortable, slimline lightweight seats in the expanded tourist section of the aircraft.

The total conversion project to expand seating capacity in Northwest Airlines' passenger fleet will provide a gain of 2,840 new seats, equivalent to 14 new airplanes, at an overall cost of $33,000,000. The added seating in all of the aircraft, plus the complete rework of the DC-10 interiors, will require a low capital cost outlay of about $12,000 per seat compared with the new airplane cost of $150,000 to $200,000 per seat.

Weight reduction from installation of the new, more comfortable seating will recover modification costs over a short period of time.

All of the reconfiguration and refurbishment work will be accomplished by Northwest maintenance personnel at the airline's main overhaul base in Minneapolis/St. Paul.

Northwest activated its new POLARIS computerized reservation system.

Sunset over Tumon Bay, Guam.

Service Highlights (continued)

Executive Class Introduced
Executive Class, a superior service class on Northwest's transatlantic and transpacific flights, has had high acceptance. This expanded service level provides Northwest with additional appeal to the full-fare economy passenger. Free headsets, movies, amenities kits and beverage service on international flights, along with first-class standby transportation on connecting domestic flights are added attractive incentives in a competitive marketplace.

New Routes/Services
Northwest Airlines increased its systemwide market share of scheduled traffic in 1981 and did so profitably. New nonstop passenger service between Boston and London, Tokyo and Guam, Los Angeles and Tokyo, Taipei and Manila and the Twin Cities and Oslo was inaugurated in 1981.

Contract Ratified
Flight attendants and the airline agreed on all terms of a new 3-year labor agreement during 1981. This new agreement, effective August 1, was ratified by a majority vote.

Facilities
Northwest ticket counters, baggage claim and airport facilities were fine-tuned for improved customer convenience. Two additional loading bridges at the Boston gateway, installation of first and executive class check-in facilities at the Los Angeles gateway and major baggage retrieval improvements at the Minneapolis/St. Paul gateway functionally underscored Northwest's commitment to provide superior customer service.

Training Continues
Nearly 1,000 Northwest transportation agents completed an intense training program emphasizing customer service opportunities, sales techniques and teamwork. This ongoing investment in "people power" continues to show positive results in the area of customer relations.

Fuel Conservation
Fuel conservation efforts continue to be effective as fuel consumption decreased 11.6 million gallons despite the .5% growth in capacity. However, total fuel costs increased 11.3% as the average price per gallon rose 13.2% to $1.077.

The Directors of Northwest Orient Airlines
(As of March 26, 1982)

James H. Binger†
Former Chairman of the Executive Committee,
Honeywell, Inc.
Minneapolis, Minnesota
Manufacturer of automation systems

E.W. Blanch, Jr.†
President & Chief Executive Officer
E.W. Blanch Company
Minneapolis, Minnesota
Re-insurance brokerage

Raymond H. Herzog†
Former Chairman of the Board,
3M Company
St. Paul, Minnesota
Multi-national manufacturing

Melvin R. Laird†
Senior Counselor,
Reader's Digest Association
Washington, D.C.
Magazine publishing

James N. Land, Jr.†
Financial Consultant
New York, New York

M. Joseph Lapensky
President & Chief Executive Officer
Northwest Airlines, Inc.
St. Paul, Minnesota

Donald G. McNeely†
Chairman of the Board,
Space Center, Inc.
St. Paul, Minnesota
Logistics

Donald W. Nyrop†
President & Chief Executive Officer, 1954–1976; Chairman & Chief Executive Officer, 1976–1978
Northwest Airlines, Inc.
St. Paul, Minnesota

†Member, Audit Committee

The Officers of Northwest Orient Airlines
(As of March 26, 1982)

M. Joseph Lapensky
President & Chief Executive Officer

James A. Abbott
Vice President—Law

Brent J. Baskfield
Vice President—Public Relations

Robert W. Campbell
Vice President—Budgets

J. William Campion
Vice President—Regulatory Proceedings

Bruce H. Fillips
Vice President—Comptroller

Robert J. Glischinski
Vice President—Communications and Computer Services

Benjamin G. Griggs, Jr.
Vice President—Assistant to the President

John F. Horn
Vice President—Orient Region

Thomas J. Koors
Vice President—Transportation Services

William A. Kutzke
Vice President—Washington

Ben H. Lightfoot
Vice President—Maintenance and Engineering

Thomas E. McGinnity
Vice President—Purchasing and Stores

Bryan G. Moon
Vice President—Advertising

James F. Redeske
Vice President—Personnel

Steven G. Rothmeier
Vice President—Finance and Treasurer

R. James Thorne
Vice President—Properties

Steven D. Wheeler
Secretary

Robert J. Wright
Vice President—Sales

Northwest Orient Airlines World Headquarters: Minneapolis-St. Paul International Airport, St. Paul, MN 55111