building a global airline network

NORTHWEST AIRLINES

1998 ANNUAL REPORT

NORTHWEST AIRLINES IS THE WORLD'S FOURTH LARGEST AIRLINE WITH DOMESTIC HUBS IN DETROIT, MINNEAPOLIS/ST.PAUL AND MEMPHIS, ASIAN HUBS IN TOKYO AND OSAKA AND, WITH KLM ROYAL DUTCH AIRLINES, A EUROPEAN HUB IN AMSTERDAM. NORTHWEST AIRLINES AND ITS ALLIANCE PARTNERS, INCLUDING CONTINENTAL AIRLINES, SERVE MORE THAN 500 CITIES IN 90 COUNTRIES ON SIX CONTINENTS AND OFFER CUSTOMERS AN INDUSTRY LEADING GLOBAL AIRLINE NETWORK.

THE COMPANY

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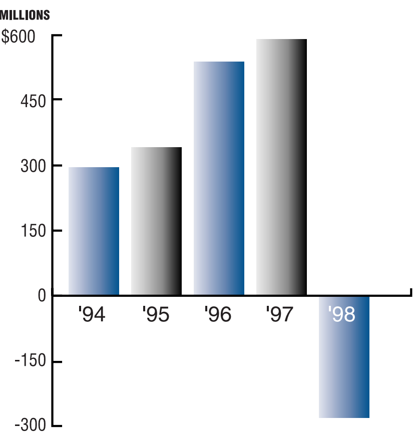
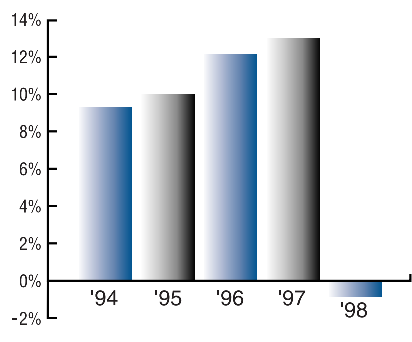
CONDENSED FINANCIAL HIGHLIGHTS

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

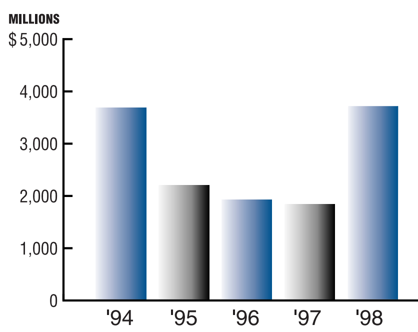
Net Income (Loss)



Return on Capital



Long-Term Debt



From the Chairman and the President & CEO

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

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

NORTHWEST AIRLINES

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

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

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

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

NORTHWEST AIRLINES

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

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

strengthening world alliances

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

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

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

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

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

Thank you for your interest and support.

...building a global airline network

Gary L. Wilson
Chairman

John H. Dasburg
President & Chief Executive Officer

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

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

It all begins with a handshake.

The new alliance between Northwest Airlines and Continental Airlines is the promise of a shared goal: to bring every corner of the world within the reach of every flyer; to offer and give travelers a seamless travel experience wherever their global itinerary may take them — from Europe to Asia to Latin America to the United States — to almost any destination in the world.

Here's what we believe the future has in store. One-ticket convenience throughout the world; reciprocal frequent flyer earning and redemption opportunities; common membership privileges among airport business clubs; almost limitless choices of routes and schedules. And much more.

You'll see the evidence almost immediately in the common spirit and dedication of Continental and Northwest people.

The future is at hand. Welcome aboard.

Continental Airlines
1-800-523-FARE/www.flycontinental.com

NORTHWEST AIRLINES
1-800-225-2525 / www.nwa.com

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

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

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

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

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

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

Continental people have earned high distinction for customer service.

Strengthening the "Alliance for Life"

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

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

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

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

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

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

Global Alliance Takes Wings

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

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

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

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

Northwest/KLM people—evolving a global alliance

Improving Airport Convenience and Comfort in Detroit

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

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

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

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

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

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

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

CUSTOMER SERVICE

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

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

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

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

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

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

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

Hubs — Keystones for Convenience & Commerce

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

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

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

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

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

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

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

Fleet Modernization Brings Comfort and Added Simplicity

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

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

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

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

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

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

Private-Label Vacation Programs for Leisure Travelers

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

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

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

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

New Technology Builds Revenues, Enhances Customer Convenience, Reduces Costs

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

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

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

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

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

the quick way to check-in

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

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

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

Connecting with the Community

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

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

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

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

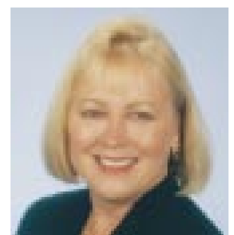
Northwest employees also volunteer their time and talents under AirCares initiatives. In St. Paul, Minnesota, more than 250 Northwest people participated in a two-week Habitat for Humanity work camp, helping renovate a century-old row house in a historic St. Paul neighborhood. Northwest's annual Garage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

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

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

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

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


Judith Brant

Berniece Epple

Midori Kushige

Richard Lien

Gary Meyers

Northwest Airlines 1998 President's Award Honorees

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

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

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

Berniece Epple
Flight Attendant, Minneapolis/St. Paul

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

Midori Kushige
Analyst — Human Resources Planning, Tokyo

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

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

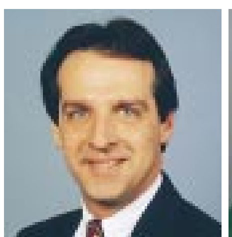
Dick Lien has been instrumental in exploring Northwest's new routes over China and Mongolia, as well as developing the further use of Russian airspace. Northwest was the first U.S. airline to use the Polar 2 Route, which saves up to one hour and 20 minutes between Detroit and Beijing. Permission to fly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

Gary Meyers
Lead Quality Service Assistant, Honolulu

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

Thomas Niederer

Harold Peters


William Tarras

Amy Tellor

David “Lamar” Thomas

Thomas Niederer
Boeing 727 Captain, Minneapolis/St. Paul

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

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

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

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

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

Amy Tellor
Manager — Benefits, Minneapolis/St. Paul

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

David “Lamar” Thomas
Lead Parts & Materials Inspector, Atlanta

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

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Robert H. Nazarian
Treasurer

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

Maximize Return on Assets

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

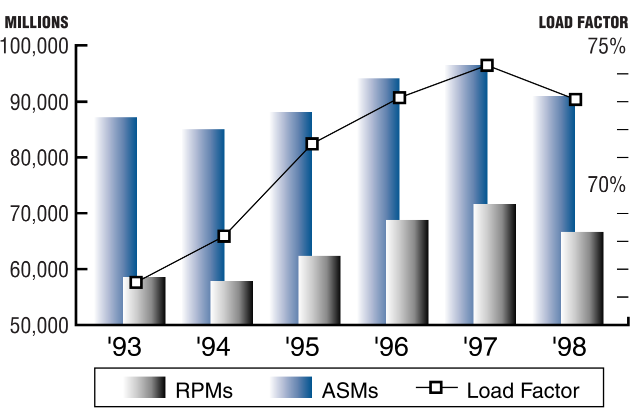
As an innovator of alliances, Northwest continues to lead in creating the premier air transportation network by adding Continental Airlines to our global alliance network. Together with KLM and its new strategic partner, Alitalia, the Northwest alliance network is well positioned to compete effectively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

1998 Performance

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

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

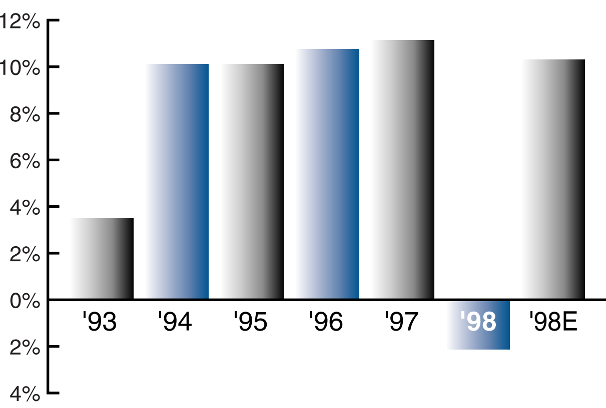
Scheduled ASMs And RPMs



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

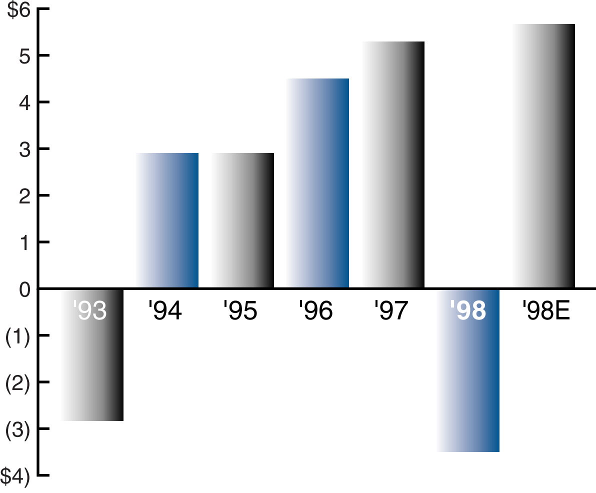
As a result of the strike, Northwest's operating margin deteriorated to a negative 2.1%. However, adjusting for 1998's labor disruptions and non-recurring charges, we estimate that Northwest would have generated an industry competitive 10.3% operating margin.

Operating Margins



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

Diluted EPS



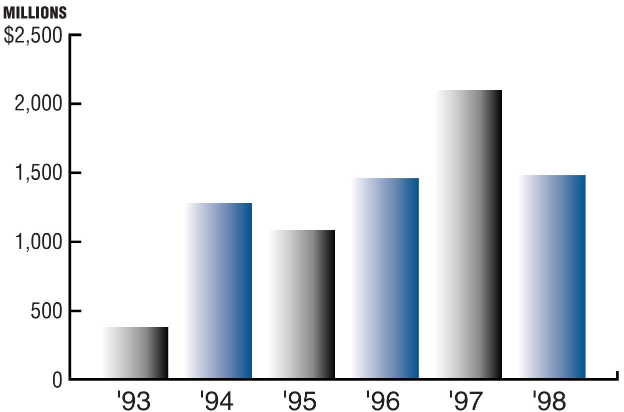
Fleet Initiatives – Northwest continued its strategy of identifying and employing the aircraft best suited to the Company's route structure while making the most efficient use of invested capital. Several major fleet transactions have been completed.

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

Capital Structure Management

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

Liquidity



Northwest completed several significant financial transactions during the year.

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

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

Operational Developments

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

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

Outlook

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

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

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

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

Results of Operations — 1998 Compared to 1997

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

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

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

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

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

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

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

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

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

Results of Operations — 1997 Compared to 1996

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

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

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

Domestic passenger revenue increased as a result of an increase in capacity and an increase in RASM. The Company increased frequencies to ten cities and entered six new markets. The increase in RASM was due to an increase in passenger load factor offset by a decrease in yield due to the reinstatement of federal taxes on airline tickets and international departures. The Company benefited from the absence of ticket taxes for two months in 1997 versus eight months in 1996.

Pacific passenger revenue decreased due to a decrease in RASM which was partially offset by an increase in capacity related to the initiation of Minneapolis/St. Paul-Osaka service and additional trans-Pacific frequencies, mainly for the Minneapolis/St. Paul-Tokyo service. The decrease in Pacific RASM was primarily due to a decrease in yield, which was largely attributable to a weaker Japanese yen. The average yen per U.S. dollar exchange rate for the year ended December 31, 1997 and 1996 was 120 and 108, respectively, a weakening of the yen of 11.2%. Atlantic passenger revenue increased due to an increase in capacity and an increase in RASM.

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

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

accordance with the Company's maintenance program. The Company contracted for some of its additional maintenance work with outside suppliers, resulting in labor costs that would normally be classified as salaries and wages being included in maintenance materials and repairs expense. Other expenses increased $88.7 million (4.7%) due primarily to increased volume and rates for outside services, selling and marketing fees and personnel expenses.

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

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

Liquidity and Capital Resources

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

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

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

Investing activities in 1997 consisted primarily of costs to commission aircraft before entering revenue service, deposits on ordered aircraft, the refurbishment of DC9 aircraft, engine hushkitting, ground equipment purchases, the acquisition of Express, the purchase off lease of four aircraft and the purchase of eight RJ85 aircraft, one DC10-30 aircraft and three DC9-30 aircraft. Capital expenditures for 1996 pertained primarily to the acquisition of 13 Boeing 757 aircraft, seven DC9-30 aircraft, three DC10-30 aircraft and two 747-200 aircraft; the purchase off lease of 22 aircraft and the refurbishment of DC9 aircraft.

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

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

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

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

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

Financing activities in 1997 pertained primarily to NWA Corp.'s repurchases of its Common Stock and Series A and B Preferred Stock, the issuance of $250 million of unsecured notes, the sale and leaseback of eight RJ85 aircraft and the payment of debt and capital lease obligations. On September 29, 1997, the Company repurchased 6.8 million shares of NWA Corp. Common Stock held by KLM for $273.1 million. Concurrently, all of NWA Corp.'s Series A and B Preferred Stock held by KLM and other holders was repurchased for $251.3 million. Both repurchases were funded using existing cash resources.

Financing activities in 1996 pertained primarily to the sale and leaseback of seven Boeing 757 aircraft and the payment of debt and capital lease obligations, including prepayments of $180 million. In July 1996, NWA Corp. acquired from KLM 3,691.2 shares of NWA Corp. Series A Preferred Stock and 2,962.8 shares of NWA Corp. Series B Preferred Stock in exchange for $379 million of unsecured promissory notes which were repaid in December 1996.

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

Capital Commitments – The current aircraft delivery schedule provides for the acquisition of 102 aircraft over the next eight years. See Notes K and N to the Consolidated Financial Statements for additional discussion of aircraft capital commitments. Other capital expenditures, including costs to commission presently owned aircraft that have not yet entered revenue service, but excluding those costs discussed below, are projected to be approximately $250 million in 1999, which the Company anticipates funding primarily with cash from operations.

The Company has adopted programs to hushkit and modify 173 DC9 aircraft to meet noise and aging aircraft requirements. As of December 31, 1998, the Company hushkitted 130 of these aircraft and plans on completing the remaining aircraft by December 31, 1999 for $68 million. The aging aircraft modifications are expected to aggregate $147 million during the next three years for these aircraft. Capital expenditures for engine hushkits and aging aircraft modifications were $157 million in 1998. The Company has also elected to upgrade aircraft systems and refurbish interiors for the 173 DC9 aircraft. Capital expenditures associated with upgrading systems and interior refurbishment were $31 million in 1998, which completed the interior refurbishment of the DC9 aircraft. Aircraft system upgrade costs are expected to aggregate $27 million during the next three years.

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

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

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

Labor Agreements – The labor cost savings discussed in Note C to the Consolidated Financial Statements improved the Company's 1993 to 1996 cash flow from operating activities. The Company's 1993 agreements with the employee unions provided that wage scales at the end of the Wage Savings Period snapback to August 1, 1993 levels and snap-up pursuant to formulae based in part on wage rates and wage rate increases at other large U.S. airlines. Consequently, at the end of the Wage Savings Period, salaries and wages increased by approximately $340 million on an annualized basis including $50 million for snap-ups. The Company's labor contract with each of its unions became amendable as each labor cost savings agreement ended in 1996. Contract negotiations began at that time with the unions.

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

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

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

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

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

Market Risk Sensitive Instruments and Positions

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

Aircraft Fuel – The Company's earnings are affected by changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. The Company also manages the price risk of fuel costs primarily utilizing futures contracts traded on regulated exchanges. Market risk is estimated as a hypothetical 10% increase in the December 31, 1998 cost per gallon of fuel based on projected 1999 fuel usage which would result in an increase to aircraft fuel expense of approximately $80 million in 1999, net of gains realized from fuel hedge instruments outstanding at December 31, 1998. As of December 31, 1998, the Company had hedged approximately 10% of its 1999 fuel requirements, including 40% of the first quarter.

Foreign Currency – The Company is exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure comes from the Japanese yen. From time to time, the Company uses financial instruments to hedge its exposure to the Japanese yen. The result of a uniform 10% strengthening in the value of the U.S. dollar from December 31, 1998 levels relative to each of the currencies in which the Company's revenues and expenses are denominated would result in a decrease in operating income of approximately $60 million for the year ending December 31, 1999, net of gains realized from yen hedge instruments outstanding at December 31, 1998. This is due to the Company's foreign currency-denominated revenues exceeding its foreign currency-denominated expenses. The increase to other income due to the remeasurement of net foreign currency-denominated liabilities and the increase to common stockholders' equity deficit due to the translation of net yen-denominated liabilities resulting from a 10% strengthening in the value of the U.S. dollar is not material. This sensitivity analysis was prepared based upon projected 1999 foreign currency-denominated revenues and expenses and foreign currency-denominated assets and liabilities as of December 31, 1998.

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

approximately 35% of its 1999 yen-denominated ticket sales, which also represents approximately 95% of the Company's excess of yen-denominated revenues over expenses.

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

Market risk for fixed-rate indebtedness is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates and amounts to approximately $50 million. The fair values of the Company's indebtedness were estimated using quoted market prices or discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

Other Information

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

Management believes that an offering of outstanding common stock by existing stockholders in November 1995 triggered an ownership change, but that no ownership change occurred before that time. If such an ownership change did occur as a result of the offering, management believes that, even as limited by the Code, the Company would use the NOLs, AMTNOLs and credits significantly earlier than their expiration, and the annual limitation would not adversely impact the Company. However, if the Internal Revenue Service (the "IRS") were to successfully assert that an ownership change had occurred on any date prior to November 1995 (including August 1, 1993, when the Company entered into labor agreements that provided stock for labor cost savings), the Company's ability to use its NOLs, AMTNOLs and credits would be significantly impaired because the value of NWA Corp's stock on certain prior testing dates was relatively low. Such value would adversely affect the annual limitation.

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

The Company is also reviewing the Year 2000 readiness of third parties with whom the Company's systems interface and exchange data or upon whom the Company's business depends and is coordinating efforts with these outside third parties to minimize the extent to which its business will be vulnerable to such third parties' failure to remediate their own Year 2000 issues. The Company's business is also dependent upon U.S. and foreign governmental agencies and certain governmental

organizations or entities, which provide essential aviation industry infrastructure, such as the Federal Aviation Administration ("FAA"). There can be no assurance that the systems of such third parties on which the Company's business relies (including those of the FAA) will be modified on a timely basis. As part of this review, the Company is actively involved in airline industry Year 2000 review efforts led by the Air Transport Association and the International Air Transport Association. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its systems or equipment to operate properly beyond 1999, or failure of those operated by other parties such as the air traffic control and related systems of the FAA and international aviation and local airport authorities.

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

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

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

The costs of the Company's Year 2000 project and the date on which the Company believes it will be completed are based on management's best estimates and include assumptions regarding third party modification plans. However, in particular due to the potential impact of third party modification plans, there can be no assurance that these estimates will be achieved and actual results could differ materially from those anticipated.

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

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

U.S. Transportation Taxes – The United States passenger ticket tax and other transportation taxes, which were reinstated in the first quarter of 1997, expired on September 30, 1997. The Taxpayer Relief Act enacted by Congress revised transportation taxes and instituted new taxes for tickets for travel from October 1, 1997 to December 31, 2007. Over a five-year period on a sliding scale, the passenger ticket tax will be reduced from 10% to 7.5% and a $3 per passenger segment fee will be phased in. The fee for international arrivals and departures was increased from $6 per departure to $12 for each arrival

and departure. The departure tax on travel between the U.S. 48 states and Alaska or Hawaii remained at $6. Additionally, a 7.5% tax was added on the purchase of frequent flyer miles.

Detroit Midfield Terminal – In October 1996, the Company and Wayne County, Michigan (the "County"), entered into an agreement pursuant to which, subject to the satisfaction of certain conditions set forth in the agreement, the Company will manage and supervise the design and construction of a $1.08 billion terminal at Detroit Metropolitan Wayne County Airport. The new terminal is scheduled to be completed in 2001 and has been funded by the County's issuance of airport revenue bonds payable primarily from future passenger facility charges and federal and State of Michigan grants. The Company and the County have entered into agreements pursuant to which the Company will lease space in the new terminal for a term of 30 years from the date the terminal opens.

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

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

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

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

CONSOLIDATED BALANCE SHEETS

Northwest Airlines Corporation

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

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

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

CONSOLIDATED STATEMENTS OF OPERATIONS

Northwest Airlines Corporation

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Northwest Airlines Corporation

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

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

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (DEFICIT)

Northwest Airlines Corporation

(In millions)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 1996	**91.3**	**$ .9**	**$ 968.4**	**$ (1,517.8)**	**$ (270.3)**	**$ —**	**$ (818.8)**
Net income	—	—	—	536.1	—	—	536.1
Other comprehensive income	—	—	—	—	157.4	—	157.4
Comprehensive income, net of tax							693.5
Acquisition of preferred stock	—	—	—	74.5	—	—	74.5
Shares earned by employees including shares issued to employee benefit plans	4.8	—	137.5	—	—	—	137.5
Accrued cumulative dividends on Series A and B Preferred Stock	—	—	—	(36.6)	—	—	(36.6)
Accretion of Series C Preferred Stock	—	—	—	(.9)	—	—	(.9)
Tax benefit related to stock issued to employees	—	—	7.0	—	—	—	7.0
Series C Preferred Stock converted to Common Stock	1.0	—	32.0	—	—	—	32.0
Other	.5	.1	5.1	(.5)	—	—	4.7
Balance December 31, 1996	**97.6**	**1.0**	**1,150.0**	**(945.2)**	**(112.9)**	**—**	**92.9**
Net income	—	—	—	596.5	—	—	596.5
Other comprehensive income	—	—	—	—	11.1	—	11.1
Comprehensive income, net of tax							607.6
Repurchase of Common Stock	—	—	7.0	—	—	(273.1)	(266.1)
Common Stock committed to be repurchased	—	—	21.9	—	—	(848.5)	(826.6)
Shares issued to employee benefit plans	3.5	—	—	—	—	—	—
Accrued cumulative dividends on Series A and B Preferred Stock	—	—	—	(14.4)	—	—	(14.4)
Accretion of Series C Preferred Stock	—	—	—	(1.1)	—	—	(1.1)
Tax benefit related to stock issued to employees	—	—	29.1	—	—	—	29.1
Series C Preferred Stock converted to Common Stock	1.8	—	57.7	—	—	—	57.7
Other	.9	—	7.9	2.0	—	—	9.9
Balance December 31, 1997	**103.8**	**1.0**	**1,273.6**	**(362.2)**	**(101.8)**	**(1,121.6)**	**(311.0)**
Net loss	—	—	—	(285.5)	—	—	(285.5)
Other comprehensive income	—	—	—	—	33.7	—	33.7
Comprehensive loss, net of tax							(251.8)
Common Stock carrying value over repurchase price	—	—	—	—	—	68.1	68.1
Shares issued to purchase an interest in Continental Airlines, Inc.	2.6	.1	65.4	—	—	—	65.5
Accretion of Series C Preferred Stock	—	—	—	(.8)	—	—	(.8)
Tax benefit related to stock issued to employees	—	—	12.0	—	—	—	12.0
Series C Preferred Stock converted to Common Stock	1.4	—	46.3	—	—	—	46.3
Common Stock held in rabbi trusts	—	—	31.5	—	—	(151.5)	(120.0)
Other	1.2	—	15.8	—	—	(.8)	15.0
Balance December 31, 1998	**109.0**	**$ 1.1**	**$1,444.6**	**$ (648.5)**	**$ (68.1)**	**$(1,205.8)**	**$(476.7)**

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