

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2004-03-04** | Period of Report: **2003-12-31**
SEC Accession No. **0001047469-04-006590**

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FILER

NORTHWEST AIRLINES CORP

CIK: **1058033** | IRS No.: **411905580** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-15285** | Film No.: **04649632**
SIC: **4512** Air transportation, scheduled

Mailing Address
5101 NORTHWEST DR
ST PAUL MN 55111-3034

Business Address
2700 LONE OAK PKWY
EAGAN MN 55121
6127262111

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission file number 0-23642

NORTHWEST AIRLINES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-1905580

(I.R.S. Employer Identification No.)

2700 Lone Oak Parkway, Eagan, Minnesota

(Address of principal executive offices)

55121

(Zip Code)

Registrant's telephone number, including area code (612) 726-2111

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Quarterly Interest Bonds due 2039

Name of each exchange on which registered

The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$.01 per share
Preferred Stock Purchase Rights

The Nasdaq National Market
The Nasdaq National Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of January 30, 2004 was \$928 million.

As of January 30, 2004, there were 86,106,532 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on April 23, 2004.

PART I

Item 1. BUSINESS

Northwest Airlines Corporation ("NWA Corp." and, together with its subsidiaries, the "Company") is the indirect parent corporation of Northwest Airlines, Inc. ("Northwest"). Northwest operates the world's fourth largest airline, as measured by revenue passenger miles ("RPMs"), and is engaged in the business of transporting passengers and cargo. Northwest began operations in 1926. Northwest's business focuses on the development of a global airline network through its strategic assets that include:

domestic hubs at Detroit, Minneapolis/St. Paul and Memphis;

an extensive Pacific route system with a hub in Tokyo;

a trans-Atlantic alliance with KLM Royal Dutch Airlines ("KLM"), which operates through a hub in Amsterdam;

a domestic and international alliance with Continental Airlines, Inc. ("Continental") and Delta Air Lines, Inc. ("Delta");

exclusive marketing agreements with two domestic regional carriers, Pinnacle Airlines, Inc. ("Pinnacle Airlines") and Mesaba Aviation, Inc. ("Mesaba"), both of which operate as Northwest Airlink; and

a cargo business that operates 12 dedicated freighter aircraft through hubs in Anchorage and Tokyo.

Northwest has developed strategies that are designed to utilize these assets to the Company's competitive advantage.

The Company maintains a Web site at <http://www.nwa.com>. Information contained on the Company's website is not incorporated into this annual report on Form 10-K. Annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports and other information about the Company are available free of charge through its Web site at <http://ir.nwa.com> as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission.

See "Item 1. Business–Risk Factors Related to Northwest and the Airline Industry" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations–Overview" for a discussion of trends and factors affecting the Company and the airline industry. The Company is managed as one cohesive business unit. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 15–Segment Information".

Operations and Route Network

Northwest operates substantial domestic and international route networks and directly serves more than 158 cities in 24 countries in North America, Asia and Europe.

Domestic System

Northwest operates its domestic system through its hubs at Detroit, Minneapolis/St. Paul and Memphis.

Detroit. Detroit is the ninth largest origination/destination hub in the U.S. Northwest and its Airlink carriers together serve over 143 cities from Detroit. For the six months ended June 30, 2003, they enplaned 58% of originating passengers from Detroit, while the next largest competitor enplaned 13%.

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Minneapolis/St. Paul. Minneapolis/St. Paul is the eighth largest origination/destination hub in the U.S. Northwest and its Airlink carriers together serve over 156 cities from Minneapolis/St. Paul. For the six months ended June 30, 2003, they enplaned 65% of originating passengers from Minneapolis/St. Paul, while the next largest competitor enplaned 7%.

Memphis. Memphis is the nineteenth largest origination/destination hub in the U.S. Northwest and its Airlink carriers together serve 88 cities from Memphis. For the six months ended June 30, 2003, they enplaned 60% of originating passengers from Memphis, while the next largest competitor enplaned 16%.

International System

Northwest operates international flights to the Pacific and/or the Atlantic regions from its Detroit, Minneapolis/St. Paul and Memphis hubs, as well as from gateway cities such as Boston, Honolulu, Los Angeles, New York, San Francisco and Seattle. International flights to the Pacific from Portland are scheduled to begin in June 2004.

Pacific. Northwest has served the Pacific market since 1947 and has one of the world's largest Pacific route networks. Northwest's Pacific operations are concentrated at Narita International Airport in Tokyo, where it has 358 permanent weekly takeoff and landing slots, the most for any non-Japanese carrier. As a result of a 1947 U.S.-Japan bilateral aviation agreement, Northwest has the right to operate unlimited frequencies between any point in the U.S. and Japan as well as extensive "fifth freedom" rights. "Fifth freedom" rights allow Northwest to

operate service from any gateway in Japan to points beyond Japan and to carry Japanese originating passengers. Northwest and United Airlines, Inc. ("United") are the only U.S. passenger carriers that have "fifth freedom" rights from Japan. Northwest uses these slots and rights to operate a network linking seven U.S. gateways and twelve Asian destinations via Tokyo. The Asian destinations include Bangkok, Beijing, Busan, Guam, Hong Kong, Manila, Nagoya, Saipan, Seoul, Shanghai, Singapore and Taipei.

Atlantic. Northwest and KLM operate an extensive trans-Atlantic network pursuant to a commercial and operational joint venture. This joint venture benefits from having antitrust immunity, which allows for coordinated pricing, scheduling, product development and marketing. In 1992, the U.S. and the Netherlands entered into an "open-skies" bilateral aviation treaty, which authorizes the airlines of each country to provide international air transportation between any U.S.-Netherlands city pair and to operate connecting service to destinations in other countries. Northwest and KLM operate joint service between 17 cities in the U.S., Canada and Mexico and Amsterdam, and between Amsterdam and India. Codesharing between Northwest and KLM has been implemented on flights to 57 European, six Middle Eastern, nine African, three Asian and approximately 173 U.S. cities. Codesharing is an agreement whereby an airline's flights can be marketed under the two-letter designator code of another airline, thereby allowing the two carriers to provide joint service with one aircraft. After September 2007, a three-year notice is required to terminate the joint venture.

See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 15-Segment Information" for a discussion of Northwest's operations by geographic region.

Alliances

In addition to its trans-Atlantic alliance with KLM, Northwest has strengthened its network through other alliance partnerships. Long-term alliances are the most effective way for Northwest to enter markets that it would not be able to serve alone. Alliance relationships can include codesharing, reciprocal frequent flyer programs, "through" luggage check-in, reciprocal airport lounge access, joint marketing, sharing of airport facilities and joint procurement of certain goods and services. Northwest

and its alliance partners currently provide a global network to over 750 cities in 120 countries on six continents.

In August 2002, the Company announced that it had signed a cooperative marketing agreement with Continental and Delta. This agreement is designed to connect the three carriers' domestic and international networks and provide for codesharing, reciprocity of frequent flyer programs, airport club use and other cooperative activities. Northwest, Continental and Delta received approval of the agreement from the U.S. Department of Justice ("DOJ") and the Department of Transportation ("DOT") in the first quarter of 2003. The three airlines began implementing the agreement in June 2003 by offering access to each other's airport lounges and commencing codeshare service. Beginning in July 2003, frequent flyer members of the three airlines were able to use a single award to book and redeem miles for itineraries that include any combination of Northwest, Continental and Delta operated flights. In the fourth quarter of 2003, Northwest and Delta expanded their codesharing to 650 daily domestic flights operated by each carrier, the maximum permitted by the DOT as of that time. In June 2004, the next phase may be implemented by adding code sharing on another 650 daily domestic flights. The combined network has increased Northwest's presence in the South, East and Mountain West regions of the U.S., as well as in Latin America.

In September 2003, KLM announced that it would enter into an agreement with Air France to form a strategic business partnership, which would create Europe's largest airline group and unite the two carriers under the same corporate holding company. In February 2004, the European Union antitrust investigators gave their conditional approval of this merger. The KLM-Northwest trans-Atlantic joint venture will remain in place pursuant to their alliance agreement. It is anticipated that KLM will join the *SkyTeam* global alliance (of which Air France and Delta are the founding members) in the spring of 2004. Northwest also expects to join the *SkyTeam* alliance in 2004.

Northwest also has domestic frequent flyer and codesharing agreements with several other airlines including Alaska/Horizon Airlines, Hawaiian Airlines, America West Airlines and American Eagle.

In the Pacific, Northwest has frequent flyer agreements with Malaysia Airlines, Japan Airlines, Jet Airways of India, Garuda Indonesia, Cebu Pacific Airlines and Pacific Island Aviation.

In addition to its extensive relationship with KLM in the Atlantic, Northwest has reciprocal frequent flyer programs with Air Alps Aviation, KLM cityhopper and KLM exel, Air Europa, Kenya Airways and Malev Hungarian Airlines.

Regional Partnerships

Northwest has exclusive marketing agreements with two regional carriers: Pinnacle Airlines and Mesaba. Under the agreements, these regional carriers operate their flights under the Northwest "NW" code and operate as Northwest Airlink. The purpose of these marketing agreements is to provide service to small cities and more frequent service to larger cities, increasing connecting traffic at Northwest's domestic hubs. The agreements with Pinnacle Airlines and Mesaba are capacity purchase arrangements. Under these arrangements, Northwest controls the scheduling, pricing, reservations, ticketing and seat inventories for Pinnacle Airlines and Mesaba flights. Northwest is generally entitled to all ticket, cargo and mail revenues associated with these flights. The regional carriers are paid based on operations for certain expenses and receive reimbursement for other expenses.

Pinnacle Airlines. Pinnacle Airlines offers scheduled passenger service to over 80 cities. In 2003, 25 Bombardier Canadian Regional Jet ("CRJ") aircraft were leased to Pinnacle Airlines, bringing the total number of CRJ aircraft in Pinnacle Airlines' operations to 76. All of the CRJ aircraft are leased from Northwest. Northwest has agreed to lease an additional 53 CRJs to increase Pinnacle Airlines' fleet to 129 CRJs by December 31, 2005.

As of September 30, 2003, Northwest had contributed 88.6% of the common stock of Pinnacle Airlines Corp., the holding company of Pinnacle Airlines, to the Company's pension plans in lieu of required cash contributions pursuant to an exemption granted by the U.S. Department of Labor ("DOL"). On November 24, 2003, the Pinnacle Airlines Corp. shares held by the plans were sold in an initial public offering ("IPO"), with the proceeds being retained by the plans. The Company continues to hold the remaining 11.4% interest in Pinnacle Airlines Corp. At the time of the offering, the Company and Pinnacle Airlines agreed to extend the term of the airlines services agreement ("ASA") through December 2017.

Mesaba. Mesaba offers scheduled passenger service to 112 cities. The Company owns 27.8% of the common stock of MAIR Holdings, Inc. ("MAIR"), the holding company of Mesaba. The Company also has approximately four million warrants to acquire additional MAIR common stock, of which 22% were in-the-money as of December 31, 2003. Mesaba operates a fleet of 99 regional jet and turbo-prop aircraft, which includes 35 AVRO RJ85 aircraft and 49 SAAB 340 aircraft leased or subleased from Northwest.

See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 13-Related Party Transactions" regarding the Company's transactions with Pinnacle Airlines and Mesaba.

Cargo

The Company is the largest cargo carrier among U.S. passenger airlines based on revenue and the only one to operate a dedicated freighter fleet. In 2003, cargo accounted for 7.9% of the Company's operating revenues, with approximately 77% of its cargo revenues resulting from cargo originating in or destined for Asia. Through its cargo hubs in Anchorage and Tokyo, the Company serves most major air freight markets between the U.S. and Asia with a fleet of 12 Boeing 747-200 freighter aircraft. In addition to revenues earned from the dedicated freighter fleet, the Company also generates cargo revenues in domestic and international markets through the use of excess cargo space on its passenger aircraft.

Northwest is able to participate in the high yield, small package "express" business by providing airlift for cargo integrators in its extensive network across the Pacific. In 2001, the Company entered into a five-year capacity purchase agreement with DHL Worldwide Express ("DHL") for daily freighter service from DHL's U.S. hub operations in Cincinnati to various points in Asia. In 2000, Northwest and Japan Airlines entered into a cargo alliance under which Northwest and Japan Airlines codeshare on certain routes between the U.S. and Japan.

Other Travel Related Activities

MLT Inc. MLT Inc. ("MLT"), an indirect wholly owned subsidiary of NWA Corp., is among the largest vacation wholesale companies in the United States. MLT develops and markets Worry-Free Vacations that include air transportation, hotel accommodations and car rentals. In addition to its Worry-Free Vacations charter programs, MLT markets and supports Northwest's WorldVacations travel packages to destinations throughout the U.S., Canada, Mexico, the Caribbean, Europe and Asia, primarily on Northwest. These vacation programs, in addition to providing a competitive and quality tour product, increase the sale of Northwest services and promote and support new and existing Northwest destinations. In 2003, MLT had \$451 million in revenues.

Orbitz. Orbitz, Inc. ("Orbitz") allows travelers to purchase airline, hotel, car rental and other travel related services online. The Orbitz website provides a comprehensive selection of online airfares, including Internet-only fares and other travel information and customer features. On December 16, 2003, Orbitz and its airline owners (Northwest, Continental, Delta, United and American Airlines, Inc. ("American")) sold approximately 12 million Orbitz shares through an initial public offering, which

included 9.7% of Northwest's total holdings. The Company continues to hold approximately 12% of the outstanding shares representing a 17% voting interest in Orbitz.

WORLDSPAN. WORLDSPAN L.P. ("WorldSpan") operates and markets a global computer reservations and passenger processing system ("CRS"). A CRS is used by travel agents, corporate accounts and Internet customers to make airline, hotel, car and other travel reservations and to issue airline tickets. On June 30, 2003, the Company together with the other owners (American and Delta) sold WorldSpan to Travel Transaction Processing Corporation, an entity formed by Citigroup Venture Capital Equity Partners L.P. and Teachers' Merchant Bank. In the sale, the Company sold its 33.7% partnership interest in WorldSpan. Northwest has agreed to continue to purchase internal reservation services from WorldSpan.

Frequent Flyer Program. Northwest operates a frequent flyer marketing program known as "WorldPerks", under which mileage credits are earned by flying on Northwest or its alliance partners and by using the services of participating credit card issuing banks, hotels, phone companies, car rental firms and other partners. Northwest sells mileage credits to the other companies participating in the program. WorldPerks is designed to retain and increase frequent traveler loyalty by offering incentives for their continued patronage.

Under the WorldPerks program, miles earned are accumulated in an account for each member and do not expire. Mileage credits can be redeemed for free or upgraded travel on Northwest and other participating airlines or for other travel industry awards. WorldPerks is structured as a three-tier elite incentive and reward program.

Regulation

General. The Airline Deregulation Act of 1978, as amended, eliminated domestic economic regulation of passenger and freight air transportation in many regards. Nevertheless, the industry remains regulated in a number of areas. The DOT has jurisdiction over international route authorities and various consumer protection matters, such as advertising, denied boarding compensation and baggage liability. Northwest is subject to regulations of the DOT and the Federal Aviation Administration ("FAA") because it holds certificates of public convenience and necessity, air carrier operating certificates and other authority granted by those agencies. The FAA regulates flight operations, including air space control and aircraft standards, maintenance, ground facilities, transportation of hazardous materials and other technical matters. The DOJ has jurisdiction over airline competition matters, including mergers and acquisitions, under the federal antitrust laws. The Transportation Security Administration ("TSA") regulates airline and airport security. Other federal agencies have jurisdiction over postal operations, use of radio facilities by aircraft and certain other aspects of Northwest's operations.

International Service. Northwest operates its international routes under route certificates and other authorities issued by the DOT. Many of Northwest's international route certificates are permanent and do not require renewal by the DOT. Certain other international route certificates and other authorities are temporary and subject to periodic renewal. Northwest requests renewals of these certificates and other

authorities when and as appropriate. The DOT typically renews temporary authorities on routes when the authorized carrier is providing a reasonable level of service. With respect to foreign air transportation, the DOT must approve agreements between air carriers, including codesharing agreements, and may grant antitrust immunity for those agreements in some situations.

Northwest's rights to operate to foreign countries, including Japan, China and other countries in Asia and Europe, are governed by aviation agreements between the U.S. and the respective foreign countries. Many aviation agreements permit an unlimited number of carriers to operate between the U.S. and the relevant foreign country, while others limit the number of carriers and flights on a given

international route. From time to time, the U.S. or its foreign country counterpart may seek to renegotiate or cancel an aviation agreement. In the event an aviation agreement is amended or canceled, such a change could adversely affect Northwest's ability to maintain or expand air service to the relevant foreign country.

Operations to and from foreign countries are subject to the applicable laws and regulations of those countries. There are restrictions on the number and timing of operations at certain international airports served by Northwest, including Tokyo. Additionally, slots for international flights are subject to certain restrictions on use and transfer.

Airport Security. The TSA regulates civil aviation security under the Aviation and Transportation Security Act ("Aviation Security Act"). This law federalized substantially all aspects of civil aviation security and requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Since the events of September 11, 2001, Congress has mandated, and the TSA has implemented, numerous security procedures that have imposed and will continue to impose additional compliance responsibilities and costs on airlines. Funding for airline and airport security under the law is provided in part by a \$2.50 per segment passenger security fee, subject to a limit of \$10 per roundtrip. However, the Company is responsible for costs in excess of this fee, which through September 2004 cannot exceed the Company's 2000 passenger security screening expense level.

On April 16, 2003, the President signed into law the Emergency Wartime Supplemental Appropriations Act ("Wartime Act"). The Wartime Act included, among other items, a \$2.30 billion cash reimbursement to U.S. airlines for security fees previously remitted to the TSA and \$100 million for reimbursement of the costs of aircraft cockpit door reinforcement incurred since the 2001 terrorist attacks. The Company received \$209 million for reimbursement of security fees in May 2003, which was recorded as other income, and \$11 million for direct costs of cockpit door reinforcement, which was recorded as a reduction to the previously capitalized property account. Retention of these funds requires compliance with provisions in the Wartime Act, including certain limitations on executive compensation. The Wartime Act also suspended collection of security fees for the period from June 1, 2003 through September 30, 2003, after which these fees were reinstated.

Airport Access. Four of the nation's airports, Chicago O'Hare, New York (La Guardia and Kennedy International) and Washington, D.C. (Ronald Reagan National), have been designated by the FAA as "high density traffic airports", and the number of takeoffs and landings at such airports ("slots") have been limited during certain peak demand time periods. Currently, the FAA permits the buying, selling, trading or leasing of these slots, subject to certain restrictions. Legislation passed in March 2000 resulted in the elimination of slot restrictions at Chicago O'Hare on July 1, 2002 and will do so at New York (LaGuardia and Kennedy International) on January 1, 2007. The Company believes these changes will not have a material adverse impact on its operations or operating results.

Labor. The Railway Labor Act ("RLA") governs the labor relations of employers and employees engaged in the airline industry. Comprehensive provisions are set forth in the RLA establishing the right of airline employees to organize and bargain collectively along craft or class lines and imposing a duty upon air carriers and their employees to exert every reasonable effort to make and maintain collective bargaining agreements. The RLA contains detailed procedures that must be exhausted before a lawful work stoppage may occur. Pursuant to the RLA, Northwest has collective bargaining agreements with seven domestic unions representing 11 separate employee groups. In addition, Northwest has agreements with four unions representing its employees in countries throughout Asia. These agreements are not subject to the RLA, although Northwest is subject to local labor laws.

Noise Abatement. The Airport Noise and Capacity Act of 1990 ("ANCA") recognizes the right of airport operators with special noise problems to implement local noise abatement procedures as long as

such procedures do not interfere unreasonably with the interstate and foreign commerce of the national air transportation system. As a result of litigation and pressure from airport area residents, airport operators have taken local actions over the years to reduce aircraft noise. These actions include restrictions on night operations, restrictions on frequency of aircraft operations and various other procedures for noise abatement. While Northwest has sufficient operational and scheduling flexibility to accommodate current local noise restrictions, its operations could be adversely affected if locally imposed regulations become more restrictive or widespread.

Under the direction of the International Civil Aviation Organization ("ICAO"), world governments, including the U.S., have under consideration creation of a more stringent aircraft noise certification standard than that contained in the ANCA. A new ICAO noise standard was adopted in 2001 that established more stringent noise requirements for newly manufactured aircraft after January 1, 2006. As adopted, the new rule is not accompanied by a mandatory phase-out of in-service Chapter 3 aircraft, including certain aircraft operated by Northwest. FAA reauthorization legislation, known as "Vision 100—Century of Aviation Reauthorization Act" and signed into law by the President on December 12, 2003, requires the FAA, by April 1, 2005, to issue regulations implementing Chapter 4 noise standards consistent with ICAO recommendations. The FAA has issued a proposed rule that would implement such standards.

Safety. The FAA has jurisdiction over aircraft maintenance and operations, including equipment, dispatch, communications, training, flight personnel and other matters affecting air safety. To ensure compliance with its regulations, the FAA requires all U.S. airlines to obtain operating, airworthiness and other certificates, which are subject to suspension or revocation for cause.

Under FAA regulations, the Company has established, and the FAA has approved, a maintenance program for each type of aircraft operated by the Company. The program provides for the ongoing maintenance of the Company's aircraft, ranging from frequent routine inspections to major overhauls. The Company's aircraft require various levels of maintenance or "checks" and periodically undergo complete overhauls. Maintenance programs are monitored closely by the FAA, with FAA representatives routinely present at the Company's maintenance facilities. The FAA issues Airworthiness Directives ("ADs"), which mandate changes to an air carrier's maintenance program. These ADs (which include requirements for structural modifications to certain aircraft) are issued to ensure that the nation's transport aircraft fleet remains airworthy. The Company is currently, and expects to remain, in compliance with all applicable requirements under all ADs and the FAA approved maintenance program for each fleet type.

A combination of FAA and Occupational Safety and Health Administration regulations on both the federal and state levels apply to all of Northwest's ground-based operations in the United States.

Environmental. The Company is subject to regulation under various environmental laws and regulations, including the Clean Air Act, the Clean Water Act and Comprehensive Environmental Response, Compensation and Liability Act of 1980. In addition, many state and local governments have adopted environmental laws and regulations to which the Company's operations are subject. Environmental laws and regulations are administered by numerous federal and state agencies.

In February 1998, the Environmental Protection Agency ("EPA") and the FAA signed a Memorandum of Agreement ("MOA") to develop a voluntary process with the airline industry to reduce aircraft engine emissions. The MOA includes a proposal for a voluntary engine retrofit program to reduce such emissions. As a result of the MOA, air carriers, the EPA, the FAA and local and state regulators have had discussions regarding the scope and content of a voluntary emissions reduction program. To date, these discussions have not resulted in an agreed upon program.

Northwest, along with other airlines, has been identified as a potentially responsible party at various environmental sites. Management believes that Northwest's share of liability for the cost of the remediation of these sites, if any, will not have a material adverse effect on the Company's financial statements.

Civil Reserve Air Fleet Program. Northwest renewed its participation in the Civil Reserve Air Fleet Program ("CRAF"), pursuant to which Northwest has agreed to make available, during the period beginning October 1, 2003 and ending September 30, 2004, 28 Boeing 747-200/400 passenger aircraft, 21 DC10-30 passenger aircraft, five Airbus A330-300 passenger aircraft and 12 Boeing 747-200 freighter aircraft for use by the U.S. military under certain stages of readiness related to national emergencies. The program is a standby arrangement that allows the U.S. Department of Defense Air Mobility Command, headquartered at Scott Air Force Base in Illinois, to call on some or all of these 66 contractually committed Northwest aircraft and their crews to supplement military airlift capabilities.

On February 8, 2003, the U.S. Secretary of Defense authorized a "Stage 1" mobilization of the Civil Reserve Air Fleet, the lowest activation level. As a result of that activation, Northwest made available four Boeing 747-200 passenger aircraft for use by the military. No Northwest cargo aircraft were used during the activation. The Stage 1 activation was formally terminated on June 17, 2003.

Risk Factors Related to Northwest and the Airline Industry

The airline industry is intensely competitive.

The airline industry is intensely competitive. Our competitors include other major domestic airlines as well as foreign, regional and new entrant airlines, some of which have more financial resources or lower cost structures than ours. In most of our markets we compete with at least one of these carriers. Our revenues are sensitive to numerous factors, and the actions of other carriers in the areas of pricing, scheduling and promotions can have a substantial adverse impact on overall industry revenues. Such factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in bankruptcy, may institute pricing structures intended to achieve near-term survival rather than long-term viability.

Industry revenues have declined significantly and we continue to experience significant operating losses.

Since 2001, the U.S. airline industry overall has suffered a substantial reduction in revenues, both on an absolute basis and relative to historical trends. Our annual operating revenue has declined in each of the last three years and our 2003 operating revenue was over \$1.7 billion less than it was in 2000. As a result, we have incurred significant operating losses, and absent unusual items, our pre-tax losses over that period have totaled nearly \$2.2 billion. We do not anticipate that the revenue environment for us will materially improve in 2004. Due to the discretionary nature of business and personal travel spending, U.S. airline revenues are heavily influenced by the strength of the U.S. economy, other regional world economies and corporate profitability. The revenue decline has been due in part to the U.S. economic cycle. However, permanent structural differences in the industry revenue environment have also taken place. These differences are the result of a number of factors.

The rapid growth of low cost airlines has had a profound impact on industry revenues. Using the advantage of low unit costs, driven in large part by lower labor costs, these carriers are able to operate profitably while offering substantially lower fares. By targeting such fares at business passengers in particular, these carriers are shifting demand away from the larger, more established airlines. These low cost carriers now transport more than 25% of all domestic U.S. passengers, compared to less than 10% a decade ago. They now compete for, and thus influence industry pricing on, approximately 75% of all domestic U.S. passenger ticket sales, versus less than 20% a decade ago. Moreover, as a result of their better financial performance, low cost carriers have the resources necessary to continue to increase their market share. Industry revenue could be reduced substantially in the event one or more large

network carriers decides it is a better long-term strategy to adopt a broad pricing structure similar to those employed by low cost carriers rather than give up additional market share.

Internet travel Web sites have driven significant distribution cost savings for airlines, but have also allowed consumers to become more efficient at finding lower fare alternatives than in the past by providing them with more powerful pricing information. The increased price consciousness of both business and leisure travelers, as well as the growth in new distribution channels, has further motivated airlines to price aggressively to gain fare and market share advantages. These factors will increase over time as Internet ticket sales increase.

Airlines are among the most heavily taxed of all U.S. companies. Taxes and fees can add up to approximately 25% of what a passenger pays for an average roundtrip domestic airline ticket, a percentage even greater than that for alcohol and tobacco products. These taxes and fees have grown significantly in the past decade. We believe that every dollar of tax or fee increase imposed on airline passengers roughly translates into a dollar of reduced airline revenue.

The attacks of September 11, 2001 materially impacted air travel and, with concerns about further terrorist attacks unlikely to abate any time soon, continue to have a negative effect on travel demand. Additionally, security procedures introduced at airports since the attacks have increased the inconvenience of flying, both in reality and in perception, and thus have further reduced demand.

Global events further exacerbated the decline in airline industry revenue in 2003. The war in Iraq and its aftermath and the outbreak of Severe Acute Respiratory Syndrome ("SARS") have materially affected airline bookings and continue to negatively impact air travel, particularly on international routes. Another outbreak of SARS or other influenza-type illness, if it were to persist for an extended period, could materially affect the airline industry by reducing revenues and impacting travel behavior, especially on routes to and from certain Asian destinations.

Due to industry seasonality, operating results for any interim periods are not necessarily indicative of those for the entire year.

The airline industry is seasonal in nature. Due to seasonal fluctuations, our operating results for any interim period are not necessarily indicative of those for the entire year. Our second and third quarter operating results have historically been more favorable due to increased leisure travel on domestic and international routes during the summer months.

Airline bankruptcies could adversely affect the industry.

Since September 11, 2001 several air carriers have sought to reorganize under Chapter 11 of the United States Bankruptcy Code, including United Airlines, Inc., the second largest domestic air carrier. Successful completion of such reorganizations could present us with competitors having reduced levels of indebtedness and significantly lower operating costs derived from labor, supply and financing contracts that were renegotiated under the protections of the Bankruptcy Code. In addition, air carriers involved in reorganizations historically have undertaken substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could further lower yields for all carriers.

Attempts to reduce labor costs may not be successful.

Labor has always been a critical issue for major airlines. Most major airlines are heavily unionized, and we are no exception, with more than 90% of our employees represented by unions. Many older airlines, including us, conducted contract negotiations with the unions over several decades in a regulated airline environment in which there was little competition and costs were passed through to passengers. This has resulted in wage scales that are significantly higher, productivity that is much lower, and defined benefit retirement plans that are much more generous than those found at low cost

carriers. In addition, over time, airline unions have negotiated restrictive scope clauses that can severely limit an airline's ability to pursue market-driven adjustments.

The rapid growth of low cost carriers in recent years has made labor an even bigger issue for older airlines. Less encumbered by legacy collective bargaining agreements and more able to establish costs based on market factors, the low cost carriers have unit labor costs that are up to 50% below those for older, pre-deregulation airlines. Given that labor is our largest cost by a wide margin, representing roughly 40% of

total operating expenses, a labor advantage of up to 50% translates to a significant overall cost advantage. This is particularly powerful in a business where the product is largely viewed as a commodity and pricing information has rapidly become transparent to customers via the Internet.

Low cost carriers have used their cost advantage to offer significantly lower unrestricted fares than older airlines, thus shifting a considerable share of lucrative business passengers to their flights. The combination of lower costs and an increasing mix of business passengers allows low cost carriers to be profitable and thrive at the same time that older, pre-deregulation airlines suffer financially. Moreover, the current cost advantage of low cost carriers is not likely to be diminished by a large growth in their costs. Having seen the failures of new entrant airlines from the past, they have been diligent in keeping their labor costs contained. New entrant airlines have an abundant supply of qualified employees available at significantly lower wages and benefits and with less stringent work rules than us.

The labor cost disparity versus low cost carriers forced US Airways, United Airlines and American Airlines to restructure their labor costs through negotiations with their unions in the past year. The successful lowering of labor costs at these airlines has placed even more pressure on us. Not only do low cost carriers have labor cost advantages compared to us, most of our largest competitors now do as well. We have been in discussions with our labor groups over the past year, seeking to obtain competitive wage scales, work rules and benefit plans. The experiences of US Airways, United Airlines and American Airlines demonstrate that, despite widespread recognition that a fundamental cost problem exists and thousands of jobs are threatened, achieving negotiated labor cost reductions is difficult and can come with high risk. US Airways and United Airlines were only able to achieve labor cost savings through bankruptcy reorganizations. Accordingly, we cannot predict the outcome of our labor negotiations at this time.

As of December 31, 2003, we had approximately 39,100 full-time equivalent employees, of whom approximately 2,100 were foreign nationals working primarily in Asia. Collective bargaining agreements provide standards for wages, hours of work, working conditions, settlement of disputes and other matters. The major agreements with domestic employees became amendable or will become amendable as follows:

<u>Employee Group</u>	<u>Approximate Number of Full-time Equivalent Employees Covered</u>	<u>Union</u>	<u>Amendable Date</u>
Pilots	5,100	Air Line Pilots Association, International ("ALPA")	9/13/03
Agents and Clerks	8,800	International Association of Machinists & Aerospace Workers ("IAM")	2/25/03
Equipment Service Employees and Stock Clerks	6,000	International Association of Machinists & Aerospace Workers ("IAM")	2/25/03
Flight Attendants	8,500	Professional Flight Attendants Association ("PFAA")	5/30/05
Mechanics and Related Employees	5,700	Aircraft Mechanics Fraternal Association ("AMFA")	5/11/05

On July 23, 2003, we commenced negotiations with the ALPA on a new contract. We have also entered into mediation with the IAM under the supervision of the National Mediation Board as we seek agreement on a new contract.

Changes in government regulations could increase our operating costs and limit our ability to conduct our business.

Airlines are subject to extensive regulatory requirements in the U.S. and internationally. In the last several years, Congress has passed laws, and the FAA has issued a number of maintenance directives and other operating regulations, that impose substantial costs on airlines. Additional laws, regulations, taxes and airport charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. Congress and the DOT have also proposed regulating airlines' responses to their competitors' activities. The ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the U.S. and foreign governments may be amended from time to time, or because appropriate slots or facilities may not be available. We cannot give assurance that laws or regulations enacted in the future will not adversely affect the industry.

We are vulnerable to increases in aircraft fuel costs.

Because fuel costs are a significant portion of our operating costs (14.5% for 2003), substantial changes in fuel costs would materially affect our operating results. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, Organization of Petroleum Exporting Countries ("OPEC") policy, the rapid growth of economies such as China, the levels of inventory carried by industries, the amounts of reserves built by governments, disruptions to production and refining facilities and weather. These and other factors that affect the global supply and demand for aircraft fuel may affect our financial performance, which can be highly sensitive to fuel prices. A one-cent change in the cost of a gallon of fuel (based on 2003 consumption) would impact operating expenses by approximately \$1.5 million per month. Changes in fuel prices may have a greater impact on us than some of our competitors because of the composition of our fleet. From time to time, we hedge some of our future fuel purchases to protect against potential spikes in price. However, these hedging strategies may not always be effective.

Our insurance costs have increased substantially and further increases could harm our business.

Following September 11, 2001, aviation insurers significantly increased airline insurance premiums and reduced the maximum amount of coverage available to airlines for certain types of claims. Our total aviation and property insurance expenses were \$66 million higher in 2003 than in 2000. As a result of the Air Transportation Safety and System Stabilization Act ("Airline Stabilization Act"), the U.S. Homeland Security Act and the U.S. Emergency Wartime Supplemental Appropriations Act, the U.S. federal government assumes most war risk coverage. However, this coverage is scheduled to expire on August 31, 2004. While the government may again extend the deadline for providing excess war risk coverage, there is no assurance that any extension will occur, or if it does, how long the extension will last. Should the government stop providing excess war risk coverage to the airline industry, it is expected that the premiums charged by aviation insurers for this coverage would be substantially higher than the premiums currently charged by the government. Aviation insurers could further increase insurance premiums in the event of a new terrorist attack or other events adversely affecting the airline industry. Significant increases in insurance premiums could negatively impact our financial condition and results of operations.

Our indebtedness and other obligations, including pension funding liabilities, are substantial.

We have substantial levels of indebtedness. As of December 31, 2003, we had long-term debt and capital lease obligations, including current maturities, of \$8.29 billion. Of this indebtedness, 44% bears interest at floating rates. The amount of long-term debt that matures in 2004 is \$668 million.

Additionally, \$1.49 billion matures in 2005, \$781 million in 2006, \$732 million in 2007 and \$515 million in 2008. As of December 31, 2003, the principal portion of future minimum lease payments under capital leases was \$64 million for 2004, \$40 million for 2005, \$29 million for 2006, \$33 million for 2007 and \$28 million for 2008. These levels of indebtedness do not include the obligation to redeem \$236 million of convertible preferred stock. We also have significant obligations related to operating leases that do not appear on the consolidated balance sheets. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 4—Leases". The amount of our indebtedness could limit our ability to obtain additional financing or adversely affect our future financing costs, either of which could negatively affect our ability to operate our business or make future capital expenditures. Our ability to service our indebtedness and obligations could be adversely affected by many factors, including general economic conditions and other factors beyond our control.

We also have noncontributory pension plans covering our pilots, other contract employees and salaried employees. Funding obligations under these plans are governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). As of December 31, 2003, our pension plans were underfunded by \$3.75 billion, as calculated in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. Absent asset returns exceeding plan assumptions, we will have to satisfy the underfunded amounts of the plans through cash contributions over time. The timing and amount of funding requirements depend upon a number of factors, including interest rates, asset returns, potential changes in pension legislation, our decision to make voluntary prepayments, applications for and receipt of waivers to reschedule contributions and changes to pension plan benefits.

In 2003, we recorded expenses for our qualified pension plans of approximately \$491 million, including \$58 million related to a curtailment charge in the contract plan due to workforce reductions. We anticipate 2004 expenses for these plans will not differ materially from the amount of such expenses incurred in 2003, excluding the curtailment charge.

Our calendar year 2004 cash pension contributions are dependent on several factors. On December 23, 2003, we asked the Internal Revenue Service ("IRS") for permission to reschedule some of our plan year 2004 pension contributions, which includes amounts due in both 2004 and 2005, for the contract and salaried employees' pension plans. Separately, the U.S. Congress has under consideration certain legislative relief that could reduce 2004 contributions by increasing the discount rate used to determine funding, changing the current requirements for deficit reduction contributions, or both. Prior legislation increased the discount rate used by companies to determine funding requirements for the past two years. On that basis, expected contributions to our qualified pension plans in 2004 approximates \$350 million. However, approval of our application to reschedule contributions and/or additional legislative relief could reduce our pension funding requirements for these plans to between \$100 million and \$350 million for the year. Should our request to reschedule contributions not be approved by the IRS and Congress provides no legislative relief, our qualified plan funding obligations in calendar year 2004 would approximate \$515 million. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—*Pension Funding Obligations*", for further discussion of our pension obligations.

We operate in a capital-intensive industry. Periodically, we are required to make significant capital expenditures for new aircraft, related equipment and facilities. There can be no assurance that sufficient financing will be available for all aircraft and other capital expenditures.

We are exposed to foreign currency exchange rate fluctuations.

We conduct a significant portion of our operations in foreign locations. As a result, we have operating revenues and, to a lesser extent, operating expenses, as well as assets and liabilities, denominated in foreign currencies, principally the Japanese yen. Fluctuations in foreign currencies can significantly affect our operating performance and the value of our assets and liabilities located outside

of the United States. From time to time, we use financial instruments to hedge our exposure to the Japanese yen. However, these hedging strategies may not always be effective.

Forward-Looking Statements

Certain of the statements made in "Item 1. Business", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this annual report are forward-looking and are based upon information available to the Company on the date hereof. The Company, through its management, may also from time to time make oral forward-looking statements. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of the Company. Any such statement is qualified by reference to the following cautionary statements.

The Company believes that the material risks and uncertainties that could affect the outlook of an airline operating in the global economy include, among others, the future level of air travel demand, the Company's future passenger traffic and yields, the airline pricing environment, increased costs for security, the cost and availability of aviation insurance coverage and war risk coverage, the general economic condition of the United States and other regions of the world, the price and availability of jet fuel, the aftermath of the war in Iraq, the possibility of

additional terrorist attacks or the fear of such attacks, concerns about SARS or other influenza or contagious illnesses, labor negotiations both at other carriers and the Company, low cost carrier expansion, capacity decisions of other carriers, actions of the U.S. and foreign governments, foreign currency exchange rate fluctuation, inflation and other factors discussed herein. Additional information with respect to these factors and other events that could cause differences between forward-looking statements and future actual results is contained in "Risk Factors Related to Northwest and the Airline Industry" above.

Developments in any of these areas, as well as other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, could cause the Company's results to differ from results that have been or may be projected by or on behalf of the Company. 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. All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on behalf of the Company, are expressly qualified in their entirety by the factors described above.

Item 2. PROPERTIES

Flight Equipment

As shown in the following table, Northwest operated a fleet of 430 aircraft at December 31, 2003, consisting of 368 narrow-body and 62 wide-body aircraft. Northwest's purchase commitments for aircraft as of December 31, 2003 are also provided.

Aircraft Type	Seating Capacity	Owned	Capital Lease	Operating Lease	Temporarily Not in Service	In Service		Aircraft on Firm Order
						Total	Average Age (Years)	
Passenger Aircraft								
Airbus:								
A319	124	58	–	12	–	70	2.1	7
A320	148	43	4	31	(4)	74	9.1	6
A330-200	243	–	–	–	–	–	–	10
A330-300	298	5	–	–	–	5	0.3	9
Boeing:								
757-200	180-184	23	14	19	(4)	52	12.2	–
757-300	224	16	–	–	–	16	0.8	–
747-200	353-430	12	–	5	(10)	7	21.9	–
747-400	403	4	–	12	–	16	10.1	–
McDonnell Douglas:								
DC9	78-125	152	–	13	(9)	156	33.0	–
DC10	273	14	–	10	(2)	22	24.8	–
		<u>327</u>	<u>18</u>	<u>102</u>	<u>(29)</u>	<u>418</u>		<u>32</u>
Freighter Aircraft								
Boeing 747F		5	–	7		12	21.9	–
		<u>5</u>	<u>–</u>	<u>7</u>		<u>12</u>		<u>–</u>
Total Northwest Operated Aircraft		332	18	109	(29)	430	18.0(1)	32(2)
Regional Aircraft								
AVRO RJ85	69	10	–	25	(3)	32	5.2	–

CRJ-200/440	44-50	–	–	76	–	76	1.7	53(3)
SAAB 340	30-34	–	–	49	–	49(4)	6.1	–
Total Airlink Operated Aircraft		10	–	150	(3)	157		53
Total Aircraft		342	18	259	(32)	587(5)		85

- (1) Excluding DC9 aircraft, the average age of Northwest-operated aircraft is 9.5 years.
- (2) Financing commitments available for use by the Company are in place for all of these aircraft.
- (3) These aircraft will be leased or subleased to and operated by Pinnacle Airlines. The Company has the option to finance these aircraft through long-term operating lease commitments from the manufacturer; if the manufacturer chooses not to provide financing, the Company is not required to take delivery of the aircraft.
- (4) Excludes aircraft directly leased by Mesaba from third party lessors.
- (5) Excludes aircraft leased to charter carriers.

The Company's DC9 aircraft have considerable remaining technological life, based upon the cycle life (capacity for number of landings) expected by the manufacturer and other factors. The Company also believes that these aircraft have significant economic value given the Company's route network,

maintenance programs and the lack of a commercially successful new 100-seat aircraft at this time. The Company estimates that its DC9 aircraft could fly on average more than nine additional years beyond 2003 based upon the manufacturer's expected cycle life for such aircraft and the projected annual utilization by Northwest.

See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 4–Leases" and "Note 10–Commitments" for further information related to the Company's aircraft leases and commitments.

Airport Facilities

Northwest leases the majority of its airport facilities. The lease terms cover periods up to 30 years and contain provisions for periodic adjustment of lease payments. At most airports that it serves, Northwest has entered into use agreements that provide for the non-exclusive use of runways, taxiways and other facilities. Landing fees under these agreements normally are based on the number of landings and weight of the aircraft.

In certain cases, the Company has constructed a facility on leased land which reverts to the lessor upon expiration of the lease. These facilities include cargo buildings in Boston, Los Angeles, New York (JFK), Seattle and Honolulu; support buildings at the Minneapolis/St. Paul International Airport; a line maintenance hangar in Seattle; and a two-bay DC10 hangar in Detroit.

The Company was responsible for managing and supervising the design and construction of the \$1.2 billion passenger terminal at Detroit Metropolitan Wayne County Airport that was completed in February 2002. The new terminal offers 97 gates, 106 ticket-counter positions, 22

security check points, nearly 85 shops and restaurants, four WorldClubs, an 11,500-space parking facility, covered curbside drop-off areas and 18 luggage carousels. The terminal also offers international-to-domestic connections within the same facility. A new hotel in the terminal was completed in December 2002, and a two-bay 747 hangar was completed in October 2003.

In late 2003, an additional \$175 million expansion began on Detroit Metropolitan Wayne County Airport's west concourse. The Company is responsible for managing and supervising the design and construction of this new expansion project. The project includes additional narrow-body and regional gates on Concourses B and C, related apron expansion including hydrant fueling, loading bridges and gate systems and additional moving walkways.

Minneapolis/St. Paul International Airport is undergoing a \$2.7 billion construction program that began in 1998. The major components completed include a 50% increase in vehicle parking as well as an additional 15 mainline jet gates and 30 commuter gates. A new north/south runway, automated people movers and improvement of existing runways are scheduled to be completed in phases through 2010.

The Memphis-Shelby County Airport Authority has undertaken a \$400 million airport renovation and expansion project. The airfield portion of the program provides nearly \$300 million in airfield improvements, including a new 13,000-foot runway, which opened in late 2000. The majority of the \$60 million terminal renovation was completed in 2000, including the redesign of eight gates to accommodate Northwest regional jet service, 15 additional regional jet gates, a new WorldClub and 11 new ticket counter positions. This program also includes \$40 million in future vehicle parking expansion and roadwork modifications.

Other Property and Equipment

Northwest's primary offices are located at or near the Minneapolis/St. Paul International Airport. The Company owns a 160-acre site east of the airport where the Company's corporate offices are located. Additional owned buildings include reservations centers in Baltimore, Tampa and Chisholm,

Minnesota, and a data processing center in Eagan, Minnesota. The Company owns property in Tokyo, including a 1.3-acre site in downtown Tokyo and a 33-acre land parcel, 512-room hotel and flight kitchen located near Tokyo's Narita International Airport.

The Company leases reservations centers in or near Minneapolis/St. Paul and Seattle. Maintenance bases under operating leases are located in Minneapolis/St. Paul and Duluth, Minnesota. As of December 31, 2003, the Company operated 26 city ticket offices in North America. One of these city ticket offices was subsequently closed in January 2004 and the Company announced in February 2004 that it will be closing all of its remaining North America city ticket offices by March 2004.

In 2003, the Company closed its Detroit area reservations center and city ticket offices located in Livonia, Michigan. The Company owns the building and land formerly used as the reservations center and has entered into a purchase agreement to sell the property. The prospective buyer can terminate the agreement before the end of the inspection period. Call center activity performed at the Detroit facility was transferred to the Company's facilities in Baltimore, Chisholm, Minneapolis, Seattle and Tampa.

Item 3. LEGAL PROCEEDINGS

Chase v. Northwest Airlines and Airline Reporting Corporation (U.S. D.C. Eastern District of Michigan, Civ. Action No. 96-74711). Northwest is a defendant in an antitrust class action filed in U.S. District Court for the Eastern District of Michigan in October 1996. The action purports to be brought on behalf of a class defined as all persons who purchased tickets on certain routes into Northwest's hubs at Detroit, Minneapolis/St. Paul and Memphis from October 11, 1992 to the present. The complaint alleges that Northwest's imposition of restrictions prohibiting the sale of "hidden city" tickets constitutes monopolization in violation of the Sherman Act. The complaint seeks injunctive relief, unspecified damages for the class, and costs and attorneys' fees. The attorneys for the plaintiff in *Chase* have also filed three additional class actions in the same court against other airlines and Northwest with parallel allegations similar to those in *Chase*, including allegations that the defendant airlines conspired to deter hidden city ticketing. These cases are: *Keystone Business Machines*,

Inc. v. U.S. Airways and Northwest Airlines (U.S. D.C. Eastern District of Michigan, Civ. Action No. 99-72474), *BLT Contracting, Inc. v. U.S. Airways, Northwest Airlines and the Airline Reporting Corporation* (U.S. D.C. Eastern District of Michigan, Civ. Action No. 99-72988), and *Volk and Nitrogenous Industries Corp. v. U.S. Airways, Northwest Airlines, Delta Air Lines, and the Airline Reporting Corporation* (U.S. D.C. Eastern District of Michigan, Civ. Action No. 99-72987). All have been assigned to the Judge in the *Chase* case. Northwest believes these cases are without merit and intends to defend against them. In November 2000, the plaintiffs filed their class certification motion and defendants filed their summary judgment motion. On May 16, 2002, the Court entered an Order granting plaintiffs' motion for class certification and denying defendants' motion for summary judgment. The Court has not yet set a trial date.

Midwestern Machinery Co., Inc. v. Northwest Airlines, Inc. (U.S. D.C. District of Minnesota, Civ. Action No. 97-1438). In June 1997, Midwestern Machinery Co. and several individuals filed an antitrust class action against Northwest in the U.S. District Court for Minnesota. The complaint alleges that Northwest's acquisition of Republic Airlines in 1986 resulted in a substantial reduction in competition in violation of Section 7 of the Clayton Act. Northwest believes the lawsuit to be without merit and intends to defend against the claim. In February 2001, the Court granted the plaintiff's motion for class certification. On February 5, 2003, the Court entered an Order granting Northwest's motion for summary judgment and dismissing the case. The plaintiff's appeal of the Court's Order granting summary judgment is pending.

Hall v. United Air Lines, et al. (U.S. D.C. Eastern District of North Carolina, Civ. Action No. 7-00 CV-123-BR(1)). In October 1999, a purported class action was filed in State Court in North Carolina

by a North Carolina travel agent, on behalf of herself and similarly situated North Carolina travel agents, challenging actions by most major airlines, including Northwest, to reduce travel agent base commissions from 8 percent to 5 percent and alleging several state law theories of liability, including conspiracy. In June 2000, the plaintiff filed a voluntary dismissal and then filed a new case in federal court. The new case is a class action, now on behalf of a nation-wide class of travel agents, alleging an unlawful agreement among airlines to reduce commissions in violation of the Sherman Act, and is based on the same factual allegations. On November 13, 2001, the court granted the plaintiffs' motion to amend the complaint to include allegations that other commission reductions in 1997 and 1998 were the result of unlawful agreements among the airline defendants in violation of the Sherman Act. The complaint was subsequently amended again to allege that commission reductions in March 2002 were also the result of an unlawful agreement among the airline defendants. Northwest believes the case to be without merit and intends to defend against the claim. On September 17, 2002, the Court entered an Order granting plaintiffs' motion for class certification. On October 30, 2003, the Court granted the Defendants' motion for summary judgment. The plaintiffs' appeal of the Court's Order granting summary judgment is pending.

McCoy-Johnson v. Northwest Airlines (U.S. D.C. Western District of Tennessee, Civ. Action No. 2-99-CV-2994GV). In November 1999, a purported class action was filed against Northwest by a Northwest passenger in federal court alleging violations of Section 2 of the Sherman Act. The plaintiff alleges that Northwest has monopolized or attempted to monopolize air transportation on certain routes into and out of its three domestic hubs through a variety of exclusionary practices. The plaintiff purports to sue on behalf of all similarly situated passengers who purchased tickets on Northwest for travel on certain routes into or out of its three hubs since at least as early as April 1995. In March 2001, a second case, *Rodney v. Northwest Airlines* (U.S. D.C. Western District of Tennessee, Civ. Action No. 01-2167GV), was filed in the same court as a related case by the same counsel. The allegations in the *Rodney* case are substantially the same as those in the *McCoy-Johnson* case. In July 2001, the lawyers representing the plaintiffs in *McCoy-Johnson* and *Rodney* filed another companion lawsuit, *Sax v. Northwest* (U.S.D.C. Western District of Tennessee, Civ. Action No. 01-2582GV). The allegations in the *Sax* case are substantially the same as those in the *McCoy-Johnson* and *Rodney* cases. Northwest believes these cases to be without merit and intends to defend against the claims. The plaintiffs' motion for class certification is pending.

Spirit Airlines v. Northwest Airlines (U.S. D.C. Eastern District of Michigan, Civ. Action No. 00-71535). In March 2000, Spirit Airlines filed a Sherman Act monopolization complaint against Northwest in the U.S. District Court for the Eastern District of Michigan alleging that Northwest had monopolized, or attempted to monopolize, air transportation service between Detroit and Philadelphia and between Detroit and Boston in 1996 by engaging in predatory pricing and other actions to exclude Spirit from those markets. Northwest

believes the case to be without merit and intends to defend against the claim. On March 31, 2003, the Court granted Northwest's motion for summary judgment. Spirit's appeal of the Court's Order granting summary judgment is pending.

Force Majeure Arbitrations. Each of Northwest's collective bargaining agreements with its unions contains "force majeure" provisions, which provide that certain job protections, including layoff protections, are nullified in the event of a "force majeure". A "force majeure" is generally defined as the occurrence of certain events over which Northwest does not have control. Northwest has invoked the "force majeure" provisions of its collective bargaining agreements in laying off employees in response to three events: the terrorist attacks of September 11, 2001, the outbreak of war in Iraq in March 2003 and the SARS epidemic in 2003. Each of the IAM, International Brotherhood of Teamsters, Chauffeurs, Warehousemen & Helpers of America ("IBT") (which was recently decertified following a representation election in favor of the PFAA), ALPA and AMFA have filed one or more grievances over the invocation of the force majeure provisions on some or all of these occasions. These disputes are subject to arbitration and are in various stages of the grievance/arbitration process

provided for in the respective collective bargaining agreements. An arbitrator has denied both the IBT/PFAA and AMFA grievances with respect to the Company's invocation of "force majeure" in connection with the terrorist attacks of September 11, 2001. An adverse decision in any of the remaining grievances could result in substantial damages against the Company. The Company is vigorously defending these grievances. Although the ultimate outcome of these matters cannot be predicted with certainty, management believes it properly applied the terms of the various collective bargaining agreements and that the resolution of these matters will not have a material adverse effect on the Company's consolidated financial statements taken as a whole.

Series C Preferred Stock Litigation. In June 2003, the IBT and certain related parties commenced litigation against Northwest Airlines Corporation in New York state court, *International Brotherhood of Teamsters, Local 2000 et al. v. Northwest Airlines Corporation* (New York Sup. Ct., Case No. 601742/03). In August 2003, the IAM and a related party also commenced litigation against Northwest Airlines Corporation in New York state court, *International Association of Machinists and Aerospace Workers et al. v. Northwest Airlines Corporation* (New York Sup. Ct., Case No. 602476/03). Both lawsuits challenge the Company's decision not to purchase its Series C Preferred Stock during 2003 and seek to compel the Company to repurchase the Series C Preferred Stock that had been put to the Company. The Company announced on August 1, 2003, that the Board of Directors had determined that the Company could not legally repurchase the outstanding Series C Preferred Stock at that time because the Board was unable to determine that the Company had adequate surplus to repurchase the outstanding Series C Preferred Stock. The Company believes that the lawsuits are without merit. Discovery has commenced. A court decision that adequate statutory surplus is available for a stock repurchase at this time could result in the Company having to repurchase without deferral the outstanding Series C Preferred Stock (approximately \$236 million as of December 31, 2003).

In addition, in the ordinary course of its business, the Company is party to various other legal actions which the Company believes are incidental to the operation of its business. The Company believes that the outcome of the proceedings to which it is currently a party (including those described above) will not have a material adverse effect on the Company's consolidated financial statements taken as a whole.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's security holders during the fourth quarter of 2003.

MANAGEMENT

Executive Officers of the Registrant

Richard H. Anderson, age 48, has served as Chief Executive Officer of NWA Corp. and Northwest since April 2001 and was elected a director of both companies in September 2001. He has served in a number of executive positions since joining Northwest in 1990, including Executive Vice President and Chief Operating Officer from December 1998 to April 2001, Executive Vice President-Technical Operations and Airport Affairs from April 1998 to December 1998 and Senior Vice President-Technical Operations and Airport Affairs from January 1997 to April 1998. From 1994 to 1996, he served as Senior Vice President-Labor Relations, State Affairs and Law, and from 1990 to

1994 he served as Vice President-Deputy General Counsel. Prior to joining Northwest, Mr. Anderson was Staff Vice President and Deputy General Counsel of Continental Airlines. Mr. Anderson serves on the board of directors of Medtronic, Inc.

Douglas M. Steenland, age 52, has served as President of NWA Corp. and Northwest since April 2001 and was elected a director of both companies in September 2001. He has served in a number of executive positions since joining Northwest in 1991, including Executive Vice President and

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Chief Corporate Officer from September 1999 to April 2001, Executive Vice President-Alliances, General Counsel and Secretary from January 1999 to September 1999, Executive Vice President, General Counsel and Secretary from June 1998 to January 1999, and Senior Vice President, General Counsel and Secretary from July 1994 to June 1998. Prior to joining Northwest, Mr. Steenland was a senior partner at the Washington, D.C. law firm of Verner, Liipfert, Bernhard, McPherson and Hand.

Bernard L. Han, age 39, has served as Executive Vice President and Chief Financial Officer of the Company since October 2002. Prior to rejoining the Company, Mr. Han served at America West Airlines, Inc. as Executive Vice President and Chief Financial Officer from September 2001 to October 2002, Senior Vice President-Marketing and Planning from May 1998 to September 2001 and Vice President Financial Planning & Analysis from January 1996 to May 1998. Between 1988 and 1995, Mr. Han held various finance and marketing positions at American Airlines and Northwest Airlines.

J. Timothy Griffin, age 52, has served as Executive Vice President-Marketing and Distribution of Northwest since January 1999. From June 1993 to January 1999, he served as Senior Vice President-Market Planning and Systems. Prior to joining Northwest in 1993, Mr. Griffin held senior positions with Continental Airlines and American Airlines. Mr. Griffin also serves on the board of directors of Pinnacle Airlines Corp. and Orbitz, Inc.

Philip C. Haan, age 48, has served as Executive Vice President-International, Sales and Information Services of Northwest since January 1999. From December 1995 to January 1999, he served as Senior Vice President-International Services. Mr. Haan formerly held positions of Vice President-Pricing and Area Marketing, Vice President-Inventory Sales and Systems and Vice President-Revenue Management. Prior to joining Northwest in 1991 he was with American Airlines for nine years.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is quoted on the Nasdaq National Market under the symbol NWAC. The table below shows the high and low sales prices for the Company's common stock during 2003 and 2002:

Quarter	2003		2002	
	High	Low	High	Low
1st	8.67	5.05	20.92	13.56
2nd	11.80	6.30	20.69	10.66
3rd	11.37	7.70	12.24	6.33
4th	15.21	9.56	8.87	4.71

As of January 30, 2004, there were 3,648 stockholders of record.

Since 1989, NWA Corp. has not declared or paid any dividends on its common stock and does not currently intend to do so. Under the provisions of certain of the Company's bank credit agreements, NWA Corp.'s ability to pay dividends on or repurchase its common stock is restricted. Any future determination to pay cash dividends will be at the discretion of the Board of Directors, subject to applicable limitations under Delaware law, and will be dependent upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors.

The following table summarizes information as of December 31, 2003, relating to equity compensation plans of the Company pursuant to which options, restricted stock units or other rights to acquire shares may be granted in the future.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights. (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation			
Plans Approved by Security Holders(1)	3,150,461	\$ 10.09	5,195,811
Equity Compensation			
Plans Not Approved by Security Holders(2)	1,919,593(3)	\$ 18.37(3)	8,620,932
Total	5,070,054	\$ 13.23(3)	13,816,743

(1) Comprised of the Company's 2001 Stock Incentive Plan.

(2) Comprised of the Company's 1999 Stock Incentive Plan and the 1998 Pilots Stock Option Plan.

(3) Excludes restricted stock and restricted stock units, which by their nature do not have an exercise price.

See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 7—Stock Options" for additional information regarding the Company's equity compensation plans.

ITEM 6. SELECTED FINANCIAL DATA

NORTHWEST AIRLINES CORPORATION

Year Ended December 31				
2003	2002	2001(1)	2000	1999
(In millions, except per share data)				

Statements of Operations

Operating revenues					
Passenger	\$ 7,936	\$ 8,025	\$ 8,417	\$ 9,653	\$ 8,692
Cargo	752	735	720	857	732
Other	822	729	768	730	709
	<u>9,510</u>	<u>9,489</u>	<u>9,905</u>	<u>11,240</u>	<u>10,133</u>
Operating expenses	9,775	10,335	10,773	10,671	9,419
Operating income (loss)	(265)	(846)	(868)	569	714
Operating margin	(2.8)%	(8.9)%	(8.8)%	5.1%	7.0%
Net income (loss)	\$ 248	\$ (798)	\$ (423)	\$ 256	\$ 300
Earnings (loss) per common share:					
Basic	\$ 2.75	\$ (9.32)	\$ (5.03)	\$ 3.09	\$ 3.69
Diluted	\$ 2.74	\$ (9.32)	\$ (5.03)	\$ 2.77	\$ 3.26

Balance Sheets (In millions)

Cash, cash equivalents and unrestricted short-term investments	\$ 2,757	\$ 2,097	\$ 2,512	\$ 693	\$ 749
Total assets	14,154	13,289	12,975	10,877	10,584
Long-term debt, including current maturities	7,866	6,531	5,051	3,242	3,666
Long-term obligations under capital leases, including current obligations	419	451	586	556	597
Mandatorily redeemable security	–	553	492	558	626
Preferred redeemable stock	236	226	227	232	243
Common stockholders' equity (deficit)	(2,011)	(2,262)	(431)	231	(52)

Operating Statistics(2)

Scheduled service:					
Available seat miles (ASM) (millions)	88,593	93,417	98,356	103,356	99,446
Revenue passenger miles (RPM) (millions)	68,476	72,027	73,126	79,128	74,168
Passenger load factor	77.3%	77.1%	74.3%	76.6%	74.6%
Revenue passengers (millions)	51.9	52.7	54.1	58.7	56.1
Passenger revenue per RPM (yield)(3)	11.14¢	10.76¢	11.24¢	12.04¢	11.58¢
Passenger revenue per scheduled ASM (RASM)(3)	8.61¢	8.30¢	8.36¢	9.21¢	8.64¢
Total available seat miles (ASM) (millions)	89,158	93,583	98,544	103,517	99,572
Passenger Service operating expense per total ASM(3)(4)	9.87¢	9.96¢	9.95¢	9.45¢	8.73¢
Cargo ton miles (millions)	2,184	2,221	2,161	2,502	2,336
Cargo revenue per ton mile	34.42¢	33.08¢	33.28¢	34.25¢	31.31¢
Fuel gallons consumed (millions)	1,752	1,896	2,029	2,113	2,039
Average fuel cost per gallon, excluding taxes	80.68¢	69.33¢	79.26¢	82.99¢	53.55¢
Number of operating aircraft at year end	430	439	428	424	410
Full-time equivalent employees at year end	39,100	44,323	45,708	53,491	51,823

(1) 2001 was affected by significantly reduced demand for travel resulting from the September 11, 2001 terrorist attacks. The Company recognized \$461 million of grant income from the U.S. Government under the Air Transportation Safety and System Stabilization Act, which was recorded as other non-operating income.

(2) All statistics exclude Pinnacle Airlines, consistent with how the Company reports statistics to the DOT, and is comparable to statistics reported by other major network airlines.

- (3) These financial measures exclude non-passenger service revenues and expenses. The Company believes that by providing financial measures directly related to passenger service operations, investors are able to evaluate and compare the Company's core operating results to those of the industry.

- (4) Pursuant to SEC Regulation S-K, Item 10(e), a reconciliation of passenger service operating expenses to total operating expenses is provided below:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(In millions)				
Passenger service operating expenses(a)	\$ 8,800	\$ 9,324	\$ 9,803	\$ 9,784	\$ 8,692
747 Freighter operations	497	486	474	466	377
MLT and Pinnacle, net of intercompany eliminations	452	490	464	404	334
(Gain)/loss on assets and NBA transportation	26	35	32	17	16
Operating expenses	<u>\$ 9,775</u>	<u>\$ 10,335</u>	<u>\$ 10,773</u>	<u>\$ 10,671</u>	<u>\$ 9,419</u>

- (a) Included in passenger service operating expenses are the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(In millions)				
Aircraft impairments	\$ 21	\$ 366	\$ 161	\$ 125	\$ 22
Curtailed charges	58	16	-	-	-
Severance expenses	20	17	116	-	-
Other	-	36	-	-	(27)
	<u>\$ 99</u>	<u>\$ 435</u>	<u>\$ 277</u>	<u>\$ 125</u>	<u>\$ (5)</u>
Per Total ASM	<u>0.11¢</u>	<u>0.46¢</u>	<u>0.28¢</u>	<u>0.12¢</u>	<u>(0.01)¢</u>

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

NWA Corp. is a holding company whose principal indirect operating subsidiary is Northwest. The Consolidated Financial Statements include the accounts of NWA Corp. and all consolidated subsidiaries. Substantially all of the Company's results of operations are attributable to its principal indirect operating subsidiary, Northwest, which accounted for approximately 98% of the Company's 2003 consolidated operating revenues and expenses. The Company's results of operations also include other subsidiaries, of which MLT and Pinnacle Airlines have been the most significant. The following discussion pertains primarily to Northwest and, where indicated, MLT and Pinnacle Airlines.

The Company reported net income of \$236 million for the year ended December 31, 2003, compared with a net loss of \$798 million in 2002. Diluted earnings per share were \$2.74 in 2003 compared with a loss per share of \$9.32 in 2002. Operating loss was \$265 million in 2003 compared with an operating loss of \$846 million in 2002. Passenger revenues for the year ended December 31, 2003 decreased by \$89 million compared to 2002, continuing their three year trend of decline.

Full year 2003 results included \$801 million of net unusual pre-tax gains. Operating expenses included \$99 million of unusual items related to employee severance, a pension curtailment charge and aircraft write-downs. Net unusual non-operating gains totaling \$900 million were comprised of a \$299 million gain from the initial public offering of 88.6% of the Company's investment in Pinnacle Airlines Corp., \$209 million received under the Emergency Wartime Supplemental Appropriations Act as reimbursement for security fees previously paid to the TSA, a \$199 million gain from the sale of the Company's investment in WorldSpan, a \$148 million net gain related to the acquisition of the corporation which held the Company's Mandatorily Redeemable Preferred Security, a \$39 million gain from the sale of its investment in Hotwire.com ("Hotwire"), an \$11 million gain from the sale of a portion of its investment in Orbitz and a \$5 million loss on the Company's debt exchange.

Full year 2002 results included \$464 million in unusual pre-tax charges, principally comprised of \$352 million attributable to the accelerated retirement of certain Boeing 747-200 and DC10-30 aircraft, \$53 million of costs associated with the closure of several facilities, \$32 million related to employee benefit costs and additional asset write-downs, and a \$27 million partial write-down of the Company's receivable from the U.S. Government related to the grant under the Airline Stabilization Act. In addition, the 2002 effective tax rate reflected a \$15 million provision for tax credits the Company expected to expire unused.

Northwest and the Current Status of the Airline Industry

The airline industry is intensely competitive. Northwest's competitors include other major domestic airlines as well as foreign, regional and new entrant airlines, some of which have more financial resources or lower cost structures than Northwest. In most markets that Northwest serves, it competes with at least one of these carriers. Our revenues are sensitive to numerous factors, and the actions of other carriers in the areas of pricing, scheduling and promotions can have a substantial adverse impact on overall industry revenues. Such factors may become even more significant in periods when the industry experiences large losses, as airlines under financial stress, or in bankruptcy, may institute pricing structures intended to achieve near term survival rather than long term viability.

Since 2001, the U.S. airline industry overall has suffered a substantial reduction in revenues, both on an absolute basis and relative to historical trends. The Company's annual operating revenue has declined in each of the last three years and its 2003 operating revenue was over \$1.7 billion less than it was in 2000. As a result, the Company has incurred significant operating losses, and absent unusual items, its pre-tax losses over that period have totaled nearly \$2.2 billion. The Company does not

anticipate that the revenue environment will materially improve in 2004. Due to the discretionary nature of business and personal travel spending, U.S. airline revenues are heavily influenced by the strength of the U.S. economy, other regional world economies and corporate profitability. The revenue decline has been due in part to the U.S. economic cycle. However, permanent structural differences in the industry revenue environment have also taken place. These differences are the result of a number of factors.

The rapid growth of low cost airlines has had a profound impact on industry revenues. Using the advantage of low unit costs, driven in large part by lower labor costs, these carriers are able to operate profitably while offering substantially lower fares. By targeting such fares at business passengers in particular, these carriers are shifting demand away from the larger, more established airlines. These low cost carriers now transport more than 25% of all domestic U.S. passengers, compared to less than 10% a decade ago. They now compete for, and thus influence industry pricing on, approximately 75% of all domestic U.S. passenger ticket sales, versus less than 20% a decade ago. Moreover, as a result of their better financial performance, low cost carriers have the resources necessary to continue to increase their market share. Industry revenue could be reduced substantially in the event one or more large network carriers decides it is a better long-term strategy to adopt a broad pricing structure similar to those employed by low cost carriers rather than give up additional market share.

Internet travel Web sites have driven significant distribution cost savings for airlines, but have also allowed consumers to become more efficient at finding lower fare alternatives than in the past by providing them with more powerful pricing information. The increased price consciousness of both business and leisure travelers, as well as the growth in new distribution channels, has further motivated airlines to price aggressively to gain fare and market share advantages. These factors will increase over time as Internet ticket sales increase.

Airlines are among the most heavily taxed of all U.S. companies. Taxes and fees can add up to approximately 25% of what a passenger pays for an average roundtrip domestic airline ticket, a percentage even greater than that for alcohol and tobacco products. These taxes and fees have grown significantly in the past decade. The Company believes that every dollar of tax or fee increase imposed on airline passengers roughly translates into a dollar of reduced airline revenue.

The attacks of September 11, 2001 materially impacted air travel and, with concerns about further terrorist attacks unlikely to abate any time soon, continue to have a negative effect on travel demand. Additionally, security procedures introduced at airports since the attacks have increased the inconvenience of flying, both in reality and in perception, and thus have further reduced demand.

Global events further exacerbated the decline in airline industry revenue in 2003. The war in Iraq and its aftermath and the outbreak of Severe Acute Respiratory Syndrome ("SARS") have materially affected airline bookings and continue to negatively impact air travel, particularly on international routes. Another outbreak of SARS or other influenza-type illness, if it were to persist for an extended period, could materially affect the airline industry by reducing revenues and impacting travel behavior, especially on routes to and from certain Asian destinations.

In response to the industry environment, the Company has taken aggressive steps to mitigate the impact on its results of operations and financial condition resulting from these adverse trends. In the past two years, these steps have included a significant decrease in scheduled capacity on an available seat mile basis, a reduction in work force of over 16,900 full time equivalent positions, deferral of certain aircraft orders, closure of maintenance facilities, flight crew bases, reservations and sales facilities and deferrals and cancellations of discretionary and other non-operationally critical spending. In all, eight rounds of cost savings have been initiated since the U.S. economy began weakening in early 2001, resulting in cost reductions totaling \$1.6 billion.

Despite these and other significant steps to reduce costs, additional measures will be necessary in response to the fundamentally changed industry revenue environment. Wages, salaries and benefits made up 40% of the Company's 2003 operating expenses and will be the critical component of future cost reduction initiatives. The Company is in discussions with its labor unions in an effort to align wages, benefits and work rules with the new revenue environment and to remain competitive with airlines that have achieved permanent labor cost reductions through bankruptcy proceedings (United Airlines, US Airways) or the threat of bankruptcy (American Airlines). The Company cannot predict the outcome of these negotiations at this time.

Results of Operations—2003 Compared to 2002

Operating Revenues. Operating revenues increased 0.2% (\$21 million). System passenger revenues decreased 1.6% (\$124 million), excluding Pinnacle Airlines. The decrease in system passenger revenues was primarily attributable to a 4.9% decrease in traffic partially offset by a 3.5% increase in yields. Pinnacle Airlines passenger revenues, net of intercompany eliminations, increased 13.3% (\$36 million) to \$307 million due to increased capacity from 25 Bombardier CRJ aircraft added in 2003.

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

	System	Domestic	Pacific	Atlantic
2003				
Passenger revenues (in millions)	\$ 7,629	\$ 5,336	\$ 1,421	\$ 872
Increase (Decrease) from 2002:				

Passenger revenues (in millions)	(124)	52	(136)	(40)
Percent	(1.6)%	1.0%	(8.7)%	(4.4)%
Scheduled service ASMs (capacity)	(5.2)%	(3.1)%	(6.1)%	(12.2)%
Scheduled service RPMs (traffic)	(4.9)%	(1.3)%	(9.0)%	(11.0)%
Passenger load factor	0.2pts.	1.3pts.	(2.5)pts.	1.2pts.
Yield	3.5%	2.3%	0.4%	7.4%
Passenger RASM	3.7%	4.1%	(2.8)%	8.9%

Domestic passenger revenues increased primarily due to slight improvements in yields, partially offset by a small decline in traffic.

Pacific passenger revenues decreased substantially due to lower traffic. Despite a 6.1% reduction in capacity, largely intended to match lower demand as a result of the Iraq War and the SARS epidemic, the Pacific load factor was down 2.5 percentage points.

Atlantic passenger revenues decreased due to a significant reduction in traffic caused by the Iraq War, some of which was offset by higher yields.

Cargo revenues increased 2.3% (\$17 million) to \$752 million due to a 4.1% increase in yield, partially offset by a 1.7% decline in cargo ton miles. Cargo revenues consist of freight and mail carried on passenger aircraft and the Company's 12 Boeing 747-200F dedicated freighters. Freight revenue increased 5.2% (\$34 million) while mail revenue decreased 22.8% (\$17 million). In the last half of 2003, the Company decided to stop carrying U.S. domestic mail as lower volumes and yields, partially due to restrictions imposed by the U.S. Government following September 11, 2001, caused this business to become unprofitable.

Other revenues, the principal components of which are MLT, other transportation fees and charter revenues, increased 12.8% (\$93 million). This increase was primarily due to increased revenues from CRAF and other charter activities, frequent flyer partnership revenue, ticketing and handling fees, KLM joint venture settlements, the NBA transportation program and support services revenue.

Operating Expenses. Operating expenses decreased 5.4% (\$560 million). The following table presents operating expenses for the year ended December 31, 2003 and describes significant variances from the year ended December 31, 2002:

	<u>Year ended</u> <u>December 31, 2003</u>	<u>Increase</u> <u>(Decrease)</u> <u>from 2002</u>	<u>Percent</u> <u>Change</u>	<u>Note</u>
		(in millions)		
<i>Operating Expenses</i>				
Salaries, wages and benefits	\$ 3,905	\$ 27	0.7%	A
Aircraft fuel and taxes	1,554	115	8.0	B
Selling and marketing	709	(94)	(11.7)	C
Depreciation and amortization	586	(317)	(35.1)	D
Other rentals and landing fees	569	(7)	(1.2)	E
Aircraft rentals	481	21	4.6	F
Aircraft maintenance materials and repairs	474	(102)	(17.7)	G
Other	1,497	(203)	(11.9)	H

Total operating expenses

\$ 9,775 \$ (560) (5.4)%

- A.** Salaries, wages and benefits increased due to higher pension expenses, including a \$58 million pension curtailment charge, annual pay rate increases, \$20 million of severance expenses, and contractually required payments to employees represented by the International Association of Machinists and Aerospace Workers and the Transportation Communications Union, partially offset by savings from an 11.8% decrease in average full-time equivalent employees.
- B.** Aircraft fuel and taxes were higher due to a 16.4% increase in the average fuel cost per gallon to 80.68 cents, net of hedging transactions, partially offset by 7.6% fewer fuel gallons consumed as a result of reduced capacity and the use of more fuel efficient aircraft. Fuel hedge transactions reduced fuel costs by \$105 million in 2003 and \$55 million in 2002.
- C.** Selling and marketing expenses decreased \$94 million, due primarily to the elimination of North American base travel agency commissions, which began to take effect near the end of the second quarter of 2002, lower passenger volumes and lower advertising expenses.
- D.** Depreciation and amortization decreased primarily due to \$372 million of aircraft and related parts write-downs recorded in 2002, offset slightly by similar charges of \$21 million recorded in the second quarter of 2003.
- E.** Other rentals and landing fees remained relatively unchanged. Generally higher rates system wide were offset by lower volume.
- F.** Aircraft rentals increased due to additional leased aircraft, partially offset by lower variable interest rates on existing leases.
- G.** Aircraft maintenance materials and repairs decreased by \$102 million, due primarily to lower material usage from reduced maintenance volume, which resulted from lower fleet utilization and a significant number of new aircraft in the fleet.
- H.** Other expenses (which include MLT operating expenses, outside services, insurance, passenger food, personnel expenses, communication expenses and supplies) decreased principally due to lower Northwest passenger volumes, lower passenger liability insurance and lower MLT operating expenses.

Other Income and Expense. Other non-operating income increased by \$857 million, primarily due to several unusual items: a \$299 million gain from the sale of the Company's investment in Pinnacle Airlines Corp.; \$209 million received under the Emergency Wartime Supplemental Appropriations Act

as reimbursement for security fees previously paid to the TSA; a \$199 million gain from the sale of the Company's investment in WorldSpan; a \$361 million gain related to a write-down of the Company's Mandatorily Redeemable Preferred Security, accompanied by an impairment charge of \$213 million related to the property securing this obligation; a \$39 million gain from the sale of the Company's investment in Hotwire; and an \$11 million gain from the sale of a portion of the Company's investment in Orbitz. The Company also generated a higher return on short-term investments, which partially offset higher interest expense related to increased debt levels.

Tax Expense (Benefit). During 2003, the Company recognized a \$30 million tax benefit related to losses recorded in the first quarter that fully offset its remaining \$30 million net deferred tax liability. Given recent loss experience, current accounting rules do not allow the Company's balance sheet to reflect a net deferred tax asset. Therefore, a valuation allowance is provided against tax benefits, principally for net operating losses in excess of its previously remaining deferred tax liability. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 9–Income Taxes", for additional discussion of the Company's tax accounts.

Results of Operations–2002 Compared to 2001

Operating Revenues. Operating revenues decreased 4.2% (\$416 million). System passenger revenues decreased 5.7% (\$466 million), excluding Pinnacle Airlines. The decrease in system passenger revenues was primarily attributable to a 1.5% decrease in traffic and a 4.3% decline in yields. System passenger load factor increased 2.8 points to 77.1% for the year ended December 31, 2002. Pinnacle Airlines passenger revenues, net of intercompany eliminations, increased 36.9% (\$73 million) to \$271 million due to increased capacity from 21 Bombardier CRJ aircraft added in 2002 and higher rates under a new airline services agreement with Northwest that was effective March 1, 2002.

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

	<u>System</u>	<u>Domestic</u>	<u>Pacific</u>	<u>Atlantic</u>
2002				
Passenger revenues (in millions)	\$ 7,753	\$ 5,284	\$ 1,557	\$ 912
Increase (Decrease) from 2001:				
Passenger revenues (in millions)	(466)	(351)	(120)	5
Percent	(5.7)%	(6.2)%	(7.2)%	0.7%
Scheduled service ASMs (capacity)	(5.0)%	(4.3)%	(6.7)%	(5.2)%
Scheduled service RPMs (traffic)	(1.5)%	(2.3)%	(0.4)%	(0.7)%
Passenger load factor	2.8pts.	1.5pts.	5.3pts.	3.7pts.
Yield	(4.3)%	(4.0)%	(6.9)%	1.4%
Passenger RASM	(0.7)%	(2.1)%	(0.6)%	6.1%

Domestic passenger revenues decreased primarily due to a combination of lower yields and traffic.

Pacific passenger revenues decreased due to lower yields. Traffic was virtually unchanged, resulting in a higher passenger load factor on decreased capacity.

Atlantic passenger revenues were effectively flat, as slightly improved yields were mostly offset by a small reduction in traffic.

Cargo revenues increased 2.1% (\$15 million) to \$735 million due to a 2.8% increase in cargo ton miles partially offset by a 0.6% decline in revenue per ton mile. Cargo revenues consist of freight and mail carried on passenger aircraft and the Company's 12 747-200F dedicated freighters. Freight revenue increased 7.4% (\$46 million), including approximately \$27 million in the fourth quarter resulting from

the west coast dockworkers' lockout. However, this was partially offset by a 29.6% (\$31 million) decrease in mail revenue, due largely to lower volumes resulting from U.S. Government restrictions imposed following September 11, 2001 on the transportation of packages larger than 16 ounces on passenger aircraft. Such restrictions were responsible, in part, for Northwest ultimately deciding in the second half of 2003 to discontinue U.S. domestic mail carriage as lower volumes and yields caused this business to become unprofitable.

Other revenues, the principal components of which are MLT, other transportation fees and charter revenues, decreased 5.1% (\$39 million). This decline was primarily due to reduced revenues from MLT, KLM joint venture settlements, ticketing and handling fees and support services, partially offset by an increase in frequent flyer program partnership revenue.

Operating Expenses. Operating expenses decreased 4.1% (\$438 million). The following table presents operating expenses for the year ended December 31, 2002 and describes significant variances from the year ending December 31, 2001:

	<u>Year ended</u> <u>December 31, 2002</u>	<u>Increase</u> <u>(Decrease)</u> <u>from 2001</u>	<u>Percent</u> <u>Change</u>	<u>Note</u>
	(in millions)			
<i>Operating Expenses</i>				
Salaries, wages and benefits	\$ 3,878	\$ (85)	(2.1)%	A
Aircraft fuel and taxes	1,439	(288)	(16.7)	B
Depreciation and amortization	903	213	30.9	C
Selling and marketing	803	(201)	(20.0)	D
Aircraft maintenance materials and repairs	576	(93)	(13.9)	E
Other rentals and landing fees	576	43	8.1	F
Aircraft rentals	460	13	2.9	G
Other	1,700	(40)	(2.3)	H
Total operating expenses	\$ 10,335	\$ (438)	(4.1)%	

- A.** Salaries, wages and benefits decreased primarily due to 10.6% fewer full-time equivalent employees and \$89 million for retroactive wages and benefits related to the 2001 AMFA collective bargaining agreement. This decline was partially offset by higher average wage rates, pension, group insurance, and other post employment benefit expenses. Pension expenses increased largely due to a lower actuarial discount rate, a decline in pension asset returns and increased benefits from the 2001 AMFA contract.
- B.** Aircraft fuel and taxes were lower due to a 12.5% decrease in the average fuel cost per gallon to 69.33 cents, net of hedging transactions, and 6.6% fewer fuel gallons consumed as a result of reduced capacity and the use of more fuel efficient aircraft. Fuel hedge transactions reduced fuel costs by \$55 million in 2002 and had an immaterial effect in 2001.
- C.** Depreciation and amortization increased primarily due to \$372 million of aircraft and related parts write-downs recorded in 2002, offset by similar charges of \$161 million recorded in the third and fourth quarters of 2001. The increase in depreciation and amortization was partially offset by the elimination of \$24 million per year from international route and goodwill amortization recorded prior to 2002. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 1—Summary of Significant Accounting Policies", for additional discussion of the fleet disposition charges and international routes and goodwill no longer being amortized.
- D.** Selling and marketing decreased \$109 million due primarily to the elimination of North American base commissions in the second quarter of 2002 and \$40 million due to lower revenues system-wide.

- E.** Aircraft maintenance materials and repairs decreased due to lower repair volume in 2002, which resulted from retirements and removal from service of older aircraft, as well as a higher level of scheduled work within the routine engine and airframe maintenance cycle in

- F. Other rentals and landing fees increased primarily due to the new Detroit Midfield facility, as well as higher rates across the system due to unfunded TSA mandates.
- G. Aircraft rentals increased due to additional leased aircraft, partially offset by lower variable interest rates on existing leases.
- H. Other expenses (the principal components of which include MLT operating expenses, outside services, insurance, passenger food, personnel expenses, communication expenses and supplies) decreased principally due to lower personnel, supplies and claims expenses and reduced levels of passenger food service, partially offset by significantly higher insurance costs.

Other Income and Expense. Other non-operating income decreased by \$572 million, primarily due to \$461 million recognized in 2001 under the Airline Stabilization Act, higher 2002 interest expense related to increased debt levels, and lower interest income as a result of lower interest rates. In the fourth quarter of 2002, the Company recorded a \$27 million charge to write-down a portion of a receivable from the U.S. Government to reflect the final amount received in January 2003 under the Airline Stabilization Act. Interest expense increased 15.7% (\$58 million) primarily due to the full year 2002 borrowings under the Company's revolving credit facilities and additional new financings. Higher earnings from affiliates during 2002 were partially offset by a \$27 million gain from the sale of the Company's remaining shares of Continental recorded in 2001.

Tax Expense (Benefit). The tax benefit recorded in 2002 includes a provision of \$15 million for tax credits that are expected to expire unused. The Company's net deferred tax liability declined from \$843 million at December 31, 2001 to \$30 million at December 31, 2002, primarily due to the increase in deferred tax assets relating to the Company's pension plans and the Company's 2002 losses. Given the Company's recent loss experience, current accounting rules do not allow its balance sheet to reflect a net tax asset position. As a result, when losses after December 31, 2002 generated deferred tax assets that fully offset the Company's then existing deferred tax liabilities, no tax benefit could be recognized with respect to further losses. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 9—Income Taxes", for additional discussion of the Company's tax accounts.

Liquidity and Capital Resources

As of December 31, 2003, the Company had cash, cash equivalents and short-term investments of \$2.883 billion. This amount included \$126 million of restricted short-term investments, resulting in total unrestricted liquidity of \$2.757 billion. As discussed later, the Company's secured credit facilities were fully drawn as of December 31, 2002 and had approximately \$1 million available as of December 31, 2003.

Cash Flows. Liquidity increased by \$660 million as of December 31, 2003, due primarily to \$209 million security fee reimbursements received from the U.S. Government under the Emergency Wartime Supplemental Appropriations Act, a \$218 million income tax refund, cash proceeds of \$278 million from the sale of WorldSpan and the issuances of \$150 million and \$225 million of senior convertible notes, partially offset by \$158 million in cash contributions to the pension plans, capital expenditures, net of financings, and other investing and financing activities.

Operating Activities. Cash provided by operating activities was \$375 million in 2003 compared to cash used by operating activities of \$284 million in 2002. This increase of \$659 million was largely due to the \$209 million of Emergency Wartime Supplemental Appropriations Act funds received in May 2003, net income tax receipts \$93 million higher in 2003 than 2002 and the payment in

The Company operates, like its competitors, with negative working capital, which totaled \$297 million at December 31, 2003. This negative working capital position is primarily attributable to the Company's \$1.27 billion air traffic liability, largely representing cash received from tickets that customers have not yet used.

Investing Activities. Investing activities consist primarily of the purchase of short-term investments, aircraft capital expenditures and other related costs. Other related costs include engine purchases, costs to commission aircraft before entering revenue service, deposits on ordered aircraft, facility improvements and ground equipment purchases.

Investing activities related to the acquisitions of aircraft consisted of the following for years ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Airbus A319	14	24	13
Airbus A320	2	2	4
Airbus A330	5	–	–
Boeing 747-400	–	2	–
Boeing 757-200	–	3	5
Boeing 757-300	9	7	–
	<u>30</u>	<u>38</u>	<u>22</u>

Investing activities in 2003, other than aircraft purchases and short-term investments, include proceeds of \$278 million from the sale of the Company's interest in WorldSpan, \$255 million from the sale of 88.6% of the Company's interest in Pinnacle Airlines Corp., \$40 million from the sale of the Company's interest in Hotwire and \$13 million from the sale of a portion of its investment in Orbitz. Investing activities in 2002, other than aircraft purchases, include facilities and aircraft modification programs. Investing activities in 2001, other than aircraft purchases, include \$582 million in proceeds from the sale of the Company's investment in Continental. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 13–Related Party Transactions", for additional discussion of the Company's investment in Continental.

Financing Activities. Financing activities in 2003 consist primarily of the issuance of \$150 million of 6.625% convertible senior notes due in 2023, the issuance of \$225 million of 7.625% convertible senior notes due in 2023, the payment of debt and capital lease obligations, and the financing of: (i) 11 Airbus A319, four Boeing 757-300 and three Airbus A330-300 aircraft with escrowed funds from an offering of pass-through trust certificates completed in 2002; and (ii) two Boeing 757-300, one Airbus A330-300, one Airbus A320 and one Airbus A319 aircraft with long-term debt.

In addition to the financed aircraft discussed above, the Company also took delivery of one Airbus A330-300, one Airbus A320, one Airbus A319, three Boeing 757-300 aircraft and 25 Bombardier CRJ200/440 regional jets during the twelve months ended December 31, 2003. The Airbus A300-300, A320 and A319 aircraft and the three Boeing 757-300 aircraft were acquired through non-cash transactions with manufacturers. The Bombardier CRJ aircraft were acquired and financed with long-term operating leases and subleased to Pinnacle Airlines.

On December 9, 2003, Northwest completed an offer to exchange outstanding unsecured notes ("Old Notes") due in 2004, 2005 and 2006, with interest rates ranging from 7.625% to 8.875%, for new 10.5% class D pass-through trust certificates ("Class D Certificates") representing a fractional undivided interest in the assets of a pass-through trust. The trust's assets consist of interests in

\$551.8 million principal amount of notes primarily secured by aircraft financed under five series of Northwest pass-through certificates previously issued. Holders tendered approximately \$59 million of Old Notes for \$64 million of Class D Certificates.

The exchange was accounted for as an extinguishment of debt under generally accepted accounting principles, with the Company recording an associated loss because the cash flows of the new debt instrument are greater than 110 percent of the original instruments' remaining cash flows. The loss recognized in the Consolidated Statements of Operations due to this exchange offer approximated \$5 million.

During 2003, NWA Corp. completed two offerings of \$375 million aggregate principal amount of convertible senior notes, both due in 2023. These notes were issued to qualified institutional buyers pursuant to Rule 144A and to non-U.S. persons pursuant to Regulation S, under the Securities Act of 1933. The first issuance of notes in May was for an aggregate principal amount of \$150 million and bears interest at 6.625% (the "6.625% Notes"), which is payable in cash semi-annually through May 15, 2010. Thereafter, the principal amount of the notes will accrete semi-annually at a rate of 6.625% per year to maturity. The second issuance of notes in November was for an aggregate principal amount of \$225 million and bears interest at 7.625% (the "7.625% Notes"), which is payable in cash semi-annually through November 15, 2008. Thereafter, the principal amount of the notes will accrete semi-annually at a rate of 7.625% per year to maturity. Each note was issued at a price of \$1,000 and is convertible into NWA Corp. common stock. The 6.625% Notes and the 7.625% Notes were issued with conversion rates of 61.8047 and 43.6681 shares per \$1,000 original principal amount of notes, respectively. These conversion rates equate to an initial conversion price of approximately \$16.18 and \$22.90 per share for the 6.625% Notes and the 7.625% Notes, respectively, subject to adjustment in certain circumstances. Both issuances of notes are guaranteed by Northwest.

Holder of the notes may convert their notes only if: (i) NWA Corp.'s common stock trades above a specified price threshold for a specified period; (ii) the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specific corporate transactions occur. NWA Corp. may elect to pay the repurchase price in cash or in shares of common stock, or a combination of both, subject to certain conditions. Should holders elect to require NWA Corp. to redeem the notes on any of the repurchase dates, it is the Company's present intention to satisfy the requirement in cash. NWA Corp. may redeem all or some of the notes for cash at any time on or after May 15, 2010 for the 6.625% Notes and on or after November 15, 2006 for the 7.625% Notes, at a redemption price in each case equal to the accreted principal amount plus accrued and unpaid interest, if any, to the redemption date.

Holder of the 6.625% Notes may require NWA Corp. to repurchase the notes on May 15, 2010, 2013 and 2018 at a price equal to the accreted principal amount plus accrued and unpaid interest, if any, on the repurchase date. Holder of the 7.625% Notes may require NWA Corp. to repurchase the notes on November 15, 2008, 2013 and 2018 at a price equal to the accreted principal amount plus accrued and unpaid interest, if any, on the repurchase date. In conjunction with the issuance of the 7.625% Notes, NWA Corp. entered into a call spread option transaction that was designed to limit the Company's exposure to potential dilution from conversion of the 7.625% Notes in the event that the market price per share of NWA Corp.'s common stock at the time of exercise is greater than the strike price of \$22.90. This call spread option will be treated as an equity transaction under the Emerging Issues Task Force ("EITF") Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. NWA Corp. plans to use the net proceeds from the offerings for working capital and general corporate purposes.

Financing activities in 2002 consisted primarily of the issuance of \$300 million of 9.875% unsecured notes due in 2007, the payment of debt and capital lease obligations, and the financing of: (i) 18 Airbus A319, one Boeing 747-400, two Airbus A320 and three Boeing 757-300 aircraft with

escrowed funds from offerings of pass-through trust certificates completed in 2001; (ii) two Boeing 757-300 aircraft with escrowed funds from an offering of pass-through trust certificates completed in 2002; (iii) three Boeing 757-200, two Boeing 757-300 and six Airbus A319 aircraft with long-term bank debt; (iv) one Boeing 747-400 aircraft under a sale and leaseback; and the refinancing of three Boeing 747-400 aircraft purchased off capital lease.

In August 2002, Northwest completed an offering of \$749 million of pass-through trust certificates to finance or refinance the acquisition of 11 new Airbus A319, six new Boeing 757-300 and three new Airbus A330-300 aircraft that were delivered between October 2002 and December 2003. The pre-funded portion of cash proceeds from the offerings of certificates were invested and held in escrow with a depository bank. Such funds were not assets or direct obligations of, or guaranteed by, Northwest and are therefore not included in the Consolidated

Financial Statements. As aircraft were delivered or refinanced, Northwest utilized the cash proceeds to finance the acquisition of these aircraft as secured debt financing for ownership. As of December 31, 2003, there were no unused offering proceeds held in escrow.

Financing activities in 2001 consisted primarily of the Company's borrowing in March and subsequent repayment in May of \$1.10 billion under its revolving credit facilities, the borrowing on September 11, 2001, of \$1.12 billion under its revolving credit facilities, of which \$150 million was repaid in October 2001 as scheduled, the issuance of \$300 million of 8.875% unsecured notes due 2006, \$120 million received under airport facility revenue bonds and payment of debt and capital lease obligations. Financing activities also included the receipt of \$678 million in financing for: (i) 13 Airbus A319 aircraft, seven of which were financed with funds from pass-through trust certificates and six with long-term bank debt; (ii) five Boeing 757-200 aircraft financed with long-term bank debt; and (iii) four Airbus A320 aircraft, three of which were financed with funds from pass-through trust certificates and one with long-term bank debt.

In June 2001, the Company completed an offering of \$581 million of pass-through certificates at a blended fixed coupon rate of 7.18%. Proceeds from sales of the certificates were used to finance the acquisition of 14 aircraft consisting of nine new Airbus A319 aircraft, three new Boeing 757-300 aircraft and two new Boeing 747-400 aircraft delivered between March and December 2002. In July 2001, the Company completed an offering of \$396 million of European pass-through certificates due in 2013 at a blended floating rate of three-month London Interbank Offered Rate ("LIBOR") plus 0.60% (1.77% as of December 31, 2003) to finance the acquisition of nine new Airbus A319 aircraft and five new Airbus A320 aircraft delivered between November 2001 and July 2002.

Contractual Obligations. The following table summarizes the Company's commitments to make long-term debt and lease payments, aircraft purchases and certain other obligations for the years ending December 31:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
	(in millions)						
Long-term debt(1)	\$ 668	\$ 1,488	\$ 781	\$ 732	\$ 515	\$ 3,682	\$ 7,866
Capital leases(2)	64	40	29	33	28	225	419
Operating leases:(3)							
Aircraft	608	595	602	605	567	4,521	7,498
Non-aircraft	163	157	145	135	122	1,292	2,014
Aircraft commitments(4)	1,600	746	567	206	190	-	3,309
Other purchase obligations(5)	29	22	21	13	13	33	131
Total(6)	<u>\$ 3,132</u>	<u>\$ 3,048</u>	<u>\$ 2,145</u>	<u>\$ 1,724</u>	<u>\$ 1,435</u>	<u>\$ 9,753</u>	<u>\$ 21,237</u>

(1) Amounts represent principal payments only. The amount due in 2005 includes \$962 million of principal outstanding on the Company's bank revolving credit facilities. See "Item 8. Consolidated

Financial Statements and Supplementary Data, Note 3—Long-Term Debt and Short-Term Borrowings", for additional information related to interest rates on these amounts.

(2) Amounts represent principal payments only. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 4—Leases", for information related to interest on these amounts.

(3) Amounts represent minimum lease payments with initial or remaining terms of more than one year and exclude related sublease rental income. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 4—Leases", for information related to these amounts.

- (4) Amounts represent contractual commitments for firm-order aircraft only and are net of previously paid purchase deposits. The Company has firm financing commitments in place for all of the firm order aircraft from manufacturers. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 10–Commitments", for a discussion of these purchase commitments.
- (5) Amounts represent non-cancelable commitments to purchase goods and services, including such items as software communications and information technology support. In addition to the contractual cash obligations and commitments included in the table above, the Company will in the ordinary course spend significant amounts of cash to operate its business. For example, the Company will pay wages as required under its various collective bargaining agreements and will be obligated to make contributions to the pension plans benefiting its employees (as discussed below); the Company will purchase capacity from its regional airline affiliates (in return for which Northwest generally retains all revenues from tickets sold in respect of that purchased capacity), and the Company will pay, among other items, credit card processing fees, Computer Reservation System fees and outside services related to engine and airframe maintenance. While these and other expenditures may be covered by legally binding agreements, the actual payment amounts will depend on volume and other factors that cannot be predicted with any degree of certainty, and accordingly they are not included in the table.
- (6) Purchase orders made in the ordinary course of business are excluded from the table. Any amounts for which the Company is liable under purchase orders are reflected in our consolidated balance sheet as accounts payable and accrued liabilities. The above table also excludes \$236 million in respect of the Series C Preferred Stock. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 6–Redeemable Preferred and Common Stock", for additional discussion of the Company's obligations related to the Series C Preferred Stock.

Off-Balance Sheet Arrangements. The Securities and Exchange Commission ("SEC") requires registrants to disclose "off-balance sheet arrangements". As defined by the SEC, an off-balance sheet arrangement includes any contractual obligation, agreement or transaction arrangement involving an unconsolidated entity under which a company 1) has made guarantees, 2) has a retained or a contingent interest in transferred assets, 3) has an obligation under derivative instruments classified as equity, or 4) has any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the company, or that engages in leasing, hedging or research and development services with the Company.

The Company has examined its contractual obligation structures potentially impacted by this disclosure requirement and has concluded that no arrangements of the types described in the first three categories exist that the Company believes may have a material current or future effect on its financial condition, liquidity or results of operations.

The Company has obligations arising out of variable interests in unconsolidated entities. The Company has adopted the provisions of the Financial Accounting Standards Board Interpretation No. 46 as of July 1, 2003 for certain variable interests based on the current guidance provided by the FASB. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 1–Summary of Significant Accounting Policies", for additional discussion of these variable interest arrangements.

Pension Funding Obligations. The Company also has noncontributory pension plans covering its pilots, other contract employees and salaried employees. Funding obligations under these plans are governed by ERISA. As of December 31, 2003, the Company's pension plans were underfunded by \$3.75 billion, as calculated in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. Absent asset returns exceeding plan assumptions, the Company will have to satisfy the underfunded amounts of its plans through cash contributions over time. The timing and amount of funding requirements depend upon a number of factors, including interest rates, asset returns, potential changes in pension legislation, the Company's decision to make voluntary prepayments, applications for and receipt of waivers to reschedule contributions and changes to pension plan benefits. Among other effects, those factors may result in contributions for a particular plan year being made across multiple calendar years.

On November 5, 2002, the Company submitted an application to the IRS for authorization to reschedule, over a five year period beginning in April 2004, the \$454 million in 2003 plan year contributions under the pension plans for contract and salaried employees. In 2003, the IRS approved the application, subject to the Company's satisfaction of certain conditions imposed by the Pension Benefit Guaranty Corporation ("PBGC"), which the Company satisfied by granting the plans liens on certain assets of the Company (certain domestic slots, international routes, aircraft and engines). As a result, the value of the Company's remaining unencumbered assets is not material.

In November 2002, the Company submitted an application to the DOL to permit it to contribute common stock of Pinnacle Airlines Corp. to the pension plans in lieu of making certain required contributions in cash. In 2003, the DOL granted the Company's application for a prohibited transaction exemption. In 2003, pursuant to the exemption, the Company contributed approximately 6.3 million shares, or 42.0%, of Pinnacle Airlines Corp. common stock to the contract and salaried plans to satisfy approximately \$163 million scheduled funding requirements for the 2002 plan year. The Company also contributed \$60 million in cash to satisfy its remaining 2002 plan year scheduled funding requirements. Pursuant to an agreement with ALPA, the Company also made a voluntary contribution of \$190 million to the pilots' pension plan, consisting of approximately 7.0 million shares, or 46.6%, of Pinnacle Airlines Corp. common stock. This voluntary contribution eliminated further ERISA required contributions to the pilots' plan until 2005. On November 24, 2003 the Pinnacles Airlines Corp. shares held by the plans were sold in an IPO. The offering generated \$255 million in proceeds, requiring the Company to contribute an additional \$98 million to the plans to make up the difference between the original valuations of the shares at the time of their contribution and the net IPO proceeds.

The Company's calendar year 2004 cash pension contributions are dependent on several factors. On December 23, 2003, the Company asked the IRS for permission to reschedule some of its plan year 2004 pension contributions, which includes amounts due in both 2004 and 2005, for the contract and salaried employees' pension plans. Separately, the U.S. Congress has under consideration certain legislative relief that could reduce 2004 contributions by increasing the discount rate used to determine funding, changing the current requirements for deficit reduction contributions, or both. Prior legislation increased the discount rate used by companies to determine funding requirements for the past two years. On that basis, expected contributions to the Company's qualified pension plans in 2004 approximates \$350 million. However, approval of the Company's application to reschedule contributions and/or additional legislative relief could reduce its pension funding requirements for these plans to between \$100 million and \$350 million for the year. Should the Company's request to reschedule contributions not be approved by the IRS and Congress provides no legislative relief, its qualified plan funding obligations in calendar year 2004 would approximate \$515 million.

Credit Ratings. At December 31, 2003, the Company's Standard & Poor's corporate credit rating and its senior unsecured credit rating were B+ and B-, respectively; its Moody's Investor Services senior implied rating and senior unsecured rating were B2 and Caa1, respectively; and its Fitch Ratings senior unsecured credit rating was B. The lowering of the Company's credit ratings could make it more difficult to issue debt, including the ability to utilize certain financing commitments related to future

aircraft deliveries, to renew outstanding letters of credit that back certain obligations and to obtain financial instruments used in its fuel and currency hedging. It could also increase the cost of these transactions. For information regarding the impact from the lowering of the credit rating on the Company's secured credit facility on April 10, 2003, see the related discussion below as well as "Item 8. Consolidated Financial Statements and Supplementary Data, Note 3—Long-Term Debt and Short-Term Borrowings".

Secured Credit Facilities. The Company's secured credit facilities at December 31, 2003, consisted of a \$725 million revolving credit facility (\$12 million of which has been utilized to establish letters of credit) available until October 2005, and a \$250 million 364-day revolving credit facility available until October 2004 and renewable annually at the option of the lenders; however, to the extent any portion of the \$250 million 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 such borrowings would then mature in October 2005. Borrowings under the credit agreement are secured by the Company's Pacific route system and certain aircraft. On March 28, 2003, Standard & Poor's downgraded the rating on the Company's secured credit facilities to B+ from BB-. On April 10, 2003, Moody's downgraded the rating on the Company's secured credit facilities to B1 from Ba3. With the change in credit rating and the measurement of certain collateral tests required under the Company's credit facilities, the interest rate

applicable to borrowings under these secured credit facilities increased by 75 basis points. Borrowings under both revolving credit facilities bear interest at a variable rate equal to the three-month LIBOR plus 3.25% (4.37% at January 20, 2004). The credit agreement includes a covenant that requires the Company, beginning with the three month period ending June 30, 2004, to maintain at least a one-to-one ratio of earnings (adjusted to exclude the effects of interest, taxes, depreciation, amortization and aircraft rents) to fixed charges (comprising interest expense and aircraft rents). If the Company fails to meet this fixed charges coverage ratio, borrowings under the credit facility could be accelerated by the banks. While the Company currently believes that it will satisfy this requirement, compliance with the covenant depends upon many factors that could impact future revenues and expenses, some of which are beyond the Company's control. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 3—Long-Term Debt and Short-Term Borrowings", for additional discussion of these credit facilities.

Unsecured Debt Issued in January 2004. In January 2004, Northwest completed an offering of \$300 million of unsecured notes due 2009. The notes have a coupon rate of 10%, payable semi-annually in cash on February 1 and August 1 of each year, beginning on August 1, 2004, and are not redeemable prior to maturity. Each note was issued at a price of \$962 per \$1,000 principal amount, resulting in a yield to maturity of 11.0%. Proceeds from the sale of the notes will be used for working capital and general corporate purposes. The notes are guaranteed by NWA Corp.

Shelf Registration Statement. As of December 31, 2003, the Company had an effective shelf registration statement for the issuance of \$3.0 billion of unsecured debt and pass-through certificates. The \$300 million unsecured debt issuance in January 2004 reduced this amount to \$2.7 billion.

Receivables Financings. In January 2002, through NWA Funding LLC, the Company fully repaid \$61 million outstanding under a receivables purchase agreement. Such repayment was required upon the occurrence of certain events, including exceeding a threshold of passenger refunds as a percentage of sales and the lowering of the Company's unsecured credit rating, both of which occurred following the events of September 11, 2001.

In June 2002, a second Receivables Purchase Agreement was executed by Northwest, NWA Funding II, LLC ("NWFII"), a wholly-owned, non-consolidated subsidiary of the Company, and third party purchasers ("Purchasers"). The agreement was a 364-day, \$100 million maximum revolving receivables purchase facility, renewable annually for five years at the option of the Purchasers, that allowed NWFII to sell variable undivided interests in accounts receivable acquired from Northwest to

the Purchasers. NWFII paid a yield to the Purchasers equal to the rate on A1/F1 commercial paper plus a program fee. The Receivables Purchase Agreement terminated in July 2003. The Purchasers then collected \$65 million on outstanding receivables. Due to seasonal fluctuations in accounts receivable sold under the agreement, the Company estimates that termination of the program reduced its cash balance at December 31, 2003 by approximately \$50 million.

Critical Accounting Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon the Consolidated Financial Statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of the Consolidated Financial Statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties, and could potentially reflect materially different results under different assumptions and conditions. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 1—Summary of Significant Accounting Policies", for additional discussion of the application of these estimates and other accounting policies. The Company's management discussed the development of the estimates and disclosures related to each of these matters with the audit committee of the Company's board of directors.

Asset Valuation and Impairments. The Company evaluates long-lived assets for potential impairments in compliance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company records impairment losses on long-lived assets when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. Impairment losses are measured by comparing the fair value of the assets to their carrying amounts. In determining the need to record impairment charges, the Company is required to make certain estimates regarding such things as the current fair market value of the assets and future net cash flows to be generated by the assets. The current fair market value is determined by independent appraisal, and the future net cash flows are based on assumptions such as asset utilization, expected remaining useful lives, future market trends and projected salvage values. Impairment charges are recorded in depreciation and amortization expense on the Company's Consolidated Statements of Operations. If there are subsequent changes in these estimates, or if actual results differ from these estimates, such changes could impact the Consolidated Financial Statements.

In June 2003, the Company recorded an aircraft impairment of \$21 million as additional depreciation expense, primarily for Boeing 727-200 aircraft used in charter operations. In December 2003, the Company recorded an impairment charge of \$213 million as other expense, which related to foreign real property that then secured certain debt obligations of the Company.

In December 2002, the Company revised its fleet plan, accelerating the retirement of 13 DC10-30 and nine Boeing 747-200 aircraft by an average of five and six years, respectively. The Company recorded impairment charges of \$352 million associated with these aircraft, engines and related inventory as a result of the retirement acceleration. The Company's 2003 operating results were also impacted by an estimated \$20 million of additional depreciation expense related to these aircraft, reflecting the combined effect of the reduced average lives, a decrease in net book values and lower salvage values. If the current fair market values and salvage values of the impaired aircraft were decreased by 10%, the aircraft impairment charge would have increased by \$17 million and the 2003 depreciation expense would have decreased by \$7 million. See "Item 8. Consolidated Financial

Statements and Supplementary Data, Note 1–Summary of Significant Accounting Policies", for additional discussion of impairment of long-lived assets.

Pension Liability and Expense. The Company has several noncontributory pension plans covering substantially all of its employees. The Company accounts for its defined benefit pension plans in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, which requires that amounts recognized in financial statements be determined on an actuarial basis that includes estimates relating to expected return on plan assets, discount rate and employee compensation. Benefits associated with these plans are based primarily on years of service and, in some cases, employee compensation. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 12–Pension and Other Postretirement Health Care Benefits", for additional discussion of actuarial assumptions used in determining pension liability and expense.

A significant element in determining the Company's pension expense is the expected return on plan assets, which is based in part on historical results for similar allocations among asset classes. The difference between the expected return and the actual return on plan assets is deferred and, under certain circumstances, amortized over future years of service. Therefore, the net deferral of past asset gains (losses) ultimately affects future pension expense.

At December 31, 2002, the Company changed its assumed expected long-term rate of return on plan assets from 10.5% to 9.5%, which remained in place as of December 31, 2003. In developing the expected long-term rate of return assumption, the Company examines projected returns by asset category with its pension investment advisors. Projected returns are based primarily on broad, publicly traded equity and fixed-income indices, with minor adjustments to account for the value of active management the funds have provided historically. The Company's expected long-term rate of return on plan assets is based on a target asset allocation of 45% U.S. equities, 25% international equities, 15% long duration fixed income securities, 10% private market securities and 5% high yield fixed-income securities. This target asset allocation yields an expected weighted average return slightly in excess of 9.5% on an annual basis. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 12–Pension and Other Postretirement Health Care Benefits", for further information on the

Company's investment policy for its defined benefit plans and actual investment mix by asset category as of December 31, 2003. The actual asset allocation is reviewed regularly and is periodically rebalanced to the targeted allocation.

The plan assets earned a rate of return substantially less than 9.5% in each of 2000, 2001 and 2002, but exceeded that rate in 2003, earning 28.2%. For the nine year period 1995 - 2003 in which the current asset allocation policy has been in place, the plan assets have generated annualized returns of 11.7%. Depending on future rates of return, the Company's average long-term historical rate of return may decline and could, in turn, cause the expected return on plan assets to be adjusted downward. If such adjustments become necessary, future pension expense would increase.

Plan assets for the Company's pension plans are managed by external investment management organizations. These advisors are prohibited by the investment policies of the plan from investing in Company securities, other than as part of a market index fund that could have a diminutive proportion of such securities.

The Company also determines the discount rate used to measure plan liabilities. The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year. In estimating this rate, the Company looks to rates of return on fixed-income investments of similar duration to the liabilities in the plans that hold high, investment grade ratings by recognized ratings agencies. By applying this methodology, the Company determined a discount rate of 6.25% to be appropriate at December 31, 2003, which is a reduction of 0.50% from the rate used at December 31, 2002.

For the year ended December 31, 2003, accounting for the changes related to the Company's pension plans resulted in a net increase to accumulated other comprehensive income of \$19 million on a pre-tax basis. The positive impact on accumulated other comprehensive income was principally due to a 30.2% increase in the fair value of the plan assets, offset by a 12.0% rise in benefit obligations that was principally driven by the decrease in the discount rate to 6.25%. Holding all other factors constant, a change in the discount rate used to measure plan liabilities by 0.50% would have changed accumulated other comprehensive income by \$480 million on a pre-tax basis.

For pension plans sponsored by the Company in which benefits depend, in part, on the future level of wages, the projected rate of future compensation increases is an important assumption that affects the amount of periodic pension expense recognized. The Company's expectations regarding future wage increases are based on several factors, including historical trends, contractual obligations under collective bargaining agreements, and prevailing market forces. As of December 31, 2003, the weighted average rate of future compensation increases assumed for the affected plans was 1.93% annually, which compares with 3.60% and 3.90% at December 31, 2002 and 2001, respectively. These changes are reflective of significant downward wage pressures in the U.S. airline industry resulting from the continued expansion of low cost carriers, which derive a large part of their cost advantage from lower labor rates, and significant wage savings achieved at several of the Company's major competitors during the past year.

For the year ended December 31, 2003, the Company recognized consolidated pre-tax pension expense of \$491 million, up from \$309 million in 2002. The amount for 2003 included \$58 million related to a curtailment charge in the contract plan due to workforce reductions. Pension expense is expected to approximate \$446 million in 2004. Holding all other factors constant, an increase/decrease in the expected long-term rate of return on plan assets by 0.5% would decrease/increase pension expense by approximately \$27 million in 2004. Holding all other factors constant, an increase/decrease in the discount rate used to measure plan liabilities by 0.25% would decrease/increase pension expense by approximately \$30 million in 2004. Holding all other factors constant, reducing the rate of future wage increases from 3.60% to 1.93% will decrease 2004 pension expense by approximately \$54 million.

Revenue Recognition. Passenger ticket proceeds are recorded in the air traffic liability account at the time of sale and represent an obligation of the Company to provide air travel in the future. Revenue is recognized, and the air traffic liability is reduced, as passengers use these tickets for transportation. The Company performs monthly evaluations of this estimated liability and recognizes any adjustments in passenger revenues for that period. These adjustments relate primarily to ticket usage patterns, refunds, exchanges, inter-airline transactions, and other travel obligations for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the

original sales price. While these factors generally follow predictable patterns that provide a reliable basis for estimating the air traffic liability, and the Company uses historical trends and averages in its estimates, significant changes in business conditions and/or passenger behavior that affect these estimates could have a significant impact on the Consolidated Financial Statements.

Frequent Flyer Accounting. The Company utilizes a number of estimates in accounting for its WorldPerks frequent flyer program. The Company accounts for the frequent flyer program obligations by recording a liability for the estimated incremental cost of flight awards expected to be redeemed. Customers are expected to redeem their mileage, and a liability is recorded, when their accounts accumulate the minimum number of miles needed to obtain one flight award. Additional assumptions are made, based on past general customer behavior, regarding the likelihood of customers using the miles for first-class upgrades or other premiums instead of flight awards, as well as the likelihood of customers never redeeming the miles. Estimated incremental costs are based on the system average cost per passenger for food and beverage, fuel, insurance, security, miscellaneous claims and WorldPerks distribution and administration expenses. If the average incremental cost of outstanding

awards were increased or decreased by 10%, the liability for the estimated incremental cost of flight awards expected to be redeemed would change by \$12 million.

The number of estimated travel awards outstanding at December 31, 2003, 2002 and 2001 was approximately 7,180,000, 7,805,000 and 8,320,000, respectively. The estimated liability excludes accounts that have never attained the minimum travel award level, awards that are expected to be redeemed for upgrades, and the proportion not expected to be redeemed at all, but includes an estimate for partially earned awards on accounts that previously earned an award. Northwest recorded a liability for these estimated awards of \$119 million, \$127 million and \$132 million at December 31, 2003, 2002 and 2001, respectively. The number of travel awards used for travel on Northwest during the years ended December 31, 2003, 2002 and 2001 was approximately 1,408,000, 1,459,000 and 1,398,000, respectively. These awards represented an estimated 7.5%, 7.8% and 7.5% of Northwest's total RPMs for each such year, respectively. Northwest believes displacement of revenue passengers is minimal based on the low ratio of WorldPerks award usage to revenue passenger miles and the Company's ability to manage frequent flyer inventory through seat allocations. In June 2002, the minimum program award miles was changed from 20,000 to 25,000 miles, which is primarily responsible for the decline in the number of estimated awards outstanding and the recorded liability since 2001.

The Company defers a portion of the revenue from the sale of mileage credits to participating partners such as credit card issuers, hotels, long-distance companies, car rental firms and other non-airline partners. The deferred revenue is recognized over the period in which the credits are expected to be redeemed for travel. The portion of revenue that is recognized at the time of sale represents amounts in excess of the fair value of the tickets to be redeemed.

Intangible Assets. In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that companies test goodwill and indefinite lived intangible assets for impairment on an annual basis rather than amortize such assets. The Company adopted SFAS No. 142 as of January 1, 2002, and as a result no longer amortizes its indefinite lived intangible assets and goodwill. During the fourth quarter of 2002, the Company completed its impairment test of goodwill and found the fair value to be in excess of the carrying value. During the first quarter of 2003, an independent third party appraisal was conducted for the Company's annual impairment test of its international routes and found the fair value to be in excess of the carrying value.

The Company's indefinite lived intangible asset derives from the U.S.-Japan bilateral aviation agreement, which establishes rights to carry traffic between Japan and the U.S., and extensive "fifth freedom" rights between Japan and India, the South Pacific and other Asian destinations. "Fifth freedom" rights allow Northwest to operate service from any gateway in Japan to points beyond Japan and carry Japanese originating passengers. These rights have no termination date, and the Company has the supporting infrastructure (airport gates, slots and terminal facility leases) in place to operate air service to Japan and beyond from its U.S. hub airports indefinitely. Governmental policy and bilateral agreements between nations regulate international operating route authorities and alliances. The Company's carrying value of

international route authorities was \$634 million at December 31, 2003. Should any changes occur in policies, agreements, infrastructure or economic feasibility of air service to Japan, the Company will assess this asset for impairment and re-evaluate the economic life of these international routes. If the life is then determined to be finite, the Company would begin amortizing the asset.

Stock Based Compensation. As of December 31, 2003, the Company has stock option plans for officers and key employees of the Company. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 7–Stock Options", for additional discussion of stock options. The Company historically accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations.

Prior to January 1, 2003, no stock-based employee compensation expense related to options were reflected in the Consolidated Statements of Operations, as all options granted in 2002 or before have an exercise price equal to the market value of the underlying common stock on the date of grant.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*. SFAS No. 148 provides alternative methods of transition for companies that voluntarily change to the fair value based method of accounting for stock-based compensation. It also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and quarterly financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

Effective January 1, 2003, the Company adopted the fair value method of recording stock-based employee compensation prescribed by SFAS No. 123 and accounts for this change in accounting principle using the "prospective method" as described by SFAS No. 148. All employee stock option grants made on or after January 1, 2003 are recorded as compensation expense over the vesting period based on the fair value at the date the stock-based compensation is granted. The Company also adopted the disclosure provisions of SFAS No. 148 for the year ended December 31, 2002, and the related disclosures are included in "Item 8. Consolidated Financial Statements and Supplementary Data, Note 7–Stock Options".

On January 14, 2003, the Company completed an option exchange program, pursuant to which officers of the Company were able to exchange their stock options at a ratio of two old options for one newly issued option. The new options have a strike price of \$8.31, the average of the high and low price of the Company's common stock on the award date of January 15, 2003. The compensation expense related to these new options will be amortized over a four-year vesting period using the fair value method of recording stock-based employee compensation. Certain other management employees of the Company were able to exchange their stock options for phantom units (instruments settled in cash at the time of vesting) at a ratio of three old options for one phantom unit. The compensation expense related to these phantom units will be recognized over the four-year vesting period, adjusted for the current period stock price, consistent with how phantom units have been expensed in the past.

On June 27, 2003, the Company completed an option exchange program for its pilots holding stock options or stock appreciation rights ("SARs") granted pursuant to the 1998 Pilots Stock Option Plan. This exchange program was adopted as part of a Letter of Agreement with ALPA to obtain approval of the Delta codeshare agreement from ALPA. Pilot participants were able to exchange all of their outstanding stock options or SARs for a designated number of replacement options or replacement SARs, respectively. Eligible participants were able to exchange their existing stock options and SARs at a ratio of two shares subject to an old award for one share subject to a newly issued award of the same type (although certain outstanding SARs were exchanged only for newly issued options). The exercise price of the new awards is the average of the high and low sales prices of the Company's common stock on the award date of July 31, 2003, or \$9.185 per share. Compensation expense related to these new options will be amortized over a four-year vesting period using the fair value method of recording stock-based compensation. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 1–Summary of Significant Accounting Policies" and "Note 7–Stock Options", for additional discussion of these stock option exchange programs.

Recent Accounting Pronouncements

In December 2003, the FASB revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This revision requires disclosures in addition to those in the original statement about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company has adopted the provisions

of the revised SFAS No. 132 as of December 31, 2003, and has included the required disclosures in the footnotes to the Consolidated Financial Statements.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was passed by Congress and signed into law on December 8, 2003. The Act establishes a voluntary prescription drug benefit for eligible participants beginning January 1, 2006. The Act also provides for the government to pay a special subsidy equal to 28% of a retiree's covered prescription drug expenses between \$250 and \$5,000 (adjusted annually for the percentage increase in Medicare per capita prescription drug costs) to employers who sponsor retiree prescription drug plans. In accordance with FASB Staff Position 106-1, the Company has elected to defer including the effects of the Act in any measures of accumulated postretirement benefit obligations and net periodic postretirement benefit costs reflected in the Consolidated Financial Statements and accompanying notes. Specific authoritative guidance on accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company estimates that the Act will not have a significant impact on postretirement liabilities and benefit costs.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities". FIN 46 requires companies to determine whether a financing or other arrangement constitutes a "variable interest entity". If a company concludes that such an arrangement is a variable interest entity, the company must then evaluate whether it is the primary beneficiary. The primary beneficiary of a variable interest entity is required to consolidate the entity for financial statement purposes. Variable interest entities are those that: 1) have insufficient equity investment at risk to finance their activities without additional subordinated support or 2) lack essential characteristics of a controlling financial interest including, among others, the obligation to absorb expected losses, or the right to receive expected residual returns, of the entity. The primary beneficiary is the enterprise that is obligated to absorb the expected losses or has a right to receive the expected residual returns. FIN 46 was effective immediately for variable interest entities created, or in which the Company obtains an interest, after January 31, 2003. For all variable interest entities created on or before January 31, 2003, the FASB delayed the initial effective date of the provisions until the quarter ending December 31, 2003, but encouraged early adoption. The Company has adopted the provisions of FIN 46 as of July 1, 2003 for all variable interests based on then existing guidance provided by the FASB.

The Company formerly consolidated a financing entity (as described in Note 5—Mandatorily Redeemable Security) that issued a preferred security previously classified on the Company's consolidated financial statements as Mandatorily Redeemable Preferred Security of Subsidiary Which Holds Solely Non-Recourse Obligation of Company ("MRPS"). This subsidiary is a variable interest entity under the provisions of FIN 46, but the Company is not the primary beneficiary. Accordingly, as of July 1, 2003, the Company no longer consolidated the subsidiary but an amount equal to the MRPS (\$553 million as of December 31, 2002), representing the Company's non-recourse obligation to the subsidiary, was recorded as Mandatorily Redeemable Security in the liability section of the Company's consolidated balance sheets. As a result of the Company purchasing the entity that holds the MRPS during the December 2003 quarter, the MRPS is no longer a liability on the consolidated balance sheets.

The Company has examined its other financing arrangements potentially impacted by the provisions of FIN 46 and has concluded that no additional arrangements of a material nature require consolidation. In its report on Form 10-Q for the quarter ended June 30, 2003, the Company described its preliminary conclusions regarding four aircraft leases that have historically been accounted for as operating leases for book purposes but as a loan for tax purposes. Based on an examination of the provisions of FIN 46 at that time, the Company reported that it would begin accounting for these leases as capital leases for book purposes and record a cumulative effect charge associated with this change in the quarter ending September 30, 2003. Subsequent interpretive guidance by the FASB resulted in a determination by the Company that the lessor is not a variable interest entity under the

provisions of FIN 46. Therefore, the Company will not consolidate these aircraft leases and will continue to account for them as operating leases.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how a company classifies and measures certain financial instruments and specifies that some financing arrangements with characteristics of both liabilities and equity must be classified as liabilities. Among the requirements of SFAS 150 is that all "Mandatorily Redeemable" securities be classified as liabilities. In the absence of applying FIN 46, this would have resulted in the Company reclassifying the Mandatorily Redeemable Security described above to a liability. Given the effects of FIN 46, however, the equivalent result already applied. The Company adopted SFAS 150 on July 1, 2003 and anticipates that this standard will have no other material impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Disposal or Exit Activities*. SFAS No. 146 requires that a liability for a cost associated with exit or disposal activities be recognized when the liability is incurred, rather than when an entity commits to an exit plan. The Company adopted SFAS No. 146 on January 1, 2003. This new statement changed the timing of liability and expense recognition related to exit or disposal activities, but not the ultimate amount of such expenses.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires certain guarantees to be recorded at fair value and to provide additional disclosures about each guarantee, or each group of similar guarantees. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002, and adopted the initial recognition and measurement provisions for all guarantees issued or modified after December 31, 2002. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 11—Contingencies", for the Company's disclosures concerning its guarantor obligations.

Other Information

Labor Agreements. Approximately 90% of the Company's employees are members of collective bargaining units. The Company has entered into mediation with the International Association of Machinists and Aerospace Workers under the supervision of the National Mediation Board. The Company has also commenced RLA negotiations with the Air Line Pilots Association and is in discussion with the rest of its labor unions in an effort to align wages, benefits and work rules with the industry's new revenue environment and to remain competitive with other airlines achieving permanent cost reductions through bankruptcy proceedings or the threat of bankruptcy proceedings.

In June 2003, the Company's flight attendants authorized the PFAA to be their collective bargaining representative. Results of the election were subsequently certified by the National Mediation Board. The Company's collective bargaining agreement with the flight attendants now represented by PFAA becomes amendable May 30, 2005.

The Company's collective bargaining agreement with the IAM, representing Agents, Clerks, Equipment Service Employees and Stock Clerks, became amendable on February 25, 2003. Pursuant to the RLA, these agreements remain in effect while the Company and the IAM pursue agreements on new contracts. The Company and the IAM have entered into mediation under the supervision of the National Mediation Board as the parties seek agreement on a new contract. Since the parties did not reach tentative agreements by October 25, 2003, IAM represented employees received a one time lump sum payment equal to 2% of W-2 earnings over the prior 14 months, which approximated \$20 million. On July 23, 2003, the Company and ALPA commenced negotiations on a new contract. These negotiations are on going.

Facilities Consolidation. In January 2004, the Company closed one of its city ticket offices and announced in February 2004 that it will be closing all of its remaining city ticket offices in North America by March 2004. The 76 employees affected by the closures will be able to transfer to one of the Company's five reservation centers. On September 25, 2003, the Company announced that it would close its Detroit area

reservations center and city ticket office located in Livonia, Michigan. Call center activity performed at the Detroit facility was transferred to the Company's facilities in Baltimore, Chisholm, Minneapolis, Seattle and Tampa. The 570 contract employees at the Detroit reservations center were eligible to transfer to one of the Company's other operating reservations centers and approximately 160 employees elected to do so. The Detroit reservations center and city ticket office closed in December and 11 management positions were eliminated.

Alliances. Northwest has strengthened its network through alliance partnerships. Long-term alliances are the most effective way for Northwest to enter markets that it would not be able to serve alone. Alliance relationships can include codesharing, reciprocal frequent flyer programs, "through" luggage check-in, reciprocal airport lounge access, joint marketing, sharing of airport facilities and joint procurement of certain goods and services. Northwest and its alliance partners currently provide a global network to over 750 cities in 120 countries on six continents.

In August 2002, the Company announced that it had signed a cooperative marketing agreement with Continental and Delta. This agreement is designed to connect the three carriers' domestic and international networks and provide for codesharing, reciprocity of frequent flyer programs, airport club use and other cooperative activities. Northwest, Continental and Delta received approval of the agreement from the DOJ and the DOT in the first quarter of 2003. The three airlines began implementing the agreement in June 2003 by offering access to each other's airport lounges and by offering codeshare service. Beginning in July 2003, frequent flyer members of the three airlines have been able to book and redeem miles for itineraries that include any combination of Northwest, Continental and Delta operated flights by using a single award. In the fourth quarter of 2003, Northwest and Delta expanded their codesharing to 650 daily domestic flights operated by each carrier, the maximum permitted by the DOT as of that time. In June 2004, the next phase may be implemented by adding code sharing on another 650 daily domestic flights. The combined network has increased Northwest's presence in the South, East and Mountain West regions of the U.S., as well as in Latin America.

In September 2003, KLM announced that it would enter into an agreement with Air France to form a strategic business partnership, which would create Europe's largest airline group and unite the two carriers under the same corporate holding company. In February 2004, the European Union antitrust investigators gave their conditional approval of this merger. The KLM-Northwest trans-Atlantic joint venture will remain in place pursuant to their alliance agreement. It is anticipated that KLM will join the *SkyTeam* global alliance (of which Air France and Delta are the founding members) in the spring of 2004. Northwest also expects to join the *SkyTeam* alliance in 2004.

Northwest also has domestic frequent flyer and codesharing agreements with several other airlines including Alaska/Horizon Airlines, Hawaiian Airlines, America West Airlines and American Eagle.

In the Pacific, Northwest has frequent flyer agreements with Malaysia Airlines, Japan Airlines, Jet Airways of India, Garuda Indonesia, Cebu Pacific Airlines and Pacific Island Aviation.

In addition to its extensive relationship with KLM in the Atlantic, Northwest has reciprocal frequent flyer programs with Air Alps Aviation, KLM cityhopper and KLM exel, Air Europa, Kenya Airways and Malev Hungarian Airlines.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The risks inherent in the Company's market-sensitive instruments and positions are the potential losses 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 from the outcomes estimated in the analysis due to factors beyond the Company's control. See "Item 8. Consolidated Financial Statements and Supplementary Data, Note 14–Risk Management and Financial Instruments", for related accounting policies and additional information.

Aircraft Fuel. The Company's earnings are affected by changes in the price and availability of aircraft fuel. From time to time, the Company manages the price risk of fuel costs by utilizing futures contracts traded on regulated futures exchanges, swap agreements and

options. A hypothetical 10% increase in the December 31, 2003 cost per gallon of fuel, assuming projected 2004 fuel usage, would result in an increase to aircraft fuel expense of approximately \$131 million in 2004, compared to an estimated \$65 million (net of hedging) for 2003 measured at December 31, 2002. As of December 31, 2003, the Company had no fuel hedges in place compared to hedges on 71% and 60% of the 2003 first quarter and full year requirements, respectively, at December 31, 2002.

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, 2003 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 \$58 million for the year ending December 31, 2004, compared to an estimated decrease of \$68 million for 2003 measured at December 31, 2002. This sensitivity analysis was prepared based upon projected foreign currency-denominated revenues and expenses as of December 31, 2003 and 2002. The variance is due to the Company's foreign currency-denominated revenues exceeding its foreign currency-denominated expenses.

The Company also has foreign currency exposure as a result of changes to balance sheet items. The result of a 10% weakening in the value of the U.S. dollar would result in an decrease to other income of an estimated \$1 million in 2004, caused by the remeasurement of net foreign currency-denominated assets as of December 31, 2003, compared with an estimated increase of \$2 million caused by the remeasurement of net foreign currency denominated liabilities at December 31, 2002. This sensitivity analysis was prepared based upon projected foreign currency-denominated assets and liabilities as of December 31, 2003 and 2002.

In 2003, the Company's yen-denominated net cash inflow was approximately 19 billion yen (approximately \$164 million) and its yen-denominated liabilities exceeded its yen-denominated assets by an average of 4 billion yen (approximately \$32 million) compared with 23 billion yen (approximately \$225 million) and 5 billion yen (approximately \$38 million), respectively, in 2002. In general, each time the yen strengthens (weakens), the Company's operating income is favorably (unfavorably) impacted due to net yen-denominated revenues exceeding expenses and a non-operating foreign currency loss (gain) is recognized due to the remeasurement of net yen-denominated liabilities. The Company's operating income in 2003 was favorably impacted by approximately \$26 million due to the average yen being stronger in 2003 compared to 2002 and unfavorably impacted in 2002 by approximately \$85 million due to the average yen being weaker in 2002 compared to 2001. The average yen to U.S. dollar exchange rate for the years ending December 31, 2003, 2002 and 2001 was 117, 126 and 121, respectively. Including the impact of hedge activities, the average yen to U.S. dollar exchange rate for the years ending December 31, 2003, 2002 and 2001 was 117, 104 and 92, respectively. The Japanese

yen financial instruments utilized to hedge net yen-denominated cash flows resulted in gains of \$1 million and \$31 million in 2003 and 2002, respectively. As of December 31, 2003, the Company had entered into forward contracts to hedge approximately 22% and 6% of its anticipated 2004 and 2005 yen-denominated sales at an average rate of 114 and 106 yen per U.S. dollar, respectively. This compares to 22% of 2003 sales hedged as of December 31, 2002.

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. If short-term interest rates increased by 100 basis points for a year, based on the Company's cash balance at December 31, 2003, the Company's interest income from cash equivalents and short-term investments would increase by approximately \$29 million compared to an estimated \$21 million based on the Company's cash balance at December 31, 2002. The Company's floating rate indebtedness was approximately 44% and 40% of its total long-term debt and capital lease obligations at December 31, 2003 and 2002, respectively. If long-term floating interest rates increased by 100 basis points during 2004 as measured at December 31, 2003, the Company's interest expense would increase by approximately \$36 million, compared to an estimated \$28 million for 2003 measured at December 31, 2002. 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, 2003 and 2002.

Market risk for fixed-rate indebtedness is estimated as the potential decrease in fair value resulting from a hypothetical 100 basis point increase in interest rates and amounts to approximately \$132 million during 2004 measured at December 31, 2003, compared to an estimated \$113 million for 2003 measured at December 31, 2002. The fair values of the Company's indebtedness were estimated using estimated or quoted market prices and discounted future cash flows based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
Northwest Airlines Corporation

We have audited the accompanying consolidated balance sheets of Northwest Airlines Corporation as of December 31, 2003 and 2002, and the related consolidated statements of operations, common stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northwest Airlines Corporation at December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets and effective January 1, 2003, changed its method of accounting for stock-based compensation.

ERNST & YOUNG LLP

Minneapolis, Minnesota
January 23, 2004

NORTHWEST AIRLINES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In millions)

December 31

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,608	\$ 2,097
Unrestricted short-term investments	1,149	–
Restricted short-term investments	126	100
Accounts receivable, less allowance (2003–\$19; 2002–\$19)	478	663
Flight equipment spare parts, less allowance (2003–\$202; 2002–\$175)	174	230
Deferred income taxes	146	105
Maintenance and operating supplies	80	79
Prepaid expenses and other	221	236
	<u>3,982</u>	<u>3,510</u>
PROPERTY AND EQUIPMENT		
Flight equipment	8,833	8,031
Less accumulated depreciation	2,135	2,046
	<u>6,698</u>	<u>5,985</u>
Other property and equipment	1,681	1,946
Less accumulated depreciation	956	900
	<u>725</u>	<u>1,046</u>
	<u>7,423</u>	<u>7,031</u>
FLIGHT EQUIPMENT UNDER CAPITAL LEASES		
Flight equipment	418	464
Less accumulated amortization	168	175
	<u>250</u>	<u>289</u>
OTHER ASSETS		
Intangible pension asset	750	857
International routes, less accumulated amortization (2003–\$333; 2002–\$333)	634	634
Investments in affiliated companies	67	255
Other	1,048	713
	<u>2,499</u>	<u>2,459</u>
Total Assets	<u>\$ 14,154</u>	<u>\$ 13,289</u>

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

NORTHWEST AIRLINES CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

December 31

2003 2002

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**CURRENT LIABILITIES**

Air traffic liability	\$ 1,272	\$ 1,216
Accrued compensation and benefits	950	1,173
Accounts payable	540	652
Collections as agent	111	131
Accrued aircraft rent	268	261
Other accrued liabilities	405	493
Current maturities of long-term debt	668	281
Current obligations under capital leases	65	65

Total current liabilities **4,279** 4,272

LONG-TERM DEBT

7,198 6,250

LONG-TERM OBLIGATIONS UNDER CAPITAL LEASES

354 386

DEFERRED CREDITS AND OTHER LIABILITIES

Long-term pension and postretirement health care benefits	3,228	3,050
Deferred income taxes	146	135
Mandatorily Redeemable Security—Note 5	—	553
Other	724	679

Total deferred credits and other liabilities **4,098** 4,417

PREFERRED REDEEMABLE STOCK

236 226

COMMITMENTS AND CONTINGENCIES**COMMON STOCKHOLDERS' EQUITY (DEFICIT)**

Common stock, \$.01 par value; shares authorized—315,000,000; shares issued (2003—110,868,937; 2002—110,799,943)	1	1
Additional paid-in capital	1,460	1,455
Accumulated deficit	(1,083)	(1,316)
Accumulated other comprehensive income (loss)	(1,340)	(1,347)
Treasury stock (2003—24,862,782 shares; 2002—24,999,959 shares)	(1,049)	(1,055)

Total common stockholders' equity (deficit) **(2,011)** (2,262)

Total Liabilities and Stockholders' Equity (Deficit) \$ **14,154** \$ 13,289

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

NORTHWEST AIRLINES CORPORATION**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In millions, except per share amounts)

Year Ended December 31

	2003	2002	2001
OPERATING REVENUES			
Passenger	\$ 7,936	\$ 8,025	\$ 8,417
Cargo	752	735	720
Other	822	729	768
	<u>9,510</u>	<u>9,489</u>	<u>9,905</u>
OPERATING EXPENSES			
Salaries, wages and benefits	3,905	3,878	3,963
Aircraft fuel and taxes	1,554	1,439	1,727
Selling and marketing	709	803	1,004
Depreciation and amortization	586	903	690
Other rentals and landing fees	569	576	533
Aircraft rentals	481	460	447
Aircraft maintenance materials and repairs	474	576	669
Other	1,497	1,700	1,740
	<u>9,775</u>	<u>10,335</u>	<u>10,773</u>
OPERATING INCOME (LOSS)	(265)	(846)	(868)
OTHER INCOME (EXPENSE)			
U.S. Government appropriations	209	(27)	461
Interest expense	(475)	(427)	(369)
Interest capitalized	10	25	29
Interest of mandatorily redeemable security holder	(25)	(25)	(25)
Investment income	43	46	66
Earnings of affiliated companies	18	37	(5)
Other, net	703	(3)	41
	<u>483</u>	<u>(374)</u>	<u>198</u>
INCOME (LOSS) BEFORE INCOME TAXES	218	(1,220)	(670)
Income tax expense (benefit)	(30)	(422)	(247)
	<u>248</u>	<u>(798)</u>	<u>(423)</u>
NET INCOME (LOSS)	248	(798)	(423)
Preferred stock requirements	(12)	-	(1)
	<u>236</u>	<u>(798)</u>	<u>(424)</u>
NET INCOME (LOSS) APPLICABLE TO COMMON STOCKHOLDERS	\$ 236	\$ (798)	\$ (424)
EARNINGS (LOSS) PER COMMON SHARE:			
Basic	\$ 2.75	\$ (9.32)	\$ (5.03)
Diluted	\$ 2.74	\$ (9.32)	\$ (5.03)

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

NORTHWEST AIRLINES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Year Ended December 31		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 248	\$ (798)	\$ (423)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	586	903	690
Income tax expense (benefit)	(30)	(422)	(247)
Net receipts (payments) of income taxes	215	122	(24)
Pension and other postretirement benefit contributions less than expense	90	139	189
Sale proceeds of frequent flyer miles less than revenue	6	(5)	(48)
Net loss (earnings) of affiliates	(18)	(37)	5
Net loss (gain) on disposition of property, equipment and other	(708)	41	(19)
Other, net	14	88	124
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	(20)	(38)	102
Decrease (increase) in flight equipment spare parts	31	(14)	8
Decrease (increase) in supplies, prepaid expenses and other	25	(68)	79
Increase (decrease) in air traffic liability	50	(54)	16
Increase (decrease) in accounts payable	(103)	(17)	91
Increase (decrease) in other liabilities	(1)	(164)	220
Increase (decrease) in accrued liabilities	(10)	40	(117)
	375	(284)	646
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,123)	(1,588)	(1,253)
Purchases of short-term investments	(1,480)	(334)	(205)
Proceeds from sales of short-term investments	325	391	135
Proceeds from sale of property, equipment and other assets	615	15	602
Investments in affiliated companies and other, net	(122)	(36)	(9)
	(1,785)	(1,552)	(730)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of long-term debt	(301)	(201)	(152)
Payment of capital lease obligations	(49)	(58)	(65)
Payment of short-term borrowings	(14)	(2)	(1,261)
Proceeds from long-term debt	1,359	1,740	2,102
Proceeds from short-term borrowings	-	-	1,245
Proceeds from sale and leaseback transactions	-	136	84
Other, net	(74)	(194)	(50)
	921	1,421	1,903

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(489)	(415)	1,819
Cash and cash equivalents at beginning of period	2,097	2,512	693
Cash and cash equivalents at end of period	\$ 1,608	\$ 2,097	\$ 2,512
Available to be borrowed under credit facilities	\$ 1	\$ 1	\$ -
Cash and cash equivalents and unrestricted short-term investments at end of period	2,757	2,097	2,512
Supplemental Cash Flow Information:			
Interest paid	448	421	307
Investing and Financing Activities Not Affecting Cash:			
Manufacturer financing of aircraft and aircraft predelivery deposits	290	(11)	(21)

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

NORTHWEST AIRLINES CORPORATION
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY (DEFICIT)

(In millions)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares	Amount					
Balance January 1, 2001	110.1	\$ 1	\$ 1,459	\$ (94)	\$ (5)	\$ (1,130)	\$ 231
Net loss	-	-	-	(423)	-	-	(423)
Other comprehensive income							
Foreign Currency (net of \$5 million of tax)	-	-	-	-	9	-	9
Deferred gain/loss from hedging activities (net of \$1 million of tax)	-	-	-	-	(2)	-	(2)
Unrealized gain/loss on investments (net of \$11 million of tax)	-	-	-	-	(20)	-	(20)
Minimum pension liability adjustments (net of \$166 million of tax)	-	-	-	-	(287)	-	(287)
Total							(723)
Accretion of Series C Preferred Stock	-	-	-	(1)	-	-	(1)

Series C Preferred Stock converted to Common Stock	0.2	-	6	-	-	-	6
Common Stock held in rabbi trusts	-	-	(16)	-	-	70	54
Other	-	-	2	-	-	-	2
Balance December 31, 2001	110.3	1	1,451	(518)	(305)	(1,060)	(431)
Net loss	-	-	-	(798)	-	-	(798)
Other comprehensive income							
Foreign Currency (net of \$4 million of tax)	-	-	-	-	(7)	-	(7)
Deferred gain/loss from hedging activities (net of \$5 million of tax)	-	-	-	-	(9)	-	(9)
Minimum pension liability adjustments (net of \$592 million of tax)	-	-	-	-	(1,026)	-	(1,026)
Total							(1,840)
Series C Preferred Stock converted to Common Stock	0.1	-	1	-	-	-	1
Common Stock held in rabbi trusts	-	-	(3)	-	-	5	2
Other	0.4	-	6	-	-	-	6
Balance December 31, 2002	110.8	1	1,455	(1,316)	(1,347)	(1,055)	(2,262)
Net income	-	-	-	248	-	-	248
Other comprehensive income							
Foreign Currency (net of \$17 million of tax)	-	-	-	-	30	-	30
Deferred gain/loss from hedging activities (net of \$20 million of tax)	-	-	-	-	(35)	-	(35)
Unrealized gain/loss on investments	-	-	-	-	(1)	-	(1)
Minimum pension liability adjustments (net of \$7 million of tax)	-	-	-	-	13	-	13
Total							255
Series C Preferred Stock converted to Common Stock	-	-	2	-	-	-	2
Step-up in basis of Orbitz Investment	-	-	11	-	-	-	11
\$225 million Convertible Debt call spread	-	-	(10)	-	-	-	(10)
Preferred Series C dividends accrued	-	-	-	(12)	-	-	(12)
Other	0.1	-	2	(3)	-	6	5
Balance December 31, 2003	110.9 \$	1 \$	1,460 \$	(1,083) \$	(1,340) \$	(1,049) \$	(2,011)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Business: Northwest's operations account for approximately 98% of the Company's consolidated operating revenues and expenses. Northwest is a major air carrier engaged principally in the commercial transportation of passengers and cargo, directly serving more than 158 cities in 24 countries in North America, Asia and Europe. Northwest's global airline network includes domestic hubs at Detroit, Minneapolis/St. Paul and Memphis, an extensive Pacific route system with a hub in Tokyo, a trans-Atlantic alliance with KLM, which operates through a hub in Amsterdam, a domestic and international alliance with Continental and Delta, exclusive marketing agreements with two domestic regional carriers: Pinnacle Airlines and Mesaba, both of which operate as Northwest Airlink; and a cargo business that includes a dedicated fleet of 12 freighter aircraft that operates through hubs in Anchorage and Tokyo.

Basis of Consolidation: NWA Corp. is a holding company whose principal indirect operating subsidiary is Northwest. The consolidated financial statements include the accounts of NWA Corp. and all consolidated subsidiaries. All significant intercompany transactions have been eliminated. Investments in 20% to 50% owned companies, as well as Pinnacle Airlines and Orbitz, are accounted for by the equity method. Other investments are accounted for by the cost method.

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

Flight Equipment Spare Parts: Flight equipment spare parts are carried at lower of average cost or market and are expensed when consumed in operations. An allowance for depreciation is provided at rates that depreciate cost, less residual value, over the estimated useful lives of the related aircraft. Inventory sales at amounts greater or less than their carried values are recorded in a reserve account and therefore do not generate gain or loss recognition for income statement purposes.

Property, Equipment and Depreciation: Owned property and equipment are stated at cost. Property and equipment acquired under capital leases are stated at the lower of the present value of minimum lease payments or fair market value at the inception of the lease. Property and equipment are depreciated to residual values using the straight-line method over the estimated useful lives of the assets, which generally range from four to 25 years for flight equipment and three to 32 years for other property and equipment. Leasehold improvements are generally amortized over the remaining period of the lease or the estimated service life of the related asset, whichever is less. Property and equipment under capital leases are amortized over the lease terms or the estimated useful lives of the assets.

The Company accounts for certain airport leases under the EITF Issue No. 99-13, *Application of EITF Issue No. 97-10, The Effect of Lessee Involvement in Asset Construction, and FASB Interpretation No. 23, Leases of Certain Property Owned by a Governmental Unit or Authority, to Entities that Enter into Leases with Governmental Entities*, which requires the financing related to certain guaranteed airport construction projects committed to after September 23, 1999, be recorded on the balance sheet. Capitalized expenditures of \$210 million at December 31, 2003, are recorded in other property and equipment, with the corresponding obligations included in long-term obligations under capital leases, and relate to airport improvements at Minneapolis-St. Paul, Memphis, Knoxville and Seattle.

Airframe and Engine Maintenance: Routine maintenance, airframe and engine overhauls are charged to expense as incurred, except engine overhaul costs covered by third-party maintenance agreements, which are accrued on the basis of hours flown. Modifications that enhance the operating performance or extend the useful lives of airframes or engines are capitalized and amortized over the remaining estimated useful life of the asset.

International Routes and Goodwill: The Company's international routes result from the U.S.-Japan bilateral aviation agreement, which establishes rights to carry traffic between Japan and the U.S., and extensive "fifth freedom" rights from Japan to India, the South Pacific and other Asian destinations. "Fifth freedom" rights allow Northwest to operate service from any gateway in Japan to points beyond Japan and carry Japanese originating passengers. These rights have no termination date, and the Company has the supporting infrastructure (airport gates, slots and terminal facility leases) in place to operate air service to Japan from its U.S. hub and gateway airports indefinitely. Through the end of 2001, the international routes and goodwill were amortized on a straight-line basis over 40 years.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that companies test goodwill and indefinite lived intangible assets for impairment on an annual basis rather than amortize such assets. The Company adopted SFAS No. 142 on January 1, 2002, and as a result no longer amortizes its international routes and goodwill.

In 2003, an independent third party appraisal was conducted for the Company's annual impairment test of its international routes and found the fair value to be in excess of the carrying value.

The following table presents net income (loss) and earnings (loss) per share for comparable periods in 2003, 2002 and 2001 adjusted for amortization of goodwill and indefinite lived intangible assets. These amounts are not tax effected since these expenses were not deductible for tax purposes:

	Twelve Months Ended December 31,		
	2003	2002	2001
(In millions, except per share amounts)			
Reported net income (loss) applicable to common shareholders	\$ 236	\$ (798)	\$ (424)
Goodwill amortization	-	-	1
International route amortization	-	-	23
	<u> </u>	<u> </u>	<u> </u>
Adjusted net income (loss)	\$ 236	\$ (798)	\$ (400)
	<u> </u>	<u> </u>	<u> </u>
Basic earnings per share:			
Reported earnings (loss) per common share	\$ 2.75	\$ (9.32)	\$ (5.03)
Goodwill amortization	-	-	0.01
International route amortization	-	-	0.28
	<u> </u>	<u> </u>	<u> </u>
Adjusted basic earnings (loss) per share	\$ 2.75	\$ (9.32)	\$ (4.74)
	<u> </u>	<u> </u>	<u> </u>
Diluted earnings per share:(1)			
Reported earnings (loss) per common share	\$ 2.74	\$ (9.32)	\$ (5.03)
Goodwill amortization	-	-	0.01
International route amortization	-	-	0.28
	<u> </u>	<u> </u>	<u> </u>
Adjusted diluted earnings (loss) per share	\$ 2.74	\$ (9.32)	\$ (4.74)
	<u> </u>	<u> </u>	<u> </u>

- (1) For the twelve months ended December 31, 2002 and 2001, no incremental shares related to dilutive securities were used to calculate diluted earnings per share because of the anti-dilutive impact caused by inclusion of such securities. See Note 2—Earnings (Loss) Per Share Data, for additional information regarding earnings (loss) per share.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets for potential impairments in compliance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company records impairment losses on long-lived assets when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. Impairment losses are measured by comparing the fair value of the assets to their carrying amounts. In determining the need to record impairment charges, the Company is required to make certain estimates regarding such things as the current fair market value of the assets and future net cash flows to be generated by the assets. The current fair market value is determined by independent appraisal, and the future net cash flows are based on assumptions such as asset utilization, expected remaining useful lives, future market trends and projected salvage values. Impairment charges are recorded in depreciation and amortization expense on the Company's

Consolidated Statements of Operations. If there are subsequent changes in these estimates, or if actual results differ from these estimates, such changes could impact the Consolidated Financial Statements.

In June 2003, the Company recorded an aircraft impairment of \$21 million as additional depreciation expense, primarily for Boeing 727-200 aircraft used in charter operations. In December 2003, the Company recorded an impairment charge of \$213 million as other expense, which related to foreign real property that no longer secures certain debt obligations. See Note 5—Mandatorily Redeemable Security, for additional information regarding impairment of foreign real property.

In December 2002, the Company revised its fleet plan, accelerating the retirement of nine Boeing 747-200 and 13 DC10-30 aircraft. The Company recorded non-cash impairment charges of \$352 million to reflect reductions in the estimated market values of certain aircraft, engines and related inventory in the fourth quarter of 2002. These charges consisted of \$294 million related to the aircraft, \$23 million to spare engines, and \$35 million to related inventory.

In the third and fourth quarters of 2001, the Company recorded non-cash impairment charges of \$161 million to reflect reductions in the estimated market values of certain aircraft and related inventory due to reduced demand resulting from the events of September 11, 2001 and a weakened economy. The impairment charges consisted of a \$96 million write-down to the estimated market value of 25 Boeing 727 aircraft and five Boeing 747 freighter aircraft. The remaining \$65 million of impairment charges related to seven non-operating aircraft that had been stored for future sale, two DC9 aircraft and three Boeing 727 aircraft retired during 2001, and four Boeing 747-200 aircraft retired or scheduled to be retired by 2004. These impairment charges included \$9 million to write-down related spare parts to their estimated fair market value.

Frequent Flyer Program: The estimated incremental cost of providing travel awards earned under Northwest's WorldPerks frequent flyer program is accrued and included in the accompanying consolidated balance sheets as a component of air traffic liability. The Company also sells mileage credits to participating companies in its frequent flyer program. A portion of such revenue is deferred and amortized as transportation is provided.

Operating Revenues: Passenger and cargo revenues are recognized when the transportation is provided or the ticket expires unused. The main component of air traffic liability represents the estimated value of sold but unused tickets and is regularly evaluated by the Company. Other revenues include MLT, transportation fees and charter revenues, and are recognized when the service or transportation is provided.

Advertising: Advertising costs, included in selling and marketing expenses, are expensed as incurred and were \$82 million, \$93 million and \$98 million in 2003, 2002, and 2001, respectively.

Employee Stock Options: As of December 31, 2003, the Company has stock option plans for officers and key employees of the Company. See Note 7—Stock Options, for additional discussion of stock options. The Company historically accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Effective January 1, 2003, the Company adopted the fair value method of recording stock-based employee compensation prescribed by SFAS No. 123 and accounted for this change in accounting principle using the "prospective method" as described by SFAS No. 148. All employee stock option grants made on or after January 1, 2003 are recorded as compensation expense over the vesting period based on the fair value at the date the stock-based compensation is granted. Prior to January 1, 2003, no stock-based employee compensation expense related to options was reflected in the consolidated statement of operations, as all options granted in 2002 or before have an exercise price equal to the market value of the underlying common stock on the date of grant.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for companies that voluntarily change to the fair value based method of accounting for stock-based compensation. It also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and quarterly

financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The following table illustrates the effect on net income (loss) and earnings (loss) per common share as if the fair value based method had been applied to all outstanding option awards rather than only those granted since January 1, 2003. Awards under the Company's plans vest over periods ranging from three to five years.

	Twelve months ended		
	December 31		
	2003	2002	2001
	(In millions except per share amounts)		
Net income (loss) applicable to common shareholders, as reported	\$ 236	\$ (798)	\$ (424)
Add: Stock-based employee compensation expense included in reported net income (loss), net of tax effect(1)	19	3	3
Deduct: Total stock-based employee compensation expense determined under a fair value based method for all awards, net of tax(1)	(20)	(12)	(12)
Pro forma net income (loss) applicable to common shareholders	\$ 235	\$ (807)	\$ (433)
Earnings (loss) per share:			
Basic—as reported	\$ 2.75	\$ (9.32)	\$ (5.03)
Basic—pro forma	\$ 2.74	\$ (9.43)	\$ (5.14)
Diluted—as reported	\$ 2.74	\$ (9.32)	\$ (5.03)
Diluted—pro forma	\$ 2.73	\$ (9.43)	\$ (5.14)

- (1) As described below in Note 9—Income Taxes, the Company is not presently recording additional tax benefits or provisions due to its net deferred tax asset position and recent history of losses; therefore, the Company did not include any tax effect related to the 2003 amounts shown.

New Accounting Standards: In December 2003, the FASB revised SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This revision requires disclosures in addition to those in the original statement about the assets, obligations, cash flows, and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. The Company has adopted the provisions of this revised statement as of December 31, 2003, and has included the required disclosures in these footnotes.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was passed by Congress and signed into law on December 8, 2003. The Act establishes a voluntary prescription drug benefit beginning January 1, 2006. The Act also provides for the government to pay a special subsidy equal to 28% of a retiree's covered prescription drug expenses between \$250 and \$5,000 (adjusted annually by the percentage increase in Medicare per capita prescription drug costs), to employers who sponsor retiree prescription drug plans. In accordance with FASB Staff Position 106-1, the Company has elected to defer including the effects of the Act in any measures of accumulated postretirement benefit obligations (APBO) and net periodic postretirement benefit costs reflected in the current financial statements and accompanying notes. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company estimates that the Act will not have a material impact on postretirement liabilities and benefit costs.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities*. FIN 46 requires companies to determine whether a financing or other arrangement constitutes a "variable interest entity". If a company concludes that such an arrangement is a variable interest entity, the company must then evaluate whether it is the primary beneficiary. The primary beneficiary of a variable interest entity is required to consolidate the entity for financial statement purposes. Variable interest entities are those that: (1) have insufficient equity investment at risk to finance their activities without additional subordinated support, or (2) lack essential characteristics of a controlling financial interest including, among others, the obligation to absorb expected losses, or the right to receive expected residual returns, of the entity. The primary

beneficiary is the enterprise that is obligated to absorb the expected losses or has a right to receive the expected residual returns. FIN 46 was effective immediately for variable interest entities created, or in which the Company obtains an interest, after January 31, 2003. For all variable interest entities created on or before January 31, 2003, the FASB recently delayed the effective date of the provisions until the quarter ending December 31, 2003, but encouraged early adoption. The Company has adopted the provisions of FIN 46 as of July 1, 2003 for all variable interests based on current guidance provided by the FASB.

The Company formerly consolidated a financing entity that issued a preferred security previously classified on the Company's consolidated financial statements as Mandatorily Redeemable Preferred Security ("MRPS"). See Note 5—Mandatorily Redeemable Security, for additional information regarding this security. This subsidiary is a variable interest entity under the provisions of FIN 46, but the Company is not the primary beneficiary. Accordingly, as of July 1, 2003, the Company no longer consolidated the subsidiary but an amount equal to the MRPS (\$553 million as of December 31, 2002), representing the Company's non-recourse obligation to the subsidiary, was recorded as Mandatorily Redeemable Security in the liability section of the Company's consolidated balance sheets. As a result of the Company purchasing the entity that holds the MRPS during the December 2003 quarter, the MRPS is no longer a liability on the consolidated balance sheets.

The Company has examined its other financing arrangements potentially impacted by the provisions of FIN 46 and has concluded that no additional arrangements of a material nature require consolidation. In its report on Form 10-Q for the quarter ended June 30, 2003, the Company described its preliminary conclusions regarding four aircraft leases that have historically been accounted for as operating leases for book purposes but as a loan for tax purposes. Based on an examination of the provisions of FIN 46 at that time, the Company reported that it would begin accounting for these leases as capital leases for book purposes and record a cumulative effect charge associated with this change in the quarter ending September 30, 2003. Subsequent interpretive guidance by the FASB has resulted in a determination by the Company that the lessor is not a variable interest entity under the provisions of FIN 46. Therefore, the Company will not consolidate these aircraft leases and will continue to account for them as operating leases.

In May 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how a company classifies and measures certain financial instruments and specifies that some financing arrangements with characteristics of both liabilities and equity must be classified as liabilities. Among the requirements of SFAS 150 is that all "Mandatorily Redeemable" securities be classified as liabilities. In the absence of applying FIN 46, this would have resulted in the Company reclassifying the Mandatorily Redeemable security described above to a liability. Given the effects of FIN 46, however, the equivalent result already applied. The Company adopted SFAS 150 on July 1, 2003 and anticipates that this standard will have no other material impact on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Disposal or Exit Activities*. SFAS No. 146 requires that a liability for a cost associated with exit or disposal activities be recognized when the liability is incurred, rather than when an entity commits to an exit plan. The Company adopted SFAS No. 146 on January 1, 2003. This new statement changed the timing of liability and expense recognition related to exit or disposal activities, but not the ultimate amount of such expenses.

In November 2002, the FASB issued FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires certain guarantees to be recorded at fair value and to provide additional disclosures about each guarantee, or each group of similar guarantees. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002, and adopted the initial recognition and measurement provisions for all guarantees issued or modified after December 31, 2002. See Note 11—Contingencies, for the Company's disclosures concerning its guarantor obligations.

Foreign Currency: Assets and liabilities denominated in foreign currency are remeasured at current exchange rates with resulting gains and losses generally included in net income. The Mandatorily Redeemable Security and other assets and liabilities associated with certain properties located outside of the U.S. whose cash flows are primarily in the local functional currency are translated at current exchange rates, with translation gains and losses recorded directly to accumulated other comprehensive income (loss), a component of common stockholders'

equity (deficit). See Note 5—Mandatorily Redeemable Security, for additional information regarding assets and liabilities denominated in foreign currency.

Income Taxes: The Company accounts for income taxes utilizing the liability method. Deferred income taxes are primarily recorded to reflect the tax consequences of differences between the tax and financial reporting bases of assets and liabilities.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2—Earnings (Loss) Per Share Data

The following table sets forth the computation of basic and diluted earnings (loss) per common share for the years ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(In millions, except share data)		
Numerator:			
Net income (loss)	\$ 248	\$ (798)	\$ (423)
Preferred stock requirements	(12)	—	(1)
Net income (loss) applicable to common stockholders	<u>\$ 236</u>	<u>\$ (798)</u>	<u>\$ (424)</u>
Denominator:			
Weighted-average shares outstanding for basic earnings (loss) per share	85,889,584	85,655,786	84,280,222
Effect of dilutive securities:			
Shares held in non-qualified rabbi trusts	3,033	—	—
Employee stock options and unvested restricted shares	471,192	—	—
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share	<u>86,363,809</u>	<u>85,655,786</u>	<u>84,280,222</u>
Basic Earnings (loss) per common share:			
Net income (loss) before preferred stock requirements	\$ 2.89	\$ (9.32)	\$ (5.02)
Preferred stock requirements	(0.14)	—	(0.01)
Net income (loss) applicable to common shareholders	<u>\$ 2.75</u>	<u>\$ (9.32)</u>	<u>\$ (5.03)</u>
Diluted Earnings (loss) per common share:			
Net income (loss) before preferred stock requirements	\$ 2.87	\$ (9.32)	\$ (5.02)
Preferred stock requirements	(0.13)	—	(0.01)
Net income (loss) applicable to common shareholders	<u>\$ 2.74</u>	<u>\$ (9.32)</u>	<u>\$ (5.03)</u>

For the twelve months ended December 31, 2003, the Series C Preferred Stock was excluded from the effect of dilutive securities as a result of the stated intent of the parties to settle the Series C Preferred Stock with cash rather than by the Company issuing additional common

stock. See Note 6—Redeemable Preferred and Common Stock, to these Condensed Consolidated Financial Statements for additional discussion of the Company's Series C Preferred Stock.

For the twelve months ended December 31, 2002 and 2001, 6,926,103 and 7,921,443 incremental shares related to dilutive securities, respectively, were not included in the diluted earnings per share calculation because the Company reported a net loss for these periods. Incremental shares related to dilutive securities have an anti-dilutive impact on earnings per share when a net loss is reported and therefore are not included in the calculation.

The dilutive securities described above do not include 1,232,128 employee stock options as of December 31, 2003, because the exercise prices of these options are greater than the average market price of the common stock for the respective periods. The dilutive securities described above do not include any of the 11,589,438 and 12,152,812 employee stock options outstanding as of December 31, 2002 and 2001, respectively, because the Company reported a net loss for these periods.

Note 3—Long-Term Debt and Short-Term Borrowings

Long-term debt as of December 31 consisted of the following (with interest rates as of December 31, 2003):

	2003	2002
	(in millions)	
Aircraft enhanced equipment trust certificates due through 2022, 6.0% weighted-average rate(a)	\$ 2,590	\$ 1,988
Aircraft secured loans due through 2023, 3.6% weighted-average rate(b)	1,782	1,368
Bank Revolving Credit Facilities due 2005, 4.4%(c)	962	962
Other secured notes due through 2020, 5.0% weighted-average rate	569	562
Other secured debt	51	56
	5,954	4,936
Total secured debt		
Unsecured notes due 2004 through 2039, 8.7% weighted-average rate	1,533	1,591
Convertible unsecured notes due through 2023, 7.2% weighted-average rate(d)	375	—
Other unsecured debt	4	4
	1,912	1,595
Total unsecured debt		
Less current maturities	668	281
	\$ 7,198	\$ 6,250
Total Long-term debt		

(a) At December 31, 2003, the \$2.59 billion of equipment notes underlying the pass-through trust certificates issued for 102 aircraft are direct obligations of Northwest. Interest on the pass-through trust certificates is payable semi-annually or quarterly. This amount includes \$64 million of newly issued Class D certificates issued in an exchange offer for unsecured debt due in 2004, 2005 and 2006.

On December 9, 2003, Northwest completed an offer to exchange notes due in 2004, 2005 and 2006, with interest rates ranging from 7.625% to 8.875%, for new 10.5% Class D Certificates representing a fractional undivided interest in the assets of a pass-through trust. The trust's assets consist of interests in \$551.8 million principal amount of notes primarily secured by aircraft financed under five series of Northwest pass-through trust certificates previously issued. Holders tendered approximately \$59 million of old notes for \$64 million of Class D Certificates.

The exchange was accounted for as an extinguishment of debt under generally accepted accounting principles, with the Company recording an associated loss because the cash flows of the new debt instrument are greater than 110 percent of the original instruments' remaining cash flows. The loss recognized in the Consolidated Statement of Operations due to this exchange offer approximated \$5 million.

- (b) In addition to the aircraft financed using enhanced equipment trust certificates, as described in (a) above, the Company also took delivery of two Airbus A330, two Airbus A320, two Airbus A319, and five Boeing 757-300 aircraft during the twelve months ended December 31, 2003, using the proceeds of approximately \$506 million of secured aircraft financings.
- (c) The Company's secured credit facilities at December 31, 2003, consisted of a \$725 million revolving credit facility (\$12 million of which has been utilized to establish letters of credit) available until October 2005, and a \$250 million 364-day revolving credit facility available until October 2004 and renewable annually at the option of the lenders; however, to the extent any portion of the \$250 million 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 such borrowings would then mature in October 2005. This credit agreement is secured by the Company's Pacific route system and certain aircraft. On March 28, 2003, Standard & Poor's downgraded the rating on the Company's secured credit facilities to B+ from BB-. On April 10, 2003, Moody's downgraded the rating on the Company's secured credit facilities to B1 from Ba3. With the change in credit rating and the measurement of certain collateral tests required under the Company's credit facilities, the interest rate applicable to borrowings under these secured credit facilities increased by 75 basis points. Borrowings under both revolving credit facilities pay interest at a variable rate equal to the three-month LIBOR plus 3.25% (4.37% at January 20, 2004). The credit agreement includes a covenant that requires the Company, beginning with the three month period ending June 30, 2004, to maintain at least a one-to-one ratio of earnings (adjusted to exclude the effects of interest, taxes, depreciation, amortization and aircraft rents) to fixed charges (comprising interest expense and aircraft rents). If the Company fails to meet this fixed charges coverage ratio, borrowings under the credit facility could be accelerated by the banks. While the Company currently believes that it will satisfy this requirement, compliance with the covenant depends upon many factors that could impact future revenues and expenses, some of which are beyond the Company's control.
- (d) During 2003, NWA Corp. completed two offerings of \$375 million aggregate principal amount of convertible senior notes totaling \$375 million, both due in 2023. These notes were issued to qualified institutional buyers pursuant to Rule 144A and to non-U.S. persons pursuant to Regulation S, under the Securities Act of 1933. The first issuance of notes in May was for an aggregate principal amount of \$150 million and bears interest at 6.625% (the "6.625% Notes"), which is payable in cash semi-annually through May 15, 2010. Thereafter, the principal amount of the notes will accrete semi-annually at a rate of 6.625% per year to maturity. The second issuance of notes in November was for an aggregate principal amount of \$225 million and bears interest at 7.625% (the "7.625% million Notes"), which is payable in cash semi-annually through November 15, 2008. Thereafter, the principal amount of the notes will accrete semi-annually at a rate of 7.625% per year to maturity. Each note was issued at a price of \$1,000 and is convertible into NWA Corp. common stock. The 6.625% and the 7.625% Notes were issued with conversion rates of 61.8047 and 43.6681 shares per \$1,000 original principal amount of notes, respectively. These conversion rates equate to an initial conversion price of approximately \$16.18 and \$22.90 per share for the 6.625% Notes and the 7.625% Notes, respectively, subject to adjustment in certain circumstances. Both notes are guaranteed by Northwest.

Holder of the notes may convert their notes only if: (i) NWA Corp.'s common stock trades above a specified price threshold for a specified period; (ii) the trading price for the notes falls below certain thresholds; (iii) the notes have been called for redemption; or (iv) specific corporate transactions occur. NWA Corp. may elect to pay the repurchase price in cash or in shares of

common stock, or a combination of both, subject to certain conditions. Should holders elect to require NWA Corp. to redeem the notes on any of the repurchase dates, it is the Company's present intention to satisfy the requirement in cash. NWA Corp. may redeem all or some of the notes for cash at any time on or after May 15, 2010 for the 6.625% Notes and on or after November 15, 2006 for the 7.625% Notes, at a redemption price in each case equal to the accreted principal amount plus accrued and unpaid interest, if any, to the redemption date.

Holders of the 6.625% Notes may require NWA Corp. to repurchase the notes on May 15, 2010, 2013 and 2018 at a price equal to the accreted principal amount plus accrued and unpaid interest, if any, on the repurchase date. Holders of the 7.625% Notes may require NWA Corp. to repurchase the notes on November 15, 2008, 2013 and 2018 at a price equal to the accreted principal amount plus accrued and unpaid interest, if any, on the repurchase date. In conjunction with the issuance of the 7.625% Notes, NWA Corp. entered into a call spread option transaction that was designed to limit the Company's exposure to potential dilution from conversion of the 7.625% Notes in the event that the market price per share of NWA Corp.'s common stock at the time of exercise is greater than the strike price of \$22.90. This call spread option will be treated as an equity transaction under the EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. NWA Corp. plans to use the net proceeds from the offerings for working capital and general corporate purposes.

Maturities of long-term debt for the five years subsequent to December 31, 2003 are as follows (in millions):

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>
	(in millions)						
Aircraft enhanced equipment trust certificates	\$ 171	\$ 188	\$ 187	\$ 182	\$ 187	\$ 1,675	\$ 2,590
Aircraft secured loans	91	95	284	107	92	1,113	1,782
Bank Revolving Credit Facilities	-	962	-	-	-	-	962
Other secured notes	38	38	39	43	35	376	569
Other secured debt	34	16	-	-	1	-	51
Total secured debt	334	1,299	510	332	315	3,164	5,954
Unsecured notes	332	188	270	400	200	143	1,533
Convertible unsecured notes	-	-	-	-	-	375	375
Other unsecured debt	2	1	1	-	-	-	4
Total unsecured debt	334	189	271	400	200	518	1,912
Total Long-term debt	\$ 668	\$ 1,488	\$ 781	\$ 732	\$ 515	\$ 3,682	\$ 7,866

Under some of the debt and lease instruments included above, agreements with the lenders require that the Company meet certain financial covenants, such as unrestricted cash balances, fixed charges coverage ratios and credit ratings. Assets having an aggregate book value of \$7.7 billion at December 31, 2003, principally aircraft and route authorities, were pledged under various loan agreements, which in some cases require periodic appraisals. The Company was in compliance with the covenants and collateral requirements related to all of its debt and lease agreements as of December 31, 2003. While the Company anticipates that it will continue to satisfy the lenders with respect to such covenants and collateral requirements, these measures will depend upon the many factors affecting operating performance and the market value of assets.

The weighted-average interest rates on short-term borrowings outstanding at December 31 were 3.97%, 3.04% and 3.59% for 2003, 2002 and 2001, respectively.

Cash payments of interest, net of capitalized interest, aggregated \$448 million, \$421 million and \$307 million in 2003, 2002 and 2001, respectively.

Manufacturer debt financing utilized in connection with the acquisition of aircraft was \$290 million, \$25 million and \$21 million in 2003, 2002 and 2001, respectively. These amounts are considered non-cash transactions and are therefore excluded from proceeds from long-term debt and capital expenditures in the Consolidated Statements of Cash Flows. These amounts are included in the Consolidated Balance Sheets as long-term debt and flight equipment.

Note 4—Leases

The Company leases under noncancelable operating leases certain aircraft, space in airport terminals, land and buildings at airports, ticket, sales and reservations offices, and other property and equipment, which expire in various years through 2032. Certain aircraft and portions of facilities are subleased under noncancelable operating leases expiring in various years through 2032.

Rental expense for all operating leases for the years ended December 31 consisted of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(in millions)		
Gross rental expense	\$ 908	\$ 863	\$ 811
Sublease rental income	(172)	(143)	(127)
Net rental expense	<u>\$ 736</u>	<u>\$ 720</u>	<u>\$ 684</u>

At December 31, 2003, Northwest leased 116 of the 430 aircraft it operates. Of these, 16 were capital leases and 100 were operating leases. Base term lease expiration dates range from 2004 to 2009 for aircraft under capital leases, and from 2004 to 2025 for aircraft under operating leases. Northwest's aircraft leases can generally be renewed for terms ranging from one to eight years at rates based on the aircraft's fair market value at the end of the lease term. Of the 116 aircraft lease agreements, 107 provide Northwest with purchase options during the lease, at the end of the lease, or both, on terms that approximate fair market value.

At December 31, 2003, future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms of more than one year were as follows:

	<u>Capital Leases</u>	<u>Operating leases</u>	
		<u>Aircraft</u>	<u>Non-aircraft</u>
	(in millions)		
2004	\$ 93	\$ 608	\$ 163
2005	66	595	157
2006	52	602	145
2007	53	605	135
2008	44	567	122
Thereafter	470	4,521	1,292
	<u>778</u>	<u>7,498</u>	<u>2,014</u>

Less sublease rental income		2,492	43
		<u> </u>	<u> </u>
Total minimum operating lease payments		\$ 5,006	\$ 1,971
		<u> </u>	<u> </u>
Less amounts representing interest	359		
	<u> </u>		
Present value of future minimum capital lease payments	419		
Less current obligations under capital leases	65		
	<u> </u>		
Long-term obligations under capital leases	\$ 354		
	<u> </u>		

The above table includes operating leases for 76 aircraft operated by and subleased to Pinnacle Airlines, and 74 aircraft operated by and subleased to Mesaba Aviation, Inc. ("Mesaba"). Base term lease expiration dates for Northwest range from 2014 to 2022. These aircraft leases can generally be renewed by Northwest for terms ranging from one to eight years at rates based on the aircraft's fair market value at the end of the lease term.

Note 5—Mandatorily Redeemable Security

In October 1995, the Company completed a restructuring of its yen-denominated non-recourse obligation secured by land and buildings the Company owns in Tokyo. A newly formed consolidated subsidiary of the Company (the "Subsidiary") entered into a Japanese business arrangement designated under Japanese law as a tokumei kumiai ("TK"). Pursuant to the TK arrangement, the holder of the non-recourse obligation restructured such obligation and then assigned title to and ownership of such obligation to the Subsidiary as operator under the TK arrangement in exchange for a preferred interest in the profits and returns of capital from the business of the Subsidiary (the "Preferred Security"). The restructured non-recourse obligation is the sole asset of the Subsidiary, and the Company had the ability to transfer the land and buildings in full satisfaction of the Company's obligation. As a result of this restructuring, the original holder of such non-recourse obligation ceased to be a direct creditor of the Company and the Company's obligation was reflected in the Company's Consolidated Balance Sheets as Mandatorily Redeemable Security.

In December 2003 the Company acquired the holder of the Preferred Security, thereby eliminating the obligation on the Company's Consolidated Balance Sheets. This acquisition resulted in a net non-cash gain of \$148 million, consisting of a gain related to the extinguishment of the non-recourse obligation of \$361 million and a corresponding impairment of the land that then secured the obligation

by \$213 million. The gain on debt extinguishment and the land impairment charge include recognition of currency translation adjustments previously recorded in other comprehensive income of \$168 million and \$96 million, respectively.

Note 6—Redeemable Preferred and Common Stock

Series C Preferred Stock: As part of labor agreements reached in 1993, NWA Corp. issued to trusts for the benefit of participating employees 9.1 million shares of a new class of Series C cumulative, voting, convertible, redeemable preferred stock, par value of \$.01 per share (the "Series C Preferred Stock"), and 17.5 million shares of Common Stock and provided the union groups with three positions on the Board of Directors. NWA Corp. has authorized 25 million shares of Series C Preferred Stock. The Series C Preferred Stock ranks senior to Common Stock with respect to liquidation and certain dividend rights. Each share of the Series C Preferred Stock is convertible at any time into 1.364 shares of Common Stock. As of December 31, 2003, 4.3 million shares of Series C Preferred Stock have been converted into Common Stock and the remaining 4.8 million shares outstanding are convertible into 6.5 million shares of Common Stock. During 2003, 32,622 shares of Series C Preferred Stock were converted into 44,496 shares of Common Stock.

During the 60-day period ending on August 1, 2003 (the "Put Date"), holders of the Series C Preferred Stock had the right to put their shares of the Series C Preferred Stock to NWA Corp. Under the terms of the Series C Preferred Stock, NWA Corp. was required to elect, prior to the commencement of such 60-day period, the form of payment it would use for repurchasing such shares of the Series C Preferred Stock. On May 30, 2003, NWA Corp. elected to repurchase such shares of the Series C Preferred Stock for cash equal to the Put Price. The "Put Price" of the Series C Preferred Stock is equal to a pro rata portion of the actual savings resulting from labor cost savings agreements entered into in 1993 (approximately \$226 million as of August 1, 2003, the Put Date) plus any accrued and unpaid dividends on the Series C Preferred Stock.

On August 1, 2003, the Company announced that its Board of Directors had determined that the Company could not legally repurchase the outstanding Series C Preferred Stock at that time because the Board of Directors was unable to determine that the company had adequate legally available surplus to repurchase the outstanding Series C Preferred Stock. As a result, quarterly dividends began accruing August 1, 2003, at 12% per annum and the employee unions are entitled to three additional Board of Directors positions.

Under the terms of the Series C Preferred Stock, as a result of its inability to repurchase Series C Preferred Stock, on a quarterly basis after the Put Date, NWA Corp. must use all cash held by it (or available under revolving credit agreements) in excess of all the Company's cash requirements within one year of such determination date ("Available Cash") to make partial pro rata redemptions, provided such redemptions are not prohibited under applicable credit agreements or by applicable law. Any decision not to use all Available Cash to effect such partial purchases must be approved by a majority of the directors elected by the holders of the Series C Preferred Stock.

The financial statement carrying value of the Series C Preferred Stock accreted over 10 years commencing August 1993 to the ultimate put price, and was \$236 million at December 31, 2003, including \$12 million of accrued but unpaid dividends.

Common Stock: The Company was required to adopt the provisions of EITF Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust*,

on September 30, 1998. As a result, the Company revised its consolidation of the assets and liabilities of the non-qualified rabbi trusts. The 1,086 and 4,401 shares of Common Stock as of December 31, 2003 and 2002, respectively, that are held in the trusts are recorded similar to treasury stock and the deferred compensation liability is recorded in other long-term liabilities. The Company elected to record the difference between the market value of the common shares and the historical cost of the shares in the trusts at the date of adoption as a credit to common stockholders' equity (deficit), net of tax. After the adoption date, but prior to settlement through either contribution to qualified trusts or diversification, increases or decreases in the deferred compensation liability will be recognized in earnings to the extent the Common Stock market price exceeds the average historical cost of the shares of \$38.04 per share or falls below the September 30, 1998 price of \$25.06 per share, respectively. For the purpose of computing diluted earnings per share, the shares held by the rabbi trusts are considered potentially dilutive securities. The Company has classified the diversified assets held by the rabbi trusts as trading and recorded them at fair market value.

Stockholder Rights Plan: Pursuant to the Stockholder Rights Plan (the "Rights Plan"), each share of Common Stock has attached to it a right and, until the rights expire or are redeemed, each new share of Common Stock issued by NWA Corp., including the shares of Common Stock into which the Series C Preferred Stock is convertible, will include one right. Upon the occurrence of certain events, each right entitles the holder to purchase one one-hundredth of a share of Series D Junior Participating Preferred Stock at an exercise price of \$150, subject to adjustment. The rights become exercisable only after any person or group (other than the trusts holding Common Stock for the benefit of employees) acquires beneficial ownership of 19% or more (25% or more in the case of certain institutional investors) of NWA Corp.'s "outstanding" Common Stock (as defined in the Rights Plan) or commences a tender or exchange offer that would result in such person or group acquiring beneficial ownership of 19% or more (25% or more in the case of certain institutional investors) of NWA Corp.'s outstanding Common Stock. If any person or group acquires beneficial ownership of 19% or more (25% or more in the case of certain institutional investors) of NWA Corp.'s outstanding Common Stock, the holders of the rights (other than the acquiring person or group) will be entitled to receive, upon exercise of the rights, Common Stock of NWA Corp. having a market value of two times the exercise price of the right. In addition, if after the rights become exercisable NWA Corp. is involved in a merger or other business combination or sells more than 50% of

its assets or earning power, each right will entitle its holder (other than the acquiring person or group) to receive common stock of the acquiring company having a market value of two times the exercise price of the rights. The rights expire on November 16, 2005 and may be redeemed by NWA Corp. at a price of \$.01 per right prior to the time they become exercisable.

Note 7—Stock Options

Stock Option Plan for Officers and Key Employees: As of December 31, 2003, the Company has stock option plans for officers, key employees and pilots of the Company. Prior to December 31, 2002, the Company historically accounted for options and other awards granted under those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Effective January 1, 2003, the Company adopted the fair value method of recording stock-based employee compensation contained in SFAS No. 123 and accounted for this change in accounting principle using the "prospective method" as described by SFAS No. 148. All employee stock option grants made on or after January 1, 2003 were recorded as compensation expense over the vesting period based on the fair value at the date the stock-based

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compensation is granted. See Note 1—Summary of Significant Accounting Policies, for additional disclosure of the Company's stock options, including a table that illustrates the effect on net income and earnings per share. Prior to January 1, 2003, no stock-based employee compensation expense related to options was reflected in the consolidated statement of operations, as all options granted in 2002 or prior had an exercise price equal to the market value of the underlying common stock on the date of grant.

Following is a summary of stock option activity for the years ended December 31:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	7,923	\$ 25.27	8,757	\$ 25.40	6,235	\$ 29.94
Granted	2,965	8.31	218	7.33	3,454	17.98
Forfeited	(7,357)	24.81	(639)	28.93	(850)	29.61
Exercised	(24)	4.74	(413)	12.74	(82)	14.76
Outstanding at end of year	3,507	12.06	7,923	25.27	8,757	25.40
Exercisable at end of year	599	27.73	3,728	31.73	3,259	30.60
Reserved for issuance	21,802		21,815		21,815	
Available for future grants	8,632		7,570		7,150	

At December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
\$5.705 to \$24.5938	3,171	8.8 years	\$ 9.55	288	\$ 18.67
26.16 to 39.3125	310	4.2 years	34.51	285	34.85

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002	2001
Weighted average risk-free interest rate	3.2%	3.3%	4.5%
Stock price volatility	40%	40%	30%
Expected lives in years	6	6	6

The weighted-average fair value of options granted during 2003, 2002 and 2001 is \$3.62, \$3.23 and \$6.96 per option, respectively.

Stock Option Plan for Pilots: In September 1998, in conjunction with the labor agreement reached between Northwest and the Air Line Pilots Association, International, NWA Corp. established the 1998 Pilots Stock Option Plan ("Pilot Plan"). The Company has reserved for issuance 2.5 million shares of Common Stock under the Pilot Plan.

Following is a summary of the Pilot Plan activity for the years ended December 31:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(shares in thousands)					
Outstanding at beginning of year	2,486	\$ 25.58	2,486	\$ 25.58	1,987	\$ 27.08
Granted	926	9.18	-	-	500	19.62
Cancelled	(1,848)	25.60	-	-	-	-
Exercised	-	-	-	-	(1)	26.33
Outstanding at end of year	1,564	15.85	2,486	25.58	2,486	25.58

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002	2001
Weighted average risk-free interest rate	3.5%	N/A	4.5%
Stock price volatility	40%	N/A	30%
Expected lives in years	6	N/A	6

926,080 options were granted in 2003 under an exchange offer that terminated on July 30, 2003. Under this program, 1.8 million options were cancelled in the exchange. The weighted-average fair value of the options granted was \$4.04 per option. The new awards vest in 25% installments over a four year period and the weighted-average remaining contractual life as of December 31, 2003 is 9.6 years.

There were no options granted under the Pilot plan in 2002. The weighted-average fair value of options granted during 2001 was \$7.37 per option. The weighted-average remaining contractual life as of December 31, 2003 was 8.1 years.

Stock Incentive Plans: Shares of restricted stock were awarded at no cost to certain officers and key employees in 2003, 2002 and 2001. These shares are subject to forfeiture and will be issued when vested. Unearned compensation, representing the fair market value of the stock on the measurement date, is amortized over the applicable vesting period. As of December 31, 2003, 1,627,602 shares were outstanding and not vested.

A long-term incentive performance plan was established in 2000 under which phantom stock units were awarded. These phantom stock units were awarded to certain key officers and other management employees in 2003, 2002 and 2001, with a total of 1,683,414 units, 560,606 units and 491,096 units awarded and outstanding in each such year, respectively. The phantom units vest over a four year period based on continued employment of the employee during such periods and upon satisfaction of certain established performance standards. Each unit represents the right to receive a cash payment equal to the market value of the Company's stock as defined in the plan. The fair value of the units is equal to the closing market price on the date of grant, which was between \$6.93 and \$10.13 for 2003, \$5.70 and \$18.45 for 2002 and \$24.55 for 2001.

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Management Stock Option Exchange Program: On January 14, 2003, the Company completed an option exchange program, pursuant to which officers of the Company were able to exchange their stock options at a ratio of two old options for one newly issued option. The new options have a strike price of \$8.31, the average of the high and low price of the Company's common stock on the award date of January 15, 2003. The compensation expense related to these new options will be amortized over a four-year vesting period using the fair value method of recording stock-based employee compensation. Certain other management employees of the Company were able to exchange their stock options for phantom units at a ratio of three old options for one phantom unit. The compensation expense related to these phantom units will be recognized over the four-year vesting period, adjusted for the current period stock price, consistent with how phantom units have been expensed in the past. Compensation expense related to stock options issued under this exchange program is anticipated to be approximately \$2.7 million for the year ending December 31, 2004.

Pilot Stock Option Exchange Program: On June 27, 2003, the Company completed an option exchange program for its pilots holding stock options or SARs granted pursuant to the 1998 Pilots Stock Option Plan. This exchange program was adopted as part of a letter of agreement with ALPA to obtain approval of the Delta codeshare agreement from ALPA. Pilot participants were able to exchange their outstanding stock options or SARs for a designated number of replacement options or replacement SARs, respectively. Eligible participants were able to exchange their existing stock options and SARs at a ratio of two shares subject to an old award for one share subject to a newly issued award of the same type (although certain outstanding SARs were exchanged only for newly issued options). The exercise price of the new awards is the average of the high and low sales prices of the Company's common stock on the award date of July 31, 2003, or \$9.185 per share. Compensation expense related to these new options will be amortized over a four-year vesting period using the fair value method of recording stock-based compensation and is anticipated to be approximately \$1 million annually for awards issued under this program.

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Note 8—Accumulated Other Comprehensive Income (Loss)

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

Foreign Currency Translation Adjustment	Deferred Gain (Loss) on Hedging Activities	Minimum Pension Liability Adjustment	OCI of Affiliated Companies	Unrealized Gain on Investments	Accumulated Other Comprehensive Income (Loss)
(in millions)					

<i>Balance at January 1, 2001</i>	\$ (39)	\$ 33	\$ (19)	\$ 5	\$ 15	(5)
Before tax amount	14	(3)	(452)	(8)	(23)	(472)
Tax effect	(5)	1	165	3	8	172
Net-of-tax amount	9	(2)	(287)	(5)	(15)	(300)
<i>Balance at December 31, 2001</i>	(30)	31	(306)	–	–	(305)
Before tax amount	(11)	(14)	(1,618)	–	–	(1,643)
Tax effect	4	5	592	–	–	601
Net-of-tax amount	(7)	(9)	(1,026)	–	–	(1,042)
<i>Balance at December 31, 2002</i>	(37)	22	(1,332)	–	–	(1,347)
Before tax amount	47	(55)	20	–	(1)	11
Tax Effect	(17)	20	(7)	–	–	(4)
Net-of-tax amount	30	(35)	13	–	(1)	7
<i>Balance at December 31, 2003</i>	\$ (7)	\$ (13)	\$ (1,319)	\$ –	\$ (1)	\$ (1,340)

Note 9—Income Taxes

Income tax expense (benefit) consisted of the following for the years ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(in millions)		
Current:			
Federal	\$ 1	\$ (218)	\$ (127)
Foreign	2	2	2
State	1	2	1
	<u>4</u>	<u>(214)</u>	<u>(124)</u>
Deferred:			
Federal	(29)	(185)	(94)
Foreign	(2)	(2)	(5)
State	(3)	(21)	(24)
	<u>(34)</u>	<u>(208)</u>	<u>(123)</u>
Total income tax expense (benefit)	<u>\$ (30)</u>	<u>\$ (422)</u>	<u>\$ (247)</u>

Reconciliations of the statutory rate to the Company's income tax expense (benefit) for the years ended December 31 are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(in millions)		
Statutory rate applied to income (loss) before income taxes	\$ 76	\$ (427)	\$ (235)
Add (deduct):			

Mandatorily Redeemable Preferred Security	(219)	–	–
State income tax expense (benefit) net of federal benefit	4	(19)	(24)
Non-deductible meals and entertainment	7	7	10
Increase to Minimum Tax Credit Carryforward	(54)	–	–
Adjustment to valuation allowance and other income tax accruals	156	15	6
Other	–	2	(4)
	<u> </u>	<u> </u>	<u> </u>
Total income tax expense (benefit)	\$ (30)	\$ (422)	\$ (247)
	<u> </u>	<u> </u>	<u> </u>

Under the provisions of SFAS No. 109, *Accounting for Income Taxes*, the realization of the future tax benefits of a deferred tax asset is dependent on future taxable income against which such tax benefits can be applied. All available evidence must be considered in the determination of whether sufficient future taxable income will exist. Such evidence includes, but is not limited to, the company's financial performance, the market environment in which the company operates, the utilization of past tax credits, and the length of relevant carryback and carryover periods. Sufficient negative evidence, such as cumulative net losses during a three-year period that includes the current year and the prior two years, may require that a valuation allowance be established with respect to existing and future deferred tax assets. The net tax benefit recorded in 2003 includes a valuation allowance of \$156 million based on these limitations. It is more likely than not that any future deferred tax assets will require a valuation allowance to be recorded to fully reserve against the uncertainty that those assets would be realized.

The net deferred tax liabilities listed below include a current net deferred tax asset of \$146 million and \$105 million and a long-term net deferred tax liability of \$146 million and \$135 million as of December 31, 2003 and 2002, respectively.

Significant components of the Company's net deferred tax liability as of December 31 were as follows:

	<u>2003</u>	<u>2002</u>
	(in millions)	
Deferred tax liabilities:		
Accounting basis of assets in excess of tax basis	\$ 1,910	\$ 1,784
Expenses other than accelerated depreciation and amortization	127	250
Other	10	10
	<u> </u>	<u> </u>
Total deferred tax liabilities	2,047	2,044
	<u> </u>	<u> </u>
Deferred tax assets:		
Expenses not yet deducted for tax purposes	389	365
Pension and postretirement benefits	1,101	995
Gains from the sale-leaseback of aircraft	119	124
Rent expense	98	95
Travel award programs	34	38
Leases capitalized for financial reporting purposes	3	29
Net operating loss carryforward	307	274
Foreign tax, general business and other credit carryforward	39	33
Alternative minimum tax credit carryforward	130	76
	<u> </u>	<u> </u>
Total deferred tax assets	2,220	2,029
Valuation allowance for deferred tax assets	(173)	(15)

Net deferred tax assets	2,047	2,014
Net deferred tax liability	\$ -	\$ 30

The Company has certain federal deferred tax assets available for use in the regular tax system or the alternative minimum tax ("AMT") system. The deferred assets available for utilization in the regular system include: AMT credits of \$130 million, net operating loss carryforwards of \$779 million, general business credits of \$8 million and foreign tax credits of \$24 million. The deferred assets available for utilization in the AMT system are: net operating loss carryforwards of \$413 million and foreign tax credits of \$24 million. AMT credits available for use in the regular system have an unlimited carryforward period and all other deferred tax assets in both systems are available for carryforward to years beyond 2003, expiring in 2004 through 2023.

The Company also has the following deferred tax assets available at December 31, 2003 for use in certain states: net operating losses with tax benefit value of approximately \$34 million and state job credits of \$7 million available for carryforward to years beyond 2003, expiring in 2007 through 2023.

Note 10—Commitments

The Company's firm orders for 32 new aircraft to be operated by Northwest consist of scheduled deliveries for nine Airbus A330-300 aircraft and 10 Airbus A330-200 aircraft from 2004 through 2008, six Airbus A320 aircraft in 2006 and seven Airbus A319 aircraft from 2005 through 2006. As of December 31, 2003, the Company also had firm orders for 53 Bombardier CRJ200/440 aircraft, which will be leased or subleased to and operated by Pinnacle Airlines. The Company has the option to finance the CRJ200/440 aircraft through long-term operating lease commitments from the

manufacturer, and if the manufacturer does not provide the financing, the Company is not required to take delivery of the aircraft.

Committed expenditures for these aircraft and related equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately \$1.60 billion in 2004, \$746 million in 2005, \$567 million in 2006, \$206 million in 2007 and \$190 million in 2008. Consistent with prior practice, the Company intends to finance its aircraft deliveries through a combination of internally generated funds, debt and long-term lease financings. Firm financing commitments, at market rates for the long term, are available for use by the Company for all of the aircraft on order.

Note 11—Contingencies

The Company is involved in a variety of legal actions relating to antitrust, contract, trade practice, environmental and other legal matters pertaining to the Company's business. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's Consolidated Financial Statements taken as a whole.

Guarantees and Indemnifications: The Company is the lessee under many aircraft financing agreements and real estate leases. It is common in such transactions for the Company as the lessee to agree to indemnify the lessor and other related third parties for the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft, and for tort liabilities that arise from or relate to the Company's use or occupancy of the leased asset. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, in the case of real estate leases, the Company typically indemnifies such parties for any environmental liability that arises from or relates to the Company's use of the leased premises. The Company expects that it would be covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to leased real estate and operated aircraft.

The Company is the guarantor of approximately \$379 million of obligations related to tax-exempt facilities bonds issued by airports and/or airport commissions in Minneapolis/St. Paul, Detroit, Memphis, New York (JFK) and Duluth. These obligations are included in the future minimum lease payments listed in Note 4–Leases, and are payable solely from the Company's space rentals paid under long-term lease agreements with the respective governing bodies. The lease terms end between 2011 and 2029.

The Company guarantees \$107 million of residual value on four operating leased aircraft. As of and for the year ended December 31, 2003, the Company recognized \$11 million in rent expense related to the residual value guarantees on these operating leases, as the guaranteed obligation exceeds the current fair market value of the leased aircraft.

Note 12–Pension and Other Postretirement Health Care Benefits

The Company has several noncontributory pension plans covering substantially all of its employees. The benefits for these plans are based primarily on years of service and, in some cases, employee compensation. It is the Company's policy to annually fund at least the minimum contribution as required by the Employee Retirement Income Security Act of 1974. The Company made an excess contribution of \$190 million in 2003, and did not make any excess contributions in 2002 or 2001.

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The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was passed by Congress and signed into law on December 8, 2003. The Act establishes a voluntary prescription drug benefit for eligible participants beginning January 1, 2006. The Act also provides for the government to pay a special subsidy equal to 28% of a retiree's covered prescription drug expenses between \$250 and \$5,000 (adjusted annually for the percentage increase in Medicare per capita prescription drug costs) to employers who sponsor retiree prescription drug plans. In accordance with FASB Staff Position 106-1, the Company has elected to defer including the effects of the Act in any measures of accumulated postretirement benefit obligations and net periodic postretirement benefit costs reflected in the Consolidated Financial Statements and accompanying notes. Specific authoritative guidance on accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information. The Company estimates that the Act will not have a significant impact on postretirement liabilities and benefit costs.

The Company sponsors various contributory and noncontributory medical, dental and life insurance benefit plans covering certain eligible retirees and their dependents. The expected future cost of providing such postretirement benefits is accrued over the service lives of active employees. Retired employees are not offered Company-paid medical and dental benefits after age 64, with the exception of certain employees who retired prior to 1987 and receive lifetime Company-paid medical and dental benefits. Prior to age 65, the retiree share of the cost of medical and dental coverage is based on a combination of years of service and age at retirement. Medical and dental benefit plans are unfunded and costs are paid as incurred. The pilot group is provided Company-paid life insurance coverage in amounts which decrease based on age at retirement and age at time of death.

On May 11, 2001, the Company amended the pension plan of contract employees represented by the AMFA. The plan amendment resulted in a benefit level increase of 113% for mechanics and 84% for cleaners and custodians. The amended benefit increases are retroactive to participants who terminated after October 2, 1996 and to certain participants who retired after April 30, 1992, subject to specific criteria. The plan liability was remeasured as of June 30, 2001 at a discount rate of 7.9% and resulted in increases to pension expense on a prorated basis for 2001 of \$30 million and on an annual basis of \$59 million.

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

Pension Benefits		Other Benefits	
2003	2002	2003	2002

(in millions)

Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 7,638	\$ 6,674	\$ 652	\$ 647
Service cost	248	218	26	26
Interest cost	531	503	46	51
Plan amendments	33	–	(15)	(128)
Actuarial loss and other	458	596	150	95
Benefits paid	(354)	(353)	(39)	(39)
	<u>8,554</u>	<u>7,638</u>	<u>820</u>	<u>652</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	3,690	4,399	5	5
Actual return on plan assets	1,025	(548)	–	–
Employer contributions	445	192	39	39
Benefits paid	(354)	(353)	(39)	(39)
	<u>4,806</u>	<u>3,690</u>	<u>5</u>	<u>5</u>
Funded Status–underfunded	(3,748)	(3,948)	(815)	(647)
Unrecognized net actuarial loss	2,584	2,734	445	313
Unrecognized prior service cost	703	804	(88)	(81)
	<u>(461)</u>	<u>(410)</u>	<u>(458)</u>	<u>(415)</u>
Net amount recognized	\$ (461)	\$ (410)	\$ (458)	\$ (415)

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

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
	(in millions)			
Prepaid benefit costs	\$ 5	\$ 13	\$ –	\$ –
Intangible asset	751	857	–	–
Accrued benefit liability	(3,296)	(3,380)	(458)	(415)
Accumulated other comprehensive loss	2,079	2,100	–	–
	<u>(461)</u>	<u>(410)</u>	<u>(458)</u>	<u>(415)</u>
Net amount recognized	\$ (461)	\$ (410)	\$ (458)	\$ (415)

The accumulated benefit obligation for all defined benefit pension plans was \$8.08 billion and \$7.04 billion at December 31, 2003 and 2002, respectively.

The Company's pension plans with accumulated benefit obligations in excess of plan assets as of December 31 were as follows:

<u>2003</u>	<u>2002</u>
-------------	-------------

(in millions)

Projected benefit obligation	\$ 8,536	\$ 7,624
Accumulated benefit obligation	8,066	7,031
Fair value of plan assets	4,785	3,675

Weighted-average assumptions used to determine benefit obligations for pension and other benefits at December 31:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of future compensation increase	1.93%	3.60%	N/A	N/A

The Company has adopted and implemented an investment policy for the defined benefit pension plans that incorporates a strategic, long-term asset allocation mix designed to best meet the Company's long-term pension requirements. This asset allocation policy mix is reviewed every 2-3 years and, on a regular basis, actual allocations are rebalanced to the prevailing targets. The following table summarizes actual allocations as of December 31, 2003 and 2002:

Asset Category	Plan Assets		
	Target	2003	2002
Domestic Stocks	45.0%	44.9%	41.3%
International Stocks	25.0%	25.9%	24.1%
Private Markets	10.0%	9.2%	13.7%
Long-Duration Bonds	15.0%	14.7%	15.6%
High Yield Bonds	5.0%	5.3%	5.3%
Total	100%	100.0%	100.0%

The investment policy also emphasizes the following key objectives: (1) maintain a diversified portfolio among asset classes and investment styles, (2) maintain an acceptable level of risk in pursuit of long-term economic benefit, (3) maximize the opportunity for value-added returns from active management, (4) capture return opportunities from inefficiencies in nontraditional capital markets, and (5) maintain adequate controls over administrative costs.

To meet these objectives, the Company's investment policy reflects the following major themes: (1) diversify holdings to achieve broad coverage of both stock and bond markets; (2) utilize index funds as a core strategy, where appropriate, to ensure broad diversification, minimal fees, and reduced risk of relative underperformance of the portfolio; (3) use active investment managers with disciplined, clearly defined strategies, while establishing investment guidelines and monitoring procedures for each investment manager to ensure the characteristics of the portfolio are consistent with the original investment mandate; and (4) maintain an allocation to nontraditional investments, where market inefficiencies are greatest, and use these investments primarily to enhance the overall returns.

The Company reviews its rate of return on plan asset assumptions annually. These assumptions are largely based on the asset category rate-of-return assumptions developed annually with the Company's pension investment advisors. The advisors' asset category return assumptions are based in part on a review of historical asset returns, but in recent years have also emphasized current market conditions to develop estimates of future risk and return. Current market conditions include the yield-to-maturity and credit spreads on a broad bond market benchmark in the case of fixed income asset classes, and current prices as well as earnings and dividend growth rates in the case of equity

asset classes. The assumptions are also adjusted to account for the value of active management the funds have provided historically. The Company's expected long-term rate of return is based on target asset allocations of 45% domestic equities with an expected rate of return of 9.6%; 25% international equities with an expected rate of return of 10.0%; 10% private markets with an expected rate of return of 15.0%; 15% long-duration bonds with an expected rate of return of 5.7%; and 5% high yield bonds with an expected rate of return of 7.5%. These assumptions result in a weighted average long term rate of return slightly in excess of 9.5% on an annual basis.

The components of net periodic cost of defined benefit plans included the following:

	Pension Benefits			Other Benefits		
	2003	2002	2001	2003	2002	2001
	(in millions)					
Service cost	\$ 248	\$ 218	\$ 188	\$ 26	\$ 26	\$ 19
Interest cost	531	503	451	46	51	40
Expected return on plan assets	(476)	(538)	(514)	–	–	–
Amortization of prior service cost	77	80	75	(8)	5	3
Recognized net actuarial loss and other events	111	46	31	19	12	6
Net periodic benefit cost	\$ 491	\$ 309	\$ 231	\$ 83	\$ 94	\$ 68

Weighted-average assumptions used to determine net periodic pension and other benefit costs for the years ended December 31:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Discount rate	6.75%	7.50%	6.75%	7.50%
Expected long-term return on plan assets	9.50%	10.50%	7.00%	7.75%
Rate of future compensation increase	3.60%	3.90%	N/A	N/A

On March 31, 2003, the liabilities of the Contract plan were remeasured using a 6.50% discount rate. Net cost for the Contract plan during the final nine months of 2003 was also based on a 6.50% discount rate.

The Company recorded \$58 million and \$16 million in pension curtailment charges due to reductions in anticipated future service, as a result of layoffs of approximately 9.6% (10.2% of Contract plan employees) and 11.9% (6.9% of Pilot plan employees) during the years ended December 31, 2003 and 2002, respectively.

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate was assumed to decrease 0.5% per year for four years to 5.0% in 2008 and remain at that level thereafter. Assumed health care cost trend rates have a

significant impact on the amounts reported under other benefits, above, for the health care plans. A one percentage-point change in assumed health care cost trend rates would have the following effects:

One Percentage- Point Increase	One Percentage- Point Decrease
(in millions)	

Effect on total of service and interest cost components	\$	10.5	\$	(8.9)
Effect on accumulated postretirement benefit obligations		103.6		(88.9)

The estimated future benefit payments expected to be made by the pension and other postretirement benefit plans follows:

	<u>Pension Benefits</u>	<u>Other Benefits</u>
Estimated Future Benefit Payments:		
2004	\$ 349	\$ 37
2005	379	40
2006	404	43
2007	443	47
2008	487	50
Years 2009-2013	3,091	320

The Company's calendar year 2004 cash pension contributions are dependent on several factors. On December 23, 2003, the Company asked the IRS for permission to reschedule some of its plan year 2004 pension contributions, which includes amounts due in both 2004 and 2005, for the contract and salaried employees' pension plans. Separately, the U.S. Congress has under consideration certain legislative relief that could reduce 2004 contributions by increasing the discount rate used to determine funding, changing the current requirements for deficit reduction contributions, or both. Prior legislation increased the discount rate used by companies to determine funding requirements for the past two years. On that basis, expected contributions to the Company's qualified pension plans in 2004 approximate \$350 million. However, approval of the Company's application to reschedule contributions and/or additional legislative relief could reduce its pension funding requirements for these plans to between \$100 million and \$350 million for the year. Should the Company's request to reschedule contributions not be approved by the IRS and Congress provides no legislative relief, its qualified plan funding obligations in calendar year 2004 would approximate \$515 million. The Company also expects to contribute approximately \$37 million to its other postretirement benefit plans in 2004.

Note 13—Related Party Transactions

Continental Airlines, Inc.: On November 20, 1998, the Company issued 2.6 million shares of Common Stock and paid \$399 million in cash to acquire the beneficial ownership of approximately 8.7 million shares of Class A Common Stock of Continental. Northwest and Continental also entered into a 13-year global strategic commercial alliance that connects the two carriers' networks and includes extensive code-sharing (the joint designation of flights under the Northwest "NW" code and the Continental "CO" code), frequent flyer program reciprocity and other cooperative activities. In connection with the Company's investment in Continental and Northwest's alliance with Continental, the Company entered into agreements with Continental which contained certain restrictions on the Company's ability to vote shares of Continental common stock, to acquire additional shares of Continental common stock and to affect the composition and conduct of Continental's Board of

Directors for a 10-year period. Due to the restrictions in these agreements, the Company accounted for its investment under the equity method and recognized its interest in Continental's earnings on a one-quarter lag. The difference between the cost of the Company's investment and the proportionate share of the underlying equity of Continental of \$319 million was being amortized over 40 years.

On January 22, 2001, pursuant to an agreement reached in November 2000, (i) the Company sold to Continental approximately 6.7 million shares of the Continental Class A Common Stock held by the Company for \$450 million in cash; (ii) subsequently, Continental effected a recapitalization as a result of which the Company's remaining 2.0 million shares of Continental Class A Common Stock were converted into 2.6 million shares of Continental Class B Common Stock; (iii) the Company and Continental extended the term of their alliance agreement through 2025; and (iv) Continental issued to the Company a special series of preferred stock that gives the Company the right to block certain business combinations and similar change of control transactions involving Continental and a third-party major air carrier during

the term of the alliance agreement. The preferred stock is subject to redemption by Continental in certain events, including a change of control of the Company. The Company also entered into a revised standstill agreement that contains certain restrictions on the Company's ability to vote and acquire additional shares of Continental common stock. In December 2000, the Company recorded a \$26 million loss in other non-operating income (expense) as a result of the sale of the 6.7 million Class A shares to Continental. At December 31, 2000, the remaining 2.6 million Class B shares were being accounted for as marketable securities and \$15 million was recorded in unrealized gains in accumulated other comprehensive income (loss). In February 2001, the Company sold the remaining 2.6 million Class B shares for \$132 million, as a result of which a pre-tax gain of \$27 million was recorded (\$11 million after tax or \$.13 per common share).

MAIR Holdings, Inc.: The Company owns 27.8% of the common stock of MAIR Holdings, Inc., the holding company of Mesaba, a Northwest Airliner carrier. The Company also has warrants to acquire MAIR Holdings, Inc. common stock, of which approximately 923,000, or 22% of the warrants held by the Company, were in-the-money as of December 31, 2003. The Company accounts for its investment in Mesaba using the equity method.

Northwest and Mesaba have entered into two airline service agreements, under which Northwest determines Mesaba's turboprop and AVRO regional jet aircraft scheduling and fleet composition. These agreements are structured as capacity purchase agreements under which Northwest pays Mesaba to operate the flights on Northwest's behalf and Northwest is entitled to all revenues associated with those flights. Under these agreements, Northwest paid \$493 million, \$454 million and \$398 million for the years ended December 31, 2003, 2002 and 2001, respectively. These payments are recorded on a net basis as a reduction to passenger revenues. The Company had a payable to Mesaba of \$23 million and \$28 million as of December 31, 2003 and 2002, respectively. As of December 31, 2003, the Company has leased 49 Saab 340 aircraft, which are in turn subleased to Mesaba. In addition, as of December 31, 2003, the Company has leased 10 owned and subleased 25 AVRO regional jet aircraft to Mesaba.

Pinnacle: As of September 30, 2003, Northwest had contributed 88.6% of the Common Stock of Pinnacle Airlines Corp., the holding company of Pinnacle Airlines, to the Company's pension plans in lieu of cash contributions totaling \$353 million pursuant to an exemption granted by the Department of Labor. The Company completed an IPO of the Pinnacle Airlines Corp. stock held by the plans on November 24, 2003, for net proceeds of \$255 million, with the proceeds being retained by the Plans. An additional cash contribution of approximately \$98 million was therefore required to satisfy the

difference between the original valuation of the shares at the time of their contribution and the realized value at the time of the IPO. The Company continues to hold an 11.4% interest in Pinnacle Airlines Corp. Prior to the IPO, Pinnacle Airlines was fully consolidated and contributed approximately \$52 million to 2003 operating income.

Northwest and Pinnacle Airlines have entered into an airline service agreement, under which Northwest determines Pinnacle Airlines' commuter aircraft scheduling and fleet composition. The agreement is structured as a capacity purchase agreement whereby Northwest pays Pinnacle Airlines to operate the flights on Northwest's behalf and Northwest is entitled to all revenues associated with those flights. Under this agreement, Northwest paid a net \$375 million, \$188 million and \$200 million for the years ended December 31, 2003, 2002 and 2001, respectively. These payments are recorded on a net basis as a reduction to passenger revenues. The Company had a payable of \$18 million to Pinnacle Airlines as of December 31, 2003, and there was no payable as of December 31, 2002. As of December 31, 2003, the Company has leased 76 CRJ aircraft, which are in turn subleased to Pinnacle Airlines.

Northwest has approximately \$143 million in receivables from Pinnacle Airlines, consisting of a \$133 million note receivable, of which \$13 million was classified as short-term, and a \$10 million short-term receivable from a revolving line of credit as of December 31, 2003.

NWA Funding, LLC ("NWF"): In December 1999, a Receivables Purchase Agreement was executed by Northwest, NWF, a wholly-owned, non-consolidated subsidiary of the Company, and certain Purchasers pursuant to a securitization transaction. The amount of loss recognized related to receivables securitized at December 31, 2001, was not material. NWF maintained a variable undivided interest in these receivables and was subject to losses on its share of the receivables and, accordingly, maintained an allowance for doubtful accounts. The

agreement was a five-year \$85 million revolving receivables purchase facility, renewable annually for five years at the option of the Purchaser, allowing Northwest to sell additional receivables to NWF and NWF to sell variable undivided interests in these receivables to the Purchaser. The fair value of securitized receivables was estimated from the anticipated future cash flows. The Company recorded the discount on the sale of receivables and its interest in NWF's earnings in other non-operating income (expense). The agreement provided for early termination upon the occurrence of certain events, including high passenger refunds as a percentage of sales and a downgrade in the Company's unsecured credit rating, both of which occurred following the events of September 11, 2001. As a result, on January 3, 2002, the facility was paid in full and terminated.

NWA Funding II, LLC ("NWF II"): In June 2002, a second Receivables Purchase Agreement was executed by Northwest, NWA Funding II, LLC ("NWF II"), a wholly-owned, non-consolidated subsidiary of the Company, and third party purchasers ("Purchasers"). The agreement was a 364-day, \$100 million maximum revolving receivables purchase facility, renewable annually for five years at the option of the Purchasers, that allowed NWF II to sell variable undivided interests in accounts receivable acquired from Northwest to the Purchasers. NWF II paid a yield to the Purchasers equal to the rate on A1/F1 commercial paper plus a program fee. The Receivables Purchase Agreement terminated in July 2003. The Purchasers then collected \$65 million on outstanding receivables. Due to seasonal fluctuations in accounts receivable sold under the agreement, the Company estimates that termination of the program reduced its cash balance at December 31, 2003 by approximately \$50 million.

WorldSpan: On June 30, 2003, the Company together with the other owners (American and Delta) sold WorldSpan to Travel Transaction Processing Corporation, an entity formed by Citigroup Venture Capital Equity Partners L.P. and Teachers' Merchant Bank. In the sale, the Company sold its 33.7% partnership interest in WorldSpan. The Company received cash proceeds of \$278 million at the time of sale, plus \$125 million of credits for future services from WorldSpan to be applied over the next nine years. As a result of this transaction, the Company recorded a gain of \$199 million in other income. The Company will recognize the service credits as a reduction to the cost of purchased services expense in the periods the credits are utilized.

Orbitz: On December 16, 2003, Orbitz and its airline owners (Northwest, Continental, Delta, United and American) sold approximately 12 million Orbitz shares through an initial public offering, which included 9.7% of Northwest's total holdings. Northwest sold 543,000 shares, with a book value of \$1.9 million, for approximately \$13.3 million and recorded a gain of approximately \$11.4 million. The Company continues to hold approximately 12% of the outstanding shares, representing a 17% voting interest in Orbitz.

Hotwire: On November 5, 2003, the Company sold its 6.7% interest in Hotwire to InterActive Corp. and received cash proceeds of \$40 million. Hotwire operates an online opaque travel site and was founded by Texas Pacific Group and six airlines, including the Company.

At December 31, 2003, the Company's investment in three affiliates, with a book value of \$56 million based on the equity method, had an aggregate market value of \$194 million.

Note 14—Risk Management and Financial Instruments

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

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

Foreign Currency: The Company is exposed to the effect of foreign exchange rate fluctuations on the U.S. dollar value of foreign currency-denominated operating revenues and expenses. The Company's largest exposure comes from the Japanese yen. In 2003, the Company's yen-denominated net cash inflow was approximately 19 billion yen (\$164 million).

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The Company uses forward contracts, collars or put options to hedge a portion of its anticipated yen-denominated sales. The changes in market value of such instruments have historically been highly effective at offsetting exchange rate fluctuations in yen-denominated sales. At December 31, 2003, the Company recorded \$10 million of unrealized losses in accumulated other comprehensive income (loss) as a result of forward contracts to sell 22 billion yen (\$193 million) at an average forward rate of 114 yen per dollar with various settlement dates through December 2004, and forward contracts to sell five billion yen (\$44 million) at an average forward rate of 106 yen per dollar with various settlement dates through September 2005. These forward contracts hedge approximately 22% and 6% of the Company's anticipated 2004 and 2005 yen-denominated sales, respectively. Hedging gains or losses are recorded in revenue when transportation is provided. The Japanese yen financial instruments utilized to hedge net yen-denominated cash flows resulted in gains of \$1 million, \$31 million and \$85 million in 2003, 2002 and 2001, respectively.

Counterparties to these financial instruments expose the Company to credit loss in the event of nonperformance, but the Company does not expect any of the counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gains, if any, in such contracts. To manage credit risks, the Company selects counterparties based on credit ratings, limits exposure to a single counterparty and monitors the market position with each counterparty. It is the Company's practice to participate in foreign currency hedging transactions with a maximum span of 25 months.

Aircraft Fuel: The Company is exposed to the effect of changes in the price and availability of aircraft fuel. In order to provide a measure of control over price and supply, the Company trades and ships fuel and maintains fuel storage facilities to support its flight operations. To further manage the price risk of fuel costs, the Company primarily utilizes futures contracts traded on regulated futures exchanges, swap agreements and options. The changes in market value of such contracts have historically been highly effective at offsetting fuel price fluctuations. It is the Company's policy to participate in hedging transactions with a maximum span of 18 months.

As of December 31, 2003, the Company had a nominal amount of unrealized gains in accumulated other comprehensive income (loss) as a result of the fuel hedge contracts. Such gains, if realized, will be recorded in fuel expense when the related fuel inventory is utilized. Fuel hedge contract effectiveness is evaluated on a monthly basis and any ineffective portion is recorded in fuel expense immediately. Ineffectiveness of \$5 million was recorded in fuel expense for the year ended December 31, 2002 and was immaterial for the years ended December 31, 2003 and 2001. The Company has not entered into any futures contracts traded on regulated futures exchanges, swaps, or options as of December 31, 2003 in order to hedge its first quarter 2004 or full year 2004 fuel requirements.

Interest Rates: The Company used financial instruments to hedge its exposure to interest rate market fluctuations prior to pricing pass-through certificates issued in 2000 and 2001. Additionally, the Company used financial instruments to hedge its exposure to interest rate fluctuations on the interest rate resets on A320 aircraft financing during the fourth quarter of 2001. As of December 31, 2003, the Company had \$3 million of unrealized losses in accumulated other comprehensive income (loss), which is amortized over the term of the related obligations.

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

Short-term Investments

	Cash and					
	Cash Equivalents		Unrestricted		Restricted	
	2003	2002	2003	2002	2003	2002
	(in millions)					
Cash	54	47	-	-	-	-
Available for sale securities	1,554	2,050	1,149	-	126	100
Total	1,608	2,097	1,149	-	126	100

Cash equivalents are carried at cost and consisted primarily of unrestricted money market funds as of December 31, 2003. These instruments approximate fair value due to their short maturity. The Company classifies investments with a remaining maturity of more than three months on their acquisition date and those temporarily restricted, as short-term investments.

The financial statement carrying values and estimated fair values of the Company's financial instruments, including current maturities, as of December 31 were:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Long-Term Debt	\$ 7,866	\$ 7,035	\$ 6,531	\$ 5,496
Mandatorily Redeemable Preferred Security	-	-	553	579
Series C Preferred Stock	236	234	226	217

The fair values of the Company's long-term debt were estimated using quoted market prices, where available. For long-term debt not actively traded and the Preferred Security, fair values were estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of securities. The fair value of the Series C Preferred Stock shares was estimated using current market value of the underlying Common Stock and the Black-Scholes option pricing model.

Note 15—Segment Information

The Company is managed as one cohesive business unit, of which revenues are derived primarily from the commercial transportation of passengers and cargo. Operating revenues from flight segments serving a foreign destination are classified into the Pacific or Atlantic regions, as appropriate. The following table shows the operating revenues for each region for the years ended December 31:

	2003	2002	2001
	(in millions)		
Domestic	\$ 6,469	\$ 6,410	\$ 6,726
Pacific, principally Japan	1,921	2,043	2,144
Atlantic	1,120	1,036	1,035
Total operating revenues	\$ 9,510	\$ 9,489	\$ 9,905

The Company's tangible assets consist primarily of flight equipment, which are utilized across geographic markets and therefore have not been allocated.

Note 16—Quarterly Financial Data (Unaudited)

Unaudited quarterly results of operations for the years ended December 31 are summarized below:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
	(in millions, except per share amounts)			
2003:				
Operating revenues	\$ 2,250	\$ 2,297	\$ 2,556	\$ 2,407
Operating income (loss)	(326)	(73)	146	(12)
Net income (loss)	\$ (396)	\$ 227	\$ 47	\$ 370
<i>Basic earnings (loss) per common share</i>	(\$ 4.62)	\$ 2.64	\$ 0.49	\$ 4.23
<i>Diluted earnings (loss) per common share</i>	(\$ 4.62)	\$ 2.45	\$ 0.49	\$ 4.18
2002:				
Operating revenues	\$ 2,180	\$ 2,406	\$ 2,564	\$ 2,339
Operating income (loss)	(196)	(46)	8	(612)
Net income (loss)	\$ (171)	\$ (93)	\$ (46)	\$ (488)
<i>Basic earnings (loss) per common share</i>	(\$ 2.01)	(\$ 1.08)	(\$ 0.55)	(\$ 5.68)
<i>Diluted earnings (loss) per common share</i>	(\$ 2.01)	(\$ 1.08)	(\$ 0.55)	(\$ 5.68)

The sum of the quarterly earnings per share amounts may not equal the annual amount reported since per share amounts are computed independently for each quarter and for the full year based on respective weighted-average common shares outstanding and other dilutive potential common shares.

Note 17—Subsequent Events (Unaudited)

Debt Issuance: On January 26, 2004, Northwest completed an offering of \$300 million of unsecured notes due 2009. The notes have a coupon rate of 10%, payable semi-annually in cash on February 1 and August 1 of each year, beginning on August 1, 2004, and are not redeemable prior to maturity. Each note was issued at a price of \$962 per \$1,000 principal amount resulting in a yield to maturity of 11.0%. Proceeds from the notes are to be used for working capital and general corporate purposes. The notes are guaranteed by NWA Corp.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2003. Based on that evaluation, the Company's management, including the Chief Executive Officer and Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective in ensuring that material information relating to the Company with respect to the period covered by this report was made known to them. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to December 31, 2003.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is incorporated by reference and will be set forth under the headings "General Information—Section 16(a) Beneficial Ownership Reporting Compliance", "Information about our Board of Directors", and "Election of Directors—Information Concerning Director—Nominees" to be included in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the last fiscal year. The information regarding executive officers is included in Part I of this report under the caption "Executive Officers of the Registrant."

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference and will be set forth under the headings "Information about our Board of Directors—Compensation of Directors," "Information about our Board of Directors—Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" to be included in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference and will be set forth under the heading "Beneficial Ownership of Securities" to be included in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference and will be set forth under the headings "Information about our Board of Directors—Compensation Committee Interlocks and Insider Participation" and "Information about our Board of Directors—Related Party Transactions" to be included in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference and will be set forth under the heading "Relationship with Independent Public Accountants" to be included in the Company's Proxy Statement for the 2004 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following is an index of the financial statements, schedules and exhibits included in this Report.

(a) **1. Financial Statements**

[Consolidated Balance Sheets–December 31, 2003 and December 31, 2002](#)

[Consolidated Statements of Operations–For the years ended December 31, 2003, 2002 and 2001](#)

[Consolidated Statements of Cash Flows–For the years ended December 31, 2003, 2002 and 2001](#)

[Consolidated Statements of Common Stockholders' Equity \(Deficit\)–For the years ended December 31, 2003, 2002 and 2001](#)

[Notes to Consolidated Financial Statements](#)

2. Financial Statement Schedule:

[Schedule II-Valuation of Qualifying Accounts and Reserves–For the years ended December 31, 2003, 2002 and 2001](#)

Schedules not included have been omitted because they are not applicable or because the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits

The following is an index of the exhibits included in this Report or incorporated herein by reference.

- 3.1 Restated Certificate of Incorporation of Northwest Airlines Corporation (filed as Exhibit 4.1 to the Registration Statement on Form S-3, File No. 333-69655 and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws of Northwest Airlines Corporation.
Restated Certificate of Incorporation of Northwest Airlines, Inc. (filed as Exhibit 3.3 to
- 3.3 Northwest's Registration Statement on Form S-3, File No. 33-74772, and incorporated herein by reference).
- 3.4 Bylaws of Northwest Airlines, Inc. (filed as Exhibit 4.2 to NWA Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 and incorporated herein by reference).
- 4.1 Certificate of Designation of Series C Preferred Stock of Northwest Airlines Corporation (included in Exhibit 3.1).
- 4.2 Certificate of Designation of Series D Junior Participating Preferred Stock of Northwest Airlines Corporation (included in Exhibit 3.1).
- 4.3 Rights Agreement dated as of November 20, 1998 between Northwest Airlines Corporation and Norwest Bank Minnesota, N.A., as Rights Agent.

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- 4.4 The registrant hereby agrees to furnish to the Commission, upon request, copies of certain instruments defining the rights of holders of long-term debt of the kind described in Item 601(b)(4) of Regulation S-K.
 - 10.1 Standstill Agreement dated as of November 15, 2000 among Continental Airlines, Inc., Northwest Airlines Corporation, Northwest Airlines Holdings Corporation and Northwest Airlines, Inc. (filed as Exhibit 99.8 to Continental Airlines, Inc.'s Current Report on Form 8-K dated November 15, 2000 and incorporated herein by reference).
 - 10.2 Amended and Restated Standstill Agreement dated May 1, 1998 between Koninklijke Luchtvaart Maatschappij N.V. and Northwest Airlines Corporation.

- 10.3 First Amended and Restated Common Stock Registration Rights Agreement dated as of September 9, 1994 among Northwest Airlines Corporation, the holders of the Series C Preferred Stock and the Original Investors named therein (filed as Exhibit 10.9 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- 10.4 Acknowledgement dated November 20, 1998 of Northwest Airlines Corporation regarding assumption of obligations as successor under the First Amended and Restated Common Stock Registration Rights Agreement.
- 10.5 Airport Use and Lease Agreement dated as of June 21, 2003 between The Charter County of Wayne, Michigan and Northwest Airlines, Inc. (filed as Exhibit 10.7 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
- 10.6 Airline Operating Agreement and Terminal Building Lease Minneapolis-St. Paul International Airport dated as of January 1, 1999 between the Metropolitan Airports Commission and Northwest Airlines, Inc. (filed as Exhibit 10.24 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- 10.7 Master Financing Agreement dated as of March 29, 1992 among Northwest Airlines Corporation, Northwest Airlines, Inc. and the State of Minnesota (filed as Exhibit 10.9 to the registration statement on Form S-1, File No. 33-74210, and incorporated herein by reference).
- 10.8 Credit and Guarantee Agreement dated as of October 24, 2000 among Northwest Airlines Corporation, Northwest Airlines Holdings Corporation, NWA Inc., Northwest Airlines, Inc. and various lending institutions named therein (filed as Exhibit 10.21 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- 10.9 Second Amendment dated as of October 23, 2001 to Credit and Guarantee Agreement among Northwest Airlines Corporation, Northwest Airlines Holdings Corporation, NWA Inc., Northwest Airlines, Inc. and various lending institutions named therein dated as of October 24, 2000 (filed as Exhibit 10.13 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- 10.10 Third Amendment dated as of September 9, 2002 to Credit and Guarantee Agreement among Northwest Airlines Corporation, Northwest Airlines Holdings Corporation, NWA Inc., Northwest Airlines, Inc. and various lending institutions named therein dated as of October 24, 2000 (filed as Exhibit 10.1 to NWA Corp.'s Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- 10.11 Fourth Amendment dated as of February 14, 2003 to Credit and Guarantee Agreement among Northwest Airlines Corporation, Northwest Airlines Holdings Corporation, NWA Inc., Northwest Airlines, Inc. and various lending institutions named therein dated as of October 24, 2000 (filed as Exhibit 10.1 to NWA Corp.'s Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).

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- 10.12 Fifth Amendment dated as of May 1, 2003 to Credit and Guarantee Agreement among Northwest Airlines Corporation, Northwest Airlines Holdings Corporation, NWA Inc., Northwest Airlines, Inc. and various lending institutions named therein dated as of October 24, 2000 (filed as Exhibit 10.2 to NWA Corp.'s Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).
- 10.13 Corrected Schedule I and Schedule II to Aircraft Mortgage and Security Agreement included in Exhibit 10.13 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31,

- 2001 (filed in substitution) (filed as Exhibit 10.2 to NWA Corp.'s Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- 10.14 A319-100 Purchase Agreement dated as of September 19, 1997 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (filed as Exhibit 10.1 to NWA Corp.'s Form 10-Q for the quarter ended September 30, 1997 and incorporated herein by reference; the Commission has granted confidential treatment for certain portions of this document).
- 10.15 A330 Purchase Agreement dated as of December 21, 2000 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (filed as Exhibit 10.1 to NWA Corp.'s Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference; the Commission has granted confidential treatment for certain portions of this document).
- 10.16 Amendment No. 1 to A330 Purchase Agreement dated as of November 26, 2001 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (filed as Exhibit 10.14 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference; the Commission has granted confidential treatment as to certain portions of this document).
- 10.17 Amendment No. 2 to A330 Purchase Agreement dated as of December 20, 2002 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (filed as Exhibit 10.15 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference; the Commission has granted confidential treatment as to certain portions of this document).
- 10.18 Amendment No. 3 to A330 Purchase Agreement dated as of April 30, 2003 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (NWA Corp. has filed a request with the Commission for confidential treatment as to certain portions of this document).
- 10.19 Amendment No. 4 to A330 Purchase Agreement dated as of December 18, 2003 between AVSA, S.A.R.L. and Northwest Airlines, Inc. (NWA Corp. has filed a request with the Commission for confidential treatment as to certain portions of this document).
- 10.20 Bombardier CRJ440 Purchase Agreement dated as of July 6, 2001 between Bombardier Inc. and Northwest Airlines, Inc. (filed as Exhibit 10.1 to NWA Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference; the Commission has granted confidential treatment for certain portions of this document).
- 10.21 Preliminary Confirmation and Master Agreement dated October 29, 2003 and January 15, 1997, respectively, between Citibank, N.A. and Northwest Airlines Corporation (filed as Exhibit 10.1 to NWA Corp.'s Form 10-Q for the quarter ended September 30, 2003 and incorporated herein by reference).
- 10.22 Consulting Agreement dated as of December 20, 2002 between Northwest Airlines, Inc. and Aviation Consultants LLC (filed as Exhibit 10.19 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
- 10.23 Agreement dated May 6, 2003 by and between the United States of America (acting through the Transportation Security Administration) and Northwest Airlines, Inc. pursuant to the Emergency Wartime Supplemental Appropriations Act of 2003.

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- *10.24 Management Compensation Agreement dated as of June 28, 2001 between Northwest Airlines, Inc. and Richard H. Anderson (filed as Exhibit 10.17 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.25 Management Compensation Agreement dated as of June 28, 2001 between Northwest Airlines, Inc. and Douglas M. Steenland (filed as Exhibit 10.18 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.26 Management Compensation Agreement dated as of January 14, 2002 between Northwest Airlines, Inc. and J. Timothy Griffin (filed as Exhibit 10.20 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).

- *10.27 Management Compensation Agreement dated as of January 14, 2002 between Northwest Airlines, Inc. and Philip C. Haan (filed as Exhibit 10.21 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.28 Management Compensation Agreement dated as of September 27, 2002 between Northwest Airlines, Inc. and Bernard L. Han (filed as Exhibit 10.23 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).
- *10.29 Northwest Airlines, Inc. Key Employee Annual Cash Incentive Program (filed as Exhibit 10.42 to the registration statement on Form S-1, File No. 33-74210, and incorporated herein by reference).
- *10.30 Northwest Airlines, Inc. Excess Pension Plan for Salaried Employees (2001 Restatement) (filed as Exhibit 10.23 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.31 Northwest Airlines, Inc. Supplemental Executive Retirement Plan (2001 Restatement) (filed as Exhibit 10.24 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.32 Northwest Airlines Corporation 1999 Stock Incentive Plan, as amended (filed as Exhibit 10.26 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.33 2001 Northwest Airlines Corporation Stock Incentive Plan, as amended (filed as Exhibit 10.43 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- *10.34 Northwest Airlines Corporation 1998 Pilots Stock Option Plan.
- *10.35 Amendment to Northwest Airlines Corporation 1998 Pilots Stock Option Plan.
- *10.36 Form of Non-Qualified Stock Option Agreement for executive officers under the 2001 Northwest Airlines Corporation Stock Incentive Plan (filed as Exhibit 10.28 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference).
- *10.37 Form of Phantom Stock Unit Award Agreement for executive officers under the 2001 Northwest Airlines Corporation Stock Incentive Plan (filed as Exhibit 10.39 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- *10.38 Form of Deferred Stock Award Agreement for executive officers under the 1999 Northwest Airlines Corporation Stock Incentive Plan (filed as Exhibit 10.40 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).
- *10.39 Northwest Airlines Corporation E-Commerce Incentive Compensation Program, including form of Award Agreement (filed as Exhibit 10.34 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference).

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- *10.40 The Chairman's Long-Term Retention and Incentive Program (filed as Exhibit 10.62 to NWA Corp.'s Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
- *10.41 Northwest Airlines, Inc. 2003 Long-Term Cash Incentive Plan, including form of Award Agreement.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 12.2 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Requirements.
- 21.1 List of Subsidiaries.
- 23.1 Consent of Ernst & Young LLP.
- 24.1 Powers of Attorney (included in signature page).
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1 Section 1350 Certification of Chief Executive Officer.

32.2 Section 1350 Certification of Chief Financial Officer.

* Compensatory plans in which the directors and executive officers of Northwest participate.

(b) Reports on Form 8-K:

- (i) Report dated October 16, 2003, reporting Item 5. "Other Events and Regulation FD Disclosure" and Item 9. "Regulation FD Disclosure." No financial statements were filed with the report, which included a press release announcing our financial results for the third quarter of 2003 and a letter to investors and analysts on forward looking guidance.
- (ii) Report dated October 29, 2003, reporting Item 5. "Other Events and Regulation FD Disclosure." No financial statements were filed with the report, which included a press release announcing the intention to issue convertible senior notes due 2023, issued October 29, 2003, announcing the pricing of 7.625% convertible senior notes due 2023, issued October 30, 2003, and announcing the launch of an offer to exchange 10.5% secured pass-through certificates for certain unsecured notes, issued October 30, 2003.

(c) Exhibits:

- (i) See Item 15(a)(3).

(d) Financial Statement Schedules:

- (ii) See Item 15(a)(2).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 4th day of March 2004.

NORTHWEST AIRLINES CORPORATION

/s/ JAMES G. MATHEWS

By: James G. Mathews
Vice President-Finance and Chief Accounting Officer (principal accounting officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints Richard H. Anderson, Bernard L. Han and James G. Mathews, and each of them individually, his or her true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for such individual and in such individual's name, place and stead, in any and all capacities, to act on, sign and file with the Securities and Exchange Commission any and all amendments to this report together with all schedules and exhibits thereto and to take any and all actions which may be necessary or appropriate in connection therewith, and each such individual hereby approves, ratifies and confirms all that such agents, proxies and attorneys-in-fact, any of them or any of his or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 4th day of March 2004 by the following persons on behalf of the registrant and in the capacities indicated.

/s/ RICHARD H. ANDERSON

Richard H. Anderson
Chief Executive Officer and Director (principal executive officer)

/s/ BERNARD L. HAN

Bernard L. Han
Executive Vice President & Chief Financial Officer (principal financial officer)

/s/ JAMES G. MATHEWS

James G. Mathews
Vice President–Finance and Chief Accounting Officer (principal accounting officer)

/s/ GARY L. WILSON

Gary L. Wilson
Chairman of the Board Director

/s/ RAY W. BENNING, JR.

Ray W. Benning, Jr.
Director

/s/ RICHARD C. BLUM

Richard C. Blum
Director

/s/ ALFRED A. CHECCHI

Alfred A. Checchi
Director

/s/ JOHN ENGLER

John Engler
Director

/s/ ROBERT L. FRIEDMAN

Robert L. Friedman
Director

/s/ DORIS KEARNS GOODWIN

Doris Kearns Goodwin
Director

/s/ DENNIS F. HIGHTOWER

Dennis F. Hightower
Director

/s/ GEORGE J. KOURPIAS

George J. Kourpias

Director

/s/ FREDERIC V. MALEK

Frederic V. Malek

Director

/s/ V. A. RAVINDRAN

V. A. Ravindran

Director

/s/ MICHAEL G. RISTOW

Michael G. Ristow

Director

/s/ DOUGLAS M. STEENLAND

Douglas M. Steenland

President and Director

Leo M. van Wijk

Director

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NORTHWEST AIRLINES CORPORATION
SCHEDULE II-VALUATION OF QUALIFYING ACCOUNTS AND RESERVES
(In millions)

Col. A	Col. B	Col. C		Col. B	Col. B
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts -Describe	Deductions -Describe	Balance at End of Period
Year Ended December 31, 2003					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	\$ 19	\$ 11	\$ -	\$ 11(1)	\$ 19
Accumulated allowance for depreciation of flight equipment spare parts	175	25	5(2)	3(3)	202
Year Ended December 31, 2002					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	20	9	-	10(1)	19
Accumulated allowance for depreciation of flight equipment spare parts	121	67	22(2)	35(3)	175
Year Ended December 31, 2001					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	16	12	-	8(1)	20

Accumulated allowance for depreciation of flight equipment spare parts	131	32	2(2)	44(3)	121
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(1) Uncollectible accounts written off, net of recoveries

(2) Interaccount transfers

(3) Dispositions and write-offs

S-1

**AMENDED AND RESTATED BYLAWS
OF
NORTHWEST AIRLINES CORPORATION
(hereinafter called the "Corporation")**

As Amended as of January 29, 2004

ARTICLE I

OFFICES

Section 1. *Registered Office.* The registered office of the office of the Corporation shall be in Wilmington, New Castle County, State of Delaware.

Section 2. *Other Offices.* The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETING OF STOCKHOLDERS

Section 1. *Place of Meetings.* Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. *Annual Meetings.* The Annual Meeting of Stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meeting the stockholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting.

Section 3. *Special Meetings.* Special Meetings of Stockholders, for any purpose or purposes, may be called only by the Chairman of the Board, and shall be called by the Chairman of the Board at the request in writing of a majority of the Board of Directors. Such request shall state the purpose or purposes of the proposed meeting.

Section 4. *Notice of Meetings.* Written notice of an Annual Meeting or Special Meeting stating the place, date and hour of the meeting and in the case of a Special Meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 5. *Quorum.* Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to

vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or

represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 6. *Voting.* Except as otherwise provided by the Certificate of Incorporation or these Bylaws, any questions brought before any meeting of stockholders shall be decided by a majority vote of the number of shares present in person or represented by proxy and entitled to vote on the subject matter. Such votes may be cast in person or by proxy but no proxy shall be voted on after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 7. *Special Voting Requirements.* Notwithstanding anything in Section 6 above, any plan of merger or consolidation with or into another person or entity in one or a series of related transactions that is not approved by the Board of Directors in accordance with the provisions of these Bylaws and which is brought before any meeting of stockholders shall require the vote of not less than two-thirds of the shares of stock entitled to vote thereon. Any amendment to this Section 7 of Article II of these Bylaws shall require the approval of not less than two-thirds of the shares of stock entitled to vote thereon or a two-thirds vote of the Board of Directors.

Section 8. *List of Stockholders Entitled to Vote.* The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 9. *Stockholder Ledger.* Except as otherwise provided in the Certificate of Incorporation or in Article IX of these Bylaws, the stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 8 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 10. *Advance Notice of Stockholder Business.*

(a) *Annual Meetings of Stockholders.*

(1) The proposal of business to be considered by the stockholders (other than nominations of persons for election to the Board of Directors, which must be made in accordance with the provisions of ARTICLE III, Section 1 hereof) may be made at an annual meeting of stockholders (A) pursuant to the Corporation's notice of meeting, (B) by or at the direction of the Board of Directors, or (C) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(2) For the proposal of business to be properly brought before an annual meeting by a stockholder pursuant to clause (C) of paragraph (a)(1) of this By-Law, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a

stockholder's notice as described above. Such stockholder's notice shall set forth: (a) as to any business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (b) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of records by such stockholder and such beneficial owner.

(b) *Special Meetings of Stockholders.* Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders in accordance with ARTICLE III, Section 1 of these By-Laws.

(c) *General.*

(1) Only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Restated Certificate of Incorporation, as amended, or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether

any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed business is not in compliance with this By-Law, to declare that such defective proposal shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(3) Notwithstanding the foregoing provisions of this By-Law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of preferred stock to elect directors under specified circumstances.

ARTICLE III

DIRECTORS

Section 1. *Number and Election of Directors.* (a) The Board of Directors shall consist of 15 members. Except as provided in Sections 1 and 2 of this Article, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders, and each director so elected shall hold office until the next Annual Meeting and until his successor is duly elected and qualified, or until his earlier resignation or removal. Directors need not be stockholders of the Corporation.

(b) Notwithstanding anything in this Section 1 or in Section 2 of this Article III to the contrary, each of the holders of the series C preferred stock, par value \$0.01 per share (the "Series C Preferred Stock"), of the Corporation may vote to elect directors to the Board of Directors, and to fill vacancies on the Board of Directors, in accordance with the terms of the certificate of designation for such stock; *provided, however,* that each director elected by holders of the Series C Preferred Stock (a "Series C Director") must be a citizen of the United States.

(c) Subject to the exclusive rights of holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect Series C Directors or directors of the Corporation upon the happening of certain events (including as referred to in Section 1(b)), nominations of candidates for election as directors of the Corporation at any meeting of stockholders of the Corporation may be made by the a nominating committee of the Board of Directors to be established pursuant to Section 3 of this Article III and as required by law, regulation or listing standards of any exchange on which securities of the Corporation are listed, or by any stockholder entitled to vote at such meeting who complies with the provisions of this Section 1(c). Not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting, in the case of an annual meeting, or, in the case of a special meeting called by the Chairman of the

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Board for the purpose of electing directors, not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting, any stockholder who intends to make a nomination at the meeting shall deliver written notice to the Secretary of the Corporation setting forth (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the stockholder (A) is a United States Citizen (as such term is deemed in the Certificate of Incorporation), (B) is a holder of record of stock of the Corporation specified in such notice, (C) is or will be entitled to vote at such meeting, and (D) intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a statement that the nominee (or nominees) is a United States Citizen (as defined above) and is willing to be nominated; and (iv) such other information concerning each such nominee as would be required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of such nominee and in a Schedule 14B (or other comparable required filing then in effect) under the Exchange Act. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above. In the event that a person is validly designated as a proposed nominee in accordance with this Section 1(c) (including a bona fide statement that the nominee is willing to be nominated) and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the stockholder who made such designation may designate promptly in the manner set forth above a substitute proposed nominee, notwithstanding the minimum time period set forth in this Section 1(c). No person may be elected as a director at a meeting of stockholders unless nominated in accordance with this Section 1(c), and any purported nomination or purported election not made in accordance with the procedures as set forth in this Section 1(c) shall be void. In addition to any other requirements relating to amendments to these Bylaws, no proposal by any stockholder to repeal or amend this Section 1(c) shall be brought before any meeting of the stockholders of the Corporation unless written notice is given of (i) such proposed repeal or the substance of such proposed amendment; (ii) the name and address of the stockholder who intends to propose such repeal or amendment; and (iii) a representation that the stockholder is a holder of record of stock of the Corporation specified in such notice, is or will be entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to make the proposal. Such notice shall be given in the manner and at the time specified above in this Section 1(c). Any proposal to repeal or amend or any such purported repeal or purported amendment of this Section 1(c) not made or adopted in accordance with the procedures set forth in this Section 1(c) shall be void. Any amendment to this Section 1(c) shall require the vote of holders of not less than two-thirds of the shares of stock entitled to vote thereon.

Section 2. *Vacancies.* Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled by a majority vote of all directors, including the Series C Directors, as defined in Section 1 of this Article III, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified, or until their earlier resignation or removal; provided, however, that:

(a) Any interim vacancy among the Series C Directors, whether such vacancy

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occurs as a result of death, removal or otherwise, shall be filled, effective at the beginning of the next meeting of the Board of Directors, by a designee nominated by the Union, as defined in the Certificate of Designation for the Series C Preferred Stock (the

"Series C Certificate of Designation"), that nominated the previous holder of the vacant position pursuant to the terms of the Letter Agreements (as defined below); *provided, however*, that for any vacancy among the Series C Directors created by an increase in the size of the Board of Directors pursuant to the provisions of paragraph 7(ii)(a) or 7(ii)(b) of the Series C Certificate of Designation, the Air Line Pilots Association, the International Brotherhood of Teamsters and the International Association of Machinists and Aerospace Workers, each acting through its President or, in the case of Airline Pilots Association, the Northwest Airlines, Inc. Master Executive Council, shall each be entitled to nominate one-third of the Series C Directors and- if the total number of Series C Directors is not a multiple of three, any remaining Series C Directors shall be nominated by a unanimous vote of the existing Series C Directors designated by such three Unions.

(b) In the event that, in connection with the redemption of Series C Preferred Stock pursuant to paragraph 9(i)(a) of the Series C Certificate of Designation, the Corporation issues additional shares of Common Stock to the exchanging holders of Series C Preferred Stock and, following such issuance, the number of shares of Common Stock held by Qualified Holders of Employee Stock, as such terms are defined in the Series C Certificate of Designation, after such redemption is greater than 50% of the number of shares of voting capital stock of the Corporation then outstanding, the terms of all sitting members of the Board of Directors of the Corporation, other than the Series C Directors, shall thereupon terminate and the Series C Directors shall appoint the successors of such directors. Any director may resign at any time upon notice to the Corporation. Directors need not be stockholders.

Section 3. *Committees.* The Board of Directors may designate one or more committees, which committees shall, to the extent provided in the resolution of the Board of Directors establishing such a committee, have all authority and may exercise all the powers of the Board of Directors in the management of the business and affairs of the Corporation to the extent lawful under the General Corporation Law of the State of Delaware, *provided, however*, to the extent that directors serve as members of a committee designated by the Board of Directors, at least one of such directors shall be a Series C Director as long as any Series C Directors sit on the Board of Directors.

Section 4. *Duties and Powers.* The business of the Corporation shall be managed by or under the direction of the Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 5. *Meetings.* The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by the Chairman, if there be one, the President, or any two directors. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by mail not less than forty-eight (48) hours before the date of the meeting, by telephone, telegram or telecopy (facsimile)

on twenty-four (24) hours' notice, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

Section 6. *Quorum; Board Action.*

(a) Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the entire Board of Directors shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

(b) [Deleted]

(c) Notwithstanding anything in Section 6(a) to the contrary, the Corporation's Certificate of Incorporation or these Bylaws may not be amended to abrogate any of the terms or rights or powers of the Series C Preferred Stock in a manner inconsistent with the terms of the Letter

Agreements, or the Common Stock into which such Series C Preferred Stock may be converted, without the affirmative vote of a majority of the Series C Directors.

(d) The following term shall have the following meaning for the purpose of this Article III:

"Letter Agreements" shall mean the equity letter agreements entered into in 1993 between the Corporation and Northwest on the one hand and the Air Line Pilots Association, the International Brotherhood of Teamsters, the International Association of Machinists and Aerospace Workers, the Transport Workers Union of America, the Airline Technical Support Association and the Northwest Airlines Meteorologists Association on the other hand.

Section 7. *Actions of Board.* Unless otherwise provided by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. *Meetings by Means of Conference Telephone.* Members of the Board of Directors of the Corporation, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 8 shall constitute presence in person at such meeting.

Section 9. *Compensation.* The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance

at each meeting of the Board of Directors or a stated salary as director or both. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

OFFICERS

Section 1. *General.* The officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a Chairman of the Board of Directors (who must be a director) and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person. The officers of Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board of Directors, need such officers be directors of the Corporation.

Section 2. *Election.* The Board of Directors at its first meeting held after each Annual Meeting of Stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. Any officer may be removed at any time by the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. *Voting Securities Owned by the Corporation.* Notwithstanding anything to the contrary contained herein, powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of and such securities, if voting securities, may be voted on behalf of, the Corporation (i) by such officer or officers as are specifically delegated to do so in any particular instance by the Board of Directors of the Corporation and (ii) the President or any Vice President, in any other case, and any such officer may, in the name of and on behalf of the Corporation, take all such action as such

officer may deem advisable to vote such securities in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and power incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. *Chairman of the Board of Directors.* The Chairman of the Board of Directors, if there be one, shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such duties and may exercise such powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

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Section 5. *President.* The President shall be subject to the control of the Board of Directors and, if there be one, the Chairman of the Board of Directors. As provided in Article VII of these Bylaws, the President shall have authority to execute all deeds, mortgages, bonds, checks, contracts and other instruments pertaining to the business and affairs of the Corporation. In the absence or disability of the Chairman of the Board of Directors, or if there be none, the President shall preside at all meetings of the stockholders and the Board of Directors. Unless the Board of Directors establishes otherwise, the President shall be the Chief Executive Officer of the Corporation. The President shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him or her by these Bylaws or by the Board of Directors.

Section 6. *Vice Presidents.* At the request of the President or in his or her absence or in the event of his or her inability or refusal to act (and if there be no Chairman of the Board of Directors), the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the Chief Executive Officer of the Corporation, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board of Directors from time to time may prescribe. If there be no Chairman of the Board of Directors and no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the Chief Executive Officer of the Corporation, and when so acting, shall have all the powers of and be subject to all the restrictions upon such Chief Executive Officer.

Section 7. *Secretary.* The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer of the Corporation, under whose supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the Chief Executive Officer of the Corporation may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 8. *Treasurer.* The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of

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Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer of the Corporation and the Board of Directors, at its regular meetings, or

when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his or her control belonging to the Corporation.

Section 9. *Assistant Secretaries.* Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chairman of the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 10. *Assistant Treasurers.* Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chairman of the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his or her control belonging to the Corporation.

Section 11. *Other Officers.* Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE V

STOCK

Section 1. *Form of Certificates.* Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of

shares owned by him or her in the Corporation.

Section 2. *Signatures.* Where a certificate is countersigned by (i) a transfer agent other than the Corporation or its employee, or (ii) a registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 3. *Lost Certificates.* The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. *Transfers.* Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his or her attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. *Record Date.* In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however,* that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. *Beneficial owners.* The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI

NOTICES

Section 1. *Notices.* Whenever written notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also be given personally or by telegram, telex, cable or telecopy (facsimile).

Section 2. *Waivers of Notice.* Whenever any notice is required by law, the Certificate of Incorporation or these Bylaws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written notice unless so required by the Certificate of Incorporation or these Bylaws.

ARTICLE VII

GENERAL PROVISIONS

Section 1. *Dividends.* Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. *Disbursements.* All checks or demands for money and notes of the Corporation shall be signed by the Treasurer or such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 3. *Fiscal Year.* The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 4. *Corporate Seal.* The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

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Section 5. [Deleted]

Section 6. *Certain Repurchases of Series C Preferred Stock.* (a) Any decision by the Board of Directors either (i) not to repurchase all of the Series C Preferred Stock with respect to which holders have exercised the Put Right, as defined in the Series C Certificate of Designation, either (x) with cash pursuant to paragraph 9(i)(a) of the Series C Certificate of Designation or (y) pursuant to the procedures set forth in paragraph 9(i)(b) of the Series C Certificate of Designation, but instead to redeem such Series C Preferred Stock with shares of Common Stock pursuant to paragraph 9(i)(a) of the Series C Certificate of Designation, or (ii) not to redeem any of the Series C Preferred Stock in accordance with the requirements of paragraph 9(i) of the Series C Certificate of Designation, may only be made if a majority of the Series C Directors consent to such decision.

(b) Any decision by the Board of Directors of the Corporation on any Partial Repurchase Date, as defined in the Series C Certificate of Designation, not to use all Available Cash as defined in the Series C Certificate of Designation, to effect a Partial Repurchase, as defined in the Series C Certificate of Designation, may only be made if a majority of the Series C Directors consent to such decision.

Section 7. *Execution of Instruments.* All deeds, mortgages, bonds, checks, contracts and other instruments pertaining to the business and affairs of the Corporation shall be signed on behalf of the Corporation by the Chief Executive Officer, the President, any Vice President or other officer of the Corporation, or by such other person or persons as may be designated from time to time by the Board of Directors.

ARTICLE VIII

INDEMNIFICATION

Section 1. *Power to Indemnify in Actions Suits or Proceedings Other than Those by or in the Right of the Corporation.* Subject to Section 4 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable

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cause to believe that his or her conduct was unlawful.

Section 2. *Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation.* Subject to Section 4 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure agent in its favor by reason of the fact that he or she is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director or officer of another corporation,

partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for gross negligence or willful misconduct to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Notwithstanding the other provisions of this Article VIII, to the extent that a director or officer of the Corporation has been successful on the merits or otherwise, including without limitation the dismissal of an action without prejudice, in the defense of any action, suit or proceeding referred to in Sections 1 and 2 above, or in the defense of any claim, issue or matter therein, that person shall be indemnified against all costs, charges and expenses (including attorneys' fees) actually and reasonably incurred by that person or on that person's behalf in connection therewith.

Section 4. *Authorization of Indemnification.* Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation unless a determination is made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders, that indemnification of the director or officer is not proper because that person has not met the applicable standards of conduct set forth in Sections 1 and 2 above.

Section 5. *Good Faith Defined.* For purposes of any determination under this Article VIII, a person shall be deemed to have acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his or her conduct was unlawful, if his or her action is based on the records or books of account of this Corporation or another enterprise, or on information supplied to him or her by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or record given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term

"another enterprise" as used in this Section 5 shall mean any other corporation or any partnership, joint venture, trust or other enterprise of which such person is or was serving at the request of the Corporation as a director or officer. The provisions of this Section 5 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 and 2 of this Article VIII, as the case may be.

Section 6. *Indemnification by a Court.* Notwithstanding any contrary determination in the specific case under Section 4 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he or she has met the applicable standards of conduct set forth in Sections 1 and 2 of this Article VIII, as the case may be. Notice of any application for indemnification pursuant to this Section 6 shall be given to the Corporation promptly upon the filing of such application.

Section 7. *Advance of Costs, Charges and Expenses.* Costs, charges and expenses (including attorneys' fees) incurred by a person referred to in Sections 1 and 2 above in defending a civil or criminal action, suit or proceeding (including investigations by any government agency and all costs, charges and expenses incurred in preparing for any threatened action, suit or proceeding) shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; *provided however*, that the payment of such costs, charges and expenses incurred by a director or officer in that person's capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer) in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay all amounts so advanced in the event that it shall

ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation as authorized in this Article VIII. No security be required for such undertaking and such undertaking shall be accepted without reference to the recipient's financial ability to make repayment. The repayment of such charges and expenses incurred by other employees and agents of the Corporation which are paid by the Corporation in advance of the final disposition of such action, suit or proceeding as permitted by this Section 7 may be required upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may, in the manner set forth above, and subject to the approval of such director or officer of the Corporation, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is party to such action, suit or proceeding.

Section 8. *Procedure for Indemnification.* Any indemnification under Sections 1, 2 or 3 or advance of costs, charges and expenses under Section 7 of this Article VIII shall be made promptly, and in any event, within sixty (60) days, upon the written request of the director or officer directed to the Secretary of the Corporation. The right to indemnification or advances granted in this Article VIII shall be enforceable by the director or officer in any court of competent jurisdiction if the Corporation denies such request, in whole or part, or if no disposition thereof is made within sixty (60) days. Such person's costs and expenses incurred in connection with

successfully establishing that person's right to indemnification or advances, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for advance costs, charges and expenses under Section 7 of this Article VIII where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Sections 1 or 2 of this Article VIII, but the burden of proving such standard of conduct has not been met shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) to have made such a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Sections 1 and 2 of this Article VIII, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) that the claimant has not met such applicable standard, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 9. *Non-Exclusivity of Indemnification and Advancement of Expenses.* The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any Bylaw, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Corporation has the power to indemnify under the provisions of the General Corporation Law of the State of Delaware or otherwise and has either the obligation to indemnify such person or has determined that it is in the best interests of the Corporation to do so.

Section 10. *Insurance.* The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as director or officer of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power or the obligation to indemnify him or her against such liability under the provisions of this Article VIII.

Section 11. *Meaning of "Corporation" for Purposes of Article VIII.* For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers, so that any person who is or was a director or officer of such constituent corporation, or is or was serving at the request for such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he or she would have with respect to such constituent

corporation if its separate existence had continued.

Section 12. *Survival of Indemnification and Advancement of Expenses.* The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE IX

OWNERSHIP BY FOREIGN PERSONS

Section 1. *Foreign Stock Record.* There shall be maintained a separate stock record, designated the "*Foreign Stock Record*", for the registration of Alien Owned Shares. The Beneficial Ownership by Persons of Alien Owned Shares shall be determined in conformity with regulations prescribed by the Board of Directors.

Section 2. *Permitted Percentage.* At no time shall ownership of shares representing more than the Permitted Percentage be registered on the Foreign Stock Record.

Section 3. *Registration of Shares.* If at any time there exist Alien Owned Shares that are not registered on the Foreign Stock Record, the Beneficial Owner thereof may request, in writing, that the corporation register ownership of such shares on the Foreign Stock Record and the Corporation shall comply with such request, subject to the limitation set forth in Section 2. The order in which Alien Owned Shares shall be registered on the Foreign Stock Record shall be chronological, based on the date the Corporation received a written request to so register such shares of Alien Owned Shares; *provided*, that any Person who is not a U.S. Citizen who purchases or otherwise acquires Alien Owned Shares that are registered on the Foreign Stock Record, may register such shares in its own name within thirty days of such acquisition, in which event such Person will assume the position of the seller of such shares in the chronological order of shares registered on the Foreign Stock Record. If at any time the Corporation shall find that the combined voting power of Alien Owned Shares then registered on the Foreign Stock Record exceeds the Permitted Percentage, there shall be removed from the Foreign Stock Record the registration of such number of shares so registered as is sufficient to reduce the combined voting power of the shares so registered to an amount not in excess of the Permitted Percentage. The order in which such shares shall be removed shall be reverse chronological order based upon the date the Corporation received a written request to so register such shares of Alien Owned Shares.

Section 4. *Definitions.* Capitalized terms used in this Article IX and not defined herein shall have the meaning ascribed to them in the Certificate of Incorporation.

AMENDMENTS

Section 1. Subject to the voting requirements of Section 7 of Article II and Sections 1(c) and 6 of Article III hereof, these Bylaws may be altered, amended or repealed, in whole or in part, or new Bylaws may be adopted, by the vote of the stockholders or the Board of Directors.

QuickLinks

[AMENDED AND RESTATED BYLAWS OF NORTHWEST AIRLINES CORPORATION \(hereinafter called the "Corporation"\) As Amended as of January 29, 2004](#)

Use these links to rapidly review the document

[NORTHWEST AIRLINES CORPORATION \(formerly Newbridge Parent Corporation\) and NORWEST BANK MINNESOTA, N.A., as Rights Agent Rights Agreement Dated as of November 20, 1998](#)

Exhibit 4.3

**NORTHWEST AIRLINES CORPORATION
(formerly Newbridge Parent Corporation)
and
NORWEST BANK MINNESOTA, N.A.,

as Rights Agent
Rights Agreement
Dated as of November 20, 1998**

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RIGHTS AGREEMENT

Agreement, dated as of November 20, 1998, between Northwest Airlines Corporation (formerly Newbridge Parent Corporation), a Delaware corporation (the "Company"), and Norwest Bank Minnesota, N.A., a New York corporation (the "Rights Agent").

WITNESSETH:

WHEREAS, on November 16, 1995, Northwest Airlines Holdings Corporation (formerly Northwest Airlines Corporation), a Delaware corporation ("Old Northwest"), and the Rights Agent entered into a Rights Agreement (the "Rights Agreement") providing for the issuance of preferred stock purchase rights having the terms set forth therein to the holders of record of common stock of Old Northwest;

WHEREAS, on June 25, 1998, Old Northwest and the Rights Agent amended and restated the Rights Agreement to reflect the consummation by Old Northwest of certain corporate transactions;

WHEREAS, pursuant to an Amended and Restated Agreement and Plan of Merger, dated as of October 30, 1998 (the "Amended and Restated Merger Agreement"), among the Company, Old Northwest and Newbridge Merger Corporation, a Delaware corporation and a wholly-owned subsidiary of the Company ("Merger Sub"), effective as of the date hereof, Merger Sub has merged with and into Old Northwest (the "Merger"), with the effect that Old Northwest has become a wholly-owned subsidiary of the Company;

WHEREAS, the Boards of Directors of the Company and Old Northwest desire that the holders of Common Shares (as hereinafter defined) have the same rights and privileges as the holders of common stock of Old Northwest; and

WHEREAS, the Board of Directors of the Company has authorized and declared a dividend of one preferred share purchase right (a "Right") for each share of Common Stock of the Company outstanding as of the Effective Time of the Merger (as hereinafter defined) (the "Record Date"), it being understood that the Common Shares issued in the Merger and pursuant to the Investment Agreement (as hereinafter defined) are deemed to be outstanding as of the Effective Time of the Merger, each Right representing the right to purchase one one-hundredth (subject to adjustment) of a share of Preferred Stock (as hereinafter defined), upon the terms and subject to the conditions herein set forth, and has further authorized and directed the issuance of one Right (subject to adjustment as provided herein) with respect to each share of Common Stock that shall become outstanding between the Record Date and the earliest of the Distribution Date, the Redemption Date and the Final Expiration Date (as such terms are hereinafter defined); provided, however, that Rights may be issued with respect to Common Shares that shall become outstanding after the Distribution Date and prior to the Redemption Date and the Final Expiration Date in accordance with Section 22.

Accordingly, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. *Certain Definitions.* For purposes of this Agreement, the following terms have the meaning indicated:

(a) "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which shall be the Beneficial Owner (as such term is hereinafter defined) of a number of Common Shares equal to 19% or more of the number of Common Shares (as such term is hereinafter defined) then outstanding (or, if such Person is an Institutional Investor (as such term is hereinafter defined), 25% or more of the Common

Shares then outstanding), but shall not include an Exempt Person (as such term is hereinafter defined); provided, however, that if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person" has become such inadvertently (including, without limitation, because (i) such Person was unaware that it beneficially owned a number of Common Shares that would otherwise cause such Person to be a "Acquiring Person" or (ii) such Person was aware of the extent of its Beneficial Ownership of Common Shares but had no actual knowledge of the consequences of such Beneficial Ownership

under this Rights Agreement) and without any intention of changing or influencing control of the Company, and such Person, as promptly as practicable divested or divests himself or itself of Beneficial Ownership of a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person, then such Person shall not be deemed to be or to have become an "Acquiring Person" for any purposes of this Agreement. Notwithstanding the foregoing, (i) if a Person would otherwise be deemed an Acquiring Person upon the adoption of this Agreement, such Person will not be deemed an Acquiring Person for any purposes of this Agreement unless and until such Person acquires Beneficial Ownership of any additional Common Shares after the adoption of this Agreement, unless upon the consummation of the acquisition of such additional Common Shares such Person does not beneficially own a number of Common Shares equal to 19% or more (25% or more in the case of an Institutional Investor) of the number of Common Shares then outstanding, and (ii) no Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of Common Shares beneficially owned by such

Person to 19% or more (25% or more in the case of an Institutional Investor) of the number of Common Shares then outstanding, provided, however, that if a Person shall become the Beneficial Owner of a number of Common Shares equal to 19% or more (25% or more in the case of an Institutional Investor) of the number of Common Shares then outstanding by reason of such share acquisitions by the Company and thereafter become the Beneficial Owner of any additional Common Shares, then such Person shall be deemed to be an "Acquiring Person" unless upon the consummation of the acquisition of such additional Common Shares such Person does not beneficially own a number of Common Shares equal to 19% or more (25% or more in the case of an Institutional Investor) of the number of Common Shares then outstanding. Notwithstanding any of the foregoing, in the event that an Institutional Investor (who is the Beneficial Owner of more than 19% of the Common Shares then outstanding at any time after the date hereof) no longer satisfies the requirements set forth in the definition of "Institutional Investor" set forth below, then such Person shall promptly as practicable, but in no event later than 5 Business Days after the Board of Directors determines in good faith that such Person no longer meets the requirements set forth in the definition of "Institutional Investor", divest itself of a sufficient number of Common Shares so that such Person no longer beneficially owns more than 19% of the Common Shares then outstanding. If such Person does not divest itself of Common Shares in accordance with the requirements set forth in the prior sentence, then such Person shall be deemed to be or to have become an "Acquiring Person" for any purposes of this Agreement. The phrase "then outstanding", when used with reference to a Person's Beneficial Ownership of Common Shares of the Company, shall mean the number of Common Shares then issued and outstanding

together with the sum of (i) all Common Shares issuable upon conversion of all the shares of Series C Preferred Stock, par value \$.01 per share, then issued and outstanding, (ii) all Common Shares issuable upon the exercise of all employee stock options issued and outstanding as of November 16, 1995 and (iii) any other Common Shares not then actually issued and outstanding but which such Person would be deemed to beneficially own hereunder.

(b) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on November 16, 1995.

(c) A Person shall be deemed the "Beneficial Owner" of, shall be deemed to have "Beneficial Ownership" of and shall be deemed to "beneficially own":

(i) any securities which such Person or any of such Person's Affiliates or Associates is deemed to beneficially own, directly or indirectly within the meaning of Rule 13d-3 of the General Rules and Regulations under the Exchange Act as in effect on November 16, 1995;

(ii) any securities which such Person or any of such Person's Affiliates or Associates has (A) the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members with respect to a bona fide public offering of securities), or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person

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shall not be deemed the Beneficial Owner of, or to beneficially own, (x) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase, (y) securities which such Person has a right to acquire on the exercise of Rights at any time prior to the time a Person becomes an Acquiring Person or (z) securities issuable upon exercise of Rights from and after the time a Person becomes an Acquiring Person if such Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3(a) or Section 22 hereof ("original Rights") or pursuant to Section 11(i) or Section 11(n) with respect to an adjustment to original Rights; or (B) the right to vote pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security by reason of such agreement, arrangement or understanding if the agreement, arrangement or understanding to vote such security (1) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations promulgated under the Exchange Act and (2) is not also then reportable on Schedule 13D under the Exchange Act (or any comparable or successor report);

(iii) any securities which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (other than customary agreements with and between underwriters and selling group members

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with respect to a bona fide public offering of securities) for the purpose of acquiring, holding, voting (except to the extent contemplated by the proviso to Section 1(c)(ii)(B)) or disposing of any securities of the Company; and

(iv) any securities of the Company convertible into Common Shares held by such Person.

Notwithstanding any of the foregoing, no Person shall be deemed the Beneficial Owner of any securities (including any Common Shares) by virtue of the agreements, arrangements (including any voting arrangements) and understandings set forth in the Stockholders' Agreement; provided, however, that a Person will be deemed the Beneficial Owner of any securities acquired pursuant to any options or rights granted in the Stockholders' Agreement.

(d) "Business Day" shall mean any day other than a Saturday, a Sunday, or a day on which banking institutions in the State of New York, or the State in which the principal office of the Rights Agent is located, are authorized or obligated by law or executive order to close.

(e) "close of business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

(f) "Common Shares" shall mean the Company's Common Stock, par value \$.01 per share and, prior to the Effective Time of the Merger, shares of the Common Stock (including the Class A Common Stock and the Class B Common Stock), par value \$.01 per share, of Old Northwest.

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(g) "Common Stock" when used with reference to any Person other than the Company shall mean the capital stock (or, in the case of an unincorporated entity, the equivalent equity interest) with the greatest voting power of such other Person or, if such other Person is a subsidiary of another Person, the Person or Persons which ultimately control such first-mentioned Person.

(h) "Distribution Date" shall have the meaning set forth in Section 3 hereof.

(i) "Effective Time of the Merger" shall mean the time when the Amended and Restated Merger Agreement is filed with the Secretary of State of the State of Delaware.

(j) "Exempt Person" shall mean (i) the Company, (ii) any Subsidiary (as such term is hereinafter defined) of the Company, (iii) any employee benefit plan of the Company or of any Subsidiary of the Company or any entity or trustee holding Common Shares for or pursuant to the terms of any such plan or for the purpose of funding any such plan or funding other employee benefits for employees of the Company or of any Subsidiary of the Company and (iv) KLM so long as KLM is not the Beneficial Owner of any Common Shares other than Common Shares which KLM has the option to purchase pursuant to the Option Agreement. In the event that KLM becomes the Beneficial Owner of any Common Shares in any manner other than pursuant to the Option Agreement, KLM shall no longer be deemed an "Exempt Person" for purposes of this Agreement.

(k) "Final Expiration Date" shall have the meaning set forth in Section 7 hereof.

(l) "Institutional Investor" shall mean a Person who, as of May 1, 1998, was the Beneficial Owner of 10% or more of the Common Shares then outstanding and had a

Schedule 13G on file with the Securities and Exchange Commission pursuant to the requirements of Rule 13d-1 under the Exchange Act with respect to such holdings, so long as such Person (i) is principally engaged in the business of managing investment funds for unaffiliated securities investors and, as part of such Person's duties as agent for fully managed accounts, holds or exercises voting or dispositive power over shares of Common Stock of the Company, (ii) such Person acquires Beneficial Ownership of shares of Common Stock of the Company pursuant to trading activities undertaken in the ordinary course of such Person's business and not with the purpose nor the effect, either alone or in concert with any Person, of exercising the power to direct or cause the direction of the management and policies of the Company or of otherwise changing or influencing the control of the Company, nor in connection with or as a participant in any transaction having such purpose or effect, including any transaction subject to Rule 13d-3(b) of the Exchange Act, and (iii) if such Person is a Person included in Rule 13d-1(b)(ii) of the Exchange Act, such Person is not obligated to, and does not, file a Schedule 13D with respect to the securities of the Company.

(m) "Investment Agreement" shall mean the Investment Agreement, dated as of January 25, 1998, as amended by Amendment No. 1, dated as of February 27, 1998, and Amendment No. 2, dated as of November 20, 1998, among the Company, Old Northwest, Air Partners, L.P., a Texas limited partnership (the "Partnership"), the partners of the Partnership signatory thereto, 1998 CAI Partners, L.P., a Texas limited partnership, Bonderman Family Limited Partnership, a Texas limited partnership, 1992 Air, Inc., a Texas corporation, and Air Saipan, Inc., a CNMI corporation.

(n) "KLM" shall mean Koninklijke Luchtvaart Maatschappij N.V., a Netherlands corporation.

(o) "NASDAQ Stock Market" shall mean the stock market operated by the National Association of Securities Dealers, Inc.

(p) "Option Agreement" shall mean the Northwest Airlines Corporation Common Stock Option Agreement, dated as of May 1, 1998, between Old Northwest and KLM.

(q) "Person" shall mean any individual, firm, corporation or other entity, and shall include any successor (by merger or otherwise) of such entity.

(r) "Preferred Stock" shall mean the Series D Junior Participating Preferred Stock, par value \$.01 per share, of the Company having the rights and preferences set forth in the Form of Certificate of Designations attached to this Agreement as Exhibit A.

(s) "Redemption Date" shall have the meaning set forth in Section 7 hereof.

(t) "Securities Act" shall mean the Securities Act of 1933, as amended.

(u) "Stock Acquisition Date" shall mean the first date of public announcement (which for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such or such earlier date as a majority of the Board of Directors shall become aware of the existence of an Acquiring Person.

(v) "Stockholders Agreement" shall mean the Second Amended and Restated Investor Stockholders' Agreement, as amended, dated as of December 23, 1993, as in effect on the date of this Agreement.

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(w) "Subsidiary" of any Person shall mean any corporation or other entity of which securities or other ownership interests having ordinary voting power sufficient to elect a majority of the board of directors or other persons performing similar functions are beneficially owned, directly or indirectly, by such Person, and any corporation or other entity that is otherwise controlled by such Person.

Section 2. *Appointment of Rights Agent.* The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Shares) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable.

Section 3. *Issue of Right Certificates.* (a) Until the earlier of (i) the tenth day after the Stock Acquisition Date or (ii) the tenth Business Day (or such later date as may be determined by action of the Board of Directors prior to such time as any Person becomes an Acquiring Person) after the date of the commencement by any Person (other than an Exempt Person) of, or of the first public announcement of the intention of such Person (other than an Exempt Person) to commence, a tender or exchange offer the consummation of which would result in any Person becoming the Beneficial Owner of a number of Common Shares equal to 19% or more of the number of Common Shares then outstanding (including any such date which is after the date of this Agreement and prior to the issuance of the Rights; the earlier of such dates being herein referred to as the "Distribution Date"), (x) the Rights will be evidenced (subject to the provisions of Section 3(b) hereof) by the certificates for Common Shares registered in the names of the holders thereof and not by separate Right Certificates, and (y) the

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Rights will be transferable only in connection with the transfer of the Common Shares. As soon as practicable after the Distribution Date, the Company will prepare and execute, the Rights Agent will countersign, and the Company will send or cause to be sent (and the Rights Agent will, if requested, send) by first-class, insured, postage-prepaid mail, to each record holder of Common Shares as of the close of business on the Distribution Date (other than any Acquiring Person or any Associate or Affiliate of an Acquiring Person), at the address of such holder shown on the records of the Company, a Right Certificate, in substantially the form of Exhibit B hereto (a "Right Certificate"), evidencing one Right (subject to adjustment as provided herein) for each Common Share so held. As of the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

(b) On the Record Date, or as soon as practicable thereafter, the Company will send a copy of a Summary of Rights to Purchase Shares of Preferred Stock, in substantially the Form of Exhibit C hereto (the "Summary of Rights"), by first-class, postage-prepaid mail, to each record holder of Common Shares as of the close of business on the Record Date (other than any Acquiring Person or any Associate or Affiliate of any Acquiring Person), at the address of such holder shown on the records of the Company. With respect to certificates for Common Shares outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates registered in the names of the holders thereof together with the Summary of Rights. Until the Distribution Date (or the earlier of the Redemption Date or the Final Expiration Date), the surrender for transfer of any certificate for Common Shares outstanding on the Record Date, with or without a copy of the Summary of Rights, shall also constitute the transfer of the Rights associated with the Common Shares represented thereby.

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(c) Certificates issued for Common Shares (including, without limitation, upon conversion of the Series C Preferred Stock, disposition of Common Shares out of treasury stock or issuance or reissuance of Common Shares out of authorized but unissued shares) after the Record Date but prior to the earliest of the Distribution Date, the Redemption Date or the Final Expiration Date shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also evidences and entitles the holder hereof to certain rights as set forth in a Rights Agreement between Northwest Airlines Corporation and Norwest Bank Minnesota, N.A., dated as of November 20, 1998 as the same may be amended from time to time (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of Northwest Airlines Corporation. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Northwest Airlines Corporation will mail to the holder of this certificate a copy of the Rights Agreement without charge after receipt of a written request therefor. Under certain circumstances, as set forth in the Rights Agreement, Rights owned by or transferred to any Person who becomes an Acquiring Person (as defined in the Rights Agreement) and certain transferees thereof will become null and void and will no longer be transferable.

With respect to such certificates containing the foregoing legend, until the Distribution Date, the Rights associated with the Common Shares represented by such certificates shall be evidenced by such certificates alone, and the surrender for transfer of any such certificate, except as otherwise provided herein, shall also constitute the transfer of the Rights associated with the Common Shares represented thereby. In the event that the Company purchases or otherwise acquires any Common Shares after the Record Date but prior to the Distribution Date (including pursuant to the conversion of shares), any Rights associated with such Common Shares shall be

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deemed cancelled and retired so that the Company shall not be entitled to exercise any Rights associated with the Common Shares which are no longer outstanding.

Notwithstanding this paragraph (c), the omission of a legend shall not affect the enforceability of any part of this Agreement or the rights of any holder of the Rights.

Section 4. *Form of Right Certificates.* The Right Certificates (and the forms of election to purchase shares and of assignment to be printed on the reverse thereof) shall be substantially in the form set forth in Exhibit B hereto and may have such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of the NASDAQ Stock Market or of any other stock exchange or automated quotation system on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Sections 11, 13 and 22 hereof, the Right

Certificates shall entitle the holders thereof to purchase such number of one one-hundredths of a share of Preferred Stock as shall be set forth therein at the price per one one-hundredth of a share of Preferred Stock set forth therein (the "Purchase Price"), but the number of such one one-hundredths of a share of Preferred Stock and the Purchase Price shall be subject to adjustment as provided herein.

Section 5. *Countersignature and Registration.* (a) The Right Certificates shall be executed on behalf of the Company by the President, any of the Vice Presidents, the Treasurer or the Controller of the Company, either manually or by facsimile signature, shall have affixed thereto the Company's seal or a facsimile thereof, and shall be attested by the Secretary or an Assistant Secretary of the Company, either manually or by facsimile signature. The Right

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Certificates shall be manually countersigned by the Rights Agent and shall not be valid for any purpose unless countersigned. In case any officer of the Company who shall have signed any of the Right Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Right Certificates, nevertheless, may be countersigned by the Rights Agent and issued and delivered by the Company with the same force and effect as though the Person who signed such Right Certificates had not ceased to be such officer of the Company; and any Right Certificate may be signed on behalf of the Company by any Person who, at the actual date of the execution of such Right Certificate, shall be a proper officer of the Company to sign such Right Certificate, although at the date of the execution of this Agreement any such Person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at an office or agency designated for such purpose, books for registration and transfer of the Right Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Right Certificates, the number of Rights evidenced on its face by each of the Right Certificates and the date of each of the Right Certificates.

Section 6. *Transfer, Split Up, Combination and Exchange of Right Certificates; Mutilated, Destroyed, Lost or Stolen Right Certificates.* (a) Subject to the provisions of Sections 7(e), 11(a)(ii) and 14 hereof, at any time after the close of business on the Distribution Date, and prior to the close of business on the earlier of the Redemption Date or the Final Expiration Date, any Right Certificate or Right Certificates may be transferred, split up, combined or exchanged for another Right Certificate or Right Certificates, entitling the registered holder to purchase a like number of one one-hundredths of a share of Preferred Stock as the Right Certificate or Right Certificates surrendered then entitled such holder to purchase. Any registered holder desiring to

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transfer, split up, combine or exchange any Right Certificate or Right Certificates shall make such request in writing delivered to the Rights Agent, and shall surrender the Right Certificate or Right Certificates to be transferred, split up, combined or exchanged at the office or agency of the Rights Agent designated for such purpose. Thereupon the Rights Agent shall countersign and deliver to the Person entitled thereto a Right Certificate or Right Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Right Certificates.

(b) Subject to the provisions of Section 11(a)(ii) hereof, at any time after the Distribution Date and prior to the close of business on the earlier of the Redemption Date or the Final Expiration Date, upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Right Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Right Certificate if mutilated, the Company will make and deliver a new Right Certificate of like tenor to the Rights Agent for delivery to the registered holder in lieu of the Right Certificate so lost, stolen, destroyed or mutilated.

Section 7. *Exercise of Rights, Purchase Price; Expiration Date of Rights.* (a) Except as otherwise provided herein, the Rights shall become exercisable on the Distribution Date, and thereafter the registered holder of any Right Certificate may, subject to Section 11(a)(ii) hereof and except as otherwise provided herein, exercise the Rights evidenced thereby in whole or in part upon surrender of the Right Certificate, with the form of election to purchase

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on the reverse side thereof duly executed, to the Rights Agent at the office or agency of the Rights Agent designated for such purpose, together with payment of the Purchase Price for each one one-hundredth of a share of Preferred Stock as to which the Rights are exercised, at any time which is both after the Distribution Date and prior to the earliest of (i) the close of business on November 16, 2005 (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed as provided in Section 23 hereof (the "Redemption Date") or (iii) the time at which such Rights are exchanged as provided in Section 24 hereof.

(b) The Purchase Price shall be initially \$150 for each one one-hundredth of a share of Preferred Stock purchasable upon the exercise of a Right. The Purchase Price and the number of one one-hundredths of a share of Preferred Stock or other securities or property to be acquired upon exercise of a Right shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) of this Section 7.

(c) Except as otherwise provided herein, upon receipt of a Right Certificate representing exercisable Rights, with the form of election to purchase duly executed, accompanied by payment of the aggregate Purchase Price for the shares of Preferred Stock to be purchased and an amount equal to any applicable transfer tax required to be paid by the holder of such Right Certificate in accordance with Section 9 hereof, in cash or by certified check, cashier's check or money order payable to the order of the Company, the Rights Agent shall thereupon promptly (i) (A) requisition from any transfer agent of the Preferred Stock certificates for the number of shares of Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) requisition from the depositary agent depositary receipts representing interests in such number of one one-hundredths

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of a share of Preferred Stock as are to be purchased (in which case certificates for the Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depositary agent) and the Company hereby directs the depositary agent to comply with such request, (ii) when appropriate, requisition from the Company the amount of cash to be paid in lieu of issuance of fractional shares in accordance with Section 14 hereof, (iii) promptly after receipt of such certificates or depositary receipts, cause the same to be delivered to or upon the order of the registered holder of such Right Certificate, registered in such name or names as may be designated by such holder and (iv) when appropriate, after receipt, promptly deliver such cash to or upon the order of the registered holder of such Right Certificate.

(d) Except as otherwise provided herein, in case the registered holder of any Right Certificate shall exercise less than all the Rights evidenced thereby, a new Right Certificate evidencing Rights equivalent to the exercisable Rights remaining unexercised shall be issued by the Rights Agent to the registered holder of such Right Certificate or to his duly authorized assigns, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder of Rights upon the occurrence of any purported transfer or exercise of Rights pursuant to Section 6 hereof or this Section 7 unless such registered holder shall have (i) completed and signed the certificate contained in the form of assignment or election to purchase set forth on the reverse side of the Rights Certificate surrendered for such transfer or exercise and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) thereof as the Company shall reasonably request.

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Section 8. *Cancellation and Destruction of Right Certificates.* All Right Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in cancelled form, or, if surrendered to the Rights Agent, shall be cancelled by it, and no Right Certificates shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Right Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all cancelled Right Certificates to the Company.

Section 9. *Availability of Shares of Preferred Stock.* (a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Preferred Stock or any shares of Preferred Stock held in its treasury, the number of shares of Preferred Stock that will be sufficient to permit the exercise in full of all outstanding Rights.

(b) So long as the shares of Preferred Stock (and, following the time that a Person becomes an Acquiring Person, Common Shares and other securities) issuable upon the exercise of Rights may be listed or admitted to trading on the NASDAQ Stock Market or listed on any other national securities exchange or quotation system, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all shares reserved for such issuance to be listed or admitted to trading on the NASDAQ Stock Market or listed on any other exchange or quotation system upon official notice of issuance upon such exercise.

(c) From and after such time as the Rights become exercisable, the Company shall use its best efforts, if then necessary to permit the issuance of shares of Preferred Stock (and

following the time that a Person first becomes an Acquiring Person, Common Shares and other securities) upon the exercise of Rights, to register and qualify such shares of Preferred Stock (and following the time that a Person first becomes an Acquiring Person, Common Shares and other securities) under the Securities Act and any applicable state securities or "Blue Sky" laws (to the extent exemptions therefrom are not available), cause such registration statement and qualifications to become effective as soon as possible after such filing and keep such registration and qualifications effective until the earlier of the date as of which the Rights are no longer exercisable for such securities and the Final Expiration Date. The Company may temporarily suspend, for a period of time not to exceed 90 days, the exercisability of the Rights in order to prepare and file a registration statement under the Securities Act and permit it to become effective. Upon any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any provision of this Agreement to the contrary, the Rights shall not be exercisable in any jurisdiction unless the requisite qualification in such jurisdiction shall have been obtained and until a registration statement under the Securities Act (if required) shall have been declared effective.

(d) The Company covenants and agrees that it will take all such action as may be necessary to ensure that all shares of Preferred Stock (and, following the time that a Person becomes an Acquiring Person, Common Shares and other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates therefor (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and nonassessable shares.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Right Certificates or of any shares of Preferred Stock (or Common Shares or other securities) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax which may be payable in respect of any transfer or delivery of Right Certificates to a Person other than, or the issuance or delivery of certificates or depositary receipts for the Preferred Stock (or Common Shares or other securities) in a name other than that of, the registered holder of the

Right Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates or depositary receipts for Preferred Stock (or Common Shares or other securities) upon the exercise of any Rights until any such tax shall have been paid (any such tax being payable by that holder of such Right Certificate at the time of surrender) or until it has been established to the Company's reasonable satisfaction that no such tax is due.

Section 10. *Preferred Stock Record Date.* Each Person in whose name any certificate for Preferred Stock is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the shares of Preferred Stock represented thereby on, and such certificate shall be dated, the date upon which the Right Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes) was made; provided, however, that if the date of such surrender and payment is a date upon which the Preferred Stock transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares on, and such certificate shall be dated, the next succeeding Business Day on which the Preferred Stock transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Right Certificate

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shall not be entitled to any rights of a holder of Preferred Stock for which the Rights shall be exercisable, including, without limitation, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. *Adjustment of Purchase Price, Number of Shares and Number of Rights.* The Purchase Price, the number of shares of Preferred Stock or other securities or property purchasable upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Preferred Stock payable in shares of Preferred Stock, (B) subdivide the outstanding Preferred Stock, (C) combine the outstanding Preferred Stock into a smaller number of Preferred Stock or (D) issue any shares of its capital stock in a reclassification of the Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a), the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive the aggregate number and kind of shares of capital stock which, if such Right had been exercised immediately prior to such date and at a time when the Preferred Stock transfer books of the Company were open, the holder would have owned upon such

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exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right.

(ii) Subject to Section 24 of this Agreement and except as otherwise provided in this Section 11(a)(ii), in the event any Person becomes an Acquiring Person, each holder of a Right shall thereafter have the right to receive, upon exercise thereof at a price equal to the then current Purchase Price multiplied by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable, in accordance with the terms of this Agreement and in lieu of shares of Preferred Stock, such number of Common Shares (or at the option of the Company, such number of one one-hundredths of shares of Preferred Stock) as shall equal the result obtained by (x) multiplying the then current Purchase Price by the number of one one-hundredths of a share of Preferred Stock for which a Right is then exercisable and dividing that product by (y) 50% of the then current per share market price of the Company's

Common Shares (determined pursuant to Section 11(d) hereof) on the date of the occurrence of such event; provided, however, that the Purchase Price and the number of Common Shares so receivable upon exercise of a Right shall thereafter be subject to further adjustment as appropriate in accordance with Section 11(f) hereof. Notwithstanding anything in this Agreement to the contrary, however, from and after the time (the "invalidation time") when any Person first becomes an Acquiring Person, any

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Rights that are beneficially owned by (x) any Acquiring Person (or any Affiliate or Associate of any Acquiring Person), (y) a transferee of any Acquiring Person (or any such Affiliate or Associate) who becomes a transferee after the invalidation time or (z) a transferee of any Acquiring Person (or any such Affiliate or Associate) who became a transferee prior to or concurrently with the invalidation time pursuant to either (I) a transfer from the Acquiring Person to holders of its equity securities or to any Person with whom it has any continuing agreement, arrangement or understanding regarding the transferred Rights or (II) a transfer which the Board of Directors has determined is part of a plan, arrangement or understanding which has the purpose or effect of avoiding the provisions of this paragraph, and subsequent transferees of such Persons, shall be void without any further action and any holder of such Rights shall thereafter have no rights whatsoever with respect to such Rights under any provision of this Agreement. The Company shall use all reasonable efforts to ensure that the provisions of this Section 11(a)(ii) are complied with, but shall have no liability to any holder of Right Certificates or other Person as a result of its failure to make any determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder. From and after the invalidation time, no Right Certificate shall be issued pursuant to Section 3 or Section 6 hereof that represents Rights that are or have become void pursuant to the provisions of this paragraph, and any Right Certificate delivered to the Rights Agent that represents Rights that are or have become void pursuant to the provisions of this paragraph shall be cancelled. From and after the occurrence of an event specified in Section

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13(a) hereof, any Rights that theretofore have not been exercised pursuant to this Section 11(a)(ii) shall thereafter be exercisable only in accordance with Section 13 and not pursuant to this Section 11(a)(ii).

(iii) The Company may at its option substitute for a Common Share issuable upon the exercise of Rights in accordance with the foregoing subparagraph (ii) such number or fractions of shares of Preferred Stock having an aggregate current market value equal to the current per share market price of Common Shares. In the event that there shall not be sufficient Common Shares issued but not outstanding or authorized but unissued to permit the exercise in full of the Rights in accordance with the foregoing subparagraph (ii), the Board of Directors shall, to the extent permitted by applicable law and any material agreements then in effect to which the Company is a party (A) determine the excess of (1) the value of the Common Shares issuable upon the exercise of a Right in accordance with the foregoing subparagraph (ii) (the "Current Value") over (2) the then current Purchase Price multiplied by the number of one one-hundredths of shares of Preferred Stock for which a Right was exercisable immediately prior to the time that the Acquiring Person became such (such excess, the "Spread"), and (B) with respect to each Right (other than Rights which have become void pursuant to Section 11(a)(ii)), make adequate provision to substitute for the Common Shares issuable in accordance with subparagraph (ii) upon exercise of the Right and payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) shares of Preferred Stock or other equity securities of the Company (including, without limitation, shares or fractions of

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shares of preferred stock which, by virtue of having dividend, voting and liquidation rights substantially comparable to those of the Common Shares, are deemed in good faith by the Board of Directors to have substantially the same value as the Common Shares (such shares of preferred stock and shares or fractions of shares of preferred stock are hereinafter referred to as "Common Share equivalents"), (4) debt securities of the Company, (5) other assets, or (6) any combination of the foregoing, having a value which, when added to the value of the Common Shares actually issued upon exercise of such Right, shall have an aggregate value equal to

the Current Value (less the amount of any reduction in the Purchase Price), where such aggregate value has been determined by the Board of Directors upon the advice of a nationally recognized investment banking firm selected in good faith by the Board of Directors; provided, however, if the Company shall not make adequate provision to deliver value pursuant to clause (B) above within thirty (30) days following the date that the Acquiring Person became such (the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, to the extent permitted by applicable law and any material agreements then in effect to which the Company is a party, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, Common Shares (to the extent available), and then, if necessary, such number or fractions of shares of Preferred Stock (to the extent available) and then, if necessary, cash, which shares and/or cash have an aggregate value equal to the Spread. If, upon the date any Person becomes an Acquiring Person, the Board of Directors shall determine in good faith that it is likely that sufficient additional

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Common Shares could be authorized for issuance upon exercise in full of the Rights, then, if the Board of Directors so elects, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek stockholder approval for the authorization of such additional shares (such thirty (30) day period, as it may be extended, is herein called the "Substitution Period"). To the extent that the Company determines that some action need be taken pursuant to the second and/or third sentence of this Section 11(a)(iii), the Company (x) shall provide, subject to Section 11(a)(ii) hereof and the last sentence of this Section 11(a)(iii) hereof, that such action shall apply uniformly to all outstanding Rights and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to such second sentence and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Shares shall be the current per share market price (as determined pursuant to Section 11(d)(i)) on the Section 11(a)(ii) Trigger Date and the per share or fractional value of any "Common Share equivalent" shall be deemed to equal the current per share market price of the Common Shares. The Board of Directors of the Company may, but shall not be required to, establish procedures to allocate the right to

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receive Common Shares upon the exercise of the Rights among holders of Rights pursuant to this Section 11(a)(iii).

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Preferred Stock entitling them (for a period expiring within 45 calendar days after such record date) to subscribe for or purchase Preferred Stock (or shares having the same rights, privileges and preferences as the Preferred Stock ("equivalent preferred shares")) or securities convertible into Preferred Stock or equivalent preferred shares at a price per share of Preferred Stock or equivalent preferred shares (or having a conversion price per share, if a security convertible into shares of Preferred Stock or equivalent preferred shares) less than the then current per share market price of the Preferred Stock (determined pursuant to Section 11(d) hereof) on such record date, the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Preferred Stock and equivalent preferred shares outstanding on such record date plus the number of shares of Preferred Stock and equivalent preferred shares which the aggregate offering price of the total number of shares of Preferred Stock and/or equivalent preferred shares so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price, and the denominator of which shall be the number of shares of Preferred Stock and equivalent preferred shares outstanding on such record date plus the number of additional shares of Preferred Stock and/or equivalent preferred shares to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible); provided, however, that in

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no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company issuable upon exercise of one Right. In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent. Shares of Preferred Stock and equivalent preferred shares owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights, options or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for the making of a distribution to all holders of the Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness or assets (other than a regular quarterly cash dividend or a dividend payable in Preferred Stock) or subscription rights or warrants (excluding those referred to in Section 11(b) hereof), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the then current per share market price of the Preferred Stock (determined pursuant to Section 11(d) hereof) on such record date, less the fair market value (as determined in good faith by the Board of Directors of the Company whose determination shall be

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described in a statement filed with the Rights Agent) of the portion of the assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to one share of Preferred Stock, and the denominator of which shall be such current per share market price (determined pursuant to Section 11(d) hereof) of the Preferred Stock; provided, however, that in no event shall the consideration to be paid upon the exercise of one Right be less than the aggregate par value of the shares of capital stock of the Company to be issued upon exercise of one Right. Such adjustments shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) Except as otherwise provided herein, for the purpose of any computation hereunder, the "current per share market price" of any security (a "Security" for the purpose of this Section 11(d)(i)) on any date shall be deemed to be the average of the daily closing prices per share of such Security for the 30 consecutive Trading Days (as such term is hereinafter defined) immediately prior to such date; provided, however, that in the event that the current per share market price of the Security is determined during a period following the announcement by the issuer of such Security of (A) a dividend or distribution on such Security payable in shares of such Security or securities convertible into such shares, or (B) any subdivision, combination or reclassification of such Security, and prior to the expiration of 30 Trading Days after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the current per share market price shall be appropriately adjusted to reflect the current market price per share equivalent of such

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Security. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported by the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the NASDAQ Stock Market or, if the Security is not listed or admitted to trading on the NASDAQ Stock Market, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Security is listed or admitted to trading or, if the Security is not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market or such other system then in use, or, if on any such date the Security is not quoted by any organization in the over-the-counter market, the average of the closing bid and asked prices as

furnished by a professional market maker making a market in the Security selected by the Board of Directors of the Company. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the Security is listed or admitted to trading is open for the transaction of business or, if the Security is not listed or admitted to trading on any national securities exchange, a Business Day.

(ii) For the purpose of any computation hereunder, if the Preferred Stock is publicly traded, the "current per share market price" of the Preferred Stock shall be determined in accordance with the method set forth in Section 11(d)(i). If the Preferred Stock is not publicly traded but the Common Shares are publicly traded, the "current per share market price" of the Preferred Stock shall be conclusively deemed to be the current per share market price of the Common Shares as determined pursuant to Section 11(d)(i)

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multiplied by one hundred (appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof). If neither the Common Shares nor the Preferred Stock is publicly traded, "current per share market price" shall mean the fair value per share as determined in good faith by the Board of Directors of the Company, whose determination shall be described in a statement filed with the Rights Agent.

(e) No adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Purchase Price; provided, however, that any adjustments which by reason of this Section 11(e) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or to the nearest one ten-thousandth of a share of Preferred Stock or Common Share or other share or security as the case may be. Notwithstanding the first sentence of this Section 11(e), any adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which requires such adjustment or (ii) the date of the expiration of the right to exercise any Rights.

(f) If as a result of an adjustment made pursuant to Section 11(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than the Preferred Stock, thereafter the Purchase Price and the number of such other shares so receivable upon exercise of a Right shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Preferred Stock contained in Sections 11(a), 11(b), 11(c), 11(e), 11(h), 11(i) and 11(m) and the provisions of Sections 7, 9, 10,

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13 and 14 hereof with respect to the Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-hundredths of a share of Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-hundredths of a share of Preferred Stock (calculated to the nearest one ten-thousandth of a share of Preferred Stock) obtained by (i) multiplying (x) the number of one one-hundredths of a share covered by a Right immediately prior to such adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in substitution for any adjustment in the number of one one-hundredths of a share of Preferred Stock purchasable upon the exercise of

a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to such adjustment.

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Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest one ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Right Certificates have been issued, shall be at least 10 days later than the date of the public announcement. If Right Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company may, as promptly as practicable, cause to be distributed to holders of record of Right Certificates on such record date Right Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Right Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Right Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Right Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein and shall be registered in the names of the holders of record of Right Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of one one-hundredths of a share of Preferred Stock issuable upon the exercise of

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the Rights, the Right Certificates theretofore and thereafter issued may continue to express the Purchase Price and the number of one one-hundredths of a share of Preferred Stock which were expressed in the initial Right Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then par value, if any, of the Preferred Stock or other shares of capital stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of Preferred Stock or other such shares at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuing to the holder of any Right exercised after such record date of the Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or other appropriate instrument evidencing such holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that it in its sole discretion shall determine to be advisable in order that any consolidation or subdivision

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of the Preferred Stock, issuance wholly for cash of any shares of Preferred Stock at less than the current market price, issuance wholly for cash or Preferred Stock or securities which by their terms are convertible into or exchangeable for Preferred Stock, dividends on Preferred Stock payable in shares of Preferred Stock or issuance of rights, options or warrants referred to hereinabove in Section 11(b), hereafter made by the Company to holders of its Preferred Stock shall not be taxable to such stockholders.

(n) Anything in this Agreement to the contrary notwithstanding, in the event that at any time after the date of this Agreement and prior to the Distribution Date, the Company shall (i) declare or pay any dividend on the Common Shares payable in Common Shares or (ii) effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of a dividend payable in Common Shares) into a greater or lesser number of Common Shares, then in any such case, the number of Rights associated with each Common Share then outstanding, or issued or delivered thereafter, shall be proportionately adjusted so that the number of Rights thereafter associated with each Common Share following any such event shall equal the result obtained by multiplying the number of Rights associated with each Common Share immediately prior to such event by a fraction the numerator of which shall be the total number of Common Shares outstanding immediately prior to the occurrence of the event and the denominator of which shall be the total number of Common Shares outstanding immediately following the occurrence of such event.

(o) The Company agrees that, after the earlier of the Distribution Date or the Stock Acquisition Date, it will not, except as permitted by Sections 23, 24 or 27 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is

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reasonably foreseeable that such action will diminish substantially or eliminate the benefits intended to be afforded by the Rights.

Section 12. *Certificate of Adjusted Purchase Price or Number of Shares.* Whenever an adjustment is made as provided in Section 11 or 13 hereof, the Company shall promptly (a) prepare a certificate setting forth such adjustment, and a brief statement of the facts accounting for such adjustment, (b) file with the Rights Agent and with each transfer agent for the Common Shares or the Preferred Stock a copy of such certificate and (c) mail a brief summary thereof to each holder of a Right Certificate in accordance with Section 25 hereof (if so required under Section 25 hereof). The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall not be deemed to have knowledge of any such adjustment unless and until it shall have received such certificate.

Section 13. *Consolidation, Merger or Sale or Transfer of Assets or Earnings Power.* (a) In the event, directly or indirectly, at any time after any Person has become an Acquiring Person, (i) the Company shall merge with and into any other Person, (ii) any Person shall consolidate with the Company, or any Person shall merge with and into the Company and the Company shall be the continuing or surviving corporation of such merger and, in connection with such merger, all or part of the Common Shares shall be changed into or exchanged for stock or other securities of any other Person (or of the Company) or cash or any other property, or (iii) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one or more transactions, assets or earning power aggregating 50% or more of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person (other than the Company or one or more of its wholly-owned Subsidiaries), then upon the first occurrence of such event, proper provision shall be made so that: (A) each

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holder of record of a Right (other than Rights which have become void pursuant to Section 11(a)(ii)) shall thereafter have the right to receive, upon the exercise thereof at a price equal to the then current Purchase Price multiplied by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable (whether or not such Right was then exercisable) immediately prior to the time that any Person first became an Acquiring Person (each as subsequently adjusted thereafter pursuant to Sections 11(a)(i), 11(b), 11(c), 11(h), 11(i) and 11(m)), in accordance with the terms of this Agreement and in lieu of Preferred Stock, such number of validly issued, fully paid and non-

assessable and freely tradeable shares of Common Stock of the Principal Party (as defined herein) not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of one one-hundredths of a share of Preferred Stock for which a Right was exercisable immediately prior to the time that any Person first became an Acquiring Person (as subsequently adjusted thereafter pursuant to Sections 11(a)(i), 11(b), 11(c), 11(h), 11(i) and 11(m)) and (2) dividing that product by 50% of the then current per share market price of the Common Stock of such Principal Party (determined pursuant to Section 11(d)(i) hereof) on the date of consummation of such consolidation, merger, sale or transfer; provided that the Purchase Price and the number of shares of Common Stock of such Principal Party issuable upon exercise of each Right shall be further adjusted as provided in Section 11(f) of this Agreement to reflect any events occurring in respect of such Principal Party after the date of the such consolidation, merger, sale or transfer; (B) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such consolidation, merger, sale or transfer, all the obligations and duties of the Company pursuant to this Agreement; (C) the term "Company" shall thereafter be deemed to refer to such Principal Party; and (D) such Principal Party shall take such steps

(including, but not limited to, the reservation of a sufficient number of its shares of Common Stock in accordance with Section 9 hereof) in connection with such consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to the shares of its Common Stock thereafter deliverable upon the exercise of the Rights; provided that, upon the subsequent occurrence of any consolidation, merger, sale or transfer of assets or other extraordinary transaction in respect of such Principal Party, each holder of a Right shall thereupon be entitled to receive, upon exercise of a Right and payment of the Purchase Price as provided in this Section 13(a), such cash, shares, rights, warrants and other property which such holder would have been entitled to receive had such holder, at the time of such transaction, owned the Common Stock of the Principal Party receivable upon the exercise of a Right pursuant to this Section 13(a), and such Principal Party shall take such steps (including, but not limited to, reservation of shares of stock) as may be necessary to permit the subsequent exercise of the Rights in accordance with the terms hereof for such cash, shares, rights, warrants and other property.

(b) "Principal Party" shall mean

(i) in the case of any transaction described in (i) or (ii) of the first sentence of Section 13(a) hereof: (A) the Person that is the issuer of the securities into which the shares of Common Shares are converted in such merger or consolidation, or, if there is more than one such issuer, the issuer the shares of Common Stock of which have the greatest aggregate market value of shares outstanding, or (B) if no securities are so issued, (x) the Person that is the other party to the merger, if such Person survives said merger, or, if there is more than one such Person, the Person the shares of Common Stock of which have the greatest aggregate market value of shares outstanding or (y) if the

Person that is the other party to the merger does not survive the merger, the Person that does survive the merger (including the Company if it survives) or (z) the Person resulting from the consolidation; and

(ii) in the case of any transaction described in (iii) of the first sentence in Section 13(a) hereof, the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions, or, if each Person that is a party to such transaction or transactions receives the same portion of the assets or earning power so transferred or if the Person receiving the greatest portion of the assets or earning power cannot be determined, whichever of such Persons as is the issuer of Common Stock having the greatest aggregate market value of shares outstanding;

provided, however, that in any such case described in the foregoing clause (b)(i) or (b)(ii), if the Common Stock of such Person is not at such time or has not been continuously over the preceding 12-month period registered under Section 12 of the Exchange Act, then (1) if such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, the term "Principal Party" shall refer to such other Person, or (2) if such Person is a Subsidiary, directly or indirectly, of more than

one Person and the Common Stocks of all of such Persons have been so registered, the term "Principal Party" shall refer to whichever of such Persons is the issuer of Common Stock having the greatest aggregate market value of shares outstanding, or (3) if such Person is owned, directly or indirectly, by a joint venture formed by two or more Persons that are not owned, directly or indirectly, by the same Person, the rules set forth in clauses (1) and (2) above shall apply to each of the owners having an interest in the venture as if the Person owned by the joint venture was a Subsidiary of both or all of such joint

venturers, and the Principal Party in each such case shall bear the obligations set forth in this Section 13 in the same ratio as its interest in such Person bears to the total of such interests.

(c) The Company shall not consummate any consolidation, merger, sale or transfer referred to in Section 13(a) hereof unless prior thereto the Company and the Principal Party involved therein shall have executed and delivered to the Rights Agent an agreement confirming that the requirements of Sections 13(a) and (b) hereof shall promptly be performed in accordance with their terms and that such consolidation, merger, sale or transfer of assets shall not result in a default by the Principal Party under this Agreement as the same shall have been assumed by the Principal Party pursuant to Sections 13(a) and (b) hereof and providing that, as soon as practicable after executing such agreement pursuant to this Section 13, the Principal Party will:

(i) prepare and file a registration statement under the Securities Act, if necessary, with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, use its best efforts to cause such registration statement to become effective as soon as practicable after such filing and use its best efforts to cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Final Expiration Date, and similarly comply with applicable state securities laws;

(ii) use its best efforts, if the Common Stock of the Principal Party shall be listed or admitted to trading on the NASDAQ Stock Market or on another national securities exchange, to list or admit to trading (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on the NASDAQ Stock Market or such securities exchange, or, if the Common Stock of the Principal Party shall

not be listed or admitted to trading on the NASDAQ Stock Market or a national securities exchange, to cause the Rights and the securities receivable upon exercise of the Rights to be reported by such other system then in use;

(iii) deliver to holders of the Rights historical financial statements for the Principal Party which comply in all respects with the requirements for registration on Form 10 (or any successor form) under the Exchange Act; and

(iv) obtain waivers of any rights of first refusal or preemptive rights in respect of the Common Stock of the Principal Party subject to purchase upon exercise of outstanding Rights.

(d) In case the Principal Party has provision in any of its authorized securities or in its certificate of incorporation or by-laws or other instrument governing its corporate affairs, which provision would have the effect of (i) causing such Principal Party to issue (other than to holders of Rights pursuant to this Section 13), in connection with, or as a consequence of, the consummation of a transaction referred to in this Section 13, shares of Common Stock of such Principal Party at less than the then current market price per share thereof (determined pursuant to Section 11(d) hereof) or securities exercisable for, or convertible into, Common Stock of such Principal Party at less than such then current market price, or (ii) providing for any special payment, tax or similar provision in connection with the issuance of the Common Stock of such Principal Party pursuant to the provisions of Section 13, then, in such event, the Company hereby agrees with each holder of Rights that it shall not consummate any such transaction unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing that the provision in question of such Principal Party shall have been cancelled, waived or amended, or that the authorized securities shall be

redeemed, so that the applicable provision will have no effect in connection with, or as a consequence of, the consummation of the proposed transaction.

(e) The Company covenants and agrees that it shall not, at any time after a Person first becomes an Acquiring Person, enter into any transaction of the type contemplated by (i)–(iii) of Section 13(a) hereof if (x) at the time of or immediately after such consolidation, merger, sale, transfer or other transaction there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights, (y) prior to, simultaneously with or immediately after such consolidation, merger, sale, transfer of other transaction, the stockholders of the Person who constitutes, or would constitute, the Principal Party for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates or Associates or (z) the form or nature of organization of the Principal Party would preclude or limit the exercisability of the Rights.

Section 14. *Fractional Rights and Fractional Shares.* (a) The Company shall not be required to issue fractions of Rights or to distribute Right Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Right Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of a whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction

reporting system with respect to securities listed or admitted to trading on the NASDAQ Stock Market or, if the Rights are not listed or admitted to trading on the NASDAQ Stock Market, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading or, if the Rights are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by any system then in use or, if on any such date the Rights are not quoted by any organization in the over-the-counter market, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board of Directors of the Company. If on any such date no such market maker is making a market in the Rights, the fair value of the Rights on such date as determined in good faith by the Board of Directors of the Company shall be used.

(b) The Company shall not be required to issue fractions of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Preferred Stock (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock). Interests in fractions of Preferred Stock in integral multiples of one one-hundredth of a share of Preferred Stock may, at the election of the Company, be evidenced by depositary receipts, pursuant to an appropriate agreement between the Company and a depositary selected by it; provided, that such agreement shall provide that the holders of such depositary receipts shall have all the rights, privileges and preferences to which they are entitled as beneficial owners of the Preferred Stock represented by such depositary receipts. In lieu of fractional shares of Preferred Stock that are not integral multiples of one one-hundredth of a

share of Preferred Stock, the Company shall pay to the registered holders of Right Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one share of Preferred Stock. For the purposes of this

Section 14(b), the current market value of a share of Preferred Stock shall be the closing price of a share of Preferred Stock (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) The holder of a Right by the acceptance of the Right expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right (except as provided above).

Section 15. *Rights of Action.* All rights of action in respect of this Agreement, excepting the rights of action given to the Rights Agent under Section 18 hereof, are vested in the respective registered holders of the Right Certificates (and, prior to the Distribution Date, the registered holders of the Common Shares); and any registered holder of any Right Certificate (or, prior to the Distribution Date, of the Common Shares), without the consent of the Rights Agent or of the holder of any other Right Certificate (or, prior to the Distribution Date, of the Common Shares), on his own behalf and for his own benefit, may enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Right Certificate (or, prior to the Distribution Date, such Common Shares) in the manner provided in such Right Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the

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obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

Section 16. *Agreement of Right Holders.* Every holder of a Right, by accepting the same, consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection with the transfer of the Common Shares;

(b) after the Distribution Date, the Right Certificates are transferable only on the registry books of the Rights Agent if surrendered at the office or agency of the Rights Agent designated for such purpose, duly endorsed or accompanied by a proper instrument of transfer; and

(c) the Company and the Rights Agent may deem and treat the Person in whose name the Right Certificate (or, prior to the Distribution Date, the Common Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Right Certificates or the Common Share certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent shall be affected by any notice to the contrary.

Section 17. *Right Certificate Holder Not Deemed a Stockholder.* No holder, as such, of any Right Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Right Certificate be construed to confer upon the holder of any Right

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Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in this Agreement), or to receive dividends or subscription rights, or otherwise, until the Rights evidenced by such Right Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. *Concerning the Rights Agent.* (a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability or expense, incurred without negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability arising therefrom, directly or indirectly.

(b) The Rights Agent shall be protected and shall incur no liability for, or in respect of any action taken, suffered or omitted by it in connection with, its administration of this Agreement in reliance upon any Right Certificate or certificate for the Preferred Stock or Common Shares or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where

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necessary, verified or acknowledged, by the proper Person or Persons, or otherwise upon the advice of counsel as set forth in Section 20 hereof.

Section 19. *Merger or Consolidation or Change of Name of Rights Agent.* (a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any corporation succeeding to the stock transfer or corporate trust powers of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 21 hereof. In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Right Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been countersigned, any successor Rights Agent may countersign such Right Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

(b) In case at any time the name of the Rights Agent shall be changed and at such time any of the Right Certificates shall have been countersigned but not delivered the Rights Agent may adopt the countersignature under its prior name and deliver Right Certificates so countersigned; and in case at that time any of the Right Certificates shall not have been

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countersigned, the Rights Agent may countersign such Right Certificates either in its prior name or in its changed name and in all such cases such Right Certificates shall have the full force provided in the Right Certificates and in this Agreement.

Section 20. *Duties of Rights Agent.* The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Right Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any one of the President, the Chief Financial Officer or the Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder to the Company and any other Person only for its own negligence, bad faith or wilful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Right Certificates

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(except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Right Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Right Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 11(a)(ii) hereof) or any adjustment in the terms of the Rights (including the manner, method or amount thereof) provided for in Sections 3, 11, 13, 23 and 24, or the ascertaining of the existence of facts that would require any such change or adjustment (except with respect to the exercise of Rights evidenced by Right Certificates after receipt of a certificate furnished pursuant to Section 12, describing such change or adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Preferred Stock or other securities to be issued pursuant to this Agreement or any Right Certificate or as to whether any shares of Preferred Stock or other securities will, when issued, be validly authorized and issued, fully paid and nonassessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

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(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any person reasonably believed by the Rights Agent to be one of the President, the Chief Financial Officer or the Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in accordance with instructions of any such officer or for any delay in acting while waiting for those instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken or omitted by the Rights Agent under this Agreement and the date on and/or after which such action shall be taken or such omission shall be effective. The Rights Agent shall not be liable for any action taken by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after the date specified in such application (which date shall not be less than five Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instructions in response to such application specifying the action to be taken or omitted.

(h) The Rights Agent and any stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein

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shall preclude the Rights Agent from acting in any other capacity for the Company or for any other legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

(j) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate contained in the form of assignment or the form of election to purchase set forth on the reverse thereof, as the case may be, has not been completed to certify the holder is not an Acquiring Person (or an Affiliate or Associate thereof), the Rights Agent shall not take any further action with respect to such requested exercise or transfer without first consulting with the Company.

Section 21. *Change of Rights Agent.* The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent of the Common Shares or Preferred Stock by registered or certified mail, and, following the Distribution Date, to the holders of the Right Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Shares or Preferred Stock by registered or certified mail, and, following the Distribution Date, to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall

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otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be a corporation organized and doing business under the laws of the United States or any State thereof, which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$50 million. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Shares or Preferred Stock, and, following the Distribution Date, mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

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Section 22. *Issuance of New Right Certificates.* Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Right Certificates evidencing Rights in such forms as may be approved by its Board of Directors to reflect any adjustment or change in the Purchase Price and the number or kind or class of shares or other securities or property purchasable under the Right Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of Common Shares following the Distribution Date and prior to the earlier of the Redemption Date and the Final Expiration Date, the Company may with respect to such Common Shares so issued or sold pursuant to (i) the exercise of stock options, (ii) under any employee plan or arrangement, (iii) upon the exercise, conversion or exchange of securities, notes or debentures issued by the Company or (iv) a contractual obligation of the Company in each case existing prior to the Distribution Date, issue Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale.

Section 23. *Redemption.* (a) The Board of Directors of the Company may, at any time prior to such time as any Person first becomes an Acquiring Person, redeem all but not less than all the then outstanding Rights at a redemption price of \$.01 per Right, appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (the redemption price being hereinafter referred to as the "Redemption Price"). The redemption of the Rights may be made effective at such time, on such basis and with such conditions as the Board of Directors in its sole discretion may establish. The Company may, at its option, pay the Redemption Price in cash, Common Shares (based on the current market price of the Common Shares at the time of redemption) or any other form of consideration deemed appropriate by the Board of Directors.

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(b) Immediately upon the action of the Board of Directors ordering the redemption of the Rights pursuant to paragraph (a) of this Section 23 (or at such later time as the Board of Directors may establish for the effectiveness of such redemption), and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. The Company shall promptly give public notice of any such redemption; provided, however, that the failure to give, or any defect in, any such notice shall not affect the validity of such redemption. Within 10 days after such action of the Board of Directors ordering the redemption of the Rights (or such later time as the Board of Directors may establish for the effectiveness of such redemption), the Company shall mail a notice of redemption to all the holders of the then outstanding Rights at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the transfer agent for the Common Shares. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption shall state the method by which the payment of the Redemption Price will be made.

Section 24. *Exchange.* (a) The Board of Directors of the Company, may, at its option, at any time after any Person first becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become void pursuant to the provisions of Section 11(a)(ii) hereof) for Common Shares (or, at the Company's option, Preferred Stock) at an exchange ratio of one Common Share (or one one-hundredth of a share of Preferred Stock) per Right, (such exchange ratio being hereinafter referred to as the "Exchange Ratio"). Notwithstanding the foregoing, the Board of Directors shall not be empowered to effect such exchange at any time (1) after any Person (other than an

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Exempt Person), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner of a number of Common Shares equal to 50% or more of the number of Common Shares then outstanding or (2) after the occurrence of an event specified in Section 13(a) hereof.

(b) Immediately upon the action of the Board of Directors of the Company ordering the exchange of any Rights pursuant to paragraph (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the

only right thereafter of a holder of such Rights shall be to receive that number of Common Shares equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company shall promptly mail a notice of any such exchange to all of the holders of the Rights so exchanged at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of the Common Shares for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 11(a)(ii) hereof) held by each holder of Rights.

(c) In the event that there shall not be sufficient Common Shares issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company may, in its discretion, take such action as may be necessary to authorize additional Common Shares for issuance upon exchange of the Rights. In the event that the Company shall determine not to take such action or shall, after good faith

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effort, be unable to take such action as may be necessary to authorize such additional Common Shares, the Company shall substitute, to the extent of such insufficiency, for each Common Share that would otherwise be issuable upon exchange of a Right, a number of shares of Preferred Stock or fractions thereof (or equivalent preferred shares as such term is defined in Section 11(b)) having an aggregate current per share market price (determined pursuant to Section 11(d) hereof) equal to the current per share market price of Common Shares (determined pursuant to Section 11(d) hereof) as of the date of issuance of such shares of Preferred Stock or fractions thereof (or equivalent preferred shares).

(d) The Company shall not, in connection with any exchange pursuant to this Section 24, be required to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of such fractional Common Shares, the Company shall pay to the registered holders of the Right Certificates with regard to which such fractional Common Shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole Common Share. For the purposes of this paragraph (d), the current market value of a whole Common Share shall be the closing price of a Common Share (as determined pursuant to the second sentence of Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

Section 25. *Notice of Certain Events.* (a) In case the Company shall at any time after the earlier of the Distribution Date or the Stock Acquisition Date propose (i) to pay any dividend payable in stock of any class to the holders of its Preferred Stock or to make any other distribution to the holders of its Preferred Stock (other than a regular quarterly cash dividend), (ii) to offer to the holders of its Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Preferred Stock or shares of stock of any class or any other securities,

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rights or options, (iii) to effect any reclassification of its Preferred Stock (other than a reclassification involving only the subdivision of outstanding Preferred Stock), (iv) to effect the liquidation, dissolution or winding up of the Company, or (v) to declare or pay any dividend on the Common Shares payable in Common Shares or to effect a subdivision, combination or consolidation of the Common Shares (by reclassification or otherwise than by payment of dividends in Common Shares), then, in each such case, the Company shall give to each holder of a Right Certificate, in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, or distribution of rights or warrants, or the date on which such liquidation, dissolution or winding up is to take place and the date of participation therein by the holders of the Common Shares and/or Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least 10 days prior to the record date for determining holders of the Preferred Stock for purposes of such action, and in the case of any such other action, at least 10 days prior to the

date of the taking of such proposed action or the date of participation therein by the holders of the Common Shares and/or Preferred Stock, whichever shall be the earlier.

(b) In case any event described in Section 11(a)(ii) or Section 13 shall occur then the Company shall as soon as practicable thereafter give to each holder of a Right Certificate (or if occurring prior to the Distribution Date, the holders of the Common Shares) in accordance with Section 26 hereof, a notice of the occurrence of such event, which notice shall describe such event and the consequences of such event to holders of Rights under Section 11(a)(ii) and Section 13 hereof.

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Section 26. *Notices.* Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Northwest Airlines Corporation
2700 Lone Oak Parkway
Eagan, Minnesota 55121
Attention: Secretary

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Norwest Bank Minnesota, N.A.
161 North Concord Exchange
P.O. Box 738
Eagan, Minnesota 55121
Attention: Secretary

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 27. *Supplements and Amendments.* Except as otherwise provided in this Section 27, for so long as the Rights are then redeemable, the Company may in its sole and absolute discretion, and the Rights Agent shall if the Company so directs, supplement or amend any provision of this Agreement in any respect without the approval of any holders of the Rights. At any time when the Rights are no longer redeemable, except as otherwise provided in this Section 27, the Company may, and the Rights Agent shall, if the Company so directs,

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supplement or amend this Agreement without the approval of any holders of Rights Certificates in order to (i) cure any ambiguity, (ii) correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) shorten or lengthen any time period hereunder, or (iv) change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable; provided that no such supplement or amendment shall adversely affect the interests of the holders of Rights as such (other than an Acquiring Person or an Affiliate or Associate of an Acquiring Person), and no such amendment may cause the rights again to become redeemable or cause the Agreement again to become amendable other than in accordance with this sentence. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made that decreases the Redemption Price. Upon

the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment.

Section 28. *Successors.* All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. *Benefits of this Agreement.* Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the Common Shares) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Right Certificates (and, prior to the Distribution Date, the Common Shares).

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Section 30. *Severability.* If any term, provision, covenant or restriction of this Agreement or applicable to this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 31. *Governing Law.* This Agreement and each Right Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

Section 32. *Counterparts.* This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 33. *Descriptive Headings.* Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all as of the day and year first above written.

Attest:

NORTHWEST AIRLINES CORPORATION

By /s/ MICHAEL L. MILLER
Name: Michael L. Miller
Title: *Associate General Counsel
and Assistant Secretary*

By /s/ DOUGLAS M. STEENLAND
Name: Douglas M. Steenland
Title: *Executive Vice President,
General Counsel and Secretary*

Attest:

NORWEST BANK MINNESOTA, N.A.

By /s/ SUZANNE SWITS
Name: Suzanne Swits

By /s/ KENNETH P. SWANSON
Name: Kenneth P. Swanson

**FORM
OF
CERTIFICATE OF DESIGNATIONS
OF
SERIES D JUNIOR PARTICIPATING PREFERRED STOCK
OF
NEWBRIDGE PARENT CORPORATION
(which shall be renamed Northwest Airlines Corporation)

(Pursuant to Section 151 of the
General Corporation Law of the State of Delaware)**

Newbridge Parent Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (hereinafter called the "Company"), hereby certifies that the following resolution was duly adopted by the Board of Directors of the Company as required by Section 151 of the General Corporation Law of the State of Delaware at a meeting duly called and held on November 20, 1998:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of the Company (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Company's Certificate of Incorporation, as amended to date (hereinafter called the "Certificate of Incorporation"), the Board of Directors hereby creates a series of Preferred Stock, par value \$.01 per share (the "Preferred Stock"), of the Company and hereby states the designation and number of shares, and fixes the relative rights, powers and preferences thereof, and the limitations thereof, as follows:

Section 1. *Designation and Amount.* The shares of such series shall be designated as "Series D Junior Participating Preferred Stock" (the "Series D Preferred Stock") and the number of shares constituting the Series D Preferred Stock shall be 3,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series D Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Company convertible into Series D Preferred Stock.

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Section 2. *Dividends and Distributions.*

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock of the Company (the "Preferred Stock") (or any similar stock) ranking prior and superior to the Series D Preferred Stock with respect to dividends, the holders of shares of Series D Preferred Stock, in preference to the holders of Common Stock, par value \$.01 per share of the Company (the "Common Shares") and of any other stock

of the Company ranking junior to the Series D Preferred Stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of January, April, July, and October in each year (each such date being referred to herein as a "Dividend Payment Date"), commencing on the first Dividend Payment Date after the first issuance of a share or fraction of a share of Series D Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in Common Shares, declared on the Common Shares since the immediately preceding Dividend Payment Date or, with respect to the first Dividend Payment Date, since the first issuance of any share or fraction of a share of Series D Preferred Stock. In the event the Company shall at any time after November 20, 1998, declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the amount to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(B) The Company shall declare a dividend or distribution on the Series D Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Shares (other than a dividend payable in shares of Common Shares); provided that, in the event no dividend or distribution shall have been declared on the Common Shares during the period between any Dividend Payment Date and the next subsequent Dividend Payment Date, a dividend of \$1 per share on the Series D Preferred Stock shall nevertheless be payable, when, as and if declared, on such subsequent Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative, whether or not earned or declared, on outstanding shares of Series D Preferred Stock from the Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series D Preferred Stock entitled to receive a quarterly dividend and before such Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative

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from such Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series D Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series D Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. *Voting Rights.* The holders of shares of Series D Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth and except as otherwise provided in the Certificate of Incorporation or required by law, each share of Series D Preferred Stock shall entitle the holder thereof to 100 votes on all matters upon which the holders of the Common Shares of the Company are entitled to vote. In the event the Company shall at any time after November 20, 1998, declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the number of votes per share to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock, and except as otherwise required by law, the holders of shares of Series D Preferred

Stock and the holders of Common Shares and any other capital stock of the Company having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Company.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series D Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Shares as set forth herein) for taking any corporate action.

Section 4. *Certain Restrictions.*

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series D Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not earned or declared, on shares of Series D Preferred Stock outstanding shall have been paid in full, the Company shall not:

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(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (as to dividends) to the Series D Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (as to dividends) with the Series D Preferred Stock, except dividends paid ratably on the Series D Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock, provided that the Company may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Company ranking junior (as to dividends and upon dissolution, liquidation or winding up) to the Series D Preferred Stock or rights, warrants or options to acquire such junior stock;

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series D Preferred Stock, or any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series D Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Company shall not permit any subsidiary of the Company to purchase or otherwise acquire for consideration any shares of stock of the Company unless the Company could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. *Reacquired Shares.* Any shares of Series D Preferred Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof.

Section 6. *Liquidation, Dissolution or Winding Up.* Upon any liquidation, dissolution or winding up of the Company, no distribution shall be made (A) to the holders of the Common Shares or of shares of any other stock of the Company ranking junior, upon liquidation, dissolution or winding up, to the Series D Preferred Stock unless, prior thereto, the holders of shares of Series D Preferred Stock shall have received \$100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not earned or declared, to the date of such payment, provided that the holders of shares of Series D Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to

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holders of Common Shares, or (B) to the holders of shares of stock ranking on a parity upon liquidation, dissolution or winding up with the Series D Preferred Stock, except distributions made ratably on the Series D Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Company shall at any time after November 20, 1998 declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the aggregate amount to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event under the proviso in clause (A) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

Section 7. *Consolidation, Merger, etc.* In case the Company shall enter into any consolidation, merger, combination or other transaction in which the Common Shares are converted into, exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series D Preferred Stock shall at the same time be similarly converted into, exchanged for or changed into an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each Common Share is converted, exchanged or converted. In the event the Company shall at any time after November 20, 1998 declare or pay any dividend on the Common Shares payable in Common Shares, or effect a subdivision or combination or consolidation of the outstanding Common Shares (by reclassification or otherwise than by payment of a dividend in Common Shares) into a greater or lesser number of Common Shares, then in each such case the amount set forth in the preceding sentence with respect to the conversion, exchange or change of shares of Series D Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Common Shares outstanding immediately after such event and the denominator of which is the number of Common Shares that were outstanding immediately prior to such event.

Section 8. *No Redemption.* The shares of Series D Preferred Stock shall not be redeemable from any holder.

Section 9. *Rank.* The Series D Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up of the Company, junior to all other series of Preferred Stock and senior to the Common Shares.

Section 10. *Amendment.* If any proposed amendment to the Certificate of Incorporation (including this Certificate of Designations) would alter, change or repeal any of the preferences, powers or special rights given to the Series D Preferred Stock so as to affect the Series D Preferred Stock adversely, then the holders of the Series D Preferred Stock shall be entitled to vote separately as a class upon such amendment, and the affirmative vote of two-thirds

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of the outstanding shares of the Series D Preferred Stock, voting separately as a class, shall be necessary for the adoption thereof, in addition to such other vote as may be required by the General Corporation Law of the State of Delaware.

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IN WITNESS WHEREOF, this Certificate of Designations is executed on behalf of the Company by its President and Chief Executive Officer and attested by its Secretary this 20th day of November, 1998.

President and Chief Executive Officer

Attest:

Form of Right Certificate

Certificate No. R- _____

_____ Rights

NOT EXERCISABLE AFTER NOVEMBER 16, 2005 OR EARLIER IF REDEMPTION OR EXCHANGE OCCURS. THE RIGHTS ARE SUBJECT TO REDEMPTION AT \$.01 PER RIGHT AND TO EXCHANGE ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS OWNED BY OR TRANSFERRED TO ANY PERSON WHO BECOMES AN ACQUIRING PERSON (AS DEFINED IN THE RIGHTS AGREEMENT) AND CERTAIN TRANSFEREES THEREOF WILL BECOME NULL AND VOID AND WILL NO LONGER BE TRANSFERABLE.

Right Certificate

NORTHWEST AIRLINES CORPORATION

This certifies that _____ or registered assigns, is the registered owner of the number of Rights set forth above, each of which entitles the owner thereof, subject to the terms, provisions and conditions of the Rights Agreement, dated as of November 20, 1998, as the same may be amended from time to time (the "Rights Agreement"), between Northwest Airlines Corporation, a Delaware corporation (the "Company"), and Norwest Bank Minnesota, N.A. (the "Rights Agent"), to purchase from the Company at any time after the Distribution Date (as such term is defined in the Rights Agreement) and prior to 5:00 P.M., New York City time, on November 16, 2005 at the office or agency of the Rights Agent designated for such purpose, or of its successor as Rights Agent, one one-hundredth of a fully paid non-assessable share of Series D Junior Participating Preferred Stock, par value \$.01 per share (the "Preferred Stock"), of the Company, at a purchase price of \$150 per one one-hundredth of a share of Preferred Stock (the "Purchase Price"), upon presentation and surrender of this Right Certificate with the Form of Election to Purchase duly executed. The number of Rights evidenced by this Rights Certificate (and the number of one one-hundredths of a share of Preferred Stock which may be purchased upon exercise hereof) set forth above, and the Purchase Price set forth above, are the number and Purchase Price as of November 16, 1995, based on the Preferred Stock as constituted at such date (it being understood that at such date the Preferred Stock was a security of Old Northwest (as defined in the Rights Agreement) and not the Company). As provided in the Rights Agreement, the Purchase Price, the number of one one-hundredths of a share of Preferred Stock (or other securities or property) which may be purchased upon the exercise of the Rights and the number of Rights evidenced by this Right Certificate are subject to modification and adjustment upon the happening of certain events.

This Right Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement, which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Rights Agent, the Company and the holders of the Right Certificates. Copies of the Rights

Agreement are on file at the principal executive offices of the Company and the above-mentioned office or agency of the Rights Agent. The Company will mail to the holder of this Right Certificate a copy of the Rights Agreement without charge after receipt of a written request therefor.

This Right Certificate, with or without other Right Certificates, upon surrender at the office or agency of the Rights Agent designated for such purpose, may be exchanged for another Right Certificate or Right Certificates of like tenor and date evidencing Rights entitling the holder to purchase a like aggregate number of shares of Preferred Stock as the Rights evidenced by the Right Certificate or Right Certificates surrendered shall have entitled such holder to purchase. If this Right Certificate shall be exercised in part, the holder shall be entitled to receive upon surrender hereof another Right Certificate or Right Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate (i) may be redeemed by the Company at a redemption price of \$.01 per Right or (ii) may be exchanged in whole or in part for shares of Preferred Stock or shares of the Company's Common Stock, par value \$.01 per share.

No fractional shares of Preferred Stock will be issued upon the exercise of any Right or Rights evidenced hereby (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts), but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Right Certificate, as such, shall be entitled to vote or receive dividends or be deemed for any purpose the holder of the Preferred Stock or of any other securities of the Company which may at any time be issuable on the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in the Rights Agreement) or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by this Right certificate shall have been exercised as provided in the Rights Agreement.

This Right Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

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WITNESS the facsimile signature of the proper officers of the Company and its corporate seal.

Dated:

ATTEST:

NORTHWEST AIRLINES CORPORATION

By NORWEST BANK MINNESOTA, N.A.

By _____

Countersigned:

_____,
as Rights Agent

By _____
Authorized Signature

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Form of Reverse Side of Right Certificate

FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Right Certificate)

FOR VALUE RECEIVED _____ hereby sells, assigns and transfer unto _____

(Please print name and address of transferee)

Rights represented by this Right Certificate, together with all right, title and interest therein, and does hereby irrevocably constitute and appoint _____ Attorney, to transfer said Rights on the books of the within-named Company, with full power of substitution.

Dated: _____

Signature

Signature Guaranteed:

Signatures must be guaranteed by a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

(To be completed)

The undersigned hereby certifies that the Rights evidenced by this Right Certificate are not beneficially owned by, were not acquired by the undersigned from, and are not being assigned to, an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement).

Signature

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FORM OF ELECTION TO PURCHASE

**(To be executed if holder desires to exercise
Rights represented by the Rights Certificate)**

To Northwest Airlines Corporation:

The undersigned hereby irrevocably elects to exercise _____ Rights represented by this Right Certificate to purchase the shares of Preferred Stock (or other securities or property) issuable upon the exercise of such Rights and requests that certificates for such shares of Preferred Stock (or such other securities) be issued in the name of:

(Please print name and address)

If such number of Rights shall not be all the Rights evidenced by this Right Certificate, a new Right Certificate for the balance remaining of such Rights shall be registered in the name of and delivery to:

Please insert social security
or other identifying number

(Please print name and address)

Dated: _____

Signature

(Signature must conform to holder specified on Right Certificate)

Signature Guaranteed:

Signature must be guaranteed by a member of firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

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(To be completed)

The undersigned certifies that the Rights evidenced by this Right Certificate are not beneficially owned by, and were not acquired by the undersigned from, an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement)

Signature

NOTICE

The signature in the Form of Assignment or Form of Election to Purchase, as the case may be, must conform to the name as written upon the face of this Right Certificate in every particular, without alteration or enlargement or any change whatsoever.

In the event the certification set forth above in the Form of Assignment or the Form of Election to Purchase, as the case may be, is not completed, such Assignment or Election to Purchase will not be honored.

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Exhibit C

UNDER CERTAIN CIRCUMSTANCES, AS SET FORTH IN THE RIGHTS AGREEMENT, RIGHTS OWNED BY OR TRANSFERRED TO ANY PERSON WHO BECOMES AN ACQUIRING PERSON (AS DEFINED IN THE RIGHTS AGREEMENT) AND CERTAIN TRANSFEREES THEREOF WILL BECOME NULL AND VOID AND WILL NO LONGER BE TRANSFERABLE.

SUMMARY OF RIGHTS TO PURCHASE Shares of Preferred Stock

On November 20, 1998, the Board of Directors of Northwest Airlines Corporation, a Delaware corporation (formerly Newbridge Parent Corporation) (the "Company"), authorized and declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Common Stock, par value \$.01 per share, of the Company (the "Common Shares"). The dividend is payable to the stockholders of record as of the time of filing of the Amended and Restated Agreement and Plan of Merger, dated as of October 30, 1998, among Northwest Airlines Holdings Corporation, a Delaware corporation (formerly Northwest Airlines Corporation), the Company and Newbridge Merger Corporation, a Delaware corporation, is filed with the Secretary of State of the State of Delaware (the "Record Date"). Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series D Junior Participating Preferred Stock, par value \$.01 per share (the "Preferred Stock") of the Company at a price of \$150 per one one-hundredth of a share of Preferred Stock (as the same may be adjusted, the "Purchase Price"). The description and terms of the Rights are set forth in a Rights Agreement dated as of November 20, 1998, as the same may be amended from time to time (the "Rights Agreement"), between the Company and Norwest Bank Minnesota, N.A., as Rights Agent (the "Rights Agent").

Until the earlier to occur of (i) 10 days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") have acquired beneficial ownership of a number of Common Shares equal to 19% or more (25% or more in the case of certain Institutional Investors (as such term is defined in the Rights Agreement)) of the sum of (a) the Common Shares then issued and outstanding, (b) all Common Shares issuable upon conversion of all the shares of Series C Preferred Stock, par value \$.01 per share ("Series C Preferred Stock"), then issued and outstanding, (c) all Common Shares issuable upon the exercise of all employee stock options issued and outstanding as of November 16, 1995 and (d) any other Common Shares not then actually issued and outstanding but which such Person would be deemed to beneficially own under the Rights Agreement (together, the "outstanding Common Shares"); provided, however, that if a Person would be deemed an Acquiring Person upon the adoption of the Rights Agreement, such Person will not be deemed an "Acquiring Person" for any purposes of the Rights Agreement unless and until such Person acquires beneficial ownership of any additional Common Shares after the date of the adoption of the Rights Agreement unless upon the consummation of the acquisition of such additional Common Shares such Person does not beneficially own a number of Common Shares equal to 19% or more (25% or more in the case of certain Institutional Investors) of the outstanding Common Shares or (ii) 10 business days (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated persons becomes an Acquiring Person) following the commencement of, or announcement of an intention to make, a tender offer or exchange offer the consummation of which would result in the beneficial ownership by a person or group of a number of Common Shares equal to 19% or more (25% or

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more in the case of certain Institutional Investors) of the number of outstanding Common Shares (the earlier of such dates being called the "Distribution Date"), the Rights will be evidenced, with respect to any of the Common Share certificates outstanding as of the Record Date, by such Common Share certificate together with a copy of the Summary of Rights distributed to each holder of Common Shares (the "Summary of Rights").

The Rights Agreement provides that, until the Distribution Date (or earlier redemption or expiration of the Rights), the Rights will be transferred with and only with the Common Shares. Until the Distribution Date (or earlier redemption or expiration of the Rights), new Common Share certificates issued after the Record Date upon transfer or new issuances of Common Shares (including pursuant to the conversion of Series C Preferred Stock) will contain a notation incorporating the Rights Agreement by reference. Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates for Common Shares outstanding as of the Record Date, even without such notation or a copy of the Summary of Rights, will also constitute the transfer of the Rights associated with the Common Shares represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of the Common Shares as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights.

The Rights are not exercisable until the Distribution Date. The Rights will expire on November 16, 2005 (the "Final Expiration Date"), unless the Final Expiration Date is extended or unless the Rights are earlier redeemed or exchanged by the Company, in each case as described below.

The Purchase Price payable, and the number of shares of Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Preferred Stock, (ii) upon the grant to holders of the Preferred Stock of certain rights or warrants to subscribe for or purchase Preferred Stock at a price, or securities convertible into Preferred Stock with a conversion price, less than the then-current market price of the Preferred Stock or (iii) upon the distribution to holders of the Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends or dividends payable in Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding Rights are also subject to adjustment in the event of a stock split of the Common Shares or a stock dividend on the Common Shares payable in Common Shares or subdivisions, consolidations or combinations of the Common Shares occurring, in any such case, prior to the Distribution Date.

Shares of Preferred Stock purchasable upon exercise of the Rights will not be redeemable. Each share of Preferred Stock will be entitled, when, as and if declared, to a minimum preferential quarterly dividend payment of \$1 per share but will be entitled to an aggregate dividend of 100 times the dividend declared per share of Common Stock. In the event of liquidation, the holders of the Preferred Stock will be entitled to a minimum preferential

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liquidation payment of \$100 per share (plus any accrued but unpaid dividends) but will be entitled to an aggregate payment of 100 times the payment made per share of Common Stock. Each share of Preferred Stock will have 100 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation or other transaction in which shares of Common Stock are converted or exchanged, each share of Preferred Stock will be entitled to receive 100 times the amount received per share of Common Stock. These rights are protected by customary antidilution provisions.

In the event that any person or group of affiliated or associated persons becomes an Acquiring Person, each holder of a Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter have the right to receive upon exercise of a Right at the then current exercise price of the Right, that number of Common Shares (or one one-hundredths of a share of Preferred Stock) having a market value of two times the exercise price of the Right.

In the event that, after a person or group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a Right (other than Rights beneficially owned by an Acquiring Person which will have become void) will thereafter have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the person with whom the Company has engaged in the foregoing transaction (or its parent), which number of shares at the time of such transaction will have a market value of two times the exercise price of the Right.

At any time after any person or group becomes an Acquiring Person and prior to the acquisition by such person or group of beneficial ownership of a number of Common Shares equal to 50% or more of the number of outstanding Common Shares, the Board of Directors of the Company may exchange the Rights (other than Rights owned by such person or group which will have become void), in whole or in part, at an exchange ratio of one Common Share, or one one-hundredth of a share of Preferred Stock (or of a share of a class or series of the Company's preferred stock having equivalent rights, preferences and privileges), per Right (subject to adjustment).

With certain exceptions, no adjustment in the Purchase Price will be required until cumulative adjustments require an adjustment of at least 1% in such Purchase Price. No fractional shares of Preferred Stock will be issued (other than fractions which are integral multiples of one one-hundredth of a share of Preferred Stock, which may, at the election of the Company, be evidenced by depositary receipts) and in lieu thereof, an adjustment in cash will be made based on the market price of the Preferred Stock on the last trading day prior to the date of exercise.

At any time prior to the time an Acquiring Person becomes such, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of \$.01 per Right (the "Redemption Price"). Immediately upon any redemption of the Rights, the right to

exercise the Rights will terminate and the only right of the holders of Rights will be to receive the Redemption Price.

For so long as the Rights are then redeemable, the Company may amend the Rights in any manner except that it may not decrease the redemption price. After the Rights are no longer redeemable the Company may, except with respect to the Redemption Price, amend the Rights in any manner that does not adversely affect the interests of holders of the Rights.

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

A copy of the Rights Agreement is available free of charge from the Company. This summary description of the Rights does not purport to be complete and is qualified in its entirety by reference to the Rights Agreement, as the same may be amended from time to time, which is hereby incorporated herein by reference.

CONFORMED COPY

AMENDED AND RESTATED STANDSTILL AGREEMENT

AMENDED AND RESTATED STANDSTILL AGREEMENT, dated as of May 1, 1998 (this "AGREEMENT"), between KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V., a Netherlands corporation ("KLM"), and NORTHWEST AIRLINES CORPORATION, a Delaware corporation.

WITNESSETH:

WHEREAS, NWA Corp. and KLM are parties to a Standstill Agreement, dated as of September 29, 1997 (the "STANDSTILL AGREEMENT"), executed in connection with the Common Stock Repurchase Agreement, dated as of September 29, 1997, between NWA Corp. (as defined below) and KLM, as amended (the "ORIGINAL COMMON STOCK AGREEMENT");

WHEREAS, NWA Corp. and KLM have entered into an Accelerated Common Stock Repurchase Agreement, dated as of the date hereof, (the "ACCELERATED REPURCHASE AGREEMENT") in order to accelerate the repurchase from KLM of the remaining 18,177,874 Shares (as defined in the Accelerated Repurchase Agreement) to be repurchased pursuant to the Original Common Stock Agreement;

WHEREAS, as an inducement to the willingness of KLM to agree to the terms of the Accelerated Repurchase Agreement, NWA Corp. and KLM have also entered into the Northwest Airlines Corporation Common Stock Option Agreement (the "OPTION AGREEMENT"), dated as of the Closing Date (as defined in the Accelerated Repurchase Agreement);

WHEREAS, NWA Corp. and KLM desire to amend and restate the Standstill Agreement in connection with the Accelerated Purchase Agreement and the Option Agreement;

NOW THEREFORE, the parties hereto agree to amend and restate the Standstill Agreement so that it reads in its entirety as follows:

Section 1. *DEFINED TERMS.* Unless otherwise defined herein:

"AFFILIATE" of a Person has the meaning ascribed to such term in the Common Stock Agreement.

"AMENDMENT TO THE STOCKHOLDERS' AGREEMENT" means the agreement in the form of Exhibit A to the Common Stock Agreement which amends the Stockholders' Agreement and provides for (i) the acceleration of the vesting of the KLM Option (as defined in the Stockholders' Agreement) in respect of shares of Class A Common Stock subject to such option that are held by Richard D. Blum Associates-NWA Partners L.P. and Bankers Trust New York Corporation, and the exercise by KLM of such KLM Option with respect to such shares and the purchase of such shares

concurrently with the Initial Closing Date (as defined in the Common Stock Agreement), (ii) the termination of the KLM Option with respect to the other Option Stockholders and the termination of the Put Option (as each such term is defined in the Stockholders' Agreement) with respect to all of the Option Stockholders and (iii) immediately following the consummation of the transactions contemplated by the Common Stock Agreement on the Initial Closing Date, the termination of all of KLM's other rights and obligations under the Stockholders' Agreement.

"BENEFICIAL OWNERSHIP" by a Person of any securities includes ownership by any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (i) voting power which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct

the disposition of, such security; and shall otherwise be interpreted in accordance with the term "beneficial ownership" as defined in Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), as in effect on the date hereof, and in addition, "beneficial ownership" shall include securities which such Person has the right to acquire (irrespective of whether such right is exercisable immediately or only after the passage of time, including the passage of time in excess of 60 days) pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise. For purposes of this Agreement, a Person shall be deemed to beneficially own any securities beneficially owned by its Affiliates or any Group of which such Person or any such Affiliate is a member.

"BUSINESS DAY" means any day that is not a Saturday, Sunday or other day on which banks are required or authorized by law to be closed in Amsterdam, The Netherlands, in New York, New York or in Minneapolis, Minnesota.

"COMMON STOCK AGREEMENT" means the Original Common Stock Agreement, as amended by the Accelerated Repurchase Agreement and as amended, supplemented or otherwise modified from time to time in accordance with its terms.

"DOLLARS" and "\$" mean lawful currency of the United States of America.

"GROUP" means two or more persons acting as a partnership, limited partnership, syndicate or other group for the purpose of acquiring, holding, voting or disposing of securities.

"KLM COMBINED VOTING POWER" at any measurement date shall mean the total number of votes which could have been cast in a vote at a meeting of the stockholders of, as applicable, KLM, a KLM Holding Company (as defined below) or a KLM Partner (as defined below) (or any successor of any of them) by person or by proxy at such meeting.

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"KLM VOTING SECURITIES" shall mean, collectively, (i) KLM's Common Shares, par value 5 NLG per share, (ii) any other securities entitled, or that may be entitled, to vote on matters submitted to stockholders for a vote at a stockholders' meeting of KLM, or any such securities of a holding company formed by KLM which holds more than 50% of the KLM Combined Voting Power (a "KLM HOLDING COMPANY"), (iii) any common shares, ordinary shares or other comparable securities entitled to vote on matters submitted to a general vote of shareholders of a Person that has entered into a partnership, joint venture or similar arrangement with KLM pursuant to which the stockholders of KLM and such Person enjoy substantially equivalent economic rights as a result of twinning, equalization or other sharing arrangements between KLM and such Person (a "KLM PARTNER"), and (iv) any other securities, warrants or options or rights of any nature (whether or not issued by KLM) that are convertible into, exchangeable for, or exercisable for the purchase of, or otherwise give the holder thereof any rights in respect of (whether or not the right to convert, exercise or exchange is subject to the passage of time, contingencies or contractual restrictions or any combination thereof), any security described in clauses (i) through (iii) of this definition; PROVIDED, that rights issued pursuant to any stockholder rights plan shall not be deemed to be KLM Voting Securities.

"MANAGEMENT BOARD OF KLM" means the management board of KLM or equivalent governing body of a KLM Holding Company or a KLM Partner or any successor of any of them.

"MERGER" means the merger, pursuant to Section 251(g) of the Delaware General Corporation Law of Newbridge Merger Corporation, a Delaware corporation and wholly owned subsidiary of Newbridge Parent Corporation, with and into NWA Corp. in accordance with the terms of the Agreement and Plan of Merger, dated as of January 25, 1998, among NWA Corp., Newbridge Parent Corporation and Newbridge Merger Corporation, as a result of which NWA Corp. will become a wholly owned subsidiary of Newbridge Parent Corporation.

"NWA CORP." means (i) prior to the Merger, Northwest Airlines Corporation, a Delaware corporation and (ii) following the Merger, Newbridge Parent Corporation, a Delaware corporation, which shall change its name to Northwest Airlines Corporation

concurrently with the Merger, and any holding company subsequently formed by NWA Corp. which holds more than 50% of the NWA Corp. Combined Voting Power.

"NWA CORP. BOARD OF DIRECTORS" shall mean the board of directors of NWA Corp. or any successor (including any holding company surviving the Merger) or Northwest Airlines, Inc.

"NWA CORP. COMBINED VOTING POWER" at any measurement date shall mean the total number of votes which could have been cast in an election of members of the NWA Corp. Board of Directors had a meeting of the stockholders of NWA Corp. (or its successors) been duly held based upon a record date as of the measurement date if

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all NWA Corp. Voting Securities then outstanding and entitled to vote at such meeting were present and voted to the fullest extent possible at such meeting.

"NWA CORP. VOTING SECURITIES" shall mean, collectively, (i) the Common Stock (as defined in the Accelerated Repurchase Agreement), (ii) any other securities entitled, or that may be entitled, to vote generally for the election of members of the NWA Corp. Board of Directors, and (iii) any other securities, warrants or options or rights of any nature (whether or not issued by NWA Corp.) that are convertible into, exchangeable for, or exercisable for the purchase of, or otherwise give the holder thereof any rights in respect of (whether or not the right to convert, exercise or exchange is subject to the passage of time, contingencies or contractual restrictions or any combination thereof), any security described in clause (i) or (ii) of this definition; PROVIDED, that rights issued pursuant to any stockholder rights plan shall not be deemed to be NWA Corp. Voting Securities.

"PERSON" means any individual, corporation, partnership, trust or other entity of any nature whatsoever.

"REORGANIZATION TRANSACTION" means (i) any merger, consolidation, recapitalization, liquidation or other business combination transaction involving NWA Corp., Northwest Airlines, Inc. or KLM or a KLM Holding Company or a KLM Partner (or any successors (including, in the case of NWA Corp., any holding company surviving the Merger) to any of such entities), (ii) any tender offer or exchange offer for any securities of NWA Corp., Northwest Airlines, Inc. or KLM, a KLM Holding Company or a KLM Partner (or any successors (including, in the case of NWA Corp., any holding company surviving the Merger) to any of such entities) or (iii) any sale or other disposition of assets of NWA Corp., Northwest Airlines, Inc. or KLM or a KLM Holding Company or a KLM Partner (or any successors to any of such entities) in a single transaction or in a series of related transactions in each of the foregoing cases constituting individually or in the aggregate 10% or more of the assets of NWA Corp., Northwest Airlines, Inc. or KLM or a KLM Holding Company or a KLM Partner, as applicable, or 10% or more of the then outstanding NWA Corp. Voting Securities or KLM Voting Securities, as applicable, of NWA Corp. or KLM or securities entitled, or that may be entitled, to vote at a meeting of stockholders of a KLM Holding Company or a KLM Partner (or any successors to any of such entities), as applicable.

"STANDSTILL PERIOD" shall mean the period commencing on the Initial Closing Date and continuing until the later of (i) the tenth anniversary of the Initial Closing Date, and (ii) the termination of the Alliance Implementation Agreement (PROVIDED, that, if the Alliance Implementation Agreement is terminated by NWA Corp. in accordance with the provisions set forth in Section 7.1(e)(ii) of the Common Stock Agreement, then the operative date for this clause (ii) will be the date on which KLM no longer beneficially owns any NWA Corp. Voting Securities including any NWA Corp. Voting Securities acquired or to be acquired by KLM pursuant to Section 1.1 or 1.2 of the Option Agreement).

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"STOCKHOLDERS' AGREEMENT" means the Second Amended and Restated Investor Stockholders' Agreement dated as of December 23, 1993, as amended, supplemented or otherwise modified from time to time, among NWA Corp., KLM and certain other stockholders of NWA Corp. parties thereto, as in effect on the date hereof.

"SUPERVISORY BOARD OF KLM" means the supervisory board of KLM or equivalent governing body of a KLM Holding Company or a KLM Partner or any successor of any of them.

"UMBRELLA AGREEMENTS" means, collectively, (i) the Commercial Cooperation and Integration Agreement dated September 9, 1992, (ii) the Worldwide Pricing and Inventory Control Agreement dated January 15, 1993, (iii) the Worldwide Sales and Travel Agency Compensation Agreement dated January 15, 1993, (iv) the Worldwide Strategic Planning and Scheduling Agreement dated January 15, 1993, (v) the Alliance Implementation Agreement, and (vi) all other written agreements entered into by KLM and Northwest Airlines, Inc. relating to the commercial cooperation between them which relate to the preceding agreements.

"WORKS COUNCIL OF KLM" means the works council of KLM or equivalent body of a KLM Holding Company or a KLM Partner or any successor of any of them.

Section 2. *COVENANTS WITH RESPECT TO NWA CORP. VOTING SECURITIES AND OTHER MATTERS.*

2.1 *ACQUISITION OF NWA CORP. VOTING SECURITIES AND MATERIAL ASSETS.* Except as specifically provided in the Common Stock Agreement or pursuant to an Option (as defined in the Option Agreement), during the Standstill Period KLM will not, and will cause each of its Affiliates not to, directly or indirectly, acquire, offer to acquire, agree to acquire, become the beneficial owner of or obtain any rights in respect of any NWA Corp. Voting Securities or, except as provided for in the Umbrella Agreements, any material assets owned directly or indirectly by NWA Corp. or any successor or any Affiliate thereof, whether by purchase or otherwise, or take any action in furtherance thereof.

2.2 *PROXY SOLICITATIONS, ETC.* During the Standstill Period KLM will not, and will cause each of its Affiliates not to, directly or indirectly, solicit proxies, assist any other Person in any way, directly or indirectly, in the solicitation of proxies, or otherwise become a "participant" in a "solicitation," or assist any "participant" in a "solicitation" (as such terms are defined in Rule 14a-1 of Regulation 14A under the Exchange Act as in effect on the date of this Agreement) in opposition to the recommendation or proposal of the NWA Corp. Board of Directors, or submit any proposal for the vote of stockholders of NWA Corp., or recommend or request or induce or attempt to induce any other Person to take any such actions, or seek to advise, encourage or influence any other Person with respect to the voting of NWA Corp. Voting Securities. In furtherance of KLM's obligations pursuant to this Section 2.2, during the Standstill Period KLM shall, and shall cause its Affiliates to, at any annual or special meeting of stockholders at which members of the NWA Corp. Board of Directors are to be elected or in connection with a solicitation of consents through which

members of the NWA Corp. Board of Directors are to be selected, to vote (or give a written consent or proxy with respect to) all NWA Corp. Voting Securities beneficially owned by them in favor of the election to the NWA Corp. Board of Directors of the persons recommended by the NWA Corp. Board of Directors.

2.3 *NO VOTING TRUSTS, POOLING AGREEMENTS, OR FORMATION OF "GROUPS".* During the Standstill Period KLM will not, and will cause each of its Affiliates not to, directly or indirectly, join in or in any other way participate in a partnership, pooling agreement, syndicate, voting trust or other Group with respect to NWA Corp. Voting Securities, or enter into any agreement or arrangement or otherwise act in concert with any other Person, for the purpose of acquiring, holding, voting or disposing of NWA Corp. Voting Securities.

2.4 *LIMITATIONS ON PROPOSALS.* During the Standstill Period KLM will not, and will cause each of its Affiliates not to, directly or indirectly, initiate, propose or otherwise solicit stockholders for the approval of one or more stockholder proposals with respect to NWA Corp. or any successor thereof or any Affiliate thereof or induce or attempt to induce any other Person to initiate any stockholder proposal or seek election to or seek to place a representative on the NWA Corp. Board of Directors or equivalent governing body of any successor thereof or any Affiliate thereof (except to the extent expressly invited to do so by the NWA Corp. Board of Directors) or seek removal of any member of the NWA Corp. Board of Directors or equivalent governing

body of any successor thereof or any Affiliate thereof (other than any such member who may have been previously designated by KLM).

2.5 *LIMITATION ON VARIOUS OTHER ACTIONS.* During the Standstill Period, KLM will not, and will cause each of its Affiliates not to, take any action, alone or in concert with any other Person, (a) to seek to effect a change in control of NWA Corp. or any successor thereof or any Affiliate thereof, (b) to seek to effect a Reorganization Transaction with respect to NWA Corp. or any successor thereof or any Affiliate thereof, (c) except as provided for in the Umbrella Agreements, to seek to effect any control or influence over the management of NWA Corp. or any successor thereof or any Affiliate thereof, the NWA Corp. Board of Directors or the policies of NWA Corp. or any successor thereof or any Affiliate thereof, (d) to advise, assist or encourage or finance (or assist or arrange financing to or for) any other Person in connection with any of the matters restricted by, or to otherwise seek to circumvent the limitations of the provisions of, Section 2 of this Agreement (any such action described in clause (a), (b), (c) or (d), a "NWA TRANSACTION PROPOSAL"), (e) to present to NWA Corp. or any stockholders thereof or any third party any proposal that can reasonably be expected to result in a NWA Transaction Proposal or in an increase in the NWA Corp. Combined Voting Power of NWA Corp. Voting Securities beneficially owned in the aggregate by KLM and its Affiliates, (f) to publicly suggest or announce its willingness or desire to engage in a transaction or group of transactions or have another Person engage in a transaction or group of transactions that could reasonably be expected to result in a NWA Transaction Proposal or in an increase in the NWA Corp. Combined Voting Power of NWA Corp. Voting Securities beneficially owned in the aggregate by KLM and its Affiliates, (g) to initiate, request, induce, encourage or attempt to induce or give encouragement to any other Person to initiate, or otherwise provide assistance to any Person who has made or is contemplating making, any proposal that can reasonably be expected to result in a NWA

Transaction Proposal or in an increase in the NWA Corp. Combined Voting Power of NWA Corp. Voting Securities beneficially owned in the aggregate by KLM and its Affiliates, or (h) to request a waiver, modification or amendment of any of the provisions of Section 2 of this Agreement; PROVIDED, HOWEVER, that this subclause (h) shall not apply to any Private KLM Waiver Request conveyed during the pendency of any unsolicited Business Combination Proposal made (either publicly or in a communication to the NWA Corp. Board of Directors) by any Person that is engaged in the commercial airline business or Group that is engaged in the commercial airline business or Group that includes a Person engaged in the commercial airline business (other than KLM and its Affiliates).

For purposes of this Section 2: (i) a "Business Combination Proposal" means (x) a tender or exchange offer or other bona fide offer to acquire directly or indirectly any voting securities of NWA Corp. under circumstances such that, immediately after such acquisition, such Person or Group would beneficially own voting securities with an aggregate voting power representing more than 50% of the total voting power of NWA Corp., or (y) a proposal or offer for a merger, amalgamation or other business combination directly or indirectly involving NWA Corp. that would result in a change in control of NWA Corp., or a proposal or offer to acquire directly or indirectly all or substantially all the assets of NWA Corp.; (ii) a "KLM Business Combination Proposal" means a (A) Business Combination Proposal made by KLM, (B) a Business Combination Proposal made by a Group in which KLM is a participant or (C) the formation by KLM of a Group for the purpose of making a Business Combination Proposal; PROVIDED, HOWEVER, in each case, in the event of a Business Combination Proposal described in clause (x) or (y) above, a Business Combination Proposal shall not constitute a KLM Business Combination Proposal unless consummation of such Business Combination Proposal would result in KLM (or the Group in which it is a participant, if applicable) beneficially owning voting securities with an aggregate voting power representing more than 50% of the total voting power of NWA Corp.; and (iii) a "Private KLM Waiver Request" means a request conveyed by the President of KLM to the Chief Executive Officer of NWA Corp. for a waiver of the provisions of Section 2 of this Agreement solely to permit KLM to submit a KLM Business Combination Proposal to the Chief Executive Officer of NWA Corp. in competition with such unsolicited Business Combination Proposal, provided that neither the fact that such request has been made by KLM, the fact that KLM has submitted or will be submitting a KLM Business Combination Proposal or any of the terms of such KLM Business Combination Proposal are publicly disclosed, directly or indirectly, by or on behalf of KLM or any of its Affiliates.

2.6 *VOTING.* During the Standstill Period KLM shall, and shall cause its Affiliates to, be present, in person or represented by proxy, at all meetings of stockholders of NWA Corp. so that all NWA Voting Securities beneficially owned by KLM shall be counted for the purpose of determining the presence of a quorum at such meetings. Except as otherwise provided in Section 2.2, in connection with any matters presented to stockholders of NWA Corp. or any successor corporation or any Affiliate thereof, KLM shall be permitted to vote (or give a written consent or proxy with respect to) all NWA Corp. Voting Securities beneficially owned by KLM in its sole discretion.

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2.7 *CERTAIN PERMITTED TRANSACTIONS AND COMMUNICATIONS.* For clarity, this Agreement, among other things, does not prohibit (i) the acquisition or holding in the ordinary course of business by any employee benefit plan whose trustees, investment managers or similar advisors are unaffiliated with KLM or its Affiliates of securities or rights referred to in Section 2.1, (ii) the consummation of any transaction contemplated pursuant to the Common Stock Agreement, including the exercise by KLM on the Initial Closing Date of the option to purchase shares pursuant to Section 17 of the Stockholders' Agreement, any purchase of shares contemplated by the Common Stock Agreement or the Option Agreement and any conversion of Class A Common Stock to Class B Common Stock or Class B Common Stock to Class A Common Stock as provided for in such agreements, or (iii) officers and employees of KLM or its Affiliates from communicating with officers and employees of NWA Corp. or its Affiliates on matters related to or governed by the Umbrella Agreements, or KLM or its Affiliates from communicating with the Chairman of the NWA Corp. Board of Directors or the Chief Executive Officer of NWA Corp., so long as such communication is conveyed in strict confidence, does not require public disclosure by KLM or, in the reasonable opinion of KLM's counsel, by NWA Corp., and is not intended to elicit, and, in the reasonable opinion of KLM's counsel, does not require the issuance of, a public response by NWA Corp.

2.8 *EXCEPTIONS TO APPLICABILITY OF CERTAIN COVENANTS.* Notwithstanding the foregoing, in the event (i) (x) any Person that is engaged in the commercial airline business or Group that is engaged in the commercial airline business or Group that includes a Person engaged in the commercial airline business (other than KLM and its Affiliates), either publicly or in a communication to the NWA Corp. Board of Directors, makes on an unsolicited basis a Business Combination Proposal, (y) the NWA Corp. Board of Directors adopts a resolution recommending acceptance of such Business Combination Proposal, and (z) such resolution remains in effect, or (ii) the NWA Corp. Board of Directors shall publicly announce that it has decided to sell NWA Corp. or Northwest Airlines, Inc. and will consider proposals for the acquisition of NWA Corp. or Northwest Airlines, Inc. or has otherwise publicly stated that NWA Corp. or Northwest Airlines, Inc. is for sale, then the provisions of Sections 2.1 through 2.5, in the case of clause (i), shall not apply to any KLM Business Combination Proposal commenced during the pendency of such Business Combination Proposal and, in the case of clause (ii), shall not apply until the NWA Corp. Board of Directors shall publicly announce that it has rescinded its decision to sell NWA Corp. or Northwest Airlines, Inc.; PROVIDED, that in determining whether to adopt any resolution described in clause (i)(y) of this paragraph that includes approval of a "break-up" fee, "lock-up" option or other similar arrangement, and in determining whether to adopt any resolution waiving, rescinding or otherwise declaring inapplicable the provisions of the Rights Agreement of NWA Corp. dated as of November 16, 1995, as amended, as it may relate to such Business Combination Proposal, the NWA Corp. Board of Directors shall give due consideration to the likelihood that in light of the strategic alliance between KLM and NWA Corp. as contemplated by the Alliance Implementation Agreement, KLM may desire to make a competitive KLM Business Combination Proposal.

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Section 3. *COVENANTS WITH RESPECT TO THE KLM VOTING SECURITIES AND OTHER MATTERS.*

3.1 *ACQUISITION OF KLM VOTING SECURITIES OR MATERIAL ASSETS.* Except as specifically provided in the Common Stock Agreement, during the Standstill Period NWA Corp. will not, and will cause each of its Affiliates not to, directly or indirectly, acquire, offer to acquire, agree to acquire, become the beneficial owner of or obtain any rights in respect of any KLM

Voting Securities or, except as provided for in the Umbrella Agreements, any material assets owned directly or indirectly by KLM or any successor or any Affiliate thereof, whether by purchase or otherwise, or take any action in furtherance thereof.

3.2 *PROXY SOLICITATIONS, ETC.* During the Standstill Period NWA Corp. will not, and will cause each of its Affiliates not to, directly or indirectly, solicit proxies, assist any other Person in any way, directly or indirectly, in the solicitation of proxies, or otherwise become a "participant" in a "solicitation," or assist any "participant" in a "solicitation" (as such terms are defined in Rule 14a-1 of Regulation 14A under the Exchange Act as in effect on the date of this Agreement) in opposition to the recommendation or proposal of the Supervisory Board of KLM or the Management Board of KLM or equivalent governing body of a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof, or submit any proposal for the vote of stockholders of KLM, a KLM Holding Company or a KLM Partner, or recommend or request or induce or attempt to induce any other Person to take any such actions, or seek to advise, encourage or influence any other Person with respect to the voting of KLM Voting Securities.

3.3 *NO VOTING TRUSTS, POOLING AGREEMENTS, OR FORMATION OF "GROUPS".* During the Standstill Period NWA Corp. will not, and will cause each of its Affiliates not to, directly or indirectly, join in or in any other way participate in a partnership, pooling agreement, syndicate, voting trust or other Group with respect to KLM Voting Securities, or enter into any agreement or arrangement or otherwise act in concert with any other Person, for the purpose of acquiring, holding, voting or disposing of KLM Voting Securities.

3.4 *LIMITATIONS ON PROPOSALS.* During the Standstill Period NWA Corp. will not, and will cause each of its Affiliates not to, directly or indirectly, make or cause to be made any proposal for a Reorganization Transaction with respect to KLM, a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof or initiate, propose or otherwise solicit stockholders for the approval of one or more stockholder proposals with respect to KLM, a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof or induce or attempt to induce any other Person to initiate any stockholder proposal or seek election to or seek to place a representative on the Supervisory Board of KLM, Management Board of KLM or equivalent governing body of a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof (except to the extent expressly invited to do so by the Supervisory Board of KLM) or oppose such a proposal of KLM's Management Board or the Supervisory Board of KLM or seek removal of any member of the Supervisory Board of KLM or equivalent governing body of a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof (other than any such member who may have been previously designated by NWA Corp.).

3.5 *LIMITATION ON VARIOUS OTHER ACTIONS.* During the Standstill Period, NWA Corp. will not, and will cause each of its Affiliates not to, take any action, alone or in concert with any other Person, (a) to seek to effect a change in control of KLM or a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof, (b) to seek to effect a Reorganization Transaction with respect to KLM or a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof, (c) except as provided for in the Umbrella Agreements, to seek to effect any control or influence over the management of KLM, a KLM Holding Company or a KLM Partner, or any successor thereof or any Affiliate thereof, the Supervisory Board of KLM or the Works Council of KLM or the policies of KLM, a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof, (d) to advise, assist or encourage or finance (or assist or arrange financing to or for) any other Person in connection with any of the matters restricted by, or to otherwise seek to circumvent the limitations of the provisions of, Section 3 of this Agreement (any such action described in clause (a), (b), (c) or (d), a "KLM TRANSACTION PROPOSAL"), (e) to present to KLM or a KLM Holding Company or a KLM Partner or any successor thereof or any Affiliate thereof, its stockholders or any third party any proposal that can reasonably be expected to result in a KLM Transaction Proposal or in an increase in the KLM Combined Voting Power of KLM Voting Securities beneficially owned in the aggregate by NWA Corp. and its Affiliates, (f) to publicly suggest or announce its willingness or desire to engage in a transaction or group of transactions or have another Person engage in a transaction or group of transactions that could reasonably be expected to result in a KLM Transaction Proposal or in an increase in the KLM Combined Voting Power of KLM Voting Securities beneficially owned in the aggregate by NWA Corp. and its Affiliates, (g) to initiate, request, induce, encourage or attempt to induce or give encouragement to any other Person to initiate, or otherwise

provide assistance to any Person who has made or is contemplating making, any proposal that can reasonably be expected to result in a KLM Transaction Proposal or in an increase in the KLM Combined Voting Power of KLM Voting Securities beneficially owned in the aggregate by NWA Corp. and its Affiliates, or (h) to request a waiver, modification or amendment of any of the provisions of Section 3 of this Agreement; PROVIDED, HOWEVER, that this subclause (h) shall not apply to any Private NWA Corp. Waiver Request conveyed during the pendency of any unsolicited Business Combination Proposal made (either publicly or in a communication to the Supervisory Board of KLM) by any Person that is engaged in the commercial airline business or Group that is engaged in the commercial airline business or Group that includes a Person engaged in the commercial airline business (other than NWA Corp. and its Affiliates). NWA Corp. represents and warrants that as of the date hereof it owns no KLM Voting Securities and its KLM Combined Voting Power is zero.

For purposes of this Section 3: (i) a "Business Combination Proposal" means (x) a tender or exchange offer or other bona fide offer to acquire directly or indirectly any voting securities of KLM under circumstances such that, immediately after such acquisition, such Person or Group would beneficially own voting securities with an aggregate voting power representing more than 50% of the total voting power of KLM, or (y) a proposal or offer for a merger, amalgamation or other business combination directly or indirectly involving KLM that would result in a change in control of KLM, or a proposal or offer to acquire directly or indirectly all or substantially all the assets of KLM; (ii) a "NWA Corp. Business Combination Proposal" means a (A) Business Combination Proposal made by NWA

Corp., (B) a Business Combination Proposal made by a Group in which NWA Corp. is a participant or (C) the formation by NWA Corp. of a Group for the purpose of making a Business Combination Proposal; PROVIDED, HOWEVER, in each case, in the event of a Business Combination Proposal described in clause (x) or (y) above, a Business Combination Proposal shall not constitute a NWA Corp. Business Combination Proposal unless consummation of such Business Combination Proposal would result in NWA Corp. (or the Group in which it is a participant, if applicable) beneficially owning voting securities with an aggregate voting power representing more than 50% of the total voting power of KLM; and (iii) a "Private NWA Corp. Waiver Request" means a request conveyed by the Chief Executive Officer of NWA Corp. to the President of KLM for a waiver of the provisions of Section 3 of this Agreement solely to permit NWA Corp. to submit a NWA Corp. Business Combination Proposal to the President of KLM in competition with such unsolicited Business Combination Proposal; provided, that neither the fact that such request has been made by NWA Corp., the fact that NWA Corp. has submitted or will be submitting a NWA Corp. Business Combination Proposal or any of the terms of such NWA Corp. Business Combination Proposal are publicly disclosed, directly or indirectly, by or on behalf of NWA Corp. or any of its Affiliates.

3.6 CERTAIN PERMITTED TRANSACTIONS AND COMMUNICATIONS. For clarity, this Agreement, among other things, does not prohibit (i) the acquisition or holding in the ordinary course of business by any employee benefit plan whose trustees, investment managers or similar advisors are unaffiliated with NWA Corp. or its Affiliates of securities or rights referred to in Section 3.1 or (ii) officers and employees of NWA Corp. or its Affiliates from communicating with officers and employees of KLM or its Affiliates on matters related to or governed by the Umbrella Agreements, or NWA Corp. or its Affiliates from communicating with the Chairman of the Supervisory Board of KLM or the President of KLM, so long as such communication is conveyed in strict confidence, does not require public disclosure by NWA Corp. or, in the reasonable opinion of NWA Corp.'s counsel, by KLM and is not intended to elicit, and, in the reasonable opinion of NWA Corp.'s counsel, does not require the issuance of, a public response by KLM.

3.7 EXCEPTIONS TO APPLICABILITY OF CERTAIN COVENANTS. Notwithstanding the foregoing, in the event (i) (x) any Person that is engaged in the commercial airline business or Group that includes a Person engaged in the commercial airline business (other than NWA Corp. and its Affiliates), either publicly or in a communication to KLM, makes on an unsolicited basis a Business Combination Proposal, (y) the Supervisory Board of KLM or the Management Board of KLM has adopted a resolution recommending acceptance of such Business Combination Proposal, and (z) such resolution remains in effect, or (ii) the Supervisory Board of KLM or the Management Board of KLM shall announce that it has decided to sell KLM and will consider proposals for the acquisition of KLM or has otherwise publicly stated that KLM is for sale, then the provisions of Sections 3.1 through 3.5, in the

case of clause (i), shall not apply to any NWA Corp. Business Combination Proposal commenced during the pendency of such Business Combination Proposal and, in the case of clause (ii), shall not apply until the Supervisory Board of KLM or the Management Board of KLM shall publicly announce that it has rescinded its decision to sell KLM; PROVIDED, that in determining whether to adopt any resolution described in clause (i)(y) of this paragraph that

includes approval of a "break-up" fee, "lock-up" option or other similar arrangement, the Supervisory Board of KLM shall give due consideration to the possibility that in light of the strategic alliance between NWA Corp. and KLM as contemplated by the Alliance Implementation Agreement, NWA Corp. may desire to make a competitive NWA Corp. Business Combination Proposal.

3.8 *INTERPRETATION.* The covenants in this Section 3 shall be interpreted in the light of law and regulations applicable in The Netherlands from time to time. In particular, terms used in this Section 3 (including, without limitation, "participant", "solicitation" and terms used in the definition of "Reorganization Transaction", as defined in Section 1 and as such term is used in this Section 3) shall have the meanings ascribed to the same or similar terms as defined under any then applicable law and regulations in effect in The Netherlands, and shall be interpreted in the light of any such law and regulations.

Section 4. *TERM OF AGREEMENT.* Unless this Agreement specifically provides for earlier termination with respect to any particular right or obligation, this Agreement shall terminate on the last day of the Standstill Period; PROVIDED, that, if KLM exercises the Default Option (as defined in the Option Agreement), KLM shall have the right to terminate this Agreement by delivering written notice of such termination to NWA Corp. (and the Standstill Period shall expire for all purposes of this Agreement upon the delivery of such notice).

Section 5. *REMEDIES.* KLM and NWA Corp. acknowledge and agree that (i) the provisions of this Agreement are reasonable and necessary to protect the proper and legitimate interests of the parties hereto, and (ii) the parties would be irreparably damaged in the event any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties hereto shall be entitled to preliminary and permanent injunctive relief to prevent breaches of the provisions of this Agreement by the other party without the necessity of proving actual damages or of posting any bond, and to enforce specifically the terms and provisions hereof and thereof, which rights shall be cumulative and in addition to any other remedy to which the parties may be entitled hereunder or at law or equity.

Section 6. *GENERAL PROVISIONS.*

6.1 *EXECUTION IN COUNTERPARTS.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become a binding agreement when one or more counterparts have been signed by each party and delivered to the other parties. 6.2 *NOTICES.* All notices, requests, demands or other communications provided herein shall be made in writing and shall be deemed to have been duly given if delivered as follows:

If to NWA Corp.:

2700 Lone Oak Parkway
Eagan, Minnesota 55121
Attention: Senior Vice President, General Counsel and Secretary
Fax: (612) 726-7123

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue New York, New York 10017-3954

Attention: Robert L. Friedman, Esq.
Fax: (212) 455-2502

If to KLM:

Koninklijke Luchtvaart Maatschappij N.V.
Amsterdamseweg 55
1192 G P Amstelveen
The Netherlands
Attention: Senior Vice President and General Counsel
Fax: 011-3120-648-8096

with a copy to:

Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, New York 10019
Attention: Daniel Cunningham, Esq.
Fax: (212) 474-3700

or to such other address as either party shall have specified by notice in writing to the other party. All such notices, requests, demands and communications shall be deemed to have been received on (i) the date of delivery if sent by messenger, (ii) on the Business Day following the Business Day on which delivered to a recognized courier service if sent by overnight courier or (iii) on the date received, if sent by fax.

6.3 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AS APPLIED TO CONTRACTS ENTERED INTO AND TO BE PERFORMED IN NEW YORK AND WITHOUT REGARD TO THE APPLICATION OF PRINCIPLES OF CONFLICT OF LAWS.

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6.4 TITLES AND HEADINGS. Titles and headings to Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

6.5 SUCCESSORS AND ASSIGNS. This Agreement shall not be assignable by KLM without the prior written consent of NWA Corp. or by NWA Corp. without the prior written consent of KLM. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors in interest and assigns (including, in the case of NWA Corp., any holding company surviving the Merger).

6.6 ENTIRE AGREEMENT; NO ORAL WAIVER; CONSTRUCTION. This Agreement, the Common Stock Agreement, the Preferred Stock Repurchase Agreement, dated as of September 29, 1997, between KLM and NWA Corp., the Amendment to the Stockholders' Agreement, the Accelerated Repurchase Agreement, the Option Agreement and the certificates and other documents contemplated hereby and thereby constitute the entire agreement among the parties pertaining to the subject matter hereof and supersede all prior and contemporaneous agreements, understandings and representations, whether oral or written, of the parties in connection therewith. No covenant or condition or representation not expressed in this Agreement shall affect or be effective to interpret, change or restrict this Agreement. No prior drafts of this Agreement and no words or phrases from any such prior drafts shall be admissible into evidence in any action, suit or other proceeding involving this Agreement or the transactions contemplated hereby. This Agreement may not be changed or terminated orally, nor shall any change, termination or attempted waiver of any of the provisions of this Agreement be binding on any party unless in writing signed by the parties hereto. No modification, waiver,

termination, rescission, discharge or cancellation of this Agreement and no waiver of any provision of or default under this Agreement shall affect the right of any party thereafter to enforce any other provision or to exercise any right or remedy in the event of any other default, whether or not similar. This Agreement has been negotiated by KLM and NWA Corp. and their respective legal counsel, and legal or equitable principles that might require the construction of this Agreement against the party drafting this Agreement will not apply in any construction or interpretation of this Agreement.

6.7 *SEVERABILITY.* If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect.

6.8 *NO THIRD-PARTY RIGHTS.* Nothing in this Agreement, expressed or implied, shall or is intended to confer upon any Person other than the parties hereto or their respective successors or assigns, any rights or remedies of any nature or kind whatsoever under or by reason of this Agreement.

6.9 *SUBMISSION TO JURISDICTION.* Each of the parties hereto hereby irrevocably unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to or arising from this Agreement, or for recognition and enforcement of any judgment

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in respect thereof, to the non-exclusive general jurisdiction of the courts of the United States of America sitting in the Southern District of New York;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to its address set forth in Section 6.2; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other appropriate jurisdiction.

6.10 *FURTHER ASSURANCES.* From time to time, at the reasonable request of the other party hereto and without further consideration, each party hereto shall execute and deliver such additional documents and take all such further action as may be necessary or desirable to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement.

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IN WITNESS WHEREOF, the parties have executed, delivered and entered into this Agreement as of the day and year first above written.

NORTHWEST AIRLINES CORPORATION

By: /s/ JAMES A. LAWRENCE

Name: James A. Lawrence

Title: *Executive Vice President and
Chief Financial Officer*

By: /s/ DOUGLAS M. STEENLAND

Name: Douglas M. Steenland

Title: *Senior Vice President*

General Counsel and Secretary

KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V.

By: /s/ H. A. PETERMEIJER

Name: H. A. Petermeijer

Title: *Director Corporate Finance*

QuickLinks

[AMENDED AND RESTATED STANDSTILL AGREEMENT](#)

ACKNOWLEDGMENT

Acknowledgment (this "ACKNOWLEDGMENT") dated as of November 20, 1998 by Northwest Airlines Corporation (formerly known as Newbridge Parent Corporation, "NORTHWEST") as successor to Northwest Airlines Holdings Corporation (formerly known as Northwest Airlines Corporation, the "COMPANY"), under the First Amended and Restated Common Stock Registration Rights Agreement (the "REGISTRATION RIGHTS AGREEMENT"), dated as of September 9, 1994 by and among Alfred A. Checchi, the A Trust created pursuant to a trust agreement dated May 23, 1984 with Gary L. Wilson as trustee, the K Trust created pursuant to a trust agreement dated May 23, 1984 with Gary L. Wilson as trustee, the Trust created pursuant to a trust agreement dated September 9, 1985 with Gary L. Wilson as trustee; Gary L. Wilson, Derek M. Wilson, Christopher D. Wilson; Frederic V. Malek, Frederic W. Malek, Michelle A. Malek; Bright Star Investments Limited and its affiliate Paracor Finance Inc., formerly Wings Acquisition Investor Limited; Bankers Trust New York Corporation; Koninklijke Luchtvaart Maatschappij N.V.; Richard C. Blum & Associates-NWA Partners, L.P.; the Air Line Pilots Association, International, the International Association of Machinists and Aerospace Workers, the International Brotherhood of Teamsters, the Transport Workers Union of America, the Airline Technical Support Association, the Northwest Airlines Meteorologists Association; the trusts and separate arrangements that are signatories to this Agreement; and the Company.

WITNESSETH

WHEREAS, pursuant to the Agreement and Plan of Merger, dated as of January 25, 1998 (as amended and restated on October 30, 1998, the "MERGER AGREEMENT") among the Company, Northwest and Newbridge Merger Corporation, a wholly owned subsidiary of Northwest, Newbridge Merger Corporation will merge with and into the Company (the "MERGER"), with the Company as the surviving corporation, in accordance with Section 251(g) of the General Corporation Law of the State of Delaware; and

WHEREAS, following the effective time of the Merger, the Company will be a wholly owned subsidiary of Northwest;

NOW, THEREFORE, Northwest hereby agrees to the following:

1. *ACKNOWLEDGMENT.* Northwest hereby acknowledges that it has unconditionally undertaken, assumed and agreed to perform and discharge when due, to the extent not heretofore performed or discharged, all of the liabilities and obligations of the Company arising out of the Registration Rights Agreement. Northwest further agrees that from and after the effective time of the Merger all references to the "Company" in the Registration Rights Agreement (other than those references which relate a time period prior to the effectiveness of the Merger) shall mean Northwest. This Acknowledgment shall be binding upon

Northwest, its successors and assigns and shall inure to the benefit of each of the parties to the Registration Rights Agreement.

2. *NOTICES.* All notices, requests, demands and other communications which are required or may be given under the Registration Rights Agreement to the Company shall be delivered to Northwest at 2700 Lone Oak Parkway, Eagan, Minnesota 55121, attention, Executive Vice President, General Counsel and Secretary, fax (612) 726-7123.

3. *SEVERABILITY.* In the event that any one or more of the provisions, paragraphs, words, clauses, phrases or sentences contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision, paragraph, word, clause, phrase or sentence in every other respect and of the remaining provisions, paragraphs, words, clauses, phrases or sentences hereof shall not be in any way impaired, it being intended that this Acknowledgment shall be enforceable by the parties to the Registration Rights Agreement to the fullest extent permitted by law.

4. *GOVERNING LAW.* This Acknowledgment shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed therein. The parties to this Acknowledgment hereby agree to submit to the non-exclusive jurisdiction of the courts of the State of New York in any action or proceeding arising out of or relating to this Acknowledgment.

IN WITNESS WHEREOF, the undersigned has executed this Acknowledgment or caused this Acknowledgment to be executed on its behalf as of the date first written above.

NORTHWEST AIRLINES CORPORATION

By: /s/ DOUGLAS M. STEENLAND

Name: Douglas M. Steenland

Title: *Executive Vice President,
General Counsel and Secretary*

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QuickLinks

[ACKNOWLEDGMENT](#)

Amendment No. 3

To the A330 Purchase Agreement

Dated as of December 21, 2000

Between

AVSA, S.A.R.L.

And

NORTHWEST AIRLINES, INC.

This Amendment No. 3 (hereinafter referred to as the "Amendment") is entered into as of April 30, 2003, between AVSA, S.A.R.L., a société à responsabilité limitée organized and existing under the laws of the Republic of France, having its registered office located at 2, Rond-Point Maurice Bellonte, 31700 Blagnac, France (hereinafter referred to as the "Seller"), and NORTHWEST AIRLINES, INC., a corporation organized and existing under the laws of the State of Minnesota, United States of America, having its principal corporate offices located at 2700 Lone Oak Parkway, Eagan, Minnesota 55121, USA (hereinafter referred to as the "Buyer").

WITNESSETH

WHEREAS, the Buyer and the Seller entered into an A330 Purchase Agreement, dated as of December 21, 2000, relating to the sale by the Seller and the purchase by the Buyer of certain Airbus Industrie A330-300 aircraft (the "Aircraft") which, together with all Exhibits, Appendices and Letter Agreements attached thereto, and as amended by Amendment No.1 dated as of December 21, 2000 and Amendment No. 2 dated as of December 20, 2002 thereto is hereinafter called the "Agreement."

WHEREAS, the Seller and the Buyer have agreed to certain changes in the delivery schedule of the Firm Aircraft.

WHEREAS, capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Amendment. Both parties agree that this Amendment shall constitute an integral, nonseverable part of the Agreement and be governed by its provisions, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment shall govern.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. RESCHEDULING

The Buyer and the Seller have agreed to reschedule certain firmly ordered Aircraft as follows:

CONFIDENTIAL MATERIAL OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION PURSUANT TO A REQUEST

CONFIDENTIAL MATERIAL OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION PURSUANT TO A

FOR CONFIDENTIAL TREATMENT. Firmly Ordered Aircraft in Amendment No. 2 to the Agreement

REQUEST FOR CONFIDENTIAL TREATMENT. Firmly Ordered Aircraft in this Amendment

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 11)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 11)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 12)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 12)

2. DELIVERY

As a consequence of Paragraph 1 above, the delivery schedule in Subclause 9.1 of the Agreement, as amended, will be further amended to include the text in the following quoted provisions:

QUOTE

Firmly Ordered Aircraft No./Type		Month/Year of Delivery	
1/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	03	13/ 05
2/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL	03	14/ 05
			2
3/	TREATMENT CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	03	15/ 05
4/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A	03	16/ 05

5/	REQUEST FOR CONFIDENTIAL TREATMENT CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	03	17/	REQUEST FOR CONFIDENTIAL TREATMENT CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	05
6/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	04	18/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	05
7/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	04	19/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	06
8/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	04	20/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	06
9/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT	04	21/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST	07

3

10/	TO A REQUEST FOR CONFIDENTIAL TREATMENT CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	04	22/	FOR CONFIDENTIAL TREATMENT CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	07
11/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	04	23/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT	08
12/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE	04	24/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE	08

3. EFFECT OF THE AMENDMENT

The provisions of this Amendment are binding on both parties upon execution hereof. The Agreement will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments, or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.

Both parties agree that this Amendment will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Amendment will be governed by the provisions of said Agreement, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

4. CONFIDENTIALITY

This Amendment is subject to the confidentiality provisions set forth in Subclause 22.4 of the Agreement.

If the foregoing correctly sets forth our understanding, please indicate your acceptance by signing in the space provide below.

4

Accepted and Agreed,
NORTHWEST AIRLINES, INC.

Very truly yours,
AVSA, S.A.R.L.

/s/ GREGORY A. MAY

/s/ MARIE-PIERRE MERLE-BERAL

By: Gregory A. May
Vice President–Purchasing & Aircraft Acquisitions

By: Marie-Pierre Merle-Beral
Chief Executive Officer

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QuickLinks

[Amendment No. 3 To the A330 Purchase Agreement Dated as of December 21, 2000 Between AVSA, S.A.R.L. And NORTHWEST AIRLINES, INC.](#)

Amendment No. 4

To the A330 Purchase Agreement

Dated as of December 21, 2000

Between

AVSA, S.A.R.L.

And

NORTHWEST AIRLINES, INC.

This Amendment No. 4 (hereinafter referred to as the "Amendment") is entered into as of December 18, 2003, between AVSA, S.A.R.L., a société à responsabilité limitée organized and existing under the laws of the Republic of France, having its registered office located at 2, Rond-Point Maurice Bellonte, 31700 Blagnac, France (hereinafter referred to as the "Seller"), and NORTHWEST AIRLINES, INC., a corporation organized and existing under the laws of the State of Minnesota, United States of America, having its principal corporate offices located at 2700 Lone Oak Parkway, Eagan, Minnesota 55121, USA (hereinafter referred to as the "Buyer").

WITNESSETH

WHEREAS, the Buyer and the Seller entered into an A330 Purchase Agreement, dated as of December 21, 2000, relating to the sale by the Seller and the purchase by the Buyer of certain Airbus Industrie A330-300 aircraft (the "Aircraft") which, together with all Exhibits, Appendices and Letter Agreements attached thereto, and as amended by Amendment No.1 dated as of November 26, 2001, Amendment No. 2 dated as of December 20, 2002, and Amendment No. 3 dated as of April 30, 2003, thereto is hereinafter called the "Agreement."

WHEREAS, the Seller and the Buyer have agreed to certain changes in the delivery schedule of the Converted Firm A330-200 Aircraft.

WHEREAS, capitalized terms used herein and not otherwise defined herein will have the meanings assigned to them in the Agreement. The terms "herein," "hereof" and "hereunder" and words of similar import refer to this Amendment. Both parties agree that this Amendment will constitute an integral, nonseverable part of the Agreement and be governed by its provisions, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. RESCHEDULING

The Buyer and the Seller have agreed to reschedule certain Converted Firm A330-200 Aircraft as follows:

CONFIDENTIAL MATERIAL OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION PURSUANT TO A REQUEST

CONFIDENTIAL MATERIAL OMITTED AND FILED
SEPARATELY WITH THE SECURITIES AND
EXCHANGE COMMISSION PURSUANT TO A

FOR CONFIDENTIAL TREATMENT. Converted Firm Aircraft in Amendment No. 2 to the Agreement

REQUEST FOR CONFIDENTIAL TREATMENT. Converted Firm Aircraft in this Amendment

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2005 (No. 13)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 13)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2005 (No. 14)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 14)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2005 (No. 15)

CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT. 2004 (No. 15)

2. DELIVERY

As a consequence of Paragraph 1 above, the delivery schedule in Subclause 9.1 of the Agreement, as amended, is hereby canceled and replaced by the following quoted delivery schedule for Firm Aircraft and Converted Firm A330-200 Aircraft:

QUOTE

Firmly Ordered Aircraft No./Type		Month/Year of Delivery	
1/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	03	13/04
2/	CONFIDENTIAL MATERIAL OMITTED AND FILED	03	14/04
			2
	SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.		04
3/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	03	15/04

4/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	03	16/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	05
5/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	03	17/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	05
6/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	04	18/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	05
7/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	04	19/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	06
8/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	04	20/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	06
9/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL	04	21/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	07

10/	TREATMENT. CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	04	22/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.	07
11/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A	04	23/	CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A	08

12/ REQUEST FOR CONFIDENTIAL
TREATMENT.
CONFIDENTIAL MATERIAL OMITTED
AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE
COMMISSION PURSUANT TO A
REQUEST FOR CONFIDENTIAL
TREATMENT. 04

24/ REQUEST FOR CONFIDENTIAL
TREATMENT.
CONFIDENTIAL MATERIAL OMITTED
AND FILED SEPARATELY WITH THE
SECURITIES AND EXCHANGE
COMMISSION PURSUANT TO A
REQUEST FOR CONFIDENTIAL
TREATMENT. 08

UNQUOTE

3. LETTER AGREEMENT NO. 8

It is understood and agreed that, with respect to Letter Agreement No. 8 to the Agreement, as amended by Amendment No. 2 to the Agreement, (i) the signature of this Amendment will occasion CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT, and (2) the CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT referred to in Paragraph 2.4.2.1 of such Letter Agreement No. 8, as amended by such Amendment No. 2, will be CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT in such Amendment No. 2, CONFIDENTIAL MATERIAL OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT in this Amendment.

4. EFFECT OF THE AMENDMENT

The provisions of this Amendment are binding on both parties upon execution hereof. The Agreement will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms. This Amendment supersedes any previous understandings, commitments, or representations whatsoever, whether oral or written, related to the subject matter of this Amendment.

Both parties agree that this Amendment will constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein

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by reference, and that this Amendment will be governed by the provisions of said Agreement, except that if the Agreement and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

5. CONFIDENTIALITY

This Amendment is subject to the confidentiality provisions set forth in Subclause 22.4 of the Agreement.

If the foregoing correctly sets forth our understanding, please indicate your acceptance by signing in the space provide below.

Accepted and Agreed,
NORTHWEST AIRLINES, INC.

Very truly yours,
AVSA, S.A.R.L.

By: /s/ DANIEL B. MATTHEWS

By: /s/ MARIE-PIERRE MERLE-BERAL

QuickLinks

[Amendment No. 4 To the A330 Purchase Agreement Dated as of December 21, 2000 Between AVSA, S.A.R.L. And NORTHWEST AIRLINES, INC.](#)

AGREEMENT BETWEEN
THE UNITED STATES OF AMERICA

AND

NORTHWEST AIRLINES, INC.
[INSERT NAME OF AIR CARRIER]

THIS Agreement ("Agreement") is made and entered into on this 6th day of May, 2003 ("Effective Date") by and between Northwest Airlines, Inc. ("Air Carrier") and the United States of America, acting through the Transportation Security Administration ("TSA").

1.0 AUTHORITY

TSA enters into this Agreement under the authority of the Title IV, Public Law No. 108-11 (hereinafter P.L. 108-11), the Emergency Wartime Supplemental Appropriations Act, 2003, (hereinafter Act), which requires the execution and delivery of this Agreement as a condition to the remittance of the funds provided for in the second proviso of P.L. 108-11, except for any air carrier that operates aircraft exclusively with 85 seats or less, any Hawaii-based carrier or any carrier that does not operate trans-Pacific or trans-Atlantic flights. Air Carriers that would be exempted from the requirement to execute and deliver this Agreement but for the operation of private charter flights, including flights provided to the United States under the Civil Reserve Air Fleet (CRAF), for which no fees were incurred pursuant to 49 U.S.C. § 44940(a) for these flights, shall not be required to execute and deliver this Agreement solely because of those flights for which no fees were incurred.

2.0 PURPOSE

This Agreement describes the terms and conditions to which the Air Carrier must agree to be eligible for remittance of the funds provided for in the the second proviso of P.L. 108-11.

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3.0 DEFINITIONS

3.1 "Excluded Compensation" means award of stock, stock options, preexisting contracts governing retirement, health benefits, life insurance benefits, and reimbursement of reasonable expenses to an executive officer. Awards of stock and stock options shall include related vesting, issuance, exercise and sale events.

3.2 "Executive Officer" means the two most highly compensated named executive officers (as that term is used in section 402(a)(3) of Regulation S-K promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934 (17 C.F.R. § 229.402(a)(3)) with respect to the Air Carrier's fiscal year 2002), or their replacements with the same or similar responsibilities. For the purposes of applying this Agreement to an executive officer-

(A) who was employed by Air Carrier for less than 12 months during Air Carrier's fiscal year 2002, or whose employment began after the last day of the last fiscal year of such Air Carrier ending before the date of enactment of P.L. 108-11,

(i) the salary paid to that executive officer in Air Carrier's fiscal year 2002, or in the next fiscal year of Air Carrier (if such next fiscal year began before the date of enactment of P.L. 108-11), respectively, shall be determined as an annual rate of pay;

(ii) that annual rate of pay shall be treated as if it were the annual salary paid to that executive officer during Air Carrier's fiscal year 2002; and

(iii) that executive officer shall be deemed to have been employed during that fiscal year; and

(B) whose employment begins after the date of enactment of P.L. 108-11-

(i) the annual salary at which that executive officer is first employed by Air Carrier may not exceed the maximum salary paid to any executive officer by Air Carrier during Air Carrier's fiscal year 2002 with the same or similar responsibilities;

(ii) that salary shall be treated as if it were the annual salary paid to the executive officer during Air Carrier's fiscal year 2002; and

(iii) the executive officer shall be deemed to have been employed by Air Carrier during Air Carrier's fiscal year 2002.

For purposes of (A) above, an employee promoted to a position during the Air Carrier's fiscal year 2002 shall be treated as first employed by the Air Carrier on the date of such promotion.

3.3 "Operates" means currently operating or did operate between February 1, 2002 and April 16, 2003.

3.4 "Salary" means the base salary of an individual, excluding any bonuses, awards of stock or other financial benefits provided by an air carrier to the individual.

3.5 "Total Cash Compensation" has the meaning given the term "total compensation" by section 104(b) of the Air Transportation Safety and System Stabilization Act, Public Law No. 107-42 (49 U.S.C. § 40101 note), but does not include awards of stock or stock options or preexisting contracts governing retirement. More specifically, "Total Cash Compensation" for purposes of this Agreement shall mean any

compensation, other than Excluded Compensation as defined above, provided (including any amounts paid in cash during the 12-month period beginning April 1, 2003 that were earned in prior periods) by the Air Carrier, including all of its holding companies, subsidiaries, and affiliated corporations and partnerships, as follows:

(a) Salary;

(b) Bonus;

(c) Employer contributions under any retirement plan (excluding preexisting plans or contracts related to retirement);

(d) Perquisites, including personal automobile allowances, positive space travel benefits and any associated tax gross-ups, valued in a manner consistent with the valuation of such perquisites for purposes of reporting such perquisites in Air Carrier's proxy statement for its annual meeting of stockholders (except that the reporting threshold of \$50,000 or 10% of the annual salary and bonus described in 17 C.F.R. §229.402(b)(1)(C)(1) shall not apply to the Agreement);

(e) Any other compensation required to be disclosed in the Air Carrier's proxy statement for its annual meeting of stockholders that is paid (including amounts paid during the 12-month period beginning April 1, 2003 that were earned in prior periods) during the 12 month period beginning April 1, 2003, including but not limited to any cash long-term incentive plan payouts; and

(f) Other financial benefits, reasonably valued by the good faith determination of the Compensation Committee of the Board of Directors of Air Carrier, excluding Excluded Compensation.

3.6 "Total compensation" as defined by section 104(b) of the Air Transportation Safety and System Stabilization Act, includes salary, bonuses, awards of stock, and other financial benefits provided by an air carrier to an officer or employee of the Air Carrier.

3.7 "Trans-Atlantic" means from one side of the Atlantic Ocean to the other side, with or without intermediate stops. It does not include flights that solely travel between the United States and the Caribbean or between North America and South America. "Trans-Pacific" means from one side of the Pacific Ocean to the other side, with or without intermediate stops.

4.0 RESTRICTIONS ON COMPENSATION

4.1 The Air Carrier, including all of its holding companies, subsidiaries, and affiliated corporations and partnerships, agrees that it will not provide Total Cash Compensation during the 12-month period beginning April 1, 2003, to an executive officer in an amount equal to more than the annual Salary paid to that officer with respect to the Air Carrier's fiscal year 2002; and

4.2 If the Air Carrier violates the agreement under paragraph 4.1, Air Carrier will pay to the Secretary of the Treasury, within 60 days after the date on which the violation occurs, an amount, determined by the Administrator of the Transportation Security Administration, equal to the total amount of assistance received by Air Carrier pursuant to the second proviso of P.L. 108-11.

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4.3 Nothing in this Agreement shall be construed to prohibit or limit an air carrier in providing health benefits, life insurance benefits, or reimbursement of reasonable expenses to an executive officer as provided in P.L. 108-11.

5.0 COMPTROLLER GENERAL AUDIT AND EXAMINATION

The Air Carrier agrees that the Comptroller General of the United States, or any of the Comptroller General's duly authorized representatives, shall have access for the purpose of audit and examination to any books, accounts, documents, papers, and records of the Air Carrier, including all of its holding companies, subsidiaries, and affiliated corporations and partnerships, that relate to the information required to implement the provisions of this Executive Compensation Agreement.

6.0 REPRESENTATIONS

6.1 That the Air Carrier is duly incorporated, validly existing and in good standing under the laws of Minnesota.

6.2 The execution, delivery, and performance by the Air Carrier of this Agreement has been duly authorized by all necessary corporate action; this Agreement has been duly executed and delivered by the Air Carrier; and when executed and delivered by a duly authorized representative of TSA, will constitute a valid and binding obligation of the Air Carrier, enforceable against it in accordance with its terms.

6.3 No authorization, approval, consent or order of any court or governmental authority or agency or any other person or entity is required in connection with the execution and delivery by the Air Carrier of this Agreement or its performance hereunder.

7.0 NOTICES

The Air Carrier shall have the obligation to notify TSA no later than ten (10) working days, following the occurrence of any event that constitutes a breach of this Agreement. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (1) upon personal delivery to the party to be identified below, (2) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (3) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (4) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth below or at such other address as such party may designate by ten days advance written notice to the other parties hereto.

If to AIR CARRIER:

Richard H. Anderson
Northwest Airlines, Inc.
2700 Lone Oak Parkway
Dept. A1020
Eagan, MN 55121

If to TSA:

Howard Kass
Director, Economic and Regulatory Policy
701 12th Street South, 11th Floor North,
TSA-9
Arlington, VA 22202
(571) 227-2627/howard.kass@dhs.gov

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with a copy to:

Northwest Airlines, Inc.
2700 Lone Oak Parkway
Dept. A1180
Eagan, MN 55121
Attention: Vice President,
Law and Secretary

8.0 GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with Federal law.

9.0 SUCCESSORS AND ASSIGNS BOUND BY COVENANTS

This Agreement shall bind, and inure to the benefit of the parties and their respective heirs, executors, administrators, successors, and assigns.

10.0 SEVERABILITY

In the event any term, covenant, condition or provision of this Agreement is held to be invalid by any court or tribunal of competent jurisdiction, the invalidity of any such covenant, condition or provision shall in no way affect any other covenant, condition or provision herein contained.

11.0 AMENDMENT

This Agreement may not be amended, discharged or terminated without the written consent of the parties hereto, and no provision hereof may be waived without the written consent of the Administrator of the Transportation Security Administration.

12.0 INTEGRATED AGREEMENT

LETTER OF AGREEMENT
among
NORTHWEST AIRLINES CORPORATION
NEWBRIDGE PARENT CORPORATION
and NORTHWEST AIRLINES, INC.
and the
AIR LINE PILOTS
in the service of
NORTHWEST AIRLINES, INC.
as represented by the
AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

1998 PILOTS STOCK OPTION PLAN

THIS LETTER OF AGREEMENT is made and entered into in accordance with the provisions of Title II of the Railway Labor Act, as amended, by and among Northwest Airlines Corporation ("NWA Corp."), Newbridge Parent Corporation ("Newbridge"), Northwest Airlines, Inc. ("Northwest Airlines") (collectively referred to as the "Company") and the Air Line Pilots in the service of the Company as represented by the Air Line Pilots Association, International (the "Association").

The Company and the Association have agreed to adopt a pilot stock option plan to be known as "The Northwest Airlines Corporation 1998 Pilots Stock Option Plan" (the "Plan"), as set forth herein. The Plan grants pilots the opportunity to acquire shares of the common stock of NWA Corp. through the exercise of the stock options granted in accordance with the terms of this Plan. The Plan shall be part of the Pilots Agreement, become effective as of the execution date of the Plan and shall continue in full force and effect until all options under the Plan either have expired or have been exercised.

The Company and the Association agree as follows:

I. *DEFINITIONS*

The following terms shall be defined as set forth below for purposes of this Letter of Agreement:

1.1 "*Common Stock*" shall mean the Common Stock, par value \$0.01 per share, of NWA Corp.

1

1.2 "*Exercise Period*" shall mean the period of time commencing on the date an Option becomes exercisable and ending on the day immediately preceding the tenth (10th) anniversary of such Option's Grant Date, when the Option expires.

1.3 "*Exercise Price*" shall mean the price at which a share of Common Stock covered by an Option may be purchased as specified in Section 5.2 below.

1.4 "*Fair Market Value*" shall mean the closing sale price of the Common Stock as reported on the Nasdaq National Market on the applicable Grant Date, or, in the absence of any sale on the applicable Grant Date, such closing sale price on the last previous day on which a sale was reported.

1.5 "*Grant Date*" shall mean a date on which Options are awarded under the Plan. The "Initial Grant Date" shall be the execution date of the Plan; the "Second Grant Date" shall be the first anniversary of the Initial Grant Date; the "Third Grant Date" shall be the second anniversary of the Initial Grant Date; and the "Fourth Grant Date" shall be the third anniversary of the Initial Grant Date.

1.6 "*Option*" shall mean an option to purchase shares of Common Stock granted pursuant to Article V below. All Options granted pursuant to the Plan shall be deemed "non-qualified" and are not intended to be incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or any successor thereto.

1.7 "*Participant*" shall mean a Pilot employed by Northwest Airlines on the applicable Grant Date who receives an Option on such Grant Date pursuant to the allocation principles set forth on Appendix A.

1.8 "*Pilot*" shall mean a pilot whose name appears on the Northwest Airlines Pilot System Seniority List, other than (i) a pilot who is an officer or director of NWA Corp. or Northwest Airlines and (ii) pilots who have assumed disability retirement status.

1.9 "*Pilots Agreement*" shall mean the basic collective bargaining agreement together with all effective amendments, supplemental agreements, letters of agreement, and letters of understanding between Northwest Airlines and the Association in existence as of the execution date of this Plan and as may be amended or supplemented after that date.

II. ADMINISTRATION AND DISPUTE RESOLUTION

2.1 *Administration.* The Plan shall be administered by the Board of Directors of NWA Corp. (the "Board"). The Board may authorize and establish

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reasonable rules and regulations to implement and administer the Plan but shall take no action that is inconsistent with the provisions of either this Plan or the Pilot Agreement. The Board shall provide reasonable notice to and shall consult with the Association before issuing any rules or policies of general applicability to the Plan or the Participants.

2.2 *Dispute Resolution.* All disputes arising out of the Plan shall be subject to the grievance and System Board of Adjustment procedures of the Pilots Agreement.

III. COMMON STOCK SUBJECT TO THE PLAN

3.1 *Reservation of Common Stock.* The total number of shares of Common Stock reserved and available for distribution under the Plan shall be 2,500,000, subject to adjustment as provided in Section 3.2 and Section 3.3. Such shares of Common Stock may consist, in whole or in part, of either authorized and unissued shares or treasury shares.

3.2 *Certain Changes in Corporate Structure.* If NWA Corp. pays a stock dividend on the Common Stock, if shares of the Common Stock are split, combined, reclassified, changed into, or exchanged for, a different number or kind of securities of NWA Corp., or if shares of the Common Stock are changed into, or are exchanged for, any other class or series of capital stock or cash, securities or other property pursuant to a recapitalization, reclassification, merger, consolidation, or combination, then the Board shall make such adjustments as are necessary to reflect such change so as to prevent the diminution or enlargement of a Participant's rights under the Plan, including but not limited to, adjustments in the aggregate number of shares reserved for issuance under the Plan, and adjustments in the number and class of and/or price of shares subject to outstanding Options granted under the Plan;

provided that the number of shares subject to any Option shall always be a whole number. (Numbers below .5 shall be rounded down and numbers of .5 or above shall be rounded up.)

3.3 *Adjustment of Other Employee Options.* In the event NWA Corp. adjusts any of the terms of any other outstanding employee stock options at any time during the Exercise Period as a result of an event described in Section 3.2 (including without limitation any adjustments in the exercise price or the number or class of shares issuable on exercise), then all unexercised Options under this Plan shall be adjusted in a manner that is no less favorable to holders of such Options than the adjustment provided to the holders of other employee stock options.

IV. ALLOCATION

The number of whole shares of Common Stock with respect to which each Participant shall be awarded an Option on a Grant Date shall be determined in accordance with Appendix A to this Plan.

V. OPTIONS

5.1 *Grant.* On the Initial Grant Date, NWA Corp. shall award Options covering an aggregate of 1,000,000 shares of Common Stock to the Participants; and on each of the Second Grant Date, Third Grant Date and Fourth Grant Date, NWA Corp. shall award Options covering an aggregate of 500,000 shares of Common Stock to the Participants. A Participant's Option shall entitle the Participant to purchase from NWA Corp. the number of shares of Common Stock determined in accordance with Appendix A at the Exercise Price. The Options shall be evidenced by a letter agreement issued to each Participant, in a form determined by the Board, setting forth the Exercise Price, the number of shares subject to the Option and the Exercise Period.

5.2 *Exercise Price.* The Exercise Price for each share of Common Stock subject to an Option shall be the Fair Market Value of a share of Common Stock on the applicable Grant Date.

5.3 *Exercisability and Term.* An Option granted to a Participant shall be immediately exercisable on the first business day following the applicable Grant Date, and the Option shall expire on, and no shares of Common Stock may be purchased thereunder on or after, the tenth (10th) anniversary of the Grant Date of such Option.

5.4 *Method of Exercise.* To exercise an Option, the holder thereof must give irrevocable notice of exercise to the Secretary of NWA Corp. (or the Secretary's designated agent) in a form determined by the Board, identifying a whole number of shares of Common Stock (which shall not be less than the lesser of (a) 50 shares or (b) the number of shares then subject to such Option) with respect to which such Option is being exercised. The Exercise Price for the shares of Common Stock with respect to which the Option is being exercised (the "Aggregate Exercise Price") must be paid in full prior to issuance of the Common Stock.

5.5 *Withholding Taxes.* The Participant shall be required to pay to NWA Corp., or make arrangements satisfactory to NWA Corp. regarding the payment of, the amount of any foreign, federal (including FICA), state, or local taxes of any kind required by law to be withheld with respect to the grant or exercise of an Option.

5.6 *Payment.* Payment of the Aggregate Exercise Price and any tax withholding obligation must be made by cashier's check, through electronic funds transfer, or through a broker-assisted Option exercise program which NWA Corp. shall establish and the procedures of which the Board shall establish (the "Cashless Exercise Program"). No shares of Common Stock will be delivered to the Participant until all such amounts have been paid. The Participant will be responsible for all brokerage commissions, interest and other expenses, if any, associated with an exercise pursuant to the Cashless Exercise Program.

5.7 *Nontransferability.* An Option granted pursuant to the Plan shall not be transferable by the Participant except through the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by such Participant. Notwithstanding the foregoing, the designation of a beneficiary by a Participant shall not constitute a transfer.

5.8 *Recordkeeping and Reporting.* NWA Corp. shall maintain an account statement for each Participant (an "Account Statement") that contains the following information: (a) the number of shares with respect to which each Option held by the Participant is unexercised, (b) the number of shares with respect to which each Option held by the Participant has been exercised, (c) the Exercise Price for each such Option, and (d) the Exercise Period for each such Option. NWA Corp. shall provide all holders of Options with a cumulative Account Statement (i) within thirty (30) days of the Initial Grant Date and (ii) within thirty (30) days of each anniversary of the Initial Grant Date until the expiration of the last Options.

5.9 *Exercise Prior to Expiration.* If on the last day of the applicable Exercise Period an Option is unexercised and an exercise of such Option would result in net proceeds (greater than \$0) as defined in the following sentence, such Option shall be exercised pursuant to the Cashless Exercise Program. In the event of an exercise pursuant to this Section 5.9, NWA Corp. shall provide the Participant with a notice describing the terms of the exercise and shall provide the Participant with the net proceeds of the exercise (*i.e.*, the gross proceeds *less* the Aggregate Exercise Price *less* the required tax withholding obligation *less* all brokerage commissions, interest and other expenses associated with the exercise pursuant to the Cashless Exercise Program).

VI. SEPARATION OF EMPLOYMENT OR DEATH

If a Participant separates from employment with Northwest Airlines during the Exercise Period, any Options held by the Participant at the time of such separation of employment shall continue to be exercisable during the applicable Exercise Periods. If a

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Participant dies during the Exercise Period, any Options held by the Participant at death shall be exercisable by the Participant's estate or beneficiaries during the applicable Exercise Periods.

VII. COMPLIANCE WITH THE SECURITIES ACT

On or before the Grant Date, NWA Corp. shall file a Registration Statement on Form S-8 (a "Registration Statement") pursuant to the Securities Act of 1933, as amended (the "Securities Act") covering the Common Stock to be offered pursuant to the Plan and will use its best efforts to maintain the effectiveness of such Registration Statement at all times necessary to permit holders of Options to exercise them. In the event there is no Registration Statement on file, the Participant, by acceptance of any Option granted under the Plan, will represent and warrant to NWA Corp. that the purchase or receipt of shares of Common Stock upon the exercise thereof will be for investment and not with a view to distribution.

NWA Corp. shall take all actions necessary and appropriate to satisfy applicable provisions of the Securities Act, the Securities Exchange Act of 1934, as amended, state securities laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which NWA Corp.'s Common Stock is listed.

NWA Corp. may endorse an appropriate legend referring to the foregoing restrictions upon the certificate or certificates representing any shares of Common Stock issued or transferred to a Participant upon the exercise of any Option granted under the Plan.

VIII. MISCELLANEOUS

8.1 *Amendments.* The Plan may only be amended or modified in a written agreement among the Association, Northwest Airlines, Newbridge and NWA Corp.

8.2 *Governing Law.* This Agreement and the Plan, to the extent not preempted by federal securities laws, shall be governed by and construed in accordance with the Railway Labor Act and the internal laws of the State of Minnesota without regard to the choice of law principles thereof.

8.3 *No Employment Rights.* The establishment of the Plan and participation in the Plan shall not confer upon any Participant any right to continued employment with the Company, nor, subject to the Pilots Agreement, shall it interfere in any way with the right of the Company to terminate the employment of any Participant at any time.

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8.4 *Unfunded Status of the Plan.* The Plan is intended to constitute an "unfunded" plan. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

8.5 *Effect of Income Realized by Participant.* The income realized through the exercise of an Option shall not be taken into account for purposes of calculating any benefit otherwise payable to a Participant under the terms of any employee benefit, compensation, pension or insurance plan, program or arrangement of the Company in which the Participant may participate from time to time.

8.6 *No Stockholder Rights.* Nothing in the Plan or in any Option granted under the Plan shall confer upon any Participant or his executors, administrators or legal representatives any of the rights of a stockholder of NWA Corp. with respect to the shares of Common Stock subject to an Option until such shares have been issued upon an exercise of the Option.

8.7 *Pilots Who Are Officers or Directors.* Any pilot who serves as a director or an officer of NWA Corp. or Northwest Airlines on any Grant Date (a "Proxy Pilot") shall receive, in lieu of the Option that the pilot would have received on such Grant Date, a stock appreciation right which (a) shall remain exercisable for ten (10) years following such Grant Date and (b) shall provide the pilot with net cash proceeds upon exercise equal to the net cash proceeds that the pilot would have received upon the exercise of the applicable Option. If a Proxy Pilot is eligible to participate in an equity-based compensation program for officers or directors, the Proxy Pilot shall make an election, on or before each Grant Date, either to receive the stock appreciation right described in the preceding sentence or to participate in the Company's equity-based compensation program for directors and officers during the twelve (12) months following such Grant Date.

8.8 *Effective Date and Term of the Plan.* The Plan shall become effective on the execution date of the Plan and shall remain in full force and effect through and including the expiration of the last Exercise Period.

IN WITNESS WHEREOF, the parties have signed this Letter of Agreement as of this 13th day of September, 1998.

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NORTHWEST AIRLINES CORPORATION

/s/ Douglas M. Steenland, *Executive*
Vice President, General Counsel & Sec.

NEWBRIDGE PARENT CORPORATION

/s/ Douglas M. Steenland, *Executive*
Vice President, General Counsel & Sec.

NORTHWEST AIRLINES, INC.

AIR LINE PILOTS ASSOCIATION
INTERNATIONAL

/s/ J. Randolph Babbitt, *President*

/s/ William S. Zoller, *Chairman*

NWA MEC

**APPENDIX A:
OPTION ALLOCATION PRINCIPLES**

NWA Corp. shall award Options on each Grant Date as follows:

I. *DEFINITION AND ADMINISTRATIVE DESIGNATION*

1.1 "Hourly Wage Rate" shall mean the hourly wage rate applicable to a Pilot under Section 3 of the Pilots Agreement expressed as a number rounded to two decimal places. For the purposes of the allocation described in this Appendix only, however, the hourly wage rates for Pilots in their second through fourth year of longevity shall be calculated and stated as the percentage of Captain's pay for First Officers and Second Officers effective under Section 3-I of the Pilot Agreement beginning on the third anniversary of the execution date of the Pilots Agreement. (For example, the Hourly Wage Rate for First Officers in their second year of longevity shall be fifty percent (50%) of Captain's pay for purposes of this Appendix.)

1.2 *Administrative Designation.* The Options awarded on the Initial Grant Date shall be designated as the Series 1 Options; the Options awarded on the Second Grant Date shall be designated as the Series 2 Options; the Options awarded on the Third Grant Date shall be designated as the Series 3 Options; and the Options awarded on the Fourth Grant Date shall be designated as the Series 4 Options.

II *SERIES 1 OPTIONS*

2.1 *Participants.* All Pilots (as defined in Section 1.8 of the Plan) on the execution date of the Plan shall be Participants eligible to receive a Series 1 Option on the Initial Grant Date (the "Series 1 Participants").

2.2 *Allocation.* On the Initial Grant Date, NWA Corp. shall award each Series 1 Participant an Option to purchase a whole number of shares of Common Stock which equals 1,000,000 multiplied by a fraction, the numerator of which is the Participant's Hourly Wage Rate on the execution date of the Pilots Agreement and the denominator of which is the aggregate sum of the Hourly Wage Rates applicable to each Series 1 Participant on the execution date of the Pilots Agreement. All fractional shares of Common Stock that result from this allocation shall be allocated pursuant to Section 2.3 of this Appendix.

2.3 *Fractions.* All fractional shares of Common Stock that result from the allocation described in Section 2.2 of this Appendix shall be aggregated

into a fractional share pool (the "Fractional Pool"), and one share of Common Stock from the Fractional Pool shall be allocated to each Participant's Option in inverse seniority order until the Fractional Pool is exhausted.

III. *SERIES 2, SERIES 3 AND SERIES 4 OPTIONS*

3.1 *Participants and Allocation.* The Association shall determine the number of whole shares of Common Stock with respect to which each Participant shall be awarded an Option on each subsequent Grant Date and shall provide NWA Corp. with a statement of the formula governing such allocations no later than ninety (90) days prior to the Second Grant Date.

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[APPENDIX A: OPTION ALLOCATION PRINCIPLES](#)

AMENDMENT

TO

**NORTHWEST AIRLINES CORPORATION
1998 PILOTS STOCK OPTION PLAN**

This AMENDMENT (the "Amendment") to the Northwest Airlines Corporation 1998 Pilots Stock Option Plan (the "Pilots Plan") is hereby entered into as of this 27th day of June, 2003 by and among Northwest Airlines Corporation (formerly Newbridge Parent Corporation), a Delaware corporation (the "Company"), Northwest Airlines Holdings Corporation (formerly Northwest Airlines Corporation), a Delaware corporation ("NWA Holdings"), Northwest Airlines, Inc., a Minnesota corporation ("Northwest"), and the Air Line Pilots Association International ("ALPA").

WHEREAS, the parties hereto are parties to that certain Letter of Agreement dated as of September 13, 1998, pursuant to which the Company adopted the Pilots Plan and agreed to grant stock options and stock appreciation rights to pilots employed by Northwest in accordance with the provisions of the Pilots Plan;

WHEREAS, Northwest and ALPA entered into a Letter of Agreement dated as of January 31, 2003 (the "Letter Agreement"), pursuant to which Northwest agreed to establish a pilots stock option exchange program (the "Pilot Stock Option Exchange Program") on the terms and subject to the conditions set forth in the Letter Agreement; and

WHEREAS, the parties hereto desire to amend the Pilots Plan in certain respects to provide for the implementation of the Pilot Stock Option Exchange Program.

NOW, THEREFORE, in consideration of the promises, terms and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. *Amendments to Pilots Plan.* The Pilots Plan is hereby amended to add the following new Section IX:

"IX. PILOT STOCK OPTION EXCHANGE PROGRAM.

9.1 *Offer to Exchange.* The Company shall implement a Pilot Stock Option Exchange Program on the terms and conditions set forth in the Letter Agreement, a true and correct copy of which is attached hereto as Exhibit A and incorporated herein by reference as if fully set forth herein. The Board of Directors of the Company shall have such power and authority to make such determinations and take such actions as are necessary to implement and

administer the Pilot Stock Option Exchange Program in accordance with the provisions hereof.

9.2 *Cancellation of Shares.* Notwithstanding Section 3.1 of the Pilots Plan, the total number of shares of Common Stock to be reserved and available for distribution under the Plan shall be reduced by a number equal to the difference between the total number of shares covered by outstanding stock options and stock appreciation rights that are surrendered in connection with the

Pilot Stock Option Exchange Program, less the number of shares covered by replacement awards granted in connection with such program.

9.3 *Participants.* Notwithstanding Section 1.7 of the Pilots Plan, for purposes of replacement awards granted in connection with the Pilot Stock Option Exchange Program, the term "Participant" shall mean current or former Pilots of Northwest who are entitled to receive a replacement award pursuant to the terms of the Pilot Stock Option Exchange Program.

9.4 *Expiration of Replacement Awards.* Section 5.9 of the Pilots Plan shall not be applicable to any replacement awards granted pursuant to the Pilot Stock Option Exchange Program.

9.5 *Replacement Awards to Officers and Directors of the Company.* In accordance with Section 8.7 of the Pilots Plan, any participant who is a member of the Board of Directors or an officer of the Company or Northwest as of the date of grant of the replacement awards shall receive a stock appreciation right in lieu of a stock option."

2. *Definitions.* Except as otherwise defined in this Amendment, terms defined in the Pilots Plan are used herein as defined in the Pilots Plan.

3. *General.* References to the "Plan" contained in the Plan document for the Pilots Plan shall mean such Plan as amended by this Amendment. Except as herein provided, the Pilots Plan shall remain unchanged and in full force and effect.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

NORTHWEST AIRLINES CORPORATION

By: /s/ MICHAEL L. MILLER
Name: Michael L. Miller
Title: *Vice President, Law and Secretary*

AIR LINE PILOTS ASSOCIATION INTERNATIONAL

By: /s/ MARK A. MCCLAIN
Name: Mark A. McClain
Title: *Chairman, Northwest MEC*

NORTHWEST AIRLINES HOLDINGS CORPORATION

By: /s/ MICHAEL L. MILLER
Name: Michael L. Miller
Title: *Vice President, Law and Secretary*

NORTHWEST AIRLINES, INC.

By: /s/ MICHAEL L. MILLER
Name: Michael L. Miller
Title: *Vice President, Law and Secretary*

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[AMENDMENT TO NORTHWEST AIRLINES CORPORATION 1998 PILOTS STOCK OPTION PLAN](#)

NORTHWEST AIRLINES, INC.

2003 LONG TERM CASH INCENTIVE PLAN

Section 1. *Purpose; Definitions.*

The purpose of the Northwest Airlines, Inc. 2003 Long Term Cash Incentive Plan (the "Plan") is to enable Northwest Airlines, Inc. to attract, retain and reward certain officers of the Company and its Subsidiaries, and strengthen the mutuality of interests between such employees and the Company's stockholders, by providing long term performance-based compensation incentives.

For purposes of this Plan, the following terms shall have the meanings set forth below:

- a. "Administrator" means the Compensation Committee of the Board or a subcommittee thereof or, if the Board elects to administer the Plan, the Board.
- b. "Award" means a cash bonus award granted pursuant to the Plan.
- c. "Board" means the Board of Directors of NWA Corp.
- d. "Cause" means "Cause" as defined in an employment agreement between a Participant and the Company or, if not defined therein or if there is no such agreement, "Cause" means (a) an act or acts of personal dishonesty by the Participant intended to result in substantial personal enrichment of the Participant at the expense of the Company or a Subsidiary, (b) an act or acts of personal dishonesty by the Participant intended to cause substantial injury to the Company or a Subsidiary, (c) material breach (other than as a result of a Disability) by the Participant of the Participant's obligations under the terms and conditions of the Participant's employment, which action was (i) undertaken without a reasonable belief that the action was in the best interests of the Company or a Subsidiary and (ii) not remedied within a reasonable period of time after receipt of written notice from the Company or a Subsidiary specifying the alleged breach, or (d) the conviction of the Participant of a felony.
- e. "Change in Control" means any one or more of the following:
 - (i) (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) (a "Person"), other than one or more Permitted Holders or their Related Parties or any group comprised exclusively of Permitted Holders or their Related Parties, of beneficial ownership (within the meaning of Rule 13d-3 and 13d-5 promulgated under the Exchange Act, except that such person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire, whether such right is exercisable immediately or only after the

passage of time) of 20% or more (or, if such Person is an Institutional Investor (as such term is defined in the Rights Agreement dated as of November 20, 1998 between Northwest Airlines Corporation and Norwest Bank Minnesota, N.A.), 25% or more), of either (A) the then outstanding shares of Common Stock of NWA Corp. (or its successor by merger, consolidation or purchase of all or substantially all of its assets) (the "Outstanding Common Stock") or (B) the combined voting power of the then outstanding voting securities of NWA Corp. (or its successor by merger, consolidation or purchase of all or substantially all of its assets) entitled to vote generally in the election of directors (the "Outstanding Voting Securities"), and (b) the Permitted Holders or their Related Parties collectively "beneficially own" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) a lesser percentage of that which is described in each of clause (A) and (B) above and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of NWA Corp. or such successor;

- (ii) Individuals who, as of the Effective Date, constitute the Board of Directors of NWA Corp. (the "Incumbent Board") cease for any reason to constitute at least a majority of such Board; *provided, however*, that any individual becoming a director subsequent to the date hereof, whose election, or nomination for election by NWA Corp.'s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of NWA Corp.; or
- (iii) Consummation by NWA Corp. of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of NWA Corp. (a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns NWA Corp. or all or substantially all of NWA Corp.'s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Common Stock and Outstanding Voting Securities, as the case may be, and (ii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of such Board providing for such Business Combination; or

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- (iv) Approval by the stockholders of NWA Corp. of a complete liquidation or dissolution of NWA Corp.

- f. "Company" means Northwest Airlines, Inc. and any successor thereof by way of merger, consolidation, sale of assets or otherwise.
- g. "Effective Date" means the date the Plan is approved by the Board, or such other date designated by the Board.

- h.** "Good Reason" means "Good Reason" as defined in an employment agreement between a Participant and the Company or, if not defined therein or if there is no such agreement, "Good Reason" means any one or more of the following:

 - (i)** a material reduction in Participant's compensation or other benefits;
 - (ii)** any material change in Participant's job responsibilities; provided that, so long as Participant retains a substantial part of his then current oversight responsibility, a transfer of a portion of such oversight responsibility of Participant shall not in and of itself constitute a material change in Participant's job responsibilities; and
 - (iii)** the relocation of the Company's principal executive offices to a location outside the Minneapolis-St. Paul Metropolitan Area;
- i.** "NWA Corp." means Northwest Airlines Corporation, a Delaware corporation.
- j.** "Participant" means an employee of the Company granted an Award under the Plan.
- k.** "Performance Period" means a two or more year period ending on a December 31 occurring during the term of the Plan, as determined by the Administrator in connection with an Award.
- l.** "Permitted Holders" means each of Alfred A. Checchi, Gary L. Wilson, Frederic V. Malek or Richard C. Blum and Richard C. Blum & Associates–NWA Partners, L.P., and also includes NWA Corp. and any employee benefit plan (or related trust) sponsored or maintained by NWA Corp. or any corporation controlled by NWA Corp.
- m.** "Related Parties" with respect to any Permitted Holders means (i) any spouse or immediate family member of such Permitted Holder, any trust created primarily for the benefit of any such individual or such individual's estate, executor, administrator, committee or other personal representatives or beneficiaries; or (ii) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority controlling interest of which consist of one or more of such Permitted Holders and/or such other Person referred to in the immediately preceding clause (i).

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- l.** "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

Section 2. *Administration of the Plan.*

- a.** The Plan shall be administered by the Administrator. The Administrator in its sole discretion shall have full and absolute power, authority and discretion to (i) select the officers of the Company and its Subsidiaries to whom Awards may from time to time be granted hereunder; (ii) determine whether and to what extent Awards are to be granted hereunder to one or more eligible employees; (iii) determine the amount covered by each such award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder (including, but not limited to, the performance standards, the length of the Performance Period and any other restrictions or limitations, or any vesting,

acceleration or waiver of forfeiture restrictions regarding any Award, based in each case on such factors as the Administrator shall determine, in its sole discretion); (v) determine whether, to what extent and under what circumstances amounts payable with respect to an Award under the Plan shall be deferred either automatically or at the election of the Participant; (vi) waive, amend, or modify the performance standards for any Award; (vii) interpret the provisions of the Plan; and (viii) take all action necessary or appropriate to administer the Plan. All decisions, determinations, interpretations or other actions by the Administrator shall be final and binding on the Participants and the Company.

- b. The Board in its sole discretion may from time to time elect to administer (and, in the event there is no Administrator, shall administer) the Plan and exercise all of the powers, authority and discretion of the Administrator under the Plan.

Section 3. *Change in Control.*

In the event that (i) a Participant's employment is terminated by the Company without Cause or the Participant resigns with Good Reason prior to the Payment Date of an Award and (ii) a Change in Control shall have occurred following the grant of such Award and within the two year period immediately preceding the date of such termination, then such Participant shall receive, promptly after the date of such termination, an Award for the Affected Performance Period (A) if such termination of employment is during the Performance Period of such Award, as if the performance standards for such Performance Period had been achieved at 100% or (B) if such termination of employment is following the Performance Period of such Award but prior to the Payment Date, as if the Participant remained employed until the Payment Date.

Section 4. *Awards.*

- a. Subject to the provisions of the Plan, the Administrator shall have authority to determine the persons to whom and the time or times at which Awards shall be made, the amount to be awarded pursuant to such Awards, and all other terms and

conditions of the Awards. The provisions of Awards need not be the same with respect to each Participant.

- b. Each Award under this Section 4 shall be confirmed by, and subject to the terms of, an agreement or other instrument by the Company.

Section 5. *Payment.*

The amount of an Award for a Performance Period, as determined by the Administrator, shall be paid to the Participant at such time as determined by the Administrator after the end of such Performance Period.

Section 6. *Unfunded Status of Plan.*

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

Section 7. *General Provisions.*

- a. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements; and such arrangements may be either generally applicable or applicable only in specific cases.
- b. The adoption of the Plan shall not confer upon any Participant any right to continued employment with the Company or a Subsidiary or affiliate, as the case may be, nor shall it interfere in any way with the right of the Company or a Subsidiary or affiliate to terminate the employment of any of its employees at any time.
- c. The Company shall have the power and the right to deduct or withhold an amount of cash sufficient to satisfy federal, state and local taxes required by law to be withheld in connection with a payment made under the Plan.
- d. The validity, construction, interpretation, administration and effect of the Plan shall be governed by the substantive laws, but not the choice of law rules, of the State of Minnesota.
- e. An Award may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of by any Participant, except as may be otherwise provided in the award agreement relating to the Award. If a Participant or anyone claiming under or through a Participant attempts to violate this Section 7(e), such attempted violation shall be null and void and without effect.
- f. The Administrator may amend or terminate the Plan and may amend the terms of the grant of the Awards under the Plan; *provided, however*, no such termination or amendments shall impair the rights of a Participant under an Award previously granted, without such Participant's consent.

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Section 8. *Term of Plan.*

The Plan shall be effective as of Effective Date and shall terminate when determined by the Administrator.

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**NORTHWEST AIRLINES, INC.
2003 LONG TERM CASH INCENTIVE PLAN**

AWARD ACKNOWLEDGMENT

Participant:

Date: January , 2003

Target Percentage of Base Salary:

1. *Grant of Award.* The Company hereby grants a cash bonus award (the "Award") equal to the Target Percentage listed above, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms of the Northwest Airlines, Inc. 2003 Long Term Cash Incentive Plan (the "Plan"), which Plan, as amended from time to time, is incorporated herein by reference and made a part of this Acknowledgement. Capitalized terms not otherwise defined herein shall have the same meanings as in the Plan.

2. *Performance Level.* Subject to the Participant maintaining an average individual performance rating of 3.0 for each calendar year during the Performance Period, as determined by the Administrator in its sole discretion, the Participant, subject to Section 6 of this

Acknowledgement, shall be entitled to a cash payment equal to the product of (i) the Participant's Base Salary multiplied by (ii) the product of (A) the Payout Percentage based on the Company's attainment of the performance levels set forth below multiplied by (B) the Target Percentage.

Payout Percentage	Performance Level
50%	The Company's Average Operating Margin ranks third among the Major Carriers.
100%	The Company's Average Operating Margin ranks second among the Major Carriers.
150%	The Company's Average Operating Margin ranks second among the Major Carriers and the Company's Net Profitability for the Performance Period exceeds the Net Profitability Threshold OR The Company's Average Operating Margin ranks first among the Major Carriers.
200%	The Company's Average Operating Margin ranks first among the Major Carriers and the Company exceeds the Net Profitability Threshold.

For purposes of this Acknowledgement:

"*Average Operating Margin*" shall mean, with respect to a Major Carrier, the total operating income for the Performance Period divided by the total operating revenues for the Performance Period (excluding any adjustments approved by the Administrator for fuel expense and other extraordinary items), each as reported by such Major Carrier in its public filings.

"*Base Salary*" shall mean the Participant's annual rate of base salary in effect on December 31, 2004.

"*Major Carriers*" shall mean the Company, American Airlines, United Airlines, Delta Air Lines, Continental Airlines and US Airways.

"*Net Profitability*" shall mean the net income of the Company, excluding

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extraordinary items, as determined by the Administrator in its sole discretion.

"*Net Profitability Threshold*" shall mean, for each fiscal year during the Performance Period, the amount of Net Profitability determined by the Administrator in its sole discretion.

"*Performance Period*" shall mean the period beginning on January 1, 2003 and ending on December 31, 2004.

"*Target Percentage*" shall mean the Target Percentage (set forth above) of the Participant's Base Salary.

3. *Timing of Payment.* The amount of the Award, if any, determined by the Administrator, for the Performance Period shall be paid to the Participant at such time as determined by the Administrator after the end of the Performance Period, but no later than June 15, 2005 (the "Payment Date").

4. *Termination of Employment.*

(a) If the Participant's employment with the Company or its affiliates terminates for any reason prior to the Payment Date, the Award shall be cancelled without payment; *provided, however*, that if the Participant's employment with the Company or its affiliates is terminated due to the Participant's death or Disability (i) during the Performance Period, the Participant shall be entitled to a pro rata share of the Participant's Award, if it would have become earned and payable had the Participant remained employed during the entire Performance Period and at the base salary in effect on the date of such termination of employment, based on the percentage of the Performance Period that shall

have elapsed through the date of the Participant's termination of employment, payable on the Payment Date or (ii) following the Performance Period but prior to the Payment Date, the Participant shall be entitled to the Participant's Award, if it would have become earned and payable had the Participant remained employed until the Payment Date, payable on the Payment Date. For purposes of this Acknowledgement, "Disability" shall mean the Participant's physical or mental condition which prevents continued performance of his or her duties and for which the Participant establishes by medical evidence that such condition will be permanent and continuous during the remainder of the Participant's life or is likely to be of at least three (3) years' duration.

(b) Notwithstanding the foregoing, if (i) the Participant's employment is terminated by the Company without Cause or the Participant resigns with Good Reason prior to the Payment Date and (ii) a Change in Control shall have occurred within the two year period immediately preceding the date of such termination, then the Participant shall be entitled, promptly after the date of such termination, to the Participant's Award (A) if such termination of employment is during the Performance Period, as if the Payout Percentage for the Performance Period had equaled 100% or (B) if such termination of employment is following the Performance Period but prior to the Payment Date, as if the Participant remained employed until the Payment Date.

5. *Compensation Limitation.* Notwithstanding the foregoing, in the event legislation is enacted under which the Company would be entitled to receive compensation or

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other payments or assistance from the federal government or any agency or instrumentality thereof and any payments or benefits payable to the Participant pursuant to the Plan and the Award do not comply with such legislation, then (i) to the extent permitted by such legislation, any such payments or benefits that do not comply with such legislation shall be deferred until such payments or benefits may be paid under such legislation, and (ii) to the extent such legislation does not permit the deferral of any such payments or benefits, the maximum payments and/or benefits Participant may receive from the Company pursuant to the Plan and the Award (together with any other compensation and/or benefits received by Participant from the Company) will not exceed the amount allowed under such legislation.

6. Notwithstanding the attainment of the Performance Levels set forth in Section 2 of this Acknowledgement, the Administrator, in its sole discretion, may reduce (including to zero) or increase any cash payment otherwise payable pursuant to Section 2 and the Administrator may, in its sole discretion, terminate this Award at any time prior to the Payment Date without the payment of consideration.

7. *No Right to Continued Employment.* Neither the Plan nor this Acknowledgement shall be construed as giving the Participant the right to be retained in the employ of the Company or any affiliate. Further, the Company or an affiliate may at any time dismiss the Participant free from any liability or any claim under the Plan or this Acknowledgement.

8. *Transferability.* The Award may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any affiliate.

9. *Withholding.* The Company shall have the right and is hereby authorized to withhold from any payment due under this Acknowledgement or under the Plan or from any compensation or other amount owing to the Participant, applicable withholding taxes.

10. *Choice of Law.* THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THIS ACKNOWLEDGEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MINNESOTA WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

11. *Award Subject to Plan.* In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

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NORTHWEST AIRLINES, INC.

By:

Richard H. Anderson
Chief Executive Officer

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[NORTHWEST AIRLINES, INC. 2003 LONG TERM CASH INCENTIVE PLAN
AWARD ACKNOWLEDGMENT](#)

Northwest Airlines Corporation
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	Year ended December 31,				
	2003	2002	2001	2000	1999
Earnings:					
Income (loss) before income taxes	\$ 218	\$ (1,220)	\$ (670)	\$ 435	\$ 487
Less: Income (loss) from less than 50% owned investees	18	37	(5)	92	86
Add:					
Rent expense representative of interest (1)	253	247	237	229	199
Interest expense net of capitalized interest	441	385	326	316	348
Interest of preferred security holder	25	25	25	27	27
Amortization of debt discount and expense	24	17	14	11	15
Amortization of interest capitalized	10	5	4	4	4
Adjusted earnings	\$ 953	\$ (578)	\$ (59)	\$ 930	\$ 994
Fixed charges:					
Rent expense representative of interest (1)	\$ 253	\$ 247	\$ 237	\$ 229	\$ 199
Interest expense net of capitalized interest	441	385	326	316	348
Interest of preferred security holder	25	25	25	27	27
Amortization of debt discount and expense	24	17	14	11	15
Capitalized interest	10	25	29	23	16
Fixed charges	\$ 753	\$ 699	\$ 631	\$ 606	\$ 605
Ratio of earnings to fixed charges	1.27	-(2)	-(2)	1.53	1.64

(1) Calculated as one-third of rentals, which is considered representative of the interest factor.

(2) Earnings were inadequate to cover fixed charges by \$1.28 billion and \$690 million for the years ended December 31, 2002 and 2001, respectively.

Northwest Airlines Corporation
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND PREFERRED STOCK REQUIREMENTS
(Dollars in millions)

	Year ended December 31,				
	2003	2002	2001	2000	1999
Earnings:					
Income (loss) before income taxes	\$ 218	\$ (1,220)	\$ (670)	\$ 435	\$ 487
Less: Income (loss) from less than 50% owned investees	18	37	(5)	92	86
Add:					
Rent expense representative of interest (1)	253	247	237	229	199
Interest expense net of capitalized interest	441	385	326	316	348
Interest of preferred security holder	25	25	25	27	27
Amortization of debt discount and expense	24	17	14	11	15
Amortization of interest capitalized	10	5	4	4	4
Adjusted earnings	\$ 953	\$ (578)	\$ (59)	\$ 930	\$ 994
Fixed charges and preferred stock requirements:					
Rent expense representative of interest (1)	\$ 253	\$ 247	\$ 237	\$ 229	\$ 199
Interest expense net of capitalized interest	441	385	326	316	348
Preferred stock requirements	12	1	1	1	1
Interest of preferred security holder	25	25	25	27	27
Amortization of debt discount and expense	24	17	14	11	15
Capitalized interest	10	25	29	23	16
Fixed charges and preferred stock requirements	\$ 765	\$ 700	\$ 632	\$ 607	\$ 606
Ratio of earnings to fixed charges and preferred stock requirements	1.25	-(2)	-(2)	1.53	1.64

(1) Calculated as one-third of rentals, which is considered representative of the interest factor.

(2) Earnings were inadequate to cover fixed charges by \$1.28 billion and \$691 million for the years ended December 31, 2002 and 2001, respectively.

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[Northwest Airlines Corporation COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK REQUIREMENTS \(Dollars in millions\)](#)

NORTHWEST AIRLINES CORPORATION
LIST OF SUBSIDIARIES
(wholly-owned unless otherwise specified)

Northwest Airlines Corporation (Delaware corporation)

Northwest Airlines Holdings Corporation (Delaware corporation)

NWA Inc. (Delaware corporation)

Northwest Airlines, Inc. (Minnesota corporation)

Win-Win L.P. (Delaware limited partnership) *

Wings Finance Company (Japanese corporation)

NWA Funding, LLC (Delaware limited liability company)

Northwest Airlines Cargo, Inc. (Delaware corporation)

NWA Fuel Services Corporation (Texas corporation)

Montana Enterprises, Inc. (Montana corporation)

Tomisato Shoji Kabushiki Kaisha (Japan corporation)

NWA Worldclub, Inc. (Wisconsin corporation)

Margoen Holding B.V. (Netherlands corporation)

Hibiya Enterprise YK (Japan corporation)

Northwest Aircraft Inc. (Delaware corporation)

Aircraft Foreign Sales, Inc. (U.S. Virgin Islands corporation)

Northwest Aerospace Training Corporation (Delaware corporation)

MLT Inc. (Minnesota corporation)

NWA Aircraft Finance, Inc. (Delaware corporation)

NWA Retail Sales Inc. (Minnesota corporation)

* Northwest Airlines, Inc. is 99% limited partner

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[NORTHWEST AIRLINES CORPORATION LIST OF SUBSIDIARIES \(wholly-owned unless otherwise specified\)](#)

Consent of Independent Auditors

We consent to the use of our report dated January 23, 2004 included in the Annual Report (Form 10-K) of Northwest Airlines Corporation.

Our audit also included the financial statement schedule of Northwest Airlines Corporation listed in Item 15(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audit. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-65588, 333-107070, 333-107068, and 333-105356) of Northwest Airlines Corporation and Northwest Airlines, Inc. and in the related Prospectuses, in the Registration Statements on Form S-3 (No. 333-69655) of Northwest Airlines Corporation and in the related Prospectus and in the Registration Statements on Form S-8 (Nos. 333-12571, 333-66253, 333-75933, 333-90648 and 333-90646) of Northwest Airlines Corporation of our report dated January 23, 2004, with respect to the consolidated financial statements and the financial statement schedule included in this Annual Report (Form 10-K) of Northwest Airlines Corporation.

ERNST & YOUNG LLP

Minneapolis, Minnesota

March 2, 2004

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[Exhibit 23.1](#)

[Consent of Independent Auditors](#)

RULE 13a-14(a)/15d-14(a) CERTIFICATIONS

I, Richard H. Anderson, certify that:

1. I have reviewed this annual report on Form 10-K of Northwest Airlines Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2004

/s/ RICHARD H. ANDERSON

Richard H. Anderson

Chief Executive Officer

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[RULE 13a-14\(a\)/15d-14\(a\) CERTIFICATIONS](#)

RULE 13a-14(a)/15d-14(a) CERTIFICATIONS

I, Bernard L. Han, certify that:

1. I have reviewed this annual report on Form 10-K of Northwest Airlines Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - c) disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 4, 2004

/s/ BERNARD L. HAN

Bernard L. Han

Chief Financial Officer

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[RULE 13a-14\(a\)/15d-14\(a\) CERTIFICATIONS](#)

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Northwest Airlines Corporation (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard H. Anderson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD H. ANDERSON

Richard H. Anderson
Chief Executive Officer
March 4, 2004

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[SECTION 1350 CERTIFICATIONS](#)

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Northwest Airlines Corporation (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bernard L. Han, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ BERNARD L. HAN

Bernard L. Han

Chief Financial Officer

March 4, 2004

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[SECTION 1350 CERTIFICATIONS](#)