NORTHWEST ORIENT AIRLINES

1968 ANNUAL REPORT

FINANCIAL HIGHLIGHTS OF 1968

	1968	1967
Total Operating Revenues	$416,289,742	$383,979,067
Operating Income	97,943,632	112,757,625
Net Earnings for the Year	50,051,005	58,715,983
Per Common Share	5.47	6.42
Stockholders' Equity	306,717,107	263,986,444
Per Common Share	33.52	28.85
Dividends Paid	7,319,702	6,404,737
Operating Expenses—		
Per Available Ton-Mile	14.6¢	14.5¢
Per Revenue Ton-Mile	30.8¢	30.3¢
Revenue Traffic—		
Passengers Carried	7,173,805	6,489,295
Passenger-Miles Flown	5,458,128,000	4,901,520,000
Ton-Miles, Mail, Freight and Express	308,988,000	235,375,000
Common Shares at Year End	9,149,628	9,149,626
Employees at Year End	11,354	10,257

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ANOTHER NEW ERA . . . in aviation dawned on September 30, 1968 when the first Boeing 747 was rolled out of its mammoth hangar at Renton, Washington. The massive jumbo jet will carry 360 passengers in commercial service, more than twice the capacity of the largest jet now flying.

42ND ANNUAL REPORT TO THE STOCKHOLDERS

From the President:

Despite a decline in net earnings in 1968, your management feels 1968 was a year of real achievement financially for Northwest Orient Airlines. Although ranking seventh in revenue among U. S. trunk line air carriers, Northwest Orient led all carriers in net earnings in 1968—the first time we have been able to accomplish this prized goal.

Revenues at Peak

For 1968, revenues were $416,289,742—up 8.4 per cent from $383,979,067 in 1967. This is a record performance. Net earnings were $50,051,005 in 1968 compared to $58,715,983 in 1967.

The dip in net earnings was due to several factors:

- The 10 per cent Federal income tax surcharge.
- Civil disturbances in several major U. S. cities and in Hong Kong.
- The dampening effect on Orient travel created by the Federal Government's policy on overseas travel.
- A decline in Military Airlift Command rates.
- The decrease in mail rates paid by the U. S.

Cost-Price Squeeze

The entire industry has been caught in the cost-price squeeze which has cut into 1968 earnings. However, through the continued application of operating efficiencies, cost controls and better utilization of personnel, Northwest Orient has been able to minimize the impact of these factors on net earnings.

Operating Savings

A notable example of this is the order your company has placed for the long range model of the McDonnell Douglas DC-10 airplane. Your management insisted that the jet engines be changed to the Pratt & Whitney JT9D before we decided to place our order for 14 of these aircraft. In doing so, we insured compatibility of engines between the DC-10's and the Boeing 747's we had previously ordered. The savings in terms of spare parts, training for mechanics and pilots and increased aircraft utilization will be most significant in future operations, as is the economy we presently enjoy by our ability to interchange engines on the Boeing 707 and 720's.

Leadership Role

Northwest Orient Airlines was the first airline to place an order for the DC-10 series 20, or 'airbus', as it is termed. This leadership in development of airplanes, since followed by several other carriers, was also evident in our being first with the cargo version of the Boeing 727.

Changes in Officers, Directors

The vacancy on your Board of Directors created by the untimely death of Alonzo Petteys was filled by Donald G. McNeely of St. Paul, Minnesota.

Joining the executive officers of the company during the year were Roy K. Erickson as Vice President—Public Relations and Bryan G. Moon, recently promoted to Vice President-Advertising.

Promoted to Vice President-Assistant to the President was Benjamin G. Griggs, Jr., while J. William Campion was named Vice President—Regulatory Proceedings and Roland W. Chambers was promoted to Assistant Vice President-Properties.

Main Base Expansion

Recently announced by your company is a $12 million expansion of main base facilities in Minneapolis/St. Paul to provide necessary hangars and overhaul facilities for the Boeing 747's, the first of which will be delivered in spring, 1970. This expansion will provide four new 'jumbo' hangars for the 747's and the DC-10's on order and will increase the size of the main base facilities by nearly 50 per cent.

Looking Ahead

Looking ahead, 1969 promises to be a year of continuing growth and major challenges. The domestic fare increase authorized by the Civil Aeronautics Board in January of this year, which averaged out to a 3.8 per cent increase for the industry, will provide an estimated $7,200,000 in additional revenue for Northwest Orient.

This increase, although helpful, will probably—by itself—not be sufficient to defeat the 'price/cost' squeeze in which the industry, and Northwest Orient, finds itself. An example of spiraling prices is the JT8D jet engine which has risen from $230,000 to $300,000 in just four short years. Cost increases are exemplified by landing fees, which hit an all-time peak of $7,760,000 in 1968, up 133.7 per cent from the $3,321,000 we paid in 1964.

Route Applications

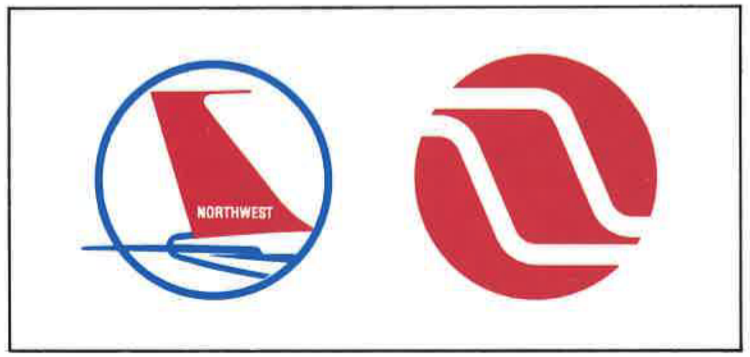
Your management has aggressively pursued its applications for extensions of routes before the Civil Aeronautics Board. Many of these decisions will be made by the CAB in the months just ahead and will have an important bearing on our future growth. We remain confident, whatever those decisions, that Northwest Orient Airlines will continue to be a strong, vital carrier with a superior growth and earnings record that will continue to justify your faith and support as a stockholder.

Sincerely,

Donald W. Nyrop

President

THE NEW LOOK OF NORTHWEST ORIENT



Northwest Orient Airlines will have a 'new look' for the fast-paced 1970's.

Early in 1969, Northwest Orient will begin the change to a new corporate indentity. Its hallmark will be a new symbol—a contemporary derivative of the already well-established red tail.

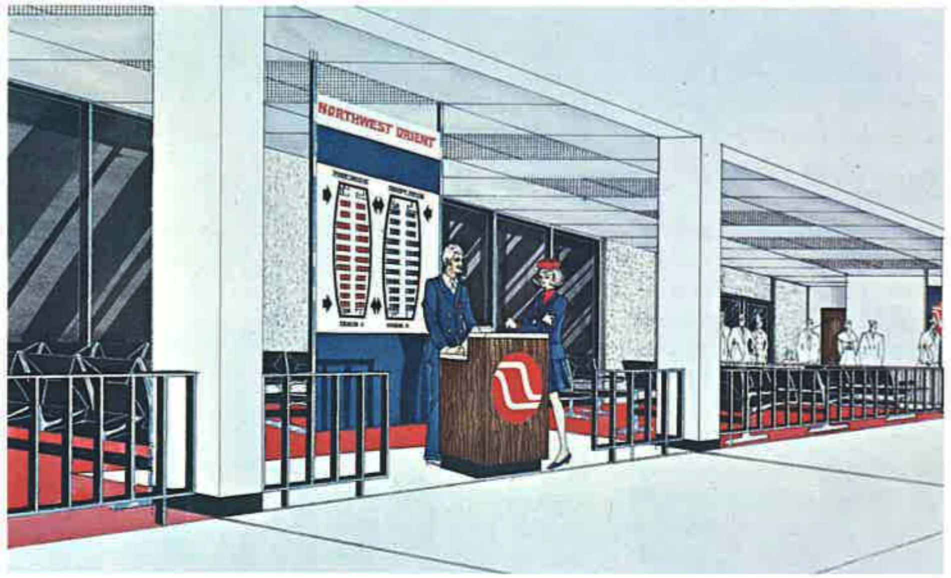
A newly designed type face will also be used for the corporate name—Northwest Orient.

Reasons for the decision to embark on a corporate indentity program were essentially to achieve a consistency in presentation to the public and to achieve a more contemporary look.

The 'new look' will be applied to everything that the public is exposed to as the program is fully implemented. The next Boeing 727-200 will be delivered in the new paint design, which features largely an all-aluminum exterior. City ticket offices, boarding passes, letterheads, flight bags—and even silverware—will use the new identity.

Northwest Orient's new corporate indentity will help underscore its role as one of the U.S.A.'s largest domestic and international air carriers.

Designer . . . of Northwest Orient Airlines' new corporate identity mark is 33-year-old Clarence K. M. Lee of Honolulu. Born of Chinese ancestry in Hawaii, he was educated at Pomona College and at Yale University. With the close ties Northwest Orient has with Hawaii and the Orient, selection of Lee as the designer seemed most appropriate.



FINANCIAL REVIEW OF 1968

Revenues

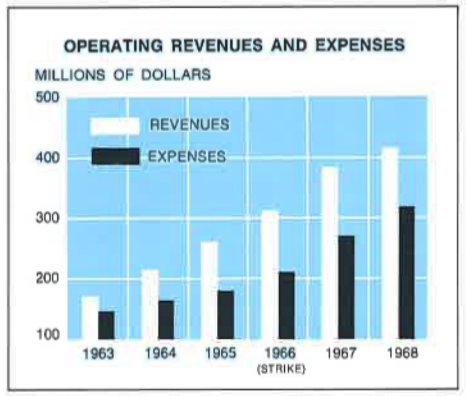
Operating revenues continued their record growth and reached a new high of $416,289,742, for an increase of 8.4 per cent over the previous high in 1967. Revenue growth was adversely affected in 1968 by the civil unrest in several cities and the governmental request to reduce foreign travel as an aid to the balance of payments.

Record passenger revenues increased 9.2 per cent to $301,276,511. This passenger revenue growth was diluted by a 2.0 per cent decline in the passenger-mile yield due to the increased use of promotional and discount fares, which affected the industry generally. Another contributing factor to this yield decline is the increasing utilization of coach services. Coach service represented 85.4 per cent of the total passenger-miles, a further increase over 1967 and previous years.

Freight, express and excess baggage revenues were at a new high of $43,902,321, up 15.2 per cent from 1967. Primarily, this reflects the increased emphasis Northwest has placed in the freight market.

Mail revenue increased 6.3 per cent to $28,604,486. This increase was achieved despite a 20 per cent reduction in international mail pay effective July 1, 1968, and a 10 per cent retroactive reduction amounting to $2,502,338, which was recorded in 1968 for the period January, 1967, through June, 1968. Mail revenue ton-miles flown were 139,572,047, or an increase of 48.2 per cent over 1967.

Revenues from charter operations amounted to $41,059,963 in 1968, compared with $41,798,533 in 1967. This decline in revenue was due to decreased commercial charters, primarily as a result of the Government's request to reduce foreign travel. Military charter operations amounted to $38,066,115, or an increase of 2.2 per cent from 1967. The Military Airlift Command contract extends to June 30, 1969, and we will seek a renewal contract for the Government's fiscal year 1970.



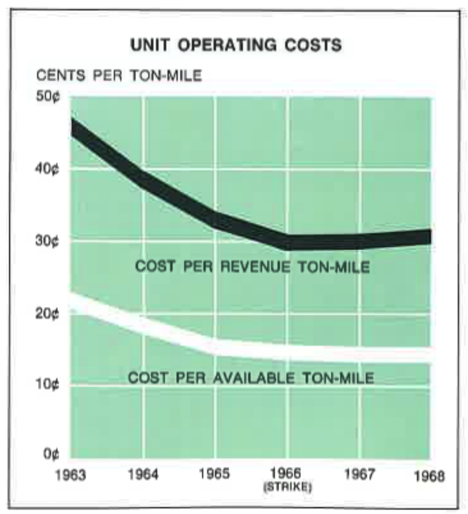
Expenses

Operating expenses increased 17.4 per cent to $318,346,110 in 1968. Depreciation and amortization amounted to $49,816,847 in 1968, an increase of 20.8 per cent over 1967. Northwest Airlines, as well as the rest of the industry, incurred increased expenses due to air traffic delays at many major U.S. airports during the peak summer traffic months. Despite continued increases in wages, material costs, airport fees, fuel and oil prices, and in most other areas, Northwest was able to substantially maintain its unit cost performance. Unit operating expenses in 1968 were 14.56¢ per available ton-mile, or one-one hundredth of a cent over the 1967 level of 14.55¢. This favorable result was achieved in spite of these generally increasing expenses, through expanded fan-jet services of greater capacity and continued attention to the control of expenses in all categories.

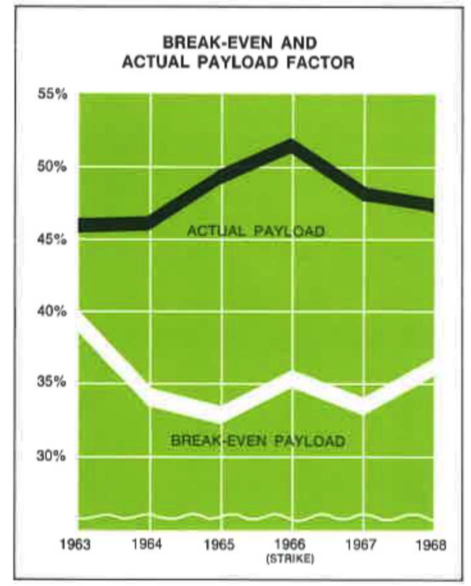
Net Earnings

Net profit in 1968 was $50,051,005, or $5.47 per share of common stock, compared with $58,715,983, or $6.42 per share in 1967. Operating income amounted to $97,943,632, down from $112,757,625 in 1967. Pretax non-operating costs included $3,893,613 interest expense and income of $183,816 from the disposals of property.

The investment tax credit is being amortized over an eight-year period. This credit included in net earnings amounted to $3,975,100 in 1968, up from $3,117,000 in 1967. Deferred investment tax credit amounting to $24,383,400 remains to be amortized to income in future years. All investment tax credit available to Northwest to date, as a result of equipment purchases, has been used to reduce current income taxes.



Federal income tax expense increased in 1968 due to the 10 per cent surcharge which became effective in January of this year. This surcharge amounted to a $4,461,500 reduction in net earnings.



Cash Flow

Source of funds in 1968 included generation of $118,867,352 from net earnings, depreciation and amortization, deferred income taxes and investment tax credit. Other sources of funds included a net increase of $75,000,000 in long-term debt and disposals of operating property amounting to $536,169.

Major application of funds included fleet and property additions of $109,509,921 and advance deposits for aircraft on order and SST development costs amounting to $75,419,222. Cash dividends of $7,319,702 were paid to stockholders in quarterly payments during 1968 at an annual dividend rate of 80¢ per common share. This represents the 14th consecutive year that your company has made dividend payments on its common stock.

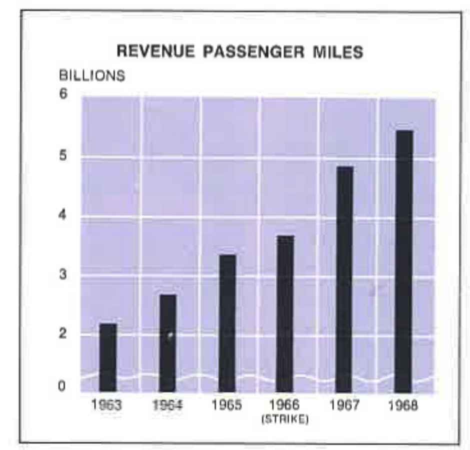
In March of 1969, the annual dividend rate was increased to 90¢ per share. This is the 7th consecutive annual increase in the dividend rate.

Traffic

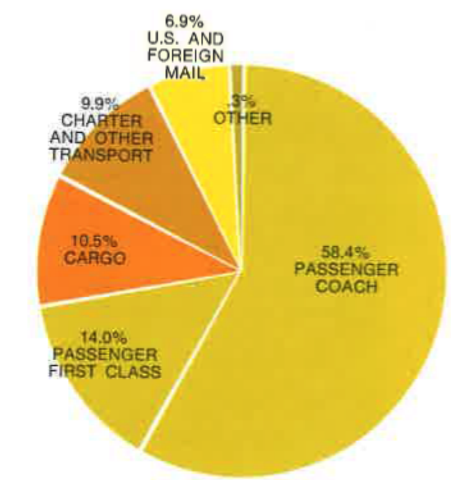
Traffic results in 1968 reflect record growth in all areas. Northwest Airlines increased revenue plane-miles in scheduled services by 15.3 per cent, while available ton-miles increased by 17.9 per cent.

During 1968 revenue passenger-miles in scheduled services increased to 5,458,128,056 for an 11.4 per cent increase over 1967. On our domestic routes the passenger-miles increased 13.8 per cent. System passengers carried increased 10.5 per cent over the prior year. The system passenger load factor declined from 53.29 per cent in 1967 to 50.35 per cent in 1968.

In 1968 system mail revenue ton-miles increased 48.2 per cent which is primarily the result of the increased use by the Post Office of air transportation for non-priority mail. Freight ton-miles increased 20.7 per cent over 1967, reflecting the increased emphasis Northwest Airlines has placed in this market. Express and excess baggage increased 6.0 per cent over the prior year.



SOURCE AND APPLICATION OF FUNDS



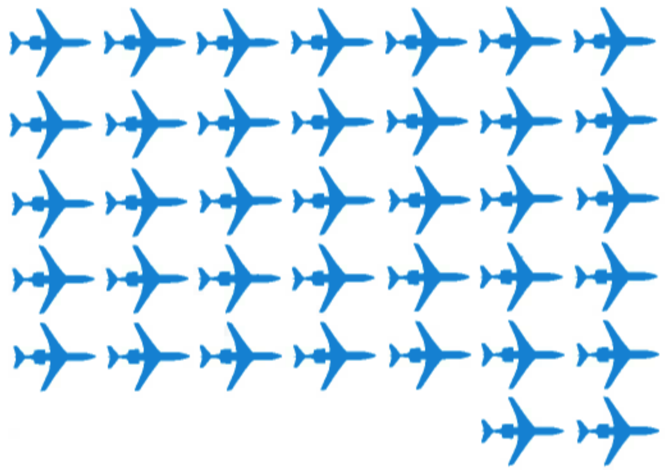
SOURCE

APPLICATION

NORTHWEST ORIENT'S CURRENT FAN-JET FLEET

Versatile . . . That's the word that best describes the Boeing 727 fan-jet. Designed to get in and out of smaller airports, the 727 comes in two sizes: The 727-100 carries 93 passengers while the 727-200, some 20 feet longer, carries 122 passengers.

Statistics for 727-200: length, 153 feet; height to top of tail, 34 feet; range, 1,500 miles; cruising speed, 607 mph; cruising altitude, 42,000 feet maximum.



37 BOEING 727 FAN JETS

Powerful . . . Most descriptive of the Boeing 720B fan-jet transport, used by Northwest Orient to provide service between larger cities coast-to-coast or mainland-Hawaii. Carries 107 passengers.

Statistics: length, 136 feet; height to top of tail, 41 feet; range, 4,000 miles; cruising speed, 585 mph; cruising altitude, 42,000 feet maximum.

16 BOEING 720B FAN-JETS

Intercontinental . . . Is the capacity of the Boeing 707-320 fan-jets used by Northwest Orient for trans-Pacific operation. Also used on long distance domestic flights, it comes in two versions: the 320B, which is used exclusively as a passenger airplane and carries up to 140 passengers in mixed class service; the 320C, which is a convertible airplane—capable of use as an all-cargo jet freighter or mixed class services carrying 140 passengers or all economy configuration carrying 165 persons.

Statistics: length, 153 feet; height to top of tail, 42 feet; range, 6,000 miles; cruising speed, 585 mph; cruising altitude, 42,000 feet maximum.

36 BOEING 707-320B/C FAN-JETS

TOTAL 89 AS OF DECEMBER 31, 1968

FUTURE ADDITIONS TO NORTHWEST ORIENT'S JET FLEET

15 BOEING 747 'JUMBO JETS'

Planning for the first of Northwest Orient's 747's, which will be delivered in March, 1970, has been underway for more than a year. Although nearly twice the size of the 727, the 747 will operate more quietly than any of the present generation jet aircraft. The 360 passenger 747 will bring a new level of comfort to passengers on the long distance transPacific routes operated by Northwest Orient.

Statistics: length, 231 feet; range, 6,000 miles; maximum speed, 657 mph; maximum cruising altitude, 45,000 feet.

14 McDONNELL-DOUGLAS DC-10 'AIR BUSSES'

Northwest Orient was the first airline in the world to purchase the long range Series 20 version of this luxury tri-jet transport. It did so after McDonnell-Douglas agreed to use the JT9D-15 Pratt & Whitney engines that are compatible with the 747. Northwest Orient's version of the DC-10 will carry 268 passengers.

Statistics: length, 180 feet; range, 4,900 miles; cruising speed, 580 mph; cruising altitude, 42,000 feet.

6 BOEING 2707 'SST'S'

This 1,800 mph supersonic jetliner will make it possible to fly from the West Coast to Tokyo in four hours, 28 minutes. Northwest Orient has made deposits for the delivery of six SST's.

Statistics: length, 280 feet; maximum speed, Mach 2.7 or 1,800 mph; cruising altitude, 65,000 feet.

19 BOEING 727-200's

An additional 19 727-200's will be delivered to Northwest Orient in 1969, bringing the total number in our fleet to 24.

NEW THINGS FOR NORTHWEST ORIENT IN 1968

In an industry where change is constant and technology makes giant strides almost daily, Northwest Orient more than kept pace in 1968.

New Programs

Planning and work on the conversion from the present Univac 490 computer system to the 494 system continued in 1968. One of the new applications will be an instant reservations' system which will provide a passenger name record and visual display of flight information.

The use of computers to monitor jet engines on Northwest Orient's fleet was started May 1, 1968. Data on in-flight engine performance is fed into the computers housed in the general offices. The computer produces a picture of engine performance which permits early detection of defects. This has resulted in lengthened periods between engine overhauls and a substantial reduction in maintenance expense.

New Facilities

The $2 million Cleveland hangar and air freight facility was completed in 1968 with a total of 82,000 square feet being available. The hangar area occupies 44,000 square feet with the freight facility and reservations office using the remainder.

Two major flight kitchen facilities were also completed in 1968. A $1½ million kitchen, one of the largest on the West Coast, was constructed in Seattle. And a new 40,000 square foot kitchen and cargo facility has been built in Anchorage.

To accommodate the rapidly growing air freight business new cargo facilities have been built and opened in Minneapolis/St. Paul, Chicago Midway, Cleveland, Anchorage and in Seoul.

Six city ticket offices were also remodeled: Tampa, Rochester, Minnesota; Okinawa; Taipei; Olympic Hotel in Seattle, and Southdale in Minneapolis and new reservations offices were finished in Cleveland and New York.

NORTHWEST ORIENT AIRLINES FINANCIAL CONDITION 1968

Northwest Airlines' financial condition continues to rank among the strongest in the airline industry. Stockholders' equity amounted to $306,717,107 at year end 1968, up 16.2 per cent from $263,986,444 at the close of 1967. Book value per common share increased to $33.52 at the end of 1968, compared to $28.85 per share last year.

Outstanding debt at year end amounted to $163,000,000. During the year, Northwest's bank credit arrangements were revised to provide a maximum revolving credit of $290,000,000. Under an existing arrangement with 15 banks, the Company has outstanding $40,000,000, which is the maximum amount of this revolving credit and which credit reduces $5,000,000 quarterly beginning January 1, 1970, and terminates October 1, 1971. Under a new credit agreement with 24 banks, an additional maximum revolving credit of $250,000,000 is provided, of which the Company has borrowed $92,000,000. This agreement reduces to $230,000,000 by October 1, 1972, to $210,000,000 by October 1, 1973, to $90,000,000 by October 1, 1974 and terminates July 1, 1975.

Under the existing Note Purchase Agreement with 12 insurance companies, the Company has outstanding debt of $31,000,000. This agreement is payable $3,000,000 annually, with a final payment of $4,000,000 on October1, 1978.

The Company has on order from the McDonnell Douglas Corporation and from the Boeing Company, 48 additional jet aircraft which, with spare engines, will require expenditures of $653,286,000. These aircraft are scheduled for delivery in 1969 through 1973.

STATEMENT OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

ASSETS

	December 31 1968	December 31 1967
Current Assets		
Cash	$ 29,940,240	$ 20,688,578
Accounts receivable	36,231,208	36,584,754
Flight equipment spare parts, at average cost, less allowances for depreciation (1968—$4,430,479; 1967—$3,629,343)	13,707,079	11,204,320
Maintenance and operating supplies at average cost	3,210,903	3,123,356
Prepaid expenses	1,409,690	2,778,914
Total Current Assets	84,499,120	74,379,922
Property and Equipment		
Flight equipment at cost	582,646,236	467,859,160
Less allowances for depreciation	158,124,438	121,830,443
	424,521,798	346,028,717
Advance payments on new flight equipment—Note C	82,860,068	36,771,136
	507,381,866	382,799,853
Other property and equipment at cost	45,341,561	35,874,898
Less allowances for depreciation	19,362,555	16,559,197
	25,979,006	19,315,701
	533,360,872	402,115,554
Deferred Charges and Other Assets		
Aircraft (SST) development costs—Note F	4,700,000	—
Rentals	2,300,875	1,917,854
Other	2,677,069	2,793,096
	9,677,944	4,710,950
	$627,537,936	$481,206,426

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1968	December 31 1967
Current Liabilities		
Accounts payable	$ 37,850,144	$ 31,188,772
Employee compensation	12,239,025	7,307,207
Air travel card deposits	1,142,825	1,153,450
Unredeemed ticket liability	4,820,273	4,388,028
Income taxes	5,066,062	7,079,525
Current maturities of long-term debt	3,000,000	3,000,000
Total Current Liabilities	64,118,329	54,116,982
Long-Term Debt—Note A	160,000,000	85,000,000
Deferred Credits—Note D		
Income taxes—arising principally from accelerated depreciation methods	72,319,100	57,808,300
Investment tax credit	24,383,400	19,894,700
Other	—	400,000
	96,702,500	78,103,000
Stockholders' Equity—Note B		
Common Stock—$2.50 par value; authorized 20,000,000 shares; issued and outstanding 1968—9,149,628 shares; 1967—9,149,626 shares	22,874,070	22,874,065
Capital surplus	39,381,100	39,381,745
Retained earnings	244,461,937	201,730,634
	306,717,107	263,986,444
Commitments—Note C		
	$627,537,936	$481,206,426

See notes to financial statements.

STATEMENT OF EARNINGS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1968	**1967**
Operating Revenues		
Passenger	$301,276,511	$275,873,101
Cargo	43,902,321	38,118,101
Mail	28,604,486	26,898,284
Charter and other transportation	41,059,963	41,798,533
Nontransport	1,446,461	1,291,048
	416,289,742	383,979,067
Operating Expenses		
Flying operations	98,870,867	83,703,528
Maintenance	44,222,599	37,264,533
Passenger service	34,787,990	31,074,898
Aircraft and traffic servicing	46,030,034	39,257,146
Reservations, sales and advertising	34,351,091	29,795,392
Administrative and general	10,266,682	8,873,799
Depreciation and amortization—Note F	49,816,847	41,252,146
	318,346,110	271,221,442
	97,943,632	112,757,625
Other Income and (Deductions)		
Interest on long-term debt	(3,893,613)	(3,724,766)
Disposals of property	183,816	431,214
Other income	489,970	902,910
	(3,219,827)	(2,390,642)
Earnings Before Taxes	94,723,805	110,366,983
Taxes on Earnings, including deferred taxes and investment credit—Note D	44,672,800	51,651,000
Net Earnings for the Year	$ 50,051,005	$ 58,715,983
Earnings per share of Common Stock	$5.47	$6.42

See notes to financial statements.

STATEMENT OF RETAINED EARNINGS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1968	**1967**
Balance at beginning of year	$201,730,634	$150,470,888
Add net earnings	50,051,005	58,715,983
	251,781,639	209,186,871
Deduct:		
Cash dividends on Common Stock—1968—$.80 a share; 1967—$.70 a share	7,319,702	6,404,737
Repayment in final settlement of mail compensation for 1951, less related income taxes of $1,004,500	—	1,051,500
	7,319,702	7,456,237
Balance at end of year	$244,461,937	$201,730,634

See notes to financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1968	**1967**
Source of Funds		
Net earnings	$ 50,051,005	$ 58,715,983
Depreciation and amortization	49,816,847	41,252,146
Deferred income taxes	14,510,800	14,064,400
Investment credit	4,488,700	2,238,600
Total from Operations	118,867,352	116,271,129
Increase in long-term debt	75,000,000	—
Disposals of operating property	536,169	1,509,862
Total of Sources	194,403,521	117,780,991
Application of Funds		
Flight equipment and other property additions	109,509,921	62,407,728
Advance deposits on aircraft	69,919,222	29,834,958
SST development costs	5,500,000	—
Decrease in long-term debt	—	11,000,000
Cash dividends	7,319,702	6,404,737
Repayment of mail compensation for 1951	—	1,051,500
Other	2,036,825	1,539,537
Total of Applications	194,285,670	112,238,460
Increase in Working Capital	$ 117,851	$ 5,542,531

See notes to financial statements.

NORTHWEST AIRLINES FLEET

Aircraft Type	December 31 1967	December 31 1968	On Order
JET:			
707-320B & 320C	26	36	—
720B	16	16	—
727 & 727C-100	30	32	—
727-200	—	5	19
747	—	—	15
DC-10	—	—	14
Total Jet	72	89	48
PROP-JET: Electra	12	12	—
PISTON: DC-7C	2	—	—
Total Fleet	86	101	48

APPLICATION OF INVESTMENT TAX CREDIT

Period	Available and Utilized*	Reflected in Net Earnings†
1962-1967	$27,481,200	$ 7,586,500
1968	8,463,800	3,975,100
Total	35,945,000	$11,561,600
To Net Earnings	11,561,600	
To Be Amortized	$24,383,400	

*All investment credit amounts generated 1962-1968 have been utilized to reduce income taxes.

† Income benefits of investment credit amortized over eight-year period.

10 YEAR SUMMARY

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

(Dollars in thousands except per share figures)

	1968	1967	1966†	1965	1964	1963	1962	1961†	1960	1959
Operating Revenues										
Passenger	$ 301,277	$ 275,873	$ 216,239	$ 198,457	$ 163,807	$ 135,222	$ 121,781	$ 85,971	$ 97,680	$ 100,641
Cargo	43,902	38,118	29,515	24,779	18,402	13,745	11,828	8,443	11,368	11,881
Mail	28,605	26,898	22,557	17,421	15,313	14,233	14,228	11,701	10,711	11,219
Charter and Other Transportation	41,060	41,799	39,205	21,851	12,965	6,442	2,646	1,482	823	526
Nontransport	1,446	1,291	3,803	490	1,123	(854)	(30)	3,456	2,780	1,763
Total Operating Revenues	$ 416,290	$ 383,979	$ 311,319	$ 262,998	$ 211,610	$ 168,788	$ 150,453	$ 111,053	$ 123,362	$ 126,030
Operating Expenses										
Depreciation and Amortization	$ 49,817	$ 41,252	$ 33,195	$ 24,011	$ 22,852	$ 19,159	$ 18,445	$ 17,118	$ 14,413	$ 11,310
Other	268,529	229,969	177,469	153,140	135,627	123,713	112,802	84,213	104,455	103,811
Total Operating Expenses	$ 318,346	$ 271,221	$ 210,664	$ 177,151	$ 158,479	$ 142,872	$ 131,247	$ 101,331	$ 118,868	$ 115,121
Operating Income	$ 97,944	$ 112,758	$ 100,655	$ 85,847	$ 53,131	$ 25,916	$ 19,206	$ 9,722	$ 4,494	$ 10,909
Other Income and (Deductions)—Net	(3,220)	(2,391)	(1,243)	224	(1,125)	(4,166)	(4,578)	(2,828)	(1,882)	335
Earnings Before Taxes	$ 94,724	$ 110,367	$ 99,412	$ 86,071	$ 52,006	$ 21,750	$ 14,628	$ 6,894	$ 2,612	$ 11,244
Income Taxes	44,673	51,651	46,276	40,377	25,220	11,297	7,398	3,233	986	5,530
Net Earnings	$ 50,051	$ 58,716	$ 53,136	$ 45,694	$ 26,786	$ 10,453	$ 7,230	$ 3,661	$ 1,626	$ 5,714
Earnings per Share as Reported Each Year*	$ 5.47	$ 6.42	$ 5.81	$ 9.99	$ 5.86	$ 5.73	$ 3.97	$ 2.01	$ .89	$ 3.14
Recomputed Earnings per Share After Stock Splits*	5.47	6.42	5.81	4.99*	2.93*	1.43*	.99*	.50*	.22*	.79*
Cash Dividends	7,320	6,405	5,490	3,657	2,602	1,823	1,702	1,701	1,700	1,714
Dividends per Share as Paid Each Year*	.80	.70	.60	.80	.60	1.00	.80	.80	.80	.80
Recomputed Dividends per Share After Stock Splits*	.80	.70	.60	.40*	.30*	.25*	.20*	.20*	.20*	.20*
Stockholders' Equity	306,717	263,986	212,727	165,081	122,960	68,436	59,712	54,177	52,193	52,267
Book Value per Share as Reported Each Year*	33.52	28.85	23.25	36.08	26.91	37.51	32.80	29.76	28.70	28.74
Recomputed Book Value per Share After Stock Splits*	33.52	28.85	23.25	18.04*	13.46*	9.38*	8.20*	7.44*	7.17*	7.18*
Assets and Long-Term Debt										
Flight Property at Cost	$ 582,646	$ 467,859	$ 401,476	$ 304,072	$ 219,523	$ 176,655	$ 169,413	$ 170,772	$ 121,441	$ 104,389
Flight Property at Net Book Value	424,522	346,029	311,803	233,858	160,925	127,074	122,980	133,485	86,957	76,647
Total Assets	627,538	481,206	422,040	333,311	237,226	196,765	186,887	189,103	148,698	130,097
Long-Term Debt	160,000	85,000	96,000	72,000	45,000	64,996	74,968	90,286	68,500	50,000
Unit Expenses										
Per Available Ton-Mile	14.6¢	14.5¢	15.6¢	16.4¢	18.5¢	21.7¢	23.9¢	27.6¢	27.8¢	26.5¢
Per Revenue Ton-Mile	30.8¢	30.3¢	30.1¢	33.0¢	39.7¢	46.8¢	50.2¢	54.2¢	54.2¢	51.0¢
Per Cent of Operating Revenues	76.5%	70.6%	67.7%	67.4%	74.9%	84.6%	87.2%	91.2%	96.4%	91.3%
Statistics—Scheduled Services										
Revenue Plane Miles (000)	107,646	93,395	67,780	61,653	52,157	45,356	41,821	31,143	46,671	47,568
Available Seat Miles (000)	10,840,758	9,198,150	6,773,257	6,140,717	5,129,944	4,305,147	3,697,796	2,611,840	3,073,400	3,149,000
Revenue Passenger Miles (000)	5,458,128	4,901,520	3,699,851	3,303,809	2,668,812	2,179,208	1,904,112	1,361,790	1,653,966	1,738,138
Passenger Load Factor	50.3%	53.3%	54.6%	53.8%	52.0%	50.6%	51.5%	52.1%	53.8%	55.2%
Revenue Passengers Carried	7,173,805	6,489,295	4,963,275	4,593,462	3,663,077	2,911,914	2,437,342	1,723,667	2,139,547	2,138,970
Freight and Express Ton-Miles (000)	169,416	141,175	108,914	82,715	55,100	39,417	35,179	23,035	32,480	31,377
Total Revenue Ton-Miles (000)	836,085	709,165	533,556	452,553	351,886	284,732	254,033	182,704	217,722	225,110
Statistics—Total Operations										
Revenue Plane Miles (000)	121,077	106,197	77,715	67,125	55,477	47,207	42,718	31,658	46,963	47,732
Available Ton-Miles (000)	2,186,234	1,864,128	1,348,983	1,079,832	856,612	657,761	548,159	367,301	428,782	435,977

†Affected by major strikes in 1961 and 1966.

*Per share figures each year reflect the conversion of preferred stock as applicable in years prior to 1963. Recomputed per share figures reflect two-for-one stock splits in 1964 and 1966 and the conversion of preferred stock.

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES
December 31, 1968

Note A—Long-Term Debt

Under Note Purchase Agreements with twelve insurance companies the Company has borrowed $31,000,000 at 6% payable $3,000,000 annually and $4,000,000 on October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain certain other provisions with respect to redemption as a whole, but not from borrowed funds, at premiums ranging from 5% to 1%.

Under the Fourth Amendatory Credit Agreement with fifteen banks the Company has outstanding $40,000,000 which is the maximum amount of the revolving credit provided in the Agreement and which credit reduces $5,000,000 quarterly beginning January 1, 1970 and terminates October 1, 1971. Interest on funds borrowed is at 4¾%.

Under a credit agreement with twenty-four banks the Company has borrowed $92,000,000. This agreement provides for a revolving credit of $250,000,000 reducing to $230,000,000 by October 1, 1972, to $210,000,000 by October 1, 1973, to $90,000,000 by October 1, 1974 and terminating July 1, 1975. Interest on funds borrowed is at the prime commercial loan rate to December 31, 1970 and at ¼% above the prime commercial loan rate thereafter.

At December 31, 1968 the Company had complied with the covenants of the debt agreements.

Note B—Stockholders' Equity

The Company is authorized to issue 1,000,000 shares of Cumulative Preferred Stock, $25 par value, none of which are outstanding.

At December 31, 1968, options were outstanding for the purchase of 30,400 shares of Common Stock by Company officers and employees at prices not less than 100% of the market at date of grant. No options became exercisable or were exercised during 1968.

The Northwest Airlines 1968 Employee Stock Purchase Plan provides for the sale of Common Stock to eligible employees through payroll deductions of up to 10% of their salary not to exceed $3,000 a year. The sales price is 90% of the highest price of the Stock on the New York Stock Exchange on specified annual dates.

At December 31, 1968, there were 519,600 shares of Common Stock reserved for additional stock options and/or the Employee Stock Purchase Plan described above.

There were no changes in the common stock and capital surplus accounts during 1967. During 1968 two shares of Common Stock were issued for old outstanding rights and miscellaneous transactions reduced capital surplus by $645.

At December 31, 1968 approximately $100,598,000 of retained earnings were not restricted under provisions of the long-term debt agreements.

Note C—Commitments

The Company has contracted to purchase jet aircraft for delivery in 1969 through 1973, which with spare engines, will require expenditures of $653,286,000. Of this amount, $82,060,000 had been deposited with manufacturers at December 31, 1968 and approximately $144,653,000, $152,822,000, $79,451,000, $55,864,000 and $138,436,000 become payable during the next five years, respectively.

Annual rental payments of approximately $4,900,000 are required under various lease agreements for periods up to forty years covering airport facilities, ticket offices, etc.

Note D—Taxes on Earnings

The provision for taxes on earnings consists of the following:

	Year Ended December 31 1968	1967
Current provision	$25,673,300	$35,348,000
Deferred taxes	14,510,800	14,064,400
Deferred investment credit	8,463,800	5,355,600
	48,647,900	54,768,000
Less amortization of deferred investment credit over eight years	3,975,100	3,117,000
Total	$44,672,800	$51,651,000

Note E—Pension Plans

The Company has several pension plans covering substantially all of their employees. The plans' assets are sufficient to cover the vested benefits for all plans at December 31, 1968 and all past service costs have been funded. Total Company contributions to the plans were $5,078,348 for 1968 and $4,339,872 for 1967.

Note F—Depreciation Policy

Provision for depreciation of aircraft and related flight equipment approximated $45,495,000 for 1968 and $37,735,000 for 1967 and was computed on the straight line method assuming ten year lives and 15% residual values. $4,000,000 of SST development costs are being amortized over five years.

ACCOUNTANTS' REPORT

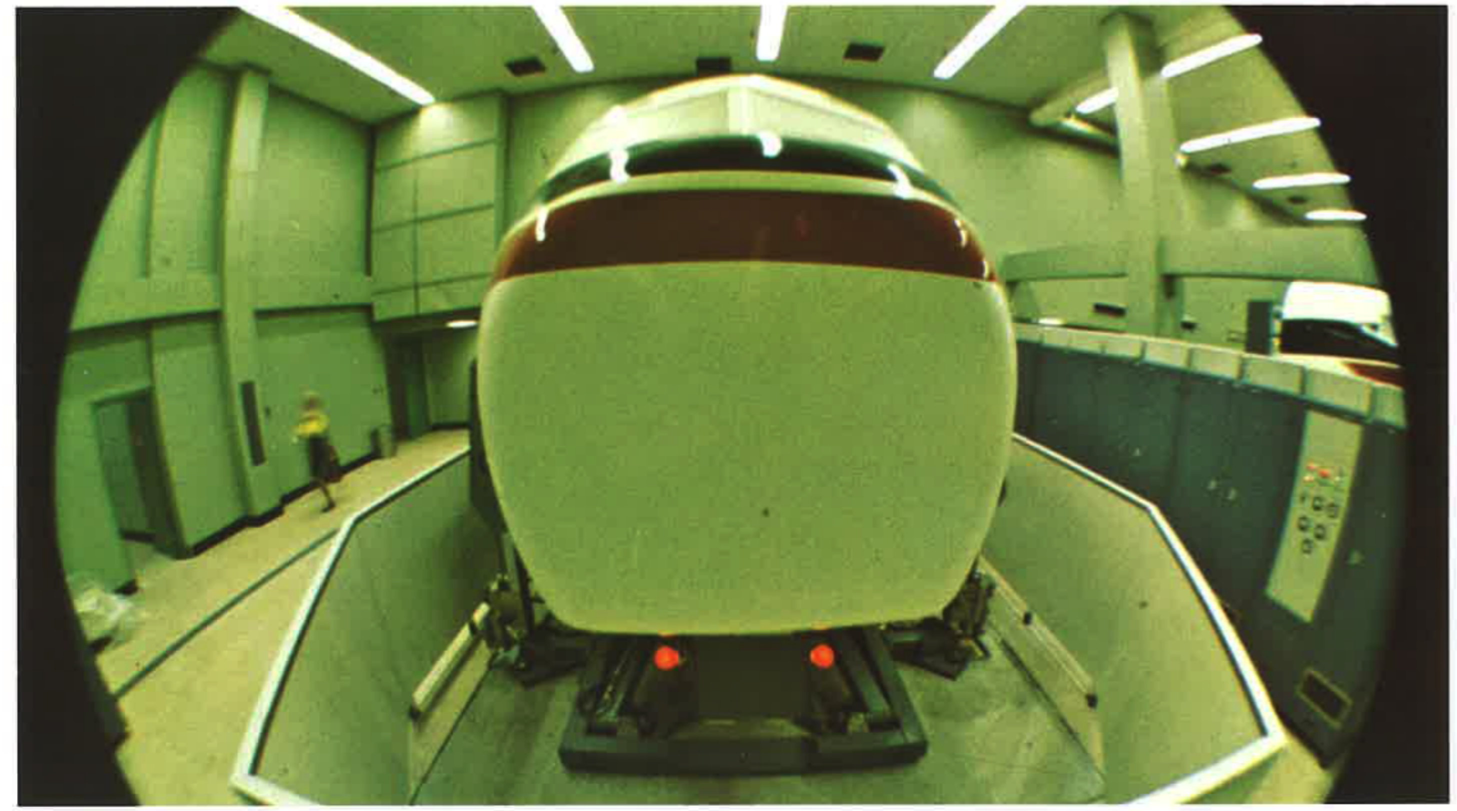
To the Stockholders and Board of Directors
Northwest Airlines, Inc.
Saint Paul, Minnesota

We have examined the statement of financial position of Northwest Airlines, Inc. and subsidiaries as of December 31, 1968 and the related statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying statements of financial position, earnings, retained earnings and source and application of funds present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiaries at December 31, 1968 and 1967 and the consolidated results of their operations, the changes in stockholders' equity, and source and application of funds for years ended those dates, in conformity with generally accepted accounting principles consistently applied.

Saint Paul, Minnesota
February 15, 1969

Ernst & Ernst
Certified Public Accountants



FLIGHT OPERATIONS IN 1968

Installed in February, 1968, the 707 and 727 flight simulators have been used in our pilot training program seven days a week, seventeen hours per day. The simulators, which are programmed to simulate aircraft navigational and mechanical functions, duplicate actual equipment motion in the approach and landing procedural patterns of all major Northwest Orient Airlines' cities.

$3 Million Saved

The cost of some $3 million for the simulators will be saved in a period of three years by releasing aircraft for revenue scheduling purposes as well as greatly reducing the noise factor over metropolitan areas near the main base.

High Standards

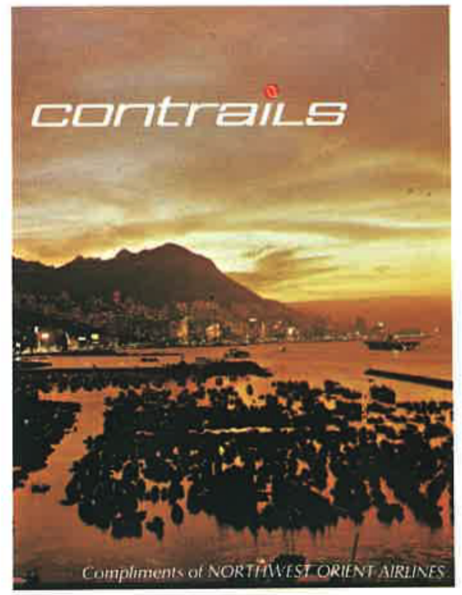
Your company has been commended for its high standards in pilot training, procedures and standards. In 1968, we continued and improved on this record by the addition of such new programs as the turbulence plot, which provides every operating flight crew with the current location and intensity of thunderstorm, and severe weather areas through dissemination of data obtained from the U.S. Weather Bureau.

Co-Captain Program

In the Co-Captain program, every new and recently rated Captain gets an additional period on the line, following training, alongside a thoroughly experienced Check Captain.

New Pilots

During 1968, we hired and trained 288 new pilots and provided transition, ground and flight training to up-grade and qualify 831 currently employed pilots to new positions or new types of equipment.



MARKETING, SALES AND ADVERTISING HIGHLIGHTS

Another record year in revenues was achieved in 1968, aided by a vigorous marketing, sales and advertising effort. Increases ranged from 6% in mail revenue to 9% in passenger revenue to 15% in freight revenue. And credit card sales rose 32% to $18,684,000.

Hawaii Market
Northwest Orient's penetration of the important Hawaii market improved substantially, with a passenger boarding increase of 19.6%.

Travel Agent Partnership
Underscoring our belief that the travel agent is our most important partner, Northwest Orient's revenue from this group reached nearly $100,000,000 in 1968—an 8.8% increase over 1967. To strengthen even further our relationship with them, 6,600 U.S. travel agency personnel participated in promotions conducted at various key locations by the Agency Sales Division. In an allied area, group tour passengers exceeded 23,000 persons—a 15% increase over the prior year.

New Concepts
Led by Northwest Orient's new Mini-Vacation concept, several new tour area promotions were introduced, such as the Ski Tour, Dude Ranch and National Parks program.

A new approach to an in-flight merchandising program was also finalized during 1968 and will be started shortly. The program will be self-sustaining and will give passengers an opportunity to purchase quality items with Northwest Orient identification and exclusive items from areas served by the airline.

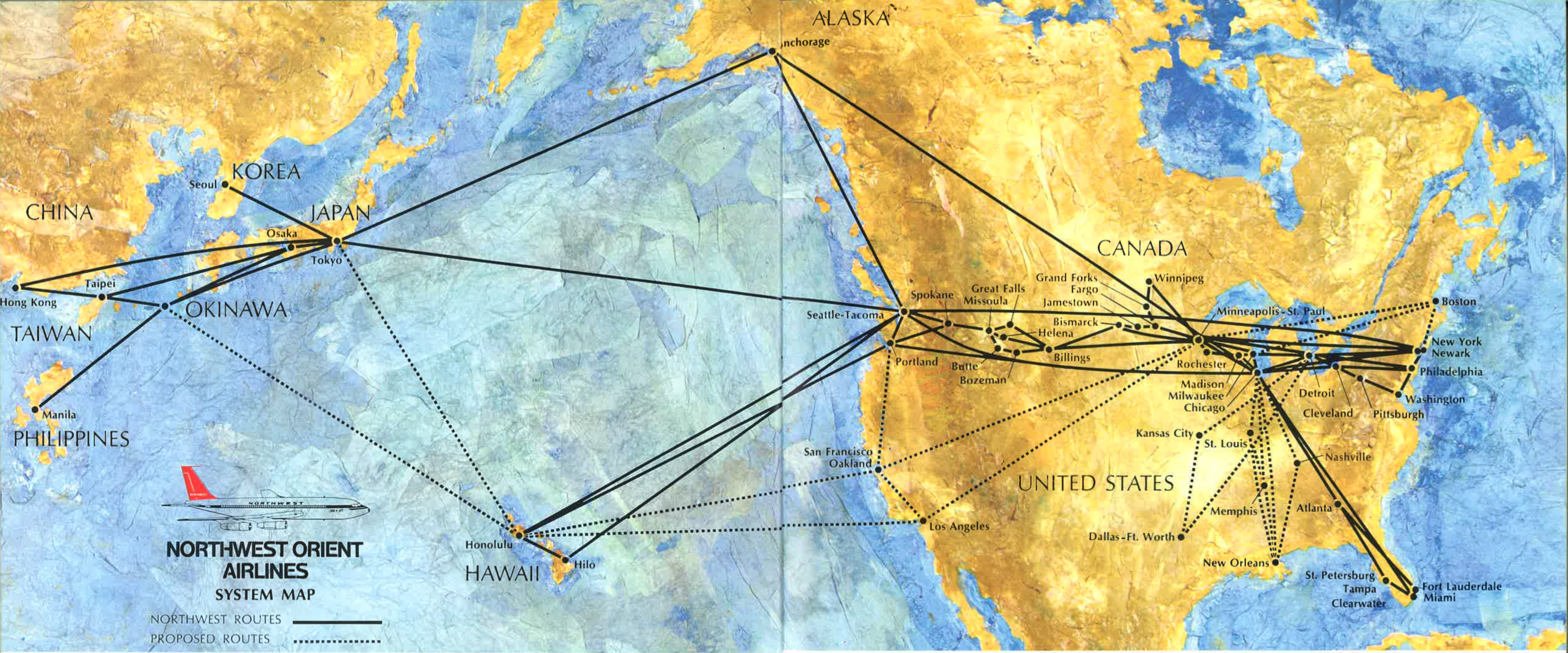
Advertising Impact
The impact of Northwest Orient's advertising was increased by changing the format of domestic newspaper advertising, featuring people rather than destination or aircraft illustrations.

A most successful newspaper advertising campaign in midwest and eastern markets resulted in some 20,000 coupons being clipped and received by travel agents.

Greater impact in advertising aimed at trans-Pacific customers was achieved by moving from black and white to four-color advertisements. The campaign was backed by four-color posters and folders in the same format.

VIP Cargo
A new and contemporary advertising campaign was launched for the VIP Cargo program. Appropriate collateral material was developed in the same format.

In-Flight Magazine
Plans were completed, and a contract signed, for a new in-flight magazine, tentatively titled East-West. This magazine will be introduced into the seat pockets of all Northwest Orient aircraft in March, 1969 and will replace a public relations brochure formerly carried.



SERVICE HIGHLIGHTS

The company's fleet was increased by 17 fan-jet aircraft during the past year. With the additional equipment, your company's program of improving its service continued at the same rapid rate of recent years. Highlights include:

1. On April 1, 1968, a new nonstop service between Fargo and Chicago was inaugurated.

2. On April 1, 1968, Northwest Orient reinaugurated service to the convenient Midway Airport in Chicago.

3. On April 27, 1968, Northwest Orient began its first nonstop service between Milwaukee and Atlanta.

4. On June 1, 1968, Northwest Orient reinstated service to LaGuardia Airport in New York.

5. Late in 1968, Northwest Orient began the following:

- First nonstop service in both directions between Minneapolis/St. Paul and Miami.
- First nonstop service between Minneapolis/St. Paul and Atlanta.
- First nonstop service between Minneapolis/St. Paul and Tampa/St. Petersburg.

6. To keep pace with the rapid growth in cargo shipments, the 727 aircraft used in all-cargo service were replaced with the larger 320C aircraft on October 30. Trans-Pacific all-cargo service was increased from 6 to 11 round trips weekly during November. In addition, all-carog service between Northwest Orient's eastern cities and Seattle/Portland was supplemented with an extension of an existing service from the Twin Cities to Seattle/Portland.

OPERATING HIGHLIGHTS OF 1968

- Northwest Orient led all U.S. airlines in net profit—first time in company's history.
- Accepted delivery of 17 Boeing jets at total purchase cost of $114 million.
- Established revolving fund credit agreement of $250 million with group of 24 banks.
- Initiated an employee stock option plan and enrolled over one-third of eligible employees.
- Reinstated service by Northwest Orient to La Guardia Airport in New York and Midway Airport in Chicago.
- Increased number of Trans-Pacific all-cargo flights from six to eleven round trips weekly.

THE 47 CITIES SERVED BY NORTHWEST ORIENT:

Anchorage	Grand Forks	Milwaukee	St. Paul
Atlanta	Great Falls	Minneapolis	St. Petersburg
Billings	Helena	Missoula	Seattle
Bismarck	Hilo	Moorhead	Seoul
Bozeman	Hollywood	New York	Spokane
Butte	Hong Kong	Newark	Tacoma
Chicago	Honolulu	Okinawa	Taipei
Clearwater	Jamestown	Osaka	Tampa
Cleveland	Madison	Philadelphia	Tokyo
Detroit	Mandan	Pittsburgh	Washington, D.C.
Fargo	Manila	Portland	Winnipeg
Ft. Lauderdale	Miami	Rochester	

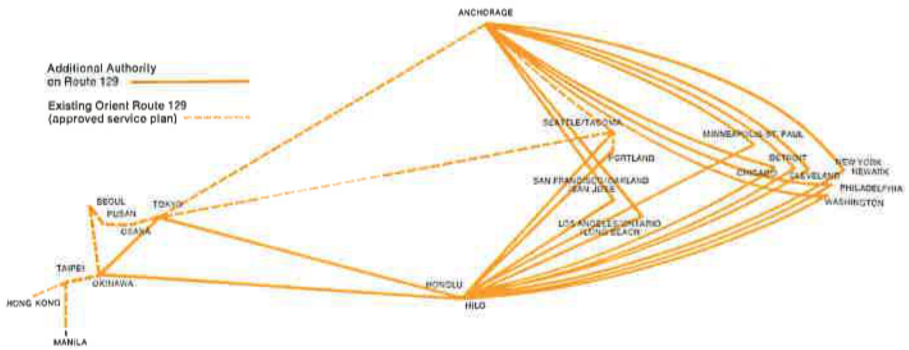
ROUTES, RATES AND SCHEDULES

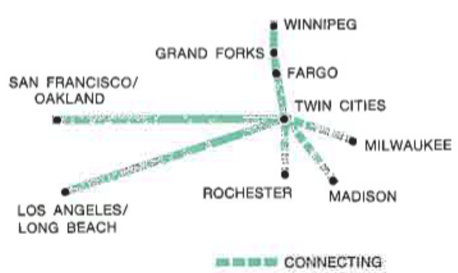
The past year has been one of the most active in the field of route proceedings in your company's 42-year history. Here is a capsule review of 1968's proceedings and their status as of March 1, 1969:

Trans-Pacific Route Investigation
On January 24, 1969, President Nixon directed the Civil Aeronautics Board to rescind their decision, subjecting the matter to his further review. Pursuant to a second letter from the President, the Board issued an Order on February 14 vacating the decision and certificates in the international phase of the case. The Board has also stayed the effective date of domestic (Hawaii) authorities until April 14, 1969. At this time there is no indication when the President will issue further instructions with regard to the Trans-Pacific Case nor is there any indication of the form such further action will take.

In the Trans-Pacific Case, Northwest Orient has been recommended for the following new authority:

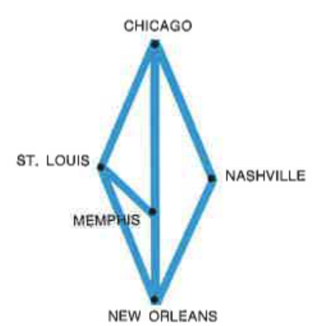
- A new Central Pacific route from the California cities of Los Angeles (served through Ontario and Long Beach Airports) and San Francisco (served through Oakland and San Jose Airports) to Hawaii and beyond Hawaii to Japan and beyond.
- On the California-Hawaii segment, local turnaround rights between the above-named airports in the San Francisco Bay area and Hawaii. Our flights proceeding from the Los Angeles area could carry Hawaii passengers but would be required to continue through Hawaii to the Orient.
- Named for coterminals New York/Newark, Philadelphia, Washington/Dulles, Cleveland, Detroit, Chicago, Twin Cities, Seattle/Portland and the California points mentioned above for authority to fly to the Orient either via Hawaii or over the Great Circle. This authority would permit routings such as New York-San Francisco-Seattle-Tokyo or New York-Chicago-Hawaii-Tokyo. The Eastern cities mentioned above were also named coterminals on Northwest's present North Pacific route, giving us the right to fly by any combination of such coterminals direct to Japan. This will be of significance in future years when flying between Chicago and the Orient on a nonstop basis will be feasible.



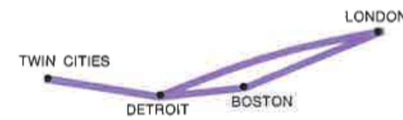


California Case
The Civil Aeronautics Board (CAB) Examiner recommended on March 18, 1968 that Northwest Orient be granted a nonstop route between Minneapolis/St. Paul on the one hand and Los Angeles and San Francisco/Oakland on the other. All procedural steps in this proceeding have been completed and it is now before the CAB for decision.

Gulf States Case
In the CAB Examiner's initial decision in the Gulf States-Midwest Points Service Investigation issued August 1, 1968, Northwest Orient was recommended for an extension of its existing routes beyond Chicago to Nashville. While the company is pleased with this recommendation, it will continue to seek authority to serve Memphis and New Orleans as an extension of its route south of Chicago as well. The matter is awaiting Board decision.

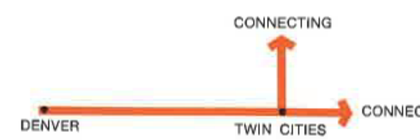


Pan Am Northwest Interchange
Approval has just been given by the CAB for an inter-change agreement between Northwest Orient and Pan American World Airways providing the first one-plane service between the Twin Cities and Europe via the route junction point of Detroit. Both companies aircraft will be used with Northwest's crews and ground control operating over Twin Cities-Detroit segment and Pan American operating Detroit-Europe.



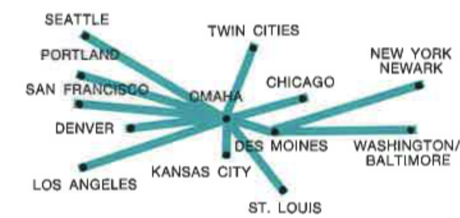
Other Proceedings
Northwest also pressed its claims to a Seattle/Portland-Kansas City-St. Louis route in the Oral Argument before the Civil Aeronautics Board on the *Pacific Northwest-California Service Investigation* held on October 23, 1967. This Case is now also awaiting Board determination.

The Company continues also to press for a *Twin Cities-Denver* route in the *Denver-Twin Cities Service Investigation.* This proceeding is also before the Board for final decision.



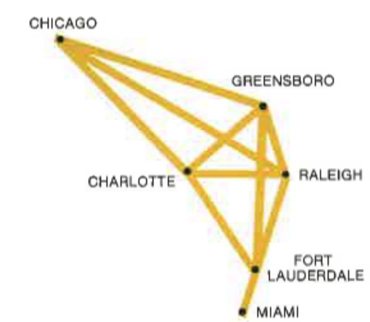
There are a number of other proceedings, all in an earlier stage of processing, in which the Company is prosecuting claims for additional route authority. Among these are:

1. *Service to Omaha and Des Moines Case.* In this proceeding, the Company seeks a network of routes extending out of Omaha and Des Moines to a number of cities in the Midwest, East Coast and West Coast markets.

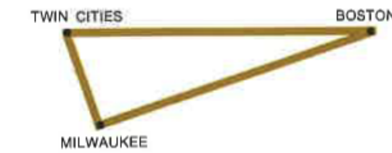


2. *Service to White Plains and Islip Case.* Northwest seeks extension of its route from its existing stations of Chicago, Cleveland and Pittsburgh to White Plains and Islip, serving the Westchester and Long Island areas.

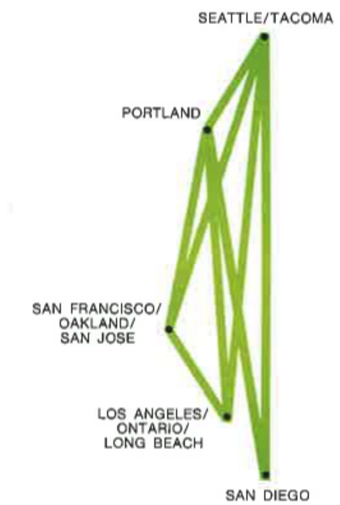
3. *North Carolina Points Investigation.* An extension of Northwest's existing routes through Chicago and north from Miami/Fort Lauderdale to the North Carolina cities of Charlotte, Greensboro/High Point and Raleigh/Durham is being applied for in this proceeding.



4. *Twin Cities/Milwaukee Long-Haul Investigation.* Northwest seeks extension of its northern transcontinental route from the Twin Cities and Milwaukee to Boston. Also, it seeks improvement of its present authority to permit non-stop flights between the Twin Cities and Philadelphia, and Milwaukee and Philadelphia.



5. *Pacific Northwest-California Investigation.* At issue for Northwest in this proceeding is a route between San Diego, Los Angeles, San Francisco/Oakland (and the satellite airports for each of these cities) and Seattle/Portland.



6. *Milwaukee Short-Haul Investigation.* Northwest seeks an extension of its existing routes from Milwaukee to Cincinnati, Columbus, Dayton, Indianapolis and Louisville.

SITES TO SEE . . . ALL ON NORTHWEST ORIENT

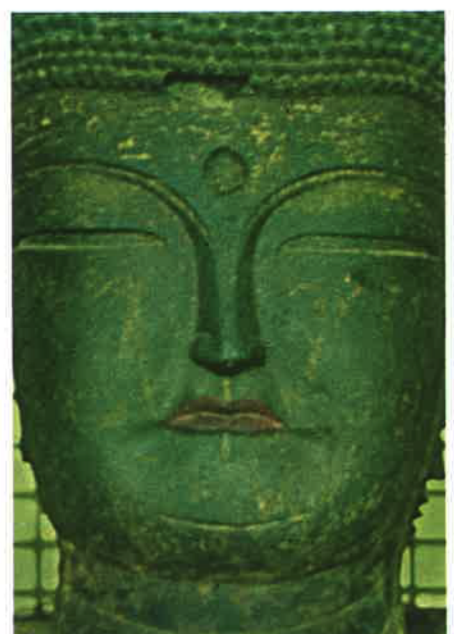
Floating restaurant at Aberdeen, Hong Kong

St. Augustine—
the oldest church in the Philippines

A stately Okinawan dancer

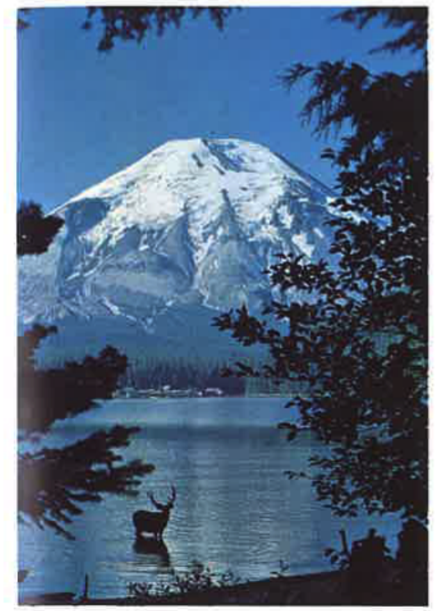
One of Japan's many beauties

An ancient sculpture in Taipei's National Gardens



Stone figure at Kyong-bok Palace—
Seoul, Korea

Majestic Mt. Rainier watches over Seattle and Tacoma



Sunny Miami Beach—
on America's "Gold Coast"

New York at night—alive with light

A true flower of beautiful Hawaii

Peach Tree Center in Atlanta, Ga.

Bird's-eye view
of downtown Chicago

The White House, Washington, D.C.

THE PEOPLE OF NORTHWEST ORIENT

To keep pace with the growth of Northwest Orient's business, your company's system employment grew from 10,200 to 11,385 persons—an increase of 1,185 over 1967. Total salaries paid in 1968 were $98,151,000. With related employee benefit costs, the total came to $108,313,000 or 26¢ of each revenue dollar.

Employee Stock Plan
Over one-third of all eligible employees elected to become participants in the Employee Stock Purchase Plan adopted by the shareholders in July, 1968 and are investing an average of 7% of their pay in their company as an expression of confidence in Northwest Orient's continued growth.

Personnel Highlights
One indication of the stability of the Northwest Orient employee 'family' is the group of 259 persons with 25 years of service who were feted in 1968.

Another sign is that sound employee relations were maintained throughout the year with the labor organizations representing more than 11,000 employees and covered by 18 different agreements. Currently, negotiations are being conducted for renewal of nine employment agreements.

As a member of the Plans for Progress and a participant in the National Alliance of Businessmen program, Northwest Orient also increased its employment of minority and disadvantaged persons in 1968.

NORTHWEST ORIENT AIRLINES

General Offices
Minneapolis-St. Paul International Airport
St. Paul, Minnesota 55111
Area Code 612 726-2111

DIRECTORS*

JAMES H. BINGER
Chairman of the Board, Honeywell Inc.
Minneapolis, Minnesota

HADLEY CASE
President, Case, Pomeroy & Company, Inc.
New York, New York

A. E. FLOAN
Secretary, Northwest Airlines, Inc.
St. Paul, Minnesota

MORTON H. FRY
Senior Partner, Riter & Company
New York, New York

CROIL HUNTER
Chairman Emeritus, Northwest Airlines, Inc.
St. Paul, Minnesota

MALCOLM S. MACKAY
President, Foothills Company
Roscoe, Montana

DONALD G. McNEELY
President, Space Center, Inc.
St. Paul, Minnesota

DONALD W. NYROP
President, Northwest Airlines, Inc.
St. Paul, Minnesota

C. FRANK REAVIS
Partner, Reavis and McGrath
New York, New York

ALBERT G. REDPATH
Partner, Auchincloss, Parker & Redpath
New York, New York

LYMAN E. WAKEFIELD, JR.
Partner, Piper, Jaffray and Hopwood
Minneapolis, Minnesota

REGISTRAR: The Chase Manhattan Bank, New York, New York

TRANSFER AGENT: Bankers Trust Company, New York, New York

STOCK LISTED: Common Stock listed on New York Stock Exchange and Midwest Stock Exchange

*As of March 1, 1969

OFFICERS*

DONALD W. NYROP
President

JAMES A. ABBOTT
Vice President-Orient Region

CLAYTON R. BRANDT
Vice President-Purchasing and Stores

ROBERT W. CAMPBELL
Vice President-Budgets

J. WILLIAM CAMPION
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