NORTHWEST ORIENT AIRLINES

1972 ANNUAL REPORT

NORTHWEST ORIENT AIRLINES

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

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, Pacific Coast Stock
Exchange and Midwest Stock Exchange

*As of March 1, 1973

HIGHLIGHTS OF 1972

	1972*	1971
Total Operating Revenues	$ 392,500,605	$ 425,519,246
Operating Income	15,098,630	18,166,420
Net Earnings for the Year	17,682,391	21,361,262
Per Common Share	.83	1.01
Stockholders' Equity	492,837,186	477,053,922
Per Common Share	22.81	22.56
Dividends Paid	9,619,967	9,517,530
Operating Expenses —		
Per Available Ton-Mile	16.9¢	14.5¢
Per Revenue Ton-Mile	49.6¢	42.1¢
Revenue Traffic —		
Passengers Carried	5,150,636	6,089,273
Passenger-Miles Flown	4,565,618,000	5,553,043,000
Ton-Miles, Mail, Freight and Express	215,474,000	258,099,000
Common Shares at Year End	21,604,136	21,149,756
Employees at Year End	10,000	10,113

*Operating results were affected by a major strike which extended from June 30 through October 2, 1972.

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Cover Photo: Northwest Orient Airlines' newest jet aircraft — the McDonnell Douglas DC 10-40. A total of 22 have been ordered.

46TH ANNUAL REPORT TO THE SHAREHOLDERS

From the President:

1972 was not a good year for Northwest Airlines when measured in terms of net earnings. The net earnings after taxes were $17,682,391 which is a decline of $3,678,871 from the net earnings of 1971.

The cause of the reduced earnings was the 95-day strike by the Airline Pilots Union which came during July, August and September, the peak traffic period for Northwest Airlines.

Financial Strength

However, Northwest Airlines' financial strength continued to improve during 1972. A review of the indicators commonly used to measure corporate vitality bears this out:

1. Northwest Airlines leads the United States air carriers in retained earnings with $341,690,000. This is nearly 100 million dollars more in retained earnings than the second-place airline.
2. Northwest Airlines on December 31, 1972 had the lowest debt to equity ratio of all United States airlines. The debt at year end was $211,000,000 and the equity was $493,0000,000 – a ratio of 42.8%.
3. Northwest Airlines does not have any jet airplanes under lease arrangements – its entire fleet of 109 aircraft is owned by the Company. This is most unusual in the airline industry today.
4. Northwest Airlines has one of the most conservative accounting methods for depreciating its aircraft. All wide-bodied jets are depreciated over a 15-year period with a 10% residual, and all Boeing 727 and Boeing 320 airplanes are depreciated over a 10-year period with a 15% residual. This conservative practice provided a cash flow from depreciation and amortization of $81,054,000 in 1972 and represents 20.6% of operating revenues.
5. Northwest Airlines has paid quarterly dividends for eighteen consecutive years. The amount of dividend payments to shareholders in 1972 was $9,620,000.

Equipment Advantage

On November 10, 1972 Northwest Airlines accepted delivery of the first long-range DC 10-40. During the year 1972 Northwest Airlines exercised its option for eight additional DC 10-40's and the Company now has purchase contracts for 22 such airplanes.

The DC 10-40 is unique because it is powered with the same time-tested Pratt & Whitney JT9D engine that is used on Northwest Airlines' fleet of 15 Boeing 747's. By ordering this engine, Northwest avoided the problems that are commonly associated with the introduction of newly developed powerplants. This engine standardization results in increased operating efficiencies and reduced training and spare part costs.

A decision to convert the early Pratt & Whitney JT9D-3 engines used on the Boeing 747's to the more powerful and reliable JT9D-7 engine was made in March 1972. This program is now two-thirds completed and will be finished by August 1973.

Sale of Airplanes

As the Boeing 747's and the new DC 10-40's have been delivered into the fleet, some of the older and more fully depreciated aircraft have been sold. Twelve jet airplanes were sold in 1972 for $24,935,000. All were sold for cash. The Company now has firm contracts for the sale of 10 jet airplanes in 1973. The deliveries are spaced throughout the year as additional DC 10-40's are delivered.

Merger Agreement Cancelled

On November 28, 1972, the Board of Directors of National Airlines advised Northwest Airlines that it had taken unilateral action to terminate the Northwest-National Merger Agreement. Northwest Airlines does not have under consideration any merger proposals at this time.

Strike by The Pilots' Union

The Airline Pilots Union rejected a Company offer of a 26.7% average increase in wages and benefits over a three-year period and the Company was struck on June 30th. During negotiations after the strike commenced, the Company increased its offer to 29.5% on July 5th. This latest offer was finally accepted on October 2nd and the strike ended after 95 days.

The Federal Pay Board has now ruled that the 12.3% increase which was to be granted for the "control year" commencing on July, 1972, pursuant to the terms of the labor agreement, must be reduced to an increase of not more than 6.2%. Agreement has been reached with the pilots union in accordance with the ruling of the Pay Board.

Service to China

Northwest Airlines' operating authority to serve the cities of Shanghai, Peking, Nanking, Shenyang, Ha-erh-pin and Lu-ta, granted by the Civil Aeronautics Board on July 20, 1946, has been validated by legal opinon. It does not appear likely that Northwest can resume in 1973 the service to China that the Company provided from 1947 to 1949. However, Northwest's Management remains enthusiastic about the prospect of renewing trade and commerce with the People's Republic of China and the commencement of air services in the future.

Continuing Corporate Concern

The seniority recall of most employees who were idled by the strike is nearly complete and therefore the Company is able to resume the recruitment program for new employees. Additional progress is being made in the employment and promotion of minorities.

Northwest's continuing efforts in the environmental areas have produced good results. For example, the jet engine retro-fit program on the JT8 engine is more than 80% complete at this time. This program virtually eliminates the exhaust smoke from the Boeing 727 airplanes. A recent report by the Presidential Aviation Advisory Commission commends Northwest Airlines' flight procedures that effectively reduce aircraft noise in the vicinity of airports and the report recommends the adoption of these procedures by other United States airlines.

Forecast for 1973

New labor agreements have been signed with nearly all labor organizations represented on the airline. The Company anticipates stability in this area in the year ahead.

Inflationary pressures will continue in 1973 on all such items as jet fuel, landing fees, contract labor settlements, and materiel purchases.

It is expected that passenger traffic and freight traffic on an industry basis will increase ten to twelve percent in 1973 over 1972. This growth in traffic, together with the recovery of revenues lost during the strike, will make 1973 a successful year for Northwest Airlines.

Sincerely,

Donald W. Nyrop

Donald W. Nyrop

March 15, 1973

The most sophisticated flight simulator yet developed is the DC 10-40 simulator shown here, housed at Northwest Orient's flight services building in the Twin Cities. Heart of the closed circuit TV visual system is the terrain diorama, 60 feet long and 22 feet high.

Behind Scenes Support for DC 10-40 Requires New Equipment & Skills

Arrival of a new type aircraft like the DC 10-40 must be preceded by careful planning if the airplane is to be introduced smoothly into scheduled service.

There is a requirement for both supporting 'hardware' and for training of personnel.

Personnel Training

Training is needed for a host of individuals – the pilots, the cabin attendants, the ramp service and cargo personnel, the mechanics and technicians.

A new DC 10-40 flight simulator, a $3.2 million investment, is the key to flight crew training. The most sophisticated system ever developed for airline use, the Mark V simulator uses a closed circuit color television camera tracking over a huge terrain diorama.

Use of the new simulator greatly reduced the time required for pilot transition training and reduces the need to fly actual aircraft for training.

A view of the simulator cockpit, which is identical in every respect to that of the actual DC 10-40 cockpit.

Proving Flight

Before the DC 10-40 was introduced into scheduled service, the Federal Aviation Administration requirements called for completion of a successful 'proving flight'. This was conducted December 9-11 and saw the aircraft visit Tampa, Miami, Milwaukee, New York, Philadelphia, Detroit, Chicago, Seattle, Portland, Spokane and the Twin Cities.

This proving flight, termed by FAA officials involved as the most successful ever staged by NWA, provided necessary orientation and training for other personnel.

Automation is used increasingly in the airline industry. Here, LD-3 cargo containers are being loaded into the DC 10-40 by an NWA employee using a Clyde hydraulic loader. Use of sealed containers minimizes damage, provides greater security and increases ease of handling.

Standardization Important

One of the strong management beliefs of Northwest Airlines is to standardize whenever possible.

Thus, the same cargo containers and the same loading equipment are used for the DC 10-40 and the 747. This has saved time for shippers and expense for the airline.

Another area where standardization has proved important is in the commonality of the Pratt & Whitney JT9D engines to both the DC 10-40 and the 747.

With spare engines costing over $1,000,000 each, the great saving is immediately evident. Additional savings flow from less time required for training of pilots, mechanics and technicians.

Computer Break-Through

An industry 'first' was recorded by Northwest Orient in the field of computer technology in 1972.

The airline's Insta-Res, a computerized reservation system featuring a passenger name record, became the first in the industry to produce computer generated, magnetically encoded flight coupons. This completely eliminates the need for any handwriting by ticket agents and forms the basis for future automation of many other passenger services.

Bright Future

The DC 10-40 was introduced into scheduled service on December 13 with daily round trip service between the Twin Cities and Tampa/St. Petersburg via Milwaukee.

With the delivery of the fourth aircraft on February 16, additional daily service was announced for March 1 between the Twin Cities, via Chicago, to Tampa/St. Petersburg and to Fort Lauderdale, via Chicago. Daily non-stop service began March 15 between the Twin Cities and San Francisco.

Based on the enthusiastic response it has already received, the DC 10-40 has a bright future with Northwest Orient Airlines.

The same engine – the Pratt & Whitney JT9D – powers both NWA's 747's and DC 10's. This standardization gives the airline many savings in both time and expense. In these photos, two mechanics are completing overhaul of a JT9D engine while another performs a routine check on the engine on a 747.

Northwest Orient's computerized passenger name record reservations system, called Insta-Res, is the most advanced in the industry today. Here, reservation sales agents at the Twin Cities general office are aided by miniature TV monitors which display complete information on the screen when called for by the operator.

FINANCIAL REVIEW OF 1972

Revenues

The total operating revenues for 1972 amounted to $392,500,605 compared with $425,519,246 in 1971. This reduction in revenue resulted from the major curtailment of operations during the pilot strike, June 30 through October 2, 1972. Therefore, comparisons of the individual revenue categories with the prior year are not meaningful.

The operating revenues for 1972 included mutual aid – net of payments to others – $43,629,192. The Civil Aeronautics Board (CAB), on November 23, 1970, issued an order remanding for review, only the amended portion of the Mutual Aid Agreement which provided for an increased level of supplemental payments. After further hearing, the CAB, on February 27, 1973, again approved the Amendments to the Mutual Aid Agreement retroactive to the effective date of such amendments and for a future period of five years. This had the effect of reapproving all payments made under the new provisions.

In April 1972, the Civil Aeronautics Board approved IATA agreements which provided for fare increases for trans-Pacific travel and for travel between foreign ports, approximating 8%. The CAB, in the Domestic Passenger-Fare Investigation, approved a 2.7% increase in domestic fares effective in September 1972. The system passenger-mile yield increased to 6.09¢ or 1.8% over the yield of 5.98¢ in 1971, however, passenger-mile yields continue to be diluted by increased use of tourist and promotional fares. Other phases of the domestic fare investigation are still pending and final decisions are not expected until late in 1973. As a result of court action brought against the CAB, the Board has under review the domestic passenger fare levels which were charged between October 1, 1969 and October 14, 1970. The hearing examiner has concluded that the fares were lawful; however, the CAB will review this decision and it is expected that a final ruling will be released during 1973.

A Domestic Air Freight Rate Investigation which began in 1971 is still in preliminary procedural steps with a formal hearing now scheduled for October 1973. Domestic mail and express rates are also open and procedural steps are progressing with a hearing scheduled for September 1973. No final decision is expected in either case until 1974. It is anticipated that rate improvements will result from both of these investigations.

Revenues from charter and other transportation were $20,008,467 in 1972. This revenue included $5,819,140 from commercial charters and other income and $14,189,327 from military charters. The Military Airlift Contract expires on June 30, 1973 and we will seek a renewal contract for the Government's 1974 fiscal year.

Expenses

Operating expenses in 1972 were reduced as a result of the strike and amounted to $377,401,975 compared with $407,352,826 in 1971.

Depreciation and amortization expenses amounted to $81,054,263 in 1972 compared with $77,245,465 in 1971. This increase is primarily the result of fifteen 747 aircraft being depreciated in 1972 for the full year, whereas five of these aircraft were delivered during the year in 1971. Inflationary trends continue to increase costs in the airline industry, including wages, rentals, services and costs of material and supplies.

Operating expenses per available ton-mile increased in 1972 to 16.9¢ compared with 14.5¢ in 1971. Productivity improvements anticipated with the 747 equipment do not show in the 1972 unit costs as they were offset by the effect of the strike. Pre-strike unit costs for the first six months of 1972 were 14.3¢ per available ton-mile.

Earnings and Dividends

Net earnings for 1972 amounted to $17,682,391, or $.83 per average share of common stock outstanding compared with $21,361,262 or $1.01 per share in 1971.

Interest on long-term debt in 1972 declined to $8,355,485 from $13,050,806 in 1971. Gain on disposals of property before tax application, increased to $9,923,380 from $6,198,195 a year ago.

The Company has continued its dividend policy even though many airlines have discontinued such payments. Dividends in 1972 amounted to $.45 per common share and represented the 18th consecutive year in which Northwest Airlines has paid dividends.

Taxes on Earnings

Taxes on earnings in 1972 resulted in a net credit of $429,300 compared with a net credit of $9,561,000 in 1971. The income tax credit is made up of the normal tax provision including current and deferred taxes amounting to $8,856,300, less additional benefits for carryback to federal surcharge years amounting to $1,602,800, resulting in a net provision of $7,253,500. Investment tax credits recorded in 1972 of $7,682,800 were deducted from the normal income tax provision, resulting in a net tax credit of $429,300.

The Company continues to use accelerated methods of depreciation for computation of income tax payments.

Investment tax credits which could not be applied to income tax returns, but which were offset against deferred income taxes, total $20,909,900 for 1972 and prior years. (See Note E to Financial Statements).

Cash Flow

Funds generated from operations in 1972 totaled $102,100,154 which included net earnings, depreciation and amortization, deferred income taxes and deferred investment tax credit. Other funds generated totaled $155,594,836 coming principally from the Employee Stock Purchase Plan, disposals of operating property, and from a new long-term debt arrangement with banks.

Application of funds in 1972 totaled $286,943,387 and is made up primarily of re-payment of the prior long-term debt arrangement with banks, additions of flight equipment and other property, advance deposits on aircraft, and dividend payments. (See Statement of Changes in Financial Position, Page 14).

Traffic and Services

Traffic results in 1972 show reductions in all areas in comparison with 1971, reflecting the effect of the strike. Traffic data for the two calendar years are shown on page 20; but, as noted, specific item comparisons would not be meaningful.

Passenger traffic recovered rapidly after the end of the strike and in December 1972, scheduled passenger-miles flown exceeded those of 1971 by .9%. By February 1973, passenger-miles were up 4.3% over 1972 despite one less day in the 1973 month.

New services have been inaugurated to increase traffic. Late in 1972, Northwest Airlines received the first two McDonnell Douglas DC 10-40 jet aircraft. This new wide-bodied airplane was put into service between the Twin Cities/Milwaukee and Tampa and between the Twin Cities/Chicago and Florida for the winter vacation season. The DC 10-40 was put into service between the Twin Cities and San Francisco during March 1973, and additional flights will be added in east-west transcontinental markets to improve our competitive position in key city pairs. Early traffic response has been most satisfactory.

In June the DC 10-40 will be assigned to fly the *Orient Express*, replacing narrow-bodied flights in the Washington-Chicago-Anchorage-Tokyo-Korea markets. With inauguration of this service, Northwest Airlines will be the first carrier to offer its entire trans-Pacific passenger schedule in modern wide-bodied equipment.

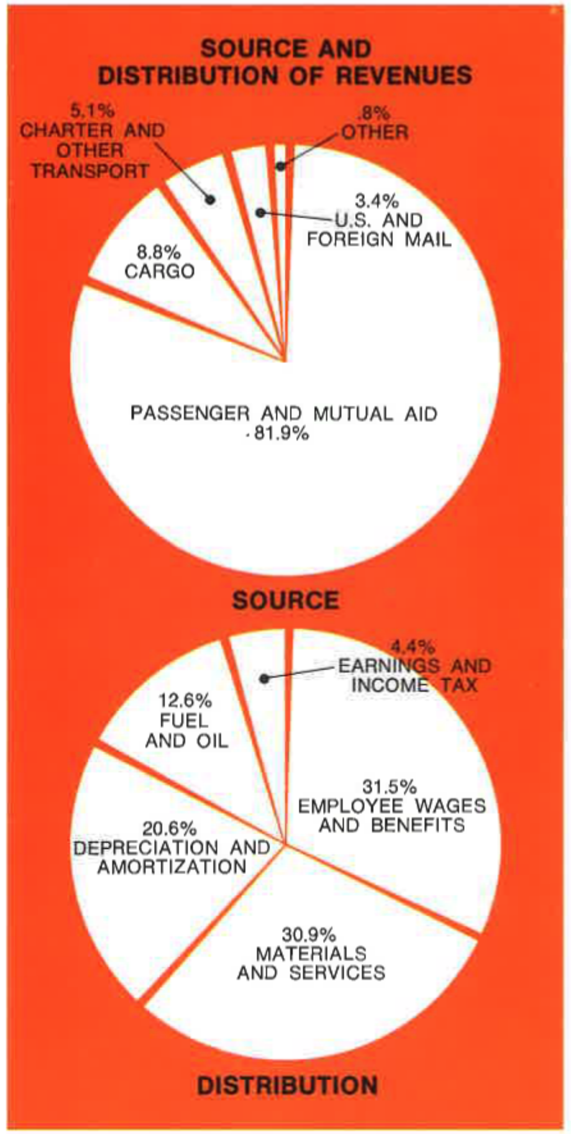
Financial Condition

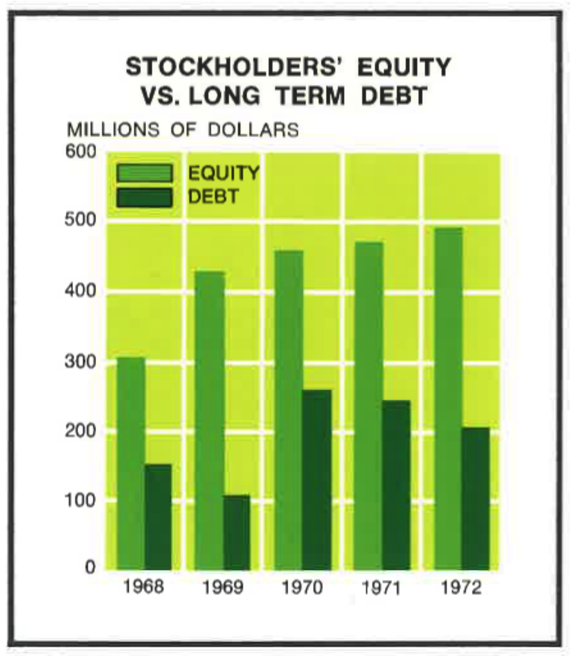
The financial condition of Northwest Airlines continues to be one of the strongest in the airline industry.

In December 1972, the Company rearranged the Credit Agreement with its banks. The new agreement provides for a $100 million long-term credit with repayment beginning in April 1981 and terminating in January 1983. It also provides for a revolving credit of $250 million, reducing $20 million quarterly beginning July 1976 and terminating April 1979. Other previously arranged financial commitments remained in effect and totaled $79 million at year end. (See Note B to Financial Statements). Outstanding debt at year end amounted to $211 million or 42.8% of stockholders' equity. This preferential debt equity ratio is one of the lowest, if not the lowest, of the U.S. trunkline carriers.

Stockholders' equity at December 31, 1972 was $492,837,186 compared with $477,053,922 at the end of 1971. The book value per average common share increased to $22.81 from $22.56 a year ago.

At year end the Company had on order an additional 20 DC 10-40 wide-bodied aircraft from the McDonnell Douglas Corporation. This will require an expenditure of $422,120,000 of which $74,117,000 has been deposited with manufacturers at December 31, 1972. Internally generated funds and the existing financial arrangements will cover the purchase of all aircraft on order. These new aircraft are scheduled for delivery in 1973 through 1975.





Northwest Orient's all jet fleet totals 109 aircraft

15 BOEING 747'S

Statistics:
Length, 231 ft.; range, 5,850 miles with 362 passengers; cruising speed, 585 mph; cruising altitude, 45,000 feet max.

2 DOUGLAS DC 10-40'S*

Statistics:
Length, 182 ft.; range, 5,100 miles with 242 passengers; cruising speed, 555 mph; cruising altitude, 42,000 feet max.

*20 additional aircraft on order.

30 BOEING 320B/C'S

Statistics:
Length, 153 ft.; range, 5,620 miles with 142 passengers; cruising speed, 550 mph; cruising altitude, 42,000 feet max.

6 BOEING 720B'S

Statistics:
Length, 137 ft.; range, 3,600 miles with 109 passengers; cruising speed, 565 mph; cruising altitude, 42,000 feet max.

24 BOEING 727-200'S

Statistics:
Length, 153 ft.; range, 1,760 miles with 122 passengers; cruising speed, 570 mph; cruising altitude, 42,000 feet max.

32 BOEING 727-100'S

Statistics:
Length, 133 ft.; range, 2,380 miles with 93 passengers; cruising speed 570 mph; cruising altitude 42,000 feet max.

STATEMENT OF EARNINGS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31	
	1972*	**1971**
Operating Revenues		
Passenger	$277,890,978	$331,966,391
Cargo	34,694,315	39,641,301
Mail	13,309,095	19,442,669
Charter and other transportation	20,008,467	31,588,334
Mutual Aid Agreement – Note H	43,629,192	(461,889)
Nontransport	2,968,558	3,342,440
	392,500,605	425,519,246
Operating Expenses		
Flying operations	100,642,511	122,181,445
Maintenance	47,503,176	47,936,083
Passenger service	33,462,312	39,009,954
Aircraft and traffic servicing	62,170,832	65,332,134
Reservations, sales and advertising	38,410,180	41,373,888
Administrative and general	14,158,701	14,273,857
Depreciation and amortization – Note G	81,054,263	77,245,465
	377,401,975	407,352,826
	15,098,630	18,166,420
Other Income and (Deductions)		
Interest on long-term debt	(8,355,485)	(13,050,806)
Disposals of property	9,923,380	6,198,195
Other	586,566	486,453
	2,154,461	(6,366,158)
Earnings Before Taxes	17,253,091	11,800,262
Taxes on Earnings, including deferred taxes and investment credit – Note E	(429,300)	(9,561,000)
Net Earnings for the Year	$ 17,682,391	$ 21,361,262
Average shares of Common Stock outstanding during the year	21,361,255	21,149,756
Earnings per share of Common Stock	$ .83	$1.01

*Operating results in 1972 were affected by a strike which extended from June 30, 1972 through October 2, 1972 – see Note H

See notes to financial statements.

STATEMENT OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

ASSETS

	December 31 1972	1971
Current Assets		
Cash and short-term investments	$ 23,340,648	$ 42,468,318
Accounts receivable	41,012,970	43,303,034
Recoverable federal income tax	7,901,803	15,394,400
Flight equipment spare parts, at average cost, less allowances for depreciation of $7,141,035 (1971 – $6,662,645)	18,785,638	15,985,804
Maintenance and operating supplies at average cost	4,457,932	4,441,808
Prepaid expenses	1,924,095	3,608,902
Total Current Assets	97,423,086	125,202,266
Property and Equipment		
Flight equipment at cost	1,008,040,777	1,012,567,920
Less allowances for depreciation	326,020,308	303,134,687
	682,020,469	709,433,233
Advance payments on new flight equipment – Note D	74,117,238	41,130,050
	756,137,707	750,563,283
Other property and equipment at cost	94,805,390	90,327,722
Less allowances for depreciation	37,254,176	31,394,624
	57,551,214	58,933,098
	813,688,921	809,496,381
Deferred Charges and Other Assets		
Training and development costs	3,139,391	3,337,857
Rentals	4,062,435	4,003,320
Other	2,103,681	2,261,709
	9,305,507	9,602,886
	$920,417,514	$944,301,533

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1972	1971
Current Liabilities		
Accounts payable	$ 53,330,067	$ 56,299,152
Employee compensation	18,486,358	15,535,334
Air travel card deposits	1,009,800	1,056,125
Unredeemed ticket liability	7,556,029	6,419,023
Income taxes	1,123,974	727,377
Current maturities of long-term debt	3,000,000	3,000,000
Total Current Liabilities	84,506,228	83,037,011
Long-Term Debt - Note B	208,000,000	252,500,000
Deferred Credits - Note E		
Income taxes – arising principally from accelerated depreciation methods	127,875,900	120,727,300
Investment credit	7,198,200	10,983,300
	135,074,100	131,710,600
Stockholders' Equity - Note C		
Common Stock $1.25 par value; authorized 40,000,000 shares; issued and outstanding 21,604,136 shares (1971 – 21,149,756 shares)	27,005,170	26,437,195
Capital surplus	124,140,834	116,987,969
Retained earnings	341,691,182	333,628,758
	492,837,186	477,053,922
Commitments - Note D		
	$920,417,514	$944,301,533

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31	
Source of Funds	**1972**	**1971**
Net earnings	$ 17,682,391	$ 21,361,262
Items not requiring current funds:		
Depreciation and amortization	81,054,263	77,245,465
Deferred income taxes	7,148,600	11,589,200
Deferred investment credit	(3,785,100)	(4,390,000)
Total from Operations	102,100,154	105,805,927
Sale of Common Stock, less expenses	7,720,840	—
Issuance of long-term debt	133,500,000	34,585,365
Disposals of operating property — book value	14,373,996	12,364,883
Refund of SST development cost	—	5,500,000
Total of Sources	257,694,990	158,256,175
Application of Funds		
Flight equipment and other property additions	58,156,479	87,330,076
Advance deposits on aircraft	39,530,611	23,166,916
Deferred DC 10-40 (Boeing 747 in 1971) training costs	665,534	1,287,427
Cash dividends	9,619,967	9,517,530
Payment of long-term debt	178,000,000	43,000,000
Other	970,796	1,345,993
Total of Applications	286,943,387	165,647,942
Increase (Decrease) in Working Capital	($ 29,248,397)	($ 7,391,767)
Changes in Working Capital Consist of:		
Increase (decrease) in current assets:		
Cash and short-term investments	($ 19,127,670)	($ 9,057,077)
Receivables	(9,782,661)	9,264,655
Inventories	2,815,958	1,488,616
Prepaid expenses	(1,684,807)	1,459,419
	(27,779,180)	3,155,613
Increase (decrease) in current liabilities:		
Current maturities of long-term debt	—	(15,000,000)
Accounts payable	(2,969,085)	17,922,737
Other accrued liabilities	3,301,296	3,339,289
Unredeemed ticket liability	1,137,006	4,285,354
	1,469,217	10,547,380
Increase (Decrease) in Working Capital	($ 29,248,397)	($ 7,391,767)

See notes to financial statements.

STATEMENT OF STOCKHOLDERS' EQUITY

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings
Balance January 1, 1971	21,149,756	$26,437,195	$116,987,969	$321,785,026
Net earnings for the year				21,361,262
Cash dividends — $.45 a share				(9,517,530)
Balance December 31, 1971	21,149,756	26,437,195	116,987,969	333,628,758
Shares issued pursuant to:				
Employee Stock Purchase Plan	452,598	565,748	7,089,826	
Employee Stock Option Plan	1,782	2,227	63,039	
Net earnings for the year				17,682,391
Cash dividends — $.45 a share				(9,619,967)
Balance December 31, 1972	21,604,136	$27,005,170	$124,140,834	$341,691,182

See notes to financial statements.

APPLICATION OF INVESTMENT TAX CREDIT

Period	Available*	Reflected in Net Earnings†
1962-1971	$70,699,600	$59,716,300
1972	3,897,700	7,682,800
Total	$74,597,300	$67,399,100
To Net Earnings	67,399,100	
To Be Amortized	$ 7,198,200	

* Investment credits not applied on tax returns but offset against deferred taxes through 1972, amount to $20,909,900. See Note E to financial statements.

† Income benefits of investment credit generated in 1962-68 are amortized over an eight year period. The flow-through method of accounting was adopted for investment credit generated after 1968 and the income benefits have been reflected in the year generated.

NORTHWEST AIRLINES FLEET

Aircraft Type	December 31 1971	December 31 1972	On Order
JET:			
707-320B & 320C	33	30	—
720B	13	6	—
727 & 727C-100	32	32	—
727-200	24	24	—
747	15	15	—
DC 10-40	—	2	20
Total Jet	117	109	20

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

Years Ended December 31, 1972 and 1971

Note A - Accounting Policies

A summary of certain accounting policies of the Company which have been consistently followed in preparing the accompanying financial statements is set forth below:

Consolidation

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

Flight Equipment and Property

Provision for depreciation is computed by the straight line method over the estimated useful lives of the assets. For aircraft the calculation assumes ten year lives and 15% residual values, except as to 747 and DC 10 jet aircraft as to which the lives are fifteen years and 10% residual values. Useful lives of buildings vary from 5-30 years and other equipment 4-10 years.

Allowances for depreciation of flight equipment spare parts, rotables and assemblies are provided by the straight line method at rates which allocate the cost of these assets, less residual value, over the estimated useful lives of the related aircraft.

The Company charges to operating expense when incurred, all expenditures for maintenance and repairs and minor renewals and betterments. Expenditures which materially increase values or extend useful lives are generally capitalized. Carrying amounts of assets sold or otherwise disposed of are eliminated from the accounts in the year of disposal and the resulting gain or loss reflected in operations.

The Company capitalizes interest on borrowings related to the acquisition of aircraft until such time as the aircraft is delivered. The capitalized interest is amortized over the useful life of the aircraft.

For income tax purposes, accelerated depreciation methods are used and interest is not capitalized.

Training and Development Costs

The Company defers preoperating expenses of new aircraft fleets (principally training) and amortizes such costs over future periods to be benefited, generally five years.

Pension Plans

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

Taxes on Earnings

Taxes are provided for all items included in the statement of earnings regardless of the years when such items are reported for tax purposes. Deferred income taxes result primarily from accelerated depreciation methods and non-capitalization of interest costs related to aircraft acquisitions for tax purposes.

Since 1969, the Company has used the flow-through method of accounting for the investment credit. Investment credits not applied on tax returns are offset against deferred income taxes to the extent they are applicable to deferred taxes becoming payable in the carryover periods. No change has been made in accounting for investment credits arising prior to 1969 which are amortized over eight years from the dates the credits arose.

Earnings Per Share

Earnings per share are based on the average number of shares of Common Stock outstanding during each year. Shares issuable upon exercise of stock options and under the Employee Stock Purchase Plan are excluded from the computation since their effect is not significant.

NOTES TO FINANCIAL STATEMENTS (Cont'd)

Note B - Long-Term Debt	December 31 **1972**	**1971**
1972 Revolving Credit Agreement with banks provides for revolving credit of $250 million reducing $20 million quarterly beginning July 1, 1976 and terminates April 1, 1979. Interest on funds borrowed is at ¼% above prime commercial loan rate prior to July 1, 1976 and ½% above thereafter (interest rate currently 6¼%)	$ 32,000,000	$ —
1972 Term Credit with banks is payable $12.5 million quarterly beginning April 1, 1981 and terminates January 1, 1983. Interest is based on a formula related to prime commercial loan rates and is currently 7.15%; however, total interest paid shall not exceed 7⅞% per annum on borrowings over the term of the loan	100,000,000	—
1968 Revolving Credit Agreement with banks paid during 1972; interest at ¼% above prime commercial loan rate	—	175,000,000
Note purchase agreements with twelve insurance companies are payable $3,000,000 annually and terminate on October 1, 1978. Interest is at 6% per annum. 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 not to exceed 2%	19,000,000	22,000,000
Credit agreements with aircraft and aircraft engine manufacturers provide for financing of purchases from those manufacturers through the issuance of five-year notes to aggregate not more than $60,000,000	60,000,000	58,500,000
	211,000,000	255,500,000
Less amounts due within one year included in current liabilities	3,000,000	3,000,000
	$208,000,000	$252,500,000

The Company had complied with the covenants of the debt agreements at the end of both years. The payment of dividends is limited to $50,000,000 plus 75% of net earnings (as defined) from January 1, 1973.

The aggregate repayment of the outstanding long-term debt over the years 1974 through 1977 is $3,000,000, $26,915,000, $37,585,000 and $4,500,000, respectively.

Note C - Stockholders' Equity	Shares **1972**	**1971**
Cumulative Preferred Stock, $25 par value:		
Authorized	1,000,000	1,000,000
Issued December 31	None	None
Common Stock options for officers and employees at prices ranging from $32.375/36.625 a share which were not less than 100% of market at date of grant:		
Outstanding	69,986	71,768
Became exercisable during year	4,300	24,167
Exercised	1,782	None
Exercisable at end of year (options for 55,752 shares lapsed January 29, 1973)	69,986	67,468
Common shares reserved for additional stock options and/or the Employee Stock Purchase Plan at December 31	340,150	792,748

NOTES TO FINANCIAL STATEMENTS (Cont'd)

Note C - Stockholders' Equity (Cont'd)

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 sale price is 90% of the highest price of the stock on the New York Stock Exchange on specified annual dates. The plan terminates May 19, 1973.

Note D - Commitments

At December 31, 1972 the Company has contracted to purchase jet aircraft for delivery in 1973 through 1975 which, with spare engines, will require expenditures of $422,120,000 ($290,060,000 at December 31, 1971). Of this amount, $74,117,000 has been deposited with manufacturers at December 31, 1972 and approximately $221,000,000, $94,000,000 and $33,003,000 become payable during the next three years, respectively.

As of December 31, 1972 annual rental payments of approximately $8,100,000 were required under various lease agreements for periods up to thirty-seven years covering airport facilities, ticket offices, etc.

Note E - Taxes on Earnings

The provision for taxes on earnings consists of the following:

	Year Ended December 31	
	1972	**1971**
Current:		
Operating loss carryback for tax purposes	($11,643,500)	($18,192,100)
Reduction of refund for limitation of investment credits utilized in prior years	5,469,900	2,797,700
	(6,173,600)	(15,394,400)
Deferred:		
Provision	18,897,000	21,765,700
Unapplied investment credit:		
Flow-through	(3,897,700)	(8,744,600)
Arising from operating loss carryback	(5,469,900)	(2,797,700)
	9,529,400	10,223,400
Deferred investment credit being amortized over eight years	(3,785,100)	(4,390,000)
	($ 429,300)	($ 9,561,000)

Investment credits not applied on tax returns but offset against deferred income taxes at December 31, 1972 will expire $8,939,200 – 1978, $6,225,800 – 1979 and $5,744,900 – 1980.

Note F - Pension Plans

Total pension expense was $8,397,778 (1971 – $8,557,205). As of the latest valuation date, the total amount of fund assets was sufficient to cover vested benefits.

Note G - Depreciation and Amortization

Provision for depreciation of aircraft and related flight equipment approximated $72,874,000 (1971 – $73,424,000). Upon abandonment of the SST aircraft development project by the United States Government during 1971, the Company's prior year costs of $3,300,000 were refunded and were credited to reduce amortization expense for 1971 in accordance with Civil Aeronautics Board accounting requirements.

Note H - Mutual Aid Agreement

On February 27, 1973 the Civil Aeronautics Board reaffirmed the Mutual Aid Agreement among the airlines.

ACCOUNTANTS' REPORT

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

We have examined the financial statements of Northwest Airlines, Inc. and subsidiaries for the years ended December 31, 1972 and 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position, earnings, stockholders' equity and changes in financial position present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiaries at December 31, 1972 and 1971 and the consolidated results of their operations, the changes in stockholders' equity and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Saint Paul, Minnesota
February 27, 1973

Ernst & Ernst

NOTICE TO STOCKHOLDERS

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

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

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

10 YEAR SUMMARY

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

(Dollars in thousands except per share figures)

	1972†	1971†	1970†	1969	1968	1967	1966	1965	1964	1963
Operating Revenues										
Passenger	$ 277,891	$ 331,966	$ 260,335	$ 350,504	$ 301,277	$ 275,873	$ 216,239	$ 198,457	$ 163,807	$ 135,222
Cargo	34,694	39,641	30,053	51,006	43,902	38,118	29,515	24,779	18,402	13,745
Mail	13,309	19,443	18,958	29,386	28,605	26,898	22,557	17,421	15,313	14,233
Charter and Other Transportation	20,009	31,588	20,800	35,090	41,060	41,799	39,205	21,851	12,965	6,442
Mutual Aid Agreement	43,629	(462)	46,325	(509)	—	—	2,491	(717)	(21)	(12)
Nontransport	2,969	3,343	2,569	2,461	1,446	1,291	1,312	1,207	1,144	(842)
Total Operating Revenues	$ 392,501	$ 425,519	$ 379,040	$ 467,938	$ 416,290	$ 383,979	$ 311,319	$ 262,998	$ 211,610	$ 168,788
Operating Expenses										
Depreciation and Amortization	$ 81,054	$ 77,245	$ 69,173	$ 60,833	$ 49,817	$ 41,252	$ 33,195	$ 24,011	$ 22,852	$ 19,159
Other	296,348	330,108	258,784	324,979	268,529	229,969	177,469	153,140	135,627	123,713
Total Operating Expenses	$ 377,402	$ 407,353	$ 327,957	$ 385,812	$ 318,346	$ 271,221	$ 210,664	$ 177,151	$ 158,479	$ 142,872
Operating Income	$ 15,099	$ 18,166	$ 51,083	$ 82,126	$ 97,944	$ 112,758	$ 100,655	$ 85,847	$ 53,131	$ 25,916
Other Income and (Deductions) – Net	2,154	(6,366)	(6,523)	(1,153)	(3,220)	(2,391)	(1,243)	224	(1,125)	(4,166)
Earnings Before Taxes	$ 17,253	$ 11,800	$ 44,560	$ 80,973	$ 94,724	$ 110,367	$ 99,412	$ 86,071	$ 52,006	$ 21,750
Income Taxes	(429)	(9,561)	121	29,507	$ 44,673	51,651	46,276	40,377	25,220	11,297
Net Earnings	$ 17,682	$ 21,361	$ 44,439	$ 51,466	$ 50,051	$ 58,716	$ 53,136	$ 45,694	$ 26,786	$ 10,453
Earnings per Average Share As Reported Each Year (1)	$ .83	$ 1.01	$ 2.11	$ 2.55	$ 5.47	$ 6.42	$ 5.81	$ 9.99	$ 5.86	$ 5.73
Cash Dividends	9,620	9,518	9,465	9,117	7,320	6,405	5,490	3,657	2,602	1,823
Dividends per Share As Paid Each Year	.45	.45	.45	.45	.80	.70	.60	.80	.60	1.00
Stockholders' Equity	492,837	477,054	465,210	426,797	306,717	263,986	212,727	165,081	122,960	68,436
Number of Shares Outstanding at End of Year	21,604,136	21,149,756	21,149,756	20,914,272	9,149,628	9,149,626	9,149,626	4,574,813	4,568,634	1,824,452
Book Value per Share at End of Year (1)	$ 22.81	$ 22.56	$ 22.00	$ 20.41	$ 33.52	$ 28.85	$ 23.25	$ 36.08	$ 26.91	$ 37.51
Recomputed per Share Figures After Stock Splits: (2)										
Earnings per Average Share (2)	.83	1.01	2.11	2.55	2.74	3.21	2.90	2.50	1.47	.72
Dividends per Share (2)	.45	.45	.45	.45	.40	.35	.30	.20	.15	.12
Book Value per Share at End of Year (2)	22.81	22.56	22.00	20.41	16.76	14.43	11.62	9.02	6.73	4.69
Assets and Long-Term Debt										
Flight Property at Cost	$ 1,008,041	$ 1,012,568	$ 929,181	$ 697,938	$ 582,646	$ 467,859	$ 401,476	$ 304,072	$ 219,523	$ 176,655
Flight Property at Net Book Value	682,020	709,433	668,129	492,241	424,522	346,029	311,803	233,858	160,925	127,074
Total Assets	920,418	944,302	923,126	742,732	627,538	481,206	422,040	333,311	237,226	196,765
Long-Term Debt	208,000	252,500	260,915	112,000	160,000	85,000	96,000	72,000	45,000	64,996
Unit Expenses										
Per Available Ton-Mile	16.9¢	14.5¢	18.0¢	15.2¢	14.6¢	14.5¢	15.6¢	16.4¢	18.5¢	21.7¢
Per Revenue Ton-Mile	49.6¢	42.1¢	43.5¢	34.5¢	30.8¢	30.3¢	30.1¢	33.0¢	39.7¢	46.8¢
Per Cent of Operating Revenues	96.2%	95.7%	86.5%	82.4%	76.5%	70.6%	67.7%	67.4%	74.9%	84.6%
Statistics - Scheduled Services										
Revenue Plane-Miles (000)	79,025	100,992	83,177	123,966	107,646	93,395	67,780	61,653	52,157	45,356
Available Seat-Miles (000)	12,963,054	15,614,614	10,234,060	13,504,111	10,840,758	9,198,150	6,773,257	6,140,717	5,129,944	4,305,147
Revenue Passenger-Miles (000)	4,565,618	5,553,043	4,506,256	6,208,725	5,458,128	4,901,520	3,699,851	3,303,809	2,668,812	2,179,208
Passenger Load Factor	35.2%	35.6%	44.0%	46.0%	50.3%	53.3%	54.6%	53.8%	52.0%	50.6%
Revenue Passengers Carried	5,150,636	6,089,273	4,682,812	7,517,780	7,173,805	6,489,295	4,963,275	4,593,462	3,663,077	2,911,914
Freight and Express Ton-Miles (000)	150,973	161,345	110,215	198,494	169,416	141,175	108,914	82,715	55,100	39,417
Total Revenue Ton-Miles (000)	672,035	813,403	655,339	942,050	836,085	709,165	533,556	452,553	351,886	284,732
Statistics - Total Operations										
Revenue Plane-Miles (000)	84,098	110,045	89,938	135,563	121,077	106,197	77,715	67,125	55,477	47,207
Available Ton-Miles (000)	2,236,069	2,806,407	1,819,439	2,535,137	2,186,234	1,864,128	1,348,983	1,079,832	856,612	657,761

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

(1) Per share figures reflect the increase in outstanding shares resulting from stock issues in 1964, 1969, 1970 and 1972.

(2) The stock was split "two-for-one" in 1964, 1966 and 1969. The recomputations in this section are shown to provide comparability on an adjusted basis and follow the form recommended by the Accounting Principles Board. These figures, of course, do not reflect the way the corporation was operated.

ROUTE MAP OF NORTHWEST ORIENT

- NATIONAL PARK SYSTEM
- NORTHWEST ORIENT AIRLINES ROUTES
- CITIES SERVED BY NORTHWEST ORIENT AIRLINES
- STATE CAPITALS, CITIES
- NATIONAL MONUMENTS

NWA INVOLVED IN FOUR ROUTE CASES IN '72

During 1972, the Civil Aeronautics Board continued to view new route case investigations cautiously.

Four proceedings in which Northwest Airlines has a substantial interest did move forward late in the year, however. They are:

- Service to Saipan and Guam from Tokyo is involved in one important route case. NWA proposes unique group excursion fares and the regular use of wide-bodied jet equipment among the applicants.

  Award of this authority to Northwest Airlines could help compensate the Company for the loss of local traffic rights between Tokyo and Okinawa which occurred when Okinawa reverted to the Japanese early in 1972.

- An investigation to add a second carrier in the Miami-Los Angeles non-stop market began in late December. In this case, we have stressed NWA's ability to compete well in the Miami-California market and to link Miami to the Orient.
- Atlanta-Detroit/Cleveland/Cincinnati service is being considered currently, with competitive non-stop service to be authorized in each of the markets which are currently served on a monopoly basis.

  Northwest Airline has concentrated its presentation on the Atlanta-Detroit and Atlanta-Cleveland markets noting our prior presence in these cities and citing the advantages which would follow from closing the gap between the three cities.

- Northwest is also an applicant in a reopened route proceeding centered mainly on Omaha-Chicago and Omaha-California authority. We are seeking the opportunity to serve both Omaha and Des Moines on east-west routings.