# 1973 ANNUAL REPORT

## NORTHWEST ORIENT AIRLINES

**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

DONALD H. HARDESTY
Former Vice President-Finance, NWA
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
Vice President, Thomson and McKinnon,
Auchincloss, Inc.
New York, New York

LYMAN E. WAKEFIELD, JR.
Vice President, Piper, Jaffray & 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, Pacific Coast Stock
Exchange and Midwest Stock Exchange

*As of March 1, 1974

**OFFICERS***

DONALD W. NYROP
President

JAMES A. ABBOTT
Vice President-Legal

CLAYTON R. BRANDT
Vice President-Purchasing and Stores

ROBERT W. CAMPBELL
Vice President-Budgets

J. WILLIAM CAMPION
Vice President-Regulatory Proceedings

ROLAND W. CHAMBERS
Vice President-Properties

ROBERT A. EBERT
Vice President-Personnel

ROY K. ERICKSON
Vice President-Public Relations

A. E. FLOAN
Secretary

BENJAMIN G. GRIGGS, JR.
Vice President-Assistant to the President

WILLIAM E. HUSKINS, JR.
Vice President-Maintenance
and Engineering

REGINALD C. JENKINS
Vice President-Orient Region

FRANK C. JUDD
Vice President-Assistant to the President

M. JOSEPH LAPENSKY
Vice President-Finance and Treasurer

RONALD McVICKAR
Vice President

BRYAN G. MOON
Vice President-Advertising

ROBERT J. PHILLIPS
Vice President-Comptroller

C. L. STEWART
Vice President-Transportation Services

ROBERT J. WRIGHT
Vice President-Sales

# HIGHLIGHTS OF 1973

| | 1973 | 1972* |
|---|---|---|
| Total Operating Revenues | $584,348,065 | $ 392,500,605 |
| Operating Income | 51,305,260 | 15,098,630 |
| Net Earnings for the Year | 51,850,053 | 17,682,391 |
| Per Common Share | 2.40 | .83 |
| Stockholders' Equity | 534,965,212 | 492,837,186 |
| Per Common Share | 24.76 | 22.81 |
| Dividends Paid | 9,722,027 | 9,619,967 |
| Operating Expenses — | | |
| Per Available Ton-Mile | 15.8¢ | 16.9¢ |
| Per Revenue Ton-Mile | 42.5¢ | 49.6¢ |
| Revenue Traffic — | | |
| Passengers Carried | 7,987,299 | 5,150,636 |
| Passenger-Miles Flown | 8,007,850,000 | 4,565,618,000 |
| Ton-Miles, Mail, Freight and Express | 340,198,000 | 215,474,000 |
| Common Shares at Year End | 21,604,136 | 21,604,136 |
| Employees at Year End | 11,263 | 10,000 |

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

FROM THE PRESIDENT:

# 47TH ANNUAL REPORT TO THE SHAREHOLDERS

Northwest Airlines achieved a strong performance in 1973. Earnings of $51,850,000 were recorded; this is an increase of 193 per cent over the $17,682,000 earnings of the prior year.

Earnings per share in 1973 were $2.40, up substantially from the 83 cents per share in 1972.

Total operating revenues established an all-time high of $584,348,000, which is an increase of 49 per cent over 1972 revenue of $392,501,000. The 1972 revenues and profit were affected by the 95-day strike of the pilots' union from June 30 through October 2, 1972. The previous record for revenue was $467,938,000 in the year 1969.

Dividend payments to Northwest shareholders in 1973 were $9,722,027. Quarterly dividends were paid for the 19th consecutive year. Book value per share at December 31, 1973 was $24.76. Shareholders' equity increased to over one-half billion dollars ($534,965,000) in 1973 and total assets exceeded one billion dollars at year-end for the first time in the history of the Company.

In 1973 Northwest Airlines took delivery of thirteen DC 10-40 aircraft. Seven additional DC 10's will be delivered in 1974. Northwest is now operating fifteen Boeing 747's and fifteen DC 10's — this results in approximately 66 per cent of the available seat miles being provided for our customers in the most modern wide-bodied jet airplanes.

The Company did not ground any airplanes as the result of fuel allocations. The Boeing 747's and DC 10's as scheduled and routed produce more profit per airplane mile than that produced by conventional jet airplanes.

As new wide-bodied jets were delivered in 1973, the Company sold and delivered eleven airplanes (four Boeing 720B's and seven Boeing 320's). All aircraft were sold for cash. In 1974, the Company will sell and deliver a minimum of ten used jets as the new DC 10's are delivered. The Company's original fleet of sixteen 720B's (placed in operation starting in 1961) has been sold and delivered.

Importantly, none of your Company's aircraft is subject to expensive lease agreements as is true of many other carriers; all have been purchased by Northwest. By doing so, we have obtained the benefits of greater cash flow through depreciation and obtained substantial investment tax credits for the Company.

The shortage of aviation fuel has created problems for all U.S. airlines. The U.S. trunk airlines are presently operating on a fuel allocation of 95 per cent of the base year, 1972. Northwest has reduced its schedules by approximately eight per cent from the level of September 1973. All schedule reductions were made unilaterally — we have not entered into capacity reduction agreements in competitive markets with other U.S. airlines or foreign airlines. Northwest continues to provide good airline service to every city on its authorized route structure — fuel crisis notwithstanding. In Montana and North Dakota, the Company is providing the same frequency of flights that we offered before fuel cuts were ordered by the Government.

Management of the reduced aviation fuel availability requires close day-to-day attention, but we have experienced no major problems in obtaining sufficient jet fuel to date. The greater concern today is the rapidly escalating price of jet fuel. The cost of jet fuel per gallon on a systemwide basis has increased 115 per cent (February 1973 compared with February 1974). These increases will require a fuel surcharge or further modest increases in fares and rates during the remainder of 1974.

Donald H. Hardesty, Vice President-Finance and Treasurer, retired on July 1, 1973 after 30 years of service with the Company. His valuable counsel in the financial area will not be lost because he will continue as a member of the Board of Directors.

Named to succeed Mr. Hardesty was M. J. Lapensky, who had been serving as Vice President-Economic Planning. Mr. Lapensky, a 28-year veteran employee, also served as Vice President and Comptroller in prior years.

Northwest continues to register its strong interest in resuming scheduled airline service to the People's Republic of China. The Company holds operating authority to six major cities — Peking, Shanghai, Nanking, Shenyang, Ha-erh-pin and Lu-Ta — which was granted by the Civil Aeronautics Board on July 20, 1946.


During June 1973, two Northwest jet freighters landed in Peking with supplies for the U.S. Mission — marking the first appearance of our aircraft in China since 1949.

We were also honored by the visit of 14 computer experts from the People's Republic of China on October 25, 1973. Northwest was the only airline visited by this distinguished group.

Industry projections for 1974 suggest that the year ahead will see little growth in passenger traffic and comparatively modest growth in the air freight area. Your Management is more optimistic for Northwest. Traffic increases in January and February 1974 have been excellent and, assuming the fuel situation does not worsen, we foresee an excellent year ahead. With the continued support of the shareholders, we are confident that Northwest can retain its leadership role among U.S. airlines.

Sincerely,

Donald W. Nyrop

Donald W. Nyrop

March 1, 1974

# RECORD REVENUES PRODUCED IN 1973

An all-time high in total operating revenues of $584 million was registered in 1973, topping the previous record of $468 million set in 1969 by some 25 per cent.

Playing a major role in this success was the strong partnership Northwest Orient enjoys with its travel agents in the U.S. and around the world. Collectively, they were responsible for more than $190 million of the passenger revenues generated in 1973.



**Orient Travel Up.** Substantial gains were shown in the Orient Region, evidenced by the strong development of the Contract Bulk Inclusive Tour (CBIT) market in Japan.

International traffic to and from the Orient and the mainland U.S. also showed good increases. Introduction of DC 10-40 service on the Chicago-Anchorage-Tokyo route on June 1 resulted in very dramatic gains in these markets.

**Charter Sales.** In a year of records, charter sales were no exception. A major — and most successful — effort was mounted to increase charter business. The result was $28 million in revenues — an increase of 42.5 per cent over 1972.

Sports team charters for groups like the Minnesota Vikings, Baltimore Colts, Minnesota North Stars and Minnesota Twins assisted in obtaining this increase.

**Cargo Shows Growth.** A strong cargo sales program was developed in 1973 and directed primarily at freight consolidators and wholesalers. Record cargo revenues of $55 million resulted.

Weight of the average shipment was increased from 294 pounds to 390 pounds. This 33 per cent increase in average shipment weight was aided by the ability to sell containerized space on our fleet of wide bodied 747's and DC 10-40's. Various new commodity rates were also developed; one of the most successful being a shipper-loaded container rate for shipment of fresh pineapple from Hawaii to Chicago.

**Convention Central.** The most unique sales program in the industry for convention sales was developed and implemented by Northwest Orient in 1973: it was given the name Convention Central.



This new service utilizes a nationwide toll-free telephone number which can be dialed for convention reservations or assistance. It offers the convention planner a totally coordinated plan — tailored to his needs. Convention Central has quickly provided Northwest Orient a larger share of this growing market.

**Room Service.** To capitalize on its fleet superiority in competitive markets, much of Northwest Orient's advertising in 1973 concentrated on a theme of 'Room Service.'

A series of advertisements — several of them featuring members of the NFL Champion Minnesota Vikings — was run showing the wide-bodied comfort of NWA's fleet of Boeing 747's and 15 DC 10-40's.

**Florida Dollars Sell.** One of the most effective marketing campaigns of 1973 involved the Midwest to Florida market.

Advertisements and broadcast commercials in the Twin Cities, Chicago and Milwaukee urged prospective travelers to 'get more for your Florida dollar' by flying Northwest Orient.

From December 1 on, every Florida-bound traveler on Northwest Orient flights received a packet of 'Florida Dollars' representing discounts offered by various Florida attractions worth $55. These were good for credit at popular restaurants, fishing, golf, dog races, plus car and boat rental. The promotion has been so successful that it will be adopted for use in the Mainland-Hawaii markets during 1974.



# OPERATING HIGHLIGHTS

## NWA FIRST WITH NEW COMPUTER GENERATED TICKET

Computer generated airline ticketing was pioneered by Northwest Orient in January, 1973.

A program developed through the combined efforts of NWA, Sperry Rand-Univac and Control Data Corporation has produced a ticket unique to the industry. It contains all the specific information relating to the passenger's travel (flight number, class of service, date, origin and destination, fare, etc.). This information is printed on the face of each flight coupon and encoded in a magnetic stripe on the reverse side. By reading the magnetic encoding, passenger services such as gate check-in, gate pass issuance and baggage tag issuance, among other services, can be automated.

During the year 1973, a total of 132,848 Insta-Res computer generated tickets were issued in the test location at Twin Cities International Airport. In 1974, the program will be expanded to 14 other airport locations.

**Insta-Res Expanded.** By utilizing new techniques in which two data circuits are carried on one voice-grade channel, the Insta-Res system was extended to Anchorage — and through Honolulu on to Tokyo. Northwest Orient thus became the first U.S. airline to provide direct computer access from the Orient.

Insta-Res service was also expanded in 1973 to include all Montana stations and Jamestown, North Dakota, completing the link-up of NWA's domestic reservations system.

*NWA's Insta Res system is now able to provide a computer generated ticket, printed in just seconds.*

**Experimental Program.** In an experimental program, three travel agency offices who do a large volume of business with NWA were equipped with the same Cathode Ray Tube sets as used by the airline's reservations personnel. These CRT sets, literally miniature TV screens, provide direct access to the computerized reservations system and a visual display of all necessary reservations information.

## EMPHASIS ON AIR FREIGHT IN 1973 FACILITY DEVELOPMENT

NWA's rapidly growing air freight business was given priority in facility expansion in 1973.

A new air freight building was constructed in Spokane and major expansions were completed for cargo facilities in Detroit and Milwaukee. Total cost for the three projects was in excess of $600,000.

Four new city ticket offices were opened by Northwest Orient during the year — in Washington, D.C., New York, Chicago and Tampa. A major remodeling was also completed in Seattle. Aggregate cost was $260,000.

**Other Major Projects.** Delivery of additional DC 10's and their introduction into new markets by NWA resulted in the need for passenger jetways capable of handling the big, wide-bodied jets.

New jetways for DC 10's and 747's were installed in Detroit, Cleveland, Philadelphia, Seattle and San Francisco during the year. Total expense was nearly $1,000,000.

Relocation of NWA station facilities in Newark, Seattle and Billings was also accomplished after major airport expansion programs were completed.


*Two new expansions of NWA's air freight facilities were completed in Detroit (top) and Milwaukee.*



## CUSTOMER SERVICES EXPANDED; NEW PROGRAMS ARE INTRODUCED

A variety of new customer service features were introduced or expanded in 1973 by Northwest Orient.

- Twenty four hour reservation service was made available to all cities throughout the continental U.S. through new night-time telephone connections with the Minneapolis/St. Paul central reservation office. Between 12,000-15,000 calls monthly are now being handled between the hours of 10 p.m. and 7 a.m. with this facility.
- In July of 1973, a new containerized mail program was introduced by NWA for the U.S. Postal Service. This eliminates the need for individual handling of mail sacks at planeside as the Postal Service loads the container at its facility, seals it for absolute security and unloads the container at its facility on completion of the flight.

*During the year, the Insta Res system was connected to the Orient Region — permitting instant access to the computers located in Minneapolis/St. Paul.*


- New X-ray equipment for inspection of passengers' carry-on luggage was installed by Northwest Orient in several major hub airports to minimize waiting time of our customers.
- A special LD-7 container, contoured for optimum cargo carrying capacity on NWA aircraft, was designed and 110 of them purchased and placed in use during 1973. Response from shippers has been excellent.

## TEN NEW LABOR AGREEMENTS SIGNED; AFFIRMATIVE ACTION PLAN BROADENED

New labor agreements were negotiated for ten classes or crafts of NWA employees in 1973 with labor-management harmony preventing any interruption of schedules due to work stoppages. Collective bargaining is currently being conducted with six groups of employees, including cabin attendants, mechanics and related personnel.

During 1973, as schedules were increased, nearly all personnel who had been idled by the strike of the previous year were restored to active status, with the exception of pilots. At year-end, NWA system employment totaled 11,263 persons, of which 879 were local nationals in countries within the Orient. This compared to 10,000 employees at year end 1972.

Adoption of improved recruitment and placement techniques within the framework of the Company's Affirmative Action Program provided opportunities for 1,541 new personnel of which 258 or 16.7 per cent, were minorities.


*The Company's Affirmative Action Program included NWA participation in a number of career guidance clinics.*

*A 747 takes on its containerized cargo using automated loaders (top). The line of carts shows the great cargo carrying capacity of the 747.*

# FLEET HIGHLIGHTS OF 1973

## 13 DC 10-40'S DELIVERED; 11 OLDER JETS SOLD


Thirteen of the long range model DC 10-40's joined Northwest Orient's pure jet fleet in 1973, making a total of 15 at year-end.

Together with the Company's 15 Boeing 747's, they gave Northwest Orient a total of 30 new, wide-bodied jets as of December 31, 1973. This represented nearly one-third of the fleet total of 111 aircraft.

Relative to its seventh place revenue ranking among the major U.S. airlines, Northwest Orient has the largest percentage of its fleet in wide bodied, new generation jets.

**Conversion Program Completed.** The conversion program to upgrade performance and reliability of the Boeing 747 powerplant was started in February, 1972, and completed in December, 1973. Total cost was some $12 million.

A total of 63 JT9D-3A engines were processed through the NWA overhaul shops where they were reconditioned and upgraded to the JT9D-7 model. This improved model corrected shortcomings in the earlier model and made additional engine thrust available.

The vastly improved performance has resulted in Northwest Orient having one of the best engine reliability records in the industry.

**Engine Commonality.** Recognizing that any new aircraft engine is likely to have initial problems, the management of Northwest Orient made a decision several years ago to order its DC 10 aircraft with the same Pratt & Whitney engine used in the 747. We were the only U.S. airline to do so.

This commonality of engines has provided dramatic savings in the areas of spare engines and spare parts and pilot and mechanic training.

It has also contributed great savings in terms of reliability. Northwest Orient's DC 10-40's, powered by the improved model JT9D Pratt & Whitney engine, have achieved a far lower in-flight shutdown rate and off-schedule engine removal rate than any other wide-bodied jet flown by U.S. airlines.

**Older Aircraft Sold.** As new DC 10-40's were delivered to Northwest Orient in 1973, older jets were sold. In all, four Boeing 720B's and seven Boeing 320's were delivered to their new owners.

There are two noteworthy points in our used aircraft sales program:

First, there is substantial 'repeat' business for our used jets. Olympic Airlines, Maersk Air of Denmark and Cathay Pacific Airlines, three of our five customers in 1973, all had been previous purchasers. Obviously, they approved of the thorough overhaul and renovation program done by Northwest Orient before delivery of an aircraft.

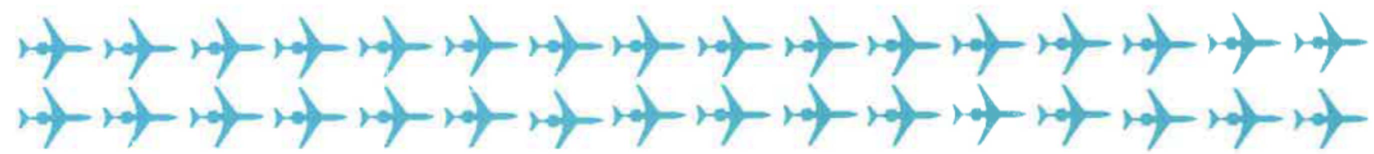
Second, all used Northwest Orient jets are sold for cash on delivery. This attests to the quality of the aircraft offered for sale since credit terms are available from most other sellers.

The last two of Northwest Orient's original fleet of 16 Boeing 720B's were delivered to buyers in early 1974.




**15 DC 10-40's**
Range of 5,100 miles with 236 passengers.

**15 BOEING 747's**
Range of 5,850 miles with 362 passengers.



**32 BOEING 727-100's**
Range of 1,760 miles with 122 passengers.

**24 BOEING 727-200's**
Range of 2,380 miles with 93 passengers.

**23 BOEING 707-320's**
Range of 5,620 miles with 142 passengers.

# FINANCIAL REVIEW FOR 1973

**Revenues.** Northwest Airlines' total operating revenues of $584,348,065 represents an all-time high with the previous record of $467,937,999 having been set in 1969.

Comparisons of individual categories with 1972 are not meaningful as the prior year's revenues were severely curtailed due to a pilot strike. All-time revenue records were also established in Passenger — $476,793,651 and Cargo — $55,280,382.

The system yield per passenger-mile decreased from 6.09¢ in 1972 to 5.92¢ per mile in 1973. This yield reduction was a result of the sizeable increase in traffic we received in tour groups from our international operations.

Revenues from charter and other transportation in 1973 were $28,516,986 compared to $20,008,467 in 1972. This year's revenue included $12,599,537 from commercial charters and other income which was up from $5,819,140 a year ago and reflects the increased emphasis the Company placed in this market. Also included was $15,917,449 from military charters which compared with $14,189,327 a year ago. The Military Airlift Contract expires on June 30, 1974 and we will again seek a renewal contract for the Government's 1975 fiscal year.

**Fares and Rates.** Various fare and rate increases were approved by the Civil Aeronautics Board and placed into effect in 1973. The principal fare adjustments included a 5% currency surcharge which went into effect in April, 1973 for travel from the U.S. to foreign destinations to compensate for the currency devaluation. The CAB cancelled this fare increase in July and again reinstated the currency surcharge at the rate of 3% effective January 1, 1974. The CAB declared Family Plan and Youth Fare discounts discriminatory and ordered that these discounts be phased out in three steps. Phase-out steps have been placed into effect on June 1 and December 1, 1973 with the last step scheduled for June 1, 1974. The CAB approved fare increases of 5% for domestic operations effective December 1, 1973 and approximately 7% for international operations effective January 1, 1974, in recognition of increased fuel costs. Other increases in rates were received for cargo and mail services. It is anticipated that further fare and rate increases may be required to compensate for additional increased costs arising from the fuel situation.

In the Domestic Fare Investigation, the Civil Aeronautics Board established fare levels between the U.S. Mainland points. Certain phases of this case relative to joint fares, load factor and fare structure have not been finally decided by the Board. There is also in process an investigation into the level and structure of Mainland-Hawaii passenger fares.

The Board, in a current proceeding on mail rates, is determining the level of rates for the carriage of mail over the domestic routes for the period beginning March 28, 1973. The Board also has in process an investigation to consider the level and structure of rates for the carriage of freight on domestic routes.

**Expenses.** Operating expenses in 1973 amounted to $533,042,805 compared with $377,401,975 in the prior year which were considerably reduced due to the pilot strike.

Depreciation and amortization expenses amounted to $87,641,813 compared with $81,054,263 in the prior year. This increased expense is the result of the increased number of new Douglas DC 10-40 wide-bodied equipment added to our fleet. Operating expenses per available ton-mile in 1973 were 15.8¢ compared with a strike-inflated 16.9¢ a year ago. Northwest Airlines continues to be the leader in low cost levels in the airline industry.

Northwest Airlines is continuing to experience inflationary trends in all cost areas, including wages, rentals, services and costs of materials and supplies. The cost of fuel is currently showing sharp increases in both the domestic and international operations. However, as previously stated, the Civil Aeronautics Board has approved fare increases in both the domestic and international operations in recognition of these escalating costs.

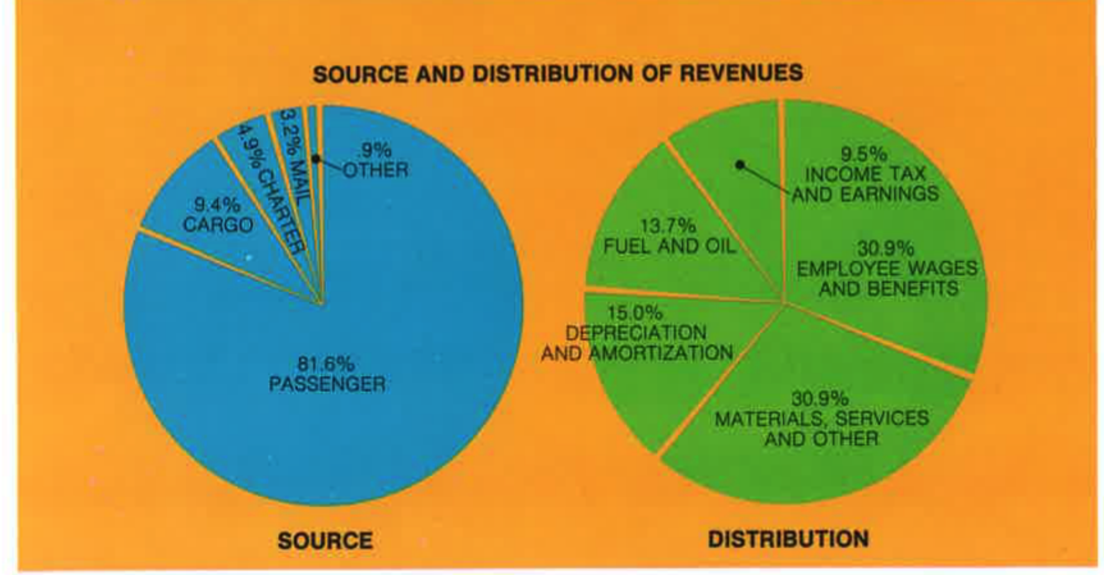
The Federal Energy Policy Office, beginning in the fall of 1973, allocated monthly gallonage of domestic aviation fuel on the base year of 1972. Northwest Airlines' base year was adjusted upwards to offset the effect of reduced operations due to the pilot union strike in that year. New fuel allocation regulations established under the Federal Energy Office effective in 1974 provide for a level of 95% of the base period volume for domestic source fuel only. As a result of the fuel shortage and related allocation regulations, Northwest Airlines reduced its flight schedules early in January 1974 to a capacity base slightly below the level of the prior year. Quantities of fuel provided by the FEO allocation system have generally been available to the Company.

**Earnings and Dividends.** Earnings in 1973 amounted to $51,850,053 or $2.40 per average share of common stock outstanding compared to $17,682,391 or $.83 per share in 1972.

Gain from disposals of property before tax application increased to $18,683,982 from $9,923,380 a year ago. This disposal gain results primarily from the sale of aircraft and spare parts which were replaced by the new wide-bodied DC 10-40 equipment received in 1973.

Although a number of U.S. airlines discontinued dividend payments, Northwest Airlines continued its dividend payment policy in 1973 with quarterly payments resulting in an annual rate of $.45 per common share. 1973 marks the 19th consecutive year in which the Company has paid dividends.






**Taxes on Earnings.** Income taxes on earnings in 1973 amounted to $3,830,100 compared with a net credit of $429,300 in 1972. The current year income tax amount is made up of a normal provision of $26,816,900 of which $14,104,300 has been deferred for future payment due primarily to the Company's use of accelerated depreciation method for the computation of income for income tax purposes. Investment tax credits of $22, 986,800 were offset against the income tax provision. These credits included $19,870,500 generated in the current year primarily from the purchase of 13 DC 10-40 airplanes and $3,116,300 from the current year's amortization of investment tax credits from 1968 and prior. See Notes A and E to the Financial Statements.

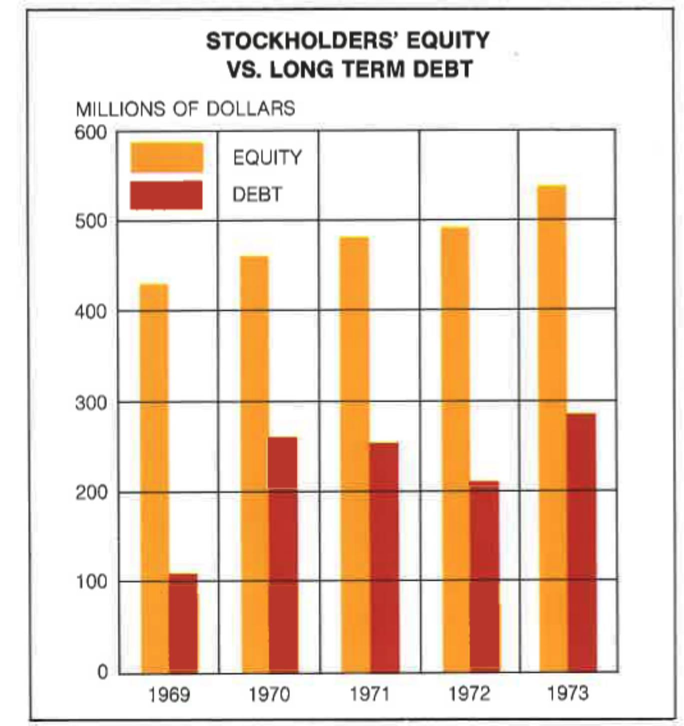
Investment tax credits which could not be applied to income tax returns, but which were offset against deferred income taxes for future application, amount to $35,050,800 at the end of 1973.

**Cash Flow.** Funds generated from operations in 1973 amounted to $136,928,766 which were derived from net earnings, depreciation and amortization, deferred income taxes and investment tax credits. Other funds generated totaled $101,689,866 from the disposals of operating property and increased application of our long-term debt arrangements. The Company's policy of owning its equipment rather than procurement through leasing arrangements provides additional funds in excess of earnings through depreciation charges which with amortization amounted to $87,641,813 in 1973. Funds received from the sale of previously purchased equipment amounted to $41,373,848 this year.

Application of funds in 1973 amounted to $268,612,063 which was made up of $248,756,012 for new flight and ground property additions and advance deposits on aircraft, $9,722,027 for payment of cash dividends, $3,000,000 for repayment of long-term debt and $7,134,024 for other applications.

**Financial Condition.** Northwest Airlines' financial condition continues to rank among the most favorable in the airline industry.

Previous financial arrangements and internal cash flow provided the Company with funds for all of its financial needs in 1973 including the purchase of 13 Douglas DC 10-40 aircraft and related spare parts. The present financial arrangements and internally generated funds are expected to cover the purchase of the 7 additional DC 10-40's on order with the McDonnell Douglas Company for delivery in 1974. This will require an expenditure of $154,488,000 of which $36,481,000 has been deposited with manufacturers at year end. Details of the Company's long-term debt arrangements are described in Note B — Notes To Financial Statements.




Stockholders' equity at December 31, 1973 was $534,965,212 compared with $492,837,186 in 1972. The book value per common share increased to $24.76 from $22.81 a year ago. Outstanding debt at year end amounted to $287,000,000 compared with $211,000,000 in 1972. This outstanding debt amounts to 53.6% of stockholder equity and this very desirable ratio is the lowest of the U.S. trunkline carriers.

# STATEMENT OF FINANCIAL POSITION

**NORTHWEST AIRLINES, INC. AND SUBSIDIARIES**

| ASSETS | December 31 1973 | December 31 1972 |
|---|---|---|
| **Current Assets** | | |
| Cash and short-term investments | $ 37,819,883 | $ 23,340,648 |
| Accounts receivable | 55,103,729 | 41,012,970 |
| Recoverable federal income tax | - | 7,901,803 |
| Flight equipment spare parts, at average cost, less allowances for depreciation of $7,607,420 (1972 — $7,141,035) | 16,119,104 | 18,785,638 |
| Maintenance and operating supplies at average cost | 4,891,192 | 4,457,932 |
| Prepaid expenses | 3,145,730 | 1,924,095 |
| Total Current Assets | 117,079,638 | 97,423,086 |
| **Property and Equipment** | | |
| Flight equipment at cost | 1,216,631,982 | 1,008,040,777 |
| Less allowances for depreciation | 355,400,549 | 326,020,308 |
| | 861,231,433 | 682,020,469 |
| Advance payments on new flight equipment — Note D | 36,480,999 | 74,117,238 |
| | 897,712,432 | 756,137,707 |
| Other property and equipment at cost | 101,437,028 | 94,805,390 |
| Less allowances for depreciation | 44,135,491 | 37,254,176 |
| | 57,301,537 | 57,551,214 |
| | 955,013,969 | 813,688,921 |
| **Deferred Charges and Other Assets** | | |
| Training and development costs | 4,379,311 | 3,139,391 |
| Rentals | 5,295,978 | 4,062,435 |
| Other assets | 3,863,527 | 2,103,681 |
| | 13,538,816 | 9,305,507 |
| | $1,085,632,423 | $920,417,514 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | December 31 1973 | December 31 1972 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | $ 93,410,975 | $ 53,330,067 |
| Employee compensation | 19,804,754 | 18,486,358 |
| Air travel card deposits | 986,000 | 1,009,800 |
| Unredeemed ticket liability | 10,264,152 | 7,556,029 |
| Income taxes | 6,690,330 | 1,123,974 |
| Current maturities of long-term debt | 3,000,000 | 3,000,000 |
| Total Current Liabilities | 134,156,211 | 84,506,228 |
| **Long-Term Debt — Note B** | 284,000,000 | 208,000,000 |
| **Deferred Credits — Note E** | | |
| Income taxes — arising principally from accelerated depreciation methods | 128,429,100 | 127,875,900 |
| Investment credit | 4,081,900 | 7,198,200 |
| | 132,511,000 | 135,074,100 |
| **Stockholders' Equity — Note C** | | |
| Common Stock $1.25 par value; authorized 40,000,000 shares; issued and outstanding 21,604,136 shares | 27,005,170 | 27,005,170 |
| Capital surplus | 124,140,834 | 124,140,834 |
| Retained earnings | 383,819,208 | 341,691,182 |
| | 534,965,212 | 492,837,186 |
| **Commitments — Note D** | | |
| **Leases — Note F** | | |
| | $1,085,632,423 | $920,417,514 |

See notes to financial statements.

# STATEMENT OF EARNINGS

**NORTHWEST AIRLINES, INC. AND SUBSIDIARIES**

| | Year Ended December 31 | |
|---|---|---|
| | **1973** | **1972*** |
| **Operating Revenues** | | |
| Passenger | $476,793,651 | $277,890,978 |
| Cargo | 55,280,382 | 34,694,315 |
| Mail | 18,414,621 | 13,309,095 |
| Charter and other transportation | 28,516,986 | 20,008,467 |
| Mutual Aid Agreement | ( 2,692,100) | 43,629,192 |
| Nontransport | 8,034,525 | 2,968,558 |
| | 584,348,065 | 392,500,605 |
| **Operating Expenses** | | |
| Flying operations | 155,066,543 | 100,642,511 |
| Maintenance | 63,530,814 | 47,503,176 |
| Passenger service | 56,970,838 | 33,462,312 |
| Aircraft and traffic servicing | 96,407,948 | 62,170,832 |
| Reservations, sales and advertising | 57,390,985 | 38,410,180 |
| Administrative and general | 16,033,864 | 14,158,701 |
| Depreciation and amortization | 87,641,813 | 81,054,263 |
| | 533,042,805 | 377,401,975 |
| | 51,305,260 | 15,098,630 |
| **Other Income and (Deductions)** | | |
| Interest on long-term debt | ( 14,758,082) | ( 8,355,485) |
| Disposals of property | 18,683,982 | 9,923,380 |
| Other | 448,993 | 586,566 |
| | 4,374,893 | 2,154,461 |
| **Earnings Before Taxes** | 55,680,153 | 17,253,091 |
| **Taxes on Earnings,** including deferred taxes and investment credit — Note E | 3,830,100 | ( 429,300) |
| **Net Earnings for the Year** | $ 51,850,053 | $ 17,682,391 |
| Average shares of Common Stock outstanding during the year | 21,604,136 | 21,361,255 |
| Earnings per share of Common Stock | $2.40 | $ .83 |

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

See notes to financial statements.



# STATEMENT OF CHANGES IN FINANCIAL POSITION

**NORTHWEST AIRLINES, INC. AND SUBSIDIARIES**

| | Year Ended December 31 | |
|---|---|---|
| | **1973** | **1972** |
| **Source of Funds** | | |
| Net earnings | $ 51,850,053 | $ 17,682,391 |
| Items not requiring current funds: | | |
| Depreciation and amortization: | | |
| Aircraft and related flight equipment | 78,787,383 | 72,873,728 |
| Other | 8,854,430 | 8,180,535 |
| Deferred income taxes | 553,200 | 7,148,600 |
| Deferred investment credit | ( 3,116,300) | ( 3,785,100) |
| Total from Operations | 136,928,766 | 102,100,154 |
| Sale of Common Stock, less expenses | - | 7,720,840 |
| Issuance of long-term debt | 79,000,000 | 133,500,000 |
| Disposals of operating property — book value | 22,689,866 | 14,373,996 |
| Total of Sources | 238,618,632 | 257,694,990 |
| **Application of Funds** | | |
| Flight equipment and other property additions | 221,794,269 | 58,156,479 |
| Advance deposits on aircraft | 26,961,743 | 39,530,611 |
| Deferred DC 10-40 training costs | 2,473,520 | 665,534 |
| Other assets and deferred charges | 3,003,661 | - |
| Cash dividends | 9,722,027 | 9,619,967 |
| Payment of long-term debt | 3,000,000 | 178,000,000 |
| Other | 1,656,843 | 970,796 |
| Total of Applications | 268,612,063 | 286,943,387 |
| **Decrease in Working Capital** | ($29,993,431) | ($29,248,397) |
| **Changes in working capital consist of:** | | |
| Increase (decrease) in current assets: | | |
| Cash and short-term investments | $ 14,479,235 | ($19,127,670) |
| Receivables | 6,188,956 | ( 9,782,661) |
| Inventories | ( 2,233,274) | 2,815,958 |
| Prepaid expenses | 1,221,635 | ( 1,684,807) |
| | 19,656,552 | ( 27,779,180) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | 40,080,908 | ( 2,969,085) |
| Other accrued liabilities | 6,860,952 | 3,301,296 |
| Unredeemed ticket liability | 2,708,123 | 1,137,006 |
| | 49,649,983 | 1,469,217 |
| **Decrease in Working Capital** | ($29,993,431) | ($29,248,397) |

See notes to financial statements.

# STATEMENT OF STOCKHOLDERS' EQUITY

**NORTHWEST AIRLINES, INC. AND SUBSIDIARIES**

| | Common Stock | | Capital | Retained |
|---|---|---|---|---|
| | Shares | Amount | Surplus | Earnings |
| **Balance January 1, 1972** | 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 |
| Net earnings for the year | | | | 51,850,053 |
| Cash dividends — $.45 a share | | | | ( 9,722,027) |
| **Balance December 31, 1973** | 21,604,136 | $27,005,170 | $124,140,834 | $383,819,208 |

See notes to financial statements.

**APPLICATION OF INVESTMENT TAX CREDIT**

| **Period** | **Available*** | **Reflected in Net Earnings†** |
|---|---|---|
| 1962-1972 | $74,597,300 | $67,399,100 |
| 1973 | 19,870,500 | 22,986,800 |
| Total | $94,467,800 | $90,385,900 |
| To Net Earnings | 90,385,900 | |
| To Be Amortized | $ 4,081,900 | |

*Investment credits not applied on tax returns but offset against deferred taxes through 1973, amount to $35,050,800. 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 1972 | 1973 | On Order |
|---|---|---|---|
| JET: | | | |
| 707-320B & 320C | 30 | 23 | — |
| 720B | 6 | 2 | — |
| 727 & 727C-100 | 32 | 32 | — |
| 727-200 | 24 | 24 | — |
| 747 | 15 | 15 | — |
| DC 10-40 | 2 | 15 | 7 |
| Total Jet | 109 | 111 | 7 |



# NOTES TO FINANCIAL STATEMENTS

**NORTHWEST AIRLINES, INC. AND SUBSIDIARIES**

Years Ended December 31, 1973 and 1972

**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 subsidiaries after elimination of intercompany accounts and transactions.

**Foreign Currency Translation**

Inventory and property and equipment are translated at rates of exchange in effect when acquired. All other assets and liabilities are translated at the rate of exchange in effect at the close of the period. Revenue and expense accounts are translated at a weighted average of exchange rates which were in effect during the year, except for depreciation which is translated at the rates of exchange in effect when the property and equipment were acquired. Exchange adjustments are charged or credited to income currently and are not material.

**Flight Equipment and Property**

Provision for depreciation is computed by the straight line method over the estimated useful lives of the assets. The calculation assumes fifteen year lives and 10% residual values for 747 and DC-10 aircraft and ten years and 15% residual values for all other aircraft. 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.

# NOTES TO FINANCIAL STATEMENTS

**Note A — Accounting Policies (Continued)**

**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 for 1972) are excluded from the computation since their effect is not significant.

**Note B — Long-Term Debt**

| | December 31 1973 | December 31 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 | $111,000,000 | $ 32,000,000 |
| Term Credit with banks is payable $12.5 million quarterly beginning April 1, 1981 and terminates January 1, 1983. Interest is paid based on a formula related to prime commercial loan rates; however, total interest paid shall not exceed 7 7/8% per annum on borrowings over the term of the loan. Current payments in excess of that rate are deferred as receivables | 100,000,000 | 100,000,000 |
| 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% | 16,000,000 | 19,000,000 |
| Credit agreements with aircraft and aircraft engine manufacturers financing purchases from those manufacturers through the issuance of five-year notes | 60,000,000 | 60,000,000 |
| | 287,000,000 | 211,000,000 |
| Less amounts due within one year included in current liabilities | 3,000,000 | 3,000,000 |
| | $284,000,000 | $208,000,000 |



# NOTES TO FINANCIAL STATEMENTS

**Note B — Long-Term Debt (Continued)**

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 or $72,010,000.

The aggregate repayment of the outstanding long-term debt over the years 1975 through 1978 is $26,915,000, $39,085,000, $3,000,000 and $65,000,000, respectively.

**Note C — Stockholders' Equity**

| | Shares 1973 | Shares 1972 |
|---|---|---|
| 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 which were not less than 100% of market at date of grant are as follows:

| | Shares | Price Per Share |
|---|---|---|
| Outstanding January 1, 1972 | 71,768 | $32.375/36.625 |
| Exercised | 1,782 | 36.625 |
| Outstanding December 31, 1972 | 69,986 | 32.375/36.625 |
| Lapsed | (57,586) | 33.470/36.625 |
| Granted | 37,500 | 20.06 |
| Outstanding December 31, 1973 | 49,900 | 20.06/32.375 |
| Options exercisable: | | |
| At December 31, 1972 | 69,986 | 32.375/36.625 |
| At December 31, 1973 | 12,400 | 32.375 |

Shares available for future stock options and other plans were 360,236 at December 31, 1973 and 340,150 at December 31, 1972.

**Note D — Commitments**

At December 31, 1973, the Company has contracted to purchase jet aircraft for delivery in 1974 which, with spare engines, will require expenditures of $154,488,000 ($422,120,000 at December 31, 1972). Of this amount, $36,481,000 has been deposited with manufacturers and the remainder becomes payable in 1974.

**Note E — Taxes on Earnings**

The provision for taxes on earnings consists of the following:

| | Year Ended December 31 1973 | Year Ended December 31 1972 |
|---|---|---|
| Current: | | |
| Provision for the year | $12,712,600 | $ - |
| Operating loss carryback for tax purposes | - | ( 11,643,500) |
| Investment credit flow-through | ( 5,729,600) | - |
| Reduction of refund for limitation of investment credits utilized in prior years | - | 5,469,900 |
| | 6,983,000 | ( 6,173,600) |

# NOTES TO FINANCIAL STATEMENTS

**Note E — Taxes on Earnings (Continued)**

| | | |
|---|---|---|
| Deferred: | | |
| Provision | $14,104,300 | $18,897,000 |
| Unapplied investment credit: | | |
| Flow-through | ( 14,140,900) | ( 3,897,700) |
| Arising from operating loss carryback | - | ( 5,469,900) |
| | ( 36,600) | 9,529,400 |
| Deferred investment credit being amortized over eight years | ( 3,116,300) | ( 3,785,100) |
| | $ 3,830,100 | ($ 429,300) |

Investment credits not applied on tax returns but offset against deferred income taxes at December 31, 1973 will expire $8,921,800 — 1978, $3,879,300 — 1979 and $22,249,700 — 1980.

**Note F — Leases**

The Company does not lease any aircraft or related flight equipment. Sublease income and contingent rentals are not material. Total rental expense follows:

| | Year Ended December 31 | |
|---|---|---|
| | **1973** | **1972** |
| Air terminal and main base facilities (financing leases) | $ 7,533,000 | $ 7,224,000 |
| Ticket offices and miscellaneous equipment | 4,140,000 | 3,045,000 |
| TOTAL | $11,673,000 | $10,269,000 |

Future minimum rental commitments at December 31, 1973 for all non-cancelable leases follows:

| | Air Terminal and Main Base Facilities | Ticket Offices and Miscellaneous Equipment | Total |
|---|---|---|---|
| 1974 | $ 7,261,000 | $1,843,000 | $ 9,104,000 |
| 1975 | 6,995,000 | 1,653,000 | 8,648,000 |
| 1976 | 6,888,000 | 1,485,000 | 8,373,000 |
| 1977 | 6,607,000 | 1,331,000 | 7,938,000 |
| 1978 | 6,585,000 | 826,000 | 7,411,000 |
| Five years 1979-83 | 32,232,000 | 2,135,000 | 34,367,000 |
| Five years 1984-88 | 28,057,000 | 516,000 | 28,573,000 |
| Five years 1989-93 | 16,713,000 | | 16,713,000 |
| Remainder | 22,867,000 | | 22,867,000 |
| | $134,205,000 | $9,789,000 | $143,994,000 |

Information as to the present value of non-capitalized financing leases and their impact on net income had they been capitalized is not available but will be included in Form 10-K, the Company's annual report to the Securities and Exchange Commission.

**Note G — Pension Plans**

Total pension expense was $14,118,050 (1972 — $8,397,778). As of the latest valuation date, fund assets of all plans were sufficient to cover vested benefits of all plans.



# 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, 1973 and 1972. 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, 1973 and 1972 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 25, 1974

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)

| | 1973 | 1972† | 1971† | 1970† | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | | | | | |
| Passenger | $ 476,794 | $ 277,891 | $ 331,966 | $ 260,335 | $ 350,504 | $ 301,277 | $ 275,873 | $ 216,239 | $ 198,457 | $ 163,807 |
| Cargo | 55,280 | 34,694 | 39,641 | 30,053 | 51,006 | 43,902 | 38,118 | 29,515 | 24,779 | 18,402 |
| Mail | 18,415 | 13,309 | 19,443 | 18,958 | 29,386 | 28,605 | 26,898 | 22,557 | 17,421 | 15,313 |
| Charter and other transportation | 28,517 | 20,009 | 31,588 | 20,800 | 35,090 | 41,060 | 41,799 | 39,205 | 21,851 | 12,965 |
| Mutual aid agreement | (2,692) | 43,629 | (462) | 46,325 | (509) | — | — | 2,491 | (717) | (21) |
| Nontransport | 8,034 | 2,969 | 3,343 | 2,569 | 2,461 | 1,446 | 1,291 | 1,312 | 1,207 | 1,144 |
| Total Operating Revenues | $ 584,348 | $ 392,501 | $ 425,519 | $ 379,040 | $ 467,938 | $ 416,290 | $ 383,979 | $ 311,319 | $ 262,998 | $ 211,610 |
| **Operating Expenses** | | | | | | | | | | |
| Depreciation and amortization | $ 87,642 | $ 81,054 | $ 77,245 | $ 69,173 | $ 60,833 | $ 49,817 | $ 41,252 | $ 33,195 | $ 24,011 | $ 22,852 |
| Other | 445,401 | 296,348 | 330,108 | 258,784 | 324,979 | 268,529 | 229,969 | 177,469 | 153,140 | 135,627 |
| Total Operating Expenses | $ 533,043 | $ 377,402 | $ 407,353 | $ 327,957 | $ 385,812 | $ 318,346 | $ 271,221 | $ 210,664 | $ 177,151 | $ 158,479 |
| Operating income | $ 51,305 | $ 15,099 | $ 18,166 | $ 51,083 | $ 82,126 | $ 97,944 | $ 112,758 | $ 100,655 | $ 85,847 | $ 53,131 |
| Other income and (deductions) — net | 4,375 | 2,154 | (6,366) | (6,523) | (1,153) | (3,220) | (2,391) | (1,243) | 224 | (1,125) |
| Earnings before taxes | $ 55,680 | $ 17,253 | $ 11,800 | $ 44,560 | $ 80,973 | $ 94,724 | $ 110,367 | $ 99,412 | $ 86,071 | $ 52,006 |
| Income taxes | 3,830 | (429) | (9,561) | 121 | 29,507 | 44,673 | 51,651 | 46,276 | 40,377 | 25,220 |
| **Net Earnings** | $ 51,850 | $ 17,682 | $ 21,361 | $ 44,439 | $ 51,466 | $ 50,051 | $ 58,716 | $ 53,136 | $ 45,694 | $ 26,786 |
| Earnings per average share as reported each year(1) | $ 2.40 | $ .83 | $ 1.01 | $ 2.11 | $ 2.55 | $ 5.47 | $ 6.42 | $ 5.81 | $ 9.99 | $ 5.86 |
| Cash dividends | 9,722 | 9,620 | 9,518 | 9,465 | 9,117 | 7,320 | 6,405 | 5,490 | 3,657 | 2,602 |
| Dividends per share as paid each year | .45 | .45 | .45 | .45 | .45 | .80 | .70 | .60 | .80 | .60 |
| Stockholders' equity | 534,965 | 492,837 | 477,054 | 465,210 | 426,797 | 306,717 | 263,986 | 212,727 | 165,081 | 122,960 |
| Number of shares outstanding at end of year | 21,604,136 | 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 |
| Book value per share at end of year(1) | $ 24.76 | $ 22.81 | $ 22.56 | $ 22.00 | $ 20.41 | $ 33.52 | $ 28.85 | $ 23.25 | $ 36.08 | $ 26.91 |
| Recomputed per share figures after stock splits(2) | | | | | | | | | | |
| Earnings per average share(2) | 2.40 | .83 | 1.01 | 2.11 | 2.55 | 2.74 | 3.21 | 2.90 | 2.50 | 1.47 |
| Dividends per share(2) | .45 | .45 | .45 | .45 | .45 | .40 | .35 | .30 | .20 | .15 |
| Book value per share at end of year(2) | 24.76 | 22.81 | 22.56 | 22.00 | 20.41 | 16.76 | 14.43 | 11.62 | 9.02 | 6.73 |
| **Assets and Long-Term Debt** | | | | | | | | | | |
| Flight property at cost | $ 1,216,632 | $ 1,008,041 | $ 1,012,568 | $ 929,181 | $ 697,938 | $ 582,646 | $ 467,859 | $ 401,476 | $ 304,072 | $ 219,523 |
| Flight property at net book value | 861,231 | 682,020 | 709,433 | 668,129 | 492,241 | 424,522 | 346,029 | 311,803 | 233,858 | 160,925 |
| Total assets | 1,085,632 | 920,418 | 944,302 | 923,126 | 742,732 | 627,538 | 481,206 | 422,040 | 333,311 | 237,226 |
| Long-term debt | 284,000 | 208,000 | 252,500 | 260,915 | 112,000 | 160,000 | 85,000 | 96,000 | 72,000 | 45,000 |
| **Unit Expenses** | | | | | | | | | | |
| Per available ton-mile | 15.8¢ | 16.9¢ | 14.5¢ | 18.0¢ | 15.2¢ | 14.6¢ | 14.5¢ | 15.6¢ | 16.4¢ | 18.5¢ |
| Per revenue ton-mile | 42.5¢ | 49.6¢ | 42.1¢ | 43.5¢ | 34.5¢ | 30.8¢ | 30.3¢ | 30.1¢ | 33.0¢ | 39.7¢ |
| Per cent of operating revenues | 91.2% | 96.2% | 95.7% | 86.5% | 82.4% | 76.5% | 70.6% | 67.7% | 67.4% | 74.9% |
| **Statistics — Scheduled Services** | | | | | | | | | | |
| Revenue plane-miles (000) | 108,853 | 79,025 | 100,992 | 83,177 | 123,966 | 107,646 | 93,395 | 67,780 | 61,653 | 52,157 |
| Available seat-miles (000) | 19,593,379 | 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 |
| Revenue passenger-miles (000) | 8,007,850 | 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 |
| Passenger load factor | 40.9% | 35.2% | 35.6% | 44.0% | 46.0% | 50.3% | 53.3% | 54.6% | 53.8% | 52.0% |
| Revenue passengers carried | 7,987,299 | 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 |
| Freight and express ton-miles (000) | 251,865 | 150,973 | 161,345 | 110,215 | 198,494 | 169,416 | 141,175 | 108,914 | 82,715 | 55,100 |
| Total revenue ton-miles (000) | 1,140,983 | 672,035 | 813,403 | 655,339 | 942,050 | 836,085 | 709,165 | 533,556 | 452,553 | 351,886 |
| **Statistics — Total Operations** | | | | | | | | | | |
| Revenue plane-miles (000) | 115,726 | 84,098 | 110,045 | 89,938 | 135,563 | 121,077 | 106,197 | 77,715 | 67,125 | 55,477 |
| Available ton-miles (000) | 3,370,694 | 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 |

†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.

## SERVICE HIGHLIGHTS

### NEW WIDE BODIED JETS TAKE OVER PACIFIC ROUTES

With the addition of 15 McDonnell Douglas DC 10-40's to its fleet of 15 Boeing 747's, Northwest Orient became the first, and is still the only, U.S. carrier to offer trans-Pacific passenger service exclusively with new, wide-bodied jets.

DC 10-40 service was inaugurated on the non-stop Polar Express Route — Anchorage to Tokyo — on June 1, 1973. North Pacific non-stop flights from Seattle to Tokyo, and Mid Pacific flights from San Francisco and Los Angeles to Tokyo via Honolulu, continued to be served by NWA's 747's.

### SERVICE TO EDMONTON SEEN LIKELY IN 1974

Resumption of scheduled service to Edmonton, Alberta, Canada by Northwest Orient becomes a distinct likelihood in 1974, following the signing of a bilateral air rights agreement by the U.S. and Canadian governments.

Service had been provided between the lower 48 states and Edmonton until September, 1962.

In the intervening 12 years, Edmonton has shown dramatic population growth and is today a center of oil and gas related industry.

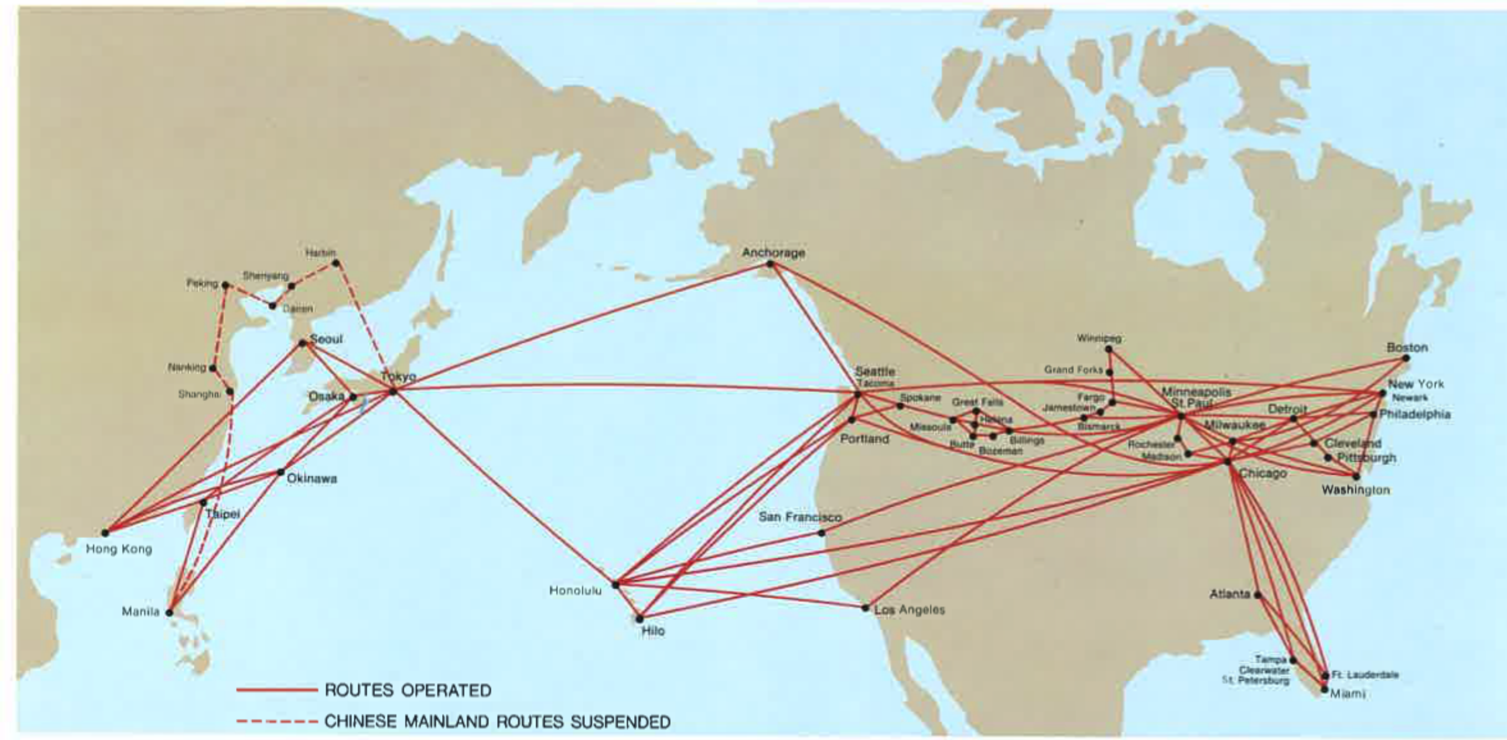
### NO DECISIONS REACHED IN PENDING ROUTE CASES

The cautious attitude displayed by the Civil Aeronautics Board during 1972 regarding new route awards continued through 1973.

Thus, there were no decisions reached in the four proceedings in which Northwest Orient has a substantial interest. These are:

- Service to Saipan Case. (This case has recently been remanded for further proceedings.)
- Miami-Los Angeles Competitive Non-Stop Case.
- Reopened Service to Omaha and Des Moines Case.
- Remanded Atlanta-Detroit / Cleveland / Cincinnati Investigation.






### CITIES SERVED BY NORTHWEST ORIENT

**DOMESTIC**
Anchorage
Atlanta
Billings
Bismarck/Mandan
Boston
Bozeman
Butte
Chicago
Cleveland
Detroit
Fargo/Moorhead
Ft. Lauderdale/Hollywood
Grand Forks
Great Falls
Helena
Hilo
Honolulu
Jamestown
Los Angeles/Long Beach/Ontario
Madison
Miami
Milwaukee
Minneapolis/St. Paul
Missoula
New York
Newark
Philadelphia
Pittsburgh
Portland
Rochester
San Francisco/Oakland/San Jose
Seattle/Tacoma
Spokane
Tampa/St. Petersburg/Clearwater
Washington, D.C./Baltimore
Winnipeg

**ORIENT**
Hong Kong
Manila
Okinawa
Osaka
Seoul
Taipei
Tokyo