NORTHWEST ORIENT

1974 Annual Report

Directors*

James H. Binger
Honeywell, Inc.,
Chairman of the Executive Committee,
Minneapolis, Minnesota
(Manufacturer of automation systems)

Hadley Case
President, Case, Pomeroy & Company, Inc.
New York, New York
(Investments)

Donald H. Hardesty
Retired Vice President-Finance, NWA
St. Paul, Minnesota

Melvin R. Laird
Senior Counsellor, Reader's Digest, Inc.
Washington, D.C.
(Magazine publishing)

Malcolm S. Mackay
President, Foothills Company
Roscoe, Montana
(Oil and gas properties)

Donald G. McNeely
President, Space Center, Inc.
St. Paul, Minnesota
(Real estate)

Donald W. Nyrop
President, Northwest Airlines, Inc.
St. Paul, Minnesota

C. Frank Reavis
Partner, Reavis and McGrath
New York, New York
(Attorneys)

Albert G. Redpath
Vice President, Thomson and McKinnon,
Auchincloss, Kohlmeyer, Inc.
New York, New York
(Investment bankers)

Lyman E. Wakefield, Jr.
Resource Trust Co.,
Chairman of the Board
Minneapolis, Minnesota
(Investment advisors)

Co-Registrars and Transfer Agents:

Northwestern National Bank,
Minneapolis, Minnesota

Northwestern Trust Co.,
New York, New York

Officers*

Donald W. Nyrop
President

James A. Abbott
Vice President-Law

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

Robert J. Glischinski
Vice President-Communications
and Computer Services

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

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

Stock Listed: Common Stock listed on New York Stock Exchange, Pacific Coast Stock Exchange and Midwest Stock Exchange

* As of March 1, 1975

Highlights of 1974

	1974	1973
Total Operating Revenues	$758,990,979	$584,348,065
Operating Income	77,785,297	51,305,260
Net Earnings for the Year	64,747,629	51,850,053
Per Common Share	3.00	2.40
Stockholders' Equity	589,990,898	534,965,212
Per Common Share	27.31	24.76
Dividends Paid	9,721,943	9,722,027
Operating Expenses —		
Per Available Ton-Mile	19.9¢	15.8¢
Per Revenue Ton-Mile	48.2¢	42.5¢
Revenue Traffic —		
Passengers Carried	8,948,373	7,987,299
Passenger-Miles Flown	9,173,875,000	8,007,850,000
Ton-Miles, Mail, Freight and Express	413,415,000	340,198,000
Common Shares at Year End	21,604,136	21,604,136
Employees at Year End	11,515	11,263

NORTHWEST ORIENT AIRLINES

General Offices:
Minneapolis-St. Paul International Airport
St. Paul, Minnesota 55111

Business

Northwest Airlines, Inc., incorporated in the State of Minnesota, is a scheduled air carrier engaged in commercial transportation of passengers, mail and property, and operates under certificates of public convenience and necessity issued by the Civil Aeronautics Board. The present route system covers approximately 23,900 route miles and serves directly cities in 17 states of the 48 contiguous states, as well as Alaska, Hawaii, the District of Columbia, Canada and countries in Asia, including Japan, Korea, Taiwan, Hong Kong and the Philippines. Authorizations to serve Shanghai, Peking and other points in continental China remain in effect although presently inoperative.

48th Annual Report to the Shareholders

Earnings of $64,747,629 were achieved by Northwest Orient Airlines in 1974. This was a record and a 25 per cent increase over net earnings of $51,850,053 in 1973. Earnings per share were $3.00 in 1974, compared to the $2.40 earned in 1973.

Total operating revenues were at an all time high of $758,990,979 in 1974. This was a 30 per cent gain over total revenues of $584,348,065.

Dividend payments totaling $9,721,943 were made in 1974 as quarterly dividends were paid to Northwest Orient shareholders for the 20th consecutive year. Shareholders' equity grew to $589,990,898 in 1974 compared to $534,965,212 in 1973. Book value of NWA stock increased to $27.31 in 1974 compared to $24.76 in 1973.

Revenue passenger miles flown in scheduled operations in 1974 were a record 9,173,875,477 compared to 8,007,850,467 in 1973. This was an increase of 14.6 per cent. Available seat miles flown in scheduled service showed more modest growth from 19,593,379,337 miles in 1973 to 20,016,106,526 miles in 1974. Passenger load factor climbed from 40.87 per cent in 1973 to 45.83 per cent in 1974. Northwest Orient outperformed all other U.S. trunk airlines in percentage gains in both passenger and cargo traffic in 1974.

Fuel Prices Doubled

These achievements came despite the many problems presented by the availability and price of aviation jet fuel.

Availability of fuel was the prime concern of U.S. airlines early in 1974 and a reduction in schedules was necessary. Soon, however, price of fuel became the paramount consideration.

Northwest Orient's expenditure for jet fuel more than doubled in 1974 — rising from $78.1 million in 1973 to $159.8 million. The increase of $81.7 million brought the Company's fuel costs as a per cent of revenue from 13.4 per cent in 1973 to 21.0 per cent in 1974. Without the five per cent — or 29.7 million gallons — in fuel saved by the Company in 1974 the added costs would have been even larger.

Fare Increases Necessary

This rapid escalation in jet fuel prices and other costs made it essential for the Civil Aeronautics Board to grant offsetting fare increases. On April 16, 1974, the Board permitted a six per cent domestic increase, followed by a four per cent domestic increase on November 15, 1974.

Fleet Upgrading

The constant upgrading of Northwest Orient's aircraft fleet continued in 1974 as seven additional McDonnell Douglas DC 10-40's were accepted and integrated into scheduled service.

With the 15 Boeing 747 jets and the 22 DC 10-40's now in service, Northwest Orient offers approximately 75 per cent of its available seat miles in the new generation, wide-bodied aircraft. The Company has a higher ratio of this type equipment in its fleet than any other U.S. airline and obtains substantial benefits from the engine standardization found on its 747's and DC 10-40's.

A total of 12 used aircraft were sold and delivered during 1974 (two Boeing 720B's and 10 Boeing 320's) to six different foreign flag carriers.

Jet Freighters Ordered

Three Boeing 747F jet air freighters were ordered in December, 1974. They represent an investment of more than $90 million with spare engine. Delivery of the first 747F will be made in June of this year followed by deliveries in July and August.

Northwest Orient will be the first U.S. trunk airline to place this version of the 747 freighter in operation. It will have both nose-loading and side-door loading capability. Loads up to 11 feet wide, 10 feet high and 180 feet long can be handled by this remarkable new aircraft. It will play a key role in building NWA cargo business in the Alaska market, the trans-Pacific market and the trans-continental market.

New Routes and Services

There was little route case activity in 1974 as the Civil Aeronautics Board maintained its virtual moratorium in this area.

The opportunity for Northwest Orient to reinstate its service to Edmonton, Alberta, Canada did come, however, as a result of the U.S. — Canadian bilateral air rights treaty being signed.

Non-stop service to Edmonton from the Twin Cities of Minneapolis/St. Paul was inaugurated on June 7, 1974, with the flight continuing on non-stop to Anchorage, Alaska. This new service established links between two important oil centers — Edmonton and Anchorage — and between the Upper Midwest and western Canada for trade and commerce.

New non-stop service between Winnipeg, Manitoba, Canada and Chicago was also made possible by the new bilateral agreement. It was inaugurated on June 1, 1974.

New Labor Agreements

Collective bargaining agreements were signed with ten classes or crafts of NWA employees in 1974. Negotiations are currently being conducted with five groups of NWA employees — among them pilots, cabin attendants, clerical and agent employees.

System employment for the Company was 11,515 at year end, 1974, compared to 11,263 employees at year end, 1973. A total of 902 employees were nationals from Orient countries.

Affirmative Action Broadened

Substantial progress was made in extending the Company's Affirmative Action Program.

The increased number of minorities and women in positions throughout the airline is a direct result of this program and our conscientious effort to hire and promote qualified candidates.

The Company has participated in college recruiting and in a number of national and community organizations involved with equal opportunity.

Northwest Orient cabin attendants model new uniforms.

Officer, Director Changes

A.E. Floan stepped down in May, 1974 after outstanding service on the Board of Directors for 31 years. His valuable counsel will not be lost to the Company, however, as he will continue to serve as Secretary of the corporation.

Melvin R. Laird was elected to replace Mr. Floan on the Board of Directors. Mr. Laird is a former U.S. Secretary of Defense and a former Congressman from Wisconsin with 18 years of service. He now serves as Senior Counsellor, — National and International Affairs, Reader's Digest, Inc.

Frank C. Judd, Vice President — Maintenance and Engineering, retired on April 1, 1974 after an illustrious career that spanned 42 years with Northwest Orient. He had held key management positions in flight operations, station operations and maintenance and engineering after originally joining the Company as a pilot in 1932.

William E. Huskins, Jr. was named to replace Mr. Judd. Mr. Huskins, although only 49, has 28 years experience with the Company and most recently was Vice President — Communications and Computer Services.

Robert J. Glischinski was elected to the position of Vice President — Communications and Computer Services. He is a veteran of 34 years with Northwest Orient and had been Director of Communications prior to his promotion.

Outlook for 1975

Traffic for the early part of 1975 has not kept pace with the same period last year. This has been the experience of nearly all U.S. air carriers.

Airline business is particularly responsive to the state of the economy. It will take a general business upturn to bring about a very substantial improvement in revenues and earnings.

The key to profitable performance for airlines in 1975, more than ever before, will be the ability — and willingness — to deal with budgets and cost controls. These have been historical strengths of Northwest Orient Airlines.

In 1974, as in most recent years, your Company has achieved the lowest breakeven operating weight load factor in the U.S. airline industry — 36.9 per cent.

That operating efficiency, plus the dedication to gain a larger share of the existing market, will make 1975 a profitable — if not record setting — year for your Company.

Sincerely,

Donald W. Nyrop

Donald W. Nyrop

March 15, 1975

Sales Records Set in 1974 for Both Passenger, Cargo; Growth Well Above Industry's

Total revenues for Northwest Orient were at an all-time high in 1974 with a figure of $759 million, compared to $584 million in 1973, the previous record.

The primary factors in this growth were:

- An increase in schedules utilizing the new wide-bodied 747 and DC 10-40 aircraft.
- The development of Convention Central, a new and improved technique in business meeting and convention travel sales.
- The traffic stimulus provided by Expo '74 in Spokane.
- New traffic generated by commencement of work on the Alaska pipeline.
- Expansion of package tour programs, which increased participation in the pleasure travel market.
- Creation of a dynamic new advertising program using the theme "We Give You Half The World".

Agency and Interline Sales

Passenger revenues from travel agency sales increased in excess of 35 per cent during 1974. This rate of growth, substantially exceeding industry averages, was generated by a wide range of sales activities to educate, assist and personally familiarize travel agents with Northwest Orient services and destinations.

Promotional activities directed toward the travel industry included the presentation of Northwest Orient "Travel Fairs" during the fall of 1974, introducing the company's new tour and cruise vacation products to more than 4,000 travel agents throughout the midwest and east. These "Travel Fairs" are unique because they reach travel agents in the smaller cities and towns, in addition to major metropolitan areas.

Northwest Orient schedule displays in official industry scheduled publications were greatly increased during 1974. International connecting schedules between domestic U.S. points and points in the Orient were increased by more than 30 per cent, including the first published connecting schedules by a U.S. carrier into Peking and Shanghai from major U.S. cities on Northwest Orient routes.

Air Cargo

Air cargo revenues in 1974 were $76.2 million, representing a 38 per cent increase over 1973 revenues of $55.3 million. Revenues from freight forwarders increased 66 per cent over 1973, reflecting the greater acceptance of our improved cargo services by the professionals serving public shipping requirements.

Important steps were taken in 1974 to prepare for introduction of the 747F all-cargo service. Interline agreements have been signed with 34 trucking firms to deliver cargo traffic to Northwest Orient from offline points. A "Cargo Central" facility has been established allowing shippers throughout the U.S. to contact Northwest Orient toll free to obtain rate and schedule information.

Tour Sales

A separate Tour Sales Division was established within the Sales Department to facilitate Northwest Orient's growth in the vacation, pleasure travel market. New tour brochure distribution systems were implemented to place tour offerings more efficiently at point-of-sale locations and into the hands of potential customers.

The number of group and individual tour passengers on Northwest Orient increased 20 per cent over 1973. In

NWA 'Travel Fairs' attracted more than 4,000 travel agents in 1974.

One of the most unique exhibits at Spokane's EXPO '74 was NWA's authentic Chinese junk.

Hong Kong busses became NWA mobile billboards, promoting 747 services.

1974, Northwest Orient had the industry's best selling, popular priced Orient tour programs. Hawaii tour programs continued to be very much in demand and were instrumental in Northwest Orient increasing its share of the Hawaii market.

New and expanded package tour developments during 1974 included East Coast, Florida/Caribbean, Air-Sea brochures, California and Ski tours. A most popular tour was the Fly/Drive package featuring rental car and family-type motor inns. Northwest Orient now offers Fly/Drive tours to California, Florida, and the Pacific Northwest, plus a nationwide program including all our on-line cities.

Convention Sales

Convention Central, a nationwide, toll free reservation and assistance center for firms and individuals arranging conventions, completed its first year of operation. Convention Central produced $5 million dollars in new revenue for Northwest Orient in 1974.

To capitalize on the superiority of Northwest Orient's Convention program, an advertising campaign was inaugurated in several meeting-planner publications. This advertising program has successfully established Northwest Orient as a leading convention carrier.

A new corporate meeting program was instituted in September, 1974 and an aggressive sales solicitation campaign is now underway to establish Northwest Orient Airlines as a major competitor in this growing market.

Expo '74 Exhibit

At Expo '74, the World's Fair held at Spokane, Washington, between May and November, Northwest Orient's presentation, though one of the smallest at the Fair, captivated visitors and was featured in much of the resulting press coverage.

The exhibit, an authentic Chinese Junk sailing vessel, was purchased and renovated in Hong Kong, then trans-shipped 8,000 miles to rest in the Spokane River at Expo '74. As many as 7,000 persons per day toured the vessel's decks and cabins. At the conclusion of Expo '74, the Junk was sold for slightly more than its original purchase price.

Sales and Marketing Highlights
(Continued)

Advertising

Northwest Orient adopted the coordinating theme "We Give You Half The World" in all its advertising and sales promotion in 1974. This was conceived to project the size and stature of the airline.

It influenced an increase in television advertising, and the production of a movie for showing to travel agency and interline personnel. The movie was featured in a country-wide series of live "Travel Fairs" in which all major destinations were presented to the travel industry.

Specially composed theme music changed the sound of Northwest Orient radio commercials, and in the Orient the theme adaptation "We Give You The Best Of Both Worlds" underlined the Company's advertising message. However, our advertising continued to accent schedules, wide-cabin equipment superiority, and competitive fares in price conscious markets.

Cooperative tour support advertising with Orient and domestic wholesalers and cruise ship lines was expanded. This included extensive television advertising in Japan for the Hawaii group tour market, and in the U.S. midwest for Fly/Drive tours to Florida and California, and for Caribbean tours, primarily cruises.

Advertising in 1974 spotlighted NWA's schedules and fleet supremacy.

Charter Sales

Many successful charter programs were carried out in 1974. Noteworthy was a thirteen-flight Orient program, with a major tour operator, which, alone, generated charter revenue in excess of one million dollars.

Northwest Orient was the official carrier for the Minnesota Vikings and Baltimore Colts professional football teams. During 1974, sports teams of all types traveled more extensively than ever before on scheduled service and, as a result, Northwest Orient registered significant revenue gains from this traffic.

Support for sales efforts is prime responsibility of NWA advertising department.

Service Highlights

Flights to Edmonton Inaugurated in June

Non-stop jet service from the Twin Cities of Minneapolis/St. Paul to Edmonton, Alberta, Canada was inaugurated by Northwest Orient on June 7.

The new service became possible as the result of a new bilateral air rights agreement negotiated by the U.S. and Canadian governments.

An important new link between Edmonton and Anchorage, Alaska — both important oil centers — has also been forged with this new service which originates in the Twin Cities.

A city of more than 500,000 population, Edmonton is a dynamic, rapidly growing city that serves as western Canada's major distribution center. It is also the gateway to Jasper National Park, a major recreational area in both winter and summer.

Edmonton – newest city on NWA's route structure – is major oil and gas exploration center.

NWA Is Recommended for Trans-Atlantic Routes

The Bureau of Operating Rights of the Civil Aeronautics Board has recommended that Northwest Orient be authorized to provide air service between the United States and Norway, Sweden, Denmark, Finland and Iceland.

In its statement of position in the Trans-Atlantic Route Proceeding, the Bureau recommended that "Northwest Airlines replace Pan American in Scandinavia and Finland, and should be allowed to provide Los Angeles, Seattle, Chicago and New York service to Iceland, Copenhagen, Oslo, Bergen, Stockholm and Helsinki."

Oral argument of the case will be April 9 and a final decision is expected late in 1975.

Other Route Cases Pending Before CAB

Other route investigations in which Northwest Orient is an applicant for new authority remain undecided by the Civil Aeronautics Board. The status of these cases is as follows:

- Service to Saipan Case. (This case is now before the Civil Aeronautics Board for decision.)
- Miami-Los Angeles Competitive Non-stop Case. (Oral argument before the Civil Aeronautics Board will be held on April 3.)
- Reopened Service to Omaha and Des Moines Case. (This case is awaiting a date for filing of briefs to the Civil Aeronautics Board.)
- Honolulu-Vancouver Route Proceeding. (Hearings before an Administrative Law Judge will begin on April 29.)
- The Atlanta-Fort Myers Case. (Hearings before an Administrative Law Judge will begin on May 20.)

In addition, final order of the Civil Aeronautics Board which denied all applications for first competitive authority in the Remanded Atlanta-Detroit/Cleveland/Cincinnati Investigation is now before the Court of Appeal for review.

Financial Review for 1974

Management's Discussion

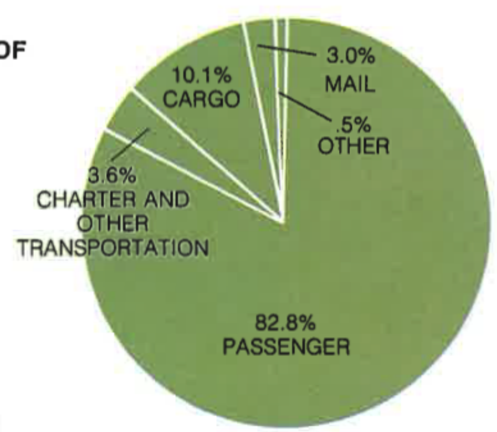
The ten-year summary on Pages 24 and 25 of this report shows the operating trends of revenues and expenses. The sizeable increases in revenues, expenses and earnings in 1973 compared with 1972 is primarily the result of severely curtailed operations in 1972 due to a pilots strike from June 30 through October 2, 1972. Therefore, many of the comparisons of operations between 1972 and 1973 are not meaningful and will not be discussed further. Material variances or trends between 1973 and 1974 will be emphasized in the discussion in the balance of this financial review.

Revenues

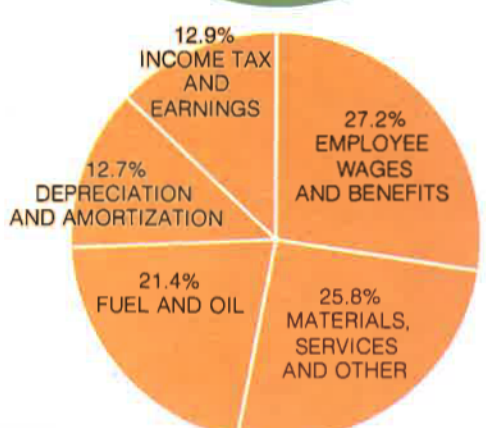
Total operating revenues of $758,990,979 for 1974 represent an all-time high and compares with $584,348,065 for 1973.

Passenger, cargo and mail revenues all showed substantial increases, derived from increased traffic in all categories and increased fares and rates as permitted by the CAB during the year. The system passenger-mile yield increased to 6.81¢ in 1974 compared to 5.92¢ in 1973 and 6.09¢ in 1972. The revenue ton-mile yield for mail and cargo was 23.87¢ and 23.99¢ respectively, and compares with 20.85¢ and 21.95¢ in 1973 and 20.63¢ and 22.98¢ in 1972.

SOURCE AND DISTRIBUTION OF REVENUES



SOURCE



DISTRIBUTION

Revenues from charter and other transportation decreased slightly to $27,321,686 from $28,516,986 in 1973. This revenue includes $12,811,474 from commercial charters and other income and $14,510,212 from military charters which compares with $12,599,537 and $15,917,449 respectively, a year ago. The Military Airlift Contract expires on June 30, 1975 and the Company will again seek a renewal contract for the Government's 1976 fiscal year.

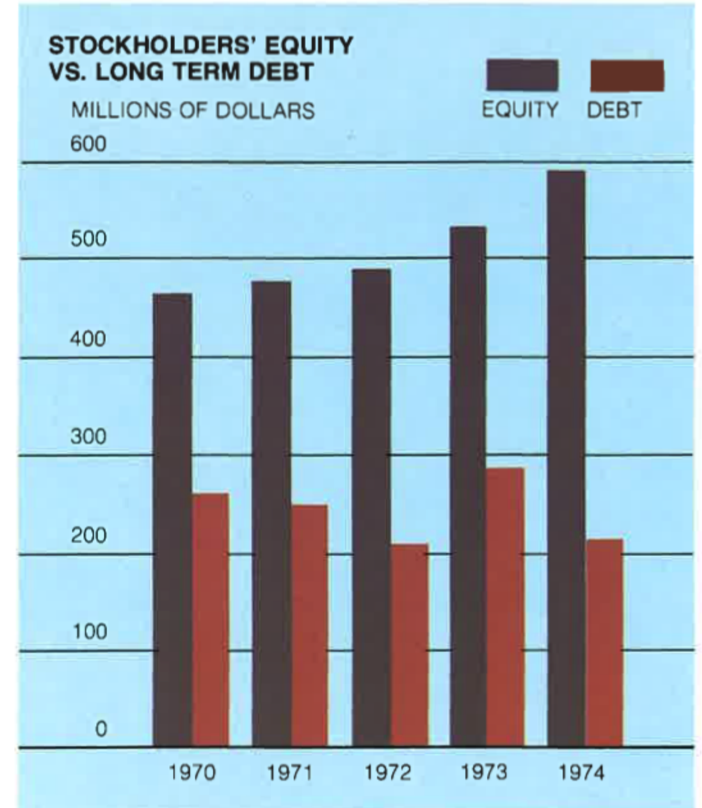
Fares and Rates

The Civil Aeronautics Board approved various fare and rate increases which were placed into effect in 1974, as a result of the spiraling inflationary costs. The major item was the fuel price escalation. The principal fare and rate adjustments were placed into effect for domestic operations in January, April, June and November and for international operations in January, March, July and November. Other lesser fare and rate increases were made effective during the year. Further fare and rate increases may be required in 1975 if the inflationary cost trends continue.

Expenses

Operating expenses in 1974 amounted to $681,205,682 compared with $533,042,805 in 1973.

Depreciation and amortization expenses amounted to $96,212,517 compared with $87,641,813 in the prior year. This increased expense results primarily from the addition of seven new Douglas DC 10-40 wide-bodied airplanes to our fleet. Maintenance expense in 1974 amounted to $71,355,832 and compares with $63,530,814 in 1973 and $47,503,176 in 1972. These increases reflect the inflationary trends in cost of labor and materials and abnormally low costs in 1972 from reduced operations due to a strike. Flying operations expense increased to $243,517,374 from $155,066,543 in 1973. This is primarily the result of a substantial inflationary increase in the cost of fuel to $159,752,940 from $78,134,470 in 1973. Jet fuel cost was 28.92¢ per gallon in December 1974 compared with 15.61¢ per gallon in December 1973. The average cost per gallon of fuel used in 1974 increased 115% when compared with the same average cost in 1973.



Northwest Airlines is continuing to experience inflationary trends in all cost areas including wages, rentals, services, materials and supplies. Operating expenses per available ton-mile increased to 19.9¢ in 1974 compared with 15.8¢ in 1973. The Company is exercising stringent cost control policies and procedures to minimize the inflationary effect and it continues to be a leader in low cost levels in the airline industry. The Civil Aeronautics Board, as previously stated, has approved fare and rate increases in both domestic and international operations in recognition of these escalating costs.

Interest on long-term debt, net of capitalized interest, increased to $19,553,814 in 1974 from $14,758,082 in 1973 and $8,355,485 in 1972. This expense varied between years based primarily on the amount of debt outstanding and the prime commercial loan rate. The prime interest rates began increasing steadily from a low of 4.5% in February 1972 to a high of 12.0% in July 1974.

Earnings and Dividends

Earnings in 1974 amounted to $64,747,629 or a record $3.00 per average share of common stock outstanding, compared with $51,850,053 and $2.40 per share in 1973.

The Company continued its aircraft sales program as a result of the upgrading of our aircraft fleet with the new and more productive wide-bodied DC 10-40 airplanes. Gain from disposals of property before related income taxes increased to $39,161,170 and compares with $18,683,982 in 1973 and $9,923,380 in 1972. The disposal gains were primarily from the sale of aircraft and spare parts.

Northwest Airlines continued its dividend payment policy in 1974 with quarterly payments resulting in an annual rate of 45¢ per common share. These payments represent the 20th consecutive year in which the Company has paid dividends. The principal market on which the Company's common stock is traded is the New York Stock Exchange. The following table shows the high and low sales prices on this exchange for each quarter of the years 1974 and 1973 and also shows the dividends paid per share for the same periods:

	Sales Price of Common Shares				Dividends Per Share	
	1974		1973			
Quarter	High	Low	High	Low	1974	1973
First	25⅞	16⅝	36	23⅛	$.1125	$.1125
Second	27¼	22¼	30¼	18⅞	.1125	.1125
Third	22⅞	12½	26½	18	.1125	.1125
Fourth	18	10⅝	27¾	17⅞	.1125	.1125

Financial Review for 1974

(Continued)

Taxes on Earnings

Taxes on earnings in 1974 amounted to $33,631,100 compared with $3,830,100 in 1973. The 1974 income tax is made up of a normal provision of $47,450,400 of which $36,215,400 has been deferred for future payment, due primarily to the Company's use of accelerated methods for computation of depreciation for income tax purposes. Investment tax credits were applied against the income tax provision amounting to $13,819,300 in 1974 compared with $22,986,800 in 1973. These credits in 1974 included $11,634,500 generated in the current year primarily from the purchase of seven DC 10-40 airplanes with spare parts and $2,184,800 from amortization of investment tax credits from 1968 and prior. See Notes A and E to the Financial Statements.

Investment tax credits which cannot be applied to income tax returns, but which were offset against deferred income taxes for future application, amount to $41,692,700 at the end of 1974.

Cash Flow

Northwest Airlines generated funds in the current year from all sources amounting to $217,523,429.

The Company continues to benefit from the policy of owning its own equipment rather than through leasing arrangements. This provides additional funds in excess of earnings through depreciation charges which, with amortization, amounted to $96,212,517 in 1974 and $87,641,813 in 1973. Disposals of previously purchased equipment provided funds of $69,043,853 in the current year and compares with $41,373,848 in 1973.

Application of funds in 1974 amounted to $229,706,680 which was made up of $143,119,179 for the purchase of new flight equipment, ground property additions and advance deposits on additional flight equipment, reduction of long-term debt by $70,100,000, payment of cash dividends totaling $9,721,943 and other applications of $6,765,558.

Traffic

The Company's traffic results in 1974 showed gains in all the scheduled services.

Revenue passenger-miles in scheduled services increased by 14.6% and the passenger load factor increased from 40.9% in 1973 to 45.8% in 1974. Cargo and mail ton-miles in scheduled service increased 21.5% over the prior year. Scheduled available ton-miles increased 3.4% in spite of a 3.3% reduction in scheduled plane miles flown. This increased productivity is the result of our adding seven new DC 10-40's to our fleet and the sale of 12 older narrow-bodied and less productive aircraft.

Financial Condition

Northwest Airlines in 1974 continued to show improvement in its financial position, which ranks as one of the best in the airline industry.

Previous financial arrangements and internal cash flow provided the Company with funds for all of its financial needs in 1974 including the purchase of seven Douglas DC 10-40 aircraft and related spare parts. The continued improvement in the financial position resulted in the Company being able to reduce the revolving credit agreement with banks from a previous maximum of $250 million to a new and reduced maximum of $200 million. Details of the Company's long-term debt arrangements are described in Note B to the Financial Statements.

The present financial arrangements, along with internally generated funds, are expected to cover the purchase from Boeing Aircraft Company of three 747F all-cargo airplanes and eight 727-200 passenger airplanes which are planned for delivery in 1975. These airplanes, with spare engines, will require an expenditure of $155,585,700 of which $6,641,000 has been deposited with manufacturers at year end.

The stockholders' equity at December 31, 1974, was $589,990,898 compared with $534,965,212 in 1973 which resulted in an increased book value per common share of $27.31 compared to $24.76 a year ago. Outstanding debt at year end amounted to $229,000,000 compared with $287,000,000 in 1973. This outstanding debt amounts to 38.8% of stockholder equity and compares with 53.6% in 1973. This favorable ratio of debt to equity is the lowest of the U.S. trunk-line carriers.

Statement of Earnings

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31 1974	1973
Operating Revenues		
Passenger	$628,488,358	$476,793,651
Cargo	76,157,097	55,280,382
Mail	22,911,103	18,414,621
Charter and other transportation	27,321,686	28,516,986
Mutual Aid Agreement	(1,529,882)	(2,692,100)
Nontransport	5,642,617	8,034,525
	758,990,979	584,348,065
Operating Expenses		
Flying operations	243,517,374	155,066,543
Maintenance	71,355,832	63,530,814
Passenger service	69,146,474	56,970,838
Aircraft and traffic servicing	110,776,802	96,407,948
Reservations, sales and advertising	70,255,493	57,390,985
Administrative and general	19,941,190	16,033,864
Depreciation and amortization	96,212,517	87,641,813
	681,205,682	533,042,805
	77,785,297	51,305,260
Other Income and (Deductions)		
Interest on long-term debt, net of capitalized interest of $2,429,994 (1973 — $5,128,302) — Note A	(19,553,814)	(14,758,082)
Disposals of property	39,161,170	18,683,982
Other	986,076	448,993
	20,593,432	4,374,893
Earnings Before Taxes	98,378,729	55,680,153
Taxes on Earnings, including deferred taxes and investment credit — Note E	33,631,100	3,830,100
Net Earnings for the Year	$ 64,747,629	$ 51,850,053
Average shares of Common Stock outstanding during the year	21,604,136	21,604,136
Earnings per share of Common Stock	$3.00	$2.40

See notes to financial statements.

Statement of Financial Position

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

ASSETS	December 31 1974	1973
Current Assets		
Cash and short-term investments	$ 40,070,177	$ 37,819,883
Accounts receivable, less allowance of $950,000 (1973 - $800,000)	59,363,639	55,103,729
Flight equipment spare parts at average cost, less allowances for depreciation of $9,262,733 (1973 - $7,607,420)	21,147,524	16,119,104
Maintenance and operating supplies at average cost	6,038,606	4,891,192
Prepaid expenses	2,190,900	3,145,730
Total Current Assets	128,810,846	117,079,638
Other Assets	8,783,172	3,863,527
Property and Equipment		
Flight equipment at cost	1,282,556,385	1,216,631,982
Less allowances for depreciation	374,621,819	355,400,549
	907,934,566	861,231,433
Advance payments on new flight equipment — Note D	6,641,028	36,480,999
	914,575,594	897,712,432
Other property and equipment at cost	112,129,133	101,437,028
Less allowances for depreciation	51,359,908	44,135,491
	60,769,225	57,301,537
	975,344,819	955,013,969
Deferred Charges		
Training and development costs	2,759,311	4,379,311
Rentals	5,455,020	5,295,978
	8,214,331	9,675,289
	$1,121,153,168	$1,085,632,423

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31 1974	1973
Current Liabilities		
Accounts payable and accrued expenses	$ 93,483,456	$ 93,410,975
Employee compensation	27,195,640	19,804,754
Unredeemed ticket liability	13,410,376	11,250,152
Income taxes	8,881,198	6,690,330
Current maturities of long-term debt	15,100,000	3,000,000
Total Current Liabilities	158,070,670	134,156,211
Long-Term Debt — Note B	213,900,000	284,000,000
Deferred Credits — Note E		
Income taxes	157,294,500	128,429,100
Investment credit	1,897,100	4,081,900
	159,191,600	132,511,000
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	438,844,894	383,819,208
	589,990,898	534,965,212
Commitments — Note D		
Leases — Note F		
Contingencies — Note G		
	$1,121,153,168	$1,085,632,423

See notes to financial statements.

Statement of Changes in Financial Position

NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

	Year Ended December 31 1974	1973
Source of Funds		
Net earnings	$ 64,747,629	$ 51,850,053
Items not requiring current funds:		
Depreciation and amortization:		
Aircraft and related flight equipment	86,341,066	78,787,383
Other	9,871,451	8,854,430
Deferred income taxes	28,865,400	553,200
Deferred investment credit	(2,184,800)	(3,116,300)
Total from Operations	187,640,746	136,928,766
Issuance of long-term debt	-	79,000,000
Disposals of operating property — book value	29,882,683	22,689,866
Total of Sources	217,523,429	238,618,632
Application of Funds		
Flight equipment and other property additions	136,518,651	221,794,269
Advance deposits on aircraft	6,600,528	26,961,743
Deferred DC-10 training costs	-	2,473,520
Other assets and deferred charges	5,078,687	3,003,661
Cash dividends	9,721,943	9,722,027
Reduction of long-term debt — Note B	70,100,000	3,000,000
Other	1,686,871	1,656,843
Total of Applications	229,706,680	268,612,063
Decrease in Working Capital	($ 12,183,251)	($ 29,993,431)
Changes in working capital consist of:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 2,250,294	$ 14,479,235
Receivables	4,259,910	6,188,956
Inventories	6,175,834	(2,233,274)
Prepaid expenses	(954,830)	1,221,635
	11,731,208	19,656,552
Increase in current liabilities:		
Accounts payable and accrued expenses	72,481	40,080,908
Other accrued liabilities	9,581,754	6,884,752
Unredeemed ticket liability	2,160,224	2,684,323
Current maturities of long-term debt	12,100,000	-
	23,914,459	49,649,983
Decrease in working capital	($12,183,251)	($29,993,431)

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 December 31, 1972	21,604,136	$27,005,170	$124,140,834	$341,691,182
Net earnings for 1973				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
Net earnings for 1974				64,747,629
Cash dividends — $.45 a share				(9,721,943)
Balance December 31, 1974	21,604,136	$27,005,170	$124,140,834	$438,844,894

See notes to financial statements.

APPLICATION OF INVESTMENT TAX CREDIT

Period	Available*	Reflected in Net Earnings†
1962-1973	$94,467,800	$90,385,900
1974	11,634,500	13,819,300
Total	$106,102,300	$104,205,200
To Net Earnings	104,205,200	
To Be Amortized	$ 1,897,100	

*Investment credits not applied on tax returns but offset against deferred taxes through 1974, amount to $41,692,700. 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 1973	1974	On Order
JET:			
707-320B & 320C	23	13	—
720B	2	—	—
727 & 727C-100	32	32	—
727-200	24	23	8
747	15	15	—
DC 10-40	15	22	—
747F	—	—	3
Total Jet	111	105	11

Notes to Financial Statements
NORTHWEST AIRLINES, INC. AND SUBSIDIARIES

Years Ended December 31, 1974 and 1973

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 year-end rates of exchange. 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.

Interest on the Company's long-term debt relating to deposits advanced to manufacturers prior to the delivery of new aircraft is capitalized as cost of the assets and is amortized over the useful life of the aircraft. If the Company did not follow a policy of capitalizing interest, net earnings would have been reduced by $11,500 ($.00 a share) in 1974 and $1,642,900 ($.08 a share) in 1973.

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 using for tax purposes accelerated depreciation methods and deducting currently the interest capitalized as cost of aircraft.

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.

Earned Revenue
Passenger and cargo sales are recognized as earned revenue when the transportation is provided.

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 are excluded from the computation since their effect is not significant.

Note B — Long-Term Debt	December 31 **1974**	**1973**
Revolving Credit Agreement with banks provides for revolving credit of $200 million (1973 — $250 million) reducing $15.9 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. As of December 31, 1974 the agreement makes available an additional $119 million for working capital and other purposes	$ 81,000,000	$111,000,000
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 ⅞% per annum on borrowings over the term of the loan. Current payments in excess of that rate are classified as other assets	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%	13,000,000	16,000,000
Credit agreements with aircraft and aircraft engine manufacturers financing purchases from those manufacturers through the issuance of five-year notes	35,000,000	60,000,000
	229,000,000	287,000,000
Less amounts due within one year included in current liabilities	15,100,000	3,000,000
	$213,900,000	$284,000,000

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. At December 31, 1974 approximately $84,700,000 of retained earnings were not restricted under terms of the long-term debt agreements.

The aggregate repayment of the outstanding long-term debt over the years 1976 through 1979 is $25,900,000, $3,000,000, $44,000,000 and $41,000,000, respectively.

Note C — Stockholders' Equity

	Shares 1974	Shares 1973
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, 1973	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
Lapsed	(13,200)	20.06/32.375
Outstanding December 31, 1974	36,700	20.06
Options exercisable:		
At December 31, 1973	12,400	32.375
At December 31, 1974	18,350	20.06

Shares available for future stock options and other plans were 373,436 and 360,236 at December 31, 1974 and 1973, respectively, of which 113,300 and 112,500, respectively, were available for additional grants under the 1973 Stock Option Plan.

Note D — Commitments

At December 31, 1974 the Company has contracted to purchase jet aircraft for delivery in 1975 which, with spare engines, will require expenditures of $155,585,700. Of this amount, $6,641,000 has been deposited with manufacturers and the remainder becomes payable in 1975.

Notes to Financial Statements

Note E — Taxes on Earnings

The provision for taxes on earnings consists of the following:

	Year Ended December 31 1974	1973
Current:		
Provision for the year	$11,235,000	$12,712,600
Investment credit flow-through	(4,992,600)	(5,729,600)
	6,242,400	6,983,000
Deferred:		
Provision for the year	36,215,400	14,104,300
Unapplied investment credit flow-through	(6,641,900)	(14,140,900)
	29,573,500	(36,600)
Deferred investment credit being amortized over eight years	(2,184,800)	(3,116,300)
	$33,631,100	$ 3,830,100

Investment credits not applied on tax returns but offset against deferred income taxes at December 31, 1974 will expire $8,920,200 — 1978, $3,879,200 — 1979, $19,975,600 — 1980 and $8,917,700 — 1981.

Exclusive of investment credit, the Company's effective tax rate is 48.2% for both 1974 and 1973 as compared to the federal statutory rate of 48%.

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 1974	1973
Air terminal and main base facilities (financing leases)	$ 8,593,000	$ 7,533,000
Ticket offices and miscellaneous equipment	4,817,000	4,140,000
Total	$13,410,000	$11,673,000

Future minimum rental commitments at December 31, 1974 for all non-cancellable leases follows:

Notes to Financial Statements

Note F — Leases (Continued)

	Air Terminal and Main Base Facilities	Ticket Offices and Miscellaneous Equipment	Total
1975	$ 9,450,000	$ 2,999,000	$ 12,449,000
1976	8,956,000	2,350,000	11,306,000
1977	8,708,000	1,043,000	9,751,000
1978	8,707,000	951,000	9,658,000
1979	8,189,000	718,000	8,907,000
Five years 1980-84	38,669,000	1,650,000	40,319,000
Five years 1985-89	31,036,000	390,000	31,426,000
Five years 1990-94	15,899,000		15,899,000
Remainder	22,263,000		22,263,000
	$151,877,000	$10,101,000	$161,978,000

The estimated present values of the net fixed minimum rental commitments for all non-cancellable financing leases (terminal facilities and other buildings) was $81,176,000 at December 31, 1974 and $77,626,000 at December 31, 1973. The present values were computed after reducing total rental commitments by estimated amounts applicable to the lessors' payments of taxes, insurance, maintenance and other operating costs. The weighted average interest rate used was 6.54% for 1974 and 5.19% for 1973. The range of interest rates was 2.8% to 10% for both years. The impact on net earnings if financing leases had been capitalized was not material for either year.

Note G — Contingencies

The Company is a defendant in a class action brought by certain of its female cabin attendants alleging violations of certain provisions of the Equal Pay Act of 1963 and the Civil Rights Act of 1964. The trial judge held that provisions of both statutes had been violated by the Company. The Company has appealed that decision. Counsel for the Company have advised that neither the timing of the final outcome nor the consequences of the lawsuit are presently determinable. However, Company management does not believe any resulting liability will have a material effect on the Company's financial position.

The Company is a defendant, along with other airlines, in a number of legal actions alleging noise and air pollution resulting from aircraft operations around certain airports, excessive air fares, violation of anti-trust laws, and matters regarding the Mutual Aid Agreement among airlines. Company management does not believe that these actions will result in a material liability to the Company.

Note H — Pension Plans

The total pension expense was $17,460,589 (1973 — $14,118,050). As of the most recent valuation date the market value of the assets in all pension funds was approximately $104,619,600, and the actuarially computed value of vested benefits exceeded applicable assets by approximately $11,814,500. The value of vested benefits was increased during the year as a result of increased benefits provided under certain new labor contracts (no material effect on net earnings). The effect on the Company's future pension expense of the Employee Retirement Income Security Act of 1974 has not been determined but, in the opinion of Company management based upon a report from its consulting actuaries, the effect is not expected to be material.

Accountants' Report

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

We have examined the consolidated statements of financial position of Northwest Airlines, Inc. and subsidiaries as of December 31, 1974, and December 31, 1973, and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. 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 financial statements referred to above present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiaries at December 31, 1974, and December 31, 1973, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst
Saint Paul, Minnesota
February 17, 1975

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)

	1974	1973	1972†	1971†	1970†	1969	1968	1967	1966	1965
Operating Revenues										
Passenger	$ 628,488	$ 476,794	$ 277,891	$ 331,966	$ 260,335	$ 350,504	$ 301,277	$ 275,873	$ 216,239	$ 198,457
Cargo	76,157	55,280	34,694	39,641	30,053	51,006	43,902	38,118	29,515	24,779
Mail	22,911	18,415	13,309	19,443	18,958	29,386	28,605	26,898	22,557	17,421
Charter and other transportation	27,322	28,517	20,009	31,588	20,800	35,090	41,060	41,799	39,205	21,851
Mutual aid agreement	(1,530)	(2,692)	43,629	(462)	46,325	(509)	—	—	2,491	(717)
Nontransport	5,643	8,034	2,969	3,343	2,569	2,461	1,446	1,291	1,312	1,207
Total Operating Revenues	$ 758,991	$ 584,348	$ 392,501	$ 425,519	$ 379,040	$ 467,938	$ 416,290	$ 383,979	$ 311,319	$ 262,998
Operating Expenses										
Depreciation and amortization	$ 96,213	$ 87,642	$ 81,054	$ 77,245	$ 69,173	$ 60,833	$ 49,817	$ 41,252	$ 33,195	$ 24,011
Other	584,993	445,401	296,348	330,108	258,784	324,979	268,529	229,969	177,469	153,140
Total Operating Expenses	$ 681,206	$ 533,043	$ 377,402	$ 407,353	$ 327,957	$ 385,812	$ 318,346	$ 271,221	$ 210,664	$ 177,151
Operating income	$ 77,785	$ 51,305	$ 15,099	$ 18,166	$ 51,083	$ 82,126	$ 97,944	$ 112,758	$ 100,655	$ 85,847
Interest expense on Long-Term Debt	(19,554)	(14,758)	(8,356)	(13,051)	(6,296)	(2,334)	(3,894)	(3,725)	(3,268)	(1,822)
Other income and (deductions) — net	40,148	19,133	10,510	6,685	(227)	1,181	674	1,334	2,025	2,046
Earnings before taxes	$ 98,379	$ 55,680	$ 17,253	$ 11,800	$ 44,560	$ 80,973	$ 94,724	$ 110,367	$ 99,412	$ 86,071
Income taxes	33,631	3,830	(429)	(9,561)	121	29,507	44,673	51,651	46,276	40,377
Net Earnings (1)	$ 64,748	$ 51,850	$ 17,682	$ 21,361	$ 44,439	$ 51,466	$ 50,051	$ 58,716	$ 53,136	$ 45,694
Earnings per average share as reported each year (1)	$ 3.00	$ 2.40	$ .83	$ 1.01	$ 2.11	$ 2.55	$ 5.47	$ 6.42	$ 5.81	$ 9.99
Cash dividends	9,722	9,722	9,620	9,518	9,465	9,117	7,320	6,405	5,490	3,657
Dividends per share as paid each year	.45	.45	.45	.45	.45	.45	.80	.70	.60	.80
Stockholders' equity	589,991	534,965	492,837	477,054	465,210	426,797	306,717	263,986	212,727	165,081
Number of shares outstanding at end of year	21,604,136	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
Book value per share at end of year (2)	$ 27.31	$ 24.76	$ 22.81	$ 22.56	$ 22.00	$ 20.41	$ 33.52	$ 28.85	$ 23.25	$ 36.08
Recomputed per share figures after stock splits (3)										
Earnings per average share (3)	3.00	2.40	.83	1.01	2.11	2.55	2.74	3.21	2.90	2.50
Dividends per share (3)	.45	.45	.45	.45	.45	.45	.40	.35	.30	.20
Book value per share at end of year (3)	27.31	24.76	22.81	22.56	22.00	20.41	16.76	14.43	11.62	9.02
Assets and Long-Term Debt										
Flight property at cost	$ 1,282,556	$ 1,216,632	$ 1,008,041	$ 1,012,568	$ 929,181	$ 697,938	$ 582,646	$ 467,859	$ 401,476	$ 304,072
Flight property at net book value	907,935	861,231	682,020	709,433	668,129	492,241	424,522	346,029	311,803	233,858
Total assets	1,121,153	1,085,632	920,418	944,302	923,126	742,732	627,538	481,206	422,040	333,311
Long-term debt	213,900	284,000	208,000	252,500	260,915	112,000	160,000	85,000	96,000	72,000
Unit Expenses										
Per available ton-mile	19.9¢	15.8¢	16.9¢	14.5¢	18.0¢	15.2¢	14.6¢	14.5¢	15.6¢	16.4¢
Per revenue ton-mile	48.2¢	42.5¢	49.6¢	42.1¢	43.5¢	34.5¢	30.8¢	30.3¢	30.1¢	33.0¢
Per cent of operating revenues	89.8%	91.2%	96.2%	95.7%	86.5%	82.4%	76.5%	70.6%	67.7%	67.4%
Statistics — Scheduled Services										
Revenue plane-miles (000)	105,295	108,853	79,025	100,992	83,177	123,966	107,646	93,395	67,780	61,653
Available seat-miles (000)	20,016,107	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
Revenue passenger-miles (000)	9,173,875	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
Passenger load factor	45.8%	40.9%	35.2%	35.6%	44.0%	46.0%	50.3%	53.3%	54.6%	53.8%
Revenue passengers carried	8,948,373	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
Freight and express ton-miles (000)	317,437	251,865	150,973	161,345	110,215	198,494	169,416	141,175	108,914	82,715
Total revenue ton-miles (000)	1,330,803	1,140,983	672,035	813,403	655,339	942,050	836,085	709,165	533,556	452,553
Statistics — Total Operations										
Revenue plane-miles (000)	110,519	115,726	84,098	110,045	89,938	135,563	121,077	106,197	77,715	67,125
Available ton-miles (000)	3,431,038	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

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

(1) See Financial Review pages 10 through 12 for Management's Discussion and Analysis of the Summary of Operations.

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

(3) The stock was split "two-for-one" in 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.

Operating Highlights

$2 Million Hangar Expansion Complete

An aerial view of NWA's DC 10-40.

Expansion and modification of three hangars at Northwest Orient's main base in the Twin Cities was completed in 1974. This permits their use for maintenance of the wide-bodied DC 10-40 aircraft as well as smaller jets.

Installation of a "keyhole" in the facia of the three hangars for the added tail height and extension of the hangars to accommodate the nose of the larger jets cost approximately $2 million.

Other Projects — New air freight facilities were completed in Miami, Portland and Edmonton. New jetway loaders were installed in Spokane, San Francisco, Portland and Winnipeg.

Most of the construction of a new $1.7 million facility in Anchorage, combining air freight, reservations and a flight kitchen, was completed during the year.

Computerized Flight Planning Begun

A new program involving use of the computer for flight planning was begun in 1974. It could result in savings up to $6 million annually based on today's aircraft fuel costs. The system is presently being used only on long-haul international segments and a few long-haul domestic flights but it will be expanded in 1975 to include additional flight segments.

Dual Processor Purchased — Purchase and installation of new $2 million Univac 494 dual processing equipment by Northwest Orient provides 180 per cent more computer capacity than was formerly available. The equipment will reduce or eliminate reservations delays during peak periods.

With this purchase of the dual processor, NWA's investment in computer equipment now totals $16.2 million. The system performs not only the reservations function but also collects flight data, performs message switching and other computer processing requirements of the company.

Heart of the reservations office is in Minneapolis/St. Paul headquarters.

The 'keyhole' cut into existing hangars made room for DC 10-40 jets to be maintained.

Electric 'Citi-Cars' are one of the newest kinds of air cargo carried by NWA.

Custom Sales Guide Developed

A custom sales guide was developed and distributed to all NWA reservations offices and ticket offices on June 1, 1974. This guide displays NWA schedules in the most efficient way to maximize the sale of our on-line and inter-line schedules. An annual increase in revenue of $3,900,000 was projected; that estimate was more than doubled by year-end.

Other significant developments in the transportation services area included:

- Further progress in computerized ticket printing. Seventy five per cent of tickets issued in the Twin Cities are now produced in this way.

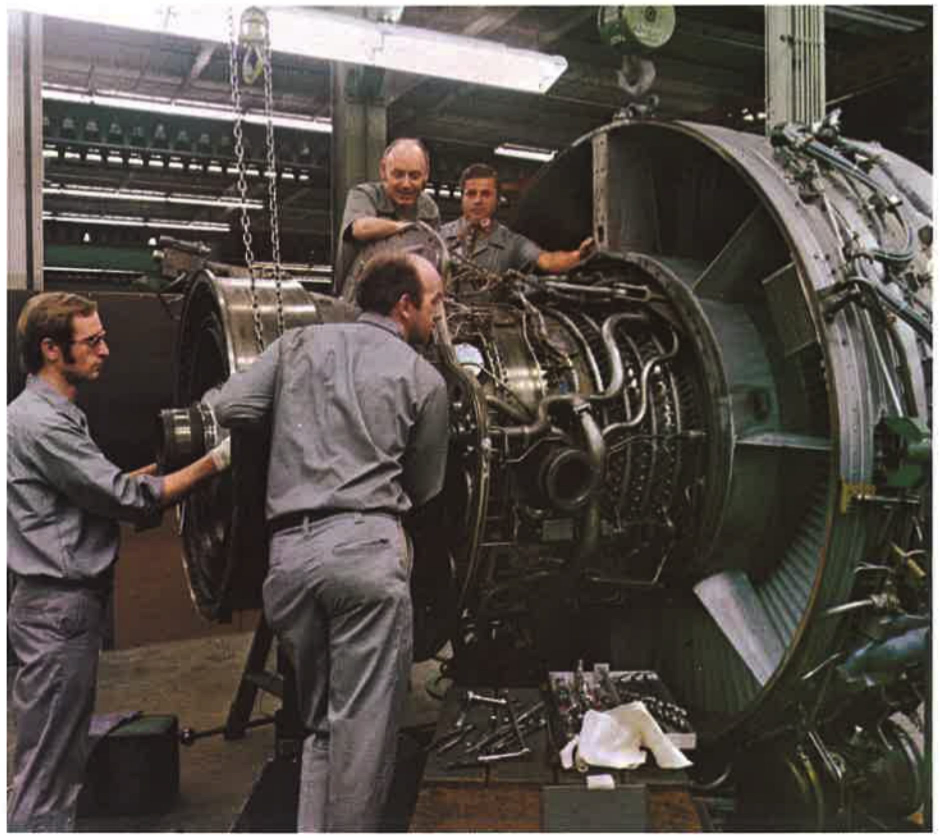
- Construction of a training mock-up for cabin attendants. It is now possible to give annual refresher training and emergency training required by FAA regulations without the use of an actual aircraft as in the past. This represents an annual saving in the thousands of dollars.

- Inauguration of a duty-free in-flight sales program on Orient inter-port flights. Perfume, cigarettes and liquor are currently offered. This program will be expanded to include Tokyo-Honolulu, Seattle-Tokyo and Seattle/Anchorage-Tokyo flights in 1975.

Operating Highlights
(Continued)

Overhaul of the Pratt & Whitney jet engine used on NWA's 747 and DC 10's is complex.

Test console aids NWA mechanics in maintenance of jet fleet.



Engine Performance Tops Industry

Engine performance on Northwest Orient's DC 10-40 fleet continues to reflect the superior performance of our Pratt & Whitney JT9 power plants. NWA is the only U.S. airline to operate both its DC 10 and 747 fleets with this engine. Benefits of that standardization are apparent. Unscheduled engine removal rate on Northwest Orient's DC 10-40 fleet is constantly and significantly below the industry average.

New Concept Introduced — A new procedure aimed at reducing delays attributable to maintenance reasons was introduced in August, 1974. Each day all aircraft with items needing minor repair are reviewed and the next layover location determined. Under the direction of Maintenance Control, trouble-shooting is coordinated and parts shipments are directed to layover stations so that repairs can be made.

This procedure has utilized the resources of stations with small maintenance staffs in keeping airplanes ready for service. In addition to reduction of delays, considerable savings are realized by avoiding the need to carry an inventory of spare parts at all layover stations. The procedure also reduces the need to route an aircraft to a specific station having the needed parts.

Since this program was initiated there has been a substantial reduction in delays, specifically those attributable to maintenance.

Fleet Highlights

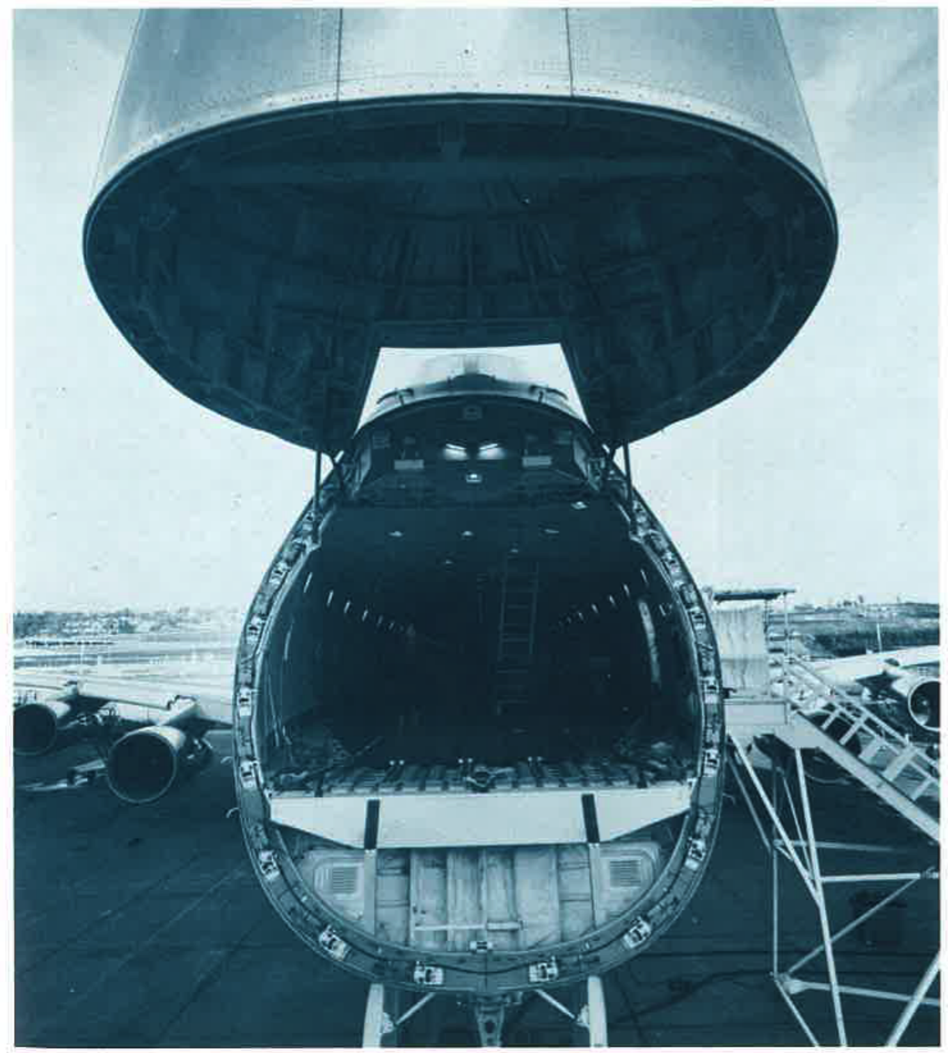
New 747 Jet Freighters to Play Key Role in NWA Cargo Operations

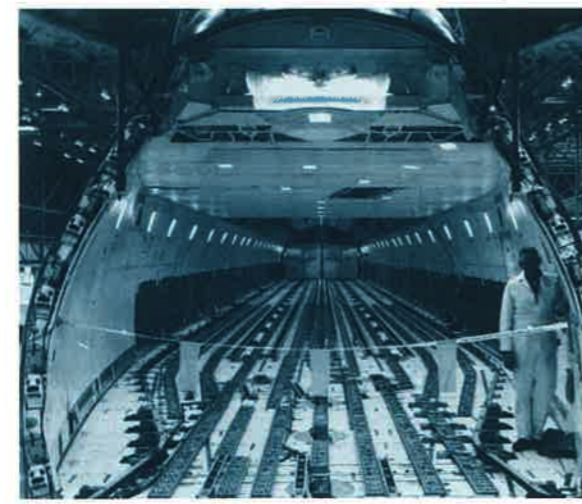
The three all-cargo Boeing 747F aircraft ordered by Northwest Orient will be delivered by August, 1975. They represent an investment of more than $90 million.

The 747F's will have the capability to handle cargo loads up to 11 feet wide, 10 feet high and 180 feet long in the main cargo deck cabin. The main door is nine feet wide, eight feet high and is also the nose of the airplane; its hinge action provides for straight-in nose loading of very large and very long items.

Aft of the left wing is a side-loading cargo door. It is also hinged to open outward and upward. Loads 10 feet high, 10 feet long and 11 feet wide can be accepted through this door.

Pratt & Whitney JT9D-7F engines will power NWA's 747F fleet. These are similar to the engines used on the 747 passenger aircraft but have approximately 2,000 pounds more thrust per powerplant. Freighter engines can be





Hinged nose of the Boeing 747F jet freighters makes loading of big cargo easy. Interior of cargo deck is immense.

Fleet Highlights
(Continued)

used interchangeably with 747 passenger aircraft engines, maintaining the standardization concept that is a hallmark of Northwest Orient operations.

The 747F is capable of carrying 250,000 pounds of cargo. Using newly developed loading devices, the airplane can be unloaded in 45 minutes of over 200,000 pounds of air freight — then loaded again in 45 minutes with an equal volume.

Eight More 727-200 Tri-Jets Are Ordered

An order for eight Boeing advanced model 727-200's has been placed by Northwest Orient. The order is valued at $66 million.

Delivery of the eight tri-jet aircraft will come in 1975. Two each will be delivered in October and November and the final four will arrive in December. The advanced model 727-200 will carry 128 passengers — 14 in first class and 114 in economy class.

With delivery of these eight new aircraft, NWA will have 31 727-200's in its fleet.

DC 10 Order Complete as Seven Jets Delivered

Seven additional DC 10-40 aircraft were delivered to Northwest Orient in 1974. This completed the order of 22 DC 10-40's made by the airline.

Twelve used aircraft were sold and delivered during the year to six foreign flag carriers. Ten were Boeing 320 jets and two were Boeing 720B's.

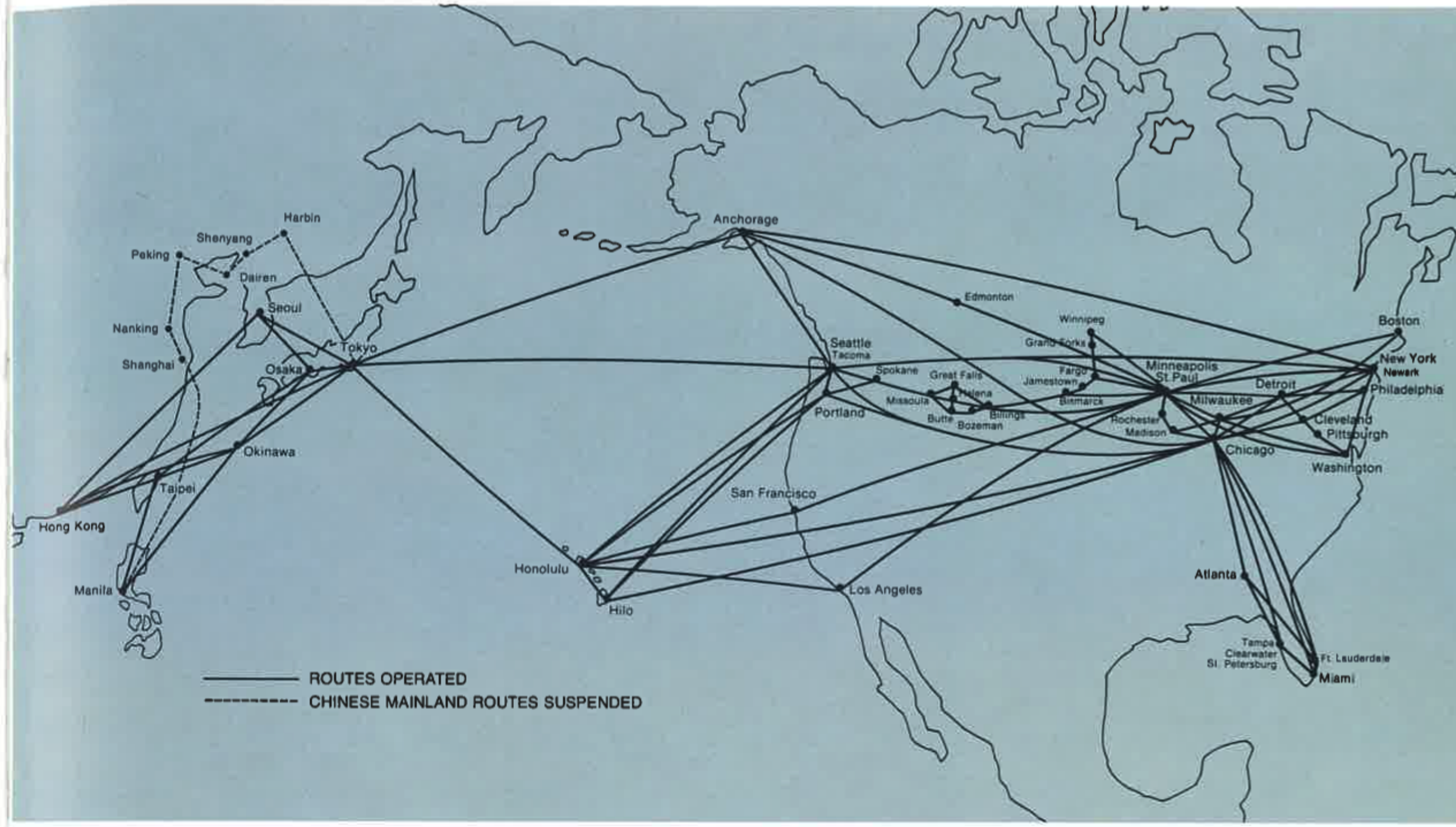
Update programs were also completed on all NWA DC 10 and 747 aircraft so that all necessary and desired changes have now been made. The result is the finest and most modern fleet of wide-bodied jets of any U.S. airline.

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

55 **Boeing 727's**
32 727-100's — Range of 2380 miles with 93 passengers.
23 727-200's — Range of 1760 miles with 128 passengers.

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

13 **Boeing 707-320's**
Range of 5,620 miles with 156 passengers.



Cities Served by Northwest Orient

DOMESTIC
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Billings
Bismarck/Mandan
Boston
Bozeman
Butte
Chicago
Cleveland
Detroit
Edmonton
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
SanFrancisco/Oakland/San Jose
Seattle/Tacoma
Spokane
Tampa/St. Petersburg/Clearwater
Washington, D. C./Baltimore
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