Annual Report

TO SHAREHOLDERS

NORTHWEST AIRLINES, INC.

Year Ended June 30, 1941

DIRECTORS

S. M. Archer, *Chairman*

George E. Gardner	L. M. Leffingwell
R. M. Hardy	William Stern
Croil Hunter	Camille L. Stein
T. E. Irvine	Edwin White
Joseph T. Johnson	E. I. Whyatt

OFFICERS

Croil Hunter - - - - - - - *President*
George E. Gardner - - - - - *Vice-President*
E. I. Whyatt - - - - *Secretary and Treasurer*
Camille L. Stein - - - - *Assistant Secretary*
L. S. Holstad - - - - - *Assistant Treasurer*

General Offices: St. Paul Municipal Airport, St. Paul, Minnesota.

The Chase National Bank of The City of New York, New York City
Principal Registrar

Bankers Trust Company, New York City
Principal Transfer Agent

City National Bank and Trust Company of Chicago, Chicago, Illinois
Co-Registrar

Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois
Co-Transfer Agent

Annual meeting of shareholders last Monday in August.

NORTHWEST AIRLINES, INC.

St. Paul, Minnesota
August 12, 1941

To the Shareholders of Northwest Airlines, Inc.:

Financial Report

For the fiscal year ended June 30, 1941, your company earned a net income of $327,495.42 after all charges and deduction of income, excess profits and other taxes. This amounts to $1.39 for each common share outstanding at the end of the year after allowance for minor dividends on a small number of preferred shares outstanding at the beginning of the year but later reacquired or converted. At the end of the year your company had a surplus of $487,547.70.

There is included with the accompanying financial statements a report of Ernst and Ernst, certified public accountants, covering the income statement, surplus statement and balance sheet.

The income statement compares the results of the year just ended with those of the previous year. Total operating revenue increased $698,249 over the previous year, due largely to an increase of $571,327 in passenger revenue, which represented a gain of 32.6%. In addition, a gain of $82,478 was shown in mail revenue, a gain of $30,386 in express, freight, etc., and $14,057 in other operating revenues. The increase in passenger business resulted from the operation of more schedules, the fact that all operations except two branch line services were operated with 21-passenger equipment throughout the year whereas a considerable amount of operation was done last year with 10-passenger ships, an increased load factor on this enlarged service, and from operation of a service between the Twin Cities and Duluth which operated only during the last month of the prior year. The increase in mail pay was the result of bonuses covering heavy mail loads over the greater part of your company's system and of mail pay for the Duluth operation.

It should be understood that we do not receive bonus payments except when, for any division, the mail loads carried average more than 300 pounds per mile for the entire month for all trips. The receipt of approximately $46,400 in bonuses for the carriage of mail indicates clearly the importance of the mail service rendered by your company. During the year the company flew 1,593,615,473 pound-miles of mail, an increase of 28% over the previous year.

The operation of more mileage and of larger ships and the carriage of more passengers contributed to an increase of $549,464 in operating expenses. This increase, however, was not in proportion to the increase in revenue and resulted in an operating income of $436,908, which is $148,785 more than the previous year. Other items tending toward increased cost of operations included depreciation on enlarged investment in equipment, generally increasing levels of salaries and wages, increased rents, intensified sales promotion work and heavier tax burdens.

The table below compares revenue, expense and operating income figures for two years on two bases—cents per revenue mile and cents per seat mile. It should be noted that the expense per revenue mile increased, partly as a direct result of the substitution of large equipment for small, but that the cost per seat mile went down 4.7%. This latter figure is important because it represents a decrease in the cost of producing our principal sales item—a passenger seat.

	Year Ended 6/30/41		Year Ended 6/30/40	
	Cents per Revenue Mile	Cents per Seat Mile	Cents per Revenue Mile	Cents per Seat Mile
Operating Revenue	71.4	3.57	65.5	3.66
Operating Expense	64.2	3.21	60.3	3.37
Operating Income	7.2	.36	5.2	.29

It should be noted that only a minor part ($1,187) of this year's profit is from disposal of capital assets (equipment retired), whereas in the previous year nearly $98,000 of the net profit came from this source.

In addition to the improvement of $326,071 in the total surplus of your company, it should be noted that the balance sheet shows an improvement of $143,918 in the net current assets. At the end of the year total current assets exceeded total current liabilities by $207,293.

Equipment

During the year your company took delivery of two Douglas DC-3 21-passenger airplanes. No aircraft were disposed of during the year, and at its close the company operated 13 Douglas DC-3's and four Lockheed Electra 10-passenger airplanes. The Electras were operated only between the Twin Cities and Duluth and between Fargo and Winnipeg. Douglas equipment was used exclusively on all other operations. In addition, the company owns a Stinson Reliant airplane for pilot training and a Hamilton monoplane used only for special purposes.

In July, 1941, in response to an official request, your company sold to the United States Government one DC-3 airplane. This does not leave as much flexibility of operations as is desirable and may result in some curtailment of services during the winter. However, the management believes that it is the opinion in Washington that the national defense requires the maintenance of a strong and adequately equipped commercial air transport system, and it is hoped that the company will not be required to give up any other units from its fleet.

All flying equipment has been maintained at a high degree of safety, reliability, efficiency and modernization. Our program calls for constant improvement and acquisition of hangar, shop and service facilities as necessary for the operation of a safe, dependable and efficient airline. It is anticipated that increased investment in such facilities will be required. Your management is satisfied that a total of $132,381 was well spent during the year in acquiring additional and replacement ground equipment of all kinds.

Your company has an enviable operating reputation for high maintenance standards, dependable operation of on-time schedules, and for keeping abreast of sound developments in operating techniques. We intend to maintain this position in the industry.

Listing of Shares

On February 14, 1941, the common stock of your company was listed on the Chicago Stock Exchange and on March 30 was listed on the New York Stock Exchange.

Applications for Extensions

The Civil Aeronautics Board heard your company's application to extend its operations from Chicago to New York City, and on March 8, 1941, denied the application. It is definitely believed that the extension of our operations to New York City is a proper and necessary development of the air transport system of the United States, and on July 25, 1941, we filed a new application with the Board by a more direct route. Our new application requests a route between Minneapolis and New York City via Milwaukee and Windsor, Canada. No hearing date has been set for this application.

On February 3, 1941, we applied for a route extension north from Minneapolis by way of Fargo, Regina, Edmonton, Whitehorse and other intermediate points to Fairbanks, Alaska. A route over this territory would be of great advantage to the United States and Canada, particularly in the matter of national defense. It would shorten travel by air from New York City or Washington, D. C., to Alaska by over 800 miles as compared with the only existing through service from the United States to Alaska. Further, our proposed route follows relatively favorable terrain with good meteorological conditions. No date has been set for a hearing on this application.

On July 24, 1941, a hearing was held before an examiner of the Civil Aeronautics Board on the company's application, filed August 31, 1940, for a route between Chicago and the Twin Cities by way of Milwaukee, Green Bay, Wausau and Eau Claire, all in the state of Wisconsin. This operation would furnish air service to active industrial and agricultural communities which have a close business association with the Twin Cities and with Chicago. No decision has been reached in regard to this application.

The Civil Aeronautics Board has announced that in considering applications for new routes, it will consult Army and Navy authorities, and the granting of service and the authority to commence operations under any certificates granted will be dependent upon the needs of the national defense.

Financing

Although your company acquired two Douglas airplanes and $132,381 in other equipment during the year, no additional financing was required. Bank loans outstanding during the year were reduced to $385,000, and this is the only amount remaining unpaid of equipment borrowings totaling $900,000 made between May, 1939, and September, 1940.

Personnel

The extension and improvement of the company's operations and the increased traffic development have increased the number of employees to 828 at the end of the year. We have felt the result of competition, particularly by government and national defense work, although to date we have made suitable and satisfactory replacements.

The National Selective Service Act has had only a slight effect because we have been fortunate in obtaining deferment of workers essential to the operation of the company, in line with official rulings that the national defense requires the continued safe and efficient operation of the nation's air transportation services.

The company has three labor agreements in effect—one with its pilots, one with its radio operators, and one with its mechanics of various classes. Changes in the latter agreement, including increases in compensation, are under negotiation.

Your company's relations with employees of all classifications are harmonious.

Fifteenth Birthday

On October 1, 1941, your company will celebrate its fifteenth birthday anniversary. It is one of the oldest air transport operators and enjoys the benefit and experience of fifteen years of uninterrupted operation. This experience, when combined with forward-looking policies, should add to the company's future prospects.

Annual Meeting

The annual meeting of the shareholders will be held on August 25, 1941. A separate notice of this meeting is being sent to each shareholder, and all are urged by the management to attend in person if possible. This will be the first annual meeting since the listing of the corporation's shares on national exchanges, and the personal interest of its many new shareholders will be welcomed by the management.

Objectives

It is the aim of your management to operate the finest air transport service in the interest of the country's commerce, the postal service, and the national defense, and at a reasonable profit to its owners; to maintain and improve your company's position in the industry; and to take advantage of and make its contribution to improvements in the art and science of flying. To the end that these objectives be attained, the management of your company will cooperate with the government and the aviation industry, will anticipate and seek to fill demands for improved and increased service, and will strive to keep its employees' ability and morale at a high point. Much of the future of your company depends upon energetic development of passenger traffic and express, and continued effort for such development will be maintained.

Very truly yours,

Croil Hunter

President

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

ST. PAUL, MINN.

August 2, 1941

Board of Directors,
Northwest Airlines, Inc.,
Saint Paul, Minnesota.

We have examined the balance sheet of NORTHWEST AIRLINES, INC., as of June 30, 1941, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Cash funds were independently confirmed. We tested accounts receivable balances by direct correspondence with debtors and by reference to records of collections and other data, observed procedures employed by the Company in taking the physical inventories and made test counts of selected items. Long term debt was confirmed by direct correspondence. Other liabilities were tested by direct correspondence, computation, inspection of statements from vendors, vouchers, pay rolls, etc.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of NORTHWEST AIRLINES, INC., at June 30, 1941, and the results of its operations for the year in conformity with generally accepted accounting principles which, except for the change in provision for depreciation on propellers outlined in Note A to the income statement, which we approve, have been applied on a basis consistent with that of the preceding year.

Ernst & Ernst,
Certified Public Accountants.

BALANCE SHEET

NORTHWEST AIRLINES, INC.

June 30, 1941

ASSETS

Current assets:				
Cash				$ 142,973.83
Marketable securities:				
U. S. Treasury bonds—at amortized cost (aggregate quoted market price $34,650.00)				33,938.96
Accounts receivable:				
U. S. Government and agencies			$ 311,081.83	
Canadian Government account (U. S. exchange)			8,021.43	
Other transportation accounts			424,000.47	
For services, supplies, etc.			38,159.29	
			$ 781,263.02	
Less reserve			1,000.00	780,263.02
Inventories:				
Repair materials and operating supplies at the lower of cost or market				302,464.78
Total Current Assets				$1,259,640.59
Other assets:				
Insurance rebates (estimated) and deposits			$ 48,027.00	
Accounts receivable:				
Employees		$ 16,158.14		
Officers		2,189.32	18,347.46	
Sundry investments (at cost), deposits, etc.			3,020.00	69,394.46
Property, plant and equipment—at cost to the Company or its predecessors less reserves for depreciation and amortization:				
	Cost	**Reserves**	**Balance**	
Land	$ 5,082.47		$ 5,082.47	
Airplanes	1,567,625.48	$ 614,512.51	953,112.97	
Airplane engines	598,301.48	357,118.51	241,182.97	
Buildings on leased ground	257,236.14	161,632.33	95,603.81	
Other buildings and equipment	671,121.45	390,430.99	280,690.46	
Improvements to leased property	51,646.73	7,191.16	44,455.57	
	$3,151,013.75	$1,530,885.50	$1,620,128.25	1,620,128.25
Intangible:				
Cost of U. S. Government air mail route				48,736.69
Deferred charges:				
Prepaid insurance			$ 64,893.09	
Other prepaid and deferred expenses, supplies, etc.			30,382.70	95,275.79
				$3,093,175.78

BALANCE SHEET

NORTHWEST AIRLINES, INC.

June 30, 1941

LIABILITIES

Current liabilities:			
Accounts payable:			
Trade accounts		$ 472,003.95	
Air travel contract deposits (gross)		128,813.64	
Salaries, wages and bonuses		48,017.16	$ 648,834.75
Accrued liabilities			49,012.02
Federal, state and Canadian taxes on income—estimated			112,000.00
Current maturities of long term debt			242,500.00
TOTAL CURRENT LIABILITIES			$1,052,346.77
Long term debt:			
Bank loans secured by chattel mortgage on equipment carried at $911,365.21 payable in installments to November 1, 1942			142,500.00
Deferred income:			
Unused transportation, etc.			37,181.31
Reserve for possible inventory obsolescence			14,400.00
Capital stock and surplus:			
Preferred stock, 5% cumulative convertible, par value $100.00 per share:			
Authorized, 6,000 shares; unissued, 500 shares; redeemed or converted, 5,500 shares; outstanding, none			
Common stock, no par value:			
Authorized, 300,000 shares; unissued, 65,080 shares (of which 10,000 shares are reserved for option at $14.00 per share); outstanding, 234,920 shares at aggregate stated capital amount		$1,359,200.00	
Surplus:			
Paid-in surplus	$ 41,798.86		
Earned surplus	445,748.84	487,547.70	1,846,747.70
			$3,093,175.78

COMPARATIVE STATEMENT OF INCOME

NORTHWEST AIRLINES, INC.

Years Ended June 30, 1941 and 1940

	1941		1940	
Operating revenues:				
Transportation:				
Passengers	$2,324,003.58		$1,752,676.15	
Mail	1,852,333.11		1,769,854.82	
Express, freight, etc.	114,615.54		84,228.83	
Other	46,956.95	$4,337,909.18	32,899.65	$3,639,659.45
Operating expenses:				
Maintenance and repairs	$ 645,350.44		$ 592,562.07	
Provision for depreciation and amortization	499,212.96 (A)		383,852.34	
Compensation and expenses of airplane crews, radio operators, superintendents, clerks, airport and hangar employees	1,100,735.06		896,259.32	
Airplane fuel and supplies	446,416.38		399,845.13	
Insurance	262,369.43		270,744.77	
Other transportation expenses	266,225.30		240,183.50	
Traffic and advertising	402,936.48		328,246.68	
Administrative and general	277,754.37	3,901,000.42	239,842.57	3,351,536.38
OPERATING INCOME		$ 436,908.76		$ 288,123.07
Other income and credits:				
Adjustment of depreciation provision for prior years	$ 10,895.53 (A)			
Additional mail revenue applicable to prior years	6,534.07			
Discounts and interest earned	6,785.87		$ 5,491.10	
Net profit from disposal of capital assets	1,186.60		97,923.94	
Sundry	5,808.89	31,210.96	4,991.19	108,406.23
		$ 468,119.72		$ 396,529.30
Other deductions:				
Provision for possible inventory obsolescence	$ 14,400.00			
Interest expense	12,863.82		$ 18,095.55	
Settlement of litigation	12,500.00			
Sundry	557.95	40,321.77	387.71	18,483.26
INCOME BEFORE TAXES THEREON		$ 427,797.95		$ 378,046.04
Taxes on income:				
Provision for the year—estimated:				
Federal income tax	$ 100,000.00		$ 67,500.00	
Declared value excess profits tax	4,500.00		7,500.00	
State and Canadian income and excess profits taxes	7,500.00		5,000.00	
	$ 112,000.00		$ 80,000.00	
Adjustments applicable to prior years	11,697.47*	100,302.53	1,638.26	81,638.26
NET INCOME		$ 327,495.42		$ 296,407.78

*Indicates negative amount.

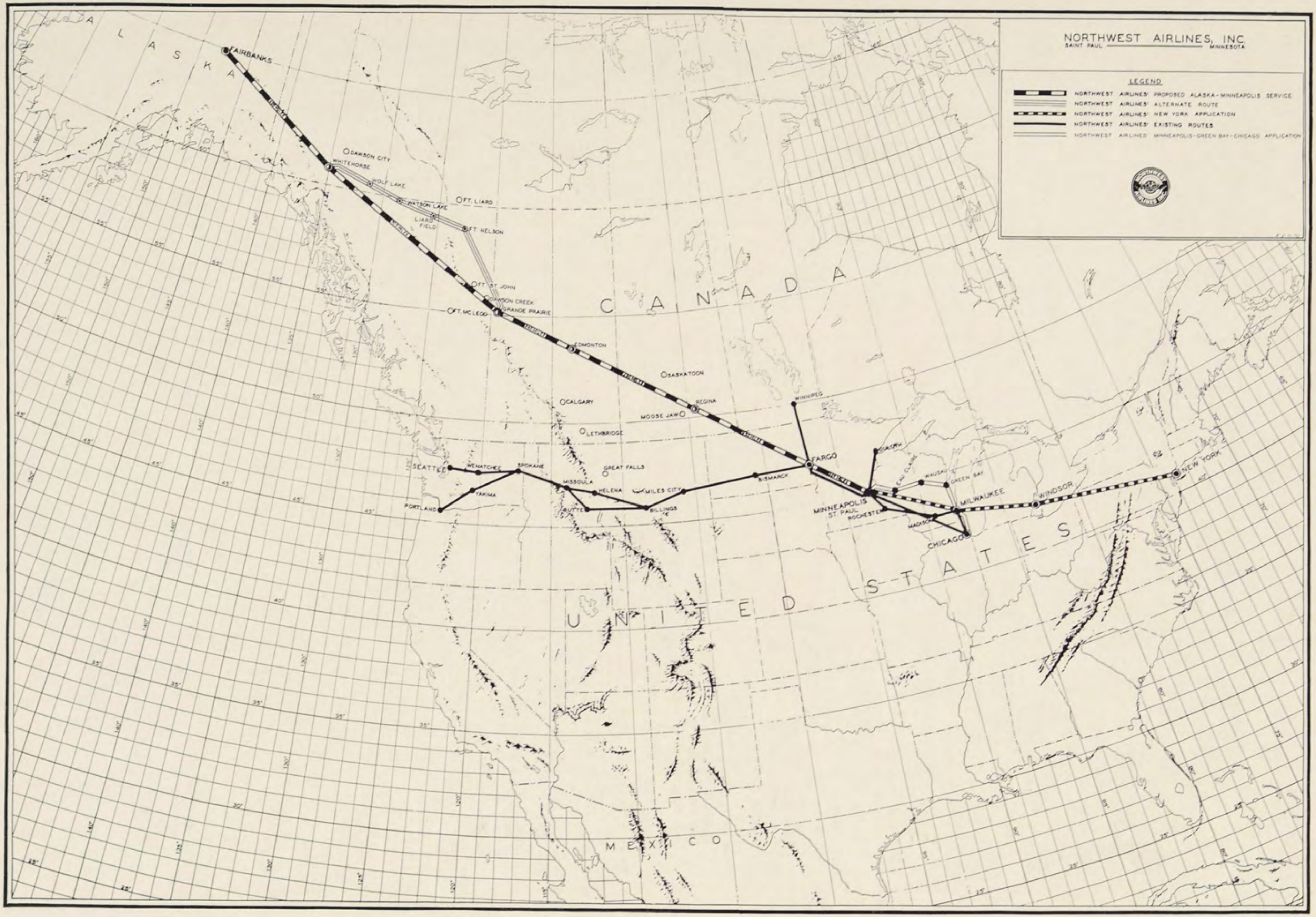
NOTE (A) During the year the Company revised depreciation rates on propeller hubs and blades as a result of study as to estimated life thereof, such adjustment resulting in decreased provision in the amount of $10,600.45 for the current year and $10,895.53 applicable to prior years, the latter amount having been included in other income and credits. As a result of these changes, income for the current year before provision for taxes thereon has been increased by the amount of $21,495.98.

SURPLUS

NORTHWEST AIRLINES, INC.

Year Ended June 30, 1941

Paid-in surplus:		
Balance at July 1, 1940	$ 41,810.86	
Premium on preferred stock redeemed	12.00	$ 41,798.86
Earned surplus:		
Balance at July 1, 1940	$119,665.05	
Net income for the year	327,495.42	
	$447,160.47	
Dividends paid on preferred stock—$5.00 per share	1,411.63	445,748.84
TOTAL SURPLUS—JUNE 30, 1941		$487,547.70


NORTHWEST AIRLINES, INC.
SAINT PAUL MINNESOTA
LEGEND
NORTHWEST AIRLINES' PROPOSED ALASKA-MINNEAPOLIS SERVICE
NORTHWEST AIRLINES' ALTERNATE ROUTE
NORTHWEST AIRLINES' NEW YORK APPLICATION
NORTHWEST AIRLINES' EXISTING ROUTES
NORTHWEST AIRLINES' MINNEAPOLIS-GREEN BAY-CHICAGO APPLICATION
ALASKA
CANADA
UNITED STATES
MEXICO
FAIRBANKS
DAWSON CITY
WHITEHORSE
WOLF LAKE
WATSON LAKE
FT. LIARD
LIARD FIELD
FT. NELSON
FT. ST. JOHN
DAWSON CREEK
GRANDE PRAIRIE
FT. MC LEOD
EDMONTON
SASKATOON
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