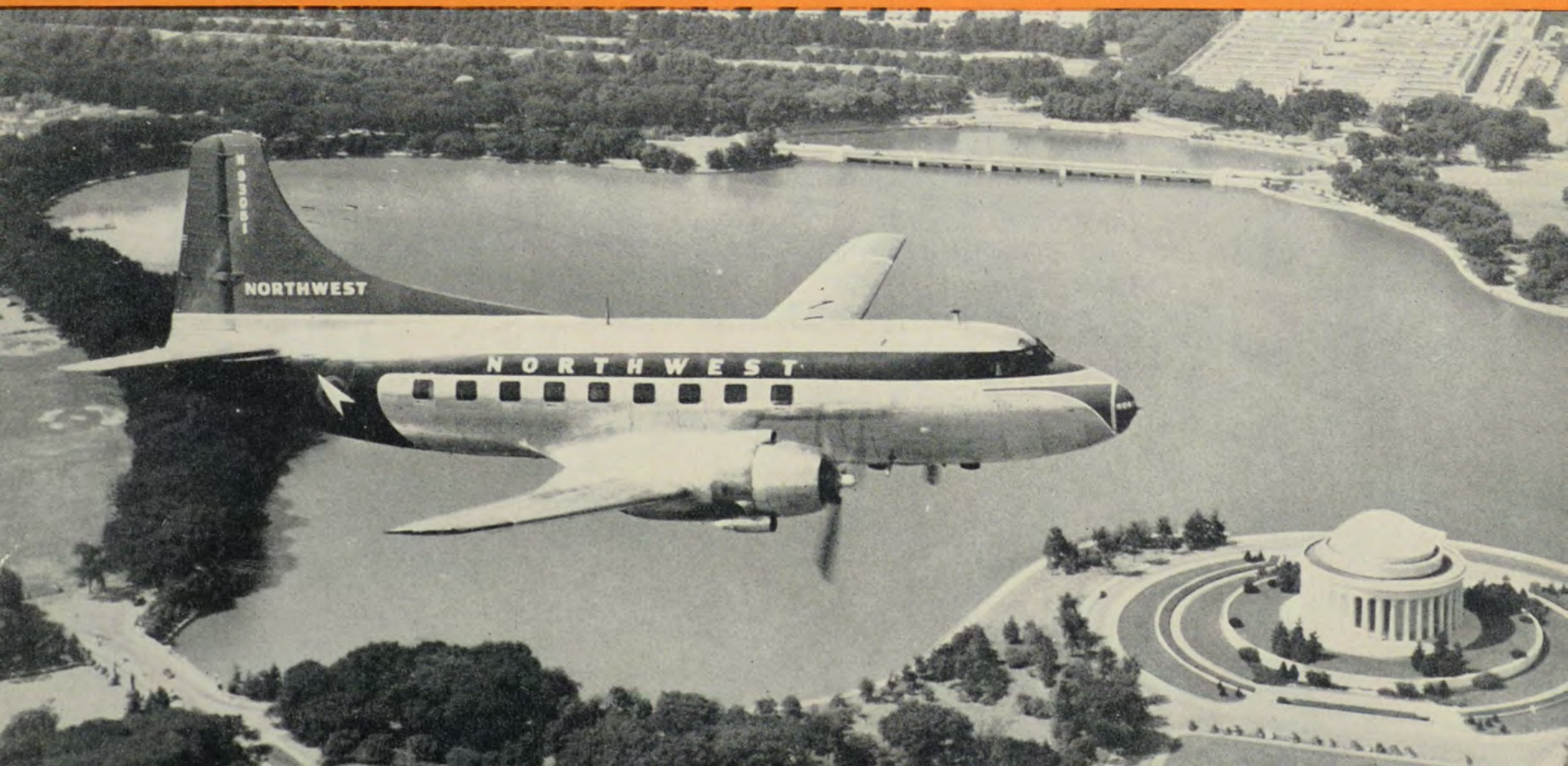
NORTHWEST AIRLINES, Inc.

Annual Report to Shareholders

1949



NORTHWEST AIRLINES, INC.

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Wm. Tudor Gardiner........Chairman, Board of Directors, Incorporated Investors Boston, Mass.
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E. I. Whyatt........Vice President and Comptroller, Northwest Airlines, Inc.

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Croil Hunter........President
E. I. Whyatt........Vice President and Comptroller
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Wm. J. Eiden........Assistant Treasurer

General Offices: 1885 University Avenue, St. Paul 4, Minnesota

The Chase National Bank of The City of New York, New York, N. Y.
Principal Registrar

Bankers Trust Company, New York, N. Y.
Principal Transfer Agent

Harris Trust and Savings Bank, Chicago, Illinois
Co-Registrar

The First National Bank of Chicago, Chicago, Illinois
Co-Transfer Agent

Annual meeting of shareholders third Monday in April

PRESIDENT'S REPORT

YOUR company, during a year which established new high records in the amount of revenues and the volume of business, made a net profit, after taxes, of $1,357,679 in 1949. This compares with a net loss of $787,474 for the preceding year.

In my report a year ago I pointed out that although this company was faced with many difficult problems, there were indications of improvement; and the showing of 1949 bears out that forecast. In addition to an increase in volume and profit, there were other important developments. We received and began operation of our fleet of Boeing Stratocruisers; and these planes, together with our fleet of Martins, provide Northwest Airlines with the most modern aircraft of any airline, domestic or international. During the year we introduced, or expanded, special services which found favorable acceptance by the public. We continued the expansion of our freight business.

Contributing to the results for 1949 were these factors:

Improved earnings shown on our Alaska-Orient operation, despite the fact that we closed service to Shanghai when that city was occupied by the Chinese Communists.

Introduction of coach flights.

Inauguration of Boeing Stratocruiser operations.

Full utilization of Martin planes.

Expansion of cargo business.

Increased patronage of such services as the family plan, excursions, and package tours.

Service to Hawaii.

Mail revenue for 1949 is computed on the basis of the temporary rates effective during the period. It is expected that permanent mail rates will be determined this year.

Coach Service

In a previous report, I pointed out the need for a service, without de luxe features, which could be offered to the public at fares low enough to attract the mass-travel market. The wide acceptance of our coach service has justified this venture. We started our Seattle-Anchorage coach flights on January 3, 1949. On March 24, 1949, we began coach operations transcontinentally between New York and Seattle-Tacoma; on September 25, between Chicago and Portland; and on December 15, between Minneapolis-St. Paul and Anchorage, Alaska, via Edmonton, Canada.

During the summer months, load factors on coast-to-coast coach flights were over 90 per cent. A total of 90,896,559 passenger miles were flown on the domestic coach flights in 1949. It is expected that during 1950, our coach services will produce even more volume as they become better known.

PRESIDENT'S REPORT

We now have eight four-engine Douglas DC-4 aircraft converted to 55-passenger combination coach-cargo planes; and we are currently converting two others into high density 66-passenger coach-cargo planes.

Cargo Increases

Cargo more than doubled in ton-miles during 1949 compared with the previous year, bringing a substantial increase in revenue. Cargo ton-miles totalled 9,138,691 compared with 4,448,819 in 1948, an increase of 105.4 per cent. Revenues were $2,575,689, compared with $1,442,274, an increase of 78.6 per cent.

To further develop this cargo business, your company has recently converted two DC-4 aircraft into all-freighter planes. These are provided with special double-doors—have a payload capacity of 20,000 pounds, and will accommodate single pieces up to 6,000 pounds. During the year, priority handling of cargo in reserved space aboard Stratocruisers was inaugurated under the name of "Gold Ribbon" service. This fills a demand by shippers for a special priority service.

Stratocruisers

One of the major events of the past year has been the delivery of our full fleet of ten fast, double-deck Stratocruisers by the Boeing Company, and the beginning of service by these aircraft.

We now are flying Stratocruisers coast-to-coast between New York and Seattle-Tacoma; between the Twin Cities and Chicago; and between the Pacific Northwest and Honolulu.

Passenger approval of these luxury liners has been enthusiastic. Travelers appreciate the comforts of the large and well-appointed cabins, and the speed and comfort of high altitude flying at sea-level cabin pressure.

The shakedown period of our Stratocruisers permitted only limited use of that part of the fleet put into service during 1949. During 1950 the entire fleet of ten planes will be in use and it is anticipated that their utility will be increased from approximately four hours to eight hours per day per plane. A very substantial increase in available seat miles and ton miles will result.

It is planned to start Stratocruiser flights between Seattle-Tacoma, Anchorage, Alaska, and the Orient in late 1950.

As part of our general promotional program, one of the Stratocruisers was taken into a number of the largest cities on our system, where it was open to public inspection and was used for courtesy hops. It was also taken to several off line major cities in Canada, California and New England. These visits stimulated interest in our planes and also in the territory served by Northwest Airlines.

Training, shakedown and operating costs for the Stratocruiser are presently high. This is a comparable situation to that faced in the past by this company in the initial operation of new types of airplanes and one which normally has been faced by other airlines under similar circumstances. Because of the size and cost of the Stratocruiser fleet, these excessive expenses are currently very substantial in amount and the situation is likely to continue during much of 1950. The company and the manufacturers concerned are working to eliminate the causes of the excess costs. We expect that we will substantially overcome this handicap later in the year when we have had more experience in maintaining and operating the ship and after uneconomical features are corrected. At that time we believe the Stratocruiser with its fine public acceptance will have satisfactory operating costs profitably in line with its revenue producing potential.

Martins

Our fleet of Martins has provided travelers and shippers in all cities along our coast-to-coast system with a fast luxury type of service. The aircraft are ideally suited to the type of operations to which they have been assigned and to the airport facilities. Their special features such as built-in steps, reversible propellers and underwing fueling contribute to their utility. Performance records have met expectations.

As the first airline to use Martins, your company is gratified to note that other major airlines are buying Martins or planning such purchases. Recently two of these airlines have announced their intention to acquire fleets of Martins.

Douglas DC-4s

Douglas DC-4s are being used on our coach and freight flights and on all Alaska and Orient flights. In addition to the ten DC-4s which Northwest is using on its coach flights, there are two all-freighters and one standard 44-passenger standby ship which the company owns. Five other DC-4s being used on the Alaska-Orient flights are leased from the Government.

Douglas DC-3s

During the past year the last of our fleet of Douglas DC-3 airplanes, which we owned or had on lease, were taken out of scheduled operations and all but two were disposed of. One of the two is now used as a freighter and the other is used as a standby ship for various purposes. Of twenty-four DC-3 aircraft which we had in 1947—fifteen owned and nine leased—we made sales to scheduled and unscheduled airlines including the Central Air Transport Company of China, which bought six of these ships. The last of the nine leased DC-3s were returned to the government.

Sales Program

Intensified efforts are being made to sell all of Northwest Airlines' services.

Contests to enlist the mass efforts of all non-selling employees have been adopted. One of these was conducted a year ago, and proved so successful that a second contest—now under way—was started this year. Not only has new business been generated, but greater interest in sales has been stimulated among all employees.

During 1949, package tours were conducted to Hawaii, Japan and Alaska through our travel agents. This program is being expanded, with more tours to Alaska; to Washington, D. C., and New York, and to national parks; and Holy Year tours to Rome and other parts of Europe. Stimulated largely by these tours, business through travel agencies has been showing an increase.

The family plan, under which an adult member of a family pays full fare and other members of the family travel at half fare on specified days of the weeks, attracted more than 47,000 passengers, and over $1,000,000 in revenue.

Convention business, both in number of passengers and revenues, more than doubled.

The industry-wide fare discount of ten per cent to military personnel generated some traffic and is expected to bring an increased number of such passengers this year. Charter flights, undertaken as aircraft were available, attracted various groups, including athletic teams. Sight-seeing flights also were successfully operated.

Northwest Airlines travel films of Hawaii and the Orient were seen by many persons. So popular were these pictures that prints have been booked for months in advance by various groups.

New sales offices were opened during the year in Los Angeles, San Francisco, Vancouver, British Columbia, and Japan's industrial city of Osaka.

Navigation Aids

Improvement in the flight performance record has continued throughout the past year, due to improved navigation aids, more effective use of them, and better air traffic control at key terminals.

The radio-telephone network on the Honolulu run reached an efficiency of close to 100 per cent. It was placed early this year under full ownership and operation of Aeronautical Radio, Inc. During 1949 Northwest-owned radio stations at Tokyo and Seattle were sold to Aeronautical Radio, Inc., and radio-telephone equipment was added to the Anchorage station. By mid-1950 we hope to have full implementation of the radio-telephone air-ground-air operation between Seattle and Tokyo, and throughout the Orient by the end of 1950.

Very High Frequency equipment is being installed in our aircraft for utilization of the new omni-directional ranges which are being commissioned along the airways of the United States.

The current year, like 1949, should see steady progress toward attainment of all-weather flying.

Operations Changes

The transfer to Seattle of the part of our operations incidental to our Orient flights materially increased the use of our facilities at the Seattle-Tacoma airport.

Our Stratocruiser service into New York is at Idlewild airport. This has proved a special convenience to overseas passengers since they can make connections there with all of the foreign carriers which are using Idlewild. Northwest was the first domestic airline to base operations at this airport. Temporary facilities have been set up pending the further development of Idlewild by the New York Port Authority. Northwest's other New York flights have continued to use LaGuardia Airport.

Improvements

A new $1,150,000 service base, consisting of three hangars, was started at Wold-Chamberlain Field, the Twin Cities airport. Two of the hangars are now completed and the third will be ready by summer. These new facilities permit the consolidation of aircraft maintenance work in one location and should result in greater efficiency and economy.

CAB Proceedings

Northwest's basic route pattern, as explained in last year's report, has been set and no major route extensions were sought in 1949. The Civil Aeronautics Board did, however, take action on matters pending before it. Certificated to fly into Kalispell, Montana, we began flights with a program to build up vacation travel through that station, as well as to meet other local needs.

Our efforts to make our domestic operations more flexible have continued. We are seeking to modify existing CAB restrictions so that it will be possible to reduce unprofitable mileage and to offer more desirable schedules.

Application has been made to the CAB to designate Seattle-Tacoma and Portland as co-terminals on our domestic routes. This would permit Seattle-Tacoma and Portland to be served on the same flights, giving Portland trans-continental service comparable to that now given Seattle-Tacoma.

Edmonton, Canada

Authorization was granted this month by the Canadian government to carry passengers, cargo and mail in and out of Edmonton, Alberta, which heretofore has served only as a fueling stop on flights between the Twin Cities and Anchorage. In view of the increased activities in the Edmonton area, due in large measure to the oil boom, opening this city to regular traffic will have the effect of increasing revenues on the Twin Cities-Anchorage route.

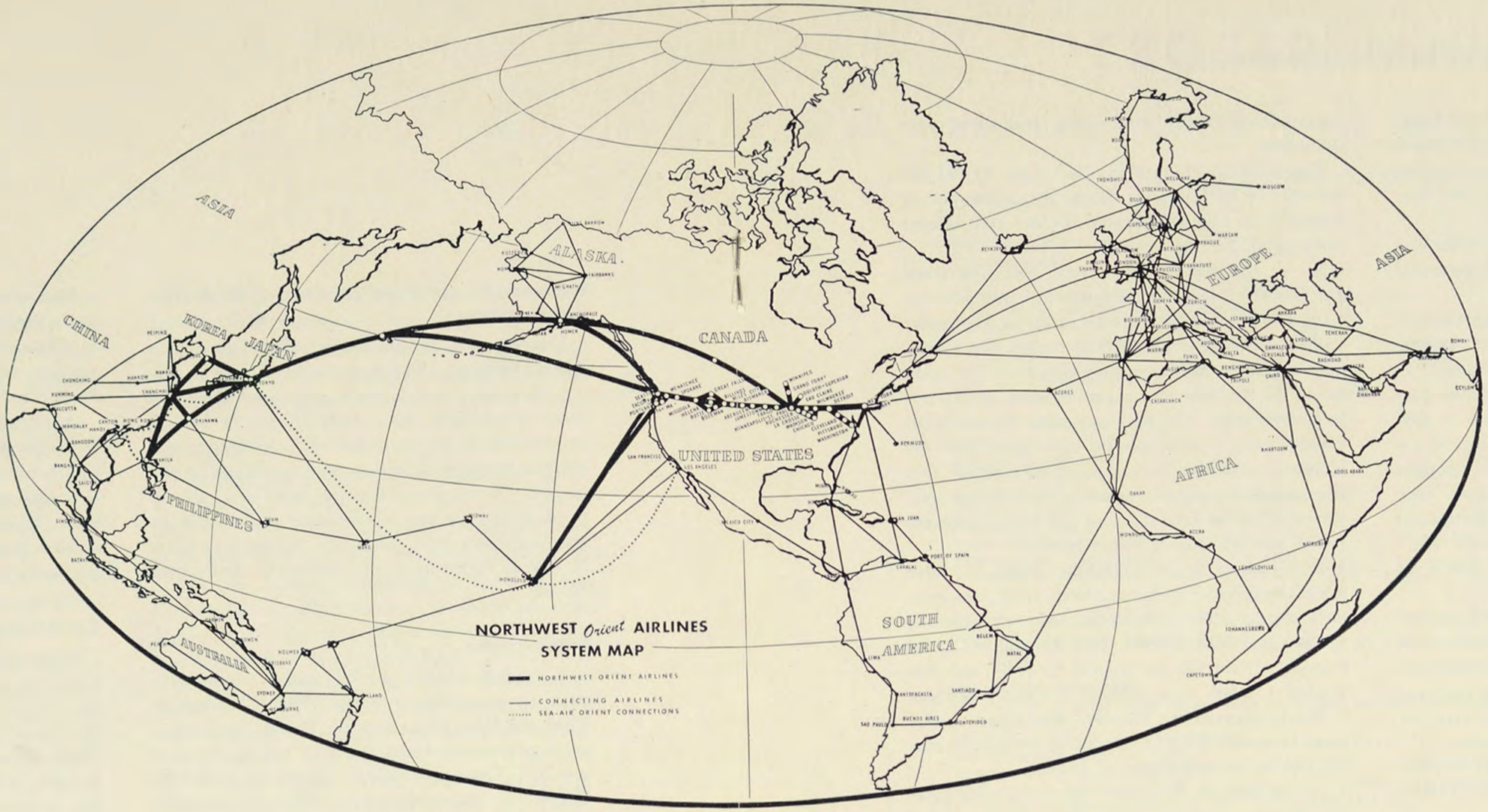
Conclusion

As we report the results of another year's business, I wish to record my appreciation of the strenuous efforts made by the company's employees, officers and directors. Their hard work and cooperation is essential to the continuation of the company's progress and service to the public.

St. Paul, Minnesota
March 24, 1950

Croil Hunter

President and General Manager



RECORD OF PROGRESS

Calendar Year	Mail Revenue	Passenger Revenue	Express and Freight Revenue	Revenue Passenger Miles	Mail Pound Miles	Total Plane Miles Flown
1949	$9,039,154	$27,873,942	$3,163,278	495,114,870	9,445,597,392	25,908,552
1948	8,444,106	24,074,778	2,072,362	386,509,809	8,052,148,614	22,288,002
1947	4,018,340	20,520,631	1,019,497	382,544,382	5,473,873,894	20,824,912
1946	1,254,257	18,062,492	553,875	385,858,473	4,099,317,238	19,304,234
1945	1,649,575	10,060,619	409,613	218,469,773	5,396,757,098	12,870,714
1944	1,500,874	6,073,967	246,030	120,834,296	4,900,802,947	7,523,146
1943	1,353,822	3,139,713	297,941	63,787,683	4,005,180,807	4,584,766
1942	1,850,601	2,410,512	240,800	52,061,159	2,528,042,954	4,931,815
1941	1,955,826	2,526,721	118,885	59,659,145	1,871,311,191	6,353,659
1940	1,769,735	2,151,311	79,531	51,175,254	1,370,076,043	6,079,669
1939	1,763,288	1,324,728	61,186	34,749,246	1,166,518,244	5,399,024
1938	1,286,549	829,554	41,625	21,153,258	1,116,975,430	5,310,015
1937	1,076,293	761,839	33,768	16,685,852	841,274,933	4,462,439
1936	1,050,639	759,981	27,318	16,528,401	671,011,789	3,699,818
1935	629,724	481,528	12,388	10,342,834	315,817,803	2,841,198
1934	251,133	199,074	4,319	4,301,145	44,034,248	1,643,127
1933	762,208	188,966	1,873	4,108,313	82,613,032	1,823,850
1932	884,719	200,984	343	4,127,800	77,867,566	1,639,015
1931	917,635	205,164	575	3,934,093	89,706,330	1,434,555
1930	648,799	119,349	146	2,129,600	Not Avail.	1,032,340
1929	495,708	121,075	Not Avail.	1,956,400	"	736,664
1928	195,315	24,890	"	402,400	"	314,496
1927	76,029	8,663	"	126,000	"	211,667
3 Months, 1926	11,790	—o—	"	—o—	"	47,397

FINANCIAL REPORT

OUR net profit of $1,357,679 after taxes represents $1.11 for each of the 820,808 shares of $10 par value common stock outstanding at the end of the year, after allowance for dividends on Preference shares.

We have shown by the accompanying table certain significant revenue, expense and statistical comparisons between 1949 and 1948.

As shown in the table, system operating revenues set a new high record with an increase of 15.24% over 1948, while operating expenses rose but 6.89%.

You will note that the increase in revenue passenger miles is greater than the increase in passenger revenue dollars. This is a reflection of the considerable volume of low fare coach business developed in 1949. Coach passenger miles were 21.62% of all passenger miles on the company's routes, both domestic and international, while coach passenger revenues represented 15.46% of the total system passenger revenues.

The increase in mail revenues over 1948 resulted mainly from a full year's operation in 1949 of the Hawaiian route on which service commenced December 2, 1948. Our domestic mail pay was 13.49% less than in 1948, while mail pay for Orient operations showed a 5.72% increase.

Freight revenues alone amounted to $2,575,689, and exceeded the previous year's by $1,133,415, while express revenue dropped slightly.

The decrease in system operating revenues per ton mile sold reflects lower tariffs in the form of coach fares, family plan rates, and cargo rate reductions.

Depreciation charges in 1949 were $2,121,185 less than in 1948, mainly due to the completion of write-off of company-owned DC-4s and related parts as of the end of 1948.

As of the end of 1949 your company owed $17,400,000 to a group of fourteen banks who are parties to our Credit Agreement dated September 1, 1949, covering a $21,000,000 credit. On February 15, 1950, the company borrowed an additional $2,400,000, and there remains $1,200,000 to be borrowed. The Reconstruction Finance Corporation has a participation agreement with the banks for a maximum amount of $12,000,000. Our re-equipment program regarding aircraft was completed when we received and put into service the last of our ten Boeing Stratocruisers.

Dividends on the 390,000 shares of $25 par value 4.6% Cumulative Preference stock were paid regularly during 1949. Dividends paid on February 1, 1949, and May 1, 1949, were charged to Capital Surplus. Dividends on August 1, 1949, and November 1, 1949, were charged to Earned Surplus.

Net investment in Property, Plant and Equipment increased $11,832,121 during the year primarily due to the acquisition of aircraft.

At the end of 1949, our investment (at cost) in Property, Plant and Equipment totaled $49,012,964. It was $31,836,591 as of December 31, 1948.

	1949	1948	Increase or (Decrease)	Percentage Increase or (Decrease)
System Operating Revenues	$ 40,501,017	$ 35,145,955	$ 5,355,062	15.24
System Operating Expenses	$ 38,988,909	$ 36,475,477	$ 2,513,432	6.89
System Passenger Revenues	$ 27,873,942	$ 24,074,778	$ 3,799,164	15.78
System Revenue Passenger Miles	495,114,870	386,509,809	108,605,061	28.10
Domestic Passenger Revenues	$ 22,497,714	$ 18,420,989	$ 4,076,725	22.13
Alaska-Orient-Hawaii Passenger Revenues	$ 5,376,228	$ 5,653,789	$ (277,561)	(4.91)
Passenger Load Factors:				
System	56.34%	56.56%		
Domestic	56.57%	56.31%		
Alaska-Orient	56.14%	58.25%		
Hawaiian	49.92%	38.31%		
System Mail Revenues	$ 9,039,154	$ 8,444,106	$ 595,048	7.05
System Express, Freight and Excess Bagg. Rev.	$ 3,426,022	$ 2,332,453	$ 1,093,569	46.88
System Available Ton Miles Flown	116,263,847	90,531,952	25,731,895	28.42
System Revenue Ton Miles Sold	64,507,466	48,240,510	16,266,956	33.72
Percentage of Available Ton Miles Sold	55.48%	53.29%		
System Operating Revenues per Ton Mile Sold	62.59¢	72.22¢	(9.63¢)	(13.33)
System Cost per Available Ton Mile Flown	33.47¢	40.10¢	(6.63¢)	(16.53)

COMPARATIVE STATEMENT OF

PROFIT AND LOSS

Years Ended December 31, 1949, and December 31, 1948

	1949	1948
Operating revenues:		
Transportation:		
Passenger	$27,873,942	$24,074,778
Mail	9,039,154	8,444,106
Express, freight, and excess baggage	3,426,022	2,332,453
Charter and other	74,626	282,770
Repair and service income, rents, etc.—net	87,273	11,848
TOTAL OPERATING REVENUES	$40,501,017	$35,145,955
Operating expenses:		
Flying operations	$11,139,374	$ 8,583,862
Ground operations	5,710,053	5,467,114
Maintenance and repairs	7,970,909	7,329,050
Passenger service	2,252,960	2,052,536
Traffic and sales	3,608,294	3,187,786
Advertising and publicity	1,353,129	882,114
Administrative and general, pay roll taxes, property taxes, etc.	2,961,539	2,878,999
Provision for depreciation and amortization	3,956,668	6,077,853
Provision for doubtful accounts, adjustments, recoveries, etc.	35,983	16,163
	$38,988,909	$36,475,477
OPERATING PROFIT (LOSS)	$ 1,512,108	($ 1,329,522)
Other income and credits:		
Adjustment of prior years depreciation on station communication and motorized vehicles equipment	137,248	....
Profit from sale of surplus inventories	120,210	76,036
Discounts and interest earned	78,780	53,960
Overaccrual for prior years rentals	52,647	....
Reduction in reserve on U. S. Government war contracts less applicable recoverable income taxes (1949—$17,000, 1948—$102,000)	26,635	167,006
Profit from disposal of depreciable assets	19,737	421,224
Sundry	34,909	68,227
	$ 1,982,274	($ 543,069)
Other deductions:		
Interest on long term debt	$ 377,101	$ 193,723
Other interest expense	5,187	1,435
Route expension and development	5,369	34,753
Sundry	43,438	14,494
	$ 431,095	$ 244,405
PROFIT (LOSS) BEFORE TAXES ON INCOME	$ 1,551,179	($ 787,474)
Provision for taxes on income of the year—estimated:		
Federal	$ 530,000	$ ....
State	35,500	....
	$ 565,500	$ ....
Reduction in taxes payable on income of the current year arising from carry-over of operating loss of prior years—estimated	372,000	....
	$ 193,500	$ ....
NET PROFIT (LOSS)	$ 1,357,679	($ 787,474)

( ) Indicates red figures.

See accompanying notes to financial statements.

BALANCE SHEET

December 31, 1949

ASSETS

Current Assets

Cash			$ 4,617,484
U. S. Certificates of Indebtedness—at cost plus accrued interest (substantially equivalent to market)			1,011,320
Accounts receivable:			
For transportation (including U. S. Government accounts of $1,379,839)	$2,749,018		
Other current accounts	468,424	$3,217,442	
Less allowance for losses		25,000	3,192,442
Inventories of repair materials and operating supplies—generally at lower of cost (first-in, first-out) or replacement market			746,930
Total Current Assets			$ 9,568,176

Other Assets

Estimated income taxes which will be recoverable upon settlement of war contracts		$ 86,000	
Sundry related business investments (at cost—no quoted market) deposits, and notes	$ 108,700		
Less allowance for losses	7,500	101,200	187,200

Property, Plant, and Equipment—On the basis of cost (including assets of $9,801,342 completely amortized to residual amount of $228,060)—Note A

	Cost	Reserve	Balance	
Land	$ 30,437		$ 30,437	
Aircraft and reserve equipment	38,200,826	$10,458,601	27,742,225	
Conversion costs on leased aircraft	1,609,808	1,609,808	....	
Buildings on land not owned	1,986,001	480,635	1,505,366	
Other buildings and equipment	4,964,578	1,948,810	3,015,768	
Improvements to leased property	1,099,809	806,809	293,000	
Cost of aircraft equipment, buildings and other equipment in progress	1,111,499	....	1,111,499	
Non-operating property	10,006	2,161	7,845	
	$49,012,964	$15,306,824	$33,706,140	33,706,140

Deferred Charges

Prepaid insurance, rent, taxes, dues, etc.	$ 666,145	
Deferred costs in connection with new aircraft fleet less amortization of $25,101—Note B	765,057	1,431,202
		$44,892,718

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses:		
Trade accounts	$ 2,271,105	
Salaries, wages, and vacation compensation	1,313,688	
Air travel contract deposits—gross	443,275	
Pay roll taxes and taxes withheld from employees' wages	333,050	
Retirement plan contributions, including amounts withheld from employees' wages—Note C	71,857	
Savings bond and other deductions from employees' wages	55,448	
Accrued local taxes	240,213	
Accrued rent	88,944	$ 4,817,580
Unearned transportation revenue—estimated		493,236
Federal and state taxes on income		198,623
Current maturities of long term debt		2,004,637
Total Current Liabilities		$ 7,514,076

Long Term Debt—secured—Note A

Bank credit agreement dated September 1, 1949; $1,000,000 payable on the first day of January, April, July, and October of each year beginning July 1, 1950:		
Balance December 31, 1949	$17,400,000	
Less current maturities shown above as current liabilities, including $4,637 paid on February 3, 1950, and applied to notes in inverse order of due dates	2,004,637	15,395,363

Capital Stock and Surplus—Notes A and D

Capital stock:		
4.6% cumulative preference stock, par value $25 per share; entitled upon liquidation or redemption to $26.25 per share at December 31, 1949, reducing to $25.25 per share after May 1, 1953, plus accumulated unpaid dividends; convertible into common stock to December 31, 1956, at the rate of one share of common for each $16⅔ of the par value of the 4.6% cumulative preference stock: Authorized 600,000 shares; issued and outstanding 390,000 shares	$ 9,750,000	
Common stock, par value $10 per share: Authorized 3,000,000 shares; unissued 2,179,142 shares of which 585,000 shares are reserved for conversion of 4.6% cumulative preference stock, 5,147 shares are reserved for options at $10 per share and 24,800 shares are reserved for issuance in connection with future options which may be granted to officers and employees; in treasury 50 shares; outstanding 820,808 shares	8,208,080	
Capital surplus	2,782,992	
	$20,741,072	
Earned surplus	1,242,207	21,983,279

Contingent Liabilities—Note E

Commitments—Note F

	$44,892,718

See accompanying notes to financial statements.

NOTES TO

FINANCIAL STATEMENTS

December 31, 1949

Note A—As of December 31, 1949, the Company was authorized under the terms of its Credit Agreement with certain banks (with which the Reconstruction Finance Corporation has a participation agreement) to borrow additional funds not exceeding \$3,600,000 at any time or times prior to April 30, 1950, subject to certain conditions. On February 15, 1950, the Company borrowed an additional \$2,400,000. The Company has agreed to mortgage as security for all loans under the Credit Agreement, its hangars and other improvements located at airports at Minneapolis, Minnesota, and Seattle, Washington, and completion of such mortgages is a condition precedent to the Company's right to borrow the remaining \$1,200,000 under the Credit Agreement.

The loans under the Credit Agreement at December 31, 1949, were secured by a chattel mortgage on all Douglas DC-4, Martin 202, and Boeing 377 flight equipment consisting of complete aircraft and spare engines, propellers, major assemblies and parts, having a depreciated cost of \$25,111,112.

Under terms of the Credit Agreement applicable to these loans, the Company has agreed, among other things:

(a) to maintain a cash collateral account as security for the payment of principal and interest of the loans which shall at all times be equal to that amount by which the unpaid balance of the loans exceeds 80% of the depreciated cost of all flight equipment;

(b) to maintain current assets in excess of current liabilities (exclusive of current maturities owing on the principal of the loans under the Credit Agreement) in the amount of \$3,000,000 prior to July 1, 1950; \$3,500,000 from July 1, 1950 to July 1, 1951; and \$4,000,000 thereafter;

(c) to encumber or mortgage as security for the loans under the Credit Agreement, such other properties as the banks or Reconstruction Finance Corporation shall elect;

(d) to limit additional borrowings, mortgages and liens, capital expenditures and commitments, leasing of properties, investments in and guarantees and endorsements for others—all as set forth in the Credit Agreement; not to enter into any merger or consolidation or to sell or otherwise dispose of substantially all of its assets; and

(e) not to declare or pay any dividend (other than stock dividends) on its capital stock and not to purchase, retire, or redeem any of its capital stock except that (a) 4.6% cumulative preference stock may be retired under the provisions of the Amended Articles of Incorporation, and (b) dividends on 4.6% cumulative preference stock may be declared and paid to the extent that the net improvement in earned surplus since March 31, 1949, exceeds \$224,250. At December 31, 1949, such improvement in earned surplus amounted to \$2,280,024 after deduction of all dividends chargeable against the same for the purpose of the foregoing restriction.

B—The Company has deferred the direct costs of training personnel, familiarization, and pre-operation in connection with its new fleet of Boeing 377 aircraft. These costs are being amortized over the estimated seven-year service life of the fleet beginning on the dates such aircraft were placed in scheduled operation.

C—The Company provides for an uninsured employees' retirement plan which is contributory on the part of both the employees and the Company. Charges to profit and loss on the part of the Company for past service and future service benefits for the year ended December 31, 1949, aggregated \$257,300 of which \$11,531 was for the benefit of officers and directors. The actuaries' report as of September 30, 1949, the end of the third plan year, indicates a maximum aggregate liability of the Company for unfunded past service benefits estimated at \$699,125 which may be paid, at the discretion of the Company, in variable amounts each year and which is presently being funded over a period estimated not to exceed twenty-five years from October 1, 1946, the effective date of the plan.

D—On or before March 31, 1950, the Company is required by its Amended Articles of Incorporation to set aside \$90,918 for the retirement of shares of its 4.6% cumulative preference stock under provisions summarized as follows:

(a) The Company shall set aside on or before each March 31st to and including March 31, 1957, the lesser of (1) 3% of the par value of the total number of shares of 4.6% cumulative preference stock at any time theretofore issued, or (2) an amount equivalent to 10% of the net income (as defined for this purpose) for the preceding calendar year for the purchase and retirement of the 4.6% cumulative preference stock, at prices not to exceed \$25 per share, exclusive of brokerage and taxes. Any amount not so applied during the twelve-month period following the date of its having been set aside shall be returned to the general funds of the Company; and

(b) Beginning on March 31, 1958, and on each March 31st thereafter so long as any 4.6% cumulative preference stock shall be outstanding, the Company shall set aside an amount equivalent to 3% of the par value of the total number of 4.6% cumulative preference stock at any time theretofore issued, plus sinking fund arrearages, if any; provided that if the net income (as defined for this purpose) for the preceding calendar year shall have been less than such 3%, then the Company shall set aside an amount equivalent to such net income. Sinking fund arrearages are defined as the excess of such 3% above such net income and are to be cumulative. The Company is required to apply such funds in each twelve-month period subsequent to March 31st to the purchase, or redemption, and retirement of shares of 4.6% cumulative preference stock at prices not to exceed \$25.25 per share plus unpaid accumulated dividends.

During any period while the Company is in default with respect to the payment of dividends on cumulative preference stock, the Company shall not purchase any of its cumulative preference stock except pursuant to an offer to all holders thereof and shall not redeem less than all of the cumulative preference stock at such time outstanding.

The terms of the cumulative preference stock contain certain restrictions relative to dividends on and repurchase of common stock in addition to the prohibition under the Credit Agreement.

E—The Company is involved in a number of lawsuits which are outlined as follows: (a) those in which any claims paid by the Company will be fully reimbursed by the U. S. Government under various war contracts, including wage and hour suits at the St. Paul Modification Center and aircraft accidents at Mt. McKinley, Alaska, and Billings, Montana; (b) those in which any claims paid by the Company will be fully reimbursed under insurance contracts, including aircraft accidents at Mt. Sanford, Alaska, and Fountain City, Wisconsin; (c) as to other miscellaneous claims of approximately $113,000 which are not covered by insurance or other indemnification, the Company believes the ultimate dispositions will have no serious adverse effect upon its financial position. In view of the circumstances outlined, no provision has been made for any portion of the amounts involved.

F—The Company's commitment for capital expenditures at December 31, 1949, amounted to approximately $1,780,000 of which approximately $1,140,000 was for spare parts and assemblies for flight equipment.

STATEMENT OF SURPLUS

Year ended December 31, 1949

CAPITAL SURPLUS	
Balance at January 1, 1949	$3,007,242
Deduct cash dividends on 4.6% cumulative preference stock declared and charged to capital surplus as permitted by provisions of Minnesota statutes—57.50 cents per share for the two quarters ending May 1, 1949, during which time there was no earned surplus available for dividends	224,250
Balance at December 31, 1949	$2,782,992
EARNED SURPLUS	
Balance at January 1, 1949	$ 108,778
Add net profit for the year	1,357,679
	$1,466,457
Deduct cash dividends on 4.6% cumulative preference stock—57.50 cents per share for the two quarters ending November 1, 1949 (dividends payable February 1, 1950, were declared from earned surplus on January 6, 1950)	224,250
Balance at December 31, 1949	$1,242,207

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

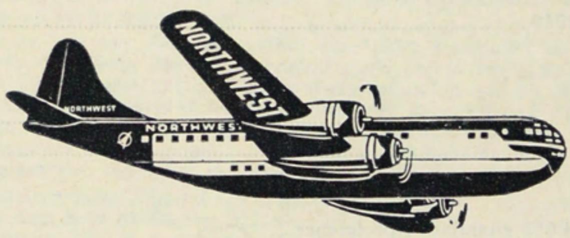
Board of Directors
Northwest Airlines, Inc.
Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC., as of December 31, 1949, and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus present fairly the financial position of NORTHWEST AIRLINES, INC., at December 31, 1949, and the results of its opertions for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Saint Paul, Minnesota
March 10, 1950


NORTHWEST
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