



ANNUAL REPORT

**NORTHWEST
1960**

AIRLINES, INC.

GENERAL OFFICES
1885 UNIVERSITY AVE.
ST. PAUL 1, MINNESOTA



**NORTHWEST
AIRLINES, INC.**



OFFICERS*

DONALD W. NYROP
President

EMORY T. NUNNELEY, JR.
Vice President and General Counsel

FRANK C. JUDD
Vice President—Maintenance
and Station Operations

PAUL L. BENSCOTER
Vice President—Orient Region

C. L. STEWART
Vice President—Economic Planning

ROBERT A. EBERT
Vice President—Personnel

A. E. FLOAN
Vice President and Secretary

DONALD H. HARDESTY
Treasurer

M. J. LAPENSKY
Comptroller

F. J. SCOTT
Assistant Secretary

DALE MERRICK
Assistant Vice President—Properties

REGISTRAR: The Chase Manhattan Bank, New York, N. Y.

TRANSFER AGENTS: Bankers Trust Company, New York, N. Y.

*As of March 9, 1961

DIRECTORS*

CROIL HUNTER
Chairman of the Board, Northwest Airlines, Inc.
1885 University Avenue, St. Paul 1, Minn.

JAMES H. BINGER
Vice President, Minneapolis-Honeywell Regulator Co.
2753-4th Avenue South, Minneapolis, Minn.

HADLEY CASE
President, Case, Pomeroy & Company, Inc.
285 Madison Avenue, New York 17, New York

MORTON H. FRY
Senior Partner, Riter & Company
40 Wall Street, New York 5, New York

JOSEPH T. JOHNSON
President, The Milwaukee Company
Mitchell Building, 207 E. Michigan, Milwaukee, Wis.

MALCOLM S. MACKAY
President, Foothills Company
Roscoe, Montana

CLYDE B. MORGAN
Chairman of the Board, Rayonier, Incorporated
161 East 42nd Street, New York 17, New York

DONALD W. NYROP
President, Northwest Airlines, Inc.
1885 University Avenue, St. Paul 1, Minn.

ALONZO PETTEYS
Vice President, Farmers State Bank
Brush, Colorado

C. FRANK REAVIS
Partner, Hodges, Reavis, McGrath & Downey
26 Broadway, New York 4, New York

ALBERT G. REDPATH
Partner, Auchincloss, Parker & Redpath
2 Broadway, New York 4, New York

WILLIAM STERN
President, Dakota National Bank
Fargo, North Dakota

LYMAN E. WAKEFIELD, JR.
Vice President, First National Bank of Minneapolis
120 South 6th Street, Minneapolis 2, Minn.

ALBERT J. WEATHERHEAD, JR.
President, The Weatherhead Company
300 East 131st Street, Cleveland 8, Ohio

STOCK LISTED: Common Stock listed on New York Stock Exchange
and Midwest Stock Exchange.

Preferred Stock listed on New York Stock Exchange.

FRONT COVER: New Boeing 720B Jet aircraft soon to be in service on Northwest's routes.

BACK COVER: Northwest's new terminal facility at Idlewild International Airport.

PRESIDENT'S LETTER TO STOCKHOLDERS:

Northwest Orient Airlines ended 1960 with a profit, despite several serious problems with which we were faced.

Included in these problems were two strikes—totaling 96 days' duration in 1960. The latter strike, by flight engineers, extended into 1961 until the appointment of a Presidential Emergency Board. Hearings into the issues of the strike are going forward at this time.

Northwest recently announced purchase of six Boeing 720B's at a cost of \$36,772,000. The financing of this equipment has been arranged on a favorable basis which minimizes the creation of new debt. Of the total required, \$10,000,000 remains available as unused credit from the 1958 Bank Agreement. An additional \$9,000,000 becomes available as a result of the extension to 1962 of the initial repayments which would otherwise be due in 1961. The remainder of the purchase price will be financed with new funds obtained by increasing the bank credit from \$32,500,000 to \$42,500,000 and by issuing subordinated notes to Boeing Airplane Company in the amount of \$7,500,000.

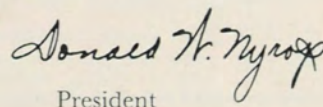
As was anticipated, competition over our routes was intensified early in 1960, as other airlines inaugurated jet services. Northwest's own introduction of jets in the summer heightened your Company's competitive efforts.

In 1961, Northwest will further improve its equipment position in the industry. A full year's utilization of the intercontinental-range DC-8C's together with inauguration of medium-range 720B jet service will contribute substantially to realization of the growth potential afforded by our well balanced route system.

Transfer of overhaul and other facilities from Holman Field, St. Paul, to our new Main Base at Minneapolis-St. Paul International Airport was accomplished in late summer. During 1961, your Company will move its Executive Offices into the new General Office Building at the Main Base, thus placing all major headquarters functions under one roof. The Main Base will be completed for less than the \$18,000,000 estimated as its total cost.

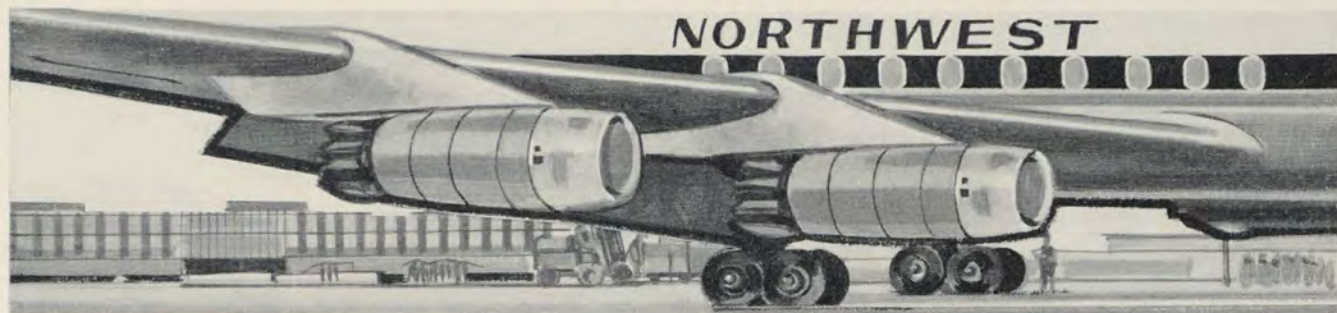
We are grateful to the stockholders, employees and customers of Northwest for their continued support during 1960, particularly in some of the more difficult times which we encountered.

Sincerely,



President

March 24, 1961



NORTHWEST AIRLINES, INC.

FINANCIAL RESULTS

Your Company's financial results from 1960 operations reflect a profit, despite several factors which contributed to a decline from the higher level of earnings attained in 1959. These factors included:

1. The Electra accident in March, with resulting loss of revenues and increased costs arising from restricted operation of this aircraft in the remainder of 1960.
2. The necessary delay in accepting our eight additional Electras pending government approval of a modification to permit a return to normal operating speeds.
3. Delay in delivery of DC-8C jet aircraft and additional delay in inauguration of DC-8C revenue flights as a result of the pilots' strike in July.
4. The strike of flight engineers which grounded DC-8C's on October 11 and kept this highly competitive aircraft on the ground for the remainder of the year.
5. A temporary softening of total domestic trunk airline traffic in the last half of 1960.

Despite these limiting factors, Northwest Airlines realized a relatively high level of operating revenues in 1960 and, by careful control of operating costs, completed the year with a net profit after taxes of \$1,625,765.

Earnings. Profit for 1960 after all charges amounted to \$1,625,765, compared with \$5,713,512 in 1959. Included in these net figures are profits from disposals of property, after taxes, of \$699,852 in 1960 and \$1,311,859 in 1959. The net profit figures for both years reflect interest charges of \$2,683,480 in 1960 and \$1,794,940 in 1959.

After provision for dividends of \$592,244 on preferred stock, earnings for 1960 are equivalent to \$.75 per share of common stock outstanding at the close of the year. Earnings for 1959 were \$3.68 per share of common stock, after provision for preferred dividends in the amount of \$610,559.

Directors, officers and employees of Northwest Airlines, Inc., were saddened by the sudden death, May 18, 1960, of Ted R. Gamble, Portland, Ore., business executive and a Director of Northwest since 1957.

Revenues. Operating revenues in 1960 were \$123,361,479 or 2.1 per cent less than the all-time high attained in 1959, reflecting the effects of the several limiting factors described in detail previously.

Passenger revenues amounted to \$97,680,028, a reduction of 2.9 per cent from 1959. Despite a greater reduction in revenue passenger miles—4.84 per cent less than 1959—the dollar revenues from 1960 passenger traffic were aided by realization of a 2 per cent increase in the system average fare per passenger mile. This increase resulted from Civil Aeronautics Board approval of a domestic fare increase approximating 4.5 per cent, effective in the last half of 1960. This increase, together with upward adjustment of transcontinental jet coach fares approved late in 1960, will carry over to improve net fares per mile in 1961.

Cargo revenues, including mail, express, freight and excess baggage, totaled \$22,078,998 in 1960, compared with \$23,098,988 in 1959. Charter and other revenues reflected gains during 1960.

Expenses. Operating expenses in 1960 totaled \$118,867,785, an increase of 3.3 per cent compared with the \$115,120,583 so expended in 1959. This increase of \$3,747,202 includes \$2,882,471 of additional provision for depreciation resulting from a full year of operations with Electra prop-jet aircraft acquired in 1959 and from introduction of DC-8C pure jet aircraft in 1960.

The remainder of \$864,731 reflects an increase of only 8/10 of 1 per cent in all other expense categories.

Operating capacity in 1960 included production of 46,670,572 revenue plane miles and 3,073,400,209 available seat miles, respectively 1.9 per cent and 2.4 per cent less than the capacity offered in 1959. Despite these reductions in service, costs in certain categories were increased by the abnormal factors to which reference was made in detail earlier. In particular, operating costs of the Electra aircraft were increased in the last nine months of the year by restrictions imposed upon the operating speeds of these aircraft.

Your Company has continued its tightened cost-control program and concurrently with the strike of DC-8C flight engineers in October, 1960, took appropriate steps to reduce the working force to offset insofar as possible the loss of revenues which resulted from the grounding of the jet fleet. Total employment of 6,918 on the day the strike began was reduced by 1,127 to a staff numbering 5,791 by the end of the year. Reductions of expenditures in categories other than payroll were effected, as well.

Northwest inaugurated DC-8C pure jet service on its international and domestic routes in 1960. Early in 1961 (picture at right) NWA began the first scheduled jet airline service in Minneapolis-St. Paul.



NET WORTH AND DIVIDENDS

The net worth of your Company at the end of 1960 was \$52,192,566. The common stock equity portion of this total amounted to \$29.54 per share, on each of the 1,384,903 shares of common stock outstanding at the end of the year. This compares with a \$29.59 net book value per share on the 1,384,903 common shares outstanding at the close of 1959.

Consistent with your Company's policy in effect since 1955, regular quarterly dividends of \$.20 per share were paid on common stock on March 31, June 30, September 30 and December 31. Dividends on the \$25 par value 5¼% Convertible Cumulative Preferred Stock also were paid on the quarterly due dates of March 31, June 30, September 30 and December 31.

ROUTES

Decision in the Trans-Pacific Route Case was announced by the White House on January 19, 1961.

In this international route proceeding, President Eisenhower disapproved all applications for additional route authorities between the United States and the Orient because of the effect such awards would have on American foreign policy. The President's action denied Northwest's applications to provide service over new routes and also denied the applications of other carriers to duplicate Northwest's trans-Pacific routes.

In the same decision, the President made permanent the route authority of Northwest Airlines west of Tokyo to Korea, Okinawa, Taiwan, the Philippines and Hong Kong.



Construction of Northwest Orient Airlines' new General Office building is nearing completion, as part of the Main Base at Minneapolis-St. Paul International Airport. Design of the 259,200 square-foot building is a departure from conventional office design, in that there are no windows in the 33 foot-high exterior panels of blue-green, porcelainized aluminum. The building will be completely air-conditioned. It adjoins hangars (right, background) via shops and stores buildings.



Northwest Orient Airlines on March 16, 1961, announced purchase of a fleet of six Boeing 720B medium jet aircraft (left). The same week, nose section of Northwest's first 720B was joined to fuselage at Boeing Airplane Company (below).

Northwest has petitioned for reconsideration of this decision insofar as it fails to certificate Northwest over the Central Pacific route from California to Tokyo.

During the past year, the Civil Aeronautics Board made permanent Northwest's authority between the Pacific Northwest and Hawaii. This action, together with the award of permanent authority on routes west of Japan, means that all the routes operated by your Company now are permanently certificated. This contrasts with the fact that only 21 per cent of Northwest Airlines' route miles were operated under permanent authority as recently as six years ago.

While there are no other major route matters pending before the CAB, your Company has on file a comprehensive pattern of route applications awaiting procedural action. These include requests for domestic route authority to California points and for improvement of our route structure in the eastern part of the United States.

EQUIPMENT AND SERVICE

In July, 1960, your Company began pure-jet service with the inauguration of Douglas DC-8C flights between Seattle-Tacoma and Tokyo. Service with these intercontinental-range jets was extended to points beyond Tokyo, to the New York-Anchorage-Tokyo route and, in September, to our domestic transcontinental markets.

Traffic response was immediate and favorable and by October our DC-8C fleet was producing one-fourth of the Company's total revenues. Further realization of this traffic was curtailed for the remainder of the year when the flight engineers struck October 11. However, reinstatement of DC-8C jet flights early in 1961 again proved the great passenger appeal and revenue-producing ability of these aircraft.

In December, 1960, the Federal Aviation Agency approved a program for structural modification of the Lockheed Electra prop-jet aircraft which will permit removal of operating restrictions imposed in March, 1960, and return of these planes to original speed and performance specifications. The nine Electras originally put into service by Northwest in 1959 and early 1960 will have undergone factory modification—at Lockheed's expense—by May, 1961.



Delivery of eight additional Electras ordered by your Company was deferred from summer, 1960, pending approval and completion of the modification program. Four of these aircraft are scheduled for March, 1961, delivery and the last four for summer, 1961, bringing our total fleet of this type to 17. In view of the proven passenger appeal and favorable economic characteristics of the Electra, the additional aircraft of this type will make a valuable contribution to our domestic turbine-powered service.

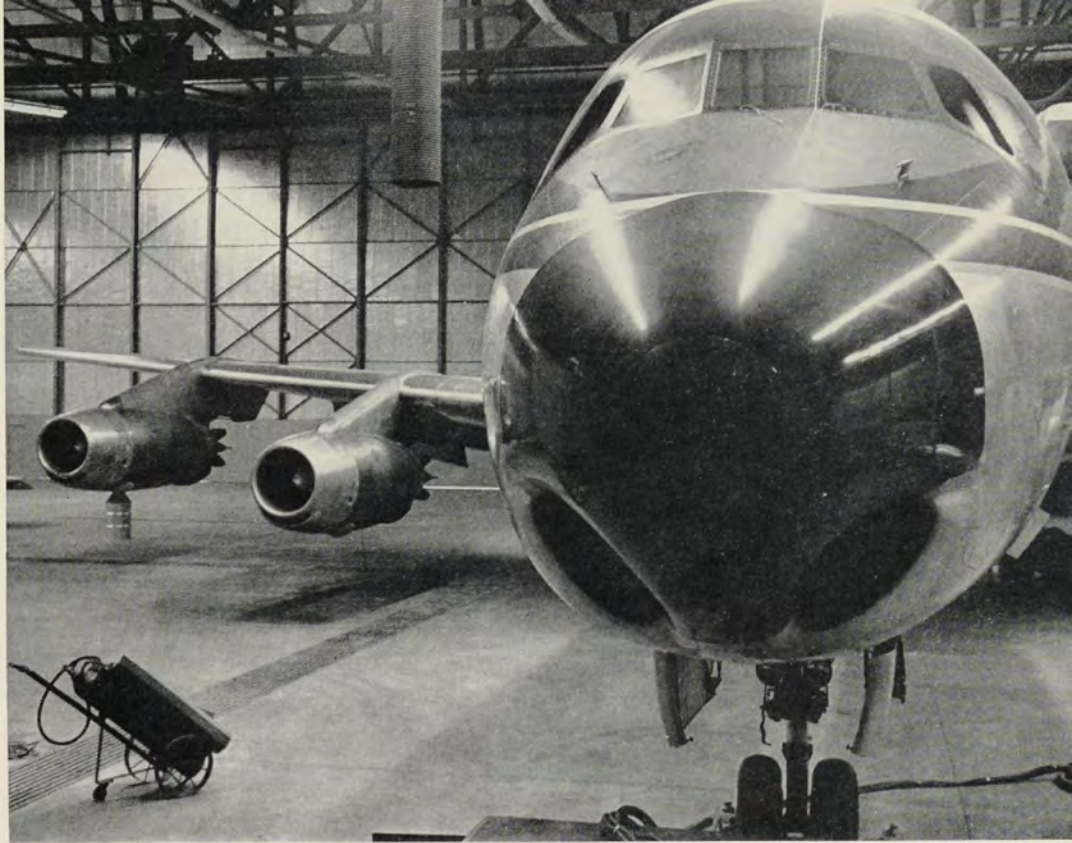
On March 16, 1961, your Company announced the purchase of six Boeing 720B jet aircraft at a cost, including spare parts and equipment, of \$36,772,000. Delivery of these aircraft will begin in June, 1961, and will be completed by October, 1961. Initial service is scheduled for July, 1961, on a route pattern that will expand our jet service to a number of the airline's larger domestic cities.

The 720B jets, powered with four Pratt and Whitney JT3D-1 turbo-fan engines, will have improved take-off thrust as well as better fuel economy and ability to operate from shorter runways than earlier medium-range jets. In addition, the 720B will have sufficient range to fly with a full passenger load on such long routes as Hawaii-Mainland, New York-Anchorage and Anchorage-Tokyo.

Added to our present fleet of five DC-8C's and our 17 prop-jet Electras, the six 720B jets will permit operation by the end of 1961 of 84 per cent of Northwest's system total seat miles in modern, turbine-powered aircraft.

Transfer of maintenance and stores activity to the new Main Base at Minneapolis-St. Paul International Airport was begun in June and completed in August, 1960. Installation of turbine-engine overhaul equip-

Huge Northwest Orient Airlines DC-8C pure jet airliner made its first visit to Main Base late in 1960, where it was accommodated comfortably in a large new hangar, one of five.



ment now is under way to enable complete overhaul of all flight equipment at the Main Base. Construction of the new General Office building at the same location is nearing completion, and the facility will be occupied by this summer.

Line maintenance hangars are under construction at Detroit Metropolitan Wayne County Airport and at O'Hare International Airport, Chicago. Both facilities, capable of accommodating jet aircraft, will be ready for use in early 1962. Also being built is your Company's unit air terminal at New York International (Idlewild) Airport. Structural steel erection is scheduled to be completed in April, 1961, with the terminal to be ready for use in spring, 1962. Some delay from original completion date was occasioned by a need for revision of plans to meet budget cost figures.

Completion of these and other construction projects will provide your Company with spacious, modern facilities for jet-age operations.



CREDIT AGREEMENTS

The Bank Agreement and the Insurance Company Agreements negotiated in 1958 were in effect throughout 1960. On December 31, 1960, loans outstanding aggregated \$28,500,000 and \$40,000,000, respectively. In January, 1961, a prepayment of \$6,000,000 reduced the borrowing under the Bank Agreement to \$22,500,000.

Between February 28 and March 9, 1961, both credit agreements were amended to provide financing for purchase of the six 720B medium jet aircraft, with a portion of the financing to be in subordinated promissory notes issued to the Boeing Airplane Company, manufacturer of the aircraft.

Amendatory Bank Agreement. In addition to permitting the commitment for purchase of the six 720B's, the amended agreement provides for an increase in the total bank credit from \$32,500,000 to \$42,500,000, the extension of the revolving credit to December 31, 1961, and the maturity to December 31, 1966. The amended agreement also eliminates sinking fund prepayment provisions and establishes a fixed payment schedule of \$2,125,000 on each June 30 and December 31 and \$4,250,000 on each September 30, commencing June 30, 1962, and continuing until all the loans outstanding on December 31, 1961 are repaid. It also amends the covenants with respect to debt to net worth and declaration and payment of dividends.

Insurance Company Agreements. The agreements of November 28, 1958, were amended so as to permit the

In 1960 Northwest resumed flights to Newark, N. J., and now offers improved service with a choice of two terminals in this important market area.



Late in 1960 Northwest Airlines inaugurated service to and from Baltimore, Maryland's largest city and an important seaport. Baltimore is well known as a trading, financial and manufacturing city as well as a medical and cultural center. The city's Friendship Airport is present base for jet airliner flights to the Baltimore-Washington area.

720B purchase and the exclusion of Boeing subordinated notes from funded debt (until they are payable on a fixed payment schedule commencing June 30, 1967). Certain definitions relating to flight equipment were also amended.

Other Long Term Credit. In connection with the purchase of the 720B's, partial payment in the amount of \$7,500,000 is effected by subordinated promissory notes payable to Boeing. One-half of the total of such notes, or \$3,750,000, has been issued as part of the down payment and the remaining one-half will be issued pro rata on delivery of each aircraft. Such notes bear interest payable semi-annually each June 30 and December 31 at the rate of 6 per cent per annum and the principal is due on the last day of June, September and December commencing June 30, 1967, at the rate of one-third of \$1,500,000 or one-third of net earnings as defined in the notes, whichever is greater. Prepayments of principal will be made commencing June 30, 1962, if permitted by net earnings as defined in the notes, provided, however, that at no time shall the payment of interest or principal be made if such payment would create a default under the Bank Agreement or the Insurance Company Agreements.

The terms of the conditional contracts of sale relating to eight additional Lockheed Electra aircraft required a down payment of 12½ per cent of the agreed purchase price. The balance is payable in sixty equal month-

Imperial Service cuisine aboard Northwest's jet flights across the Pacific is brought to passengers on specially constructed aisle carts. Pictured is a deluxe breakfast service, featuring fresh strawberries, fancy rolls.

ly installments commencing the month following that in which each of the additional aircraft is delivered.

PERSONNEL AND LABOR RELATIONS

Qualified personnel have been assigned to all departments of your Company through the use of established recruiting and selection procedures.

Flight and ground training which began in late 1959 continued into 1960 to accommodate the integration of the DC-8C fleet into service by mid-year.

Collective bargaining agreements were concluded with six different classes or crafts of personnel during 1960. Negotiations with eight other classes and crafts progressed normally with the notable exception of the strike by the flight engineers assigned to the DC-8C's which commenced October 11, 1960, affecting the jet equipment. Later, on January 9, 1961, the strike was expanded to all aircraft.

This strike was the outgrowth of a jurisdictional dispute that has plagued the airline industry since the introduction of jet aircraft in commercial aviation. President Kennedy appointed an emergency board early in 1961 to investigate the dispute. It is hoped that this board will bring the problem into proper perspective so that it can be resolved, satisfactorily and finally. This has been the only protracted strike in the Company's entire history.

Northwest Airlines has moved into the jet age confident that its staff of qualified and efficient personnel will assure our continued excellent service and sound growth in the industry.



STATEMENTS OF INCOME

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
	1960	1959
OPERATING REVENUES		
Passenger	\$ 97,680,028	\$100,641,156
United States mail.....	9,680,298	10,173,961
Foreign mail.....	1,030,507	1,044,541
Excess baggage.....	1,183,124	1,349,086
Freight and express.....	10,185,069	10,531,400
Charter and other transportation.....	822,724	526,166
Mutual Aid Agreement—net—Note G.....	922,128	—
Other	1,857,601	1,763,191
	<u>\$123,361,479</u>	<u>\$126,029,501</u>
OPERATING EXPENSES		
Flying operations.....	\$ 37,605,697	\$ 37,610,259
Maintenance	22,872,426	21,770,715
Passenger service.....	8,840,131	8,464,743
Aircraft and traffic servicing.....	15,421,537	15,511,064
Reservations, sales and advertising.....	13,789,086	14,011,037
Administrative and general.....	6,521,536	6,817,864
Provision for depreciation.....	13,817,372	10,934,901
	<u>\$118,867,785</u>	<u>\$115,120,583</u>
	\$ 4,493,694	\$ 10,908,918
OTHER DEDUCTIONS AND INCOME		
Interest on long-term debt.....	\$ 2,683,480	\$ 1,794,940
Other income, less miscellaneous deductions.....	111,729	307,675
	<u>\$ 2,571,751</u>	<u>\$ 1,487,265</u>
INCOME BEFORE TAXES AND PROPERTY DISPOSALS.....	\$ 1,921,943	\$ 9,421,653
TAXES ON INCOME (including deferred taxes \$993,030—1960, \$3,123,770—1959, arising from accelerated depreciation methods).....	996,030	5,020,000
	<u>996,030</u>	<u>5,020,000</u>
NET INCOME FROM OPERATIONS.....	\$ 925,913	\$ 4,401,653
PROFIT FROM DISPOSALS OF PROPERTY , less applicable in- come taxes (1960—\$10,000 net credit arising from \$206,000 reduction of deferred taxes, 1959—\$510,000).....	699,852	1,311,859
	<u>699,852</u>	<u>1,311,859</u>
NET INCOME FOR THE YEAR.....	\$ 1,625,765	\$ 5,713,512
	<u>\$ 1,625,765</u>	<u>\$ 5,713,512</u>

See notes to financial statements.

STATEMENTS OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC. and SUBSIDIARY

ASSETS

	December 31,	
	1960	1959
CURRENT ASSETS		
Cash	\$ 18,360,434	\$ 10,206,460
United States Treasury bills—at cost which approximates market price.....	998,785	—
Trade receivables, less allowance of \$100,000.....	12,312,518	13,804,267
Maintenance and operating supplies—at average cost.....	3,078,237	3,012,417
Prepaid expenses.....	1,424,223	655,598
TOTAL CURRENT ASSETS	<u>\$ 36,174,197</u>	<u>\$ 27,678,742</u>
 INVESTMENTS AND OTHER ASSETS		
Related industry investments and advances—at cost.....	\$ 140,473	\$ 145,107
 FLIGHT EQUIPMENT at cost.....	\$129,001,982	\$109,542,617
Less allowances for depreciation and obsolescence.....	36,321,382	28,979,487
	<u>\$ 92,680,600</u>	<u>\$ 80,563,130</u>
Advances on purchase contracts—Note E.....	4,164,530	11,442,896
	<u>\$ 96,845,130</u>	<u>\$ 92,006,026</u>
 OTHER EQUIPMENT AND PROPERTY at cost.....	\$ 21,399,592	\$ 18,889,956
Less allowances for depreciation.....	10,618,889	10,653,805
	<u>\$ 10,780,703</u>	<u>\$ 8,236,151</u>
 DEFERRED CHARGES		
Unamortized training and other costs in connection with aircraft fleets and routes.....	\$ 3,385,197	\$ 1,357,729
Rentals	870,719	489,502
Other	501,432	184,059
	<u>\$ 4,757,348</u>	<u>\$ 2,031,290</u>
	<u><u>\$148,697,851</u></u>	<u><u>\$130,097,316</u></u>

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31,	
	1960	1959
CURRENT LIABILITIES		
Accounts payable, collections as agent, etc.....	\$ 11,342,208	\$ 11,026,752
Salaries, wages and vacations.....	4,953,407	4,291,033
Air travel card deposits.....	1,184,475	1,170,875
Unredeemed ticket liability.....	834,534	989,138
Income taxes—estimated.....	574,861	2,023,888
TOTAL CURRENT LIABILITIES	<u>\$ 18,889,485</u>	<u>\$ 19,501,686</u>
 LONG-TERM DEBT —Note A		
Notes payable to insurance companies.....	\$ 40,000,000	\$ 40,000,000
Notes payable to banks.....	28,500,000	10,000,000
	<u>\$ 68,500,000</u>	<u>\$ 50,000,000</u>
 DEFERRED INCOME TAXES		
arising from accelerated depreciation methods.....	\$ 9,115,800	\$ 8,328,770
 STOCKHOLDERS' EQUITY —Note C		
Cumulative Preferred Stock, \$25 par value; authorized 1,000,000 shares issuable in series: 5¼% Convertible Series; authorized 457,873 shares; issued and outstanding 451,234 shares—Note B.....	\$ 11,280,850	\$ 11,280,850
Common Stock, \$10 par value; authorized 4,500,000 shares; issued and outstanding 1,384,903 shares—Note D.....	13,849,030	13,849,030
Capital surplus.....	6,577,695	6,577,589
Earned surplus.....	20,484,991	20,559,391
	<u>\$ 52,192,566</u>	<u>\$ 52,266,860</u>
 COMMITMENTS AND CONTINGENT LIABILITIES —Note E		
	<u><u>\$148,697,851</u></u>	<u><u>\$130,097,316</u></u>

See notes to financial statements.

STATEMENTS OF SURPLUS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31,	
CAPITAL SURPLUS	1960	1959
Balance at beginning of year.....	\$ 6,577,589	\$ 6,481,052
Additions (deduction) arising from:		
Sale of shares of Common Stock under option agreements, in excess of par value.....	—	27,808
Cost of issue of 5¼% Convertible Series, Cumulative Preferred Stock..	—	(33,409)
Conversion of shares of Preferred Stock into shares of Common Stock....	106	102,138
Balance at end of year.....	<u>\$ 6,577,695</u>	<u>\$ 6,577,589</u>
EARNED SURPLUS		
Balance at beginning of year.....	\$20,559,391	\$16,560,267
Add net income for the year.....	1,625,765	5,713,512
	<u>22,185,156</u>	<u>22,273,779</u>
Deduct cash dividends on:		
5¼% Preferred Stock—annual rate of \$1.31¼ a share.....	\$ 592,244	\$ 610,559
Common Stock—\$.80 a share.....	1,107,921	1,103,829
	<u>1,700,165</u>	<u>1,714,388</u>
Balance at end of year.....	<u>\$20,484,991</u>	<u>\$20,559,391</u>

See notes to financial statements.

ACCOUNTANTS' REPORT

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

We have examined the statement of consolidated financial position of Northwest Airlines, Inc. and subsidiary as of December 31, 1960 and the related statements of consolidated income and surplus for the year then ended. Our examination was 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. We have made similar examinations for prior years.

In our opinion, the accompanying statements of financial position and income and surplus present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiary at December 31, 1960 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the five year summary of income presents fairly the information stated therein.

Saint Paul, Minnesota
March 9, 1961

ERNST & ERNST
Certified Public Accountants

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31, 1960

Note A—Long-Term Debt

For the purpose of equipment financing (Note E) the Company, as of November 28, 1958, entered into Note Purchase Agreements with twelve insurance companies and a Bank Credit Agreement with fifteen banks. These agreements were amended between February 28 and March 9, 1961.

The Note Purchase Agreements provide for aggregate borrowings of \$40,000,000 which are payable \$3,000,000 annually beginning October 1, 1966 with the balance of \$4,000,000 due October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain other provisions with respect to redemption as a whole (but not from borrowed funds) at premiums ranging from 7% to 1%.

The Amended Bank Credit Agreement provides for a loan to the Company of \$42,500,000 on a revolving credit basis through December 31, 1961 and as a term loan thereafter at 5%. The loan is payable \$8,500,000 in each year 1962 through 1966.

The Company has agreed, among other things, that it will not permit: (a) its working capital at any time to be less than certain specified amounts and (b) its funded debt to exceed certain percentages of net tangible assets, net worth, and depreciated value of flight equipment, as these terms are defined in the Agreements. At December 31, 1960 the Company had complied with the covenants then in effect.

Note B—5¼% Convertible Cumulative Preferred Stock

This Stock Series has voting rights; is entitled upon voluntary liquidation to \$25 a share plus accumulated unpaid dividends; is convertible at any time on the basis of \$25 a Preferred Share into Common Stock at a conversion price of \$26 a share, subject to adjustment in certain events; and is redeemable as a whole or in part at prices ranging from \$26.25 a share before January 1, 1962 to \$25 a share after December 31, 1973, together in each case with accrued dividends.

Note C—Restrictions on Stockholders' Equity

The Note Purchase Agreements and the Bank Credit Agreement establish an aggregate dollar maximum for the declaration and payment of cash dividends on Common Stock, and for the distribution on, redemption, purchase or other acquisition of shares of any class of Capital Stock. Under the terms of the Amended Bank Credit Agreement the amount of earned surplus available for such purposes would have been \$2,500,000 at December 31, 1960.

The Agreements do not prohibit the payment of stock dividends and do not restrict dividend payments on the 5¼% Convertible Series, Cumulative Preferred Stock.

Note D—Common Stock Reservations and Options

At the end of the year 2,600 shares of Common Stock were subject to outstanding options exercisable by Company officers at prices not less than 95% of market at the dates of grant. 1,600 shares are exercisable not later than July 29, 1961 at \$15.675 a share and 1,000 shares are exercisable not later than October 30, 1965 at \$13.42 a share. An additional 10,000 shares are reserved for options which may be granted in the future to officers and employees and 433,878 shares are reserved for issuance upon conversion of the 5¼% Convertible Series, Cumulative Preferred Stock.

Note E—Commitments and Contingent Liabilities

At December 31, 1960 commitments for the purchase of one Douglas DC-8 turbojet aircraft and eight Lockheed Electra prop-jet aircraft, to be delivered in 1961, and other flight and ground equipment amounted to approximately \$24,412,000. Of this amount, \$4,164,530 was on deposit with manufacturers at December 31, 1960, \$4,330,366 is due in 1961 and \$15,917,104 becomes payable over sixty month periods from dates of delivery of the Lockheed Electra prop-jet aircraft under conditional sales contracts.

On March 9, 1961 the Company contracted to purchase six Boeing 720B turbojet aircraft which together with other related flight and ground equipment to be delivered in 1961 will amount to \$37,008,000 payable \$29,508,000 in 1961 and \$7,500,000 of subordinated notes payable \$1,500,000 in each year 1967 through 1971. Prepayments based on net earnings of the Company may be required annually and shall be applied to the latest maturities of the subordinated notes.

Annual payments of approximately \$1,590,000 from date of occupancy will be required under the Company's agreements for lease over 25 to 30 years of overhaul bases, hangars and administrative facilities at Wold-Chamberlain Field, Twin Cities; International Airport, New York and O'Hare International Airport, Chicago.

The Company was contingently liable at December 31, 1960 in the amount of \$27,109 for the repurchase of travel contracts sold. Other contingent liabilities include those inherent in the Company's operations. While the amount of these contingent liabilities is not now determinable, the management of the Company is of the opinion that it is not material with respect to the Company's financial position.

Note F—Mail Transportation Compensation

No final determinations of total mail compensation have been made by the Civil Aeronautics Board on international and domestic routes for 1951 and on international routes for 1954. The ultimate effect of any redeterminations are not known at this time.

In January 1957, the Board issued an order asking the Company to show cause why temporary compensation for 1954 should not tentatively be reduced \$1,406,000 pending final hearings. The Company has refunded this amount and recorded the adjustment in prior years.

In January 1960, the Board issued an order proposing to establish a final subsidy-free mail rate for 1954 and asking the Company to show cause why the remaining \$1,833,000 of mail compensation subsidy should not be refunded. No effect has been given in the accompanying financial statements to this proposed reduction which would approximate \$843,000 net after income taxes of \$990,000.

The Company is contesting both of the above actions.

Note G—Mutual Aid Agreement

In 1960 the Company entered into a Mutual Aid Agreement with certain airlines under which any party to the agreement suffering a strike as defined therein is to receive from the other airlines an amount equal to the increase in their revenues attributable to the strike less applicable added direct expenses. The Civil Aeronautics Board is investigating the agreement and in the event of its disapproval, Mutual Aid payments are to be refunded to the paying airlines to the extent affected by such disapproval.

FIVE YEAR SUMMARY OF INCOME

(Amounts Shown in Thousands)

NORTHWEST AIRLINES, INC. and SUBSIDIARY

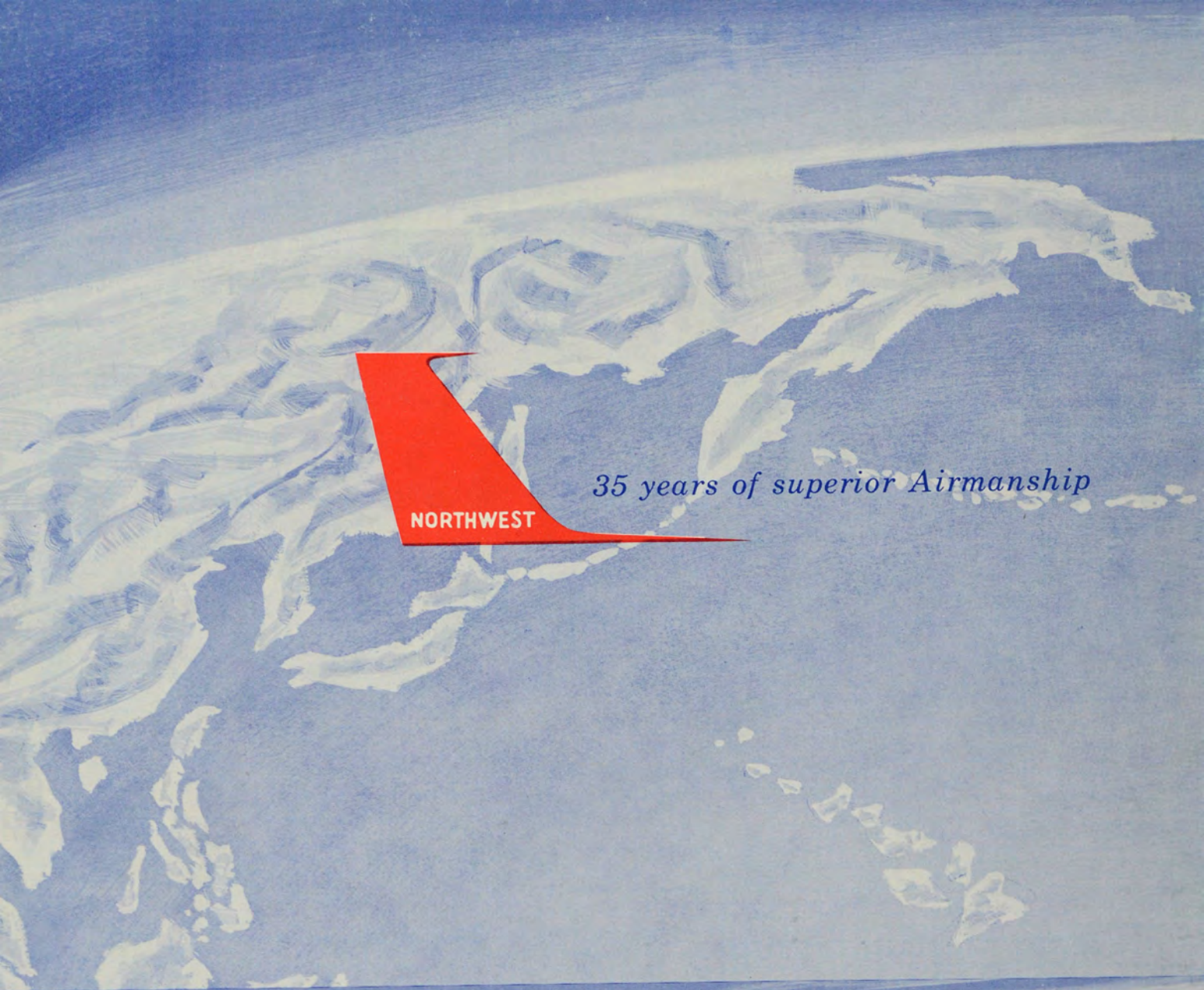
Five years ended December 31, 1960

OPERATING REVENUES	1960	1959	1958	1957	1956
Passenger	\$ 97,680	\$100,641	\$ 81,116	\$66,674	\$60,264
United States mail.....	9,680	10,174	9,265	7,587	7,192
Foreign mail.....	1,031	1,045	963	763	666
Excess baggage.....	1,183	1,349	1,230	1,004	728
Freight and express.....	10,185	10,532	7,437	6,537	6,427
Charter and other transportation.....	823	526	1,237	226	816
Mutual Aid Agreement.....	922	—	—	—	—
Other	1,858	1,763	709	641	386
	<u>\$123,362</u>	<u>\$126,030</u>	<u>\$101,957</u>	<u>\$83,432</u>	<u>\$76,479</u>
OPERATING EXPENSES					
Flying operations.....	\$ 37,606	\$ 37,610	\$ 29,747	\$25,555	\$22,665
Maintenance	22,872	21,771	17,090	16,037	14,095
Passenger service.....	8,840	8,465	6,034	5,061	4,502
Aircraft and traffic servicing.....	15,422	15,511	12,207	11,689	10,847
Reservations, sales and advertising.....	13,789	14,011	10,753	9,218	8,169
Administrative and general.....	6,522	6,818	5,573	5,452	4,834
Provision for depreciation.....	13,817	10,935	8,515	5,436	6,772
	<u>\$118,868</u>	<u>\$115,121</u>	<u>\$ 89,919</u>	<u>\$78,448</u>	<u>\$71,884</u>
	<u>\$ 4,494</u>	<u>\$ 10,909</u>	<u>\$ 12,038</u>	<u>\$ 4,984</u>	<u>\$ 4,595</u>
OTHER DEDUCTIONS, NET.....	<u>2,572</u>	<u>1,487</u>	<u>1,387</u>	<u>994</u>	<u>522</u>
INCOME BEFORE TAXES AND PROPERTY DISPOSALS.....	\$ 1,922	\$ 9,422	\$ 10,651	\$ 3,990	\$ 4,073
TAXES ON INCOME.....	996	5,020	5,665	2,100	2,185
NET INCOME FROM OPERATIONS.....	<u>\$ 926</u>	<u>\$ 4,402</u>	<u>\$ 4,986</u>	<u>\$ 1,890</u>	<u>\$ 1,888</u>
PROFIT FROM DISPOSALS OF PROPERTY.....	\$ 690	\$ 1,822	\$ 828	\$ 3,241	\$ 1,828
Less applicable income taxes.....	(10)	510	200	312	490
NET PROFIT FROM DISPOSALS OF PROPERTY.....	<u>\$ 700</u>	<u>\$ 1,312</u>	<u>\$ 628</u>	<u>\$ 2,929</u>	<u>\$ 1,338</u>
NET INCOME FOR THE YEAR.....	<u>\$ 1,626</u>	<u>\$ 5,714</u>	<u>\$ 5,614</u>	<u>\$ 4,819</u>	<u>\$ 3,226</u>



PROGRESS FOR THE LATEST 10 YEARS

Calendar Year	Total Operating Revenue	Passenger Revenue	Express and Freight Revenue	Revenue Passenger Miles	Mail Ton Miles	Total Plane Miles Flown
1960	\$123,361,479	\$97,680,028	\$10,185,069	1,653,966,431	24,424,036	48,765,657
1959	126,029,501	100,641,156	10,531,400	1,738,138,265	24,435,745	49,282,475
1958	101,957,172	81,115,900	7,437,293	1,408,742,516	21,892,299	40,721,143
1957	83,432,404	66,674,383	6,537,452	1,205,764,597	17,803,356	35,629,289
1956	76,479,526	60,264,291	6,426,502	1,094,121,438	16,780,406	32,461,321
1955	71,088,043	57,252,957	5,539,095	1,017,400,443	15,407,054	30,909,610
1954	62,138,312	51,053,599	4,676,190	909,674,550	6,990,462	27,029,860
1953	66,042,488	48,652,465	4,890,153	851,174,754	5,002,605	27,816,827
1952	61,474,153	41,962,758	4,781,081	720,046,264	5,017,993	23,210,634
1951	54,593,420	35,192,765	4,371,533	602,220,853	4,571,276	19,531,632



NORTHWEST

35 years of superior Airmanship



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