NORTHWEST AIRLINES, INC.
1965
ANNUAL REPORT

1965 Highlights

COVER, Northwest Airlines 707-320B awaits passengers at Tokyo International Airport.

ABOVE, Seattle-Tacoma International Airport, departure point on Northwest's 4,800-mile nonstop route from contiguous 48 states to Japan.

TOP, Northwest Airlines Executive Offices at Minneapolis-St. Paul International Airport.

	1965	1964
Total Operating Revenues	$262,998,139	$211,610,431
Operating Income	$ 85,847,206	$ 53,131,117
Net Earnings for the Year	$ 45,694,024	$ 26,785,523
Per Common Share	$9.99	$5.86
Stockholders' Equity	$165,080,849	$122,959,586
Per Common Share	$36.08	$26.91
Dividends Paid	$ 3,657,442	$ 2,601,682
Operating Expenses—		
Per Available Ton-Mile	16.4¢	18.5¢
Per Revenue Ton-Mile	33.0¢	39.7¢
Revenue Traffic—		
Passengers Carried	4,593,462	3,663,077
Passenger-Miles Flown	3,303,809,000	2,668,812,000
Ton-Miles, Mail, Freight and Express	133,048,000	93,356,000
Common Shares at Year End	4,574,813	4,568,634
Employees at Year End	7,578	6,671

39th annual report to stockholders

FROM THE PRESIDENT

In 1965 your company greatly expanded and further improved its service to the public. These additional services resulted in a high level of traffic growth and produced outstanding financial results so as to mark 1965 as the greatest year of success for Northwest Airlines.

Total operating revenues exceeded one quarter-billion dollars for the first time in our history and reflected substantial rates of revenue increase—24% in the past year, and 56% over the two-year span from 1963.

Net earnings also reached a new high. In the year just ended, net profit totaled $45,694,000.

Continued strength in the nation's economy and increasing acceptance of air transportation as "the way to travel" played a significant role in our 1965 achievements.

Important flight equipment changes took place in 1965 including delivery of five Boeing 707-320C intercontinental-range fan-jet aircraft. Also in 1965, we greatly improved our domestic capabilities by addition of eleven Boeing 727 tri-jet airplanes. On December 31, 1965, Northwest had on order for delivery in 1966 and early 1967 an additional nine 320C fan-jets and sixteen more 727 type aircraft of which ten will be the 727C version with a large forward cargo door permitting interchange of palletized cargo with our larger aircraft. Upon completion of these orders, Northwest's fleet will consist of 68 fan-jet aircraft.

Northwest Airlines has continued the successful disposition of its piston fleet and now has remaining only three piston airplanes which are used in cargo service. We are now in a position also to consider the sale of some prop-jet Electra aircraft, so that Northwest will have an all fan-jet fleet within two years.

The ability to modernize our flight equipment and to maintain a first-rate competitive position in the industry is based upon our sound financial condition with a most favorable debt/equity relationship and a healthy cash flow from our operations.

The fundamental economies of our new jet fleet have permitted reduction in the cost of transportation to the public. In the past three years our average charge per passenger-mile has declined about 6% even though there has been an increase in most other prices in our economy. Northwest Airlines has actively sought and is still attempting to achieve lower fares in our trans-Pacific services. We hope that such reductions will be forthcoming in the current year.

In 1966 Northwest will seek authority to operate several new routes within the United States as well as in the international field. In 1966 and 1967 the Civil Aeronautics Board will undertake a broad study of the complex route structure in the Pacific. In this case, Northwest has applied for a Central Pacific route and for extension of its trans-Pacific authority to new points in the nations of Indonesia, Singapore, Malaysia, Viet Nam, Laos, and Thailand. We have also asked that such U.S. points as Boston, Houston, Dallas, Fort Worth, Los Angeles/Long Beach, and San Francisco/Oakland be added to our international route. This will be an extended proceeding with a large number of applicants.

It is with regret that we announce the loss from our Board of Directors of Mr. Joseph T. Johnson of Milwaukee who did not stand for re-election in 1965 because of ill health. Mr. Johnson was a Director of Northwest Airlines for nearly 26 years.

As a company dedicated to serving the public we will in the future, as in prior years, devote every effort to maintaining our high standard of service. We greatly appreciate the interest and cooperation displayed by our many stockholders. With your valued support and assistance, Northwest Airlines will continue its growth and progress as one of the nation's leading airlines.

Sincerely,

Donald W. Nyrop

President

March, 1966


Fleet, Schedules and Routes

Northwest Airlines continued to expand its services to the public and to increase its revenues and profits in 1965, as it began its 40th year of operation. Net earnings reached a record $45,694,024, on total operating revenues of $262,998,139. Previous record year for both earnings and revenues was 1964, when Northwest realized a $26,785,523 profit on operating revenues of $211,610,431.

Just as in 1926, when Northwest Airways inaugurated flights in October with rented airplanes between Minneapolis, St. Paul and Chicago and before the end of the year put its first owned aircraft—biplane, single-engined Stinson Detroiters–into service, Northwest in 1965 put new aircraft into the skies and expanded its services.

FLEET ACQUISITIONS. During the year, Northwest took delivery of 16 new Boeing fan-jet aircraft—five 707-320C intercontinental-range planes and eleven 727 short-to-medium-range airliners. Together with related spare parts, these aircraft represented a total investment of $93,500,000.

Concurrently, we removed all of our remaining piston-engined airliners from scheduled passenger service and now offer air travelers turbine-powered equipment on all flights. The last DC-6B's were sold and remaining DC-7C/F's now are operated only in cargo and charter service.

Northwest's enlarged fleet of modern, fan-jet aircraft made possible substantial increases in jet schedules serving major cities and enabled us to begin jet services in a number of smaller markets: Winnipeg, Grand Forks, Fargo, Bismarck, Billings, Great Falls, Rochester and Madison.

Service was inaugurated at Philadelphia on April 1, 1965, on new route segments from Detroit and Cleveland. Traffic response on these routes has been encouraging, and Northwest now offers a total of nine flights a day from Philadelphia to points west across the United States.

Ten round trips per day are being offered during the 1965-66 winter season between the Midwest and Florida, and in January, 1966, frequency on the Hawaii route was increased from nine to 12 round trips a week.

ORIENT SERVICES. On NWA's route to the Orient, frequency was increased from 12 to 16 round trips per week, including the first through-plane service linking Washington, D. C. and Cleveland with the Far East, via Chicago and Anchorage. Eastbound, Northwest established via Seattle-Tacoma a daily one-stop Tokyo-New York service and on March 1, 1966, began a one-stop New York-Tokyo operation.

In 1966, NWA will begin its 20th year of providing vital services over the strategic North Pacific route between the United States and the Far Eastern nations of Japan, Korea, Okinawa, Taiwan and the Philippines. And, just as inaugural ceremonies across the United States in July, 1947, began a 19-year-long program of trans-Pacific route

development, growth and improvement in services to the traveling and shipping public will continue in 1966 and following years.

The first Orient-bound NWA flights, in DC-4 equipment carrying 32 passengers all at first-class fares, required an elapsed time of 44 hours 50 minutes to fly to Tokyo from New York. Today, it takes just 17 hours 20 minutes to cover the 7,200 miles via Northwest's one-stop, New York to Tokyo flight. With prevailing westerly tail winds, the Tokyo-Seattle-New York flight is even faster, requiring an elapsed time of 14 hours 38 minutes. Costs to the traveler were reduced, too, with Northwest's introduction of tourist-class and, later, jet economy fares.

INTERNATIONAL TRAFFIC. Although Northwest's operation to the Orient via the North Pacific continues to carry a lesser share of trans-Pacific traffic in comparison with the more heavily traveled Central Pacific, gains were recorded in 1965. Passenger-miles in scheduled services on route segments to Alaska, Hawaii and the Orient increased by 26.0 per cent, from 625,329,000 in 1964 to 788,046,000 in 1965. International revenue ton-miles of cargo led all traffic categories in rate of growth, with a 68.5 per cent increase from 21,870,000 in 1964 to 36,850,000 in 1965.

Northwest's concept of providing lift for a large volume of air cargo on all of its flights to and from the Orient continued to offer shippers a superior service. This same program of providing volume cargo on the priority scheduling normally associated with passenger operations will be extended to most of Northwest's domestic cities as ten 727C's, convertible passenger-cargo version of the 727, are put into service in 1966 and 1967. Equipped with the same-sized, forward cargo door and other cargo-handling equipment as the larger 707-320C's used on international routes, the 727C will allow prepalletized shipments to be transferred efficiently between the larger and smaller aircraft.

MILITARY SUPPORT. In addition to maintaining a balanced pattern of commercial services in the Pacific, Northwest provided vital support to the military through contract operations—fan-jet passenger and cargo charters from West Coast bases to various Far East destinations, including Saigon, and a DC-7CF mid-Pacific supply mission based in Honolulu.

This vital logistical support for America's military establishment recalled a similar operation earlier in Northwest's long years of experience in the Pacific. In the early 1950's, Northwest as a prime contractor in the Korean Airlift completed 1,380 round-trip Pacific crossings. Then as now, this mission was completed without disrupting normal commercial services.

ROUTE DEVELOPMENTS. Northwest looks forward to an important addition to its Orient services during 1966. Under a new agreement negotiated by the U. S. and Japanese governments, Osaka—Japan's second largest city—was added to Tokyo as a point for service by U.S. flag carriers. Your company has received authority from the Civil Aeronautics Board to add Osaka to its service pattern beyond Tokyo and expects to start service later this year.

Under the same new Japan-U.S. agreement, Japan was given the right to extend its Central Pacific route

from San Francisco to New York and beyond to Europe—with a mandatory stop in California.

In another important Air Services Agreement, the U.S. and Canada in January, 1966, established a revised pattern of trans-border routes for the carriers of both nations. Of primary interest to Northwest were establishment of new nonstop rights for Northwest between Winnipeg and Minneapolis-St. Paul and provision for the certification of two U.S. carriers to serve a Chicago-Toronto route. Northwest has asked the C.A.B. to hear its application for Chicago-Toronto route authority in the proceeding which will result.

In other route development matters, your company was active during 1965—and looks forward to even greater activity in 1966.

At public hearings in the Pacific Northwest-Southwest Air Service Investigation, we prosecuted our case for new routes from Seattle-Tacoma and Portland, via Salt Lake City and Denver, to major cities in Oklahoma, Texas, Louisiana and Missouri. An examiner's initial decision in the case is pending.

Late in 1965, Northwest agreed with West Coast Airlines to transfer operating authority at Yakima, Wash., to the local service carrier. The C.A.B. approved this transfer and we terminated service as of February 28, 1966.

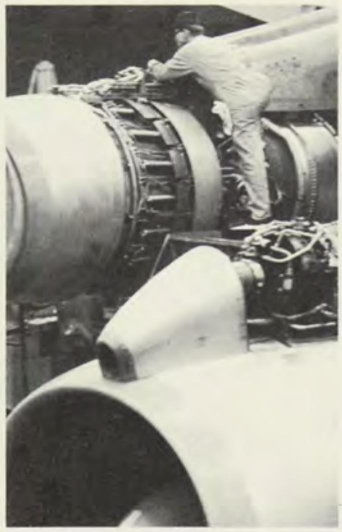
In 1966, Northwest will seek route extensions in the Far East, additional U.S. co-terminal points and authority to fly to the Orient via the Central Pacific as well as on its present North Pacific routing, in a new Transpacific Route Investigation.

We also will participate in the Reopened New York-Florida Renewal Case, in which Northwest seeks a route extension to Boston and a link-up of East Coast terminal points; in a case involving service between the Northeast and the Bahamas, in which NWA has applied for new service points in the Caribbean, and in a case to determine the needs for improved air service between Minneapolis-St. Paul and California.

Of particular significance to Northwest's operations was the announcement, early in 1966, by the Federal Aviation Agency that smaller jets such as NWA's 727's would be permitted to operate at Washington National Airport, starting April 24, 1966. Inauguration of this jet service will enable Northwest also to begin fan-jet flights at Pittsburgh. The combination of additional fan-jet deliveries and opening of Washington National to jets has allowed NWA to plan for retirement and sale of some Electra jet-prop aircraft in 1966.

CUSTOMER SERVICES. In addition to improving service to the public through additional schedules in most of its markets, NWA improved customer services in a number of areas in 1965. Aloft, for example, a new first-class meal program—using fine china and silver and serving entrees from attractive aisle carts—was developed for trans-Pacific flights and later was adapted to key domestic routes.

On the ground, improved customer facilities ranged from faster reservations service made possible by operation of Northwest's new Univac 490 real-time computer and expanded reservations offices, to more convenient and efficient ticket office and field installations. To provide weather protection and addi-



Customer Services and Operations

tional convenience in passengers' moving between terminal and aircraft, two Top Flight Loaders were installed at Portland and additional such terminal-to-aircraft bridges went into operation at the Twin Cities, Chicago, Seattle-Tacoma and Miami.

New or remodeled city ticket offices were opened in Philadelphia, Tokyo, Cleveland, Pittsburgh, Hong Kong and Washington, D. C. A new station operation was set up at Philadelphia; Northwest moved into a new terminal building at Spokane and a completely remodeled terminal at Helena. A new, 24,000 square-foot air cargo facility was completed at New York, while new Top Flight Lounge facilities were occupied at Seattle-Tacoma. In order to expand facilities and improve passenger convenience, we began construction of a new, six-gate terminal facility at the Detroit Metropolitan airport, which is scheduled to be ready for occupancy in June, 1966.

PERSONNEL & OPERATIONS. To man Northwest's expanded fan-jet fleet, a total of 178 new pilots were hired and trained in 1965. In addition, 307 pilots received transition training to qualify them for newer aircraft. Northwest recruited and trained 498 new stewardesses in 1965. Overall, Northwest's personnel complement was increased by 13.6 per cent, from 6,671 employes on January 1, 1965, to 7,578 at year end.

Additional routes were approved for operation of 707-320 fan-jets by pilot navigation using the Doppler airborne radar and self-contained navigation system. We now can operate these aircraft with this improved system from the U.S. West Coast to any destination in the Orient, via either North or Central Pacific routing.

Throughout 1965, Northwest's turbine engines consistently demonstrated the highest operating reliability and the lowest per flight hour maintenance costs in the industry. The progressive maintenance program for overhaul of our turbine airliners in the modern and efficient Main Base continued to provide a maximum of aircraft time for system-wide operations.

The year 1965 was an outstanding one in labor-management relations. After agreements were concluded with flight engineers and radio-teletype operators in the summer, all of our 18 labor agreements were signed and in force. Late in the year, collective bargaining with the pilots was begun and conferences were started between five carriers (including NWA) and the union representing mechanics and related personnel.

MARKETING. Effective sales effort in 1965 converted expanded and improved services into greater revenues. At the annual January conference of sales managers from throughout the system and at two subsequent sessions for the training of all outside sales personnel emphasis was placed on increasing international passenger and cargo traffic and on development of additional group tours.

Seminars and escorted group tours provided travel agency personnel throughout the system with specialized

information as well as direct, personal familiarity with Northwest services and vacation destinations.

We have continued to promote increased travel through attractive lower fares. The liberalization of the family plan during 1965 and such new programs as stand-by youth fares and a domestic excursion plan which go into effect in the first quarter of 1966 will attract new passenger traffic.

Special inaugural ceremonies called attention to such new NWA services as Washington-Cleveland-Orient, start of Philadelphia flights and extension of fan-jet service to smaller markets. Advertising continued to stress Northwest as the "Fan-Jet Airline," and promote the short, North Pacific route to the Orient. In addition to accepting American Express, Diners Club, Carte Blanche and Bank of Hawaii credit cards, Northwest expanded its own card program, both in number of accounts and in utility of the cards.

Financial Results and Traffic Growth

REVENUES & EXPENSES. Total revenues of $262,998,139 in 1965 exceeded the quarter-billion dollar mark for the first time and reflected an increase of 24.3 per cent over prior year revenues of $211,610,431.

System passenger revenues increased 21.2 per cent to $198,457,081. The passenger fare structure generally was stable during the year with the average fare per passenger-mile declining about 2 per cent to 6.01¢ in 1965. This reduction resulted from liberalization of the family-plan discount, from increased travel by military personnel on reduced, stand-by fares and from a greater share of traffic in coach or economy service. The latter accounted for 81.4 per cent of total passenger-miles in 1965 compared with 79.1 per cent in the lower fare services in 1964.

Freight, mail, express and excess baggage revenues totaled $42,200,185 in 1965. Such revenues, up 25.2 per cent from last year, improved slightly the 1964 ratio of one cargo dollar for every five dollars of passenger revenue.

Increased military activity in the Pacific resulted in higher revenues from Northwest's extensive charter operations for the military establishment. Revenues from those flights as well as from other charter operations reached $21,851,204—an increase of 68.5 per cent compared with 1964 charter revenues. Our present contract with the Military Airlift Command extends to June 30, 1966, and we will seek renewal of this arrangement for fiscal 1967.

The cost of Northwest's operations increased by only 11.8 per cent from the total of $158,479,314 in 1964 to $177,150,933 in 1965. Expenses for the two years include depreciation and amortization of $22,851,790 in 1964 and $24,010,596 in 1965. Unit operating expenses continued our prior years' trend of decline from 18.5¢ per available ton-mile in 1964 to 16.4¢ in 1965. This favorable result was achieved through a combination of expanded fan-jet services of greater capacity, high hourly utilization of our flight equipment and continued attention to the control of operating expenses in all categories. The unit cost of revenue traffic carried declined from

39.7¢ per revenue ton-mile to 33.0¢ per ton-mile in the year just ended.

NET EARNINGS. The total of $45,694,024 in 1965 amounted to net earnings of $9.99 per share of common stock compared with $26,785,523 or $5.86 per share in 1964. Operating income was a record $85,847,206 in 1965. Pretax non-operating items included $1,822,302 interest expense and $1,971,304 gain on disposal of property. The latter figure compares with $912,656 in 1964.

In the treatment of our income tax provision we have continued the practice of amortizing over an eight-year period the net income benefit of the investment tax credit although all such credits available to Northwest as a result of equipment purchases have been realized by reduction of current income taxes. The investment credit included in net earnings amounted to $1,371,100 in 1965 or about twice the amount credited to income in the prior year. There remains an unamortized investment credit of $12,072,100 to be reflected in income in future years (Table, Page 11).

Cash flow from operations in 1965 included generation of $84,034,620 from net earnings, depreciation and amortization, deferred taxes and the investment credit. Other sources of funds included a net increase of $27,000,000 in long-term debt (derived from our revolving bank credit agreement) and funds from disposal of operating property in the amount of $1,269,361.

The major application of funds during the year was for additions to fleet and for advance deposits for aircraft on order, which expenditures totaled $106,259,537. In addition, cash dividends in the amount of $3,657,442 were paid during 1965.

On January 31, 1966, your directors authorized a 50 per cent increase in the quarterly dividend to 30¢ per share, payable on March 31, 1966. This is the fourth increase in dividend since the close of 1962 and, at the annual rate of $1.20 per share, represents an increase of 200 per cent over the dividend paid through 1962. With the March, 1966 dividend your company will have completed 11 years of consecutive quarterly cash dividends.

FINANCIAL CONDITION. Northwest Airlines is among the strongest in the airline industry in terms of financial condition. Stockholders' equity increased from $122,959,586 at year-end 1964 to $165,080,849 at the close of 1965. Book value per common share was $36.08 on December 31, 1965, compared with $26.91 per share one year prior.

Outstanding debt at the close of the year amounted to $75,000,000. During 1965 our existing bank credit agreement was revised to place the maximum revolving credit at $75,000,000, of which $35,000,000 was borrowed at year-end. Under the revolving feature of this agreement, the credit line may be repaid and reborrowed subject to the provision that it be reduced by $5,000,000 on April 1, 1968 and by $5,000,000 on the first day of each quarter thereafter until October 1, 1971.

On January 31, 1966, the Board of Directors of Northwest Airlines, Inc., decided to recommend to the stockholders a two-for-one split of the Common Stock. If approved by the stockholders at Northwest's annual meeting, May 16, 1966, this stock split would become effective shortly thereafter.

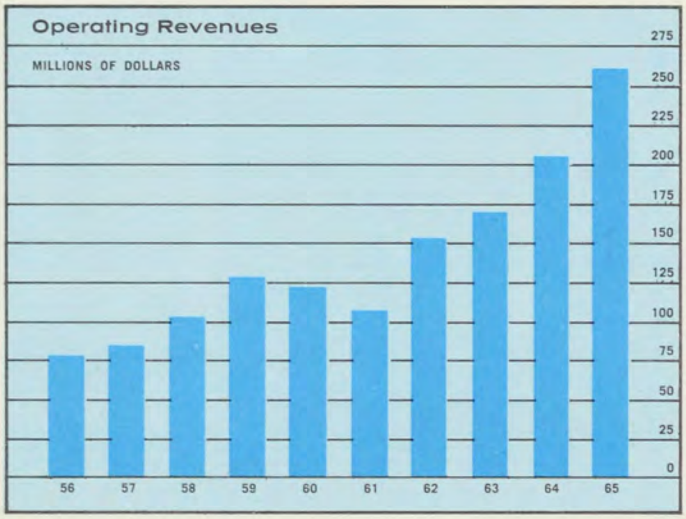
10 YEAR SUMMARY

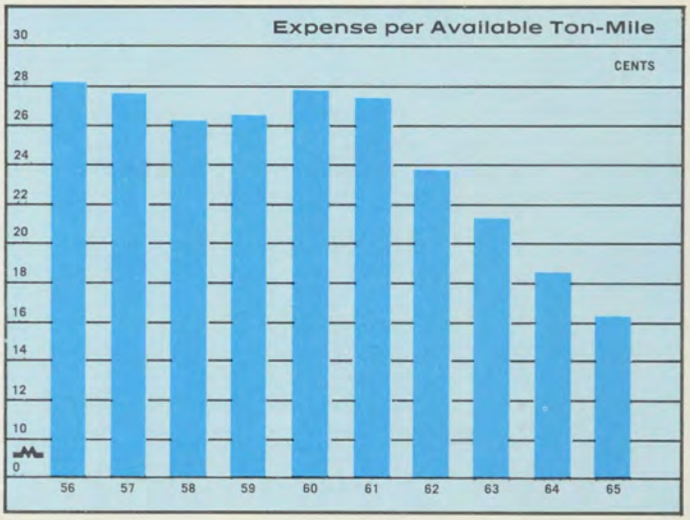
(Dollars in thousands except per share figures)

	1965	1964	1963	1962	1961**	1960	1959	1958	1957	1956
Operating Revenues										
Passenger	$198,457	$163,807	$135,222	$121,781	$ 85,971	$ 97,680	$100,641	$ 81,116	$ 66,674	$ 60,264
Mail	17,421	15,313	14,233	14,228	11,701	10,711	11,219	10,228	8,350	7,858
Freight, Express and Excess Baggage	24,779	18,402	13,745	11,828	8,443	11,368	11,881	8,667	7,541	7,155
Charter and Other Transportation	21,851	12,965	6,442	2,646	1,482	823	526	1,237	226	816
Nontransport	490	1,123	(854)	(30)	3,456	2,780	1,763	709	641	386
Total Operating Revenues	$262,998	$211,610	$168,788	$150,453	$111,053	$123,362	$126,030	$101,957	$ 83,432	$ 76,479
Operating Expenses										
Depreciation and Amortization	$ 24,011	$ 22,852	$ 19,159	$ 18,445	$ 17,118	$ 14,413	$ 11,310	$ 8,638	$ 5,851	$ 6,996
Other	153,140	135,627	123,713	112,802	84,213	104,455	103,811	81,281	72,597	64,888
Total Operating Expenses	$177,151	$158,479	$142,872	$131,247	$101,331	$118,868	$115,121	$ 89,919	$ 78,448	$ 71,884
Operating Income	$ 85,847	$ 53,131	$ 25,916	$ 19,206	$ 9,722	$ 4,494	$ 10,909	$ 12,038	$ 4,984	$ 4,595
Other Income and (Deductions)—Net	224	(1,125)	(4,166)	(4,578)	(2,828)	(1,882)	335	(559)	2,247	1,306
Earnings Before Taxes	$ 86,071	$ 52,006	$ 21,750	$ 14,628	$ 6,894	$ 2,612	$ 11,244	$ 11,479	$ 7,231	$ 5,901
Income Taxes	40,377	25,220	11,297	7,398	3,233	986	5,530	5,865	2,412	2,675
Net Earnings	$ 45,694	$ 26,786	$ 10,453	$ 7,230	$ 3,661	$ 1,626	$ 5,714	$ 5,614	$ 4,819	$ 3,226
Earnings per Share*	$ 9.99	$ 5.86	$ 2.86	$ 1.99	$ 1.01	$ .45	$ 1.57	$ 2.04	$ 1.73	$ 1.15
Stockholders' Equity	165,081	122,960	68,436	59,712	54,177	52,193	52,267	48,224	33,065	30,172
Book Value per Share*	36.08	26.91	18.76	16.40	14.88	14.35	14.37	13.39	11.90	10.79
Cash Dividends	3,657	2,602	1,823	1,702	1,701	1,700	1,714	1,110	1,117	1,110
Assets and Long-Term Debt										
Flight Property at Cost	$304,072	$219,523	$176,655	$169,413	$170,772	$121,441	$104,389	$ 90,608	$ 71,716	$ 51,669
Flight Property at Net Book Value	233,858	160,925	127,074	122,980	133,485	86,957	76,647	56,461	43,023	21,692
Total Assets	333,311	237,226	196,765	186,887	189,103	148,698	130,097	105,061	76,222	58,337
Long-Term Debt	72,000	45,000	64,996	74,968	90,286	68,500	50,000	34,250	27,000	13,800
Unit Expenses										
Per Available Ton-Mile	16.4¢	18.5¢	21.7¢	23.9¢	27.6¢	27.8¢	26.5¢	26.1¢	27.4¢	28.2¢
Per Revenue Ton-Mile	33.0¢	39.7¢	46.8¢	50.2¢	54.2¢	54.2¢	51.0¢	49.0¢	50.4¢	48.5¢
Per Cent of Operating Revenues	67.4%	74.9%	84.6%	87.2%	91.2%	96.4%	91.3%	88.2%	94.0%	94.0%
Statistics—Scheduled Services										
Revenue Plane Miles (000)	61,653	52,157	45,356	41,821	31,143	46,671	47,568	39,113	34,742	31,421
Available Seat Miles (000)	6,140,717	5,129,944	4,305,147	3,697,796	2,611,840	3,073,400	3,149,000	2,574,848	2,125,505	1,807,337
Revenue Passenger Miles (000)	3,303,809	2,668,812	2,179,208	1,904,112	1,361,790	1,653,966	1,738,138	1,408,743	1,205,765	1,094,121
Passenger Load Factor	53.8%	52.0%	50.6%	51.5%	52.1%	53.8%	55.2%	54.7%	56.7%	60.5%
Revenue Passengers Carried	4,593,462	3,663,077	2,911,914	2,437,342	1,723,667	2,139,547	2,138,970	1,827,129	1,574,035	1,427,063
Freight and Express Ton-Miles (000)	82,715	55,100	39,417	35,179	23,035	32,480	31,377	22,285	19,714	18,825
Total Revenue Ton-Miles (000)	452,553	351,886	284,732	254,033	182,704	217,722	225,110	181,678	155,323	145,135
Statistics—Total Operations										
Revenue Plane Miles (000)	67,125	55,477	47,207	42,718	31,658	46,963	47,732	39,670	34,814	31,901
Available Ton-Miles (000)	1,079,832	856,612	657,761	548,159	367,301	428,782	435,977	348,235	285,958	255,338

*Per share figures reflect two-for-one stock split in 1964 and conversion of preferred stock as applicable in years prior to 1963.

**Affected by major strike.





The note purchase agreements with insurance companies comprise $40,000,000 in outstanding debt. This loan is subject to repayment beginning October 1, 1966, with a payment of $3,000,000 on that date and annual payments thereafter in the same amount ending with a final payment of $4,000,000 at October 1, 1978.

At the end of 1965 Northwest Airlines had on order nine Boeing 707-320C intercontinental range fan-jet aircraft and 16 Boeing 727 and 727C three engine fan-jets. Financing for these orders is available from existing credit arrangements and from internal cash generation.

The attainment of a strong financial position by Northwest Airlines is evidenced by a most favorable debt ratio with year-end debt at 45 per cent of stockholders' equity. This sound base will enable your Company to meet the needs for future growth and expansion which the coming years will bring.

RECORD GROWTH. Traffic results in 1965 reflect the combination of improved service to meet the public need for air transportation and growing acceptance of our increased schedules and capacity. Revenue plane miles in scheduled service during 1965 increased by 18.2 per cent while available ton-miles increased by 21.7 per cent, reflecting operation of additional larger and faster aircraft. Even greater percentage gains were realized in virtually all categories of traffic.

In 1965 Northwest Airlines approached the 3.5 billion level with a total of 3,303,809,091 revenue passenger-miles flown in scheduled services. This represents an increase of 23.8 per cent over 1964. On our domestic routes the increase was 23.1 per cent compared with an over-all increase of 17.6 per cent in passenger-miles for the domestic trunk line industry as a whole. Our system passenger load factor improved from 52.0 per cent in 1964 to 53.8 per cent in 1965.

Traffic gains were distributed in good proportion throughout our entire system with an increase from 3.7 million in 1964 to 4.6 million passengers carried in 1965. Cleveland, reflecting operation of new route segments to Chicago and Philadelphia, and Fort Lauderdale, as a result of our growing Florida service, led among stations exceeding the system average increase of 25.4 per cent in passengers boarded in 1965. Other cities which exceeded the system average were Honolulu, Chicago, Pittsburgh and Seoul, Korea. Extension of jet service to smaller cities resulted in an above-average increase in passengers at Madison and Grand Forks.

The largest 1965 increases in scheduled service traffic were those recorded in cargo. System freight and express ton-miles increased by 50 per cent and system mail ton-miles increased by 32 per cent in 1965.

Our goals for 1966 will include the attainment of our maximum potential for growth. We will add personnel and equipment as needed to provide for expanding traffic, to meet competition and to maintain the most efficient, useful and attractive service to the public. We will continue to exercise the most careful management of operating costs consistent with the highest standards of safe, convenient and dependable service for the traveling and shipping public.

NORTHWEST AIRLINES FLEET

Aircraft Type	December 31 1964	1965	On Order
JET: 707-320B & 320C	8	13	9
720B	16	16	—
727 & 727C	3	14	16
Total Jet	27	43	25
PROP-JET: Electra	16	16	—
PISTON: DC-7C	6	5*	—
DC-6B	4	—	—
Total Fleet	53	64	25

*Two DC-7C's have been sold for delivery in first quarter 1966.

APPLICATION OF INVESTMENT TAX CREDIT

Period	Available & Utilized*	Reflected in Net Earnings**
1962-1964	$ 7,388,300	$ 806,400
1965	6,861,300	1,371,100
Total	$14,249,600	$2,177,500
To Net Earnings	2,177,500	
To Be Amortized	$12,072,100	

*All investment credit amounts generated 1962-1965 have been utilized to reduce income taxes.

**Income benefit of investment credit amortized over eight year period.

Source and Application of Funds

for the years ended December 31, 1965 and 1964

	1965	1964
SOURCE OF FUNDS:		
Net Earnings	$ 45,694,024	$26,785,523
Depreciation and Amortization	24,010,596	22,851,790
Deferred Taxes	8,839,800	3,796,200
Unamortized Investment Credit	5,490,200	4,431,500
Total from Operations	$ 84,034,620	$57,865,013
Increase in Long-Term Debt	27,000,000	
Disposals of Operating Property	1,269,361	6,779,257
Sale of Common Stock	84,838	30,337,228
Other		96,305
Total of Sources	$112,388,819	$95,077,803
APPLICATION OF FUNDS:		
Flight Equipment and Other Property Additions	$ 81,474,478	$52,201,424
Advance Deposits on Aircraft	24,785,059	18,992,339
Reduction of Long-Term Debt		19,995,515
Cash Dividends	3,657,442	2,601,682
Other	2,004,865	1,672,776
Total of Applications	$111,921,844	$95,463,736
Net Increase (Decrease) in Working Capital	$ 466,975	$ (385,933)

Northwest Airlines, Inc.
and Subsidiary

ASSETS

	December 31 1965	December 31 1964
CURRENT ASSETS		
Cash	$ 19,926,136	$ 14,437,075
Trade receivables, less allowance of $120,000	25,816,690	19,369,385
Flight equipment parts, at average cost, less allowance for depreciation (1965–$2,623,461; 1964–$3,365,312)	6,687,027	5,285,295
Maintenance and operating supplies at average cost	2,238,505	2,136,884
Prepaid expenses	2,153,161	2,171,652
TOTAL CURRENT ASSETS	$ 56,821,519	$ 43,400,291
INVESTMENTS AND OTHER ASSETS at cost	775,023	544,881
PROPERTY AND EQUIPMENT at cost		
Flight equipment	$304,072,405	$219,522,697
Less allowances for depreciation	70,214,485	58,597,808
	$233,857,920	$160,924,889
Advance payments on new flight equipment–Note C	25,546,313	18,992,339
	$259,404,233	$179,917,228
Other property and equipment	$ 25,366,504	$ 21,673,570
Less allowances for depreciation	13,079,596	12,613,130
	$ 12,286,908	$ 9,060,440
	$271,691,141	$188,977,668
DEFERRED CHARGES		
Unamortized training and other costs in connection with aircraft fleets	$ 2,718,578	$ 3,232,258
Rentals	1,304,493	1,071,207
	$ 4,023,071	$ 4,303,465
	$333,310,754	$237,226,305

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31 1965	December 31 1964
CURRENT LIABILITIES		
Accounts payable	$ 19,411,834	$ 15,472,568
Salaries, wages and vacations	6,299,878	5,516,467
Air travel card deposits	1,201,475	1,211,675
Unredeemed ticket liability	2,801,299	2,286,999
Income taxes	17,799,448	13,071,972
Current maturities of long-term debt	3,000,000	—
TOTAL CURRENT LIABILITIES	$ 50,513,934	$ 37,559,681
LONG-TERM DEBT, less current maturities—Note A		
Notes payable to insurance companies	$ 37,000,000	$ 40,000,000
Notes payable to banks	35,000,000	5,000,000
	$ 72,000,000	$ 45,000,000
DEFERRED CREDITS—Note E		
Income taxes—arising principally from accelerated depreciation methods	$ 32,620,600	$ 23,780,800
Investment credit	12,072,100	6,581,900
Other	1,023,271	1,344,338
	$ 45,715,971	$ 31,707,038
STOCKHOLDERS' EQUITY—Note B		
Common Stock, $5 par value; authorized 10,000,000 shares; issued and outstanding 1965—4,574,813 shares; 1964—4,568,634 shares	$ 22,874,065	$ 22,843,170
Capital surplus	39,382,047	39,328,261
Retained earnings	102,824,737	60,788,155
	$165,080,849	$122,959,586
COMMITMENTS—Note C		
	$333,310,754	$237,226,305

See notes to financial statements.

Statement of Earnings

OPERATING REVENUES	Year Ended December 31 1965	1964
Transport:		
Passenger	$198,457,081	$163,807,113
United States mail	16,168,201	14,032,937
Foreign mail	1,253,178	1,280,673
Excess baggage	1,033,972	1,200,868
Freight and express	23,744,834	17,201,103
Charter and other transportation	21,851,204	12,964,989
	$262,508,470	$210,487,683
Nontransport:		
Mutual Aid Agreement	(716,903)	(20,576)
Other	1,206,572	1,143,324
	$262,998,139	$211,610,431
OPERATING EXPENSES		
Flying operations	$ 53,143,541	$ 48,367,765
Maintenance	27,558,040	26,557,091
Passenger service	18,468,831	14,194,368
Aircraft and traffic servicing	25,411,681	21,558,723
Reservations, sales and advertising	21,952,569	19,557,196
Administrative and general	6,605,675	5,392,381
Depreciation and amortization	24,010,596	22,851,790
	$177,150,933	$158,479,314
	$ 85,847,206	$ 53,131,117
OTHER INCOME AND (DEDUCTIONS)		
Interest on long-term debt	($ 1,822,302)	($ 2,187,578)
Disposals of property	1,971,304	912,656
Other income	75,116	149,828
	$ 224,118	($ 1,125,094)
EARNINGS BEFORE TAXES	$ 86,071,324	$ 52,006,023
TAXES ON EARNINGS, including deferred taxes and investment credit—Note E	40,377,300	25,220,500
NET EARNINGS FOR THE YEAR	$ 45,694,024	$ 26,785,523

See notes to financial statements.

	Year Ended December 31 1965	1964
CAPITAL SURPLUS		
Balance at beginning of year	$ 39,328,261	$ 13,587,113
Additions arising from:		
Sale of shares of Common Stock in public offering (less expenses of $784,671), in excess of par value	—	25,674,465
Sale of shares of Common Stock under option agreements, in excess of par value	53,943	64,118
Sundry	(157)	2,565
Balance at end of year	$ 39,382,047	$ 39,328,261
RETAINED EARNINGS		
Balance at beginning of year	$ 60,788,155	$ 36,604,314
Add net earnings	45,694,024	26,785,523
	$106,482,179	$ 63,389,837
Deduct cash dividends on Common Stock—1965—$.80 a share; 1964—$.60 a share	3,657,442	2,601,682
Balance at end of year	$102,824,737	$ 60,788,155

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 financial position of Northwest Airlines, Inc. and subsidiary as of December 31, 1965 and the related statements of earnings, capital surplus and retained earnings 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 previously made a similar examination for the prior year.

In our opinion, the accompanying statements of financial position, earnings, capital surplus and retained earnings present fairly the consolidated financial position of Northwest Airlines, Inc. and subsidiary at December 31, 1965 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.

Ernst & Ernst
Certified Public Accountants

Saint Paul, Minnesota
February 15, 1966

NOTES TO FINANCIAL STATEMENTS

December 31, 1965

Note A—Long-Term Debt

Under Note Purchase Agreements with twelve insurance companies the Company has borrowed $40,000,000 at 6% payable $3,000,000 annually beginning October 1, 1966 and a final payment of $4,000,000 on October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain certain other provisions with respect to redemption as a whole, but not from borrowed funds, at premiums ranging from 5% to 1%.

Under the Second Amendatory Credit Agreement with fifteen banks the Company has outstanding $35,000,000. This Agreement provides for revolving credit of $75,000,000 reducing to $55,000,000 by January 1, 1969, to $35,000,000 by January 1, 1970, to $15,000,000 by January 1, 1971, and terminating on October 1, 1971. Interest on funds borrowed is at 4¾%.

Under provisions of long-term debt agreements the Company has agreed, among other things, that it will not permit its working capital at any time to be less than certain specified amounts and its funded debt to exceed certain percentages of net tangible assets, of net worth and of depreciated value of flight equipment, as those terms are defined in the agreements. At December 31, 1965 the Company had complied with the covenants then in effect.

Note B—Stockholders' Equity

The Note Purchase Agreements and the Second Amendatory 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. The amount of retained earnings unrestricted for such purposes at December 31, 1965 was $41,307,585.

During the year options for 6,179 shares of Common Stock were exercised at prices not less than 95% of the market price of Common Stock at the time of granting. At December 31, 1965, 150,000 unissued shares of Common Stock are reserved for options which may be granted to officers and key employees in the future at prices not less than 100% of the market price of Common Stock at the date of such grant.

There were authorized at December 31, 1965 1,000,000 shares of Cumulative Preferred Stock, $25 par value, none of which were outstanding.

Note C—Commitments

The Company has contracted to purchase from The Boeing Company nine 320C, six 727 and ten 727C turbo-jet aircraft for delivery in 1966 and 1967, which with spare engines, parts and equipment will require expenditures of $139,414,000. Of this amount, $25,546,000 had been deposited with manufacturers at December 31, 1965 and approximately $94,873,000 and $18,995,000 become payable in 1966 and 1967, respectively.

Annual rental payments of approximately $3,255,000 are required under various lease agreements for periods up to thirty-three years covering airport facilities, ticket offices, etc.

Note D—Mail Transportation Compensation

No final determination of total mail compensation has been made by the Civil Aeronautics Board on international and domestic routes for 1951. The ultimate effect of any redetermination is not known at this time.

Note E—Taxes On Earnings

The provision for taxes on earnings consists of the following:

	Year Ended December 31	
	1965	*1964*
Current provision	$26,047,300	$16,992,800
Deferred taxes	8,839,800	3,796,200
Deferred investment credit	6,861,300	5,114,300
	$41,748,400	$25,903,300
Less amortization of deferred investment credit over eight years	1,371,100	682.800
	$40,377,300	$25,220,500

Northwest Airlines, Inc.

General Offices
Minneapolis-St. Paul
International Airport
St. Paul, Minn. 55111

DIRECTORS*

JAMES H. BINGER
Chairman of the Board, Honeywell Inc.
Minneapolis, Minnesota

HADLEY CASE
President, Case, Pomeroy & Company, Inc.
New York, New York

A. E. FLOAN
Vice President and Secretary, Northwest Airlines, Inc.
St. Paul, Minnesota

MORTON H. FRY
Senior Partner, Riter & Company
New York, New York

CROIL HUNTER
Chairman Emeritus, Northwest Airlines, Inc.
St. Paul, Minnesota

MALCOLM S. MACKAY
President, Foothills Company
Roscoe, Montana

CLYDE B. MORGAN
Chairman of the Board, Rayonier Incorporated
New York, New York

DONALD W. NYROP
President, Northwest Airlines, Inc.
St. Paul, Minnesota

ALONZO PETTEYS
President, Farmers State Bank
Brush, Colorado

C. FRANK REAVIS
Partner, Reavis and McGrath
New York, New York

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

LYMAN E. WAKEFIELD, JR.
Vice President, First National Bank of Minneapolis
Minneapolis, Minnesota

ALBERT J. WEATHERHEAD, JR.
Chairman of the Board, The Weatherhead Company
Cleveland, Ohio

OFFICERS*

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President

PAUL L. BENSCOTER
Vice President—Transportation Services

ROBERT A. EBERT
Vice President—Personnel

A. E. FLOAN
Vice President and Secretary

BENJAMIN G. GRIGGS, JR.
Vice President—Flight Operations

DONALD H. HARDESTY
Vice President—Finance and Treasurer

WM. E. HUSKINS, JR.
Vice President—Orient Region

FRANK C. JUDD
Vice President—Maintenance and Engineering

M. JOSEPH LAPENSKY
Comptroller

RONALD McVICKAR
Assistant Vice President

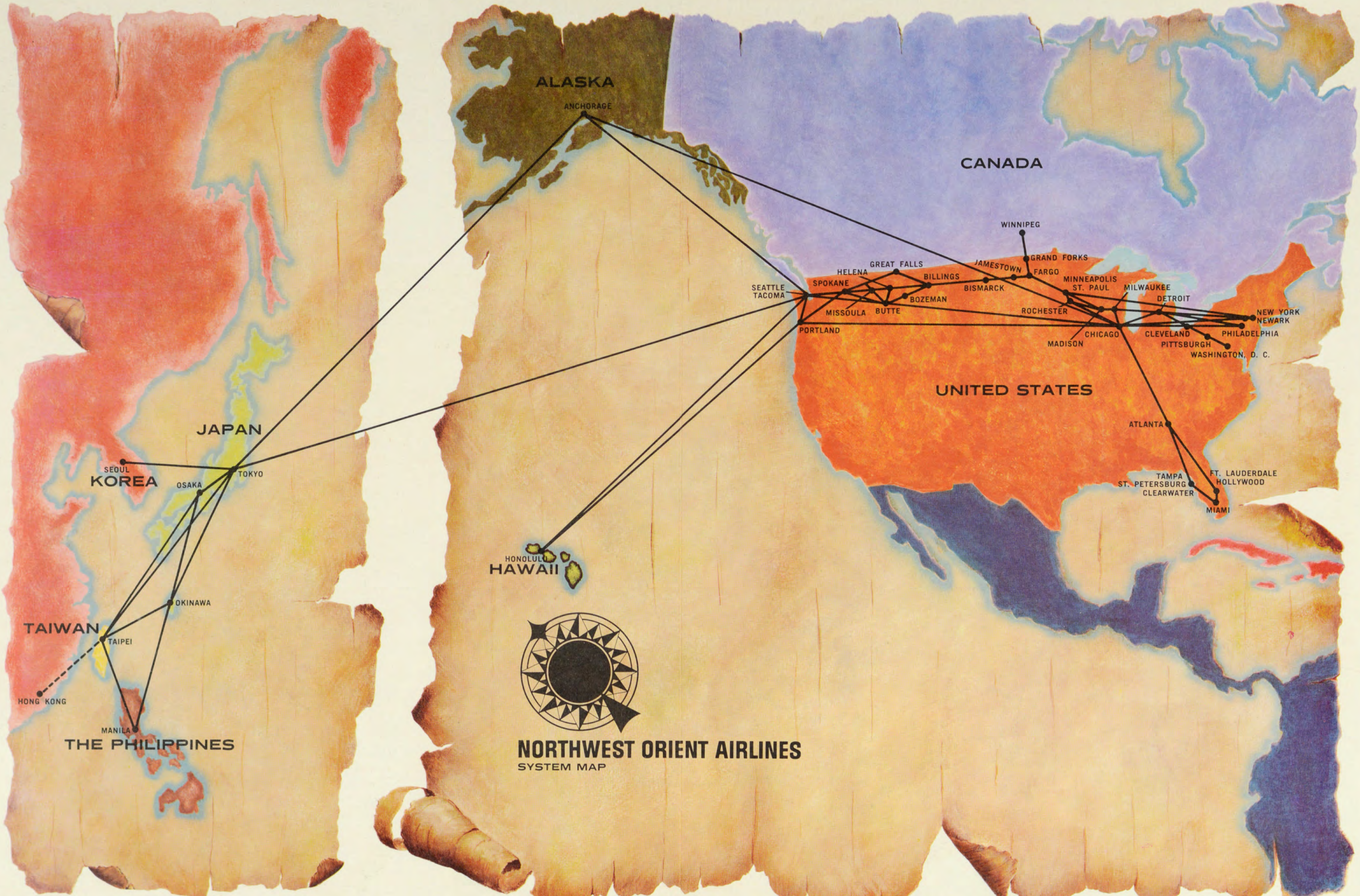
EMORY T. NUNNELEY, JR.
Vice President and General Counsel

C. L. STEWART
Vice President—Economic Planning

ROBERT J. WRIGHT
Vice President—Sales

As of March 1, 1966

REGISTRAR: The Chase Manhattan Bank, New York, N. Y.
TRANSFER AGENT: Bankers Trust Company, New York, N. Y.
STOCK LISTED: Common Stock listed on New York Stock Exchange and Midwest Stock Exchange



NORTHWEST ORIENT AIRLINES
SYSTEM MAP

ANCHORAGE
ATLANTA
BILLINGS
BISMARCK
BOZEMAN
BUTTE
CHICAGO
CLEARWATER
CLEVELAND
DETROIT
FARGO
FT. LAUDERDALE
GRAND FORKS
GREAT FALLS
HELENA
HOLLYWOOD
HONOLULU
JAMESTOWN
MADISON
MANDAN
MANILA
MIAMI
MILWAUKEE
MINNEAPOLIS
MISSOULA
MOORHEAD
NEW YORK
NEWARK
OKINAWA
OSAKA
PHILADELPHIA
PITTSBURGH
PORTLAND
ROCHESTER
ST. PAUL
ST. PETERSBURG
SEATTLE
SEOUL
SPOKANE
TACOMA
TAIPEI
TAMPA
TOKYO
WASHINGTON, D. C.
WINNIPEG

NORTHWEST ORIENT
THE FAN-JET AIRLINE