Northwest Airlines, Inc.

Annual Report

1956

NORTHWEST AIRLINES, INC., *Annual Report*

OFFICERS AND DIRECTORS*

1956

OFFICERS

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DONALD W. NYROP, *President*
MALCOLM S. MACKAY, *Executive Vice President*
FRANK C. JUDD, *Vice President—Operations and Engineering*
LINUS C. GLOTZBACH, *Vice President—Personnel*
GORDON M. BAIN, *Vice President—Sales*
PAUL L. BENSCOTER, *Vice President—Orient Region*
A. E. FLOAN, *Vice President and Secretary*
PHILLIP T. DROTNING, *Vice President—Public Relations*
LEONARD S. HOLSTAD, *Comptroller*
WM. J. EIDEN, *Treasurer*
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DONALD H. HARDESTY, *Assistant Treasurer*
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DALE MERRICK, *Assistant Vice President—Properties*
C. L. STEWART, *Assistant Vice President—Plans*

DIRECTORS

CROIL HUNTER—*Chairman, Board of Directors, Northwest Airlines, Inc.*
JAMES H. BINGER—*Vice President, Minneapolis-Honeywell Regulator Co., Minneapolis, Minn.*
A. E. FLOAN—*Vice President and Secretary, Northwest Airlines, Inc.*
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MALCOLM S. MACKAY—*Executive Vice President, Northwest Airlines, Inc.*
DONALD W. NYROP—*President, Northwest Airlines, Inc.*
ALONZO PETTEYS—*Vice President and Director, Farmers State Bank, Brush, Colo.*
C. FRANK REAVIS—*Partner, Hodges, Reavis, McGrath & Downey, New York City*
ALBERT G. REDPATH—*Partner, Auchincloss, Parker & Redpath, New York City*
WILLIAM STERN—*President, Dakota National Bank, Fargo, N. D.*
LYMAN E. WAKEFIELD, JR.—*Vice President, First National Bank of Minneapolis, Minneapolis, Minn.*
ALBERT J. WEATHERHEAD, JR.—*President, The Weatherhead Company, Cleveland, Ohio*
WHEELOCK WHITNEY—*Director and Member of Executive Committee, Truax-Traer Coal Company, Chicago, Ill.*

Registrar **THE CHASE MANHATTAN BANK, NEW YORK, N. Y.**

Transfer Agent **BANKERS TRUST COMPANY, NEW YORK, N. Y.**

**As of March 8, 1957*

GENERAL OFFICES: 1885 UNIVERSITY AVENUE, ST. PAUL 1, MINNESOTA

TO SHAREOWNERS OF NORTHWEST AIRLINES, INC.

EARNINGS

The total net income for 1956 was $3,225,595. Preferred dividends amounted to $304,608, leaving $2,920,987 or $2.18 per share for the 1,341,620 outstanding shares of common stock. In 1955 total net income was $2,116,180, which after preferred dividends left earnings of $1.80 per share for the 963,135½ shares of common stock then outstanding.

The margin of operating revenues over operating expenses was $4,593,243 compared with $4,416,634 for 1955. Because of increased interest expense combined with a decline in other income, net income from operations after taxes but before profits from disposals of property was $1,887,978 for 1956 compared with $2,027,319 for 1955.

The year just ended was the second successive year in which your company operated without any subsidy payments from the U. S. Government. In 1954 subsidy payments totaled $3,035,000.

Profits from disposals of property, mainly aircraft, were $1,337,617, after taxes. In 1955 such profits were $88,861.

The company more than two years ago placed orders with Douglas Aircraft Company for new aircraft that are now being put into service. The orders for new equipment total ten DC-6B and fourteen DC-7C aircraft. Although the first plane was not delivered until January 19, 1957, total operating revenues in 1956 of $76,672,482 were 7.4% over 1955 and established a new high. The record revenues were achieved despite the fact available seat miles increased only 3.5% during the year and despite a continuing increase in passenger preference for lower-yield air coach transportation. Passenger revenue of $60,264,291 was up 5.3%; U. S. mail revenue of $7,192,138 increased 10.4%, while foreign mail revenue of $666,287 rose 15.4%. Express, freight and excess baggage revenue of $7,154,612 rose 16.8%. Revenue of $815,773 from charter and other transportation service was more than seven times what it was in 1955, primarily due to special government contract volume in the international operations. International operating revenues totaled $25,800,000, representing one-third of our system revenues.

Your company carried 1,427,063 revenue passengers on the system, an increase of 6.2% over 1955. Revenue passenger miles totaled 1,094,121,438 for a 7.5% rise over the previous year. The system passenger load factor rose to 60.5% as load factors improved in all of our major operating regions.

We carried more than 16¾ million ton miles of mail last year for an 8.9% improvement over 1955. Freight ton miles also rose substantially, 31.2% for the system.

Total operating expenses rose 7.7% over 1955, while our available ton miles offered for sale rose 8.5%, resulting in a further decline in unit cost. Our domestic operating cost per available ton mile is among the very lowest in the domestic industry, while our international costs compare favorably with other international air carriers.

BANK CREDIT AGREEMENT

Our commitments for new DC-6B and DC-7C aircraft were revised and increased during the year 1956, and a new bank credit agreement was negotiated effective November 15, 1956, to supersede the previous agreement of June 30, 1955.

The new agreement is with the same group of fifteen banks as were represented in the previous agreement. These banks are all located in cities which we serve. Bankers Trust Company, New York, is the lead bank.

FORTY-SECOND STREET

The present agreement permits the company to borrow to a maximum amount of $38,500,000 during the period through September 29, 1958, and to a maximum amount of $35,000,000 through December 30, 1958. During such periods the company may borrow and prepay within such limits but the amount owed as of December 31, 1958 may not exceed $30,000,000. The balance outstanding on that date is payable at the rate of an aggregate amount of 20% thereof each year for five years. The loans outstanding on December 31, 1956 were $13,800,000.

The borrowings are not directly related to any particular aircraft purchase payments of the company but are limited by covenants which relate the maximum borrowings to net flight equipment values (including deposits with manufacturers on the purchases thereof) and to the net worth of the company. None of the property of the company is specifically pledged in support of such loans, but upon request of the banks the company is obligated to provide a chattel mortgage on such flight equipment as may be designated by them. The interest rate of 4¼% on outstanding loans and the commitment fee of one-half of 1% per annum are very favorable for present money market conditions and reflect a good credit status for the company.

NET WORTH

The net worth of the company at the end of 1956 was $30,171,714, of which $21.79 per share was applicable to each of the 1,341,620 shares of common stock outstanding as of December 31, 1956. This compares with net worth of $28,228,484 at the end of 1955, of which $21.60 per share was applicable to each of the 963,135½ shares of common stock outstanding as of December 31, 1955. Our earned surplus was $9,569,339 at the end of 1956 compared with $7,453,305 at the end of 1955.

DIVIDENDS AND STOCK CONVERSION

Dividends on the 4.60% Cumulative Preference Stock were paid regularly on the quarterly due dates of February 1, May 1, August 1 and November 1. The February 1, 1957 quarterly dividend was also paid, on that date. Quarterly dividends of 20c per share of common stock were also paid on the same quarterly dates. The February 1, 1957 quarterly common dividend of 20c was paid on that date.

Prior to January 1, 1957, each share of the 4.60% Cumulative Preference Stock was convertible, at the option of the holder, into one and one-half shares of common stock. During 1956, 252,323 shares of the Preference Stock were converted to 378,484½ shares of common. Conversions of Preference Stock had also been made in prior years. Furthermore, a number of Preference shares have been retired in past years through sinking fund provisions, thus of the 390,000 shares of such stock issued in May 1947, only 37,577 shares remained outstanding as of December 31, 1956. Preference shares will continue to be retired under the sinking fund provisions.

ROUTES

International and Overseas—Oral argument before the Civil Aeronautics Board on Northwest's application for permanent certification of its Seattle-Anchorage-Tokyo route was held on February 21, 1957. Previously, the hearing examiner had issued an initial decision recommending that Northwest be granted a permanent certificate for this portion of its international route structure. This docket is now awaiting Board decision and approval by the President of the United States who makes final decision in all international route matters.

Similarly, oral argument was held on February 20, 1957, with respect to the Reopened Trans-Pacific Certificate Renewal Case covering Pan American World Airways' request to operate over the North Pacific route to Tokyo from its California terminals, as well as from the Pacific Northwest terminals of Portland and Seattle. On December 18, 1956, the hearing examiner issued his recommended decision finding that duplication of Northwest's transpacific service from Seattle-Portland to Tokyo by Pan American is not required in the public interest. He did recommend, however, that a Great Circle authority for Pan American from the co-terminals San Francisco/Los Angeles be granted. Northwest continues to oppose all applications of Pan American for North

THE DC-7C—NEWEST AND FASTEST

Pacific routes. This case is now awaiting Board decision and Presidential approval.

In connection with international and overseas routes, Northwest has on file with the Board the following applications which await hearing:

1. Service by Northwest between Los Angeles and San Francisco, California, and Tokyo, Japan over the Great Circle route.
2. Service by Northwest between Honolulu and Tokyo.
3. Request for authority to serve Winnipeg, Manitoba, and Edmonton, Alberta, on the same flight.
4. Service by Northwest between Anchorage and Fairbanks.

EDMONTON WHEAT AND OIL

Domestic—In February 1957, Northwest filed its brief to the hearing examiner in the Great Lakes-Southeast Service Case, which includes our applications to serve the Florida cities of Tampa/St. Petersburg and Miami via Chicago, Indianapolis, Louisville, Cincinnati and Atlanta on one routing and via Detroit, Cleveland, and Pittsburgh on another. This proceeding also includes our application to add a new segment from Chicago to Washington, D. C., via Dayton, Columbus and Pittsburgh, as well as a request to conduct operations between Chicago-Cleveland, Chicago-Pittsburgh and Chicago-Washington. Also included in the Great Lakes-Southeast Service Case is a request for the removal of the restriction on Northwest's service which prevents "turn around" service between Detroit and Washington, D. C., either nonstop or via Cleveland and Pittsburgh. In this proceeding your company is placing particular emphasis on its Florida applications, approval of which would provide improvement to our financial results through access to the rapidly growing southeast markets and relief from our present winter seasonal traffic decline.

In 1956 the Civil Aeronautics Board set down for hearing a proceeding known as the Chicago-Milwaukee-Twin Cities Case which will hear applications for competitive service on the Chicago-Twin Cities segment. The scope of this proceeding has not been fully defined and hearing dates have not as yet been established.

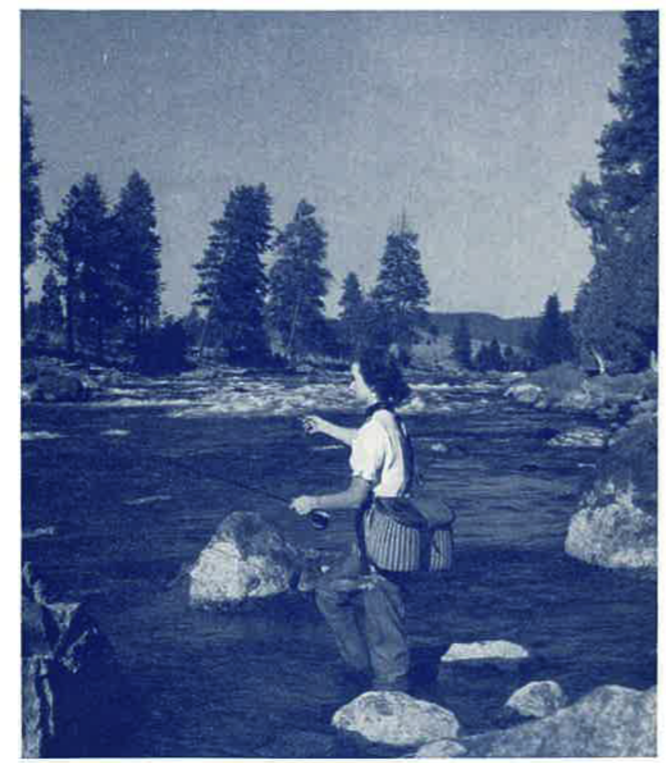
New Applications and Applications on File—During the year your company filed with the Civil Aeronautics Board a number of new route applications to enable Northwest to render improved service. These include the following:

1. Addition of Baltimore, Maryland, as a co-terminal with Washington, D. C.
2. Application to eliminate the restriction prohibiting Northwest from operating "turn around" flights between Chicago and New York.
3. Application for service to Flint and Grand Rapids, Michigan.
4. Application for service from Detroit to Boston via Buffalo, Hartford/Springfield.

Your company had previously filed applications with the Civil Aeronautics Board to improve its route structure. These applications have not yet been assigned for hearing. These include the proposals for service as follows:

1. Minneapolis/St. Paul to Los Angeles and San Francisco via Denver and Salt Lake City.
2. Billings to San Francisco via Salt Lake City.
3. Detroit to New York via Cleveland, Pittsburgh and Philadelphia.
4. Chicago to Boston via Detroit and Toronto.
5. New York to Boston via Hartford/Springfield.

As in prior years, your company will continue to seek those route improvements which will expand our revenue sources and assure further financial strength.



ANGLING IN ROCKIES

EQUIPMENT AND SERVICE

Your company continues to add the most modern aircraft to its growing fleet to provide its customers with the finest and fastest service, both within the United States and to the Orient. During 1957 seven new Douglas DC-6B's and eight Douglas DC-7C's will be put in operation.

This program of fleet modernization will continue into the early months of 1958 when three additional DC-6B's and six DC-7C's will be received. These aircraft, combined with the ten DC-6B's and nine Boeing Stratocruisers operated in 1956, will give your company a pressurized fleet of forty-three aircraft which will provide "top-flight" luxury service between all major cities on our system. This compares with seventeen pressurized aircraft operated on January 1, 1955.

The planes being delivered this year and next, together with spare engines and parts, will cost approximately $58 million. They will gradually replace our older non-pressurized units which are being disposed of as the needs of the service require. Fourteen non-pressurized DC-4 and DC-3 aircraft will be retained to serve points in which airport facilities will not accommodate the larger, more modern aircraft.

The effects of the delivery of the first four DC-6B's were already being observed as this report went to the printers. As of February 1957, all international passenger flights as well as flights within the Orient are flown with pressurized equipment. This modern equipment provides not only greater passenger comfort, but significant reductions in flight time, as well. On flights between Tokyo and Hong Kong the DC-6B saves one hour forty minutes, and between Tokyo and Seoul thirty minutes, as compared with the older DC-4 unpressurized planes.

The first of the DC-7C aircraft was received in March, and crew training is in progress. With the April 28 schedule, the transpacific flights between Seattle/Portland and Tokyo will be converted to this equipment, and increased frequencies of service will be provided between major points in the domestic system.

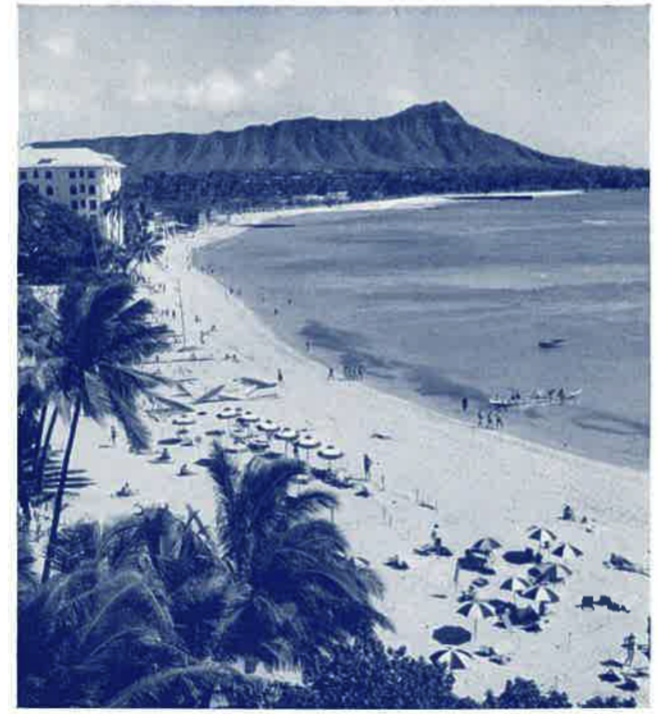
Radar equipment has now been installed on the entire fleet of Boeing Stratocruisers and on all but four of our presently operating DC-6B's. Radar on these aircraft will be installed by June 1 of this year. All of the new aircraft will be delivered with radar equipment. The initial experience with this equipment, which permits safer and more reliable operation of aircraft during all flight conditions, has demonstrated that passenger comfort is substantially increased by the ability of the captain to "see" thunderstorm activity miles ahead and select a clear path around it. Radar is also an important navigational aid in revealing characteristics of the terrain over which the aircraft is flying, thus assisting in determining the exact position of the plane.

In preparation for acquisition of jet aircraft, an order was placed with Pratt & Whitney for twenty-one J-75 jet engines. The engines will be required for the long-range jet aircraft eventually ordered, and a substantial saving in cost was effected by placing the order at this time. The company continues technical and economic studies of jet aircraft, but no decision has yet been made as to the type to be ordered. Good delivery positions for new jet aircraft for early 1960 are available to the company.

Six flights weekly with pressurized equipment are being flown between Seattle/Tacoma and Tokyo. In addition we operate a weekly cargo and mail flight and, thus, provide daily service to the Orient.

Service between Seattle/Tacoma and Hawaii is operated with Douglas DC-6B aircraft four times per week.

DUDES FOLLOWING THE LEADER



WAIKIKI—DIAMOND HEAD

First class luxury service with Boeing Stratocruisers is being provided on many important domestic route segments, such as our Chicago-west coast nonstop, New York-Twin Cities, New York-Chicago, Washington, D. C.-Twin Cities and coast-to-coast.

Our interchange agreement with Eastern Air Lines provides daily through service between the Twin Cities of Minneapolis and St. Paul and Miami via Chicago. During winter months our aircraft manned by your company's crews on the Twin Cities-Chicago segment are flown one round trip per day from the Twin Cities to Miami. During the summer months Eastern Air Lines' equipment is used.

On March 5, 1956 your company entered into a long-term agreement with the Minneapolis-St. Paul Metropolitan Airports Commission whereby the Commission would build and your company lease a complete overhaul, operations and general headquarters facility at Wold-Chamberlain Field on a basis that will amortize the Commission's costs plus interest over the thirty-year period of the lease. More than a quarter of a million dollars worth of engineering work has been done on the project since that time. No actual construction has begun because of various lawsuits that have been filed by certain groups who object to the expansion of Wold-Chamberlain Field and who have challenged the legal status of the development of the airport. Legislation designed to enable the Commission to proceed with the program is now under consideration by the Minnesota Legislature. Your company is in need of such a facility in order to service the large number of new aircraft to be delivered this year and next.

PERSONNEL

Management is grateful for the cooperation of its employees and proud of the interest they display in their company's welfare.

On December 31, 1956, your company employed 5,568 men and women of whom 5,151 were located in the United States, Alaska, Hawaii and Canada. Four hundred seventeen employees were located in the Orient of whom 85% were foreign nationals.

Contract negotiations during 1956 were conducted within an excellent employee relations atmosphere in which satisfactory agreements were reached providing for rates of pay and fringe benefits equal to the best among the trunkline air carriers of comparable size to your company.

The company training program is continually being strengthened and improved. On-the-job and off-the-job training was provided to technical, maintenance and flight personnel with particular emphasis on training needs relative to the integration of new equipment into our fleet. Increased training of sales and customer service personnel made a substantial contribution to our improved service.

Employee interest in the growth of your company is particularly shown by the suggestions submitted by employees under the company's suggestion and award plan. During 1956, more than $10,000 was paid to 259 employees for suggestions which resulted in tangible company cost reductions and savings of more than $156,000 per year.

Your management sincerely believes that it has the finest group of employees in the airline industry and our recruitment program is being strengthened to the end that we will continue to attract the highest possible type of employee.

MANAGEMENT CHANGES

At the annual meeting of shareholders held on May 21, 1956, Albert E. Floan, Vice President and Secretary, was elected to the Board of Directors, filling a vacancy caused by a resignation in 1955.

On November 15, 1956 Phillip T. Drotning was elected to a new position, Vice President-Public Relations. For the past eight years Mr. Drotning has served as Executive Secretary to the Governor of Wisconsin. He has also had extensive experience as a newspaper and magazine writer.

> With deep regret we report the death of a Director of your company, Wheelock Whitney, who passed away on March 23, 1957. He had been elected Director on May 18, 1953 and had served since that time with great ability and distinction. We shall miss him keenly.

By authority of the Board of Directors

Croil Hunter
Chairman of the Board

Donald W. Nyrop
President

March 25, 1957
Saint Paul, Minnesota

STATEMENTS OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC.

ASSETS

	December 31, 1956	December 31, 1955
CURRENT ASSETS		
Cash	$ 7,432,277	$ 6,042,984
Accounts receivable, less allowance of $85,000—1956, $75,000—1955	7,636,567	6,566,861
Maintenance and operating supplies, at average cost	1,896,061	1,832,533
Prepaid expenses	452,416	379,793
TOTAL CURRENT ASSETS	$17,417,321	$14,822,171
INVESTMENTS AND OTHER ASSETS		
Related industry investments and advances—at cost	$ 226,973	$ 231,450
FLIGHT EQUIPMENT at cost	$57,124,808	$56,332,679
Less allowances for depreciation and obsolescence	32,838,728	29,564,507
	$24,286,080	$26,768,172
Advances on purchase contracts—Note E	10,565,169	7,509,182
	$34,851,249	$34,277,354
OTHER EQUIPMENT AND PROPERTY at cost	$13,261,618	$12,584,570
Less allowances for depreciation	8,187,183	7,476,867
	$ 5,074,435	$ 5,107,703
DEFERRED CHARGES		
Training and other costs in connection with aircraft fleets, less accumulated amortization $235,707—1956, $637,644—1955	$ 510,814	$ 709,761
Miscellaneous	255,745	366,269
	$ 766,559	$ 1,076,030
	$58,336,537	$55,514,708

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1956	December 31, 1955
CURRENT LIABILITIES		
Accounts payable, collections as agent, etc.	$ 6,806,737	$ 6,784,360
Salaries, wages and vacations	2,568,034	2,186,530
Air travel card deposits	1,031,900	940,525
Unredeemed ticket liability	901,405	778,453
Income taxes—estimated	1,556,747	1,411,356
TOTAL CURRENT LIABILITIES	$12,864,823	$12,101,224
LONG-TERM DEBT—Note A		
4¼% Notes payable to banks	13,800,000	—
3¾% Notes payable to banks	—	14,500,000
DEFERRED INCOME TAXES—arising from accelerated depreciation methods	1,500,000	685,000
STOCKHOLDERS' EQUITY—Note C		
Cumulative Preference Stock, $25 par value; authorized 600,000 shares issuable in series: 4.6% Series; authorized 375,125 shares; outstanding shares 37,577—1956, 296,975—1955—Note B	$ 939,425	$ 7,424,375
Common Stock, $10 par value; authorized 3,000,000 shares; issued and outstanding shares 1,341,620—1956, 963,135½—1955—Note D	13,416,200	9,631,355
Capital surplus, after deduction of $560,625 in prior years for part of dividends paid on 4.6% Cumulative Preference Stock	6,246,750	3,719,449
Earned surplus	9,569,339	7,453,305
	$30,171,714	$28,228,484
CONTINGENT LIABILITY—for repurchase of travel contracts sold—$233,524		
COMMITMENTS—Note E		
	$58,336,537	$55,514,708

See notes to financial statements.

STATEMENTS OF INCOME

NORTHWEST AIRLINES, INC.

	Year Ended December 31, 1956	1955
OPERATING REVENUES		
Passenger	$60,264,291	$57,252,957
United States mail—Note F	7,192,138	6,512,846
Foreign mail	666,287	577,383
Express, freight and excess baggage	7,154,612	6,123,606
Charter and other transportation	815,773	111,127
Other	579,381	785,575
	$76,672,482	$71,363,494
OPERATING EXPENSES		
Flying and ground operations	$37,265,983	$35,056,409
Maintenance and repairs	13,819,216	12,538,345
Provision for depreciation	6,906,151	6,370,354
Traffic, sales, and advertising	9,026,449	8,419,929
Administrative and general (including pay roll taxes, property taxes, etc.)	4,390,449	4,085,957
Employees' retirement plan	670,991	475,866
	$72,079,239	$66,946,860
	$ 4,593,243	$ 4,416,634
OTHER DEDUCTIONS AND INCOME		
Interest on long-term debt	$ 582,745	$ 350,651
Other income, less miscellaneous deductions	62,480	101,336
	$ 520,265	$ 249,315
INCOME BEFORE TAXES AND PROPERTY DISPOSALS	$ 4,072,978	$ 4,167,319
TAXES ON INCOME (including deferred taxes $815,000—1956, $685,000—1955 arising from accelerated depreciation methods)	2,185,000	2,140,000
NET INCOME FROM OPERATIONS	$ 1,887,978	$ 2,027,319
PROFIT FROM DISPOSALS OF PROPERTY, less applicable income taxes $490,000—1956, $30,000—1955	1,337,617	88,861
NET INCOME FOR THE YEAR	$ 3,225,595	$ 2,116,180

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC.

December 31, 1956

Note A—Bank Credit Agreement

For the purpose of equipment financing (Note E), a Bank Credit Agreement dated November 15, 1956, establishes credits of which the outstanding amount may not exceed $38,500,000 through September 29, 1958, $35,000,000 thereafter through December 30, 1958, and $30,000,000 on December 31, 1958.

Repayments aggregating 20% of the borrowings outstanding as of December 31, 1958, are required during each year 1959 through 1963.

The Company has agreed that, among other things, it will not permit (a) its working capital (computed as defined in the Agreement) at any time to be less than certain specified amounts, ranging from $3,000,000 through March 31, 1958 to $6,000,000 after June 30, 1960; (b) the unpaid principal balance of the notes outstanding to exceed certain percentages of net worth and certain percentages of the depreciated value of flight equipment; and (c) its net worth to be less than $34,000,000 after December 31, 1958.

Note B—4.6% Cumulative Preference Stock

This Stock Series is entitled upon voluntary liquidation or redemption to $25¼ a share plus accumulated unpaid dividends and is subject to retirement through market or sinking fund provisions. At December 31, 1956, 337,548 of the authorized shares had been redeemed and converted and were not reissuable.

On or before March 31, 1957 the Company is required to set aside $274,818 in a non-cumulative fund for the purchase, if practicable, on the market of shares of such Stock at not exceeding $25 a share. Any unused balance after the ensuing twelve-month period reverts to the general funds of the Company. After 1957, other, and cumulative, sinking fund provisions become applicable.

During any period while the Company is in default in the payment of dividends on Cumulative Preference Stock, the Company may not purchase any of such Stock except pursuant to an offer to all holders thereof and may not redeem less than all of such Stock then outstanding. Dividends accruing to February 1, 1957 have been paid.

Note C—Restrictions on Earned Surplus

Under provisions of the Bank Credit Agreement, the Company is not permitted to declare or pay any cash dividends on its capital stock during any fiscal quarter of 1957 unless net worth at the close of the preceding fiscal quarter is at least: $30,100,000 on December 31, 1956, $29,300,000 on March 31, 1957, $30,000,000 on June 30, 1957, and $31,700,000 on September 30, 1957. The total of such declarations and payments for 1957 may not exceed $1,057,267, an amount based on net earnings for the year 1956. Similar restrictions in different amounts will apply to 1958 and future years.

The Agreement prohibits repurchase of the Company's capital stock, except that 4.6% Cumulative Preference Stock may be retired through market fund purchases (Note B) and out of proceeds of the sale of additional Common Stock.

The terms of the Cumulative Preference Stock also contain provisions relating to dividends on and repurchase of Common Stock which are less restrictive than those above.

Note D—Common Stock Options and Reservations

Of the unissued Common Stock at December 31, 1956, 41,500 shares were subject to various outstanding options exercisable by Company officers and employees over five-year periods from dates of grants and expiring not later than July 1, 1961. 36,500 shares were exercisable at December 31, 1956 (14,500 at $12.125 a share and 22,000 at $15.675 a share) and the option prices were 95% or more of the fair market prices at the date of grant.

An additional 8,000 shares of unissued Common Stock are reserved for options which may be granted in the future to officers and employees.

Note E—Commitments

At December 31, 1956 commitments for the purchase of ten Douglas DC-6B and fourteen DC-7C aircraft (to be delivered January, 1957 to June, 1958) and other equipment amounted to approximately $62,460,000 on which $10,565,169 had been deposited with manufacturers. Payments of approximately $28,510,000 will be required in 1957.

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. For these unsettled periods the Company has accrued income on the basis of temporary rates set by the Board.

On January 10, 1957 the Board issued an order asking the Company to show cause why temporary compensation for 1954 should not tentatively be reduced $1,400,000 pending final hearings. The Company is contesting the Board's actions and cannot predict the outcome at this time. Meanwhile, no effect has been given in the accompanying financial statements to the proposed reduction which would approximate $650,000 after applicable income taxes.

FIVE YEAR STATEMENT OF INCOME

(Amounts shown in thousands)

NORTHWEST AIRLINES, INC.

Five years ended December 31, 1956

	1956	Per cent Increase (Decrease) 1956 to 1955	1955	1954	1953	1952
Operating Revenues						
Passenger	$60,264	*5.2%*	$57,253	$51,054	$48,652	$41,963
United States mail	7,192	*10.4*	6,513	6,282	6,869	6,767
Foreign mail	666	*15.4*	577	504	496	706
Express, freight, and excess baggage	7,155	*16.8*	6,124	5,296	5,373	5,116
Charter and other transportation	816	*635.1*	111	50	180	1,055
Pacific Airlift for United States Government	—		—	—	4,185	5,464
Repair and service income, rents, etc., net	579	*(26.2)*	785	410	385	481
	$76,672	*7.4*	$71,363	$63,596	$66,140	$61,552
Operating Expenses						
Flying and ground operations	$37,266	*6.3*	$35,057	$30,044	$31,801	$28,371
Maintenance and repairs	13,819	*10.2*	12,538	11,672	13,886	15,061
Provision for depreciation	6,906	*8.4*	6,370	5,606	5,731	5,816
Traffic, sales, and advertising	9,027	*7.2*	8,420	7,383	7,324	6,504
Administrative and general (including pay roll taxes, property taxes, etc.)	5,061	*10.9*	4,562	4,180	4,255	4,294
	$72,079	*7.7*	$66,947	$58,885	$62,997	$60,046
	$ 4,593	*4.0*	$ 4,416	$ 4,711	$ 3,143	$ 1,506
Other Deductions, Net	520	*108.8*	249	108	338	311
Income before Taxes and Disposals of Property	$ 4,073	*(2.3)*	$ 4,167	$ 4,603	$ 2,805	$ 1,195
Taxes on Income	2,185	*2.1*	2,140	2,400	1,465	640
Net Income from Operations	$ 1,888	*(6.9)*	$ 2,027	$ 2,203	$ 1,340	$ 555
Profit from Disposals of Property	$ 1,828		$ 119	$ 287	$ 815	$ 1,709
Less applicable income taxes	490		30	75	210	475
Net Profit from Disposals of Property	$ 1,338		$ 89	$ 212	$ 605	$ 1,234
Net Income for the Year	$ 3,226	*52.5*	$ 2,116	$ 2,415	$ 1,945	$ 1,789

STATEMENTS OF SURPLUS

NORTHWEST AIRLINES, INC.

	Year Ended December 31, 1956	1955
CAPITAL SURPLUS (after deduction of $560,625 in prior years for part of dividends paid on 4.6% Cumulative Preference Stock)		
Balance at beginning of year	$ 3,719,449	$ 2,964,638
Additions arising from:		
Retirement of 7,075 shares of 4.6% Cumulative Preference Stock through market fund purchases	4,071	—
Sale of 17,850 shares of Common Stock under option agreements	—	43,461
Conversion of 252,323 shares—1956, 71,135 shares—1955 of 4.6% Cumulative Preference Stock into shares of Common Stock (1½ shares of Common for each share of Preference)	2,523,230	711,350
Balance at end of year	$ 6,246,750	$ 3,719,449
EARNED SURPLUS		
Balance at beginning of year	$ 7,453,305	$ 6,275,889
Add net income for the year	3,225,595	2,116,180
	$10,678,900	$ 8,392,069
Deduct cash dividends on:		
4.6% Cumulative Preference Stock for the year ended November 1—$1.15 a share	$ 304,608	$ 387,031
Common Stock—$.80 a share—1956, $.60 a share—1955	804,953	551,733
	$ 1,109,561	$ 938,764
Balance at end of year	$ 9,569,339	$ 7,453,305

See notes to financial statements.

ACCOUNTANTS' REPORT

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

We have examined the financial statements of Northwest Airlines, Inc. for the year ended December 31, 1956. 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.

In our opinion, the accompanying statement of financial position and statements of income and surplus present fairly the financial position of Northwest Airlines, Inc. at December 31, 1956 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saint Paul, Minnesota
March 8, 1957

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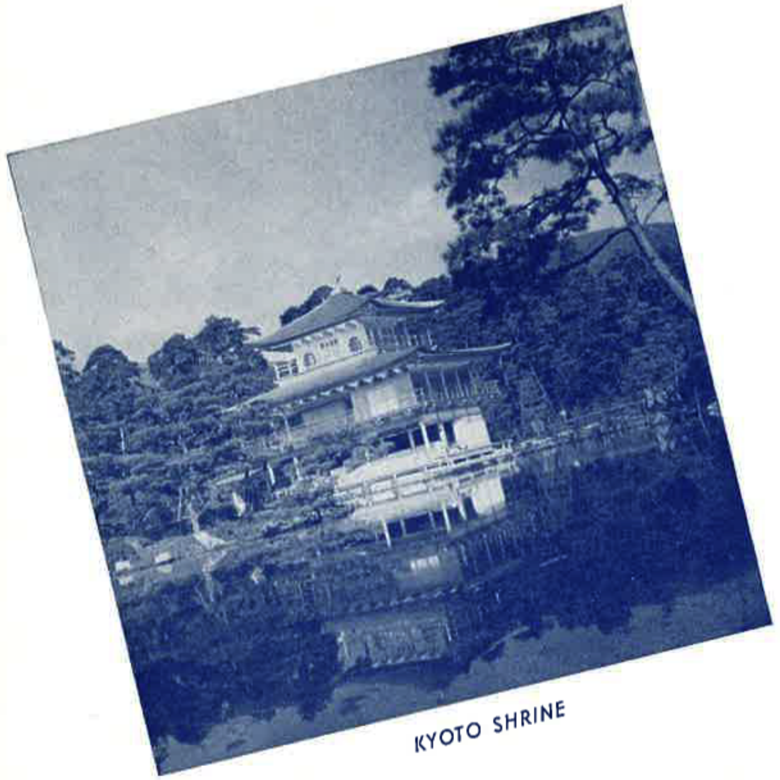
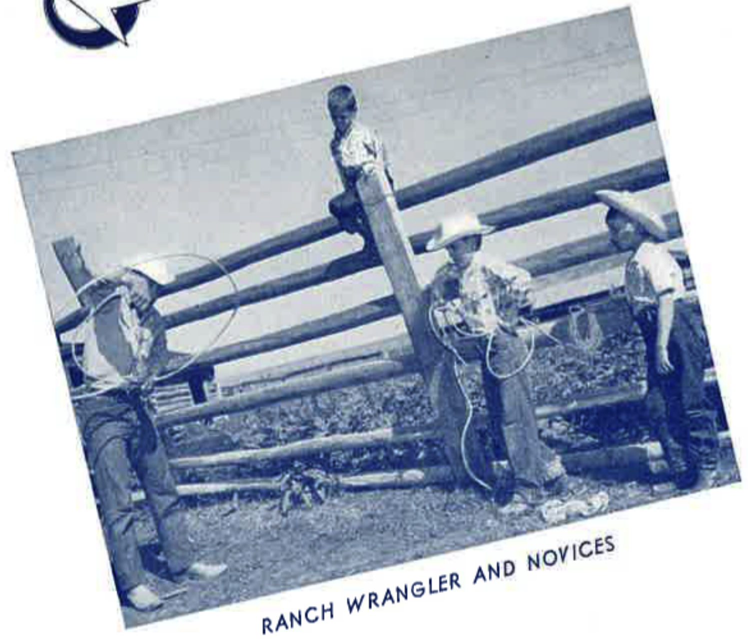
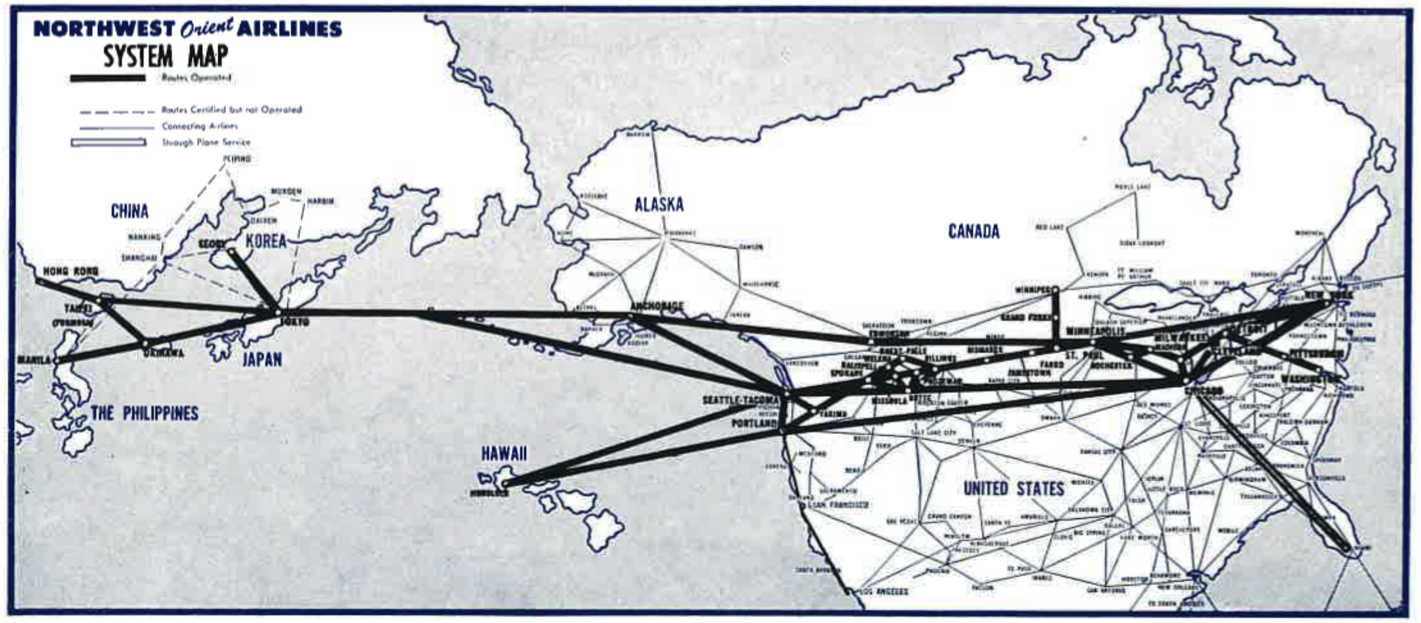

KYOTO SHRINE


RANCH WRANGLER AND NOVICES

ONE OF MINNESOTA'S TEN THOUSAND LAKES

NORTHWEST AIRLINES, INC., *Annual Report*

1956



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
1956	$76,672,482	$60,264,291	$6,426,502	1,094,121,438	16,780,406	32,461,321
1955	71,363,494	57,252,957	5,539,095	1,017,400,443	15,407,054	30,909,610
1954	63,595,851	51,053,599	4,676,190	909,674,550	6,990,462	27,029,860
1953	66,140,027	48,652,465	4,890,153	851,174,754	5,002,605	27,816,827
1952	61,552,380	41,962,758	4,781,081	720,046,264	5,017,993	23,210,634
1951	54,685,060	35,192,765	4,371,533	602,220,853	4,571,276	19,531,632
1950	52,456,700	33,148,395	4,122,222	613,446,244	4,987,561	26,868,177
1949	39,970,747	27,873,942	3,163,278	495,114,870	4,722,800	25,908,552
1948	34,369,835	24,074,778	2,072,362	386,509,809	4,026,074	22,288,002
1947	26,800,428	20,520,631	1,019,497	382,544,382	2,736,938	20,824,912

NORTHWEST AIRLINES, INC.

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