



AIR COMMERCE ... OUR GLOBAL FUTURE



A GLIMPSE OF THE FUTURE... from 17 years of Air Progress

Annual Report to Shareholders

NORTHWEST AIRLINES, INC.

Year ended June 30, 1943



P. H. Maabry

DIRECTORS

S. M. ARCHER, *Chairman*

K. R. FERGUSON	JOSEPH T. JOHNSON
R. M. HARDY	L. M. LEFFINGWELL
CROIL HUNTER	WILLIAM STERN
T. E. IRVINE	EDWIN WHITE
E. I. WHYATT	

OFFICERS

CROIL HUNTER	- - - - -	<i>President</i>
E. I. WHYATT	- -	<i>Vice President and Treasurer</i>
K. R. FERGUSON	- -	<i>Vice President—Operations</i>
A. E. FLOAN	- - - - -	<i>Secretary</i>
L. S. HOLSTAD	- - - - -	<i>Assistant Treasurer</i>
CAMILLE L. STEIN	- - - - -	<i>Assistant Secretary</i>

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

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

Bankers Trust Company, New York City
Principal Transfer Agent

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

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

Annual meeting of shareholders last Monday in September.

NORTHWEST AIRLINES, INC.



St. Paul, Minnesota
November 12, 1943

To the Shareholders of Northwest Airlines, Inc.:

Financial Report

For the fiscal year ended June 30, 1943, your company earned a net income of \$614,301 after deduction of income, excess profits and other taxes. This amounts to \$2.61 for each share outstanding. At the end of the year your company's surplus was \$1,469,489.

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

The income statement compares the results of the year just ended with those of the two years immediately preceding. In reading the income statement it should be borne in mind that (1) throughout the fiscal year just closed your company operated only about one-half the number of airplanes in commercial service that it operated the year before, and (2) by far the greater part of the company's effort during the year was devoted to its large and vital war jobs.

The operation of such a greatly reduced fleet of aircraft in commercial service is shown in the fact that we flew 2,167,813 miles less in commercial service than in the previous year, a drop of 36%. This reduction was minimized by improved utilization of the remaining planes, both by flying each ship more hours per day as a result of improved operating and maintenance procedures, and by selling larger proportions of the passenger seats available. An additional favorable factor was the elimination on July 1, 1942, of discounts previously granted on passenger tickets bought on a round-trip basis or bought under the Air Travel Card Plan. These factors so nearly offset the reduction in the number of airplanes used that passenger revenues of \$2,364,291 were 88% of the previous year.

A similar situation exists with regard to mail revenue. By flying more miles daily per ship and by carrying greatly increased loads of mail with resulting bonus payments, we earned \$1,789,241 mail revenue, which is 90% of the previous year.

Express loads carried also increased heavily, and revenue from express, excess baggage and miscellaneous transportation sources was 173% of the previous year.

Other operating income, net after charges, was \$202,714, which is 253% of the previous year's profit from this source. The increase is largely made up of

fees on the greatly increased volume of war contracts, less items charged against such fees.

It should be noted that total operating revenues (transportation revenue plus war contract fee income and miscellaneous income from other operating sources) amount to \$4,719,143, or 95% of last year, in spite of the 50% reduction in our fleet of commercial airplanes.

Operating expenses declined 21% under the previous year as a result of curtailed operations. Per mile costs increased as a natural result of the serious reduction of schedules, of costs attributable to wartime operating conditions, and of the increase in revenue-producing loads.

It should be noted that this year's profit from disposal of depreciable assets is \$28,015, while the previous year's figure of \$398,646 included the book profit on eight airplanes sold for war purposes at the request of the United States Government. No such sales were made this year.

Your company's end-of-the-year surplus of \$1,469,489 represents an increase of \$496,841 during the year. Also at the end of the year current assets exceeded current liabilities by \$1,391,363, an improvement of \$322,948 during the year.

A dividend of fifty cents per share was declared on August 3, 1943, payable September 1, 1943.

Equipment

Throughout the year your company owned and operated seven Douglas DC-3 21-passenger planes in commercial service and owned and operated various small ships for training. After the close of the year, on August 4, 1943, the Army returned to us one of the Douglas DC-3's sold to the government by us last year. We are making every effort to have additional ships returned to us so as to further meet traffic demands and to restore service to cities where we were forced to discontinue service temporarily.

Financing

At the beginning of the year, \$142,500 was owed to banks, representing the balance still outstanding of money borrowed to purchase aircraft. This amount was paid off, and no loans were outstanding on June 30, 1943. During the year, substantial bank borrowings were made to finance war contracts. These were subsequently paid, and the contracts are now financed by advance payments received from the Army.

As shown in the proxy statement which this report accompanies, the management proposes that the company's authorized capital stock be increased from 300,000 shares to 600,000 shares and that the directors be authorized to issue such amounts of the unissued common shares at such prices and terms as may be fixed by the Board. The management believes that future developments in the company's business to be reasonably anticipated will require substantial amounts of additional capital.

Personnel

The year's operations have been of such a character and magnitude as to

call for a net increase in employment of 371% during the year. This fact, together with others, has resulted in various changes in previously existing labor agreements. There are three such labor agreements—one with pilots, one with radio operators and one with maintenance and other mechanical and ground service personnel.

Negotiations involved in labor agreement changes during the year have been conducted in a spirit of mutual confidence and responsibility.

During the year a branch of the UAW-CIO petitioned the National Labor Relations Board to certify it as the authorized bargaining agent for certain employees covered by an agreement between the company and the Air Line Mechanics Association, International. The NLRB declined jurisdiction on the grounds that the matter involved employees of an air carrier subject to the Railway Labor Act and therefore was properly a matter within the jurisdiction of the National Mediation Board.

Operations in Wartime

Commercial Operations

We have carried much heavier average pay loads than ever before. Available passenger, mail and express business, most of it of great importance to our country's war efforts, has exceeded the capacity of our fleet. This has called for our best efforts to utilize equipment to the full extent allowed by safety.

War Contract Operations

We have carried on vital war jobs under contract with the U. S. Army to the point where our war work as measured by employment exceeds that of any other domestic airline. As anticipated in my last year's report to you, our employment at June 30, 1943, was 8,369 and has since passed 10,000. Our highest peak of employment for strictly commercial operations was 881.

One of our large war jobs is the operation of a military cargo airline across western Canada to Alaska. This important work has demanded our best efforts in developing quickly an airline organization which has been proven capable of conducting vital operations under adverse and changing conditions.

At St. Paul, Minnesota, your company is operating the largest aircraft modification center under airline management. Here we have had the responsibility of recruiting and training thousands of workers for this key task.

At Vandalia, Ohio, (adjoining the Dayton Municipal Airport) we are operating an accelerated service testing center in collaboration with the U. S. Army. This is related to the Army's aircraft modification program and is a valuable part of the Air Corps program.

We also conduct various training, experimental, research and other aviation activities for the Army and Navy.

Throughout the accompanying financial reports will be found evidence of the scope and size of our war contract operations. Behind these figures is the work of thousands of men and women engaged in complex and demanding jobs.

Applications for Route Extensions

In furtherance of its plans for expansion both during the war and in the post-war period, your company has filed the following applications for route extensions:

- (a) From Minneapolis, Minnesota, to New York, New York, via Milwaukee, Wisconsin, Detroit, Michigan, and Cleveland, Ohio;
- (b) From Chicago, Illinois, to Washington, D. C., via Dayton, Ohio;
- (c) From Seattle, Washington, to Portland, Oregon;
- (d) From Chicago, Illinois, to the Twin Cities via Rockford, Illinois, Beloit, Wisconsin, Dubuque, Iowa, and LaCrosse, Wisconsin;
- (e) From Minneapolis-St. Paul, Minnesota, to Billings, Montana, via Aberdeen, South Dakota;
- (f) From Seattle, Washington, to Victoria, B. C., via Port Angeles, Washington;
- (g) From Seattle, Washington, to Honolulu, Hawaii;
- (h) From Minneapolis-St. Paul, Minnesota, to Nome, Alaska, via Fargo, North Dakota, and Fairbanks, Alaska, or in the alternative from Minneapolis-St. Paul, Minnesota, to Nome, Alaska, via McMurray, Alberta, Norman Wells, Northwest Territory, and Fort Yukon, Alaska;
- (i) From Seattle, Washington, to Nome, Alaska, via Anchorage, Alaska;
- (j) From Nome, Alaska, to Calcutta, India, via Peiping and Chungking, China;
- (k) From Nome, Alaska, to Manila, Philippine Islands, via Peiping and Shanghai, China;
- (l) From Seattle, Washington, to Calcutta, India, via Anchorage, Alaska, Kiska and Attu, Aleutian Islands, Tokyo, Japan, Peiping and Chungking, China;
- (m) From Seattle, Washington, to Manila, Philippine Islands, via Anchorage, Alaska, Kiska and Attu, Aleutian Islands, Tokyo, Japan, and Shanghai, China.

A pre-hearing conference on our New York application has been set for December 6, 1943, and we anticipate early action by the Civil Aeronautics Board on our other applications involving domestic service only. Hearings on applications involving foreign service will await further determination of policy by our government. Your company joined with 15 other domestic airlines urging the adoption by our government of a policy which would allow privately owned American carriers to conduct international air transport operations under the American system of regulated competition.

Air Mail Rates

As shown in the accompanying financial reports, the Civil Aeronautics Board is considering a reduction in our mail rates. A show cause order has been issued and a hearing held. Under the order it is possible that our mail rate may be reduced to as low as .3 mill per pound mile as of March 1, 1943, or any later date. This maximum reduction would reduce our mail revenue for the past fiscal year by \$294,209. The effect of the maximum reduction for the fiscal year beginning July 1, 1943, cannot reasonably be estimated because it depends upon the volume of mail carried.

The Future

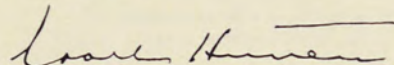
As long as the nation's war needs require it, we stand ready to continue to serve the armed forces through the performance of aviation tasks for which our experience fits us. We will constantly strive to improve the efficiency and productivity of such work entrusted to us.

We will continue to exert every effort to carry the maximum amount of the passenger, mail and express loads whose speedy transportation is essential to the nation's war effort.

We will plan and work for the development of our place in the expanding air transport field, both domestic and international.

Your company has, during the past year and a half, gained extensive experience in operating international air routes, in the management of large numbers of employees, and in the operation of many new techniques and types of equipment. This and our accumulated experience of 17 years form a solid foundation on which we will build our future in a world where aviation will be a powerful instrument for commercial and social progress.

Very truly yours,


President

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ACCOUNTANTS' REPORT

BOARD OF DIRECTORS,
NORTHWEST AIRLINES, INC.,
Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC. as of June 30, 1943, and the statements of income and surplus for the three years then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. It was found impracticable to confirm by direct communication the amounts receivable from United States Government departments as to which we satisfied ourselves by other auditing procedures.

In our opinion, the accompanying balance sheet and related statements of income and surplus, present fairly the position of NORTHWEST AIRLINES, INC. at June 30, 1943, and the results of its operations for the three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST,
Certified Public Accountants

Saint Paul, Minnesota
November 8, 1943

BALANCE SHEET

NORTHWEST AIRLINES, INC.

June 30, 1943

ASSETS

Current assets:

Cash (including special deposits of \$1,542,066 to be used on United States Government contracts)		\$3,029,892
United States Treasury bonds—at cost		25,000
Trade accounts receivable, including United States Government accounts of \$626,104		1,247,897
Unreimbursed costs and accrued fees under United States Government cost-plus-fixed-fee contracts	\$10,207,034	
Less advances applicable to costs	8,786,723	\$1,420,311
Unallocated advances by the Company for costs and expenses, less reserve of \$25,000		130,460
Unbilled job order costs, less reserve of \$5,000		1,550,771
Inventories—at the lower of cost or market:		
Parts, materials, and supplies		74,141
		368,580
TOTAL CURRENT ASSETS		\$6,296,281

Other assets:

Insurance deposits, claims and premium adjustment	\$ 20,542	
Deposit in escrow	10,000	
Sundry accounts, deposits, etc.	24,741	
Accounts receivable from employees, less reserve of \$5,000	51,333	106,616

Property, plant, and equipment—on the basis of cost to the Company or its predecessors:

	Cost	Reserves	Balance
Land	\$ 10,494		\$ 10,494
Aircraft and reserve equipment	1,339,877	\$1,034,839	305,038
Buildings on leased ground	472,085	206,660	265,425
Other buildings and equipment	1,051,942	424,637	627,305
Improvements to leased property	85,015	20,984	64,031
	<u>\$2,959,413</u>	<u>\$1,687,120</u>	<u>\$1,272,293</u>
			1,272,293

Intangible:

Cost of United States Government air mail route		48,737
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Deferred charges:

Unexpired insurance	\$ 51,044	
Other prepaid and deferred expenses, supplies, etc.	53,963	105,007
		<u>\$7,828,934</u>

BALANCE SHEET

NORTHWEST AIRLINES, INC.

June 30, 1943

LIABILITIES

Current liabilities:

Accounts payable	\$2,171,723	
Air travel contract deposits—gross	96,172	
Wages and salaries and payroll taxes	938,160	
Employees' war bond deductions	174,922	\$3,380,977
Accrued taxes		161,973
Federal and state taxes on income of the year ended June 30, 1943, plus additional provisions for prior year		517,000
Unliquidated advances on United States Government contracts	\$9,631,691	
Less amounts applied against unreimbursed costs	8,786,723	844,968
TOTAL CURRENT LIABILITIES		\$4,904,918

Deferred income:

Unused transportation, etc.		25,327
Reserve for possible inventory obsolescence		70,000

Capital stock and surplus:

Common stock—no par value:

Authorized 300,000 shares; unissued 65,080 shares (of which 10,000 shares are reserved for options at \$14.00 per share); outstanding 234,920 shares at aggregate stated capital amount.....		\$1,359,200
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Surplus:

Paid-in surplus	\$ 41,799	
Earned surplus	1,427,690	2,828,689
	1,469,489	2,828,689

\$7,828,934

COMPARATIVE STATEMENT OF INCOME

NORTHWEST AIRLINES, INC.

Years ended June 30, 1943, 1942, and 1941

	1943	1942	1941
Operating revenue:			
Transportation:			
Passengers	\$2,364,291	\$2,663,126	\$2,324,004
Mail	1,789,241	1,971,214	1,852,333
Express, freight, etc.	362,897	209,137	116,824
Net fees, repair and service income, rents, etc.—Note B ..	202,714	79,977	44,748
	\$4,719,143	\$4,923,454	\$4,337,909
Operating expenses:			
Maintenance and repairs	\$ 692,878	\$ 815,621	\$ 645,350
Provision for depreciation and amortization—Note C	267,842	461,587	499,213
Taxes (other than income and excess profits taxes)	96,961	188,839	132,314
Rents	97,417	82,203	65,317
Compensation and expenses of aircraft crews, radio operators, superintendents, clerks, airport and hangar employees	1,106,172	1,254,501	1,100,735
Aircraft fuel and supplies	309,406	440,578	395,404
Insurance	182,645	313,186	262,369
Other transportation expenses	238,396	254,186	224,059
Traffic, sales and advertising	439,424	517,243	379,786
Administrative and general	113,742	200,047	196,453
	\$3,544,883	\$4,522,991	\$3,901,000
OPERATING INCOME	\$1,174,260	\$ 400,463	\$ 436,909
Other income and credits:			
Profit from disposal of aircraft and other depreciable assets ..	\$ 28,015	\$ 398,646	\$ 1,186
Discount and interest earned	1,918	5,995	6,786
Credits applicable to prior years—net	11,404	3,641	17,430
Sundry	11,581	6,249	5,809
	\$ 52,918	\$ 414,531	\$ 31,211
	\$1,227,178	\$ 814,994	\$ 468,120
Other deductions:			
Additions to reserve for possible inventory obsolescence ..	\$ 28,000	\$ 27,600	\$ 14,400
Interest expense	27,214	5,648	12,864
Provision for doubtful accounts, adjustments, etc.	32,500	1,500	250
Sundry	5,978	2,330	12,808
	\$ 93,692	\$ 37,078	\$ 40,322
INCOME BEFORE TAXES THEREON	\$1,133,486	\$ 777,916	\$ 427,798
Taxes on income—Note A:			
Provision for the year—estimated:			
Federal income and surtax	\$ 465,500	\$ 250,000	\$ 100,000
Declared value excess profits taxes	11,500	35,000	4,500
State income taxes	30,000	15,000	7,500
	\$ 507,000	\$ 300,000	\$ 112,000
Under or over* provision for prior years	12,185	7,184*	11,697*
	\$ 519,185	\$ 292,816	\$ 100,303
NET INCOME	\$ 614,301	\$ 485,100	\$ 327,495

STATEMENT OF SURPLUS

NORTHWEST AIRLINES, INC.

Years Ended June 30, 1943, 1942, and 1941

	1943	1942	1941
Paid-in surplus:			
Balance at beginning of year	\$ 41,799	\$ 41,799	\$ 41,811
Premium on preferred stock redeemed			12
	\$ 41,799	\$ 41,799	\$ 41,799
Earned surplus:			
Balance at beginning of year	\$ 930,849	\$ 445,749	\$ 119,665
Net income for the year	614,301	485,100	327,495
	\$1,545,150	\$ 930,849	\$ 447,160
Deduct dividends paid in cash on:			
Preferred stock (at the rate of \$5 per share)			\$ 1,411
Common stock \$.50 per share	117,460		
	\$1,427,690	\$ 930,849	\$ 445,749
TOTAL SURPLUS	\$1,469,489	\$ 972,648	\$ 487,548



NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC.

June 30, 1943

NOTE A—Net income originally reported for the year ended June 30, 1942, has been increased in the accompanying statement by eliminating the unused special provision of \$55,000 made in that year to cover anticipated additional tax liability under legislation which was then under consideration.

NOTE B—The Company has not included among its assets or as a part of income amounts aggregating approximately \$340,000 (of which \$300,000 applies to the year ended June 30, 1943) claimed as reimbursable costs under contracts with the United States Government. The claims are receiving consideration by Army authorities but have not as yet been approved. While the ultimate disposition of the matter is not now determinable, it is the opinion of the Company that a substantial portion of the amount will be recovered.

The Civil Aeronautics Board has issued an order to the Company to show cause as to why its mail rates should not be reduced as of March 1, 1943, and a hearing on the matter has been held. The maximum amount by which the mail revenue of the Company for the year ended June 30, 1943, might be reduced is approximately \$295,000. The Company is opposing the proposed reduction and has presented data on increased operating costs in support of its position.

Both of the aforementioned matters arise from services to the United States Government, and the Company feels that their ultimate settlement will not adversely affect the financial position at June 30, 1943, or net income for the year then ended.

NOTE C—It is the policy of the Company to provide for depreciation and amortization of property, plant, and equipment by annual charges to operations computed at rates calculated to extinguish the cost ratably over the estimated useful lives thereof. In general, rates of depreciation in use are the same or higher than those which have been allowed for Federal income tax purposes. Rates applicable to major classifications of assets are as follows: Aircraft 20%, buildings 4 to 20%, aircraft communication equipment 20 to 25%, station communication equipment 50%, motorized vehicles 33⅓%, and all other equipment (with minor exceptions) 10%. No assets are being amortized under certificates of necessity. Upon the retirement, sale, or other disposal of property, the Company charges operations with the profit or loss thereon and relieves the asset and related reserve accounts for cost and accumulated depreciation, respectively.

NOTE D—Profits of the Company include those from transactions which may be subject to the provisions of the War Profits Control Act providing for the recapture of any profits found as a result of renegotiation to be excessive. It is believed by the Company that the profits realized on such transactions will not be found excessive and no provision for refund has been reflected in the accompanying statements.

