NORTHWEST AIRLINES, INC., *Annual Report 1962*

NORTHWEST AIRLINES, INC.

1962 IN REVIEW

	1962	1961
Total Operating Revenues	$150,453,420	$111,052,512
Operating Income	19,206,051	9,721,886
Net Earnings for the Year	7,230,392	3,661,139
*Per Common Share**	$3.97	$2.01
Stockholders' Equity	$ 59,711,883	$ 54,176,525
*Per Common Share**	$32.79	$29.76
Dividends Paid	$ 1,701,743	$ 1,700,766
Operating Expenses—		
Per Available Ton-Mile	23.9¢	27.6¢
Per Revenue Ton-Mile	50.2¢	54.2¢
Revenue Traffic—		
Passengers Carried	2,437,342	1,723,667
Passenger-Miles Flown	1,904,112,000	1,361,790,000
Ton-Miles, Mail, Freight and Express	68,814,000	49,990,000
Number of Employees at Year End	5,788	5,803
*Number of Common Shares at Year End (Includes equivalent shares to reflect February 1963 conversion of preferred stock)	1,820,781	1,820,281

. . . the President's Letter

TO OUR STOCKHOLDERS:

1962 was an excellent year for Northwest Airlines.

The total operating revenues exceeded $150,000,000 for the first time in the history of the Company. The net earnings for the year reached a record high of $7,230,392. This is almost double the net earnings of 1961.

All expenses were rigidly controlled during the year. Unit costs in 1962 were less than the unit costs in 1961. The cost per available ton-mile was reduced by 13.4 per cent and the cost per revenue ton-mile was reduced by 7.4 per cent. The break-even passenger load factor for the combined domestic and international operations was 45.5 per cent—one of the lowest in the airline industry. Reduced unit costs were the result of the increased efficiency in all departments and divisions of Northwest Airlines and the increased use of the productive capacity of jet airplanes.

In 1962, Northwest placed into service four additional 720B fan-jets. In 1963, Northwest will take delivery of five Boeing Intercontinental 707-351B jets. The first delivery will be in June and deliveries will continue through October. These long-range jet transports are being manufactured to Northwest's specifications. They will have seating for 112 passengers and approximately 2,800 cubic feet of cargo and baggage space, with a 91 by 134-inch cargo door to accommodate the largest items of freight.

The year 1963 has started well for Northwest Airlines. Gross revenues for the first two months are up approximately 19 per cent. Historically, Northwest has shown a loss for the first quarter of the year because of reduced travel over its routes during the winter period. It is expected that the first quarter of 1963 will show a modest profit. Assuming that the national economy remains firm, 1963 should be another good year for your Company.

We are grateful to our customers, shareholders and employees for their continuing support in 1962.

Sincerely,

Donald W. Nyrop

President

March 27, 1963

36th annual report to stockholders

1962 financial results

Northwest Airlines' financial performance in 1962 was exceptionally good in comparison with prior years and with results attained by other airlines. After revenues of $150,453,420 and total operating expenses of $131,247,369, there remained operating income of $19,206,051, or 12.8 per cent of 1962 revenues. Interest expense was $5,040,266 in 1962 compared with $4,352,-867 in 1961. Gain from disposal of property was not a large factor in your Company's profit in 1962, amounting to $346,352 before taxes contrasted with $1,518,535 for 1961—the latter also before taxes.

After taxes on income, net earnings for 1962 amounted to $7,230,392 or almost twice the net earnings of $3,661,139 reported for 1961. This is a record high for annual earnings and represents the fourteenth consecutive year in which a net profit has been earned by Northwest Airlines.

Earnings Per Share and Dividends

In terms of the 1,388,459 common shares which were outstanding at the end of 1962, and after preferred dividends of $592,187, net earnings for 1962 reflect $4.78 per common share compared with $2.21 in 1961. In January, 1963, your Company called for redemption all outstanding shares of the Cumulative Preferred Stock, 5¼% Convertible Series. This call resulted in virtually complete conversion of this issue to common stock at the rate of .9615 share of common stock for each share of preferred stock. Thus net earnings for 1962, reflecting this conversion and elimination of the preferred dividend requirement, are $3.97 per common share (on the equivalent of 1,820,781 total shares after conversion).

During 1962, regular quarterly dividends totaling $.80 per share were paid to holders of common stock. In February, 1963, your Directors voted to increase the quarterly dividend from 20 cents to 25 cents per common share—or at the rate of $1.00 per share per year. Regular quarterly dividends also were paid in 1962 on the Cumulative Preferred Stock, 5¼% Convertible Series, then outstanding.

Stockholders' Equity

Net worth of the Company increased by $5,-535,358 in 1962—from $54,176,525 to $59,711,883. This growth resulted from net earnings for the year less dividends paid. Book value per share at year-end (reflecting the early 1963 conversion of preferred stock) was $32.79, an increase of $3.03 over the comparable book value of $29.76 at the close of 1961. In the period of five years ending December 31, 1962, your Company has earned $23,844,495 and has paid $7,927,552 in cash dividends. Stockholder equity has been increased by $15,916,943 from net earnings retained in the business during this period.

Financial Position

Long-term credit agreements made prior to 1962 continued in effect during the year and no new debt was incurred. Regular payments in the total amount of $2,786,013 were made under the Conditional Contract of Sale for Lockheed Electra II aircraft and 43 per cent of this debt now has been repaid. During 1962, terms of our $42,500,000 bank loan were amended to provide a portion of the financing needed for aircraft acquisition in 1963 by continuing the revolving credit feature into 1963 and by moving repayment dates forward one year.

Internal cash flow, principally from net earnings, depreciation and deferred taxes, totaled $31,724,242 in 1962. These sources generated ample funds to cover expenditures during the year for operating property additions, equipment deposits and other cash needs. In addition, the year's cash flow permitted interim repayment of $13,000,000 in bank loans, pending the need to draw such funds for aircraft purchases in 1963.

Capital expenditures committed for 1963 will be made from funds available in present credit arrangements and from internal cash flow, with no additional borrowing from outside sources.

SOURCE AND APPLICATION OF FUNDS, 1962

Source	
Net Earnings	$ 7,230,392
Depreciation and Amortization	18,445,190
Deferred Taxes	5,821,500
Other Sources	227,160
Total	$31,724,242

Application	
Advance Deposit on Aircraft	$ 6,327,901
Additions to Operating Property	6,485,922
Repayment of Debt	15,786,013
Cash Dividends	1,701,743
Increase in Working Capital	1,014,863
Other Applications	407,800
Total	$31,724,242

REVENUE PASSENGER MILES	
1962	1,904,112,000
1961	1,361,790,000
1960	1,653,966,000
1959	1,738,138,000
1958	1,408,743,000
1957	1,205,765,000
1956	1,094,121,000
1955	1,017,400,000
1954	909,675,000
1953	851,175,000

MAIL TON MILES	
1962	33,635,000
1961	26,955,000
1960	24,424,000
1959	24,436,000
1958	21,892,000
1957	17,803,000
1956	16,780,000
1955	15,407,000
1954	6,990,000
1953	5,003,000

FREIGHT AND EXPRESS TON MILES	
1962	35,179,000
1961	23,035,000
1960	32,480,000
1959	31,377,000
1958	22,285,000
1957	19,714,000
1956	18,825,000
1955	16,341,000
1954	12,970,000
1953	13,222,000

. . . revenues and expenses

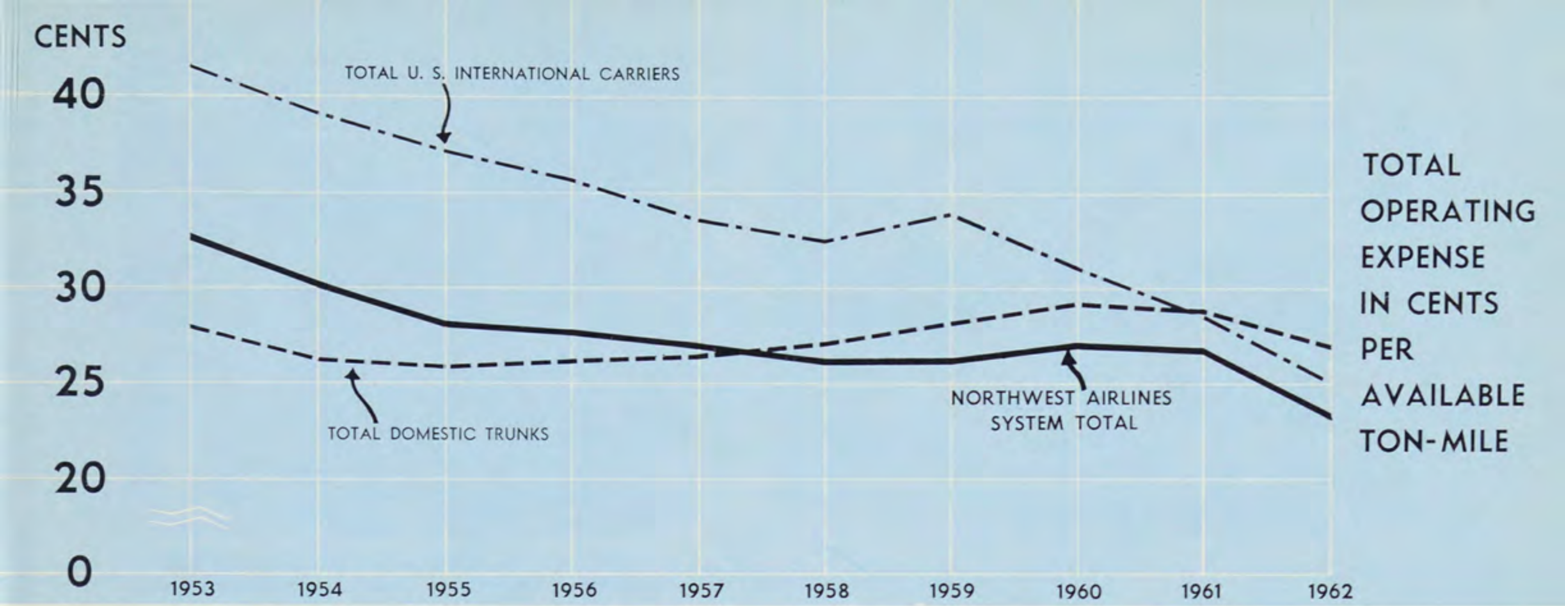
Total revenues of the Company reached an all-time high of $150,453,420 in 1962. The revenue level of $76,479,526 achieved in 1956 has been doubled in the past six years of growth. In this period an average growth rate of 11.9 per cent per year has been realized despite the setback from a lengthy strike which affected revenues late in 1960 and in early 1961.

Passenger Revenue

Passenger traffic remains our primary revenue source, producing $121,781,068 in 1962, more than 80 per cent of total operating revenues. This amount was derived from the carriage of 1,904,112,000 revenue passenger-miles at a system average fare of 6.40¢ per passenger-mile. Comparable figures for 1961 were 1,361,790,000 passenger-miles carried at an average yield of 6.31¢ per passenger-mile for a total of $85,970,900 in passenger revenues. These traffic gains resulted in large part from the efficient operation and aggressive merchandising of improved schedules offering excellent competitive service in all our markets.

A continuing trend toward greater passenger use of coach and economy services is reflected in the fact that 70 per cent of our total passenger traffic was carried in the lower-fare services in 1962. Your Company has met this varied traffic need by offering a combination of first-class and coach accommodations in the same aircraft on most of our schedules. Public reaction to this type of service has been good.

It appears that the general level of passenger fares will not be altered significantly in the near future. Your Company enthusiastically supports and offers those special promotional fares and tariff features which are economically sound and capable of developing additional traffic. We have not regarded as sound a number of special fares which are of doubtful promotional value and serve to debase the general fare structure by diversion of existing revenues.



Cargo and Other Revenues

Freight and express revenues were $10,744,241 in 1962, earned by carriage of 35,179,000 ton-miles of traffic. Both are new highs for Northwest Airlines and demonstrate the growing importance of air cargo in our over-all revenues. Rapid movement of goods both on passenger flights and in aircraft equipped with special freight capability has resulted in ever-increasing awareness by shippers of the advantages of air transportation.

Air mail revenues, both U. S. and foreign origin, amounted to $14,228,416 in 1962, an increase of 21.6% over 1961. Included in this total is a growing volume of non-priority U. S. mail offered to the air carriers on a space-available basis at rates which are lower than those for regular air mail. Revenues of $1,974,798 were earned in our domestic and international services during 1962 from this type of traffic compared with $1,384,245 in 1961 and $593,984 in 1960.

Your Company continued its participation in scheduled military contract service during the past year. Revenues from this source amounted to $1,964,832 in 1962 and we expect renewal of our contract at a higher revenue level for the fiscal year starting July 1, 1963.

Operating Expenses

Operating expenses were $131,247,369 in 1962, including $18,445,190 for depreciation and amortization. Comparable figures for 1961 were $101,330,626 total expense and $17,117,959 for depreciation and amortization.

Total expenses increased 29.5% over the prior year while operating revenues increased 35.5%. At the same time our unit operating costs were reduced greatly, reflecting the production of increased salable capacity without proportionate cost increases. Your Company achieved a cost-of-capacity rate of 23.9¢ operating expense per available ton-mile flown in 1962. This was 3.7¢ or 13.4 per cent less than the unit cost rate of 27.6¢ experienced in 1961. Operating expense per revenue ton-mile of traffic carried was 50.2¢ in 1962, a reduction of 4.0¢ from the 1961 rate of 54.2¢.

Expressed another way, Northwest Airlines' low operating cost level resulted in a break-even passenger load factor of only 45.5 per cent in 1962. This is calculated as the load factor required to cover operating expenses and interest costs and is among the lowest in the airline industry. Our actual 1962 passenger load factor of 51.5 per cent represents a margin of six percentage points over the load factor required to break even.

We will continue in the coming year to offer a high standard of service to the public with the best equipment available to develop maximum total revenues. At the same time we will continue to maintain careful management scrutiny of our operating costs to provide the best margin of net profit attainable.

equipment and services

Northwest Orient Airlines air-ground radio communications are consolidated into a single operation at the General Office.

Northwest Airlines during 1962 operated a balanced fleet of jet, jet-propeller and piston-engined aircraft that provided excellent flight service throughout the carrier's domestic and international route system.

Although a two-year program for acquisition of modern, turbine-powered aircraft had been completed in 1961, further changes in Northwest's fleet accomplished in 1962 and announced for the future proved again that equipping a jet-age air carrier is far from being a static undertaking.

During 1962, Northwest added four Boeing 720B fan-jet airliners to its fleet and sold one of its Douglas DC-8 jets, making the year-end total of pure jet equipment 13 720B's and four DC-8's. There was no change, however, in Northwest's total of 16 Lockheed Electra II jet-prop airliners. Northwest also has seven DC-7C's (four of which have been converted to DC-7C/F cargo configuration, with large forward cargo door and cargo floor) and 11 DC-6B's.

Aircraft Acquisition Plans

Looking to future operations, Northwest in 1962 announced purchase plans for a fleet of Intercontinental Boeing 707-351B fan-jets, five of which will be delivered beginning in June, 1963.

These newest and most advanced of the Boeing family of jetliners will have a first-of-a-kind cabin configuration, designed especially to Northwest's requirements for both passenger and cargo capacity on the northern transcontinental and North Pacific routes. Incorporated in the design will be a large-door cargo compartment, with space for nearly a thousand cubic feet or 10,000 pounds of cargo.

This compartment, in the forward left side of the passenger cabin behind the forward passenger entrance, will be 37 feet long, with an average floor width of 50 inches. It will be separated from the passenger area by permanent, decorative panels. Access will be from the exterior of the aircraft, through a forward, upper deck cargo door with an effective opening of 91 by 134 inches. Design will allow for the use of Northwest's second-level passenger loading ramps at the forward passenger entrance.

The new compartment, plus cargo capacity in the aircraft's lower holds, will allow Northwest to carry, on its longest flight segments, the cargo tonnage now lifted aboard all-freight DC-7C/F planes and, at the same time, 112 passengers.

Increase in Jet Services

These new fan-jet aircraft, with which service will be inaugurated on July 1, 1963, will continue the years-long trend of more and more of Northwest's revenue passenger-miles being produced by modern, turbine-powered aircraft (both jet and jet-prop). In 1959, for example, only 4.9 per cent of the airline's total system revenue passenger-miles were produced by turbine airliners. This percentage has climbed steadily, to 24.7 in 1960, 74.4 in 1961 and 88.9 per cent of total revenue passenger-miles in 1962.

GROWTH IN TURBINE SERVICE

Per cent of total revenue passenger-miles.

Northwest's jet services were increased substantially during 1962. Polar jets—from New York and Chicago to Tokyo via Anchorage—were operated on a daily frequency. Jet service between Seattle-Tacoma and Anchorage was increased to two round trips daily. Northwest restored daily service between the Pacific Northwest and Hawaii, with the aircraft operating on a through-plane basis between New York, Chicago and Honolulu.

To accommodate heavy winter travel to Florida, Northwest operated five jet round trips daily between the Midwest and Miami, an increase of two-thirds over NWA's pure jet frequencies in the market during the height of the 1961-62 winter vacation season. There were comparable increases in jet frequencies in other domestic markets, including transcontinental flights to serve the traffic generated by the Seattle World's Fair.

Schedule Performance

Northwest established new standards of excellence in its operations in 1962, in terms of on-time performance. Maintenance & Engineering, Flight Operations and Transportation Services Departments combined forces to keep Northwest among the industry leaders in performance during most of the year.

In flights operated in the nation's top 100 city-pair markets—category utilized by the Civil Aeronautics Board to determine carrier performance—Northwest had the best record in the industry, April through November, for percentage of flights completed to scheduled destination. NWA was in second place in December, reflecting the onslaught of bad winter weather on the airline's northern routes.

Northwest ranked among the top four trunk carriers for 10 months of the year in "on-time performance" in the top 100 city-pairs and was among the top three June through December.

Ground Facilities

New $10,000,000 unit air terminal at Idlewild International Airport, New York, was completed and opened by Northwest and its co-occupants, Northeast and Braniff, in November.

Northwest 707-351B's will have large cargo door.

Also, in accord with Northwest's continuing policy of providing the utmost in passenger convenience, new terminals or expanded facilities were occupied at Minneapolis-St. Paul; O'Hare Airport, Chicago; Dulles International, Washington, D. C.; Butte, Mont., and Honolulu. Northwest installed second-level jet passenger loading ramps at New York, Chicago, Miami, Minneapolis-St. Paul and Seattle-Tacoma.

All domestic air-ground radio communications were consolidated into a single operation, located at the General Office. Four domestic radio networks, working via remote radio transmitter sites and landlines from four control consoles at company headquarters, maintain en route radio communications with NWA flights. The consolidation has resulted in increased operating efficiency.

Fifty-eight hundred skilled and well-trained employees using modern procedures and techniques provided continuous, efficient and courteous service to 2,437,342 passengers and to our shippers and other customers. These men and women were instrumental in maintaining Northwest's reputation for service of the highest quality.

ALASKA
ANCHORAGE
CANADA
KOREA
SEOUL
JAPAN
TOKYO
HONG KONG
TAIWAN
TAIPEI
OKINAWA
MANILA
THE PHILIPPINES
HAWAII
HONOLULU
WINNIPEG
GRAND FORKS
MINNEAPOLIS
ST. PAUL
FARGO
GREAT FALLS
BISMARCK
HELENA
BILLINGS
MANDAN
JAMESTOWN
SEATTLE
TACOMA
SPOKANE
BOZEMAN
ROCHESTER
MADISON
DETROIT
NEW YORK
NEWARK
CLEVELAND
PITTSBURGH
WASHINGTON, D. C.
CHICAGO
MISSOULA
BUTTE
YAKIMA
MILWAUKEE
PORTLAND
UNITED STATES
ATLANTA
TAMPA
FT. LAUDERDALE
HOLLYWOOD
ST. PETERSBURG
CLEARWATER
MIAMI
SYSTEM MAP
NORTHWEST ORIENT AIRLINES

. . . route development

There were no significant changes in or additions to the routes of Northwest Airlines in 1962. However, Northwest was authorized to suspend service to Edmonton, Alberta, and Baltimore, Maryland.

Still pending before the Civil Aeronautics Board are petitions of various airlines for reconsideration of the Board's and the President's decisions of January 19, 1961, in the Transpacific Route Case. Among these petitions is Northwest's for reconsideration of the failure to certificate Northwest Airlines over the Central Pacific route from California to Tokyo via Hawaii, and between California and Hawaii.

Public hearings were held in 1962 in the United Air Lines Competitive Service Investigation, to consider authorizing competition in the New York-Cleveland, Cleveland-Chicago, Cleveland-Philadelphia and Detroit-Philadelphia markets. United acquired monopoly status in these markets through its 1961 merger with Capital Airlines. Northwest vigorously pursued its applications for authority to serve all of these markets, which would contribute significantly to offsetting the competitive imbalance in favor of United created by the merger. An initial decision by the Hearing Examiner is awaited.

Early in the year, American Airlines and Eastern Air Lines asked CAB approval of a merger. Northwest, most of the other trunkline carriers and the Department of Justice opposed the merger, which if approved would create a giant carrier controlling nearly 35 per cent of domestic trunkline business, with consequent adverse impact on the ability of medium-sized airlines to compete effectively. The Examiner has recommended that the merger be denied. The matter now is pending before CAB.

The CAB during the year began an investigation of possible correction of alleged excessive competition among airlines operating between the Pacific Northwest and Alaska and reduction of the resulting subsidy paid to Pacific Northern and Alaska Airlines by revising the route structure. One issue was possible restriction of Northwest's authority to conduct local turnaround services between Seattle-Tacoma and Anchorage. Your Company believes that there is no valid basis for restricting its existing authority and that there are other, more economically sound solutions for such difficulties as other carriers may be encountering in these markets. The proceeding still is in its preliminary stages.

In December, Pan American World Airways and Trans World Airlines applied to the Civil Aeronautics Board for approval of a merger. Northwest will oppose approval of a PAA-TWA merger, which would have a significant impact on the Trans-Pacific route picture. The Board has deferred indefinitely all further procedural steps because of internal complications relating to stockholder control of TWA, which is the subject of current litigation.

There are several other proceedings pending before the CAB in which Northwest Airlines has an interest and is a participant, none of which have an importance comparable with those mentioned above. Northwest also has on file several applications for route authorizations to strengthen its route structure, which are awaiting procedural action.

STATEMENT OF EARNINGS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31, 1962	1961*
OPERATING REVENUES		
Passenger	$121,781,068	$ 85,970,900
United States mail	12,904,069	10,473,605
Foreign mail	1,324,347	1,227,259
Excess baggage	1,083,968	914,423
Freight and express	10,744,241	7,528,793
Charter and other transportation	2,646,207	1,481,883
Mutual Aid Agreement—net—Note G	(858,402)	2,563,150
Other	827,922	892,499
	$150,453,420	$111,052,512
OPERATING EXPENSES		
Flying operations	$ 38,947,732	$ 29,268,829
Maintenance	23,243,505	17,252,807
Passenger service	9,586,053	7,178,262
Aircraft and traffic servicing	17,298,393	12,445,830
Reservations, sales and advertising	15,030,749	11,973,343
Administrative and general	8,695,747	6,093,596
Depreciation and amortization	18,445,190	17,117,959
	$131,247,369	$101,330,626
	$ 19,206,051	$ 9,721,886
OTHER INCOME AND (DEDUCTIONS)		
Interest on long-term debt	($ 5,040,266)	($ 4,352,867)
Gain from disposals of property	346,352	1,518,535
Other income	116,555	6,385
	($ 4,577,359)	($ 2,827,947)
EARNINGS BEFORE TAXES	$ 14,628,692	$ 6,893,939
TAXES ON EARNINGS (including deferred taxes $5,812,900—1962; $2,868,900—1961 arising principally from accelerated depreciation methods)—Note H	7,398,300	3,232,800
NET EARNINGS FOR THE YEAR	$ 7,230,392	$ 3,661,139

*Operations were curtailed in the first quarter of 1961 as a result of a flight engineers strike.

See notes to financial statements.

STATEMENT OF FINANCIAL POSITION

NORTHWEST AIRLINES, INC. and SUBSIDIARY

ASSETS	December 31, 1962	December 31, 1961
CURRENT ASSETS		
Cash	$ 16,371,029	$ 15,991,175
Trade receivables, less allowance of $105,000	14,037,703	12,532,949
Flight equipment parts, at average cost, less allowance for depreciation (1962—$2,529,171; 1961—$1,793,568)	6,475,526	5,880,199
Maintenance and operating supplies—at average cost	2,181,111	2,377,424
Prepaid expenses	2,414,788	2,064,721
TOTAL CURRENT ASSETS	$ 41,480,157	$ 38,846,468
INVESTMENTS AND OTHER ASSETS		
Related industry investments and advances—at cost	$ 320,332	$ 154,890
PROPERTY AND EQUIPMENT—at cost		
Flight equipment	$169,413,299	$170,772,136
Less allowances for depreciation and obsolescence	46,433,719	37,286,701
	$122,979,580	$133,485,435
Advances on purchase contracts	6,327,901	—
	$129,307,481	$133,485,435
Other property and equipment	$ 21,103,687	$ 21,429,995
Less allowances for depreciation	10,751,430	10,919,266
	$ 10,352,257	$ 10,510,729
	$139,659,738	$143,996,164
DEFERRED CHARGES		
Unamortized training and other costs in connection with aircraft fleets	$ 4,461,405	$ 4,930,453
Rentals	890,756	1,057,525
Other	74,214	117,716
	$ 5,426,375	$ 6,105,694
	$186,886,602	$189,103,216

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1962	December 31, 1961
CURRENT LIABILITIES		
Accounts payable	$ 13,101,908	$ 12,021,592
Salaries, wages and vacations	5,584,258	5,416,706
Air travel card deposits	1,187,875	1,176,400
Unredeemed ticket liability	1,038,843	1,012,669
Income taxes—estimated	1,464,362	663,338
Current maturities of long-term debt	11,053,845	11,521,560
TOTAL CURRENT LIABILITIES	$ 33,431,091	$ 31,812,265
LONG-TERM DEBT, less current maturities—Note A		
Notes payable to insurance companies	$ 40,000,000	$ 40,000,000
Notes payable to banks	21,000,000	34,000,000
Subordinated notes payable	7,500,000	7,032,285
Conditional sales contracts	6,467,528	9,253,541
	$ 74,967,528	$ 90,285,826
DEFERRED CREDITS—Note H		
Income taxes—arising principally from accelerated depreciation methods	$ 17,450,100	$ 11,628,600
Other	1,326,000	1,200,000
	$ 18,776,100	$ 12,828,600
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock, $25 par value: Authorized 1,000,000 shares issuable in series: 5¼% Convertible Series; authorized 457,873 shares; issued and outstanding 1962—449,615 shares; 1961—451,234 shares—Note B	$ 11,240,375	$ 11,280,850
Common Stock, $10 par value; authorized 4,500,000 shares; issued and outstanding 1962—1,388,459 shares; 1961—1,386,403 shares—Notes B and D	13,884,590	13,864,030
Capital surplus	6,612,905	6,586,281
Retained earnings—Note C	27,974,013	22,445,364
	$ 59,711,883	$ 54,176,525
COMMITMENTS AND CONTINGENT LIABILITIES—Note E		
	$186,886,602	$189,103,216

See notes to financial statements.

STATEMENTS OF CAPITAL SURPLUS AND RETAINED EARNINGS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	Year Ended December 31, 1962	1961
CAPITAL SURPLUS		
Balance at beginning of year	$ 6,586,281	$ 6,577,695
Additions arising from:		
Sale of shares of Common Stock under option agreements, in excess of par	1,710	8,512
Conversion of shares of Preferred Stock into shares of Common Stock	24,914	74
Balance at end of year	$ 6,612,905	$ 6,586,281
RETAINED EARNINGS		
Balance at beginning of year	$ 22,445,364	$ 20,484,991
Add net earnings for the year	7,230,392	3,661,139
	$ 29,675,756	$ 24,146,130
Deduct cash dividends on:		
5¼% Preferred Stock—annual rate of $1.31¼ a share	$ 592,187	$ 592,245
Common Stock—$.80 a share	1,109,556	1,108,521
	$ 1,701,743	$ 1,700,766
Balance at end of year	$ 27,974,013	$ 22,445,364

See notes to financial statements.

ACCOUNTANTS' REPORT

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

We have examined the statement of consolidated financial position of Northwest Airlines, Inc. and subsidiary as of December 31, 1962 and the related statements of consolidated 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 as we considered necessary in the circumstances. We have made similar examinations for prior years.

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, 1962 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Further, it is our opinion that the five year summary of earnings presents fairly the information stated therein.

Ernst & Ernst
Certified Public Accountants

Saint Paul, Minnesota
February 14, 1963

NOTES TO FINANCIAL STATEMENTS

NORTHWEST AIRLINES, INC. and SUBSIDIARY

December 31, 1962

Note A—Long-Term Debt

Note Purchase Agreements with twelve insurance companies provide for aggregate borrowings of $40,-000,000 at 6% which are payable $3,000,000 annually commencing October 1, 1966 with the balance of $4,-000,000 due October 1, 1978. Certain optional prepayments at par are permitted. The Agreements contain other provisions with respect to redemption as a whole (but not from borrowed funds) at premiums ranging from 7% to 1%.

The Amendatory Credit Agreement with fifteen banks provides for a term loan of $42,500,000 at 5% payable $8,500,000 each year 1963 through 1967. Optional prepayments at par are permitted except from borrowed funds in which event a premium of ½% is required.

The $7,500,000 Promissory Note was issued in connection with the purchase of six Boeing 720B turbojet aircraft and is subordinate to the notes payable to insurance companies and to banks. This note bears interest at 6% and is payable $1,500,000 annually 1968 through 1972. Certain prepayments are provided for based on "net earnings" as defined for 1963 and subsequent years.

Conditional sales contracts for the purchase of seven Lockheed Electra prop-jet aircraft bear interest at 5% and are payable over sixty monthly periods ending in 1966.

The Company has agreed, among other things, that it will not permit: (a) its working capital at any time to be less than certain specified amounts and (b) its funded debt to exceed certain percentages of net tangible assets, net worth and depreciated value of flight equipment, as these terms are defined in the Agreements. At December 31, 1962 the Company had complied with the covenants then in effect.

Note B—5¼% Convertible Cumulative Preferred Stock

This Stock Series was called for redemption or conversion by February 14, 1963 and 449,545 shares were converted into 432,254 Common Shares.

Note C—Restrictions on Stockholders' Equity

The Note Purchase Agreements and the Bank Credit Agreement establish an aggregate dollar maximum for the declaration and payment of cash dividends on Common Stock, and for the distribution on, redemption, purchase or other acquisition of shares of any class of Capital Stock. The amount of retained earnings available for such purposes at December 31, 1962 was $5,977,426.

Note D—Common Stock Options

At year-end 10,500 Common Shares were subject to options held by Company officers at prices not less than 95% of market at date of grant. Options for 500 shares at $13.42 a share and for 3,000 shares at $27.45 a share (granted in 1962) expire in 1965; options for 7,000 shares at $27.45 a share (granted in 1962) expire in 1966. Options for 500 shares at $13.42 a share were exercised during the year. An additional 100 shares are reserved for future options.

Note E—Commitments and Contingent Liabilities

The Company has purchased for delivery in 1963 four Boeing 320B turbojet aircraft for an aggregate of $26,094,460. Deposits on purchase aggregated $6,-327,901 at December 31, 1962.

Annual payments of approximately $3,000,000 are required under various rental agreements for leases from 5 to 40 years of airport facilities, ticket offices, et cetera.

The Company was contingently liable at December 31, 1962 in the amount of $731,884 for discounted notes receivable arising from the sales of assets. Other contingent liabilities include those inherent in the Company's operation. While the amount of these contingent liabilities is not now determinable, the management of the Company is of the opinion that it is not material with respect to the Company's financial position.

Note F—Mail Transportation Compensation

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

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

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

The Company is contesting both of the above actions.

Note G—Mutual Aid Agreement

The Company is party to a Mutual Aid Agreement with certain airlines under which any party to the agreement suffering a strike as defined therein is to receive from the other airlines amounts as determined under the agreement. The Civil Aeronautics Board is investigating the agreement and in the event of its disapproval, Mutual Aid payments are to be refunded to the paying airlines to the extent affected by such disapproval.

Note H—Investment Credit

The Company's 7% investment credit under the Revenue Act of 1962 approximates $300,000. Of this amount $156,000 has been added to deferred income taxes and $144,000 has been included in other deferred credits to be reported as earned income over the estimated productive life of the equipment.

FIVE YEAR SUMMARY OF EARNINGS

(Amounts Shown in Thousands)

NORTHWEST AIRLINES, INC. and SUBSIDIARY

	1962	1961	1960	1959	1958
OPERATING REVENUES					
Passenger	$121,781	$ 85,971	$ 97,680	$100,641	$ 81,116
United States mail	12,904	10,474	9,680	10,174	9,265
Foreign mail	1,324	1,227	1,031	1,045	963
Excess baggage	1,084	914	1,183	1,349	1,230
Freight and express	10,744	7,529	10,185	10,532	7,437
Charter and other transportation	2,646	1,482	823	526	1,237
Mutual Aid Agreement	(858)	2,563	922	—	—
Other	828	893	1,858	1,763	709
	$150,453	$111,053	$123,362	$126,030	$101,957
OPERATING EXPENSES					
Flying operations	$ 38,948	$ 29,269	$ 37,606	$ 37,610	$ 29,747
Maintenance	23,243	17,253	22,872	21,771	17,090
Passenger service	9,586	7,178	8,840	8,465	6,034
Aircraft and traffic servicing	17,298	12,446	15,422	15,511	12,207
Reservations, sales and advertising	15,031	11,973	13,789	14,011	10,753
Administrative and general	8,696	6,094	5,926	6,443	5,450
Depreciation and amortization	18,445	17,118	14,413	11,310	8,638
	$131,247	$101,331	$118,868	$115,121	$ 89,919
	$ 19,206	$ 9,722	$ 4,494	$ 10,909	$ 12,038
OTHER INCOME AND (DEDUCTIONS)—NET	(4,578)	(2,828)	(1,882)	335	(559)
EARNINGS BEFORE TAXES	$ 14,628	$ 6,894	$ 2,612	$ 11,244	$ 11,479
INCOME TAXES	7,398	3,233	986	5,530	5,865
NET EARNINGS FOR THE YEAR	$ 7,230	$ 3,661	$ 1,626	$ 5,714	$ 5,614

OTHER FINANCIAL STATISTICS

	1962	1961	1960	1959	1958
Cash dividends paid (000)	$ 1,702	$ 1,701	$ 1,700	$ 1,714	$ 1,110
Earnings per share*	3.97	2.01	.89	3.14	4.06
Stockholders' equity (000)	59,712	54,177	52,193	52,267	48,224
Book value per share*	32.79	29.76	28.70	28.74	26.77
Cash (000)	16,371	15,991	18,360	10,206	8,968
Net working capital (000)	8,049	7,034	23,008	12,093	13,660
Flight property—at cost (000)	169,413	170,772	121,441	104,389	90,608
Flight property—at net book value (000)	122,980	133,485	86,957	76,647	56,461
Total assets (000)	186,887	189,103	148,698	130,097	105,061
Long term debt (000)	74,968	90,286	68,500	50,000	34,250
Operating expense—					
Per available ton-mile	23.9¢	27.6¢	27.8¢	26.5¢	26.1¢
Per revenue ton-mile	50.2¢	54.2¢	54.2¢	51.0¢	49.0¢
Break-even passenger load factor (to cover operating expenses and interest)	45.5%	48.9%	53.7%	51.1%	48.4%
Actual passenger load factor	51.5%	52.1%	53.8%	55.2%	54.7%
Available seat miles (000)	3,697,796	2,611,840	3,073,400	3,149,000	2,574,848

*1959-1962 based on total number of shares reflecting conversion of preferred stock issued in December, 1958, and called in January, 1963; per share figures for 1958 based on common shares outstanding at end of that year.

Northwest Airlines, Inc.

General Offices

Minneapolis-St. Paul International Airport

Saint Paul 11, Minnesota

OFFICERS*

DONALD W. NYROP
President

PAUL L. BENSCOTER
Vice President—Transportation Services

ROBERT A. EBERT
Vice President—Personnel

A. E. FLOAN
Vice President and Secretary

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

DALE MERRICK
Vice President—Properties

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

C. L. STEWART
Vice President—Economic Planning

ROBERT J. WRIGHT
Vice President—Sales

DIRECTORS*

CROIL HUNTER
Chairman of the Board, Northwest Airlines, Inc.
St. Paul, Minnesota

JAMES H. BINGER
President, Minneapolis-Honeywell Regulator Co.
Minneapolis, Minnesota

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

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

JOSEPH T. JOHNSON
Chairman of the Board, The Milwaukee Company
Milwaukee, Wisconsin

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

WILLIAM STERN
President, Dakota National Bank
Fargo, North Dakota

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

ALBERT J. WEATHERHEAD, JR.
President, The Weatherhead Company
Cleveland, Ohio

**As of March 1, 1963*

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.

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
NEW YORK
NEWARK
OKINAWA
PITTSBURGH
PORTLAND
ROCHESTER
ST. PAUL
ST. PETERSBURG
SEATTLE
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