Northwest Airlines, Inc.

ANNUAL 1951 REPORT

A WORLD OF EXPERIENCE
. . . . OVER 25 YEARS

Northwest Airlines, Inc.

ANNUAL 1951 REPORT

OFFICERS AND DIRECTORS*

OFFICERS

Croil Hunter........*President*
Malcolm S. Mackay........*Executive Vice President*
E. I. Whyatt........*Vice President and Comptroller*
Frank C. Judd........*Vice President—Operations*
Linus C. Glotzbach......*Vice President and Assistant to the President*
Amos Culbert........*Vice President—Sales*
A. E. Floan........*Vice President and Secretary*
L. S. Holstad........*Treasurer*
D. J. King........*Regional Vice President—Orient Region*
Wm. J. Eiden........*Assistant Treasurer*
C. L. Stewart........*Assistant Secretary*

DIRECTORS

Morton H. Fry........*Partner, Riter and Company, New York City***
Wm. Tudor Gardiner........*Chairman, Board of Directors, Incorporated Investors, Boston, Mass.*
Robert M. Hardy........*President, Sunshine Mining Co., Yakima, Wash.*
Croil Hunter........*President, Northwest Airlines, Inc.*
Joseph T. Johnson........*President, The Milwaukee Co., Milwaukee, Wis.*
Malcolm S. Mackay........*Executive Vice President, Northwest Airlines, Inc.*
Dr. Charles W. Mayo........*Mayo Clinic, Rochester, Minn.*
Alonzo Petteys........*Vice President and Director, Farmers State Bank, Brush, Colorado*
C. Frank Reavis........*Partner, Hodges, Reavis, McGrath, Pantaleoni and Downey, New York City***
Albert G. Redpath........*Partner, Auchincloss, Parker & Redpath, New York City*
William Stern........*President, Dakota National Bank, Fargo, N. D.*

Principal Registrar	The Chase National Bank of The City of New York, N. Y.
Principal Transfer Agent	Bankers Trust Company, New York, N. Y.
Co-Registrar	Harris Trust and Savings Bank, Chicago, Illinois
Co-Transfer Agent	The First National Bank of Chicago, Chicago, Illinois

General Offices: 1885 University Avenue, St. Paul 4, Minnesota

*As of April 9, 1952
**Subject to approval of Civil Aeronautics Board

1951 Operating and Financial Highlights

NORTHWEST AIRLINES IN 1951 . . . .

- ★ Produced net earnings of $1,785,671
- ★ Increased operating revenues by $2,228,360
- ★ Increased passenger revenues by $2,044,370
- ★ Increased passenger load factor 13.1 per cent
- ★ Reduced bank loan by $4,000,000
- ★ Paid dividends totaling $442,572 on 4.6 per cent cumulative preference stock
- ★ Established new daily round trip Stratocruiser service between the Twin Cities and Washington, D. C.
- ★ Took over flight and maintenance operations to help Japanese establish new intra-Japan airline
- ★ Applied for Orient route extensions which would add 12,000 miles to our network

A WORLD OF EXPERIENCE . . . . OVER 25 YEARS

President's Letter

TO THE SHAREHOLDERS OF NORTHWEST AIRLINES:

FINANCIAL RESULTS

For the year 1951 your company showed a profit of $1,785,671 after taxes. This amounts to $1.64 for each of the 820,858 shares of $10 par value common stock outstanding at the end of the year, after allowance for dividends on preference shares. This is the largest profit ever reported by your company and represents 3.26% per dollar of total operating revenues. Total operating revenues were 4.25% or $2,228,360 over 1950, while total operating expenses were $28,704 under last year.

Passenger revenues of $35,192,765 established an all-time high and showed a 6.17% increase over 1950. Mail payments from the U. S. Government totaled $7,788,915 compared with $9,937,999 for 1950. Freight and express revenues amounted to $4,371,533 as against $4,122,222 for the previous year.

The passenger load factor over our entire system was 63.91% compared with 56.51% for 1950. The Orient passenger load factor dropped slightly, although 35.52% more Orient passenger miles were performed, while the Domestic load factor rose from 56.70% in 1950 to 65.88% in 1951. Despite a reduction of 27.00% in total revenue miles flown in scheduled service, your company flew 98.17% of the passenger miles flown in 1950.

Operating expenses totaled $51,624,821 compared with $51,653,525 the year before. Your company has recently entered into new wage agreements with certain labor unions which will increase the cost of doing business. Likewise other costs, such as materials, are rising; therefore, in 1952 additional revenue and continuing economy will be required to sustain a profitable operation. Improved utilization of aircraft, increased sales effort, higher tariffs and rates and more efficient operations will all be sought in 1952 to maintain and improve our earnings.

On December 31st your company's net working capital totaled $1,920,463. During the year $442,572 was paid out in dividends on preference shares; $4,000,000 was paid on our bank loan, and $4,582,188 was invested in additional aircraft and other capital equipment. The unpaid balance remaining on our bank loan was $13,140,363, compared with $17,140,363 as of December 31, 1950.

At the time the financial report to shareholders was issued for 1950, the Civil Aeronautics Board had retroactively adjusted the company's temporary rates of mail pay for several years ended December 31, 1950, and tentatively awarded net additional mail pay aggregating $1,572,348 for those periods. In

November of 1951, however, the Board issued a show cause order reducing such tentative additional pay by $639,574. The net effect of this last reduction is $574,345, after income taxes. The company has adjusted its profit and loss statements for the years affected to reflect this latest order of the Board. The adjustment affects various years, three of which, 1949, 1950, and 1951, are shown in this report for comparative purposes. As of this date, the company is still operating under temporary mail rates, but it is expected that final rates for these years and for the future will be determined through proceedings now before the Board.

FLYING EQUIPMENT AND SERVICE

Your company's satisfactory 1951 performance, achieved despite a reduction in the over-all volume of service offered, was due largely to improved utilization of all flight equipment, high average passenger loads, increased popularity of our luxury Boeing Stratocruisers and a sharp upturn in business on our Orient routes.

Gratifying results from our fleet of 10 double-deck Boeing Stratocruisers were marked by increased daily utilization, high average passenger loads and enthusiastic acceptance by the traveling public.

In addition to the established Stratocruiser flights coast to coast, to Alaska and Hawaii, in 1951 we extended Stratocruiser service into Washington, D. C. Daily round trip flights between the Twin Cities, Milwaukee, Detroit and Washington were inaugurated on September 30, the 25th anniversary of Northwest's founding. The response has been gratifying and the schedules have shown consistently high load factors.

An important extension of high speed Stratocruiser service will be made in April of the current year when we inaugurate flights over the Great Circle route to Tokyo. The favorable traffic outlook between the United States and the Orient reflected in our increased Orient business in 1951 prompted the decision to start this service. The new schedules will cut nearly eight hours from our present flying time between the United States and Japan, Formosa and the Philippines. For example, eastbound flights can be operated with only one stop between Tokyo and Seattle permitting a spectacular schedule of approximately seventeen hours. Initial operations will consist of two round trip Stratocruiser flights and one DC-4 flight per week.

At the end of 1951 we were flying 24 DC-4s in passenger and freight service in the United States, in first-class service to and in the Orient, in coach service between the United States and Alaska and in military contract operations. During the year three DC-3s were flying in domestic passenger and freight service, four more are now in operation and an eighth ship is being made ready for service.

Our Martin fleet was removed from scheduled service in March of 1951 and although we put in service six DC-4s and three DC-3s at various times during the year, the miles flown by these substituted aircraft were not sufficient to cover all of the schedules previously flown by the Martins, thus total mileage was reduced. Since the removal from scheduled service, we have disposed of fourteen Martin aircraft and have contracted to sell four more to be delivered on or before May 15, 1952. The remaining two Martins are in use in our intra-Japan airline contract operations as described later in this report.

ROUTES

In July we filed with the Civil Aeronautics Board an application for route extensions in Southeast Asia which would add 12,000 miles to our network and bring Northwest Airlines into some of the richest trade and travel points in the world.

JAPANESE AIRLINES

In October Northwest signed an agreement with the 1,500 mile intra-Japan airline, Nippon Koku Kabushiki Kaisha, by which we undertook this new line's operation. In helping to establish the Japanese carrier, Northwest flies and maintains the airplanes while the line's own personnel handles sales, establishment of fares and rates, ticketing and advertising. As Japanese participation expands, Northwest will train Japanese pilots and maintenance mechanics for operations duties.

KOREAN AIRLIFT

Northwest continued as a prime contractor in the Korean military airlift. Military Air Transport Service figures show that from July 1, 1950, start of the lift, to January 1, 1952, we carried approximately 14,000 passengers and 1,500 tons of cargo and mail between the United States and Japan. Northwest pilots fly two NWA DC-4s and five DC-4s leased from other airlines, and up to January 1 had made 655 round trips between the United States, Tokyo and Korea. The airlift follows Northwest's Great Circle route and its flights are integrated into our operations without conflicting with commercial schedules.

The National Capitol, Washington, D.C.

. . . a Review of the Year

BOEING LAWSUIT

You were informed last year that we had instituted a suit against the Boeing Airplane Company on account of late delivery of aircraft and certain deficiencies and failures. Subsequently the Boeing company filed a countersuit against us. In 1951 both suits were dropped by mutual agreement.

OFFICIAL STAFF

The year saw the election of Malcolm S. Mackay as Executive Vice President on May 1 and of Frank C. Judd as Vice President—Operations on May 28. Mr. Mackay has been a director of the company since 1948. Mr. Judd had been acting as Vice President — Operations prior to his election, and before that had been Regional Vice President — Western Region. He has been with Northwest since 1931.

Daibutsu, The Great Buddha at Kamakura, Japan, Erected in 1252

MERGER

One of the most important developments in the history of our company is now under way. An Agreement of Merger was entered into in March, 1952, between the directors of Northwest and the directors of Capital Airlines, Inc., for a merger of the two companies. To be effective, this merger agreement must be approved by the shareholders of both companies and by the Civil Aeronautics Board. The matter will be presented to Northwest shareholders at the Annual Meeting of May 19, 1952, and a separate Proxy Statement is being sent you, giving full details.

The merger of these two systems should result in increased strength, efficiency and earning power, and should substantially benefit all shareholders of both companies.

CONCLUSION

At this time I wish to express to all of our shareholders and employees my appreciation for their loyal support and cooperation. Such support and cooperation inspire confidence that we may successfully deal with the opportunities and problems which lie ahead.

By Authority of the Board of Directors,

Croil Hunter

President and General Manager

Saint Paul, Minnesota
April 9, 1952

. . . and Important News in 1952

Balance Sheet cember 31, 1951

NORTHWEST AIRLINES, INC.

Assets

Current Assets			
Cash			$ 6,444,634
Accounts receivable:			
For transportation (including U. S. Government accounts of $3,098,885)	$ 5,163,187		
Other current accounts	1,460,570	$ 6,623,757	
Less allowance for losses		50,000	6,573,757
Inventories of repair materials and operating supplies —at average cost			1,239,009
Other current assets:			
Prepaid insurance, rent, taxes, etc.		$ 793,365	
Recoverable federal income taxes and interest		106,211	
Property expenditures deemed reimbursable from Cash and other Collateral Accounts-security to long-term debt ($276,520 released January, 1952)		652,370	1,551,946
Total Current Assets			$15,809,346
Other Assets			
Cash and other Collateral Accounts—security to long-term debt, less amounts ($652,370) deemed reimbursable to working capital during 1952 for prior property expenditures (as defined)—Note A		$ 490,720	
Sundry related business investments (at cost — no quoted market), deposits, advances, etc.		268,414	759,134

Property, Plant, and Equipment—on the basis of cost (including $10,530,708 amortized to residual amount of $230,263)—Notes A and B

	Cost	Depreciation and Amortization Allowances	Balance	
Land	$ 31,595		$ 31,595	
Aircraft and reserve equipment	39,079,139	$16,043,890	23,035,249	
Conversion costs on leased aircraft	1,838,913	1,658,971	179,942	
Buildings on land not owned	3,076,143	827,545	2,248,598	
Other buildings and equipment	5,819,257	3,059,337	2,759,920	
Improvements to leased property	1,116,815	1,025,724	91,091	
Work in progress	395,458		395,458	
Non-operating property	6,619	3,023	3,596	
	$51,363,939	$22,618,490	$28,745,449	28,745,449

Deferred Charges		
Training and other costs in connection with the Boeing fleet, less accumulated amortization (over life of fleet) of $254,545	$ 542,579	
Long-term rental prepayments	146,598	
Other deferred charges	13,558	702,735
		$46,016,664

See accompanying Notes to Financial Statements.

Liabilities

Current Liabilities—Note C		
Accounts payable and accrued expenses:		
Trade accounts	$ 4,177,424	
Refund of mail pay claimed by U. S. Government	639,574	
Salaries, wages, and vacation compensation	2,347,362	
Air travel contract deposits—gross	578,425	
Pay roll taxes and taxes withheld from employees' wages	415,770	
Retirement plan contributions, including amounts withheld from employees' wages—Note E	80,417	
Savings bond and other deductions from employees' wages	104,336	
Dividends on 4.6% Cumulative Preference Stock payable February 1, 1952	110,643	
Accrued local taxes	338,317	$ 8,792,268
Unearned transportation revenue—estimated		863,826
Federal and state taxes on income—estimated—Note F		1,232,789
Current maturities of long-term debt, less $1,000,000 due January 1, 1952, paid in November, 1951		3,000,000
Total Current Liabilities		$13,888,883
Long-Term Debt—secured—Note A		
4% Notes payable to banks under Credit Agreement—less current maturities of $3,000,000		10,140,363
Deferred Credit		
Unearned interest income		15,893
Capital Stock and Surplus—Note G		
Capital stock:		
Cumulative Preference Stock, par value $25.00 per share; authorized 600,000 shares issuable in series:		
4.6% Cumulative Preference Stock Series; authorized and issued 390,000 shares; entitled upon liquidation (voluntary) or redemption to $25.75 per share to May 1, 1953, thereafter to $25.25 per share, plus accumulated unpaid dividends; convertible to January 1, 1957, into one and one-half shares of Common Stock for each share of 4.6% Cumulative Preference Stock—Note C:		
Outstanding 384,845 shares after deducting 5,155 shares permanently retired through market fund purchases	$ 9,621,125	
Common Stock, par value $10.00 per share—Note H:		
Authorized 3,000,000 shares; issued and outstanding 820,858 shares	8,208,580	
Capital surplus (after deduction of $560,625 for part of dividends paid on 4.6% Cumulative Preference Stock)—see statement of surplus	2,821,033	
	$20,650,738	
Earned surplus—see statement of surplus	1,320,787	21,971,525
Contingent Liabilities—Note I		
Commitments—Note J		
		$46,016,664

See accompanying Notes to Financial Statements.

Statement of Profit and Loss

NORTHWEST AIRLINES, INC.

	Year Ended December 31, 1949	1950	1951
OPERATING REVENUES			
Transportation:			
Passengers	$27,873,942	$33,148,395	$35,192,765
Mail, including amounts from foreign governments—Note D	8,508,884	10,469,715	8,408,679
Express, freight, and excess baggage	3,426,022	4,388,119	4,648,127
Charter and other	74,626	227,007	305,159
Pacific airlift for the U. S. Government—Note L		3,969,670	5,723,548
Repair and service income, rents, etc.—net	87,273	253,794	406,782
	$39,970,747	$52,456,700	$54,685,060
OPERATING EXPENSES—Note E			
Flying operations	$11,139,374	$15,654,788	$15,109,156
Ground operations	5,710,053	6,385,189	6,734,534
Maintenance and repairs	7,970,909	12,024,822	11,837,319
Passenger service	2,252,960	2,903,744	3,382,318
Traffic and sales	3,608,294	3,984,494	4,200,676
Advertising and publicity	1,353,129	1,442,156	1,281,198
Administrative and general, pay roll taxes, property taxes, etc.	2,926,360	3,360,158	3,623,099
Provision for depreciation and amortization	3,981,713	5,873,247	5,428,598
Provision for doubtful accounts, adjustments, recoveries, etc.	35,983	24,927	27,923
	$38,978,775	$51,653,525	$51,624,821
OPERATING PROFIT	$ 991,972	$ 803,175	$ 3,060,239
OTHER INCOME			
Interest on marketable securities	23,307	7,235	126
Discounts and interest earned	55,473	70,529	77,921
Profit from disposals of property—net	19,737	129,850	481,055
Profit from sale of surplus parts inventories	120,210	69,430	111,281
Sundry	34,909	51,714	10,126
	$ 1,245,608	$ 1,131,933	$ 3,740,748
OTHER DEDUCTIONS			
Interest and debt expense:			
Interest on long-term debt	$ 377,101	$ 772,026	$ 619,971
Other long-term debt expense	35,179	13,121	33,625
	$ 412,280	$ 785,147	$ 653,596
Other interest expense	5,187	13,803	127
Route extension and development	5,369	5,905	2,314
Sundry	45,653	59,883	99,040
	$ 468,489	$ 864,738	$ 755,077
PROFIT BEFORE TAXES ON INCOME	$ 777,119	$ 267,195	$ 2,985,671
TAXES ON INCOME—Note F			
Estimated federal and state taxes on income (no excess profits taxes required)	$ 310,000	$ 135,000	$ 1,425,000
Reduction in taxes on income arising from carry-forward of operating loss of prior year	310,000	135,000	225,000
	$ —	$ —	$ 1,200,000
NET PROFIT—Notes K and L	$ 777,119	$ 267,195	$ 1,785,671

See accompanying Notes to Financial Statements.

Statement of Surplus

	Year Ended December 31, 1949	1950	1951
CAPITAL SURPLUS			
Balance at beginning of year (1949 after deduction of $336,375 for part of prior dividends paid on 4.6% Cumulative Preference Stock)	$ 3,007,242	$ 2,782,992	$ 2,821,033
Additions:			
Excess of par value over cost of 5,155 shares of 4.6% Cumulative Preference Stock permanently retired through market fund purchases		37,979	
Excess of cash received over par value of 50 shares of Common Stock sold from treasury		62	
	$ 3,007,242	$ 2,821,033	$ 2,821,033
Cash dividends on 4.6% Cumulative Preference Stock, 57.50 cents per share for the two quarters ended May 1, 1949, during which there was no earned surplus available for dividends	224,250		
Balance at end of year (after deduction of $560,625 for part of dividends paid on 4.6% Cumulative Preference Stock)	$ 2,782,992	$ 2,821,033	$ 2,821,033
EARNED SURPLUS			
Balance at January 1, 1949, as previously reported	$ 108,778		
Deduct retroactive adjustments of mail pay, provisions for depreciation, war contract costs, rent, and related taxes on income—Note K	396,458		
Adjusted balance at beginning of year	($ 287,680)	$ 265,189	$ 88,331
Add net profit for the year	777,119	267,195	1,785,671
	$ 489,439	$ 532,384	$ 1,874,002
Cash dividends on 4.6% Cumulative Preference Stock:			
57.50 cents per share for the two quarters ended November 1, 1949	$ 224,250		
$1.15 per share for the four quarters ended November 1, 1950, and 1951		$ 444,053	$ 442,572
28.75 cents per share for the quarter ending February 1, 1952, declared but not paid in 1951			110,643
	$ 224,250	$ 444,053	$ 553,215
Balance at end of year	$ 265,189	$ 88,331	$ 1,320,787

( ) Denotes red figure.

See accompanying Notes to Financial Statements.

Notes to Financial Statements

December 31, 1951

NOTE A—BANK CREDIT AGREEMENT

The Credit Agreement with banks (with which Reconstruction Finance Corporation has agreed upon request of the loaning banks to purchase a participation in the loan) requires annual fixed payments of $4,000,000 in equal installments on the first days of each calendar quarter. Additional payments, indeterminate in amount and contingent upon happenings specified in the Agreement, also may be required.

The loan is secured (a) by chattel mortgages on certain flight equipment which at December 31, 1951, was carried in the accounts at a depreciated cost of $19,333,571; (b) by mortgages on certain hangars and other improvements at airports at Minneapolis, Minnesota, and Seattle, Washington, carried in the accounts at December 31, 1951, at a depreciated cost of $1,228,738; and (c) by Cash and other Collateral Accounts aggregating $1,143,090 which include the note and chattel mortgage referred to in Note B. Under certain conditions, among other things the replacement of the released or destroyed, or the repair of damaged, property and/or equipment, monies in the Cash Collateral Accounts may be released to the Company.

Under the Credit Agreement, the Company also is required to maintain as additional security for the payment of principal of and interest on the loan, a Cash Collateral Account, which at all times, shall be equal to the excess of the unpaid balance of the loan over 80% of the depreciated cost of all flight equipment. At December 31, 1951, no amount was required as such collateral.

The Company has covenanted that, among other things, it will not permit the excess of current assets over current liabilities (exclusive of current maturities of long-term debt) at any time to be less than $4,000,000.

B—MARTIN 202 FLEET

At December 31, 1951, the Company had retained eleven of its fleet of Martin 202 aircraft withdrawn from scheduled operations in March, 1951; and these were under lease to and operated by Transocean Air Lines, Inc. The remainder of the fleet had been sold or otherwise disposed of. Three of the aircraft were sold to Transocean Air Lines, Inc. for a consideration including a note on which there was a balance of $476,799 owing at December 31, 1951. That note and chattel mortgage on the aircraft security thereto had been deposited as part of the security to the Company's long-term debt.

The Company's investment (net carrying amount) in the aircraft leased to Transocean Air Lines, Inc., and other related spare engines and parts, aggregated $3,169,205 at December 31, 1951.

The Company is presently completing arrangements for the sale of nine of the retained aircraft and related spare engines and parts for approximately $3,175,000, which is in excess of the net carrying amount of all such flight equipment. In the opinion of the management of the Company, the amount ultimately realizable through sale, exchange, or other disposition of the remaining two aircraft and related spare engines and parts will be not less than the net carrying amount.

C—MARKET FUND FOR 4.6% CUMULATIVE PREFERENCE STOCK

So long as any of the 4.6% Cumulative Preference Stock is outstanding, the Company is required to set aside on or before March 31st in each year to and including 1957, an amount equal to 10% of its net earnings (as defined) for the preceding calendar year, but not more than 3% of the par value of such Stock theretofore issued. Such funds are to be used to purchase such Stock on the market at a price not exceeding $25 per share exclusive of brokerage charges and taxes. Any funds not so applied during the twelve months period following the date of having been set aside will revert to the Company. After 1957, other, and cumulative, sinking fund provisions become applicable.

Pursuant to the foregoing provisions, the Company is required to set aside $76,875 on or before March 31, 1952.

During any period while the Company is in default with respect to payment of dividends on the Cumulative Preference Stock, the Company shall not purchase any of such Stock except pursuant to an offer to all holders thereof and shall not redeem less than all of such Stock then outstanding.

D—MAIL TRANSPORTATION COMPENSATION

The Civil Aeronautics Board in orders issued in April and November, 1951, tentatively and retroactively adjusted the Company's mail transportation compensation for the period September 26, 1946, to December 31, 1950, as to international routes, and for the period December 8, 1947, to December 31, 1950, as to domestic routes. The order made in April was issued prior to the closing of the accounts for 1950; and $1,076,009 for additional compensation awarded in that order and the income tax effect thereof were reflected in income reported for that year. The remainder ($358,483 after related federal income taxes) of the April award, and the net decrease of $574,345 established by the order issued in November, have been reflected in the Statement of Profit and Loss insofar as they pertain to 1949 and 1950 (See Note K). The Board has issued orders directing the Company to show cause why the tentative findings should not be made final.

The Company's rate of mail transportation compensation for the year 1951 is temporary. The final rates for that year will be determined through proceedings now being conducted before the Board. The Company believes that any changes which may result would not be material.

The Company received $371,352 in 1951 and $361,526 (part of the retroactive mail transportation compensation awarded by the Board in its order of April, 1951) as partial reimbursements for loss of profits and additional costs occasioned by the temporary withdrawals from operations in 1949 and 1950 of the fleet of Martin aircraft. The remainder ($1,022,963) of such loss of profits and additional costs is involved in proceedings being conducted by the Board in which it is proposed that commencing January 1, 1952, the Company should not receive mail transportation compensation in excess of a service rate for the domestic routes. A determination to that effect would affect the Company's right to be reimbursed in the future for the aforementioned amount of $1,022,963, which has not been included in the financial statements.

E—EMPLOYEES' RETIREMENT PLAN

In 1946, the Company instituted an uninsured contributory trusteed employees' retirement plan. During the period covered by the Statement of Profit and Loss, contributions by the Company charged against income for its share of the cost of the plan were as follows:

	Past Service Benefits	Future Service Benefits
1949	$18,600	$238,700
1950	18,030	271,440
1951	14,960	300,340

As of September 30, 1951, the Company's actuary reported that the indicated maximum liability of the Company for unfunded past service benefits was estimated to be $557,789. This sum, at the discretion of the Company, may be paid to the Trustee in variable amounts each year. It is presently being funded over a period estimated not to exceed twenty-five years from October 1, 1946, the effective date of the plan. This liability for past service contributions will be reduced each time a participant dies or leaves the Company's employ prior to reaching normal retirement age.

F—TAXES ON INCOME

The Company's federal and State of Minnesota income tax returns have been examined and settled through December 31, 1948; however, recoverable federal taxes on income arising from a retroactive mail pay reduction in 1951, together with interest thereon as well as interest on tax refunds of years settled, have not yet been collected from the U. S. Government.

G—RESTRICTIONS ON DIVIDENDS

Under provisions of the Credit Agreement (Note A) the Company may not, without the prior written consent of the representative of the lending banks and the Reconstruction Finance Corporation, pay dividends (other than stock dividends) on, or purchase, retire, or redeem any of its capital stock except that (a) 4.6% Cumulative Preference Stock may be retired (Note C); and (b) dividends on such class of Stock may be declared and paid to the extent that the net improvement at the date of the declaration thereof in the earned surplus since March 31, 1949, exceeds $224,250. At December 31, 1951, such improvement in earned surplus amounted to $2,470,729. However, under the covenant to maintain not less than $4,000,000 net current assets (See Note A) the amount free for dividends on 4.6% Cumulative Preference Stock at December 31, 1951, was $920,463, the excess of net current assets at that date over the amount required to be maintained.

The terms of the Cumulative Preference Stock also contain restrictions relative to dividends on and repurchase of Common Stock which are less limiting than those contained in the Credit Agreement.

H—COMMON STOCK RESERVATIONS AND OPTIONS

Of the 2,179,142 shares of unissued Common Stock:

(a) 577,267½ shares were reserved for conversion of the 4.6% Cumulative Preference Stock;

(b) 14,800 shares were reserved for options which may be granted in the future to officers and employees; and

(c) 15,147 shares were subject to outstanding options at prices approximately market at the time the options were granted) as follows:

(i) 5,147 shares at $10 per share to January 10, 1954;

(ii) 10,000 shares at $11.25 to October 23, 1955.

I—CONTINGENT LIABILITIES

The Company is involved in a number of lawsuits as follows: (a) those in which any claims paid by the Company will be fully reimbursed by the U. S. Government under terms of various war contracts; (b) those in which any claims paid by the Company will be fully reimbursed under insurance contracts; and (c) other miscellaneous claims of approximately $710,000 in excess of insurance coverages and approximately $76,000 which are not covered by insurance or other indemnification which the Company believes will be settled without material effect on its financial position.

J—COMMITMENTS

The Company's commitments for capital expenditures at December 31, 1951, amounted to approximately $1,180,000 of which approximately $1,090,000 were for spare parts and assemblies for flight equipment. The Company had no material long-term lease commitments.

K—RESTATEMENT OF PRIOR YEARS' PROFIT AND LOSS AND SURPLUS

The results of operations for the years 1949 and 1950 differ from the amounts originally reported for those years by reason of retroactive application to the years affected of adjustments recorded through profit and loss and/or earned surplus accounts in 1949, 1950, and 1951. A reconcilement follows:

	1949	1950
Net proft or loss originally reported	$1,357,679	($493,961)
Additional income or deductions:		
Retroactive mail pay adjustment and related income taxes recorded in 1950 (See Note D)................	312,996	
Retroactive mail pay adjustment and related income taxes recorded in 1951 (See Note D)................	(682,059)	794,627
Adjustment of provisions for depreciation in respect of station communication equipment, vehicles, and Martin 202 radio equipment............	(162,293)	
Adjustment of war contract costs and related income taxes..................	(28,850)	(33,471)
Overaccrual of rent............	(52,647)	
Income taxes	32,293	
Net profit adjusted................	$ 777,119	$267,195

( ) Denotes loss or deductions.

In addition, earned surplus at January 1, 1949, as originally reported, was reduced by $396,458 for portions of the items described above that affected prior periods.

L—RENEGOTIATION OF PROFITS

Operations of the Company for 1950 and 1951 included transactions under fixed price contracts with the U. S. Government which provide for price redetermination and renegotiation of profits. Price redeterminations have been settled through June 30, 1951, and no material changes are anticipated for the six months ended December 31, 1951. The effect of renegotiation of profits is indeterminable at this time.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

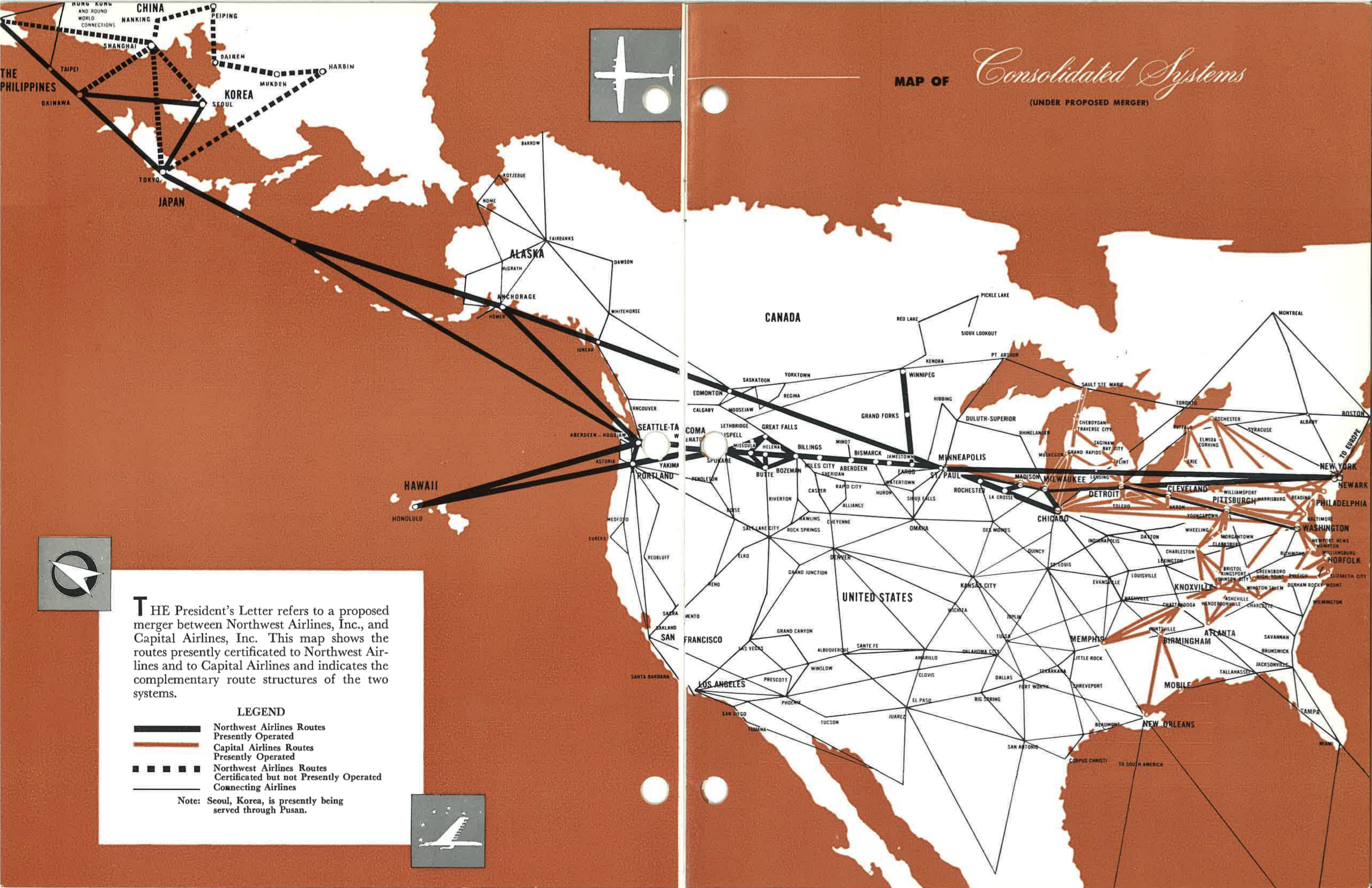
Board of Directors
Northwest Airlines, Inc., Saint Paul, Minnesota

We have examined the balance sheet of NORTHWEST AIRLINES, INC., as of December 31, 1951, and the related statements of profit and loss and surplus for the period of three years then ended. Our examinations were 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. It was not possible to confirm by communication accounts receivable from certain U. S. Government departments and agencies, as to which accounts we satisfied ourselves by other auditing procedures.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the financial position of NORTHWEST AIRLINES, INC., at December 31, 1951, and the results of its operations for the period of three years ended at that date, in conformity with generally accepted accounting principles applied on a consistent basis.

Saint Paul, Minnesota
March 14, 1952

ERNST & ERNST
Certified Public Accountants



THE President's Letter refers to a proposed merger between Northwest Airlines, Inc., and Capital Airlines, Inc. This map shows the routes presently certificated to Northwest Airlines and to Capital Airlines and indicates the complementary route structures of the two systems.

LEGEND

- Northwest Airlines Routes Presently Operated
- Capital Airlines Routes Presently Operated
- Northwest Airlines Routes Certificated but not Presently Operated
- Connecting Airlines

Note: Seoul, Korea, is presently being served through Pusan.

25 Full Years of Progress

A RECORD OF NWA PERFORMANCE

CALENDAR YEAR	MAIL REVENUE	PASSENGER REVENUE	EXPRESS AND FREIGHT REVENUE	REVENUE PASSENGER MILES	MAIL POUND MILES	TOTAL PLANE MILES FLOWN
1951	$8,408,679	$35,192,765	$4,371,533	602,220,853	9,142,552,000	19,531,632
1950	9,409,526	33,148,395	4,122,222	613,446,244	9,975,120,154	26,868,177
1949	9,039,154	27,873,942	3,163,278	495,114,870	9,445,597,392	25,908,552
1948	8,444,106	24,074,778	2,072,362	386,509,809	8,052,148,614	22,288,002
1947	4,018,340	20,520,631	1,019,497	382,544,382	5,473,873,894	20,824,912
1946	1,254,257	18,062,492	553,875	385,858,473	4,099,317,238	19,304,234
1945	1,649,575	10,060,619	409,613	218,469,773	5,396,757,098	12,870,714
1944	1,500,874	6,073,967	246,030	120,834,296	4,900,802,947	7,523,146
1943	1,353,822	3,139,713	297,941	63,787,683	4,005,180,807	4,584,766
1942	1,850,601	2,410,512	240,800	52,061,159	2,528,042,954	4,931,815
1941	1,955,826	2,526,721	118,885	59,659,145	1,871,311,191	6,353,659
1940	1,769,735	2,151,311	79,531	51,175,254	1,370,076,043	6,079,669
1939	1,763,288	1,324,728	61,186	34,749,246	1,166,518,244	5,399,024
1938	1,286,549	829,554	41,625	21,153,258	1,116,975,430	5,310,015
1937	1,076,293	761,839	33,768	16,685,852	841,274,933	4,462,439
1936	1,050,639	759,981	27,318	16,528,401	671,011,789	3,699,818
1935	629,724	481,528	12,388	10,342,834	315,817,803	2,841,198
1934	251,133	199,074	4,319	4,301,145	44,034,248	1,643,127
1933	762,208	188,966	1,873	4,108,313	82,613,032	1,823,850
1932	884,719	200,984	343	4,127,800	77,867,566	1,639,015
1931	917,635	205,164	575	3,934,093	89,706,330	1,434,555
1930	648,799	119,349	146	2,129,600	Not Avail.	1,032,340
1929	495,708	121,075	Not Avail.	1,956,400	"	736,664
1928	195,315	24,890	"	402,400	"	314,496
1927	76,029	8,663	"	126,000	"	211,667
3 Months, 1926	11,790	—0—	"	—0—	"	47,397

NWA NATIONAL ADVERTISING

NORTHWEST AIRLINES, INC.