

Stock. Shares of Pinnacle Stock are not registered or publicly traded as of the time of filing of this Application.

Northwest currently anticipates that an initial public offering (IPO) of Pinnacle Airlines would occur sometime in 2003 or 2004. According to the Applicant, the IPO is expected to generate a premium price for shareholders as a result of efforts currently taking place under the joint direction and control of Northwest and Pinnacle Airlines' management to position Pinnacle Airlines as a premier regional air carrier in the United States.

The Pinnacle Stock held by the Plans would be subject to registration rights under shareholder agreements or such other contracts as necessary to permit the Plans to participate in any future IPO of the Pinnacle Stock. It is expected that there will be certain restrictions on the Pinnacle Stock contributed to the Plans, including voting restrictions and limits on the ability of the Plans to dispose of the Pinnacle Stock, except pursuant to an IPO initiated by Northwest or by exercise of the Put Option. Any such restrictions will be negotiated with the Independent Fiduciary. At the time of an IPO, the Plans will participate pro rata on the same basis with other holders of Pinnacle Stock.

Subject to negotiation of final terms with the Independent Fiduciary, Northwest proposes that the Plans be granted a Put Option with respect to the Pinnacle Stock, on the following terms:

- The Put Option, with respect to each share of Pinnacle Stock, shall be exercisable at any time until the date after an IPO during which such share of Pinnacle Stock can be sold during any 90-day period under SEC Rule 144.³

- Northwest will provide quarterly notice to the Independent Fiduciary of its liquidity so that the Independent Fiduciary can take Northwest's liquidity into account in deciding whether to exercise the put.

- In the event the Put Option is exercised, the price paid by Northwest (or its affiliate) to the Plans shall be determined as follows:

- (i) If the Put Option is exercised prior to the IPO date, the greater of the value of the stock at the time of the contribution or the fair market value determined by the Independent Fiduciary as of the exercise date, consistent with a valuation report prepared by a qualified independent appraiser;

- (ii) If the Put Option is exercised on the IPO date, the greater of the value of

the stock at the time of contribution or the IPO price per share of Pinnacle Stock; or

- (iii) If the Put Option is exercised after the IPO date, the greater of the value of the stock at the time of the contribution or the average of the closing price for the Pinnacle Stock on the public market for the 10 trading days (or such other number if fewer than 10) preceding the exercise date.

- The price of the Pinnacle Stock shall be determined as of the exercise date and shall be paid by Northwest (or its affiliate) to the Plans in full in cash on such terms and conditions as shall be negotiated with the Independent Fiduciary.

7. Pinnacle Airlines Analysis. As a result of Northwest's request to contribute Pinnacle Stock to the Plans in lieu of cash, the Pension Benefit Guaranty Corporation (PBGC) recently contracted with Eclat Consulting, an independent firm with experience in the airline industry (Eclat), for an analysis of Pinnacle Airlines. The November 27, 2002 Eclat analysis (Eclat Report) includes competitive, operational and financial elements essential to validating Pinnacle Airlines' current market viability as a Northwest regional partner and as a stand-alone airline as well as current U.S. market conditions relative to the marketability of a successful Pinnacle Airlines IPO. The Department has summarized the Eclat Report below. The Eclat Report is presented in sections that examine the regional airline industry, Pinnacle Airlines, and a brief financial review of Pinnacle Airlines and the stability of Northwest.

Eclat Report Industry Analysis—According to the report, as of September 2002, the "Big 6" U.S. majors (the Majors) have lost over \$7 billion and now face the year's weakest quarter. They are facing dramatic increases in low-fare competition, overcapacity and a weakening business travel market. In contrast, the regional airline industry is flourishing as a result of being in "the right place at the right time" as the Majors are turning to their regional airline partners to operate regional jets to bring high yield passengers from small communities to their network systems. During the first eight months of 2002 the regional industry has grown only 3 percent (3%) in passenger enplanements, however, the group's Revenue Passenger Miles (RPM)(production) has realized growth of nearly 25 percent (25%), the Available Seat Miles (ASM)(output) growth of 20 percent (20%) and Regional Jet (RJ) usage has increased almost 6 percentage points of market

share in the U.S. over the past year. The majority of regional partner airlines now operate on a "fee-per-departure" or "block hour" basis with a fixed operating margin, thus limiting risk during market downturns and guaranteeing operating profit.

Eclat Report Pinnacle Airlines Analysis—According to the report, Pinnacle Airlines operates only as Northwest Airlink, a wholly owned subsidiary of NWAC and provides regional service on a fixed fee basis utilizing Saab 340 turboprops and Bombardier CRJ regional jets. The arrangement provides that 65 percent (65%) of the operational costs (fuel, maintenance, rentals, facilities, etc.) are passed through to Northwest for 100 percent (100%) reimbursement and 35 percent (35%) of costs are paid based on historical performance with a target operating margin of 13.0 percent (13.0%). Northwest has committed 95 regional jet aircraft financed by Bombardier, and the RJs currently on hand have doubled Pinnacle Airlines' size, seeing ASMs increase 68 percent (68%) in 2001 (vs. 2000) making it the second fastest growing regional airline. They operate 310 departures per day (12.4 percent (12.4%) of the Northwest system) and 15,000 seats per day (5.9 percent (5.9%) of the Northwest system).

Pinnacle Airlines generates revenue in two distinct manners for Northwest. The first and smaller revenue generation comes from transporting passengers to and from spoke markets to one of Northwest's three hubs. This local, one-segment flying generates approximately \$1.6 million in weekly revenue for Northwest, or 2 percent (2%) of Northwest's domestic total. More importantly, the carrier brings connecting passengers from the spoke markets to the hub to connect onto the Northwest route network creating over \$8 million in weekly revenue (8 percent (8%) of Northwest's domestic total) for Northwest. Combined, the regional carriers' value to the Northwest Domestic System is between \$520 million and \$540 million annually as the carrier exists today (Eclat Appendix 7).

The Eclat Report states that the current and immediate value of Pinnacle Airlines is virtually removed if Northwest Airlines ceased to exist, as there are limited opportunities for other major carrier relationships. Without Northwest, Pinnacle Airlines has physical and cash assets of \$121.6 million, \$5.2 million in cash, \$62.4 million in receivables and \$54 million in aircraft spares and other property and equipment. Pinnacle Airlines'

³ Provision is made for the Put Option to extend after the IPO date in the event that less than 100 percent (100%) of Pinnacle Stock is offered in connection with the IPO.