

value to more adequately fund the benefits promised under the Pilot Plan.

The allocation method made pursuant to the Letter Agreement will result in a modest change in the percentage of the Contract and Salaried Plans' assets invested in Pinnacle Stock compared to the ratable allocation contemplated by the Proposed Exemption. Without modification to the pilot collective bargaining agreement, the Proposed Exemption contemplated that the Salaried and Contract Plans could hold Pinnacle Stock equal up to 10% of each Plan's assets. Under the Letter Agreement, the Salaried and Contract Plans will instead hold Pinnacle Stock with a value equal to approximately 8% of their respective assets.

Northwest and ALPA believe that the Letter Agreement also enhances protections for participants in all three Plans by giving the Independent Fiduciary first priority to sell Pinnacle Stock in an IPO where the number of shares sought to be sold exceeds the number that can be sold.

The Department asked whether Northwest intends to contribute cash or some other asset to satisfy the balance of the calendar year 2003 funding requirements of the Salaried and Contract Plans that will not be met by the Pinnacle Stock contribution as a result of the Letter Agreement. Northwest represents that it will make any such contributions in cash. Additionally, Northwest will maintain a subaccount for each Plan within the Master Trust for so long as that Plan holds Pinnacle Stock. Once all of the Pinnacle Stock in such an account has been liquidated, that subaccount may be dissolved.

As noted in the June 27, 2003 letter from Northwest and ALPA to the Department, Northwest states that the Letter Agreement will be executed in connection with the voluntary contribution. Thus, the ALPA agreement will be formally entered into and effective on the date of the voluntary contribution.

August 6, 2003 Northwest and Independent Fiduciary Response

Audited Financial Statements

The Department asked the Independent Fiduciary if the January 15, 2003 Valuation was based on audited financial statements.

Fiduciary Counselors stated that Eclat's valuation took into account a variety of financial data. Eclat was provided with Pinnacle's audited financial statements for the years 2000 and 2001. Eclat was also provided with unaudited interim and full year

financial information for 2002.

However, audited 2002 financial statements were not available at the time of Eclat's valuation for the January 15, 2003 contribution.

Enhanced Communication with Plan Participants

Several commenters requested that Northwest provide for enhanced communication with the Plan participants concerning the Exemption Transactions. Additionally, ALPA requested that it be involved in the monitoring of the Independent Fiduciary.

In this regard, Fiduciary Counselors plans to hold periodic conference calls to report to the representatives of the participants covered by collective bargaining agreements on developments with respect to the Pinnacle Stock held by the plans. Additionally, Northwest notes that the Letter Agreement between Northwest and ALPA relating to a voluntary contribution of Pinnacle Stock would provide ALPA with a role in reviewing and approving the termination, and any replacement, of the independent fiduciary. This, together with the reporting planned by Fiduciary Counselors, will permit ALPA to monitor the Independent Fiduciary.

Plan Asset Investment Guidelines

A number of commenters asked, if Pinnacle Stock is contributed to the Plans, how would this affect the manner in which other Plan assets are invested?

Northwest noted that, as is the case for sponsors of defined benefit plans, Northwest has adopted investment guidelines and asset allocation strategies that guide the investment of the Plans' assets. These guidelines contemplate that a certain amount of assets will be allocated to securities with risk and return characteristics similar to Pinnacle Stock. Thus, Northwest notes that the holding of Pinnacle Stock by the Plans can fit within the overall investment strategy adopted for the Plans.

Fiduciary Counselors notes, as described in its report, in accepting the Pinnacle Stock contribution, Fiduciary Counselors determined that Pinnacle Stock fit within the Plans' investment guidelines and diversification needs. Fiduciary Counselors also obtained a determination from Northwest's Pension Investment Committee that the holding of Pinnacle Stock would not impair the liquidity of the Plans and that the Plans would be able to pay benefits and expenses when due. Similar considerations will be taken into account by Fiduciary Counselors in determining whether to accept any future contribution of Pinnacle Stock.

Minimum Rate of Return

Some commenters asked if Northwest would be willing to guarantee the Plans a minimum rate of return on the Pinnacle Stock such as a rate equal to the inflation rate.

Northwest stated that it would not. Northwest provided that the Omnibus Agreement guarantees that the Plans always receive the greater of the initial contribution value of Pinnacle Stock or the value of the stock at the time of an IPO or the exercise of the Put Option. Northwest guarantees the "principal" attributable to the investment in Pinnacle Stock. According to Northwest, the Omnibus Agreement provides the Plans substantial investment risk protection, protection that would not be available to the Plans when investing in securities with similar risk and return characteristics. Moreover, the Plans will receive all of any investment gains attributable to their shares of Pinnacle Stock at the time of an IPO. Northwest also noted that it assumes the investment risk associated with any investment by the Plans, including the investment in Pinnacle Stock, and must make up any investment losses through future contributions to the Plans.

The IPO

Several commenters asked whether the Plan trustees should decide when to initiate a public offering since the Plans will own a majority of Pinnacle Stock.

Northwest noted that under the terms of the Omnibus Agreement, Northwest is responsible for making up the difference, if any, between the IPO price and the original contribution value. As a result, Northwest has a strong interest in ensuring that maximum value is obtained in connection with an IPO and Northwest believes that it is appropriate for it to determine the timing of an IPO. Additionally, Fiduciary Counselors agreed only to a limited period during which Northwest has the exclusive right to cause an IPO. Under the Omnibus Agreement, Northwest controls the timing of the IPO until the earlier of July 1, 2006 or the occurrence of an early termination event. After that date, the Omnibus Agreement provides Fiduciary Counselors with the right to cause an IPO of Pinnacle Stock.

Pinnacle Management

Several commenters asked if Northwest would manage Pinnacle in a manner that maximizes its value.

Northwest replied that Northwest does not manage Pinnacle. Except for one director appointed by Northwest, Pinnacle's board is independent of Northwest. Northwest expects that the