

Bruce R. Zirinsky (BZ 2990)
 Gregory M. Petrick (GP 2175)
 CADWALADER, WICKERSHAM & TAFT LLP
 Attorneys for Debtors and Debtors In Possession
 One World Financial Center
 New York, New York 10281
 Telephone: (212) 504-6000
 Facsimile: (212) 504-6666

- and-

Mark C. Ellenberg (ME 6927)
 CADWALADER, WICKERSHAM & TAFT LLP
 1201 F Street N.W., Suite 1100
 Washington, DC 20004
 Telephone: (202) 862-2200
 Facsimile: (202) 862-2400

**UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK**

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In re: : **Chapter 11 Case Nos.**
 :
NORTHWEST AIRLINES CORPORATION, et al., : **Jointly Administered**
Debtors. :
 X

DECLARATION OF DOUGLAS M. STEENLAND

STATE OF MINNESOTA)
) ss.:
 COUNTY OF DAKOTA)

Pursuant to 28 U.S.C. § 1746, Douglas M. Steenland declares as follows:

1. I am the President and Chief Executive Officer of Northwest Airlines Corporation

(“NWA Corp.”) and Northwest Airlines, Inc. (“Northwest Airlines”)¹. The facts set forth in this Declaration, which is being submitted in connection with Northwest’s petitions for relief under chapter 11 of the Bankruptcy Code, are true to the best of my knowledge, information and belief.

2. Northwest operates and manages a consolidated global business with employees, assets and creditors located all over the world. Northwest, which began operations in 1926, today operates the world’s fourth largest airline (as measured by revenue passenger miles). As of June 30, 2005, Northwest had approximately 39,000 employees, operated a fleet of 433 aircraft and directly served (together with its regional carriers) more than 232 destinations in 25 countries in North America, Asia and Europe. Together with its SkyTeam alliance and its other travel partners, Northwest provides a global network to over 900 cities in more than 160 countries on six continents. I describe in detail, starting in paragraph 35 below, Northwest’s strategic assets and competitive strengths.

Introduction.

3. The U.S. airline industry has permanently changed. The competitive forces unleashed by airline deregulation in 1982 have continued to gather strength and have overwhelmed many airlines that prospered in the pre-deregulation era. Of the large pre-deregulation carriers all but one – American Airlines, which was on the brink of bankruptcy two

¹ Northwest Airlines is the principal operating subsidiary of NWA Corp. (NWA Corp., Northwest Airlines and their subsidiaries are collectively referred to as “Northwest” or “Debtors” or the “Company”). NWA Corp. is the ultimate parent corporation of all the Debtors.

years ago before last minute concessions by its unions – have either been forced to seek bankruptcy protection, some more than once, or are no longer in business².

4. The competitive pressures on Legacy Carriers have dramatically intensified in recent years due to the increasingly rapid growth of low cost carriers (“LCCs”), which have much lower labor and operating costs than the Legacy Carriers and can profitably charge much lower fares³. Legacy Carriers have been forced to match these fares in order to stay competitive even though such fares are below their costs. Largely as a result, Legacy Carriers, as a group, have lost almost \$35 billion since January 1, 2001 and their long-term debt has increased from \$26 billion to almost \$56 billion as of June 30, 2005. During the same period, Northwest has lost \$3.6 billion and its long term debt has increased from approximately \$4.0 billion to \$9.0 billion; its unfunded pension liabilities have gone from a deficit of \$486 million to a deficit of \$3.8 billion; and its shareholders’ equity has gone from a positive of \$231 million to a deficit of \$3.7 billion⁴.

5. As described in greater detail below, the LCCs can confidently be predicted to exert even more pressure on Legacy Carriers as they continue to expand. LCCs represented 8% of the domestic airline market in 1990; they now represent almost 30% of that market, and with

² The large pre-deregulation carriers that are now out of business are Pan Am, TWA, Eastern and Braniff and the carriers still operating are American, United, Delta, Continental, US Airways and Northwest.

³ The LCCs include Southwest, JetBlue, Independence Air, Frontier Airlines, Airtran Airways, America West, Spirit, and Sun Country.

⁴ It is a telling tribute to the efficacy of the low cost model that in the period from January 1, 2001 through June 30, 2005 when the Legacy Carriers as a group lost approximately \$35 billion, the LCCs were able to post a collective profit of \$2.3 billion. Even excluding Southwest, the performance of the LCCs was far superior to that of the Legacy Carriers, despite the fact that LCCs were growing rapidly during this period and thus had to absorb substantial start up costs that the Legacy Carriers did not have to bear.

hundreds of aircraft on order and with options on hundreds more, they are expected to account for 40% of the domestic airline market by 2010.

6. The effect of these competitive changes has been amplified by a corresponding change in the airline distribution system. Increasingly, tickets are being purchased over the internet rather than through traditional travel agencies. These internet travel sites use sophisticated search engines which can instantly scan millions of airline fares and then display those fares based on various criteria, including price. The result is a significant increase in the transparency of airline pricing with a concomitant emphasis on each airline's matching the lowest available price in the market.

7. The efforts of Northwest – and of all the Legacy Carriers – to restructure their operations to cope with the radical changes in the airline industry brought about by the growth of the LCCs have been significantly complicated by the enormous increase in the price of jet fuel. Northwest expects that its fuel bill for 2005 will be approximately \$3.3 billion. This compares to \$2.2 billion for 2004 and \$1.6 billion for 2003 – i.e., Northwest's fuel bill will have more than doubled in two years. Because the price of jet fuel now is approximately 15% higher than it was only a little more than two months ago (on June 30, 2005), it is apparent that there is no clear end in sight to these very high fuel prices. There have been numerous attempts by various Legacy Carriers to raise fares to recoup these fuel expenses but, because of the competitive pressure asserted by the LCCs, most of these attempts have been either unsuccessful or only partially successful. In fact, the industry's domestic yields have declined 2.7% since 2003.

8. Northwest has been attempting to restructure its business to respond to this competitive market environment. It has always been Northwest's goal to achieve a restructuring voluntarily, and without resort to bankruptcy. To this end, it has aggressively cut non-labor

expenses and since 2003 has been seeking to negotiate concessionary labor agreements with its unions. In recent months, as losses have mounted to almost \$4 million per day, Northwest has intensified its efforts to negotiate new labor agreements to obtain the cost savings it so desperately needs. Although Northwest has made some progress in this area – and, indeed, has recently successfully overcome a strike by its mechanics who were not willing to accept the pay rates and work rules that Northwest was seeking – it has not reached its cost reduction goals. What progress Northwest has made in reducing its costs has been overwhelmed by external forces outside its control, including the dramatic and continuing increase in the price of fuel and the steady increase in the market share of the LCCs. Northwest has determined that it must file chapter 11 now to be sure that it will have enough liquidity to enable it to reorganize successfully.

9. Having been forced to file for relief, Northwest now intends to use the salutary provisions of chapter 11 to reorganize its businesses on a sound basis. The chapter 11 process will allow us to realize three major goals essential to the transformation of Northwest: first, a competitive cost structure including both labor and non-labor costs⁵; second, a more efficient

⁵ These cost savings include not only changes to employee pay rates and work rules but also a host of other factors that would allow Northwest to operate its business in a more cost efficient manner. To take one example, LCCs subcontract all or most of their aircraft maintenance work to third parties who are able to provide first class service at rates far lower than what the Legacy Carriers have paid to their workers. As a result of the actions that Northwest took after the recent strike by the Aircraft Mechanic Fraternal Association, this discrepancy no longer exists at Northwest but there are other similar issues that will need to be addressed as Northwest transforms itself into a fully competitive airline able to succeed in the new industry environment. In addition, Northwest is burdened with excess facilities that it plans to shed in bankruptcy. Finally, Northwest will be able to use the bankruptcy process not only to reduce the debt and lease burdens associated with many of its aircraft but to evaluate its fleet needs on a fresh start basis. Currently, Northwest operates aircraft even if they are not projected to be profitable as long as they are projected to cover their ownership costs (which are viewed, correctly, as a fixed cost). But in bankruptcy ownership costs will become a variable cost and this will enable the Company more

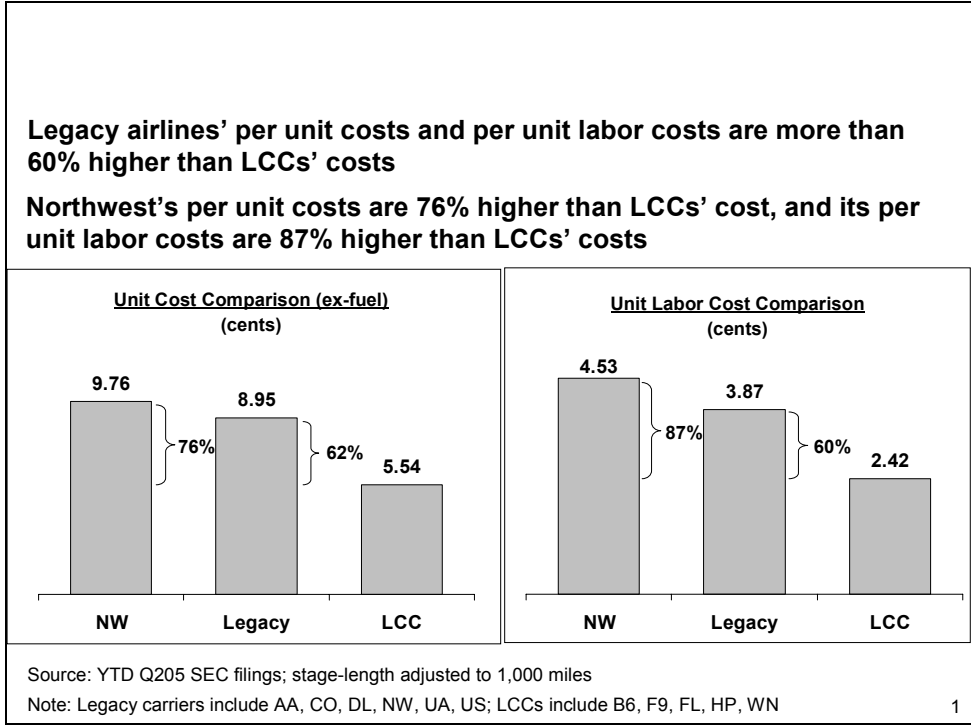
business model that will allow us to continue to deliver superior choice and service to our customers; and third, a strengthened balance sheet with debt and equity levels consistent with long term profitability. There is every reason to believe that once these goals are accomplished, Northwest will resume its position as one of the world's strongest airlines. It has a unique collection of assets – described in greater detail in paragraphs 35 to 44 of this Declaration – and it has traditionally been, and continues to be, one of the most efficient revenue producers in the industry. With its revenue generating ability, and with competitive costs, a more efficient business model and a sound balance sheet, Northwest will survive and prosper.

10. In acting to restructure its business, and particularly to address one of the fundamental cause of its difficulties – its labor cost disadvantage vis-à-vis the LCCs – the Company does not minimize the human costs associated with the changes it is seeking. Employees hired on and dedicated their careers to the airline with an expectation of salaries and working conditions that Northwest can no longer afford. These employees will, in many cases, suffer hardships by having to accept market based compensation and working conditions. To help mitigate their hardship, Northwest proposes a meaningful profit sharing plan (10% of all profits after the first \$1 million) so that those employees who remain with the Company will be able to share in the upside as the Company begins to make money. The alternative to restructuring Northwest's labor costs is totally unacceptable: the liquidation of the Company with the attendant loss of all jobs.

accurately to size its fleet to market demand. In this process Northwest will look for opportunities to simplify and upgrade its fleet.

The Impact Of The LCCs.

11. The rapid growth of LCCs has been the primary force of change in the airline industry. LCCs today account for almost 30% of the domestic market and effectively set the price for airline travel. Even with 30% of the domestic market, the LCCs essentially control airline pricing. This is not surprising given that over 80% of domestic passengers now have access to LCC service. The situation has been made worse because at the start of this year Delta Airlines introduced Simplifares, which essentially replicates the LCC pricing model by capping fares and eliminating numerous restrictions that had been intended to maximize revenues by requiring business travelers to pay higher prices than leisure passengers. The other Legacy Carriers had no choice but to match this Delta initiative (certainly on routes with head to head competition) so that today 93% of Northwest's passengers have ready access to LCC or LCC-like pricing to the destinations to which they are traveling. With much lower per unit labor and other costs, and without the financial burdens of defined benefit pension plans, LCCs are able to offer a fully competitive product at a much lower cost and still make a profit. As shown in the charts below, Legacy Carriers' per unit costs and per unit labor costs are each more than 60% higher than the LCCs' costs. This comparison is even more dramatic for Northwest which, for the period covered by the chart (i.e., the first half of 2005), had the highest costs of any Legacy Carrier. Its per unit costs were 76% higher than the LCCs' costs and its per unit labor costs were 87% higher than the LCCs' costs.



12. The significant labor cost advantage enjoyed by the LCCs is a function of generally lower wage scales and lower employee benefits (none of the LCCs offer defined benefit pension plans, for example); more flexible work rules which, among other things, permit greater use of third party vendors and greater productivity of the airline's employees; and generally lower seniority levels. To elaborate on this last point: because the average seniority at the LCCs is so much lower than at the Legacy Carriers and because airline wages tend to be based on seniority, a relatively new-entrant carrier such as JetBlue – which began operations only in 2000 – would, since its employees are necessarily clustered at the lower end of the seniority scale, by virtue of that fact alone have much lower labor costs than a Legacy Carrier such as Northwest which started operations almost 80 years ago.

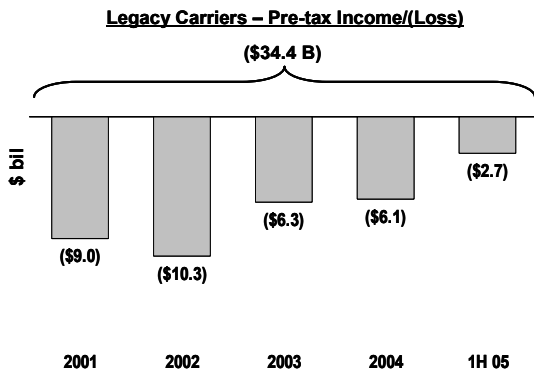
13. This large difference in labor costs between the LCCs and the Legacy Carriers creates the opportunity for arbitrage. Because investors in airlines knew they could create a new airline with much lower per unit labor costs than the Legacy Carriers, they were strongly

motivated to do so. Once created, the LCCs have a strong incentive, and in fact are continuing to, expand market share so that they can continue to hire workers at the bottom of the seniority ladder, thus maintaining their per unit labor cost advantage vis-à-vis the Legacy Carriers. Of course, the expansion of the LCCs adds greatly to the overall supply of aircraft seats which naturally exerts a downward pressure on airline pricing. Measured in inflation adjusted (i.e., “real”) terms, airline yields have declined almost every year since 1982, and – once again in real terms – are today 50% lower than what they were at the end of the regulated era.

14. This downward pressure on prices is not simply a function of more airline seats in the market but also of the pricing strategies adopted by the LCCs which generally price to maximize market share, not profits. Typically, this means that they price at levels just slightly above their costs. As a result, LCCs are able to make modest profits⁶ but the Legacy Carriers, with their much higher costs, cannot. As shown in the charts below, LCCs continue to produce earnings despite intense fare competition and skyrocketing fuel prices while the Legacy Carriers rack up billions of dollars of losses. Moreover, as the LCCs continue to add capacity, these extra seats will further depress prices.

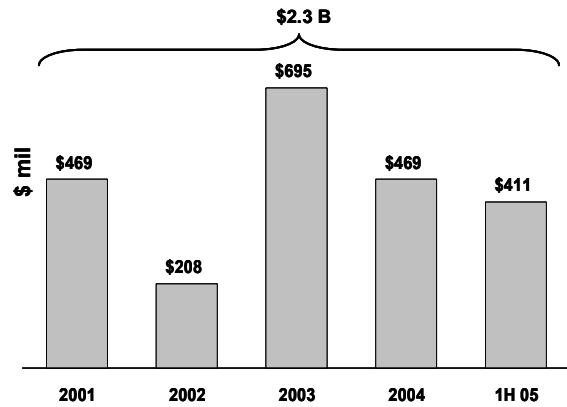
⁶ Even Southwest, undoubtedly the most significant LCC with a market capitalization approximately seven times the combined market capitalization of the six Legacy Carriers, would have earned only a small profit in the first half of 2005 but for its fuel hedging strategy. As described hereinafter, fuel hedging on anything near the scale practiced by Southwest is not a viable strategy for Northwest or the other Legacy Carriers.

Legacy Carriers have experienced significant pre-tax losses since 2001 that are approaching \$35 billion



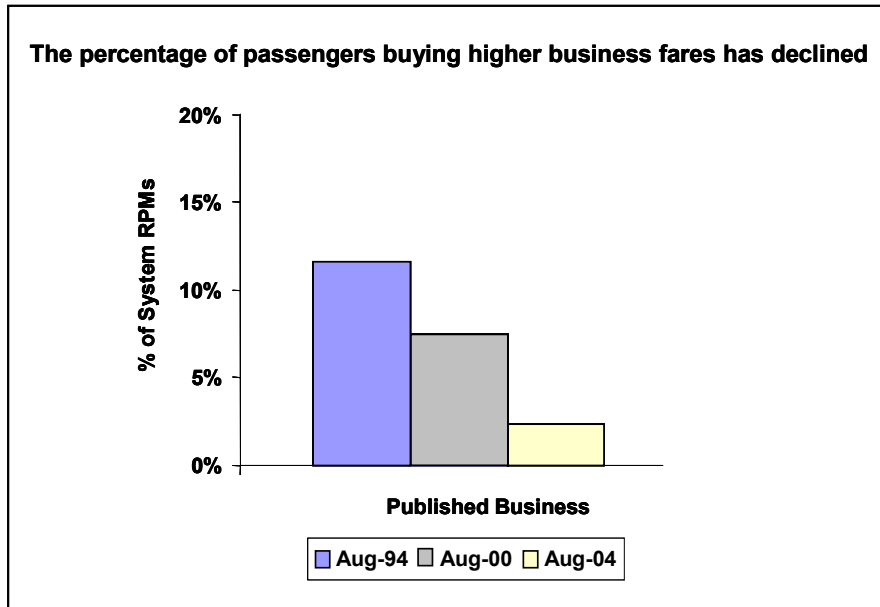
Source: SEC filings, press releases, excluding non-recurring items
Legacy Carriers include: AA, CO, DL, NW, UA, US

LCCs continue to produce pre-tax earnings
LCC – Pre-tax Income/(Loss)

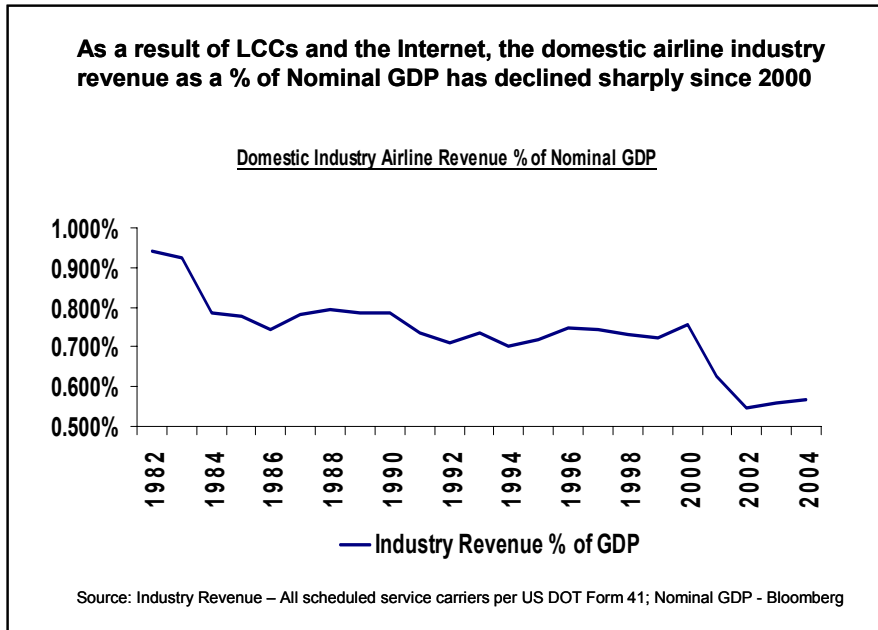


Source: SEC filings, press releases, excluding non-recurring items
LCCs include B6, F9, FL, HP, WN

15. It is worth noting that LCCs affect not just the leisure travel markets but the business travel market as well. Well financed, with, in many cases, modern fleets, and in some cases offering attractive amenities (such as live television service or first class cabins), they provide strong competition in the business travel market. As a result, and due to economic pressures that have made many businesses insist that employees purchase the lowest available fares – as well as the growing use of technological alternatives to business travel such as video-conferencing – the percentage of Northwest travelers who purchase higher priced business tickets has steadily declined.



16. The steady downward pressure on airline fares created by airline deregulation and the expansion of the LCCs – exacerbated by the growth of internet based search engines which quickly scan millions of airline fares for the lowest price, thus making airline pricing much more transparent and competitive – has led to a dramatic decrease in real airline yields over the last 23 years. With prices at historically low levels, planes today are fuller than ever but, just as the drafters of the Airline Deregulation Act intended, airline revenues per available seat mile (“RASM”), are actually down from what they were when airline deregulation took effect in 1982. This decline has been particularly prominent since 2000 and, as shown in the chart below, the historic relationship of domestic airline industry revenues to nominal gross domestic product has significantly changed since then. Had airline industry revenues remained at their historic relationship to nominal GDP, they would be \$19 billion greater than they in fact are today.



17. Of course, the Legacy Carriers have not been passive in the face of these changes. Both United and US Airways filed for bankruptcy protection and have used the bankruptcy process to dramatically reduce their labor costs – in US Airways’ case, to LCC levels. In addition, all of the other Legacy Carriers, including Northwest, have been able to get at least some of their unions to agree to substantial savings. Unfortunately, to date, Northwest has been less successful in this regard than other Legacy Carriers, and so today Northwest’s per unit labor costs are the highest of the Legacy Carriers.

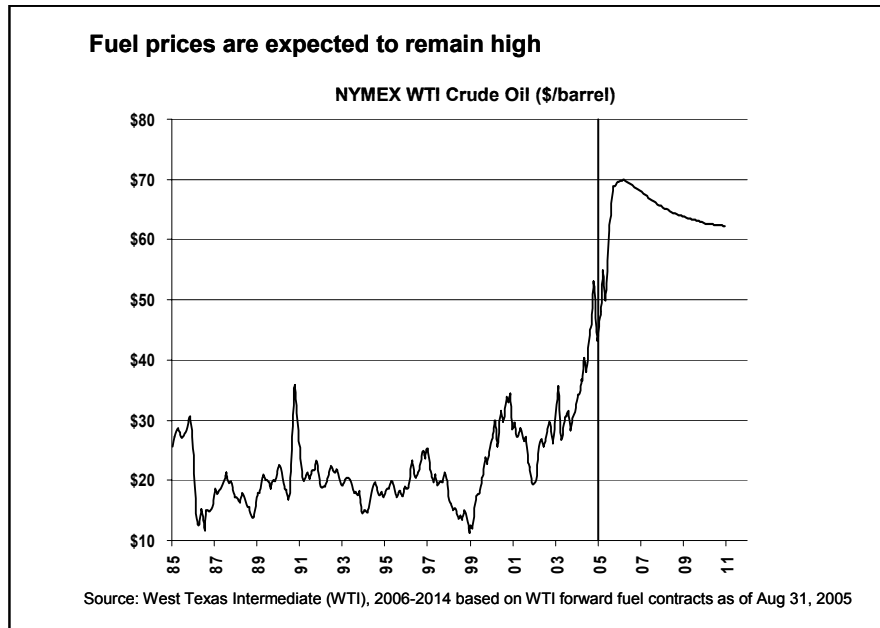
Fuel Prices Have Increased to Unprecedented Levels.

18. Northwest’s problems of high unit labor costs and low unit revenues are being compounded by an unprecedented increase in the price of fuel. The price of jet fuel over the last several months has increased to record levels and is now over 50% higher than it was at the beginning of the year, and approximately 150% higher than it was two years ago. To put this in perspective, the increase in jet fuel prices has meant that Northwest’s fuel costs for the first half of 2005 was \$470 million higher than in the first half of 2004 (a 50% increase). The comparison

for the second half of 2005 is likely to be even worse because fuel prices have sharply escalated since June 30, 2005. Based on the price of jet fuel through September 8, 2005 and market expectations – as reflected in the “forward curves” – for the balance of the year, Northwest’s jet fuel expense for the second half of 2005 is likely to be \$500 million greater than it was in the first half of this year and nearly \$700 million more than in the second half of last year. On the same assumptions, Northwest’s fuel expense for all of 2005 will be approximately \$3.3 billion compared to \$2.2 billion in 2004 and more than double the \$1.6 billion that was spent for fuel in 2003.

19. Rising jet fuel prices are, of course, partly a function of the rising cost of a barrel of oil. But in the case of the airline industry, this increase has been exacerbated by the increase in the “crack spread,” which is the difference between the price per barrel of oil and the price per barrel of jet fuel. Historically, the crack spread has been approximately \$5 per barrel; as of June 30, 2005 it was \$14 per barrel; and during the period after August 28th, it rose to as high as \$30 per barrel. This startling increase is basically attributable to a shortage of U.S. refining capacity which is expected to persist for many years, although the very sharp increase since August 28th is due to the impact of Hurricane Katrina. The impact of Katrina on refinery capacity is expected to influence the crack spread for several more months.

20. No one, of course, can know what will be the future price of jet fuel; certainly the recent sharp escalation was not anticipated by most analysts. Northwest has no choice but to rely on the collective judgment of the market to estimate what its future fuel costs will be. As the chart below shows, the market is anticipating that the price of crude oil will remain at approximately current prices for the foreseeable future.

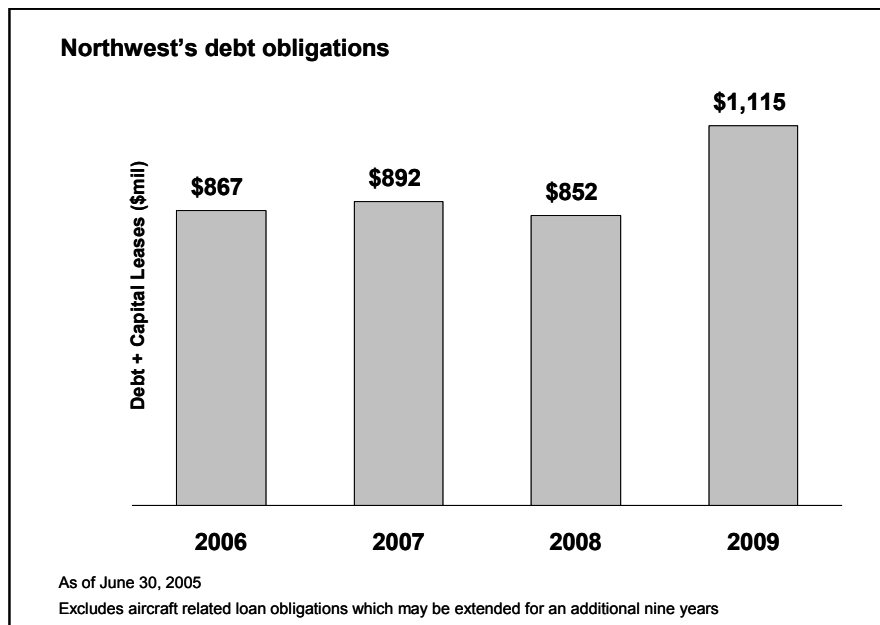


21. Because of the perceived persistent high level of jet fuel prices, it does not appear that Northwest will in the future have the opportunity to take advantage of price dips to lock in supplies of fuel at substantially less than today's prices. But, even if such dips occur, Northwest would not be able to take advantage of them. Buying fuel for future delivery is essentially betting on the future price of fuel – if the price in the future is higher the purchaser “wins” (because the purchaser has locked in his supply at the lower price), but if the future price is lower he “loses” (because the purchaser has committed to buying fuel at a price that is higher than what could have been obtained on the spot market). This kind of speculation is not available to Northwest because, considering its weak financial condition, the market would insist that Northwest cash collateralize its exposure against the possibility that it might lose its bet. It is for this reason that only Southwest has been able to extensively hedge its fuel exposure because only Southwest has had the financial strength to avoid having to post collateral for its hedges. (Of course, now that fuel prices are at historically high levels, the decision to hedge would not be an

easy one for a company in Northwest's financial position, even if it could dispense with the necessity of collateralizing its exposure.)

Northwest's Debt Burden.

22. In the face of mounting losses, Northwest has managed to stay in business without (until today) resorting to chapter 11 protection through a strategy that included borrowing and selling assets. This has had the unfortunate consequence that Northwest today has a very high debt burden of \$14 billion, including \$5 billion of off-balance sheet aircraft related debt. This debt is more than Northwest can sustain given current business conditions. The chart below shows the debt service obligations (excluding interest payments) for Northwest's debt coming due in 2006 and the following three years:



23. Approximately half of Northwest's fleet, including the 211 regional aircraft flown by partners, have financing associated with them. The aggregate present value of such obligations is approximately \$5 billion and involves approximately 300 aircraft. The debt associated with financed aircraft is well in excess of their fair market value.

24. Obviously, it will be Northwest's goal in its chapter 11 case to convert some of its debt into equity⁷ and to restructure and reschedule the remaining debt. With respect to its aircraft-related debt, Northwest intends to use the power given to it by its chapter 11 proceeding to renegotiate above-market aircraft leases or, in cases where this is not possible, to return the affected aircraft. Returning aircraft will, of course, reduce the size of the company's operations but Northwest's analysis indicates that the resulting airline, albeit smaller, will be more profitable.

Northwest's Pension Burden.

25. Northwest has taken the lead in an attempt to find a workable solution to the defined benefit pension plan crisis that affects most Legacy Carriers – as noted earlier the LCCs do not offer defined benefit pension plans to their employees. Because of the collapse of stock market values in 2000, the sharp decline in interest rates, and previously negotiated benefit increases, defined benefit pension plans such as Northwest's have gone from a surplus in 2000 to a large deficit; in Northwest's case, the deficit is \$3.8 billion. The problem has been greatly exacerbated by provisions in the Employee Retirement Income Security Act which require that the unfunded pension shortfall be made up over an unreasonably short period of three to five years and impose an artificially low interest rate to determine funding requirements. The effect of these provisions on Northwest is a requirement to contribute \$3.3 billion from 2005 through 2008. Without legislative relief, Northwest's annual pension contributions will grow from \$420 million in 2005, to \$800 million in 2006, and \$1.7 billion in 2007.

⁷ \$1.7 billion of Northwest's debt is unsecured.

26. Working with its unions, particularly the Air Line Pilots Association (“ALPA”), Northwest has been a driving force in developing legislation that would – by “freezing” the plans (with the result that no accrued benefits of any employee or retiree would be lost) – allow Northwest to fund its pension shortfall over a reasonable number of years on terms that it could afford. Northwest is hopeful that such legislation will be enacted into law. Notwithstanding its having filed its chapter 11 petition, Northwest will continue to seek favorable pension legislation. If Northwest is able to accomplish its goal in this area, it would hope to be able to avoid having to terminate its pension plans and thereby avoid the employees’ trauma that so negatively affected the United and US Airways bankruptcy cases⁸.

Efforts to Achieve Voluntary Labor Cost Savings Have So Far Been Unsuccessful.

27. As noted earlier, Northwest has been working very hard to address the primary cause of its difficulties, i.e., the cost disadvantage that it faces in comparison to the LCCs. Northwest has made some progress in this area, but not enough.

28. In January 2003, Northwest proposed \$950 million in annual labor cost savings⁹. In the Fall of 2004, Northwest’s pilots and management agreed to a “go first” bridge agreement, which accomplished \$300 million of annual savings while Northwest continued to seek concessions from its other unions. The pilots specifically acknowledged that – since each side recognized that the \$265 million in savings achieved from the pilots would be insufficient –

⁸ Of course, out of caution, Northwest must reserve its right to seek to terminate its defined benefits pension plans, depending on what legislation, if any, is ultimately enacted and on further developments affecting the airline industry generally and Northwest in particular.

⁹ All references to labor cost savings in this Declaration exclude savings associated with changes to the Company’s defined benefit pension plans.

Northwest and ALPA would seek to negotiate a second concessionary agreement once concessionary agreements were reached with the remaining unions.

29. Northwest's efforts to negotiate concessionary agreements with its other unions were unsuccessful. In the Spring of 2005, and as a result of continuing losses, deteriorating RASM performance and continuing increases in fuel prices, Northwest re-evaluated its target labor cost savings at \$1.1 billion. At the time Northwest presented its \$1.1 billion request, it reviewed with the unions the assumptions underlying that request and advised that if these assumptions, especially as to fuel prices, proved to be too optimistic, it would need to increase its \$1.1 billion request. Again, these requests did not result in agreements.

30. In the late Summer of 2005, and in response to dramatic further increases in fuel prices¹⁰ and the consequent decline in the Company's financial condition, Northwest advised its major unions (i.e., ALPA, the International Association of Machinists ("IAM"), representing the Company's luggage handlers, ticket and reservation agents, and clerical personnel, and the Professional Flight Attendants Association ("PFAA")) that the \$1.1 billion figure would not enable the Company to achieve even a modest profit without dramatic changes in industry revenues and fuel costs and that \$1.4 billion in labor costs savings was a more realistic target.

31. Subsequently, during the past two weeks, Northwest formally modified its request for concessionary labor agreements so that the aggregate annual concessions from all its work groups would be \$1.4 billion and also informed each of its major unions of its share of the revised total. In response, ALPA and the IAM proposed concessionary packages that, while

¹⁰ When Northwest announced its \$1.1 billion labor cost reduction target, the price of jet fuel was \$1.35 per gallon. As of September 13, 2005 it was \$1.85 per gallon. The difference between these two numbers is worth nearly \$1.1 billion per year to Northwest.

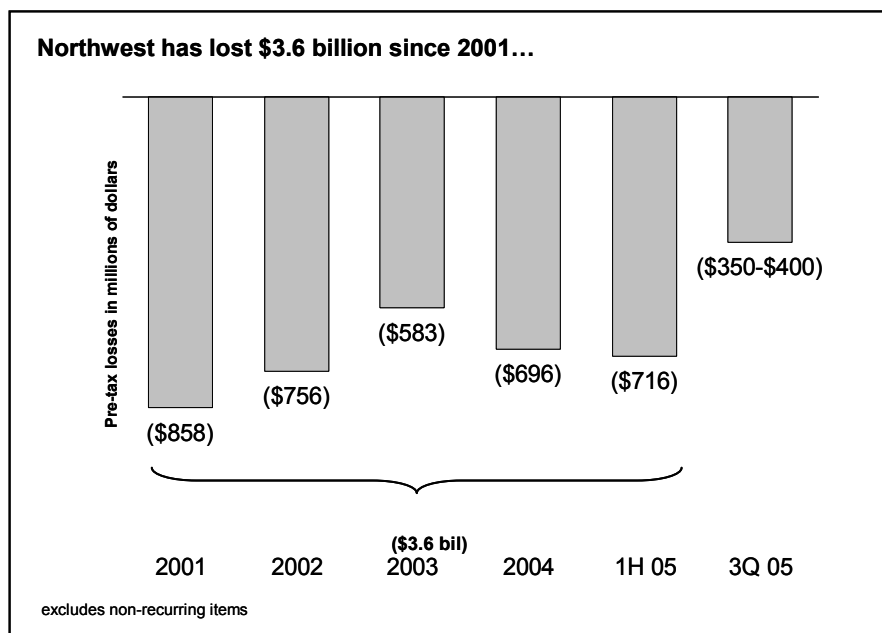
significant (although the IAM's proposal lacked specific detail as to the nature of the concessions offered), were substantially short of what the Company believes it needs and the PFAA made no specific counter-proposal and advised the Company that it was not willing to entertain a request for a labor cost savings agreement, asserting that it lacked sufficient financial information to consider such a request. Northwest remains committed to reaching voluntary agreements with its unions and intends to continue its discussions with them after the filing of its petition today. On the other hand, Northwest's cash position (especially as it heads into the fall and winter seasons which are traditionally the most difficult for the airline industry) requires that the Company address this part of its transformation expeditiously.

32. While discussions with ALPA, the IAM and PFAA were taking place, the Company was also in discussions (mediated by the National Mediation Board (the "NMB") pursuant to the provisions of the Railway Labor Act) with the Aircraft Mechanic Fraternal Association ("AMFA") which represents Northwest's mechanics and cleaners. On July 19, 2005, the NMB declared the discussions were at an impasse which led to a 30-day cooling off period. Despite Northwest's best efforts to reach an agreement with the union that would be fair to its members yet consistent with the financial realities facing the Company, Northwest was unable to reach an agreement with AMFA. On August 20, the "status quo" period mandated by the Railway Labor Act ended and both sides were then free to resort to "self help". AMFA struck the Company which, in turn, imposed the pay rates and work rules that it had previously advised AMFA that it would impose in the absence of a new collective bargaining agreement. Because of Northwest's comprehensive strike preparation and the fact that Northwest's other employees did not honor the AMFA strike, the strike did not have a material effect on Northwest's operations. As a result of having imposed its pay rates and work rules, Northwest

does not now anticipate seeking pursuant to its chapter 11 case any further changes to the pay rates or work rules with respect to this part of its workforce.

The Situation Today: Continued Competition From LCCs And The Rapid Escalation of Fuel Prices Have Drained Northwest’s Financial Resources and Made a Bankruptcy Filing Necessary.

33. During the process of attempting a voluntary restructuring (without resort to chapter 11), Northwest has lost more than \$3.6 billion, and these losses – a function of the continued growth of the LCCs and the escalation of jet fuel prices – have been accelerating as the chart below shows (note that the loss for the first half of 2005 is greater than that for all of 2004):



Despite these enormous losses, Northwest has managed to maintain adequate levels of liquidity through asset sales and borrowings in the credit markets. Today, with fuel prices at historically high levels, the credit markets are closed to Northwest and the Company has no more assets to sell with the result that is now burning cash at a significant rate. Through this chapter 11 filing,

the Company will be able expeditiously to reduce its cash drain and ensure that it has the necessary resources to restructure.

34. The primary goals of Northwest's restructuring will be to achieve and maintain: (a) a competitive cost structure including both labor and non-labor costs; (b) a more efficient business model that will allow us to continue to deliver superior choice and service to our customers; and (c) a strengthened balance sheet with debt and equity levels consistent with long term profitability.

Northwest Has Many Strategic Assets And Competitive Advantages That Will Enable It To Succeed.

35. Northwest has many strengths which will enable it to compete effectively and prosper once it has achieved its restructuring goals. Northwest's domestic network is built around the Heartland¹¹, which generates 75% of its domestic revenues. Northwest's Detroit, Minneapolis/St. Paul and Memphis hubs serve large markets, have a high mix of business travel, are single carrier hubs in which Northwest has a high market share, and are geographically ideal to serve the Heartland markets.

36. Northwest also has a global network stretching from Europe to Asia. Northwest has a long history of serving Japan whose gross domestic product is larger than all other Asian markets combined (including China). Northwest is the largest carrier between the U.S. and Japan with unlimited rights between the U.S. and Japan and with valuable Fifth Freedom rights beyond Japan – i.e., Northwest, unlike many of its competitors, is able to carry local passengers

¹¹ The Heartland comprises the following states: Montana, North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, Missouri, Michigan, Wisconsin, Illinois, Indiana, Ohio, Kentucky and Tennessee.

on its flights between Japan and the rest of Asia. Northwest has 55% more Narita-Tokyo landing slots than United, its next largest U.S. competitor in the Pacific.

37. Northwest is also the world's alliance leader. Its joint venture with KLM, formed in 1989, is today a \$3 billion enterprise and the industry's most integrated partnership¹². In 1998, Northwest entered an alliance with Continental that has been highly profitable for both carriers. Northwest and Continental further expanded their co-operation by forming an alliance with Delta in 2003. Combined, the three carriers have a 33% share of the U.S. domestic market.

38. Northwest joined SkyTeam in 2004. By joining SkyTeam, Northwest became part of an alliance that provides service to more than 130 countries, 658 destinations, 14,320 daily flights, carries 341 million passengers annually, and has a combined 21% share of the worldwide airline market. Through its alliances, Northwest has further strengthened its competitive ability by offering customers more flights to more destinations as well as enhanced services (i.e., easy connections, more fare options, enhanced check-in procedures, single check-in, more airport lounges, etc.).

39. Northwest is also the only U.S. passenger carrier with dedicated freighter fleet. It currently utilizes 12 B747 freighter aircraft and plans to add two more in 2005. It generates nearly \$900 million in annual revenue from its cargo operations and has the second highest share of the trans-Pacific market (higher than Federal Express or UPS). This business also has significant growth opportunities with service to China and through Northwest's alliances.

¹² The Northwest-KLM joint venture was granted immunity from the antitrust laws by the U.S. Department of Transportation; this enabled the companies to form their joint venture.

40. Northwest has the benefit of the substantial investments it has made in modernizing its aircraft fleet. During the period 2001-2005, Northwest will have taken delivery of over 250 new aircraft. Northwest recently signed an agreement with Boeing as the North American launch customer for new 787s. This agreement includes 18 firm orders for delivery between 2008-2010, and options and purchase rights on an additional 50 aircraft, with Boeing and Rolls-Royce to provide or arrange the financing on the firm aircraft and certain of the option aircraft. The 787s will replace Northwest's B747-200 and DC10 aircraft, as well as provide for additional growth in Northwest's Pacific markets.

41. Northwest also has agreements with Airbus to acquire an additional A330 aircraft which will be used to replace less efficient, older generation aircraft currently used in international service.

42. Northwest has first class airport facilities. Significantly, Northwest has no gate or runway constraints at any of its hubs. Northwest's Detroit WorldGateway terminal was opened in 2002 and is already being expanded; Northwest has modernized and expanded its Minneapolis/St. Paul facilities, and has plans for substantial further expansion by 2020; and Northwest has invested in a new Narita Satellite 2 terminal in Japan. Its hub in Amsterdam-Schipol is the leading hub in Europe.

43. Northwest is the technology leader in the airline industry. It has the number one website in the industry; it has implemented electronic tickets for 95% of its passengers; its internet ticket sales account for 32% of ticket sales; and it has almost twice the number of airports with self service devices as its nearest competitor.

44. Finally, Northwest has a complement of highly skilled and dedicated employees and a very strong and experienced management team that is committed to managing Northwest through its chapter 11 reorganization and to making the Company a success.

Conclusion.

45. Northwest does not take lightly the decision to seek to restructure under chapter 11. It recognizes the benefits and costs in doing so to its employees, investors, creditors and the traveling public. Northwest has spent years attempting to restructure itself without resort to chapter 11 in a dramatically changing industry and notwithstanding adverse economic conditions. Confronted with a host of external factors it cannot control, particularly the skyrocketing cost of fuel, the Company simply has run out of time to continue this restructuring effort outside of bankruptcy protection. However, with competitive labor and non-labor costs, a more efficient business model and a strengthened balance sheet, and with the strategic assets that it currently has, I firmly believe that Northwest will be successful. This result will ultimately produce substantial benefits for Northwest's employees, creditors, and the general public.

46. I declare under penalty of perjury that the information contained in this Declaration is true and correct to the best of my knowledge and belief.

Dated: Eagan, Minnesota
September 14, 2005

/s/ Douglas M. Steenland
Douglas M. Steenland