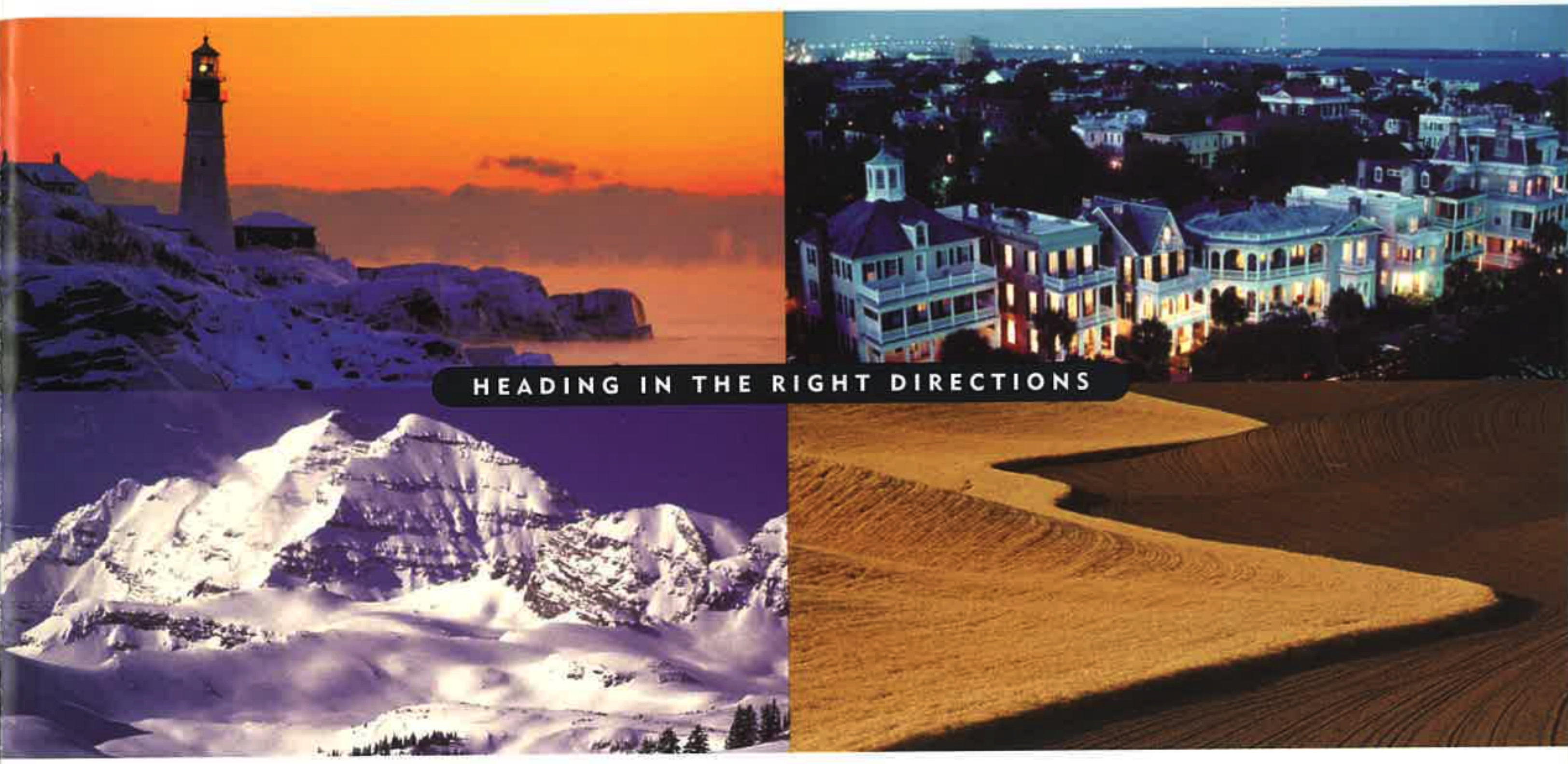

Mesaba Holdings, Inc.

1999 Annual Report

Mesaba Airlines is a U.S. domestic air carrier and one of the nation's largest regional airlines. With a fleet of over 100 jet and jet-prop aircraft, Mesaba operates almost 900 daily departures to 98 cities in 25 states and Canada. Under agreement with Northwest Airlines, Mesaba has operated as Northwest Airlink since 1984, serving the hub airports of Detroit, Memphis and Minneapolis/St.Paul. Mesaba Holdings, Inc., the parent company of Mesaba Airlines, is headquartered at the Minneapolis/St.Paul International Airport. Its common stock is traded on the Nasdaq National Market under the symbol MAIR.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS-CONSOLIDATED

(In Thousands, Except Per Share Information)

For the Years Ended March 31,	1999	1998	1997
Operating Revenues	$331,753	$277,225	$185,701
Operating Expenses	299,531	246,856	166,118
Operating Income	32,222	30,369	19,583
Net Income	21,271	19,804	11,986
Net Income per Share - Diluted	$0.99	$0.95	$0.62
Shares Outstanding - Diluted	21,512	20,846	19,310

All amounts adjusted for the 3 for 2 stock split effective April 30, 1998.

STATISTICAL HIGHLIGHTS-MESABA AVIATION, INC

(In Thousands, Except Percentages and Unit Data)

For the Years Ended March 31,	1999	1998	1997
Revenue Passengers	4,342	3,324	1,960
Revenue Passenger Miles	1,112,050	805,495	445,871
Available Seat Miles	1,994,626	1,469,229	864,083
Passenger Load Factor	55.8%	54.8%	51.6%
Passenger Revenue per Available Seat Miles	$0.165	$0.186	$0.212
Operating Cost per Available Seat Mile	$.150	$0.168	$0.192

Aspen has enjoyed seasonal service since 1997. The unique performance characteristics of the Avro RJ85 allows Mesaba to offer convenient non-stop service to mountain communities such as Aspen/Snowmass, Colorado in the winter and summer with up to three daily roundtrips from Minneapolis/St. Paul.

A FLEET AT THE FOREFRONT

New jet service rolls out.

In fiscal 1999, Mesaba Airlines took delivery of 12 Avro RJ85 aircraft. This brought the total number of regional jets operated by Mesaba to 22 aircraft with an additional 14 to be delivered by June 2000. On April 4, 1999 regional jet service was initiated to Atlanta, Georgia; Huntsville, Alabama; Wichita, Kansas; St. Louis, Missouri; and Cincinnati, Ohio from Northwest's Memphis hub. In May Mesaba expanded again with the addition of Fayetteville, Arkansas service from the Memphis hub as well as new service to Greensboro/Highpoint, North Carolina from the Detroit hub. In June Mesaba stretched its eastern boundary with the addition of service to Portland, Maine from its hub at Detroit Metro Airport.

AN INVESTMENT IN GROWTH

Moving forward with facility expansion

In April of 1999, Mesaba began construction of a 126,000 square foot aircraft maintenance facility at the Cincinnati/Northern Kentucky International Airport. This new hangar will function as the main Avro RJ85 maintenance facility. The hangar, scheduled for completion at the end of December 1999, will house six Avro RJ85 aircraft with an additional 63,000 square feet of support space including shops, offices and training space. The $12.5 million dollar facility will house approximately 155 employees, including, mechanics, administrative and training staff, pilots and flight attendants. This new hangar will allow Mesaba Airlines to meet the maintenance needs of our expanding fleet of regional jets. The convenient location of the Cincinnati/Northern Kentucky International Airport within our route structure will allow Mesaba to efficiently flow aircraft into this maintenance facility and continue our tradition of offering safe, reliable and convenient air service.

Mesaba's newest and eastern most point is Portland, Maine. This northern New England business center will benefit from three daily non-stops to Northwest's largest hub, Detroit Metro International Airport.

Maintenance facility improvements are also planned in Detroit. Later this summer, Mesaba will expand the ramp apron allowing for additional aircraft parking. Right now, the facility is predominately used as a Saab maintenance facility but will soon allow for overnighting Avro RJ85's. Mesaba schedules approximately 30% of its fleet into five maintenance facilities in Detroit, Minneapolis, Cincinnati, Rhinelander and Steven's Point/Wausau, Wisconsin.

NEW POINTS OF CONNECTION

Airport terminal improvements

Mesaba will be able to provide a more seamless and convenient travel experience to our customer with airport terminal improvements at both Minneapolis/St. Paul International Airport and the new Midfield Terminal at Detroit Metro Airport. The current expansion underway at Minneapolis/St. Paul International airport will include an entire new regional airline facility for Mesaba scheduled for completion in 2001.

In 1998, construction began on the new Midfield Terminal at Detroit Metro Airport with completion scheduled for 2001. This new passenger facility at Northwest's busiest hub will be a welcome relief from the current congestion and capacity constraints. It will not only provide Northwest with 74 new jet gates, but a new regional facility with dedicated gates as well. Designed to make connections easy and hassle free, the new facility will be connected to the main Northwest terminal by underground moving sidewalks.

Committed to seamless travel at every point, Mesaba began the use of a new Dew-Bridge℠ in 1998. This new technology allows us to accommodate passengers from turbo-prop aircraft directly to airports' ground loaded gates eliminating exposure to the outside elements. Since it's implementation in Central Wisconsin, it has been met with resounding success from our passengers and staff. As a result, several other communities we serve have shown interest in installing this technology. The new Midfield Terminal in Detroit and regional facility in Minneapolis/St. Paul will include Dew-Bridges for 26 regional aircraft.

> *Mesaba is recognized as a key component in the national transportation system to those smaller communities in Minnesota, Iowa, North and South Dakota. Travelers from these midwest cities have access to over 480 cities across the Northwest Airlines global alliance network.*

LEADING THE WAY TO A NEW STANDARD OF SERVICE

Simulator training for improved efficiency.

Mesaba's commitment to improving efficiency is evident in our new Saab 340 simulator training device. Currently under production, a new Saab 340 full motion simulator temporarily placed in Memphis, Tennessee will be fully operational in July 1999. Mesaba has secured first right of refusal on all available hours on the simulator to meet the pilot training needs in the coming years. The airline is working with the vendor to move the facility to Minneapolis/St. Paul in 2000 to further increase efficiencies for the airline. It is Mesaba's hope that this simulator will be the anchor to a training facility in Minneapolis/St. Paul which would house other aircraft simulators including an Avro RJ85 regional jet unit, as well as others. The use of full motion simulators can increase efficiency and improve training. First, the flight simulator allows the airline to complete training outside the aircraft. It can also create abnormal emergency conditions, which could not be duplicated in actual aircraft flying. And training conditions can easily be repeated until crewmember response meets the company's strict requirements.

PAVING THE PATH TO SUCCESS

Mesaba University

With the continued development of in-house management and leadership development programs, Mesaba continues to demonstrate a commitment to our most important asset, our people. As our business grows and we add associates to our team, we realize the need to coordinate how we manage people. The Mesaba University will include classes in Teambuilding, Diversity, Managing Change, Employment Law, Supervisory Skills and more. This program will enable us to offer a more defined career path to our associates and increase employment retention. Mesaba University is another opportunity for us to steer the company towards our vision of setting the benchmark in the regional airline industry into the next millennium.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

(As used herin, "unit cost" means operating cost per available seat mile. Dollars and shares outstanding are expressed in thousands)

Earnings Summary

The Company reported net income of $21.3 million or $0.99 per share for the fiscal year ended March 31, 1999, compared to $19.8 million or $0.95 per share in fiscal 1998 and $12.0 million or $0.62 per share in fiscal 1997. Weighted average common shares and common share equivalents outstanding increased to 21.5 million in the current year from 20.8 million and 19.3 million respectively. The increase in the average number of shares outstanding was due primarily to the dilutive effect of the issuance of warrants to Northwest and the exercise of stock options by current and former employees. On August 29, 1998 the Company temporarily suspended operations as a result of the pilot strike at Northwest Airlines. The Company resumed service on September 16, 1998. The suspension of service had a material adverse affect on the results of operations for the current fiscal year. Earnings per share and weighted average shares outstanding for fiscal 1998 and 1997 have been adjusted to reflect a three-for-two stock split in the form of a 50% stock dividend declared by the Board of Directors on April 6, 1998 for shares held of record on April 17, 1998.

Results of Operations

Operating Revenues.

Operating revenues rose 19.7% to $331.8 million in fiscal 1999 from $277.2 million in fiscal 1998 and $185.7 million in fiscal 1997. Passenger revenue per available seat mile ("RASM") decreased 11.3% to $0.165 from $0.186 in 1998 and 22.2% from $0.212 in 1997, primarily due to the introduction of the higher capacity RJ85 aircraft. Mesaba's average passenger load factor was 55.8% in 1999, up from 54.8% in 1998 and 51.6% in 1997. The improvement in traffic and load factor are attributable to the introduction of 12 RJ85 aircraft and the expanded jet-prop activity at the Minneapolis/St. Paul airport as well as overall increases in passenger demand within the industry. These increases were offset by the 18-day suspension of service as a result of the pilot strike at Northwest Airlines.

Operating Expenses.

Total operating expenses increased 21.3% to $299.5 million in 1999 from $246.9 million in 1998 and $166.1 million in 1997. Mesaba experienced a 10.7% decrease in the cost per available seat mile ("CASM") to 15.0 cents compared with 16.8 cents in 1998. Seat capacity (measured in ASMs) increased 35.8% in 1999 to 1.99 billion primarily as a result of the introduction of 12 RJ85 aircraft, and the increased activity at the Minneapolis/St. Paul airport. The following table compares components of Mesaba's operating cost per ASM for the years ended March 31, 1999, 1998 and 1997:

	1999	1998	1997
Wages and benefits	4.0¢	4.6¢	5.8¢
Fuel	1.3	1.7	2.1
Direct maintenance	2.8	2.9	2.9
Rents	3.5	3.9	3.6
Landing fees	0.4	0.4	0.6
Insurance and taxes	0.4	0.5	0.6
Depreciation and amortization	0.5	0.4	0.5
Other	2.1	2.4	3.1
Total	15.0¢	16.8¢	19.2¢

Wages and benefits increased 19.5% to $80.3 million in fiscal 1999 compared to $67.2 million in fiscal 1998 and $49.9 million in fiscal 1997. However, the increased capacity generated by the additional aircraft has caused these costs to be reduced on a unit cost basis 13.0% to 4.0 cents from 4.6 cents. The overall dollar increase is a result of increased cost of flight crews due to a 14.2% increase in block hours flown and the addition of flight crews to support the introduction of the RJ85 aircraft as well as continued costs to support the Saab fleet transition program. Mesaba also experienced an increase in wage and benefit cost of support personnel due to an increase in scheduled operations. Overall, personnel levels (measured on a full time equivalent basis at the fiscal year end) increased 200 to approximately 2,700 from 2,500, with the remaining increase due to normal wage and benefit increases.

Total fuel costs increased 2.0% to $25.5 million in fiscal 1999 from $25.0 million in fiscal 1998 and $17.9 million in fiscal 1997. The change is attributable to increased consumption. The average price per gallon, including taxes and into plane fees, was 83.5 cents in fiscal years 1999, 1998 and 1997. Certain provisions of the Airlink Agreement protect Mesaba from future increases in fuel prices. Unit cost decreased 23.5% to 1.3 cents from 1.7 cents. Mesaba is not required to provide fuel for the jet operation.

Direct maintenance expense, excluding wages and benefits costs, increased to $56.7 million in fiscal 1999 from $42.2 million in fiscal 1998 and $25.0 million in fiscal 1997. This increase was attributable to the addition of twelve RJ85 and 24 Saab 340BPlus aircraft to the fleet when compared to one year ago. This increase was partially offset by lower costs associated with the Dash 8 fleet due to 13 aircraft having been removed from service and returned to lessors. On a unit cost basis the cost was decreased 3.6% from 2.9 to 2.8 cents

Aircraft rentals were $70.4 million in fiscal 1999, $57.2 million in fiscal 1998 and $31.2 million in fiscal 1997. Mesaba added 12 RJ85 and 24 Saab 340 aircraft during the period and returned 13 Dash 8 aircraft to lessors. However, unit costs decreased 10.3% to 3.5 cents from 3.9 cents. Fiscal year 1998 costs include $7.7 million in wet leased aircraft expenses.

Landing fees were $6.9 million in fiscal 1999, $6.3 million in fiscal 1998 and $4.8 million in fiscal 1997. The increase is attributable to a 14.1% increase in jet-prop departures, which caused an increase in the total gross landing weight. This increase was partially offset by a slight decrease in the overall effective landing fee rate. Unit cost was unchanged at 0.4 cents. Mesaba is not required to pay landing fees for jet aircraft.

Insurance and taxes were $6.9 million in fiscal 1999, $6.8 million in fiscal 1998 and $5.3 million in fiscal 1997. This is due primarily to an increase in passenger liability insurance associated with increased passenger volume and an increase in property taxes and hull insurance caused by increasing fleet values offset by a reduction in passenger liability and hull insurance rates. Due to the additional capacity generated by the jet and jet-prop equipment, unit cost decreased 20.0% to 0.4 cents from 0.5 cents.

Depreciation and amortization totaled $10.0 million in fiscal 1999 compared to $6.5 million in fiscal 1998 and $4.3 million in fiscal 1997. The increase in Mesaba's depreciation and amortization resulted primarily from the acquisition of spare parts to support the RJ85 and Saab 340 fleet. In April and June 1998, the Company paid a contract rights fee in the form of stock purchase warrants to Northwest as part of amendments to the Regional Jet Services Agreement allowing for the increase from 12 to 36 aircraft. Contract rights are being amortized on a straight-line basis over the minimum term of the Jet Agreement through October 2002. Unit costs increased 25.0% to 0.5 cents from 0.4 cents.

Administrative and other costs totaled $42.8 million in fiscal 1999, $35.7 million in fiscal 1998 and $27.8 million in fiscal 1997. This increase is primarily attributable to higher crew related expenses due to increased flying and training to support the RJ85 and Saab 340 fleet transition program. Additionally, higher passenger and airport related expenses were incurred due to increases in traffic and the number of cities served. Unit cost decreased 12.5% to 2.1 cents from 2.4 cents. Mesaba is generally not required to provide airport and passenger related expenses for the jet operation.

Operating Income.

The Company's operating income was $32.2 million in fiscal 1999, $30.4 million in fiscal 1998 and $19.6 million in fiscal 1997. Mesaba's operating margins were 9.7% in 1999, 11.0% in 1998 and 10.5% in 1997. Both operating income and operating margins were adversely impacted by the pilots strike at Northwest Airlines which resulted in an 18-day suspension of service.

Nonoperating income.

Nonoperating income was $4.0 million in fiscal 1999, $2.6 million in fiscal 1998 and $1.1 million in fiscal 1997. Interest income increased $1.5 million to $3.7 million in 1999 from $2.2 million in 1998.

Provision for Income Taxes.

The provision for income taxes was $14.1 million in fiscal 1999, $13.1 million in fiscal 1998 and $8.7 million in fiscal 1997. The effective tax rate decreased to 39.0% in 1999 from 39.9% in 1998 and 42.1% (not including the gain on distribution which is not taxable) in 1997. This decrease is due primarily to the lower level of nondeductible expenses as a percentage of taxable income.

Liquidity and Capital Resources

The Company's working capital increased to $68.7 million with a current ratio of 2.4 at March 31, 1999 compared to $51.7 million and 2.2 at March 31, 1998. Cash and short-term investments increased by $16.6 million to $83.2 million at March 31, 1999. Net cash flows provided by operating activities totaled $35.9 million in fiscal 1999 compared to $30.0 million in fiscal 1998. Net cash flows provided by financing activities amounted to $3.4 million in fiscal 1999 and consisted of $3.8 million in proceeds from the exercise of stock options by current and former employees offset by principal payments of $0.4 million.

The Company maintains a letter of credit facility totaling $0.2 million, which secures a lease commitment to the County of Wayne, Michigan for the Company's Detroit hangar.

Long term debt, net of current maturities, totaled $4.4 million at March 31, 1999 and $4.8 million as of March 31, 1998. Long-term debt consists principally of capitalized lease financing for the Minneapolis/St. Paul and Detroit hangar facilities. The ratio of long term debt to stockholders' equity was 4% at March 31, 1999 compared to 6% at the end of fiscal 1998.

As of June 1999, Mesaba's fleet consisted of 100 aircraft covered under operating leases with remaining terms of eight months to 17 years and aggregate monthly lease payments of approximately $7.5 million. Operating leases have been the Company's primary method for acquiring aircraft, and management expects to continue relying on this method to meet most of its future aircraft financing needs.

During Fiscal 1999, Mesaba committed to lease approximately 497, 000 square feet of facilities, ramp, parking and unimproved land at the Cincinnati/Northern Kentucky Airport. The commitment covers approximately 126,000 square feet of hangar and maintenance space and obligates Mesaba to pay monthly rentals expected to range between approximately $95,000 and $105,000 until January 29, 2029 as part of Special Facilities Bond financing provided by Cincinnati/Northern Kentucky Airport Authority. The ground lease is expected to have a 30-year term concurrent with the facilities lease, which is expected to expire January 29, 2029. Monthly lease payments of approximately $10,500 are anticipated to be required under the ground lease.

Approximately 81% of Mesaba's passengers connected with Northwest in fiscal 1999, 79% in 1998 and 72% in 1997. Approximately 89% of the Company's accounts receivable balance at March 31, 1999 is due from Northwest. Loss of the Company's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink or Jet Agreement for any reason would have a material adverse effect on the Company's operations and financial results.

The Company has historically relied upon cash reserves and internally generated funds to support its working capital requirements. Other than financing required for the new maintenance facility management believes that funds from operations and existing cash balances will provide adequate resources for meeting non-aircraft capital needs in fiscal 2000.

Other Information

The Company has implemented a Year 2000 compliance program designed to ensure that the Company's internal information technology will function properly beyond 1999. This includes software applications, hardware and infrastructure which are essential for flight scheduling; aircraft maintenance; finance systems; internal communication and facilities management. The Company estimates that the overall cost of the Year 2000 compliance program will not exceed $500,000 and expects its Year 2000 date conversion program to be completed on a timely basis. Any expenditure will be funded through operating cash flows while any costs for new software will be capitalized and amortized over the software's useful life.

The Company is working cooperatively with third parties having systems upon which the Company must rely. The Company can not give any assurance that the systems of other parties will be year 2000 compliant on a timely basis or the Company's or third parties contingency plans will mitigate the effects of noncompliance. Third parties with systems the Company uses or relies upon include: Federal Aviation Administration Air Traffic Control, Saab Aircraft, British Aerospace and Northwest Airlines. The Company's business, financial condition and results of operations could be materially affected by the failure of its systems or those operated by others (which the Company believes is the most reasonable worst case scenario) and could result in the reduction or suspension of the Company's operation.

The Company is reviewing and revising its business interruption contingency plans to address internal and external issues to the extent practicable. The review, together with any necessary revisions, will be completed by September 1999. The review of these plans will include how to maintain safety, increase inventory of essential components, change suppliers, perform certain functions and processes manually and reduce or suspend operations. Due to the uncertainty related to year 2000 issues, the Company's contingency plan will be ongoing in nature and may require further modifications to existing systems as new information is made available and the Company further assesses the readiness of third parties upon which the Company relies.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Mesaba Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Mesaba Holdings, Inc. (a Minnesota corporation) and Subsidiary as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesaba Holdings, Inc. and Subsidiary as of March 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

As explained in Note 7 to the financial statements, effective April 1, 1998, the Company changed its method of accounting for start-up costs.

ARTHUR ANDERSEN LLP
Minneapolis, Minnesota
May 7, 1999

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Information)

As of March 31,	1999	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 83,152	$ 66,554
Accounts receivable, net	15,905	13,610
Inventories	6,564	5,547
Prepaid expenses and deposits	3,719	3,788
Deferred income taxes	8,014	4,702
Total current assets	117,354	94,201
Property and Equipment:		
Facilities under capital lease	9,147	9,147
Flight equipment	41,178	22,449
Other property and equipment	21,635	16,865
Accumulated depreciation and amortization	(24,765)	(16,364)
Net property and equipment	47,195	32,097
Other Assets, net	14,674	10,893
	$179,223	$137,191
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligations	$ 393	$ 436
Accounts payable	20,857	18,093
Accrued liabilities-		
Payroll	8,786	9,362
Maintenance	10,415	6,877
Other	8,223	7,741
Total current liabilities	48,674	42,509
Capital Lease Obligations, net of current maturities	4,359	4,751
Other Noncurrent Liabilities	16,951	14,385
Shareholders' Equity:		
Common stock, $.01 par value, 60,000,000 shares authorized; 19,863,829 and 19,397,523 shares issued and outstanding, respectively	199	194
Paid-in capital	45,013	41,196
Warrants	16,500	7,900
Retained earnings	47,527	26,256
Total shareholders' equity	109,239	75,546
	$179,223	$137,191

The accompanying notes are an integral part of these consolidated balance sheets.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Information)

For the Years Ended March 31,	1999	1998	1997
Operating Revenues:			
Passenger	$328,244	$273,973	$183,409
Freight and other	3,509	3,252	2,292
Total operating revenues	331,753	277,225	185,701
Operating Expenses:			
Wages and benefits	80,297	67,194	49,850
Aircraft fuel	25,512	24,983	17,850
Aircraft maintenance	56,682	42,172	25,012
Aircraft rents	70,422	57,235	31,242
Landing fees	6,886	6,330	4,770
Insurance and taxes	6,894	6,761	5,307
Depreciation and amortization	10,027	6,500	4,265
Other	42,811	35,681	27,822
Total operating expenses	299,531	246,856	166,118
Operating income	32,222	30,369	19,583
Nonoperating (Expense) Income:			
Interest expense	(443)	(458)	(511)
Interest income and other	4,405	3,022	1,641
Income before income taxes and change in accounting principle	36,184	32,933	20,713
Provision for Income Taxes	14,113	13,129	8,727
Net income before change in accounting principle	$ 22,071	$ 19,804	$ 11,986
Pre-operating cost write-off, net of tax	(800)	–	–
Net income	$ 21,271	$ 19,804	$ 11,986
Earnings Per Common Share before accounting change - Basic	$ 1.12	$ 1.03	$ 0.63
Earnings Per Common Share - Basic	$ 1.07	$ 1.03	$ 0.63
Weighted Average Number of Common Shares Outstanding - Basic	19,793	19,270	19,143
Earnings Per Common Share before accounting change - Diluted	$ 1.03	$ 0.95	$ 0.62
Earnings Per Common Share - Diluted	$ 0.99	$ 0.95	$ 0.62
Weighted Average Number of Common Shares Outstanding and Common Share Equivalents Outstanding - Diluted	21,512	20,846	19,310

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands, Except Share Information)

For the Years Ended March 31	Common Stock Shares	Common Stock Amount	Paid-In Capital	Warrants Shares	Warrants Amount	Retained Earnings	Total Shareholders' Equity
Balance, March 31, 1996	19,104,069	$ 190	$ 39,759	–	$ –	($ 5,534)	$ 34,415
Issuance of warrants	–	–	–	922,500	3,100	–	3,100
Exercise of stock options, net of related tax effects	72,000	2	291	–	–	–	293
Net income	–	–	–	–	–	11,986	11,986
Balance, March 31, 1997	19,176,069	192	40,050	922,500	3,100	6,452	49,794
Issuance of warrants	–	–	–	1,320,000	4,800	–	4,800
Exercise of stock options, net of related tax effects	221,184	2	1,146	–	–	–	1,148
Net income	–	–	–	–	–	19,804	19,804
Balance, March 31, 1998	19,397,253	194	41,196	2,242,500	7,900	26,256	75,546
Issuance of warrants	–	–	–	1,909,422	8,600	–	8,600
Exercise of stock options, net of related tax effects	466,576	5	3,817	–	–	–	3,822
Net income	–	–	–	–	–	21,271	21,271
Balance, March 31, 1999	19,863,829	$ 199	$ 45,013	4,151,922	$ 16,500	$ 47,527	$ 109,239

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

For the Years Ended March 31,	1999	1998	1997
Operating Activities:			
Net income	$ 21,271	$ 19,804	$ 11,986
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	10,027	6,500	4,265
Deferred income taxes	(2,581)	(819)	(2,228)
Change in current operating items:			
Accounts receivable, net	(1,018)	(266)	(4,090)
Inventories	(443)	(1,835)	(411)
Prepaid expenses and deposits	69	(734)	(280)
Accounts payable and other	8,557	7,305	14,117
Net cash flows provided by operating activities	35,882	29,955	23,359
Investing Activities:			
Purchases of property and equipment, net	(22,669)	(13,418)	(3,301)
Increase in other assets	–	175	(219)
Net cash flows used for investing activities	(22,669)	(13,243)	(3,520)
Financing Activities:			
Repayment of capital lease obligations	(437)	(432)	(434)
Proceeds from issuance of common stock	3,822	1,148	293
Net cash flows (provided by) used for financing activities	3,385	716	(141)
Net Increase in Cash and Cash Equivalents	16,598	17,428	19,698
Cash and Cash Equivalents:			
Beginning of year	66,554	49,126	29,428
End of year	$ 83,152	$ 66,554	$ 49,126
Supplementary Cash Flow Information:			
Cash paid during the year for-			
Interest	$ 443	$ 458	$ 511
Income taxes	$ 14,569	$ 15,169	$ 7,948

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Thousands, Except Share and Per Share Information)

1. Corporate Organization and Business:

Corporate Organization

The consolidated financial statements include the accounts of Mesaba Holdings, Inc. (the "Company") and its subsidiary, Mesaba Aviation, Inc. ("Mesaba"). All significant intercompany balances have been eliminated in consolidation.

Business

The Company operates a regional air carrier providing scheduled passenger and air freight service as Mesaba Airlines/Northwest Airlink and Mesaba Airlines/Northwest Jet Airlink under two separate agreements with Northwest Airlines, Inc. ("Northwest") to 101 cities from Northwest's hub airports, Minneapolis/St. Paul, Detroit and Memphis. The Airline Services Agreement (the "Airlink Agreement") provides for exclusive rights to designated service areas and extends through June 30, 2007, automatically renewing indefinitely thereafter. Northwest may terminate the Airlink Agreement on 365 days notice any time after June 30, 2000. In addition, Mesaba purchases fuel, reservation systems, ground handling and other services from Northwest. The company paid $16,440 to Northwest in fiscal 1999, $17,963 in 1998 and $16,611 in 1997 for these services. The Airlink Agreement provides for certain incentive payments from Northwest to Mesaba based on achievement of certain operational or financial goals, as defined. Such incentives totaled $4,830 in 1999, $4,297 in 1998, and $1,960 in 1997.

Mesaba and Northwest entered into a Regional Jet Services Agreement, dated October 25, 1996 (the "Jet Agreement"), under which Mesaba will operate 36 Avro RJ85 ("RJ85") regional jets for Northwest. The aircraft will be subleased from Northwest and will be operated from Minneapolis/St. Paul, Detroit and Memphis hubs according to routes and schedules determined by Northwest. Under the Jet Agreement, Mesaba is not required to provide fuel and airport and passenger related services. Jet service began in June 1997.

Under the agreements, all Mesaba flights appear in Northwest's timetables and Mesaba receives ticketing and certain check-in, baggage and freight-handling services from Northwest at certain airports. Mesaba also benefits from its relationship with Northwest through advertising and marketing programs. Approximately 81% of Mesaba's passengers connected with Northwest in fiscal 1999, 79% in 1998 and 72% in 1997. Approximately 89% of the March 31, 1999 accounts receivable balances in the accompanying consolidated balance sheet are due from Northwest.

Although Mesaba maintains an expanding air system serving those traffic centers, loss of Mesaba's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink or Jet Agreement would have a material adverse effect on the Company's operations, financial position and cash flows. Northwest and the Company review contract compliance on a periodic basis.

2. Summary of Significant Accounting Policies:

Cash and Cash Equivalents

Cash equivalents consist primarily of U.S. government securities and interest-bearing deposits with maturities of less than 90 days and are stated at cost, which approximates market.

Inventories

Inventories are stated at the lower of average cost or market and consist of expendable aircraft service parts and fuel. Expendable parts are charged to maintenance as used.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis for financial reporting purposes over estimated useful lives of 5-10 years for aircraft engines, flight equipment and rotable parts; 3-10 years for all other equipment; 5-36 years for buildings and improvements; and over the lease term for facilities under capital lease. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. Accelerated cost recovery methods of depreciation are applied for tax reporting purposes.

Contract Rights

In connection with the Jet Agreement as amended, the Company paid a contract rights fee in the form of a stock purchase warrants to Northwest. Contract rights and related other assets totaled $11,700 and related accumulated amortization totaled $1,759 and $689 at March 31, 1999 and 1998 respectively. Contract rights are amortized on a straight-line basis over six years to coincide with the minimum term of the Jet Agreement.

In connection with the Airlink Agreement, the Company paid a contract rights fee in the form of a stock purchase warrant to Northwest. Contract rights and related other assets totaled $4,800 and related accumulated amortization totaled $840 and $360 at March 31, 1999 and 1998 respectively. Contract rights are amortized on a straight-line basis over ten years to coincide with the term of the Airlink Agreement.

Revenue Recognition

Passenger revenues are recorded as income when the respective services are rendered.

Frequent Flyer Awards

As a Northwest Airlink carrier, Mesaba participates in Northwest's frequent flyer program ("WorldPerks"), and passengers may use mileage accumulated in that program to obtain discounted or free trips that might include a flight segment on one of Mesaba's flights. However, under the Airlink or Jet Agreement, Northwest is responsible for the administration of WorldPerks, and Mesaba receives revenue from Northwest for WorldPerks travel awards redeemed on Mesaba flight segments.

Income Taxes

The Company accounts for income taxes under the liability method whereby deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Income Per Share

Statement of Financial Accounting Standards No. 128, "Earnings per Share," requires presentation of "Basic" and "Diluted" earnings per share amounts, as defined. "Basic" earnings per share replaces primary earnings per share under APB Opinion No.15, and excludes the dilutive effects of options, warrants and convertible securities, if any, from the calculation. Fully diluted earnings per share has not changed significantly but has been named "Dilutive" earnings per share. Statement No.128 became effective for fiscal 1998. All earnings per share prior to 1998 have been restated to comply with this Statement.

Other Assets

In order to assist the Company in integrating new aircraft into its fleet, certain manufacturers provide the Company with spare parts or other credits. The Company has deferred these amounts and amortizes them over the terms of the related aircraft leases as a reduction of rent expense. Amortization expense of $1,822 and $1,071 was recorded during the year ended March 31,1999 and 1998 respectively.

The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of the intangible assets, the Company would recognize an impairment loss.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

3. Flight Equipment:

The Company's airline fleet consisted of the following aircraft held under operating leases as of March 31, 1999:

Number of Aircraft	Type of Aircraft	Seating Capacity
75	Saab 340	30/34
22	Avro RJ85	69

Under terms of the Jet Agreement, the Company subleases its Avro RJ85 aircraft from Northwest under operating leases with original terms of up to ten years. The Jet Agreement allows the Company to return aircraft to Northwest upon the occurrence of certain events, including termination or breach of the Jet Agreement.

The company leases all of its Saab 340 aircraft, either directly from aircraft leasing companies or through sub-leases with Northwest under operating leases with terms of up to 17 years. The Airlink agreement allows Mesaba to return aircraft to Northwest upon the occurance of certain events.

Aircraft maintenance and repairs on Saab 340 and RJ85 aircraft are charged to expense when incurred, except for the cost of major airframe inspections, for which the estimated cost is accrued and charged to maintenance expense based upon hours flown, thus providing for the inspection cost when it occurs.

The aircraft operating leases require future minimum rental payments as follows at March 31, 1999:

2000	$ 84,021
2001	83,268
2002	83,268
2003	82,561
2004	79,483
Thereafter	$ 410,585

Mesaba has firm lease commitments for the remaining14 undelivered RJ85 aircraft. The table above does not reflect any minimum lease payments for those undelivered aircraft.

Rent expense under aircraft operating leases totaled approximately $70,422 in 1999, $49,500 (not including wet lease expense) in 1998 and $31,242 in 1997 (including $32,472, $27,172 and $21,564 paid to Northwest in 1999, 1998 and 1997, respectively).

4. Income Taxes:

The provision for income taxes for the three years ended March 31 is comprised of the following elements:

	1999	1998	1997
Current:			
Federal	$11,657	$11,053	$ 8,748
State	2,973	2,895	2,207
Deferred	(517)	(819)	(2,228)
Total provision for income taxes	$14,113	$13,129	$ 8,727

The actual income tax expense differs from the expected tax expense for 1999, 1998 and 1997 (computed by applying the U.S. federal corporate tax rate of 35 percent to earnings before income taxes) as follows:

	1999	1998	1997
Computed tax expense at statutory rate	$12,664	$11,527	$ 7,250
Increase (decrease) in income taxes resulting from:			
State taxes, net of federal tax benefit	1,932	1,672	1,654
Non-deductible flight crew expenses	754	552	397
Other, net	(1,237)	(622)	(574)
Total income tax expense	14,113	$13,129	$ 8,727

Deferred tax assets and liabilities are comprised of the following as of March 31:

	1999	1998	1997
Deferred tax assets:			
Maintenance	$ 3,456	$ 2,126	$ 2,560
Prepaids	1,288	229	248
Warrant Amortization	411	489	–
Other Accruals	3,672	3,450	1,921
Gross deferred tax assets	8,827	6,294	4,729
Deferred tax liabilities:			
Property and equipment	746	1,042	619
Preoperating costs	67	457	63
Integration funds	–	93	164
Gross deferred tax liabilities	813	1,592	846
Net deferred tax assets	$ 8,014	$ 4,702	$ 3,883

5. Shareholders' Equity:

Stock Split

On April 6, 1998 the Company's board of directors declared a three-for-two stock split of the Company's common stock for shares held of record on April 17, 1998. The par value per common share remained at $0.01. This stock split has been retroactively reflected in these financial statements.

Stock Option Plans

The Company has stock option plans for key employees and directors, which authorize the issuance of shares of common stock for such options. Under the plans, options are granted by the compensation committee of the board of directors and vest over a period of four to five years commencing one year after the date of grant. The purchase price of the stock is 110% of the fair market value of the stock at the date of grant for participants owning 10% or more of the outstanding common stock and 100% of the fair market value for all other participants.

Stock option transactions for the three years ended March 31 were as follows:

	Shares	Price Per Share
Options outstanding, March 31, 1996	941,250	$ 2.75-$ 5.25
Granted	456,000	$ 7.75-$ 8.92
Exercised	(72,000)	$ 3.17-$ 5.17
Canceled	(15,000)	$8.00
Options outstanding, March 31, 1997	1,310,250	$ 2.75-$ 8.92
Granted	217,500	$ 8.25-$14.25
Exercised	(221,184)	$ 2.75-$ 8.92
Options outstanding, March 31, 1998	1,306,566	$ 2.92-$14.25
Granted	190,000	$18.00-$23.00
Exercised	(470,779)	$ 2.92-$12.42
Options outstanding, March 31, 1999	1,025,787	$ 3.50-$23.00
Exercisable at March 31, 1999	327,512	
Available for grant at March 31, 1999	554,000	

As of March 31, 1999, of the total shares available for grant, 174,000 are available for non-employee directors and 380,000 are available for certain management personnel.

7. Earnings per Share

The following table sets forth the computation of earnings per common share:

	1999	1998	1997
Numerator:			
Net Income	$ 21,271	$ 19,804	$ 11,986
Denominator:			
For Earnings per Common Share - Basic:			
Weighted average number of issued shares outstanding	19,793	19,270	19,143
Effect of dilutive Securities:			
Computed shares outstanding under the Company's stock option plan utilizing the treasury stock method	486	711	86
Computed shares outstanding under warrants issued utilizing the treasury stock method	1,233	865	81
For earnings per Common Share - Diluted:			
Weighted Average Common Shares and Share Equivalents Outstanding	21,512	20,846	19,310
Earnings per share - Basic	$ 1.07	$ 1.03	$ 0.63
Earnings per share - Diluted	$ 0.99	$ 0.95	$ 0.62

In April of 1998, the Company adopted AICPA Statement of Position (SOP) 98-5 "Reporting on the Costs of Start-Up Activities" which requires all start-up costs to be charged to expense as incurred. The adoption of SOP 98-5 resulted in an $800 charge (net of tax) to operations, or $0.03 per basic and diluted share for previously capitalized start-up costs and was recorded as a cumulative effect of change in accounting principle.

Mesaba Holdings, Inc. and Subsidiary

8. Quarterly Financial Data (unaudited)

(in thousands except share and per share data)

	Quarters of Fiscal Year Ended March 31, 1999				
	June 30, 1998	September 30, 1998	December 31, 1998	March 31, 1999	Fiscal Year 1999
Total operating revenues	$ 80,469	$ 71,689	$ 89,641	$ 89,954	$331,753
Operating income	10,464	1,806	10,242	9,710	32,222
Net income	6,033	2,080	6,730	6,428	21,271
Earnings per Common Share - Basic	$ 0.31	$ 0.10	$ 0.34	$ 0.32	$ 1.07
Weighted average Common shares outstanding - Basic	19,616	19,824	19,838	19,864	19,793
Earnings per Common Share - Diluted	$ 0.28	$ 0.10	$ 0.32	$ 0.30	$ 0.99
Weighted average Common shares and Share Equivalents outstanding - Diluted	21,755	21,638	21,230	21,246	21,512

	Quarters of Fiscal Year Ended March 31, 1998				
	June 30, 1997	September 30, 1997	December 31, 1997	March 31, 1998	Fiscal Year 1998
Total operating revenues	$ 54,424	$ 71,942	$ 75,443	$ 75,416	$277,225
Operating income	6,209	9,155	8,327	6,678	30,369
Net income	3,973	5,748	5,292	4,791	19,804
Earnings per Common Share - Basic	$ 0.21	$ 0.30	$ 0.27	$ 0.25	$ 1.03
Weighted average Common shares outstanding - Basic	19,183	19,238	19,276	19,381	19,270
Earnings per Common Share - Diluted	$ 0.20	$ 0.28	$ 0.25	$ 0.22	$ 0.95
Weighted average Common shares and Share Equivalents outstanding - Diluted	19,792	20,549	21,021	21,530	20,846

FIVE YEAR SELECTED FINANCIAL AND STATISTICAL DATA

(In Thousands, Except Per Share Information)

Fiscal years ended March 31,	1999	1998	1997	1996	1995
Statement of Operations Data:					
Operating revenues	**$331,753**	$277,225	$185,701	$170,455	$145,900
Operating expenses	**$299,531**	$246,856	$166,118	$158,148	$141,541
Operating Income	**$ 32,222**	$ 30,369	$ 19,583	$ 12,307	$ 4,359
Net Income	**$ 21,271**	$ 19,804	$ 11,986	$ 6,972*	$ 2,606
Net income per Share - diluted	**$ 0.99**	$ 0.95	$ 0.62	$ 0.40*	$ 0.19
Weighted average number of shares outstanding and common share equivalents - diluted	**21,512**	20,846	19,310	17,534	13,670

*Excludes non-taxable gain of $49,303 from distribution of subsidary

	1999	1998	1997	1996	1995
Balance Sheet Data:					
Current Assets	**$117,354**	$ 94,201	$ 71,201	$ 44,465	$ 46,154
Net property and equipment	**47,195**	32,097	19,772	12,388	14,931
Other noncurrent assets	**14,674**	10,893	13,593	1,351	5,799
Total Assets	**$179,223**	$137,191	$104,566	$ 58,204	$ 66,884
Current Liabilities	**$ 48,674**	$ 42,509	$ 33,393	$ 17,323	$ 17,052
Long-term Liabilities	**21,310**	19,136	21,379	6,466	7,388
Shareholders' equity	**109,239**	75,546	49,794	34,415	42,444
Total liabilities and shareholders' equity	**$179,223**	$137,191	$104,566	$ 58,204	$ 66,884

CORPORATE INFORMATION

Address
Mesaba Holdings, Inc.
7501 26th Avenue South
Minneapolis, MN 55450

Transfer Agent
Norwest Bank Minnesota, N.A.

Corporate Counsel
Briggs and Morgan,
Minneapolis, Minnesota

Auditors
Arthur Andersen LLP,
Minneapolis, Minnesota

Form 10-K
A copy of the Company's Form 10-K annual report will be provided free of charge to any shareholder upon written request to:

Finance Department
Mesaba Holdings, Inc.
7501 26th Avenue South
Minneapolis, MN 55450

Annual Meeting
The annual meeting of shareholders will be held at 1:30p.m. Monday, August 23, 1999, at the Marriott City Center, Minneapolis, Minnesota.

BOARD OF DIRECTORS

Carl R. Pohlad
Chairman of the Board
Mesaba Holdings, Inc.

Bryan K. Bedford
Former President and Chief Executive Officer
Mesaba Holdings, Inc.

Donald E. Benson
Executive Vice President
Marquette Bancshares, Inc.

Christopher E. Clouser
Senior Vice President,
Human Resources
Communications & Administration
Northwest Airlines, Inc.

Richard B. Hirst
Senior Vice President
Corporate Affairs
Northwest Airlines, Inc.

Robert C. Pohlad
President
Pohlad Companies

John S. Kern
Vice President Regulatory Compliance
and Chief Safety Officer
Northwest Airlines, Inc.

Raymond W. Zehr, Jr.
Vice President
Pohlad Companies

CORPORATE OFFICERS

Carl R. Pohlad
Chairman of the Board

John S. Fredericksen
Interim Chief Executive Officer
Vice President Administration
and General Counsel

F. Darrell Richardson
Vice President Operations and
Chief Operating Officer

Robert H. Cooper
Vice President
Chief Financial Officer
and Treasurer

Scott L. Durgin
Vice President
Customer Service

MANAGING DIRECTORS

James R. Arble
Director
Customer Service – Eastern Region

Scott R. Bussell
Director
Maintenance Operations

Wayne C. Heller
Director
System Operations Control

Jeffrey B. Jones
Director
Market Planning

Richard A. Lawrence
Director
Flight Operations

Jon R. Meyer
Director
Accounting and Controller

Dennis J. Ofstedahl
Director
Customer Service – Western Region

Jeffrey C. Olander
Director
Information Systems

Darlene C. Radloff
Director
Corporate Education

Charles P. Rathbun
Director
Quality Control and Engineering

William R. Ruester
Director
Safety and Compliance

Daniel F. Sheehan
Director
Administration and Human Resources

Sandra K. Sturm
Director
Purchasing and Contracts

Warren R. Wilkinson
Director
Marketing and Corporate Communications

By keeping our focus firmly on serving our guests' needs, we will provide safe, reliable, convenient and comfortable air transportation that will set the standard for all regional airlines, while providing a secure and positive work environment for our associates, and a market-driven return on investment for our shareholders.

MESABA AIRLINES