



Internal Memorandum

Date: June 7, 2004

To: All Delta Employees

From: Jerry Grinstein, Chief Executive Officer

Subject: Building Delta's Future Together

Since becoming CEO last January, I've had the opportunity to meet personally with many of you. My visits over these past few months to stations around our system—ATL, CVG, DCA, DFW, JFK, LAX, LGA, SLC, and others—have been a powerful reminder of the quality and dedication of Delta people. It's easy to see what has enabled Delta to become one of the world's great airlines, and great companies, over the past 75 years.

As you would expect, one of the principal topics of conversation in these meetings has been what we need to do to remain a great company. Delta is at a crossroads, and where we go from here will have a tremendous impact not just on the company as a whole, but on the jobs and lives of every member of the Delta family. But time is growing short and the damage is continuing. The longer we wait, the more problematic and questionable our recovery becomes.

I am writing to you today to address three specific issues: (1) The fundamental, permanent and accelerating changes that are affecting our industry, (2) What Delta must do to become a viable and successful company in this rapidly evolving environment, and (3) What you can do to make a difference.

A rapidly changing industry

Our industry has changed dramatically in recent years—and continues to do so. Many of the factors driving that change are permanent and structural. One factor was, of course, 9/11, which caused many people to seek alternatives to air travel. Others include the rise of Web shopping channels, which has intensified price and cost competition, and the huge increase in jet fuel prices over the past year.

But, the biggest threat to our profitability—and survival—is the rapid growth of the low-cost carriers, or LCCs. They (including the many that have failed) have been a part of the aviation landscape since the industry was deregulated in 1978. What is different today is that, unlike many flash-in-the-pan LCCs that came and went in the eighties and nineties, several of today's LCCs are well-capitalized, well-run, and very good at taking business away from the legacy airlines based not just on price, but on service, reliability, and perceived value—all the ways in which Delta and other major carriers have historically differentiated themselves from their LCC rivals.

Most important, today's LCCs have much lower cost structures, which allow them to earn profits even as they offer highly competitive fares. Delta's concentration of service along the Atlantic Seaboard and our reliance on connecting traffic makes us particularly vulnerable to LCC growth. Almost 70% of our domestic revenues are currently exposed to LCC competition and, as recently demonstrated by Southwest's entry into Philadelphia, that number is certain to increase. Because we have sustained such heavy losses over the past four years,

we have had to go further into debt to cover them. The company has a debt of \$20.6 billion. This is a perilous situation; we no longer have a financial cushion to offset losses going forward.

What Delta must do to become a viable company

What we are now experiencing is not just part of the traditional cycle of ups and downs in the airline business. We are now in a new era, with new cost structures and passenger expectations. Any notion that we can simply grow ourselves out of this predicament is mistaken. It ignores the reality of the marketplace. Many of our costs are higher than those of our competitors and our customers will not pay us to cover the difference. We must recognize this change and act quickly to address it.

We need to reinvent ourselves. We need to redefine our business model so that it reflects today's, and tomorrow's, competitive environment. We need to make sure we have the right strategy, cost structure, network, equipment and organization. Delta's Board and senior management team have been addressing this challenge in a number of ways, including the Profit Improvement Initiatives (PII), which have already produced significant results. Delta people throughout our organization have made many sacrifices and contributed greatly to the success of these initiatives. In 2003 alone, Delta achieved savings of \$1.2 billion through the PII. A significant amount of this total was achieved through staffing, productivity and benefit changes among Delta's non-contract employees.

Earlier this year we initiated a comprehensive review to determine the strategic, operational and financial steps we need to compete more effectively and position Delta for long-term viability and success. We expect to report some of our initial findings from that ongoing review later this summer and will continue to update you on our progress.

We know there has been speculation in the media and elsewhere that Delta may be heading for a Chapter 11 filing. Many companies have used the Chapter 11 process to help them reduce their costs and strengthen their balance sheets. Delta's Board and management team are working hard to achieve a competitive cost structure and long-term viability without seeking Chapter 11 protection.

But the outcome of these efforts is not fully within our control. Market conditions, competitive forces, and our ability to achieve a realistic pilot cost structure will each play a critical role. Because of our cost disadvantage versus the LCCs, even an improving economy, better marketing, lower fuel costs, further non-pilot productivity improvements, or any combination of these factors won't be enough to achieve long-term viability unless we eliminate what has become a huge disparity between our pilot costs and those of our competitors—legacy airline and LCC alike.

Despite the sacrifices already made by many in the Delta family, including the reduction of more than 16,000 jobs over the past three years, changes in benefits and in other areas—our unit costs are now, along with those of USAirways, by far the highest in the industry. While we are aggressively exploring every possible opportunity to make, and save, money, the biggest factor in our current financial situation is no secret. Virtually every major airline, in or out of bankruptcy, has made dramatic modifications to the historical pay structure of its pilots—except Delta. As a result, based on pilot costs per block hour, Delta's pilot costs are 59% higher than American's, 62% higher than Continental's, 82% higher than United's, 133% higher than Southwest's, 193% higher than JetBlue's, and 207% higher than AirTran's. These numbers do not yet reflect the latest 4.5 percent pay raise Delta pilots received beginning May 1, 2004.

Our pilots have been key players on the Delta team for many years, and their contributions are appreciated. But in today's airline industry environment, marked by increasingly intense competition and (at best) razor-thin profit margins, we simply can't afford to pay pilots—or any employee group, for that matter—at non-competitive

levels. We will continue to urge ALPA to accept a modified labor agreement for our pilots that, while still competitive, reflects the new economic and industry environment.

It has been a year since Delta put its proposal on the table. Responses from ALPA to our requests for relief have fallen far short of what is needed to allow Delta to achieve a sustainable future. Unfortunately, Delta's situation has become far worse in the year since we first presented our proposal, and that must now be reflected in our discussions with ALPA. The company's new proposal cannot be a bargaining position from which to negotiate down. It will represent the minimum savings amount that Delta must obtain from the pilots, however painful, if this company, and their jobs, are to survive.

ALPA understands how serious this situation has become. In the more than a year since we first talked with the union about needing to significantly reduce pilot costs, we have opened our books to ALPA and its advisors. Our objective has been to have a completely open process with detailed information available to all.

The urgency of our situation is clear. No matter what our business plan looks like, there can be no doubt that pilot costs are the largest boulder in the road that must be dealt with if we are to have a chance to address our other challenges.

What you can do to make a difference

Although pilot costs are the single most important element in achieving a competitive cost structure, those changes alone will not completely address our cost issues. As we calculate what it will take to make Delta a viable competitor, other significant cost savings and structural changes must be put into place.

All of us, at every level of the organization, will have to look for additional and better ways to increase efficiency and productivity. At the same time, of course, we must continue to focus on providing safe, reliable operations and delivering outstanding service to our customers. These are the qualities that will keep customers flying with us and help us win new ones.

Although it won't be easy and it will require great sacrifice, I believe that—if we work together, and do what we need to do now—we can deal successfully with our challenges and position Delta to compete for the long-term.

Thank you for working so hard and well for Delta.

A handwritten signature in black ink, appearing to read "Jerry". The signature is written in a cursive, slightly slanted style.

Jerry Grinstein