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Delta Air Lines

1998 ANNUAL REPORT

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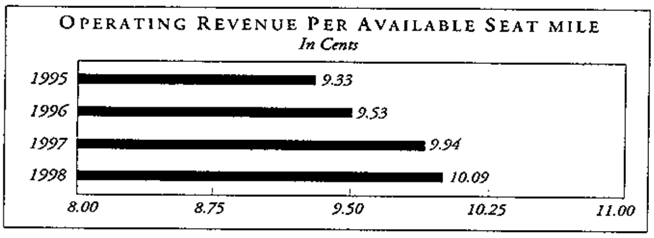
Business Description

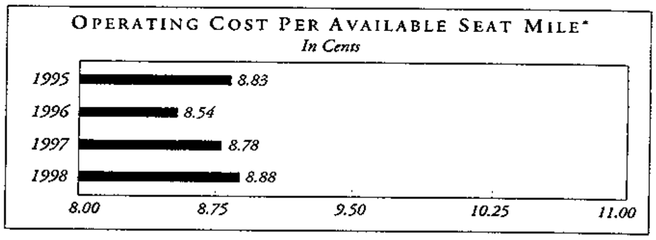
Delta Air Lines, Inc. provides scheduled air transportation over an extensive route network. Based on calendar 1997 data, the Company is the largest U.S. airline in terms of aircraft departures and passengers enplaned, and the third largest U.S. airline as measured by operating revenues and revenue passenger miles flown. Delta is the leader across the North Atlantic, offering the most daily flight departures, serving the largest number of nonstop markets and carrying the most passengers of any U.S. airline.

As of August 1, 1998, the Company provided scheduled air service to 148 cities in 42 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and to 46 international cities in 31 countries. With its domestic and international code-share partners, Delta's route network covers 231 domestic cities in 48 states, and 118 international cities in 59 countries. In addition to scheduled passenger service, the Company provides air freight, mail and related aviation services.

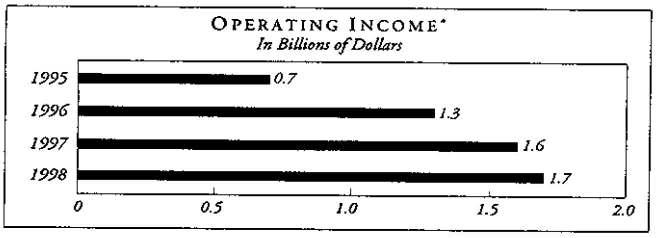
Delta is incorporated under the laws of the State of Delaware and is subject to government regulation under the Federal Aviation Act of 1958, as amended, as well as many other federal, state and foreign laws and regulations. The Company's corporate headquarters is in Atlanta, Georgia.



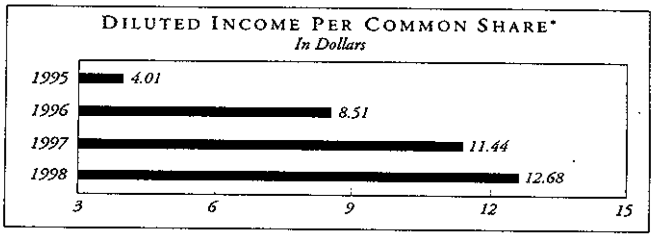
Unit revenue increased 2% due primarily to record passenger traffic levels, increased contributions from cargo and other non-passenger revenue.



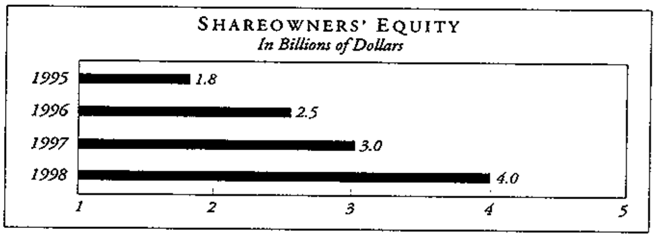
Unit cost increased slightly despite significant investments in customer service. Lower aircraft fuel prices contributed to the strong cost performance.



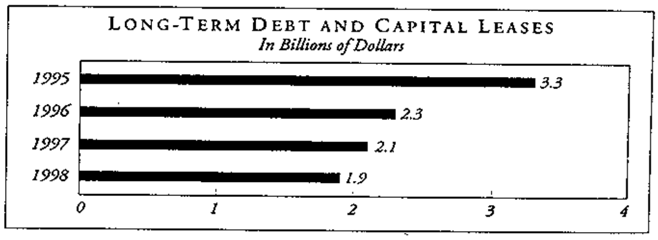
A strong revenue performance combined with solid cost control drove record operating income of $1.7 billion.



Record net income for the third consecutive year resulted in an 11% increase in diluted income per common share.



Record net income of $1.0 billion in fiscal 1998 increased shareowners' equity by 33% to $4.0 billion.



Scheduled debt repayments and voluntary debt repurchases have reduced total long-term debt and capital leases by 40% since fiscal 1995.

**Excludes restructuring and other non-recurring charges and the cumulative effect of an accounting change.*

Financial Highlights

Fiscal Year Ended June 30, 1998

Dollar amounts in millions, except per share data.
Excludes restructuring and other non-recurring charges.

	1998	1997	Change
Operating Revenues	$ 14,138	$ 13,594	4%
Operating Expenses	$ 12,445	$ 12,011	4%
Operating Income	$ 1,693	$ 1,583	7%
Operating Margin	12.0%	11.6%	0.4 pts.
Net Income	$ 1,001	$ 886	13%
Basic Income Per Common Share	$ 13.28	$ 11.81	12%
Diluted Income Per Common Share	$ 12.68	$ 11.44	11%
Dividends Declared on Common Stock	$ 15	$ 15	–
Dividends Per Common Share	$ 0.20	$ 0.20	–
Common Shares Issued and Outstanding at Year End	75,225,197	73,695,987	2%
Debt-to-Equity Position	32%/68%	41%/59%	NA
Passenger Mile Yield	12.83¢	12.79¢	–
Operating Revenue Per Available Seat Mile	10.09¢	9.94¢	2%
Operating Cost Per Available Seat Mile	8.88¢	8.78¢	1%

Operating Highlights

Fiscal Year Ended June 30, 1998

Excludes restructuring and other non-recurring charges.

	1998	1997	Change
Revenue Passengers Enplaned (Thousands)	104,148	101,147	3%
Revenue Passenger Miles (Millions)	101,136	97,758	3%
Available Seat Miles (Millions)	140,149	136,821	2%
Passenger Load Factor	72.2%	71.4%	0.8 pts.
Breakeven Passenger Load Factor	62.8%	62.4%	0.4 pts.
Cargo Ton Miles (Millions)	1,745	1,532	14%
Cargo Ton Mile Yield	33.35¢	36.14¢	(8%)
Fuel Gallons Consumed (Millions)	2,664	2,599	3%
Average Aircraft Fuel Price Per Gallon	56.54¢	66.23¢	(15%)
Number of Aircraft in Fleet at Year-End	569	553	3%
Average Age of Aircraft Fleet at Year-End (Years)	12.3	11.8	4%
Stage 3 Aircraft at Year-End (As a Percent of Total Aircraft)	81%	71%	10.0 pts.
Average Seats Per Aircraft Mile	180	181	(1%)
Average Passenger Trip Length (Miles)	971	966	1%
Average Aircraft Flight Length (Miles)	804	789	2%
Average Aircraft Utilization (Hours per Day)	8.7	8.6	1%
Full-Time Equivalent Employees at Year-End	70,846	65,383	8%

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About the cover: The Delta wings on the cover salute the 70,000-plus Delta men and women who made this year's record performance possible and who are committed to making Delta the best airline in the world. The pin shown is given for five years of service.

DEAR SHAREOWNERS: YOUR COMPANY, BY ALMOST ANY MEASURE, HAD A GREAT YEAR IN FISCAL 1998, AND WE ARE EXCITED ABOUT WHAT IS AHEAD. THIS PAST YEAR WE RESUMED A JOURNEY, SOMEWHAT INTERRUPTED BY EARLY 1990S ECONOMIC TURMOIL, WITH A CLEAR VIEW TO OUR DESTINATION: WE WANT TO BUILD THE BEST AIRLINE IN THE WORLD.

In this letter, I would like to tell you about what we've done this year and what we plan to do. I'll touch briefly on recent accomplishments and what those accomplishments mean to you, our owners. I'll share with you our plans to strengthen Delta's partnerships with key constituents – our customers, our employees, and you, our owners. And I'll tell you about some other important partnerships – our alliances with other airlines around the world and how they position us strategically to succeed in a competitive global industry. *Continued on page 2*

Leo F. Mullin
President and Chief Executive Officer

ACCOMPLISHMENTS IN FISCAL 1998

Delta is a proud airline built on the finest service traditions. However, at the start of fiscal 1998, these service foundations had been shaken. Difficult economic conditions in the early 1990s required that Delta, during the first half of this decade, take severe cost reduction actions to counter the Company's weak financial performance. These actions, while necessary, threatened Delta's core values of high employee morale and exceptional service.

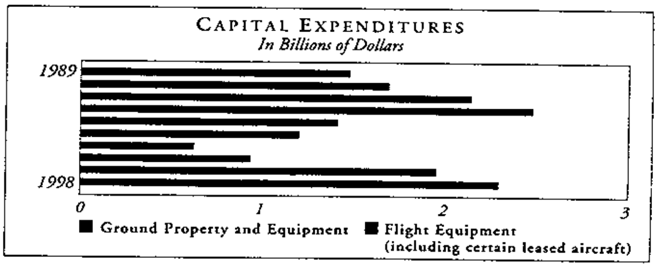
We began fiscal 1998 with a rededication to our employees and to our core service values. We are pleased to report that these efforts are paying off:

- Employee morale improved dramatically as Delta people regained confidence in the Company's service commitment and future as measured by an independent survey company. Statistics show that overall employee satisfaction improved by a remarkable 20 percent from 1996 to 1998.

- Delta's on-time performance over the past twelve months has taken the Company from an unacceptable tenth place to our current consistent ranking among the industry's top performers. In fact, Delta was first among hub-and-spoke carriers for June and July. In another key area of operational performance, Delta has one of the highest completion rates – lowest number of canceled flights – among hub-and-spoke carriers.

- Baggage delivery performance has improved this past year, placing Delta back in the top tier of the industry. For the month of June, Delta ranked first in baggage handling.

- Delta's Crown Room Clubs received recognition from Condé Nast as best domestic airline club in the business.

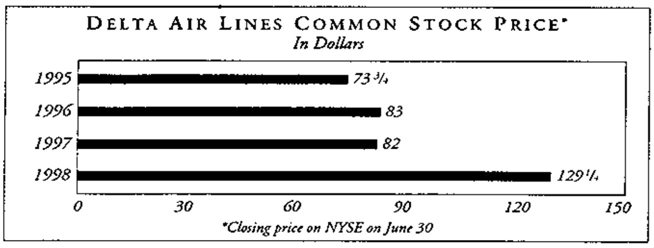


Strong operating cash flows provide the foundation for customer service investments, fleet simplification and rationalization and disciplined growth.

More than anything else, these accomplishments and this progress are the result of excellent performance by Delta employees across the board. Our gains were also supported by major increases in expenditures for physical improvements. Most importantly, Delta launched in October a program to refurbish within 16 months the interiors of all Delta airplanes – interiors that had been allowed to become exceedingly run-down during the period of cost reduction. Today, more than 50 percent of Delta's planes have new interiors, and we are on schedule to complete all refurbishments by April 1999. In addition, Delta has upgraded 19 of 47 Crown Room Clubs, and significant other facility improvements have been made at more than 50 percent of Delta's terminals. All of this was done in a cost effective way so that Delta maintained its hard-won efficiency advantage relative to competitors.

WHAT THAT MEANS TO YOU

For you, our shareowners, these efforts generated a record financial performance in fiscal 1998. Earnings, for the first time in Delta's history, reached $1 billion, and operating cash flow was close to $3 billion. The strength of our financial position allowed the Company to announce a $750 million Common Stock repurchase program to be carried out during calendar years 1998 and 1999.



Delta's Common Stock price appreciated 57% in fiscal 1998, compared to 28% for the S&P 500 Index.

Ultimately, of course, the value of corporate performance must be reflected in stock price increases. Delta performed well in this regard in fiscal 1998. From July 1, 1997, to June 30, 1998 (our fiscal year), Delta's stock price increased from $82 to $129¼. Delta has, however, been subject to the market swings of the recent widespread stock market turmoil, which caused a significant decline in stock price. Nonetheless – and an important positive for the future – Delta's stock price multiple now exceeds the average of the other major hub-and-spoke carriers.

We are proud of these accomplishments, but more importantly, we believe that this is just the beginning.

BUILDING PARTNERSHIPS

Even as fiscal 1998 for Delta was about stabilization and building momentum, the coming year is about acceleration – building stronger partnerships with our customers, employees and shareowners.

- ***Customer bonds – building positive exceptions while eliminating the negative.*** Delta's service traditions were built on unique relationships with our customers. During close to 70 years of doing business, we have always understood the value of special touches and the personal satisfaction that comes from acts of service kindness. They are the very fabric of your Company's culture.

Our focus in the year ahead is to re-ignite and reward this passion in Delta people for the extraordinary and the special. Similarly, we will work relentlessly to minimize unpleasant experiences. We cannot prevent adverse weather or air traffic congestion. However, we can do a better job of managing delays when they occur. We can serve you promptly, treat you courteously, and keep you informed. Our journey to excellence mandates that commitment as we seek to give you, the customer, an exceptionally positive experience on every flight you take.

We also are redoubling our efforts to maintain the gains we have made by traditional industry measurements of customer satisfaction. Thus, for example, we are working to make on-time a consistent part of flying Delta and to continue getting your bags there on time.

- ***Our employee partnership – the centerpiece of success.*** Delta's ability to accelerate the pace of success is in the able hands of our team, which includes every flight attendant, pilot, customer service agent, mechanic, reservation sales agent, baggage agent, and administrative person. Creating a true service powerhouse requires that each team member be world class and that the team function cohesively. Our supporting philosophy is quite simple. We want Delta people to receive top-of-industry compensation for top-of-industry performance and productivity. This standard requires service, operational, and financial accountability.

This coming year, we are asking Delta's entire team to focus on building the positive service experiences that our culture is uniquely positioned to provide. At the same time, we must remind each other that every service breakdown impacts every one of us and neutralizes the countless instances of service excellence. We can never forget that while we – along with the media and the U.S. Department of Transportation – measure statistics, our customers relate solely to experiences.

• ***Shareowner rewards – sustaining and building value.*** The rewards of a winning organization are manifested in shareholder returns. Delta has three financial objectives for enhancing shareowner value.

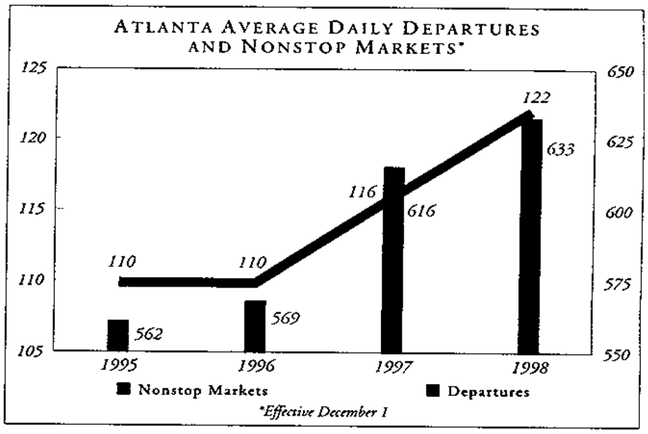
1. We are working to accelerate our earnings growth and cash returns by building on our strategic hub strengths, by investing in revenue enhancing technology, and by vigilantly attacking waste.

Atlanta is arguably the world's most important airport hub, with more connecting passengers than any other single facility. The Atlanta Worldport offers not only unparalleled access to the entire U.S., but also nonstop service to key markets in Europe, Latin America and Asia. Similarly, Delta's key hubs in New York, Cincinnati, Salt Lake City, and Dallas/Fort Worth are increasing their collective contributions. Strategically, the Company's hub-and-spoke system is strong.

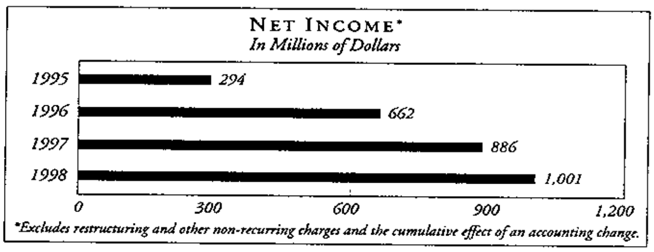
Regarding technology, we must acknowledge that earlier this decade, Delta fell well behind its competitors in technological capabilities. That situation is rapidly being rectified. We have significantly reoriented our technological effort – both in priorities and in spending – without increasing technology-related expenditures. We've made major technological improvements in seat inventory control, flight scheduling and yield management. As a result, Delta's previously lagging revenue per available seat mile has reached industry averages – with more improvement expected. In addition, Delta will begin this fall to roll out a streamlined and simplified gate and boarding process. Year 2000 issues are clearly documented; the changes needed for readiness are well underway. Technology – far too long a weakness at Delta – is quickly becoming a strength.

On the expenditure side, our priority is the customer. We want our customers to see and feel the concrete results of our expenditures in the services we deliver. We are working to eliminate redundancies and unnecessary activities, ridding ourselves of bureaucracies that complicate the travel life of the customer and weigh us down in our efforts to provide the best service. We want to focus our great Delta talent on core activities like flying, maintenance and customer service, all central to our franchise.

2. We are working to protect and maximize our strong balance sheet. Our financial strength allowed the establishment of a $750 million Common Stock repurchase program. At the same time, Delta maintained investment-grade credit status and provided fully adequate resources to invest for the future.



Delta is leveraging Atlanta's superior geographic position and the hub's powerful ability to connect passengers to build Atlanta into a Worldport with comprehensive coverage to the world's most important markets.



Strong demand for Delta's product and favorable fuel prices were catalysts for the Company's first $1.0 billion year.

3. We are particularly emphasizing efforts to improve our fixed-to-variable cost mix. While we are cautiously optimistic about general economic conditions, we nonetheless are aggressively looking to minimize our fixed costs and avoid staffing our business for the peaks. This is not only good for shareowners, it is also key to protecting the security of permanent Delta jobs.

ALLIANCES: STRATEGIC POSITIONING FOR A GLOBAL INDUSTRY

The airline industry is increasingly global. All major airlines want to appeal to their customers on the basis of their ability to get customers from anywhere to everywhere. Yet no carrier alone has that capability.

Alliances among airlines have emerged as an increasingly important response to the challenge. Delta made substantial progress in fiscal 1998 on this front. Our Atlantic Excellence alliance, which has the advantage of anti-trust immunity, was increasingly successful in strengthening our European services. This strength was supplemented by the new code-share with Air France, a direct outgrowth of the successful U.S.-France bilateral negotiation in which Delta played an important part.

We are moving to develop a stronger alliance position in Latin America through an expanded marketing alliance with Aeromexico. And in Asia, our position was enhanced immensely by the successful U.S.-Japan bilateral negotiation that allowed, for the first time, direct Delta flights between Atlanta and Tokyo.

The alliance evolution is also important domestically. The key step in this regard has been the establishment of a broad-gauged marketing relationship with United Airlines. This relationship has reciprocity of frequent flier programs as its most important component, and both Delta and United intend to seek other customer initiatives over time to build the market positions of both airlines through this partnership.

Delta will proceed aggressively with worldwide alliance discussions in the future, not just because alliances are desirable from a business standpoint – although they are – but also because we must. Airline alliances are revolutionizing the nature of worldwide competition, and Delta intends to be a leader as these changes occur. Fortunately, Delta's strategic position and the capabilities of our people are so strong that Delta clearly has the opportunity to chart its own destiny as competitive changes unfold.

In summary, we have just finished a great year, setting many new milestones for Delta. As we go forward, we are committed to accelerating the pace of our success by building on our key partnerships with our customers, employees, investors and alliance partners.

The Delta management team is exhilarated to be on this journey with you, and we thank you for your continued support.

Leo F. Mullin
President and Chief Executive Officer
September 1, 1998

Partner with Customers

Delta will build customer loyalty through a total commitment to quality service.

Delta's partnership commitment with customers is straightforward – be the best airline in the world in their eyes. Delta will work hard to provide a safe, on-time, comfortable and hassle-free travel experience delivered by courteous, professional Delta people. Delta's commitment is to quality service through flawless execution each and every day.

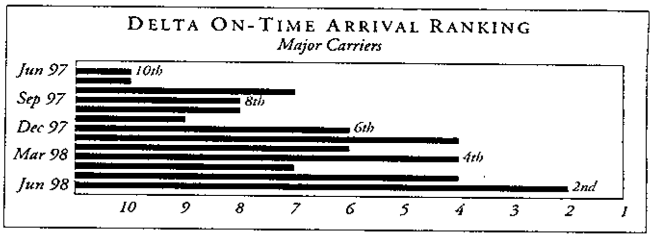
Safety

Safety is Delta's first priority. Today, the airline is an extraordinarily safe organization with no tolerance for errors. Building on this firm base, Delta will enhance safety further by utilizing leading-edge tools and technology, such as:

- Enhanced Ground Proximity Warning Systems
- Cargo bin fire detection and suppression
- Advanced flight data recorders
- Head-up cockpit display units
- On-board heart defibrillators and enhanced emergency medical kits

Performance Statistics

The airline industry uses three key performance statistics to measure customer service: on-time arrivals, mishandled baggage reports and consumer complaints reported to the U.S. Department of Transportation (DOT). Delta's goal is to be at, or very near, the top of the industry in all these measures.

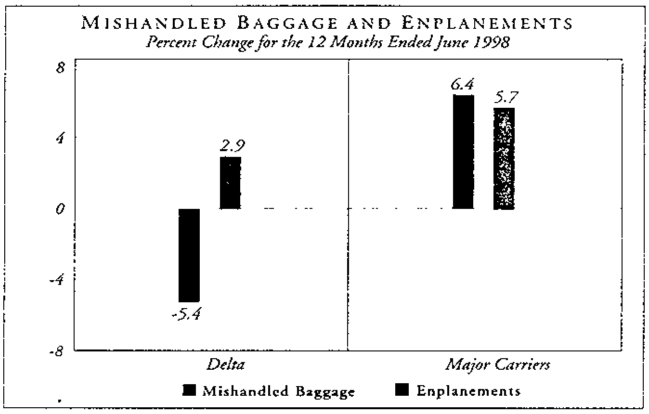


Delta's year-over-year on-time arrival performance improved in 10 out of 12 months in fiscal 1998, allowing the Company to move into the upper tier of the DOT rankings. In June 1998, Delta ranked #2 among the 10 major carriers and #1 among the major network carriers (AA, CO, DL, NW, UA, US).

Delta is committed to becoming the on-time leader among major network carriers. During fiscal 1998, the Company made rapid improvements in this area by developing an integrated, cross-divisional team which focused on every aspect of on-time performance – from the development of flight schedules to the day-to-day execution and management of the schedule. This improvement is a tribute to the team and the thousands of Delta people responsible for daily flight operations.

An on-time operation contributes to a better baggage handling performance, which is also critical to Delta's customer partnership. Frontline employees from around the system have developed and implemented solutions to improve baggage handling. The employees adopted a back-to-basics approach with renewed attention to communication, training and accountability. The result: a strong move to the top of the industry in 1998.

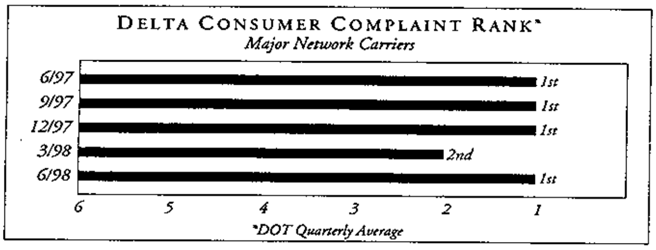
Ensuring a smooth, comfortable and on-time travel experience for passengers requires mapping an optimal flight plan.



In fiscal 1998, Delta reduced the total number of mishandled bags by 5% despite 3% more passengers, while total mishandled bags for major carriers increased more than total passenger growth. Delta's year-over-year mishandled baggage rate improved every month of fiscal 1998 and Delta ranked #1 among major carriers in June 1998.

To become the best airline in the world to its customers, Delta must deliver a hassle-free travel experience every time.

A winning partnership with customers means fewer complaints. Delta's improvements in on-time performance and baggage handling have solidified Delta's leadership position among major network carriers in this most basic measure of customer satisfaction.



Delta consistently ranks in the top tier of major network carriers for lowest consumer complaint statistics, placing either #1 or #2 in 10 out of 12 months during fiscal 1998. For the same period, Delta's consumer complaint rate was 36% lower than the average for major network carriers.

Airport Facilities and Aircraft Interiors

Customers expect and deserve clean, modern and efficient terminal facilities and Crown Room Clubs. Delta has renovated concourses and gate areas at 72 cities and will complete similar work at an additional 67 cities by June 1999. The Company has also completed improvements at major Crown Room Clubs, adding modern conference rooms and catering services. In fiscal 1998, Condé Nast named Delta's Crown Room Clubs the best in the business among domestic carriers.

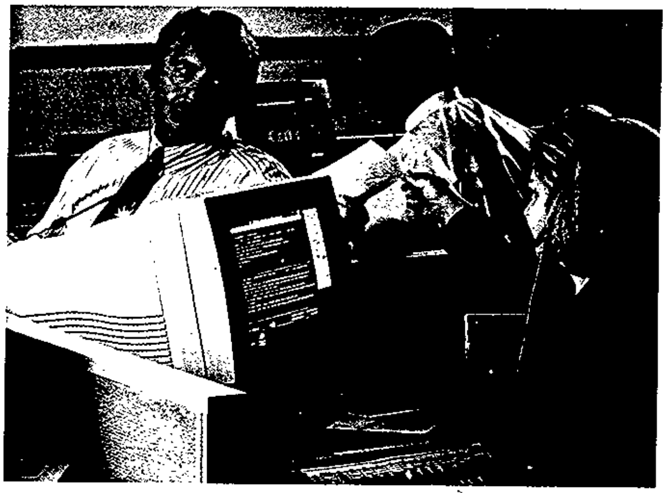
Delta is also refurbishing the interiors of its aircraft, including installation of new curtains, carpets and seat covers. More than 50 percent of the targeted fleet has been refurbished and 100 percent will be complete by April 1999.

Quick and Easy Transactions

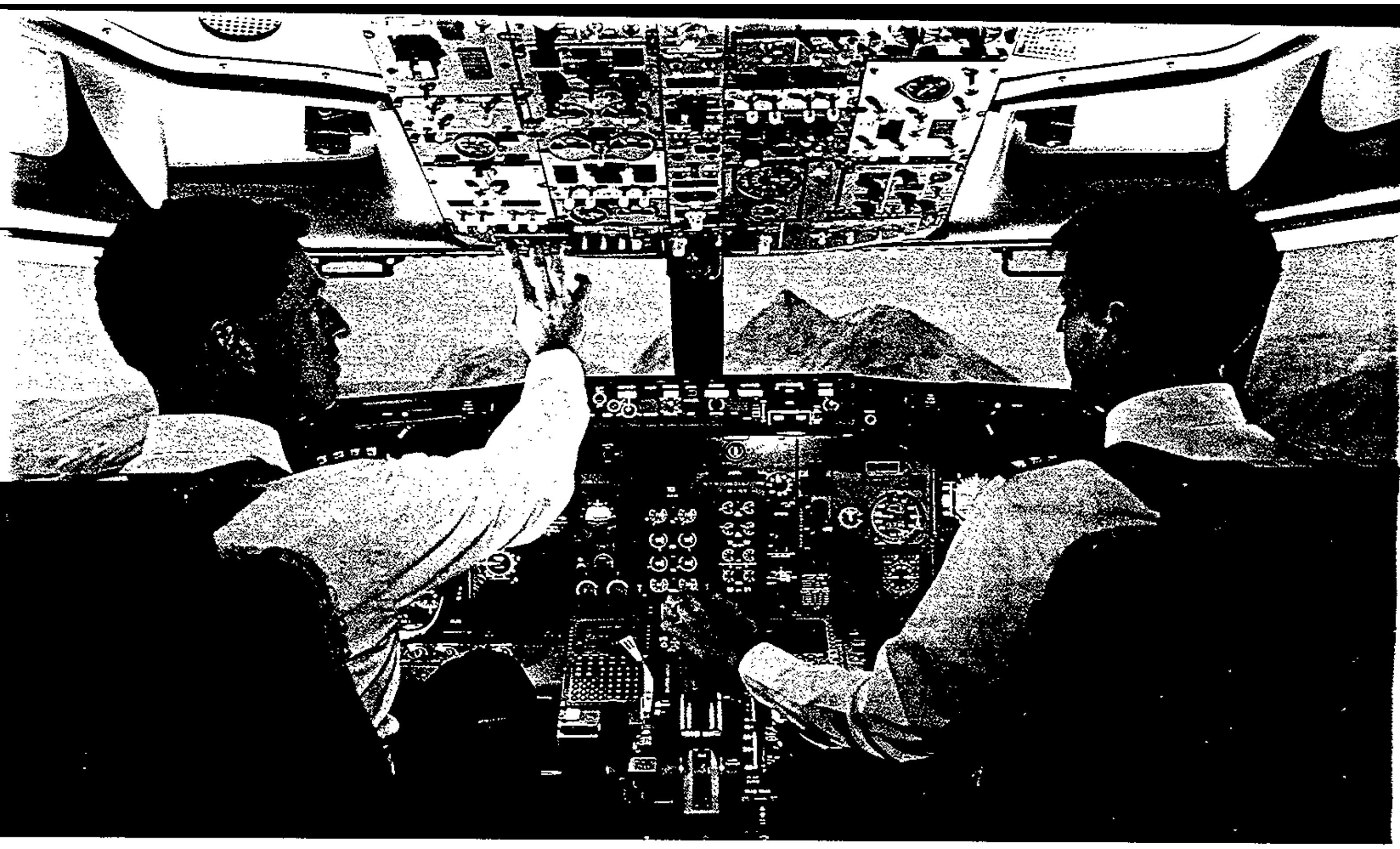
Key to a strong partnership is listening to customers and designing Delta's activities and products to meet their needs. New and faster processes to upgrade, refund and reissue tickets have been implemented. Over the next two years, customers will experience a streamlined check-in process backed by new technology and more efficient gate and boarding procedures. New hand-held gate readers will use bar code scanning technology to update information automatically and speed the process of passenger check-in and aircraft boarding.

Distribution Initiatives

A commitment to quality service includes answering telephone reservation lines promptly. Customers are experiencing improved service levels as a result of a commitment to new technology, process improvements and increased staffing. In fiscal 1999, Delta will open three new reservation sales satellite call centers with advanced telecommunications technology to add cost-effective call-handling capacity.

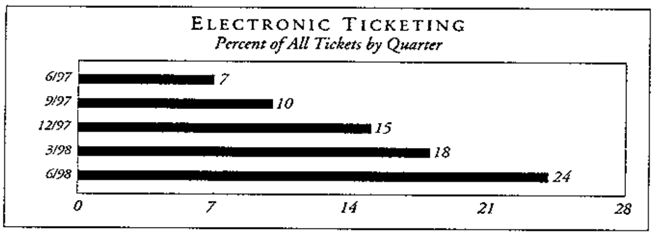


Three new reservation sales satellite call centers will open in fiscal 1999 and will further improve service levels.



Delta is investing heavily in pilot training and leading-edge technology, such as flight simulators to emphasize the number one priority – customer safety.

Delta is also making it easier for customers to book travel by adding and expanding alternative customer service channels, such as the Internet. The Delta SkyLinks web site [www.delta-air.com] is accessed more than 40,000 times a day, providing schedule, pricing, flight and SkyMiles account balance information. Quick and convenient electronic ticketing is now offered on all Delta Express, Delta Shuttle and Delta flights within the 50 states, San Juan, Puerto Rico, the U.S. Virgin Islands, Bermuda, the Caribbean and Canada.



Electronic ticket sales are growing rapidly and represent significant potential for lowering distribution costs. Electronic ticketing enhances customer convenience by eliminating the need for ticket confirmation while reducing Delta's handling costs.

GREATER ACCESS TO THE WORLD

Customers want more convenient access to the world's most important markets. But no single airline can take travelers everywhere in the world. The Company's strategic alliances with other high-quality carriers greatly extend the number of destinations Delta can offer customers. Linking the Company's hubs with those of partners creates interconnected travel networks to key destinations in Europe, Asia and Latin America. In addition, alliances are good business. They allow the Company to take advantage of partners' route networks and more efficiently allocate Delta's aircraft to the most profitable markets. Through alliances, Delta also can serve key markets that otherwise could not be served because of economic or political issues.

Partner with Employees

Delta will build a world-class organization through a partnership culture focused on performance, teamwork and winning.

In the airline business, success depends on committed, enthusiastic people who know how to deliver good service. Delta people are the best in the business. Their hard work and dedication were critical in achieving record financial results and significant operational improvements in fiscal 1998. Delta people are the foundation upon which the Company will build its future.

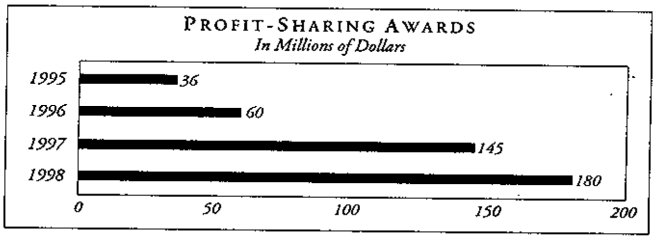
Build the Best Airline

Delta will build the best airline in the world by attracting and retaining excellent people who share a commitment to winning. Delta will create a winning organization by engaging employees in a work environment that focuses on customers, inclusion, communication and performance.

Inclusion is a key element. It is being fostered in part through employee forums or councils created to represent operating units. Inclusion and participation also are core values for more than 370 employee Continuous Improvement Teams which have collectively identified and delivered $66.3 million in cost savings, 182 safety improvements and thousands of process improvements since the program's inception in 1995.

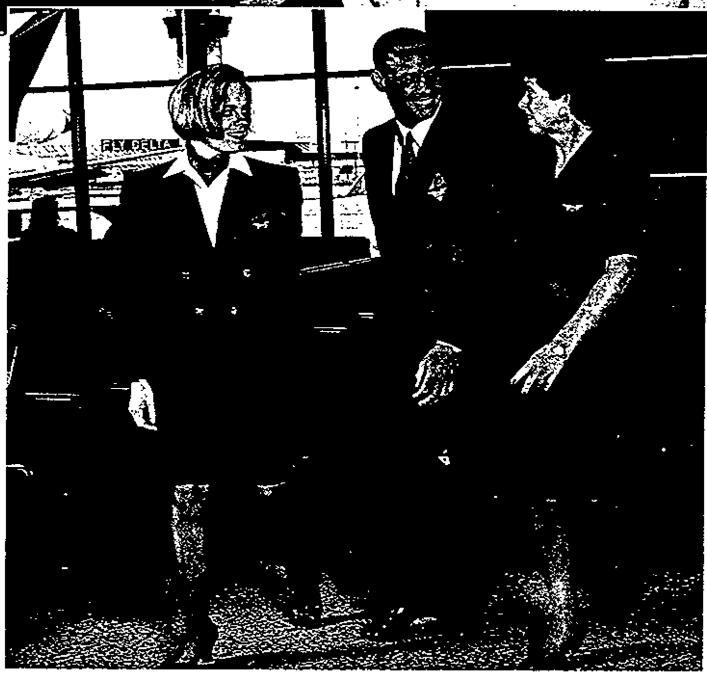
The Company took on a special challenge in fiscal 1998, providing nearly every Delta person the opportunity to meet face-to-face with senior management to discuss corporate goals. This sharing of information and ideas is essential to teamwork and has contributed to an atmosphere of partnership and inclusion.

Pay-for-performance programs strengthen the link between employees and shareowners. Delta will be able to offer compensation at or near the top of the industry as long as the Company's productivity is at or near the top of the industry. Profit-sharing and stock option programs, which cover substantially all employees, are key elements of this philosophy.



Delta people earned a record profit-sharing payment of more than $180 million based on the Company's financial performance in fiscal 1998, representing an average 6% of annual salary.

Sharing information and ideas is essential to building a successful partnership.



A Partnership Culture

Employees are responding positively to this partnership culture. A 1998 survey of Delta personnel, conducted by an independent firm, showed substantial improvements in employee support for Delta's strategic direction and management. Many key measures of employee satisfaction showed double-digit improvement, moving the Company to ratings at or above average against a normative base of 250 other companies.

Delta people are dedicated to delivering quality customer service each and every day.

Partner with Shareowners

Building on its strengths, Delta will sustain and build value for shareowners by accelerating earnings growth and cash returns, maximizing the balance sheet and minimizing fixed costs.

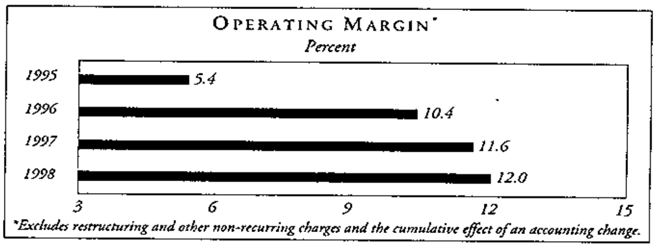
By focusing on winning with customers and strengthening its partnership with employees, Delta will sustain and build value for shareowners. The Company has established a clear set of priorities designed to pursue three fundamental financial objectives.

1. Accelerate Earnings Growth and Cash Returns

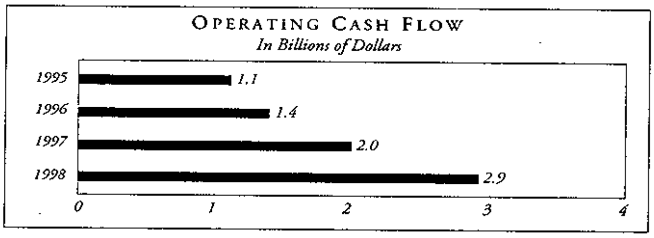
Accelerating earnings growth and generating more cash is about winning and being better than the competition. Improving the Company's revenue performance relative to the industry will be critical in delivering value to Delta's shareowners. The opportunities for capturing incremental revenue are significant and are both process- and technology-oriented.

Maintaining Delta's unit cost advantage versus the industry is a major priority, equal in importance to revenue growth. Delta has an approximate five percent unit cost advantage versus the major network carriers. Future cost management of the Company will involve clear rules. Expenditures which make the customer travel experience better or generate additional revenue, will always be a priority.

A focus on generating more cash is inextricably linked with accelerating earnings growth. Increasing cash-generating abilities enables the Company to invest for the future while continuing to reward shareowners.



Disciplined growth and optimization of Delta's operating margin will drive earnings growth. Revenue initiatives, process-based productivity improvements and a relentless focus on eliminating redundant processes will expand Delta's industry-leading operating margin.

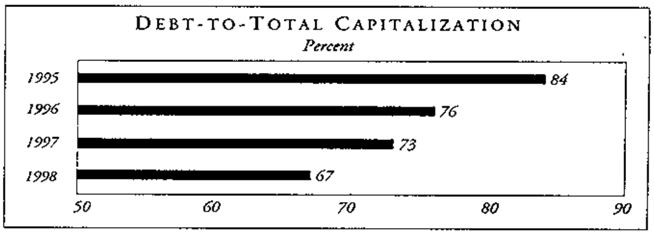


Record earnings and cash flow in fiscal 1998 allowed Delta to internally fund investments in aircraft and ground equipment, reduce long-term debt and capital leases by $183 million, and build cash and short-term investments from $1.2 billion to $1.6 billion.

Delta's Operations Control Center plays a critical role in the efficiency of the Company's daily operations.

2. Maximize the Balance Sheet

Delta's industry-leading financial performance over the past several years has built a solid foundation. A strong balance sheet and financial flexibility are catalysts for the Company's $750 million common stock repurchase program which began in July 1998. In addition to holding investment-grade ratings from both major credit-rating agencies, Delta has financial ratios among the strongest in the industry. This solid financial position provides significant flexibility and will allow the Company to aggressively seek additional opportunities to create and return value to shareowners.



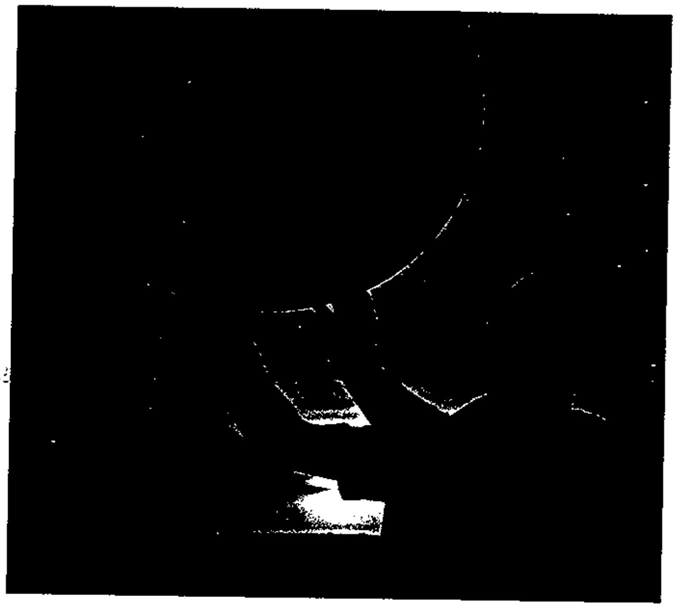
Delta's debt-to-total capitalization ratio (including leases) of 67% is within the Company's targeted 65-70% range. Delta's targeted range includes the prudent use of debt to lower the cost of capital while preserving investment-grade ratings.

The ability to successfully manage through economic downturns will differentiate Delta as a winning organization and will generate value for shareowners.

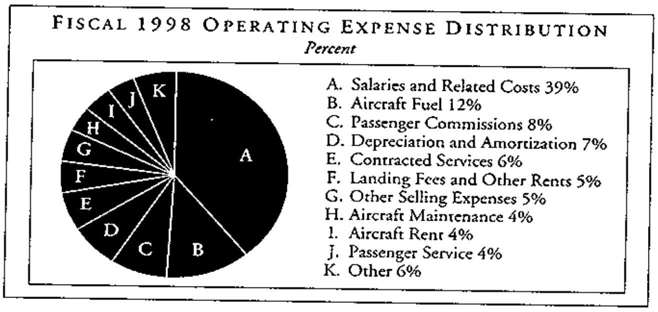
3. Minimize Fixed Costs

Because Delta operates a relatively high fixed-cost business in a cyclical industry, the focus on making costs more variable is a top priority. The ability to successfully manage through economic downturns will differentiate Delta as a winning organization and generate value for shareowners. It requires the Company to focus on the issue of fixed versus variable costs today while times are good. Successful companies do not yield to the temptation to permanently size their operations for the peaks. Delta must be "right-sized" with variable components to react quickly to economic and market conditions.

Delta's performance through the next recession will be impacted by its ability to manage capacity. Delta is well positioned to react to an economic contraction by virtue of its significant fleet flexibility. Levers for contracting growth include accelerated retirement of aircraft and contractual delivery deferral rights in Delta's long-term agreement with The Boeing Company.



Delta's employee stock option plan is designed to align employee interests with those of shareowners.



Maintaining a unit cost advantage versus the industry and making costs less fixed and more variable requires focusing on every Delta activity to determine what is important to customers and what is core to the delivery of Delta's product. The goal is process-based productivity with rigorous measurement and accountability.

Partner with the Community

Partnering with employees also means partnering with the communities Delta serves.

Delta believes in being a responsible, active corporate citizen. The Company focuses its corporate giving on programs that strengthen communities. Delta supports programs that tackle such issues as unemployment and poverty through training and personal development. The Company also focuses its resources on programs that support disadvantaged families with young children and programs that foster cultural understanding and diversity.

Delta donates more than money and free air travel. Delta's Community Partners, a volunteer resource center of active and retired employees, supports efforts and requests from many nonprofit organizations. Major events in fiscal 1998 included: AIDS Walk Atlanta, CIGNA Sports Challenge and March of Dimes WalkAmerica. Delta people have contributed more than 10,000 volunteer hours, including the construction of numerous Habitat for Humanity homes funded through In-Flight Service personnel's aluminum can recycling program.

In fiscal 1998, the Delta Air Lines Foundation made the largest contribution in its history, an $890,000 grant to the University of Georgia to establish the Delta Prize for Global Understanding. This program will recognize individuals or groups whose efforts have promoted peace and cooperation among cultures and nations. The award will be presented annually in Atlanta, beginning in the spring of 1999.

More than 300 Delta flight attendants helped build a Habitat for Humanity house in Riverdale, Georgia last year. The house was financed with proceeds from recycled soft drink cans collected on Delta flights by flight attendants.

The June 1998 CIGNA Sports Challenge in Atlanta involved more than 1,500 corporate athletes and volunteers helping to raise funds for the fight against Cystic Fibrosis. Delta sponsored four teams to participate in nine athletic events.

North America

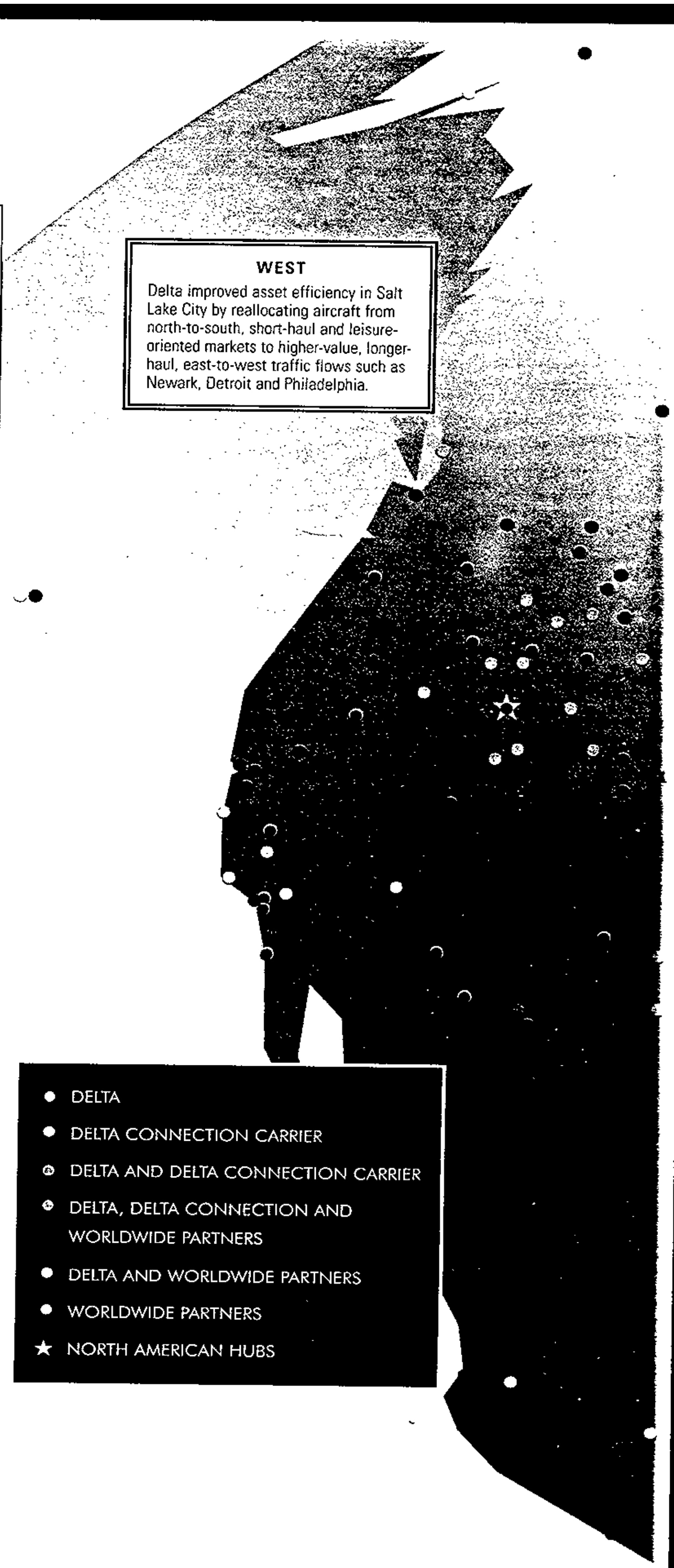
Delta's North American network of five geographically balanced hubs – Atlanta, Cincinnati, Dallas-Fort Worth, Salt Lake City and New York-Kennedy – provides broad market coverage with a superior position in the Southeast and Florida. The Company's competitive advantage in the Southeast is driven by its operations in the Atlanta World-port, the world's largest single-carrier hub, with 633 daily departures to 122 nonstop markets (December 1998). The Atlanta hub provides high-frequency service to major business markets, comprehensive domestic market coverage, convenient access to Florida from the Midwest and Northeast, and access to major international markets. The economic and demographic forecasts for Atlanta and the Southeast reflect significant future growth opportunities for this key strategic region.

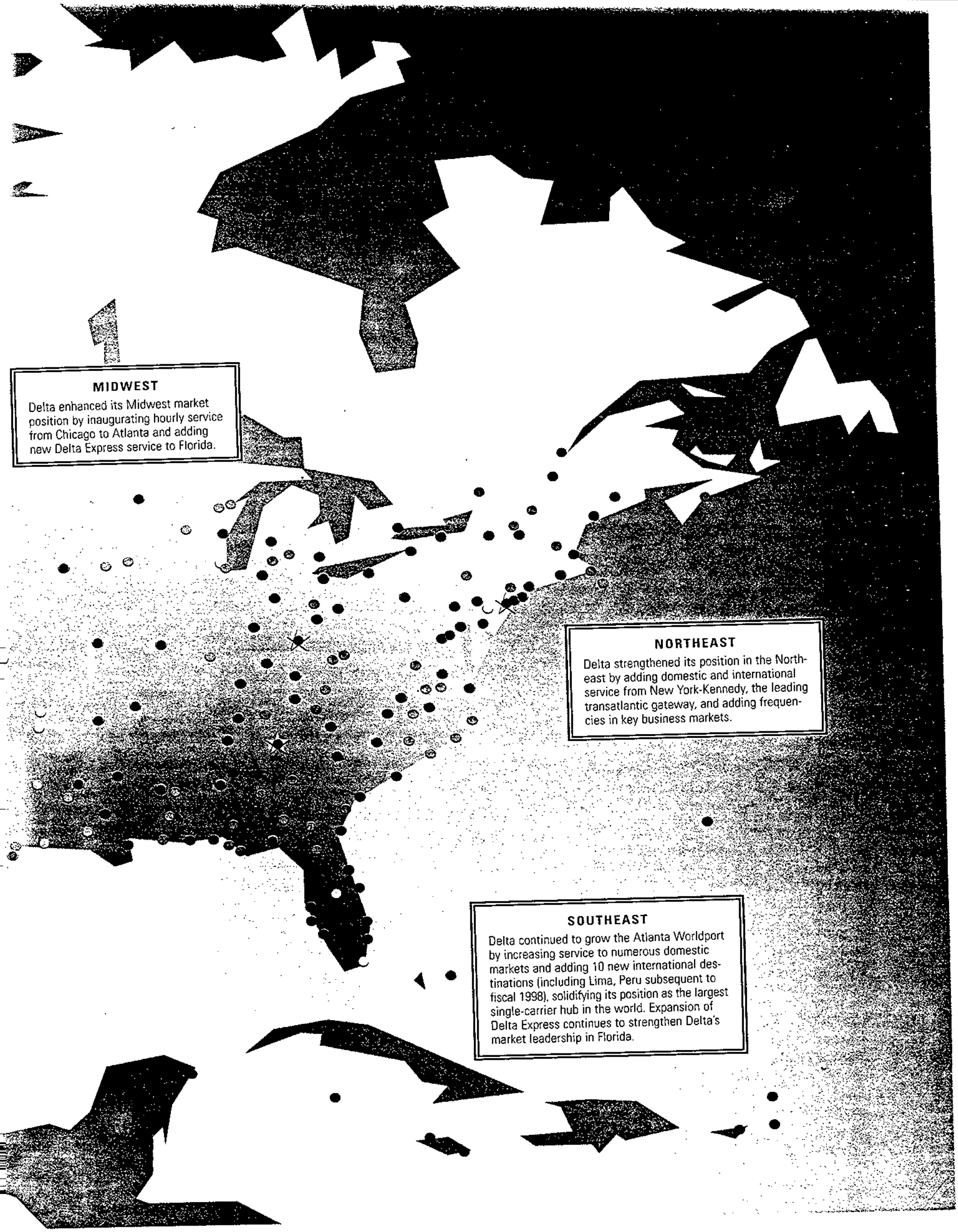
Delta is also strengthening its competitive position in the Northeast and Midwest by expanding the New York-Kennedy gateway to Europe, increasing frequencies between Atlanta and key business markets (including hourly services) and expanding service to Florida via Delta Express. Delta's December 1998 schedule will offer unparalleled access from major Northeast and Midwest business centers to Atlanta.

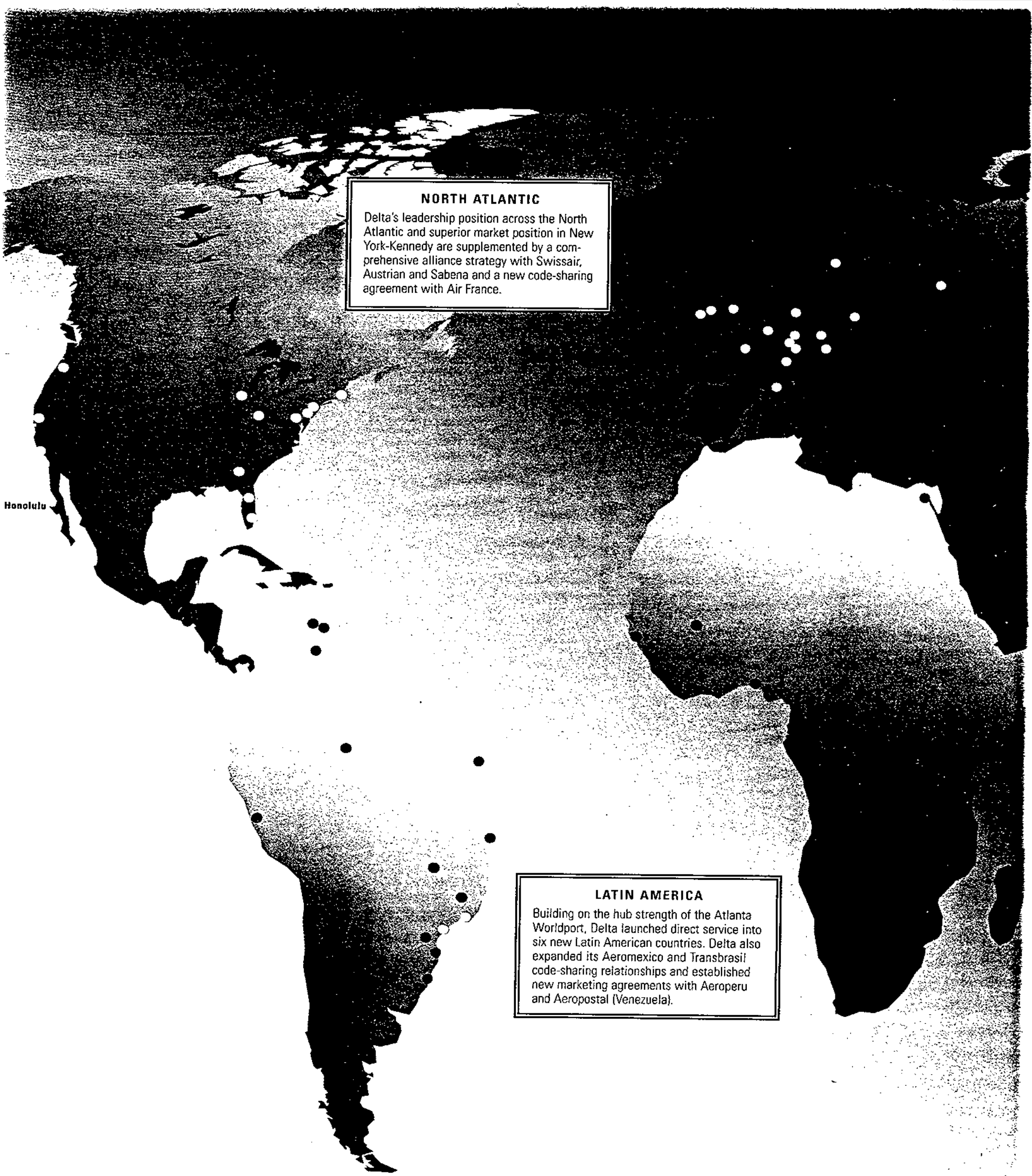
To Atlanta From:	Daily Flights
New York City Area	40
Washington/Baltimore Area	35
Chicago	18
Boston	15

The Company's competitive position in the Northeast is also enhanced by its market share-leading Delta Shuttle operation. The Delta Shuttle offers Northeast business passengers reliable and distinctive hourly shuttle service from New York City to Boston and to Washington, D.C.

Delta's Western operations include its hub in Salt Lake City and a niche gateway to Asia via service from Portland. Delta will strengthen its market position in this region by building market and frequency coverage primarily from its hubs in Atlanta, Cincinnati and Salt Lake City.




MIDWEST
Delta enhanced its Midwest market position by inaugurating hourly service from Chicago to Atlanta and adding new Delta Express service to Florida.
NORTHEAST
Delta strengthened its position in the Northeast by adding domestic and international service from New York-Kennedy, the leading transatlantic gateway, and adding frequencies in key business markets.
SOUTHEAST
Delta continued to grow the Atlanta Worldport by increasing service to numerous domestic markets and adding 10 new international destinations (including Lima, Peru subsequent to fiscal 1998), solidifying its position as the largest single-carrier hub in the world. Expansion of Delta Express continues to strengthen Delta's market leadership in Florida.



NORTH ATLANTIC

Delta's leadership position across the North Atlantic and superior market position in New York-Kennedy are supplemented by a comprehensive alliance strategy with Swissair, Austrian and Sabena and a new code-sharing agreement with Air France.

LATIN AMERICA

Building on the hub strength of the Atlanta Worldport, Delta launched direct service into six new Latin American countries. Delta also expanded its Aeromexico and Transbrasil code-sharing relationships and established new marketing agreements with Aeroperu and Aeropostal (Venezuela).

GLOBAL REACH

In fiscal 1998, Delta continued to build on its transatlantic leadership position and extended its reach to Asia and rapidly-expanding Latin American markets.

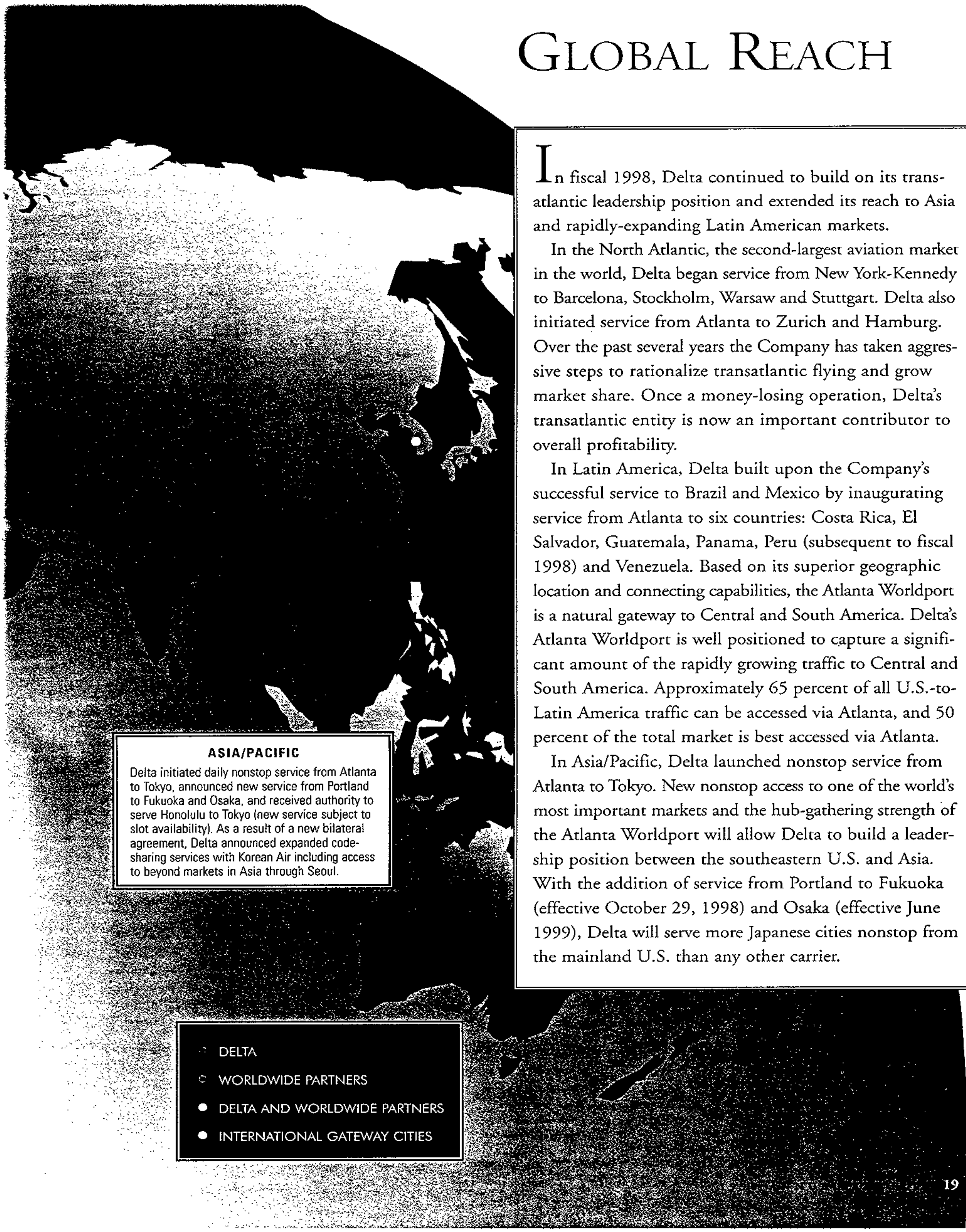
In the North Atlantic, the second-largest aviation market in the world, Delta began service from New York-Kennedy to Barcelona, Stockholm, Warsaw and Stuttgart. Delta also initiated service from Atlanta to Zurich and Hamburg. Over the past several years the Company has taken aggressive steps to rationalize transatlantic flying and grow market share. Once a money-losing operation, Delta's transatlantic entity is now an important contributor to overall profitability.

In Latin America, Delta built upon the Company's successful service to Brazil and Mexico by inaugurating service from Atlanta to six countries: Costa Rica, El Salvador, Guatemala, Panama, Peru (subsequent to fiscal 1998) and Venezuela. Based on its superior geographic location and connecting capabilities, the Atlanta Worldport is a natural gateway to Central and South America. Delta's Atlanta Worldport is well positioned to capture a significant amount of the rapidly growing traffic to Central and South America. Approximately 65 percent of all U.S.-to-Latin America traffic can be accessed via Atlanta, and 50 percent of the total market is best accessed via Atlanta.

In Asia/Pacific, Delta launched nonstop service from Atlanta to Tokyo. New nonstop access to one of the world's most important markets and the hub-gathering strength of the Atlanta Worldport will allow Delta to build a leadership position between the southeastern U.S. and Asia. With the addition of service from Portland to Fukuoka (effective October 29, 1998) and Osaka (effective June 1999), Delta will serve more Japanese cities nonstop from the mainland U.S. than any other carrier.

ASIA/PACIFIC

Delta initiated daily nonstop service from Atlanta to Tokyo, announced new service from Portland to Fukuoka and Osaka, and received authority to serve Honolulu to Tokyo (new service subject to slot availability). As a result of a new bilateral agreement, Delta announced expanded code-sharing services with Korean Air including access to beyond markets in Asia through Seoul.

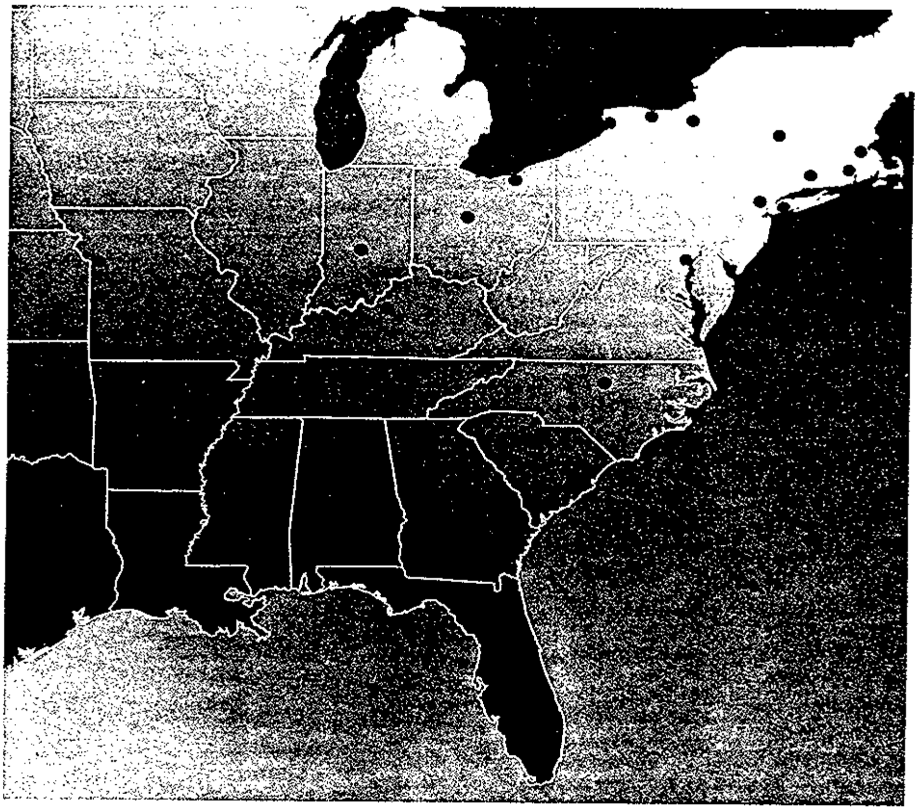


DELTA EXPRESS

Delta Express, the Company's successful low-fare operation, contributes significant economic and strategic value to Delta. Delta Express enables the Company to capture and grow its share of Florida leisure traffic from high-demand areas in both the Northeast and Midwest. Delta Express accommodates lower-yielding leisure passengers at a significantly lower cost on nonstop flights that overfly Delta's Atlanta and Cincinnati hubs. Improved personnel and aircraft efficiencies allow Delta Express to profitably expand the Company's share of Florida traffic while increasing the capacity of its hubs to carry higher-yielding traffic.

During fiscal year 1998, Delta Express added four aircraft to its fleet, increased service in existing markets, and began service to Raleigh-Durham, Islip-Long Island, Cleveland and Kansas City.

Delta Express will continue to expand operations in fiscal 1999 by increasing its dedicated fleet of B-737-200 jet aircraft from 29 to 40 and by beginning service to Orlando from four cities in New York (Albany, Buffalo, Rochester and Syracuse). In response to the growing demand for nonstop service to the South Florida region, Delta Express also has announced plans to develop Fort Lauderdale as a second focus city. Service will be expanded to Fort Lauderdale from Washington, D.C.-Dulles (October 1), Newark (December 1) and Hartford (December 1).



DELTA EXPRESS CITIES
EFFECTIVE DECEMBER 1, 1998:

Albany, NY
Boston, MA
Buffalo, NY
Cleveland, OH
Columbus, OH
Fort Lauderdale, FL*
Fort Myers, FL
Hartford, CT
Indianapolis, IN
Islip, NY
Kansas City, MO
Louisville, KY
Nashville, TN
Newark, NJ
Orlando, FL*
Providence, RI
Raleigh-Durham, NC
Rochester, NY
Syracuse, NY
Tampa, FL
Washington, D.C.-Dulles
West Palm Beach, FL

**Focus city*

Aircraft Fleet

At the heart of the Company's operations is Delta's aircraft fleet. To maintain a young and technologically advanced fleet, Delta has entered into a long-term aircraft purchase agreement with The Boeing Company (Boeing). The agreement covers firm orders, options and rolling options for certain aircraft through calendar year 2017, and supports the Company's plan for disciplined growth, aircraft rationalization and fleet replacement.

The agreement with Boeing provides Delta with long-term price controls, risk sharing and the flexibility to adjust scheduled aircraft deliveries or substitute between aircraft models and aircraft types, subject to certain conditions.

The majority of the aircraft under firm order will be used to replace older aircraft. Delta's long-term plan is to reduce aircraft family types from six to three. A move to a more standardized fleet is expected to improve reliability and result in long-term cost savings. As previously announced, the Company plans to retire its remaining L-1011 aircraft by August 2001, replaced primarily by B-767 aircraft. Delta also has announced a three-year acceleration of the planned retirement of the B-727 aircraft fleet which it now plans to retire by the end of fiscal 2005. The B-727 aircraft will be replaced primarily by new generation B-737 aircraft.

Delta accepted delivery of 15 new aircraft and acquired 10 aircraft from other carriers during fiscal 1998, composed of two B-727-200 aircraft, six B-737-300 aircraft, four B-757-200 aircraft, 12 B-767-300ER aircraft and one MD-11 aircraft. In addition, Delta purchased four 727-200 aircraft that it previously leased. The Company expects to take delivery of seven aircraft from other carriers in fiscal 1999, five of which have been delivered. Delta retired nine L-1011 aircraft from the fleet in fiscal 1998.

AIRCRAFT FLEET AT JUNE 30, 1998

Aircraft Type	Average Age	Owned	Leased Capital	Leased Operating	Total
B-727-200	21.2	121	–	10	131
B-737-200	13.6	1	45	8	54
B-737-300	11.6	–	3	16	19
B-757-200	9.1	54	–	41	95
B-767-200	15.1	15	–	–	15
B-767-300	9.1	2	–	24	26
B-767-300ER	4.2	31	–	8	39
L-1011-1	19.8	18	–	–	18
L-1011-250	15.7	6	–	–	6
L-1011-500	17.3	15	–	–	15
MD-11	4.4	8	–	7	15
MD-88	8.0	63	–	57	120
MD-90	2.6	16	–	–	16
Total	12.3	350	48	171	569

AIRCRAFT DELIVERY SCHEDULES AT AUGUST 14, 1998

Aircraft on Firm Order	Delivery in Year Ending June 30: 1999	2000	2001	2002	After 2002	Total
B-737-600/700/800	7	12	5	9	54	87
B-757-200	5	7	–	–	–	12
B-767-300/300ER	14	–	–	–	–	14
B-767-400	–	2	19	–	–	21
B-777-200	2	10	2	–	–	14
Total	28	31	26	9	54	148

Aircraft on Option*	Delivery in Year Ending June 30: 1999	2000	2001	2002	After 2002	Total	Rolling Options
B-737-600/700/800	–	5	12	7	36	60	275
B-757-200	–	4	3	8	5	20	85
B-767-300/300ER	–	1	4	2	4	11	19
B-767-400	–	–	–	12	12	24	25
B-777-200	–	–	1	5	14	20	30
Total	–	10	20	34	71	135	434

**Aircraft options have scheduled delivery slots, while rolling options replace options and are assigned delivery slots as options expire or are exercised.*

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HENRY A. BIEDENHARN, III *Retired Chairman of the Board, President and Chief Executive Officer, Ouachita Coca-Cola Bottling Company, Inc., Monroe, Louisiana*

JAMES L. BROADHEAD *Chairman of the Board and Chief Executive Officer, FPL Group, Inc.; Chairman of the Board and Chief Executive Officer, Florida Power & Light Company, Juno Beach, Florida*

EDWARD H. BUDD *Retired Chairman of the Board and Chief Executive Officer, The Travelers Corporation, Hartford, Connecticut*

R. EUGENE CARTLEDGE *Former Chairman of the Board, Savannah Foods & Industries, Inc., Savannah, Georgia; Retired Chairman of the Board and Chief Executive Officer, Union Camp Corporation, Wayne, New Jersey*

MARY JOHNSTON EVANS *Director of various corporations*

GERALD GRINSTEIN *Non-Executive Chairman of the Board, Delta Air Lines, Inc.; Retired Chairman, Burlington Northern Santa Fe Corporation; Retired Chairman and Chief Executive Officer, Burlington Northern Inc., Fort Worth, Texas; former Chief Executive Officer, Western Air Lines, Inc.*

JESSE HILL, JR. *Retired Chairman of the Board, Atlanta Life Insurance Company, Atlanta, Georgia*
Mr. Hill will retire from the Board of Directors on October 22, 1998. He has been a director of Delta since 1975.

LEO F. MULLIN *President and Chief Executive Officer, Delta Air Lines, Inc.; former Vice Chairman, Unicom Corporation and Commonwealth Edison; former President and Chief Operating Officer, First Chicago, Chicago, Illinois*

ANDREW J. YOUNG *Co-Chairman and Senior Partner, Goodworks International, Inc., Atlanta, Georgia; Chairman of the Southern Africa Enterprise Development Fund; former Mayor of Atlanta, Georgia; former U.S. Ambassador to the United Nations; former member of the U.S. House of Representatives*

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Gerald Grinstein

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Gerald Grinstein

REPRESENTATIVE OF AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

Captain Mark D. Halsor – Associate non-voting member of the Board of Directors

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Cathy Cleveland Cone

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Assistant Secretary

SUSAN T. HUDSON
Assistant Secretary

LESLIE P. KLEMPERER
Assistant Secretary

Financial Review

RESULTS OF OPERATIONS

SUMMARY OF RESULTS

For fiscal 1998, Delta recorded operating income of $1.7 billion and net income of $1.0 billion ($13.28 basic and $12.68 diluted income per common share). These results represent the strongest financial performance ever reported by Delta for a fiscal year. In fiscal 1997, Delta recorded operating income of $1.5 billion and net income of $854 million ($11.39 basic and $11.03 diluted income per common share).

Financial Results Summary

(In Millions, Except Share Amounts)	1998	1997	Change
Operating Revenues	$14,138	$13,594	4%
Operating Expenses	12,445	12,063	3
Operating Income	1,693	1,531	11
Other Expense, Net	45	116	(61)
Income Before Income Taxes	1,648	1,415	16
Income Taxes Provided	647	561	15
Net Income	1,001	854	17
Preferred Stock Dividends	11	9	22
Net Income Available to Common Shareowners	$ 990	$ 845	17%
Income per common share:			
Basic	$ 13.28	$ 11.39	17%
Diluted	$ 12.68	$ 11.03	15%
Number of Shares Used to Compute Income Per Common Share:			
Basic	74,567,059	74,233,606	
Diluted	78,630,519	76,964,892	

Fiscal 1997 results include pretax restructuring and other non-recurring charges of $52 million ($32 million after-tax or $0.43 basic and $0.42 diluted income per common share) related to the realignment of the Company's transatlantic and European operations.

FISCAL 1998 COMPARED WITH FISCAL 1997
OPERATING REVENUES

Operating Revenue Detail

(In Millions)	1998	1997	Change
Passenger	$12,976	$12,505	4%
Cargo	582	554	5
Other, Net	580	535	8
Total	$14,138	$13,594	4%

Operating revenues for fiscal 1998 were $14.1 billion, up 4% from $13.6 billion in fiscal 1997. Passenger revenue increased 4%, which reflects a 3% increase in revenue passenger miles on capacity growth of 2%. The passenger mile yield was 12.83¢, virtually unchanged from fiscal 1997. During fiscal 1998, Delta benefited from continued favorable economic conditions, increased demand for air travel and the strategic reallocation of certain aircraft.

Domestic passenger revenue increased 4%, to $10.7 billion, driven by a 3% increase in domestic revenue passenger miles on a 2% increase in domestic capacity. The increase in domestic revenue passenger miles is primarily due to favorable economic conditions and improved asset utilization. Domestic passenger mile yield increased 1% due to a domestic fare increase implemented during the September 1997 quarter, largely offset by the full-year impact of the U.S. transportation excise tax and increased low-fare competition.

Consistent with the Company's strategy to expand its global reach, international passenger revenue increased 3%, to $2.3 billion, reflecting a 6% increase in international revenue passenger miles on a 5% increase in international capacity. The increase in international revenue passenger miles is primarily due to the addition of new routes, improved asset utilization, and continued strong demand in the Atlantic market, as well as the Company's recent expansion into Latin America. The international passenger mile yield decreased 3% year over year, mainly due to overall capacity growth in the Atlantic market.

Cargo revenues increased 5% to $582 million, reflecting a 14% increase in cargo ton miles and an 8% decrease in cargo ton mile yield. All other revenues increased 8% to $580 million, mainly due to higher administrative service charge revenues.

Revenue-Related Statistics

	1998	1997	Change
Revenue Passengers Enplaned *(Thousands)*	104,148	101,147	3%
Revenue Passenger Miles *(Millions)*	101,136	97,758	3%
Passenger Load Factor	72.2%	71.4%	0.8 pts.
Passenger Mile Yield	12.83¢	12.79¢	–
Cargo Ton Miles *(Millions)*	1,745	1,532	14%
Cargo Ton Mile Yield	33.35¢	36.14¢	(8)%
Operating Revenue Per Available Seat Mile	10.09¢	9.94¢	2%

OPERATING EXPENSES

Operating expenses in fiscal 1998 totaled $12.4 billion, up 3% from $12.1 billion in fiscal 1997. Operating cost per available seat mile increased 1% to 8.88¢.

Operating Expense Detail

(In Millions)	1998	1997	Change
Salaries and Related Costs	$ 4,850	$ 4,534	7%
Aircraft Fuel	1,507	1,722	(12)
Passenger Commissions	980	1,017	(4)
Depreciation and Amortization	861	710	21
Contracted Services	694	630	10
Other Selling Expenses	681	677	1
Landing Fees and Other Rents	649	649	–
Aircraft Rent	552	547	1
Aircraft Maintenance Materials and Outside Repairs	495	434	14
Passenger Service	450	389	16
Restructuring and Other Non-recurring Charges	–	52	–
Other	726	702	3
Total	$12,445	$12,063	3%

Salaries and related costs increased 7% due to an 8% increase in full-time equivalent employees, primarily in customer service areas, and compensation and benefit enhancements for non-contract domestic employees, which became effective July 1, 1997. Aircraft fuel expense decreased 12% as the average fuel price per gallon declined 15% to 56.54¢. Passenger commissions expense decreased 4% due to the implementation of a lower commission rate structure in the September 1997 quarter and increased utilization of lower cost distribution channels, partially offset by higher total commissions resulting from increased passenger revenue. Depreciation and amortization expense increased 21% due to the acquisition of additional aircraft and ground equipment, as well as increased investment in information systems. Contracted services expense rose 10% due to higher information technology costs and increased airport contract expenses associated with customer service initiatives and higher passenger volume. Aircraft maintenance materials and outside repairs expense increased 14% largely due to increased scheduled maintenance visits. Passenger service expense increased 16% due to onboard service enhancements and increased passenger traffic.

Operating Statistics

	1998	1997	Change
Available Seat Miles *(Millions)*	140,149	136,821	2%
Operating Margin	12.0%	11.3%	0.7 pts.
Fuel Gallons Consumed *(Millions)*	2,664	2,599	3%
Average Fuel Price Per Gallon	56.54¢	66.23¢	(15)%
Breakeven Passenger Load Factor	62.7%	62.7%	–
Operating Cost Per Available Seat Mile	8.88¢	8.82¢	1%

OTHER INCOME (EXPENSE)

Other expense for fiscal 1998 decreased $71 million to $45 million, primarily due to lower interest expense resulting from lower average levels of debt outstanding and higher interest income resulting from higher cash balances. In addition, fiscal 1997 other expense included a $20 million payment to settle certain class action antitrust lawsuits filed by travel agents.

FISCAL 1997 COMPARED WITH FISCAL 1996

For fiscal 1997, Delta recorded operating income of $1.5 billion and net income of $854 million ($11.39 basic and $11.03 diluted income per common share). In fiscal 1996, Delta recorded operating income of $463 million and net income of $156 million ($1.43 basic and diluted income per common share).

As discussed previously, fiscal 1997 results include pretax restructuring and other non-recurring charges of $52 million. Fiscal 1996 results include pretax restructuring and other non-recurring charges totaling $829 million ($506 million after-tax or $9.77 per common share) related to the write-down of Delta's L-1011 fleet and certain cost reduction initiatives.

OPERATING REVENUES

Operating revenues for fiscal 1997 were $13.6 billion, up 9% from $12.5 billion in fiscal 1996. Passenger revenue increased 8%, the result of 10% growth in revenue passenger miles partially offset by a 2% decline in the passenger mile yield.

Domestic passenger revenue increased 9%, to $10.3 billion, reflecting a 13% increase in domestic revenue passenger miles on a 6% increase in domestic capacity, and a 3% decline in the domestic passenger mile yield. Domestic traffic growth was primarily due to the Company's realignment of domestic routes which increased Delta's operations at its Atlanta and Cincinnati hubs; reduced operations by a competitor; and favorable economic conditions. The decrease in the domestic passenger mile yield was due to the use of more competitive pricing strategies and the reimposition of the U.S. transportation excise tax on March 7, 1997.

International passenger revenue rose 1%, to $2.2 billion, due to a 3% increase in international revenue passenger miles which was largely offset by a 2% decline in the international passenger mile yield. The increase in international revenue passenger miles was primarily due to improved asset utilization and favorable economic conditions. The decrease in the international passenger mile yield was due to the Company's use of more competitive pricing strategies.

Cargo revenues increased 6% to $554 million, reflecting a 12% increase in cargo ton miles and a 5% decline in cargo ton mile yield. Other revenues were up 68% to $535 million, mainly due to increased revenues from expanded joint marketing programs and improved results from code-sharing arrangements.

Operating Expenses

Operating expenses in fiscal 1997 totaled $12.1 billion, up 1% from $12.0 billion in fiscal 1996. Operating capacity increased 5% to 136.8 billion available seat miles, and operating cost per available seat mile decreased 4% to 8.82¢. Excluding restructuring and other non-recurring charges, operating expenses were up 8%, and operating cost per available seat mile increased 3%. This increase was primarily due to higher salaries and related costs, aircraft fuel expense and certain traffic-related costs.

Other Income (Expense)

Other expense for fiscal 1997 decreased $71 million, to $116 million, primarily due to lower interest expense and higher equity income from associated companies. Other expense for fiscal 1997 included Delta's $20 million payment to settle certain class action antitrust lawsuits filed by travel agents.

Liquidity and Capital Resources

Fiscal Year 1998

During fiscal 1998, strong operating results enabled the Company to continue to strengthen its financial position. Cash and cash equivalents and short-term investments totaled $1.6 billion at June 30, 1998, compared to $1.2 billion at June 30, 1997. The principal sources of funds during fiscal 1998 were $2.9 billion of cash from operations, $402 million (including an income tax benefit of $84 million related to the exercise of stock options) from the issuance of Common Stock, primarily under the Company's broad-based employee stock option plans, and $125 million from the issuance of long-term obligations.

During fiscal 1998, Delta invested $1.8 billion in flight equipment and $531 million in ground property and equipment. The Company also made payments of $307 million on long-term debt and capital lease obligations; paid $354 million to repurchase Common Stock; and paid cash dividends of $28 million on its Series B ESOP Convertible Preferred Stock, and $15 million on its Common Stock. The Company may repurchase additional long-term debt and Common Stock from time to time.

As of June 30, 1998 and 1997, the Company had negative working capital of $1.2 billion. A negative working capital position is normal for Delta and does not indicate a lack of liquidity. The Company expects to meet its current and long-term obligations as they become due through available cash, short-term investments and internally generated funds, supplemented as necessary by debt financing and proceeds from sale and leaseback transactions. At August 14, 1998, the Company had $1.25 billion of credit available under its 1997 Bank Credit Agreement. See Note 6 of Notes to Consolidated Financial Statements.

Long-term debt and capital lease obligations, including current maturities, totaled $1.9 billion at June 30, 1998, compared to $2.1 billion at June 30, 1997. Shareowners' equity was $4.0 billion at June 30, 1998, compared to $3.0 billion at June 30, 1997. The Company's debt-to-equity position, including current maturities, was 32% debt and 68% equity at June 30, 1998, compared to 41% debt and 59% equity at June 30, 1997.

At August 14, 1998, there was outstanding $290 million principal amount of the Delta Family-Care Savings Plan's Series C Guaranteed Serial ESOP Notes (Series C ESOP Notes), which are guaranteed by Delta. Delta is required to purchase the Series C ESOP Notes in certain circumstances. See Note 6 of Notes to Consolidated Financial Statements.

Fiscal Year 1997

During fiscal 1997, the principal source of funds was $2.0 billion of cash from operations. Delta invested $1.6 billion in flight equipment and $350 million in ground property and equipment. The Company also made payments of $196 million on long-term debt and capital lease obligations; paid $379 million to repurchase Common Stock; and paid cash dividends of $29 million on its Series B ESOP Convertible Preferred Stock and $15 million on its Common Stock.

Fiscal Year 1996

In fiscal 1996, the principal source of funds was $1.4 billion of cash from operations. During fiscal 1996, Delta invested $639 million in flight equipment, and $297 million in ground property and equipment. The Company made payments of $440 million on long-term debt and capital lease obligations; paid cash dividends of $80 million on its Series C Convertible Preferred Stock, $30 million on its Series B ESOP Convertible Preferred Stock and $10 million on its Common Stock; and paid $66 million to repurchase Common Stock.

Commitments

Future expenditures for aircraft, engines and engine hushkits on firm order as of August 14, 1998, are estimated to be $6.9 billion. The Company has also authorized fiscal 1999 capital expenditures of approximately $550 million for improvement of airport and office facilities, ground equipment and other assets. See Notes 7 and 8 of Notes to Consolidated Financial Statements for additional information on the Company's lease obligations and commitments.

Year 2000 Issue

Background

Many computer systems in use today were designed and developed using two digits, rather than four, to specify the year. As a result, such systems will recognize the year 2000 as "00." This could cause many computer applications to fail completely or to create erroneous results unless corrective measures are taken.

Delta's Year 2000 Program

The Company's flight operations, flight support units and other business support units depend on internal and external computer systems and equipment that will be affected by the Year 2000 issue. Accordingly, achieving Year 2000 readiness is a top priority of the Company. Delta has implemented a Year 2000 program for its internal systems and equipment which has four phases: (1) identification; (2) assessment (including prioritization); (3) remediation (including modification, upgrading and replacement); and (4) testing. The Company is also reviewing the Year 2000 readiness of third parties who provide goods or services which are essential to Delta's operations. In addition, Delta is revising its existing business interruption contingency plans to address issues specific to the Year 2000 problem. The Company's senior management and the Board of Directors receive regular updates on the status of the Company's Year 2000 program.

Safety-of-Flight Systems

The Company has completed its review of the impact of Year 2000 issues on its aircraft fleet and onboard flight support systems and has determined that there are no safety-of-flight issues with such equipment or systems. The Company has completed the assessment phase for its onboard flight management systems, which maximize operating efficiency but are not essential to the safe operation of flights, and expects to complete the remediation and testing phases for these systems by June 1999.

The Company also uses ground-based, safety-related computer systems and equipment which are vital to the maintenance of aircraft and the control of flight operations. The identification and assessment phases are complete with respect to such systems and equipment and the Company expects to complete the remediation and testing phases by June 1999.

Critical Internal Business Systems

The Company's critical internal business systems and equipment include computer hardware, software and related equipment which are essential for customer reservations, ticketing, flight scheduling and seat inventory management; airport customer services; finance systems, such as revenue management, revenue accounting and payroll; and other functions, such as internal voice and data communications, aircraft ground handling, baggage handling, facility management and security.

The identification and assessment phases for all of the Company's critical internal business systems and equipment are complete. The remediation phase is complete for Delta's internal customer reservations, ticketing, flight scheduling and seat inventory management systems and the Company expects to complete the testing phase for these systems by June 1999. These are the internal business systems which are the most critical for Delta to continue its operations without interruption. The Company expects to complete the remediation and testing phases for all other critical internal business systems and equipment by December 1998 and June 1999, respectively, except for customer service hardware installed at the Company's airport facilities, which will be replaced with upgraded, Year 2000-compliant hardware. The Company will begin installing this new hardware in September 1998 and expects to complete all installations by the end of the December 1999 quarter.

Interfaces with Third Parties

The Company is reviewing, and has initiated formal communications with, third parties which provide goods or services which are essential to Delta's operations in order to: (1) determine the extent to which the Company is vulnerable to any failure by such material third parties to remediate their respective Year 2000 problems; and (2) resolve such problems to the extent practicable. These entities include the suppliers of infrastructure critical to the airline industry, such as the air traffic control and related systems of the U.S. Federal Aviation Administration and international aviation authorities, the U.S. Department of Transportation and local airport authorities. Other critical third parties on which Delta relies include airlines and the suppliers of aircraft fuel, utilities, external computer reservations services, and communication services. As part of this review, the Company is actively involved in airline industry Year 2000 review efforts led by the Air Transport Association and the International Air Transport Association (IATA).

Estimated Year 2000 Costs

The Company estimates that the total cost of achieving Year 2000 readiness for its internal systems and equipment is approximately $160 million to $175 million, of which $40 million has been recognized as expense in the Company's Consolidated Statements of Operations through June 30, 1998. The Company believes a majority of the estimated total Year 2000 compliance cost will be funded by reallocating existing resources rather than incurring incremental costs.

Contingency Planning

The Company is revising its existing business interruption contingency plans to address internal and external issues specific to the Year 2000 problem, to the extent practicable. Such revisions are expected to be completed by July 1999. These plans, which are intended to enable the Company to continue to operate to the extent that it can do so safely, include performing certain processes manually; repairing or obtaining replacement systems; changing suppliers; and reducing or suspending operations. The Company believes, however, that due to the widespread nature of potential Year 2000 issues, the contingency planning process is an ongoing one which will require further modifications as the Company obtains additional information regarding (1) the Company's internal systems and equipment during the remediation and testing phases of its Year 2000 program; and (2) the status of third party Year 2000 readiness.

Possible Consequences of Year 2000 Problems

Delta believes that completed and planned modifications and conversions of its internal systems and equipment will allow it to be Year 2000 compliant in a timely manner. There can be no assurance, however, that the Company's internal systems or equipment or those of third parties on which Delta relies will be Year 2000 compliant in a timely manner or that the Company's or third parties' contingency plans will mitigate the effects of any noncompliance. The failure of the systems or equipment of Delta or third parties (which Delta believes is the most reasonably likely worst case scenario) could result in the reduction or suspension of the Company's operations and could have a material adverse effect on the Company's business or consolidated financial statements.

Forward-Looking Statements

The preceding "Year 2000 Issue" discussion contains various forward-looking statements which represent the Company's beliefs or expectations regarding future events. When used in the "Year 2000 Issue" discussion, the words "believes," "expects," "estimates" and similar expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the Company's expectations as to when it will complete the remediation and testing phases of its Year 2000 program as well as its Year 2000 contingency plans; its estimated cost of achieving Year 2000 readiness; and the Company's belief that its internal systems and equipment will be Year 2000 compliant in a timely manner. All forward-looking statements involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. Factors that may cause these differences include, but are not limited to, the availability of qualified personnel and other information technology resources; the ability to identify and remediate all date sensitive lines of computer code or to replace embedded computer chips in affected systems or equipment; and the actions of governmental agencies or other third parties with respect to Year 2000 problems.

EURO CURRENCY ISSUE

On January 1, 1999, eleven of the fifteen countries which are members of the European Union are scheduled to introduce a new currency unit called the "euro." Prior to the full implementation of the new currency for the participating countries on January 1, 2002, there will be a transition period during which parties may use either the existing currencies or the euro. However, all exchanges between currencies of the participating countries are required to be converted first into the euro and then into the other country's currency.

Delta's internal customer reservations systems and business support systems and processes are currently being modified to operate effectively in the euro environment. The Company expects these modifications to be completed by the end of the December 1998 quarter. Delta also depends on third party financial institutions, computer reservation systems and IATA programs to process most of its international ticket payment and refund transactions and therefore is reviewing their respective euro-related conversion plans. Delta does not expect the implementation of the euro currency to have a material adverse impact on the Company's business or consolidated financial statements.

Delta's expectations regarding the euro currency issue are forward-looking statements that involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. Factors that may cause these differences include, but are not limited to, the ability or willingness of third parties to convert affected systems in a timely manner; the ability of the Company to modify its systems and processes in a timely manner; and the actions of governmental agencies or other third parties with respect to euro currency issues.

Other Matters

Stock Split

In July 1998, Delta's Board of Directors approved a two-for-one Common Stock split, subject to shareowner approval of an amendment to the Company's Certificate of Incorporation to increase the number of shares of Common Stock the Company is authorized to issue and to effect the proposed split. If the amendment is approved by shareowners at Delta's October 22, 1998 annual meeting, the split would be effective for common shareowners of record at 5 p.m., eastern standard time, on November 2, 1998.

Common Stock Repurchase Programs

For information regarding the Company's Common Stock repurchase programs, see Note 14 of Notes to Consolidated Financial Statements.

Broad-Based Employee Stock Option Plans

During fiscal 1997, the Company's shareowners approved two plans providing for the issuance of non-qualified stock options to substantially all of Delta's non-officer personnel. For additional information regarding these plans, see Note 13 of Notes to Consolidated Financial Statements.

Change in Estimate

As a result of a review of its aircraft fleet plan and comparable industry practices, the Company increased the depreciable life of certain new generation aircraft types from 20 to 25 years. The change in estimate is effective July 1, 1998.

Alliance Agreement

On April 29, 1998, Delta and United Air Lines, Inc. (United) entered into a marketing alliance agreement (Agreement) pursuant to which the two airlines would engage in code-sharing arrangements, reciprocal frequent flyer programs and other areas of marketing cooperation.

The implementation of the code-sharing aspects of the Agreement is subject to the approval of both companies' pilot unions. In August 1998, Delta's Board of Directors (Board) decided not to grant the request of the Delta pilot union for a voting seat on the Board. Following this decision, the Delta pilot union said it would no longer consider the approval of the code-sharing aspects of the Agreement. As a result, Delta has discontinued consideration of code-sharing arrangements with United.

On September 1, 1998, Delta and United began reciprocal frequent flyer program participation.

Personnel Matters

On May 1, 1996, the Company and the Air Line Pilots Association, International (ALPA) entered into a new collective bargaining agreement covering the rates of pay, rules and working conditions of the Company's approximately 8,800 pilots. The contract, which becomes amendable on May 2, 2000, provides in part (1) that if the Company operates an aircraft type (New Equipment) for which the rates of pay, rules and working conditions (collectively, Pay Rates) are not set forth in the collective bargaining agreement, the Company and ALPA will negotiate the Pay Rates applicable to the New Equipment; (2) that pilots will fly the New Equipment whether or not Pay Rates for the equipment have been agreed upon; but (3) that the pilots' obligation to fly the New Equipment will end if Pay Rates have not been agreed upon within six months after the Company places the New Equipment into operation.

The Company has placed orders to purchase the following aircraft types, each of which constitutes New Equipment under the collective bargaining agreement: B-737-600/700/800 aircraft; B-777-200 aircraft; and B-767-400 aircraft. Delta plans to place these aircraft types in service shortly after their delivery, which is expected to begin in October 1998, March 1999, and May 2000, respectively. In addition, the Company is leasing from a third party eight B-737-300 aircraft and has agreed, subject to certain conditions, to lease one additional B-737-300 aircraft which also constitutes New Equipment under the collective bargaining agreement. The Company placed the first of these leased aircraft in service in July 1998.

In October 1997, the Company and ALPA began discussions on the Pay Rates applicable to B-737-600/700/800 aircraft and the nine B-737-300 aircraft discussed above. ALPA has announced plans to request pilots not to fly these aircraft types subsequent to the six-month period after such aircraft are initially placed in service unless and until Pay Rates for these aircraft are agreed upon. Additionally, in January 1998, the Company's pilots voted to authorize ALPA to assess pilots 1% of their gross pay for up to nine months to finance a contingency fund for pilots who would have flown these aircraft.

On June 23, 1998, the Company and ALPA reached an agreement regarding Pay Rates applicable to the B-737 aircraft discussed above (B-737 Agreement). The B-737 Agreement is subject to the approval of Delta's pilots. ALPA is planning to distribute ballots to pilots beginning in September to vote on the B-737 Agreement, and to announce the results of the voting in October. The outcome of this matter cannot presently be determined.

Governmental Matters

On April 6, 1998, the U.S. Department of Transportation (DOT) published a proposed statement of enforcement policy to address DOT concerns that major carriers are taking actions designed to exclude new entrants in certain airline markets, particularly at hub airports. The proposed DOT guidelines focus on unreasonable price cuts and/or capacity increases by major carriers in response to entry by new carriers at hub airports, and whether the major carrier could have pursued a more reasonable alternative strategy for competing with the new entrant. The proposed policy, if adopted, could adversely affect Delta's ability to respond to competitive challenges by new entrant carriers.

Competitive Environment

Delta expects that low-fare competition will continue in domestic and international markets. If price reductions are not offset by increases in traffic or changes in the mix of traffic that improve the passenger mile yield, Delta's operating results will be adversely affected.

Environmental and Legal Contingencies

The Company is a defendant in certain legal actions relating to alleged employment discrimination practices, antitrust matters, environmental issues and other matters concerning the Company's business. Although the ultimate outcome of these matters cannot be predicted with certainty, management believes that the resolution of these actions is not likely to have a material adverse effect on Delta's consolidated financial statements.

Forward-Looking Information

Delta and its representatives may make forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, about the Company and its business from time to time, either orally or in writing. These forward-looking statements involve a number of risks and uncertainties that could cause the actual results to differ materially from the projected results. It is not possible to list all of the many factors and events that could cause the actual results to differ materially from the projected results. Such factors and events may include, but are not limited to: (1) competitive factors such as the airline pricing environment and the capacity decisions of other airlines; (2) general economic conditions; (3) changes in aircraft fuel prices; (4) fluctuations in foreign currency exchange rates; (5) actions by the United States and foreign governments; and (6) the willingness of customers to travel.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), and Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 130 establishes standards for the reporting and presentation of comprehensive income and its components. SFAS 131 establishes standards for reporting information about operating segments. Delta is required to adopt both SFAS 130 and SFAS 131 in fiscal 1999. The adoption of SFAS 130 and SFAS 131 will not have a material effect on the Company's financial statements.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 98-1, "Accounting for Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), which defines the type of costs related to such activities that should be capitalized versus expensed as incurred.

In April 1998, the AICPA issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5), which requires all costs incurred in the start-up of a new business or business segment to be expensed as incurred.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), which establishes accounting and reporting standards for derivatives and hedging activities.

Delta is required to adopt SOP 98-1, SOP 98-5 and SFAS 133 in fiscal 2000. The adoption of these statements is not expected to have a material impact on the Company's financial statements.

Market Risks Associated with Financial Instruments

Commodity Price Risk

The Company's results of operations are significantly impacted by changes in the price of aircraft fuel. During fiscal 1998, aircraft fuel accounted for 12% of the Company's operating expenses. Based on the Company's fiscal 1999 projected aircraft fuel consumption of 2.7 billion gallons, a one-cent change in the average annual price per gallon of aircraft fuel would impact Delta's annual aircraft fuel expense by approximately $27 million. The Company uses fuel swap and option contracts to manage aircraft fuel price risk. At June 30, 1998, the Company had entered into hedge agreements for 2.1 billion gallons of its projected fiscal 1999 aircraft fuel requirements. (See Note 4 of Notes to Consolidated Financial Statements.)

Equity Price Risk

At June 30, 1998, the quoted fair value of Delta's equity investments in ASA Holdings, Inc., Comair Holdings, Inc., Singapore Airlines Limited, SAirGroup and SkyWest, Inc. was approximately $1.3 billion.

The aggregate unrealized gain from these investments was $785 million at June 30, 1998. The market risk associated with these equity investments is the potential loss in fair value resulting from a decrease in market prices. In addition, Delta has exposure to foreign currency exchange rate risk relating to its investments in Singapore Airlines and SAirGroup. See Notes 2 and 3 of Notes to Consolidated Financial Statements.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates to its long-term debt obligations and cash investment portfolio.

At June 30, 1998, the fair value of the Company's long-term fixed-rate debt was estimated at approximately $1.9 billion using quoted market prices where available, or discounted cash flow analyses. Market risk associated with the Company's long-term debt is the potential increase in fair value resulting from a decrease in interest rates. A 10% decrease in assumed interest rates would increase the fair value of Delta's long-term debt by approximately $117 million.

Based on the Company's average balance of cash equivalents and short-term investments during fiscal 1998, a 10% decrease in the average interest rate experienced in fiscal 1998 would not materially impact Delta's annual interest income.

Foreign Currency Exchange Rate Risk

Delta is exposed to foreign currency exchange rate fluctuations on the U.S. dollar value of foreign currency denominated transactions. Based on the Company's average net currency positions in fiscal 1998, the potential loss due to a 10% adverse change in foreign currency exchange rates is immaterial. The Company enters into certain foreign exchange forward contracts, generally with maturities of less than two months, to manage its foreign currency exchange rate risk. The principal amount of such contracts was approximately $26 million at June 30, 1998.

Consolidated Balance Sheets

JUNE 30, 1998 AND 1997

DELTA AIR LINES, INC.

ASSETS	1998	1997
(In Millions)		
Current Assets:		
Cash and cash equivalents	$ 1,077	$ 662
Short-term investments	557	508
Accounts receivable, net of allowance for uncollectible accounts of $36 at June 30, 1998 and $48 at June 30, 1997	938	943
Deferred income taxes	464	413
Prepaid expenses and other	326	341
Total current assets	3,362	2,867
Property and Equipment:		
Flight equipment	11,180	9,619
Less: Accumulated depreciation	3,895	3,510
	7,285	6,109
Flight equipment under capital leases	515	523
Less: Accumulated amortization	216	176
	299	347
Ground property and equipment	3,285	3,032
Less: Accumulated depreciation	1,854	1,758
	1,431	1,274
Advance payments for equipment	306	312
Total property and equipment	9,321	8,042
Other Assets:		
Marketable equity securities	424	432
Deferred income taxes	–	103
Investments in associated companies	326	299
Cost in excess of net assets acquired, net of accumulated amortization of $112 at June 30, 1998 and $102 at June 30, 1997	265	275
Leasehold and operating rights, net of accumulated amortization of $209 at June 30, 1998 and $199 at June 30, 1997	124	134
Other	781	589
Total other assets	1,920	1,832
Total assets	$14,603	$12,741

LIABILITIES AND SHAREOWNERS' EQUITY	1998	1997
(In Millions, Except Share Data)		
Current Liabilities:		
Current maturities of long-term debt	$ 67	$ 236
Current obligations under capital leases	63	62
Accounts payable and miscellaneous accrued liabilities	2,025	1,691
Air traffic liability	1,667	1,418
Accrued rent	202	213
Accrued salaries and vacation pay	553	463
Total current liabilities	4,577	4,083
Noncurrent Liabilities:		
Long-term debt	1,533	1,475
Postretirement benefits	1,873	1,839
Accrued rent	651	602
Capital leases	249	322
Deferred income taxes	262	–
Other	511	406
Total noncurrent liabilities	5,079	4,644
Deferred Credits:		
Deferred gain on sale and leaseback transactions	694	746
Manufacturers' and other credits	55	105
	749	851
Commitments and Contingencies (Notes 6, 7, 8 and 9)		
Employee Stock Ownership Plan Preferred Stock:		
Series B ESOP Convertible Preferred Stock, $1.00 par value, $72.00 stated and liquidation value; issued and outstanding 6,603,429 shares at June 30, 1998 and 6,668,248 shares at June 30, 1997	475	480
Unearned compensation under employee stock ownership plan	(300)	(324)
	175	156
Shareowners' Equity:		
Common stock, $3.00 par value; authorized 150,000,000 shares; issued 88,283,089 shares at June 30, 1998 and 83,645,047 shares at June 30, 1997	265	251
Additional paid-in capital	3,034	2,645
Retained earnings	1,687	711
Net unrealized gain on marketable equity securities	89	101
Treasury stock at cost, 13,057,892 shares at June 30, 1998 and 9,949,060 shares at June 30, 1997	(1,052)	(701)
Total shareowners' equity	4,023	3,007
Total liabilities and shareowners' equity	$14,603	$12,741

The accompanying notes are an integral part of these Consolidated Balance Sheets.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

DELTA AIR LINES, INC.

(In Millions, Except Per Share Data)	1998	1997	1996
Operating Revenues:			
Passenger	$12,976	$12,505	$11,616
Cargo	582	554	521
Other, net	580	535	318
Total operating revenues	14,138	13,594	12,455
Operating Expenses:			
Salaries and related costs	4,850	4,534	4,206
Aircraft fuel	1,507	1,722	1,464
Passenger commissions	980	1,017	1,042
Depreciation and amortization	861	710	634
Contracted services	694	630	704
Other selling expenses	681	677	594
Landing fees and other rents	649	649	627
Aircraft rent	552	547	555
Aircraft maintenance materials and outside repairs	495	434	376
Passenger service	450	389	368
Restructuring and other non-recurring charges	–	52	829
Other	726	702	593
Total operating expenses	12,445	12,063	11,992
Operating Income	1,693	1,531	463
Other Income (Expense):			
Interest expense	(186)	(207)	(269)
Interest capitalized	38	33	26
Interest income	79	63	86
Miscellaneous income (expense), net	24	(5)	(30)
	(45)	(116)	(187)
Income Before Income Taxes	1,648	1,415	276
Income Taxes Provided	(647)	(561)	(120)
Net Income	1,001	854	156
Preferred Stock Dividends	(11)	(9)	(82)
Net Income Available to Common Shareowners	$ 990	$ 845	$ 74
Basic Income Per Common Share	$ 13.28	$ 11.39	$ 1.43
Diluted Income Per Common Share	$ 12.68	$ 11.03	$ 1.43

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

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

DELTA AIR LINES, INC.

(In Millions)	1998	1997	1996
Cash Flows from Operating Activities:			
Net income	$ 1,001	$ 854	$ 156
Adjustments to reconcile net income to cash provided by operating activities:			
Restructuring and other non-recurring charges	–	52	829
Depreciation and amortization	861	710	634
Deferred income taxes	294	240	(57)
Rental expense less than rent payments	(17)	(58)	(32)
Pension, postretirement and postemployment expense in excess of (less than) payments	179	92	(67)
Changes in certain current assets and liabilities:			
Decrease (increase) in accounts receivable	5	25	(213)
Decrease (increase) in prepaid expenses and other current assets	15	(31)	(47)
Increase in air traffic liability	249	4	271
Increase (decrease) in other payables and accrued expenses	330	186	(91)
Other, net	(1)	(35)	8
Net cash provided by operating activities	2,916	2,039	1,391
Cash Flows from Investing Activities:			
Property and equipment additions:			
Flight equipment, including advance payments	(1,760)	(1,598)	(639)
Ground property and equipment	(531)	(350)	(297)
Decrease (increase) in short-term investments, net	(43)	(1)	22
Proceeds from sale of flight equipment	10	8	26
Net cash used in investing activities	(2,324)	(1,941)	(888)
Cash Flows from Financing Activities:			
Payments on long-term debt and capital lease obligations	(307)	(196)	(440)
Cash dividends	(43)	(44)	(120)
Issuance of long-term obligations	125	–	–
Issuance of Common Stock	318	38	35
Income tax benefit from exercise of stock options	84	–	–
Repurchase of Common Stock	(354)	(379)	(66)
Net cash used in financing activities	(177)	(581)	(591)
Net Increase (Decrease) in Cash and Cash Equivalents	415	(483)	(88)
Cash and cash equivalents at beginning of fiscal year	662	1,145	1,233
Cash and cash equivalents at end of fiscal year	$ 1,077	$ 662	$1,145

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

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

DELTA AIR LINES, INC.

(In Millions, Except Share Data)	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Equity Securities	Treasury Stock	Total
Balance at June 30, 1995	$164	$2,016	$ (184)	$ 83	$ (252)	$1,827
Fiscal Year 1996:						
Net income	–	–	156	–	–	156
Dividends on Series C Convertible Preferred Stock	–	–	(74)	–	–	(74)
Dividends on Common Stock ($0.20 per share)	–	–	(10)	–	–	(10)
Dividends on Series B ESOP Convertible Preferred Stock allocated shares	–	–	(8)	–	–	(8)
Issuance of 719,562 shares of Common Stock under dividend reinvestment and stock purchase plan and stock options ($58.15 per share)	2	40	–	–	(5)	37
Issuance of 6,861,377 shares of Common Stock on conversions of Series C Preferred Stock ($64.37 per share)	21	(21)	–	–	–	–
Issuance of 10,147,952 shares of Common Stock on conversions of 3.23% Convertible Subordinated Notes ($61.17 per share)	30	592	–	–	–	622
Transfer of 176,794 shares of Common Stock from treasury under ESOP and stock incentive plan ($67.77 per share)	–	–	1	–	12	13
Repurchase of 821,300 common shares ($80.00 per share)	–	–	–	–	(66)	(66)
Net unrealized gain on marketable equity securities and other	–	–	–	43	–	43
Balance at June 30, 1996	217	2,627	(119)	126	(311)	2,540
Fiscal Year 1997:						
Net income	–	–	854	–	–	854
Dividends on Common Stock ($0.20 per share)	–	–	(15)	–	–	(15)
Dividends on Series B ESOP Convertible Preferred Stock allocated shares	–	–	(9)	–	–	(9)
Issuance of 748,492 shares of Common Stock under dividend reinvestment and stock purchase plan and stock options ($65.22 per share)	2	47	–	–	(7)	42
Issuance of 10,629,465 shares of Common Stock on conversions of Series C Preferred Stock ($64.38 per share)	32	(32)	–	–	–	–
Repurchase of 5,378,700 common shares ($70.53 per share)	–	–	–	–	(379)	(379)
Net unrealized loss on marketable equity securities and other	–	3	–	(25)	(4)	(26)
Balance at June 30, 1997	251	2,645	711	101	(701)	3,007
Fiscal Year 1998:						
Net income	–	–	1,001	–	–	1,001
Dividends on Common Stock ($0.20 per share)	–	–	(15)	–	–	(15)
Dividends on Series B ESOP Convertible Preferred Stock allocated shares	–	–	(11)	–	–	(11)
Issuance of 4,638,042 shares of Common Stock under dividend reinvestment and stock purchase plan and stock options ($68.56 per share)	14	304	–	–	–	318
Repurchase of 3,158,373 common shares ($112.08 per share)	–	–	–	–	(354)	(354)
Income Tax Benefit from exercise of stock options	–	84	–	–	–	84
Transfer of 49,541 shares of Common Stock from treasury under stock incentive plan ($77.17 per share)	–	–	–	–	3	3
Net unrealized loss on marketable equity securities and other	–	1	1	(12)	–	(10)
Balance at June 30, 1998	$265	$3,034	$1,687	$ 89	$(1,052)	$4,023

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

1. Summary of Significant Accounting Policies

Nature of Business – Delta Air Lines, Inc. (a Delaware corporation) is a major air carrier providing scheduled air transportation for passengers, freight and mail over a network of routes throughout the United States and abroad. At August 1, 1998, Delta served 148 domestic cities in 42 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, as well as 46 cities in 31 foreign countries.

Basis of Presentation – The consolidated financial statements include the accounts of Delta Air Lines, Inc. and its wholly owned subsidiaries (Delta or the Company). All significant intercompany account balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform with the current year financial statement presentation.

Use of Estimates – The Company follows generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Accounting Changes – During fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" (SFAS 128), and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132). (See Notes 11 and 10, respectively.) During fiscal 1997, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). (See Note 13.)

Cash and Cash Equivalents – Investments with an original maturity of three months or less are classified as cash and cash equivalents. These investments are stated at cost, which approximates fair value.

Short-Term Investments – Cash in excess of operating requirements is invested in short-term, highly liquid investments. These investments are classified as available-for-sale under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115), and are stated at fair value. (See Note 2.)

Depreciation and Amortization – Effective July 1, 1998, the Company increased the depreciable life of certain new generation aircraft types from 20 to 25 years. Owned flight equipment is depreciated on a straight-line basis to a residual value equal to 5% of cost. Flight equipment under capital leases is amortized on a straight-line basis over the original terms of the respective leases, which generally range from 4 to 11 years. Ground property and equipment are depreciated on a straight-line basis over their estimated service lives, which range from 3 to 30 years. Costs assigned to the purchase of leasehold rights and landing slots are amortized over the lives of the respective leases at the associated airports. Purchased international route authorities are amortized over the lives of the authorities as determined by their expiration dates. Permanent route authorities with no stated expiration dates are amortized over 40 years.

Interest Capitalized – Interest attributable to funds used to finance the acquisition of new aircraft and construction of major ground facilities is capitalized as an additional cost of the related asset. Interest is capitalized at the Company's weighted average interest rate on long-term debt or, where applicable, the interest rate related to specific borrowings. Capitalization of interest ceases when the property or equipment is placed in service.

Investments in Associated Companies – The Company's investments in the following companies are accounted for under the equity method: WORLDSPAN, L.P. (WORLDSPAN), a computer reservations system partnership; ASA Holdings, Inc. (ASA), the parent of Atlantic Southeast Airlines, Inc.; Comair Holdings, Inc. (Comair), the parent of Comair, Inc.; and Empresa de Transporte Aéreo del Perú, S.A., Aeroperú (Aeroperu). Effective July 1997, the Company began accounting for its investment in SkyWest, Inc. (SkyWest), the parent of SkyWest Airlines, Inc., under the cost method. (See Note 2.) Atlantic Southeast Airlines, Inc., Comair, Inc., and SkyWest Airlines, Inc. are participants in the Delta Connection program.

Cost in Excess of Net Assets Acquired – The cost in excess of net assets acquired (goodwill), which is being amortized over 40 years, is primarily related to the Company's acquisition of Western Air Lines, Inc. in December 1986.

Frequent Flyer Program – The Company accrues the estimated incremental cost of providing free travel awards earned under its SkyMiles® frequent flyer program when free travel award levels are achieved. The accrued incremental cost is included in accounts payable and miscellaneous accrued liabilities in the Company's Consolidated Balance Sheets. The Company also sells mileage credits to participating partners in the SkyMiles® program such as hotels, car rental agencies and credit card companies. The resulting revenue is recorded as other operating revenue in the Company's Consolidated Statements of Operations during the period in which the credits are sold.

Passenger and Cargo Revenues – Passenger ticket sales are recorded as air traffic liability in the Company's Consolidated Balance Sheets. Passenger and cargo revenues are recognized when the transportation is provided, reducing the air traffic liability, as applicable.

Deferred Gains on Sale and Leaseback Transactions – Gains on the sale and leaseback of property and equipment under operating leases are deferred and amortized over the lives of the respective leases as a reduction in rent expense. Gains on the sale and leaseback of property under capital leases are credited directly to the carrying value of the related asset.

Manufacturers' Credits – In connection with the acquisition of certain aircraft and engines, the Company receives certain credits. These credits are deferred until the aircraft and engines are delivered, at which time the credits are applied on a pro rata basis as a reduction of the acquisition cost of the related equipment.

Advertising Costs – Advertising costs are expensed when incurred and are included as a component of other selling expense. Advertising expense for fiscal 1998, 1997 and 1996 was $105 million, $121 million and $109 million, respectively.

Foreign Currency Remeasurement – Assets and liabilities denominated in foreign currencies are remeasured generally at exchange rates in effect at the balance sheet date, except fixed assets are recorded at exchange rates in effect when the assets were acquired. The resulting foreign exchange gains and losses are recognized as a component of miscellaneous income (expense). Revenues and expenses from foreign operations are recorded using applicable average monthly exchange rates prevailing during the year, except depreciation and amortization charges are recorded at the exchange rate in effect when the related assets were acquired.

Stock-Based Compensation – The Company accounts for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, no compensation expense is recognized for a stock option grant if the exercise price of the stock option at the measurement date is equal to or greater than the fair market value of the Common Stock on the date of grant. (See Note 13.)

2. FINANCIAL INSTRUMENTS

All financial instruments, except long-term debt, are carried at fair value or have a carrying value which approximates fair value.

Long-Term Debt – The fair values and carrying values of long-term debt, including current maturities, at June 30, 1998 and 1997, were as follows:

(In Billions)	1998	1997
Fair value	$1.9	$1.8
Carrying value	1.6	1.7

These values are based on quoted market prices, where available, or discounted cash flow analyses.

Marketable Equity Securities – Effective July 1, 1997, the Company began accounting for its investment in SkyWest under the cost method due to dilution in the Company's equity ownership in SkyWest. The Company's investments in Singapore Airlines Limited (Singapore Airlines), SAirGroup (formerly Swissair, Swiss Air Transport Company Ltd.) and SkyWest are classified as available-for-sale under SFAS 115 and are recorded at fair value. The following table summarizes the Company's investments in Singapore Airlines, SAirGroup and SkyWest:

(In Millions)	Quoted Fair Value June 30, 1998	Quoted Fair Value June 30, 1997	Cost Basis	Unrealized Gain (Loss) June 30, 1998	Unrealized Gain (Loss) June 30, 1997
Singapore Airlines	$165	$315	$181	$(16)	$134
SAirGroup	$172	$117	$ 85	$ 87	$ 32
SkyWest	$ 87	N/A*	$ 14	$ 73	N/A*

** Prior to fiscal 1998, the Company accounted for its investment in SkyWest under the equity method. (See Note 3.)*

The aggregate unrealized gains, net of the related deferred tax provision, of these investments at June 30, 1998 and 1997 are reflected in shareowners' equity. Delta's right to vote, to transfer or to acquire additional shares of the stock of Singapore Airlines and SAirGroup is subject to certain restrictions.

Short-Term Investments – The Company invests its cash in excess of operating requirements in short-term, highly-liquid investments. These investments are classified as available-for-sale securities, have an average stated maturity of eight months, and are recorded as short-term investments in the Company's Consolidated Balance Sheets. The aggregate fair value of these investments was $557 million and $508 million at June 30, 1998 and 1997, respectively. Unrealized gains and losses from these investments, net of deferred taxes, are reflected in shareowners' equity. Such amounts were immaterial at June 30, 1998 and 1997.

3. Investments in Associated Companies

The Company's percentage ownership and quoted fair value (where applicable) of its investment in associated companies at June 30, 1998, and equity earnings (losses) for fiscal 1998, 1997 and 1996, were as follows:

Investment	Percentage Ownership	Quoted Fair Value	1998	1997	1996
				(In Millions)	
WORLDSPAN	38%	N/A	14	$23	$(5)
ASA	27	$397	17	15	13
Comair	21	434	25	16	13
Aeroperu	35	N/A	–	–	–
SkyWest	13	87	N/A	2	1

4. Risk Management

Fuel Price Risk Management – Delta enters into fuel swap and option contracts up to one year in duration to manage risk associated with changes in aircraft fuel prices. Under these contracts, Delta receives or makes payments based on differences between fixed and variable prices for certain fuel commodities. Gains and losses from fuel swap and option contracts are deferred and recognized as a component of fuel expense when the underlying fuel being hedged is used. Premiums paid to enter into hedging contracts are recorded as a prepaid expense and amortized to fuel expense over the respective contract period. At June 30, 1998, the Company had entered into hedge agreements for 2.1 billion gallons of its projected fiscal 1999 aircraft fuel requirements. At June 30, 1998, unrealized gains and losses from these contracts were immaterial.

Foreign Exchange Risk Management – Delta enters into foreign exchange forward contracts, generally with maturities of less than two months, to manage risk associated with its net foreign currency denominated positions. The principal amount, which approximates fair value, of outstanding foreign exchange forward contracts was approximately $26 million at June 30, 1998. Gains and losses resulting from foreign exchange forward contracts are recognized as a component of miscellaneous income (expense).

Credit Risks – To manage credit risk associated with its fuel price risk and foreign exchange risk management programs, the Company selects counterparties based on their credit ratings, limits its exposure to any one counterparty under defined guidelines, and monitors the market position of the program and its relative market position with each counterparty.

Concentration of Credit Risk – Delta's accounts receivable are generated primarily from airline ticket and cargo service sales to individuals and various commercial enterprises that are economically and geographically dispersed, and the accounts receivable are generally short-term in duration. Accordingly, Delta does not believe it is subject to any significant concentration of credit risk.

5. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of June 30, 1998 and 1997 are a result of temporary differences related to the items described below:

(In Millions)	1998	1997
Deferred Tax Assets:		
Postretirement benefits	$ 756	$ 741
Other employee benefits	405	328
Gains on sale and leaseback transactions (net)	257	302
Rent expense	200	212
Spare parts repair expense	139	122
Alternative minimum tax credit carryforwards	107	216
Other	159	212
Total Deferred Tax Assets	$2,023	$2,133
Deferred Tax Liabilities:		
Depreciation and amortization	$1,446	$1,239
Other	375	378
Total Deferred Tax Liabilities	$1,821	$1,617

Income taxes provided in fiscal 1998, 1997 and 1996 consisted of:

(In Millions)	1998	1997	1996
Current taxes	$(353)	$(321)	$(177)
Deferred taxes	(298)	(244)	54
Tax benefit of dividends on allocated Series B ESOP Convertible Preferred Stock	4	4	3
Income taxes provided	$(647)	$(561)	$(120)

The income tax provisions generated for fiscal 1998, 1997 and 1996 differ from amounts which would result from applying the federal statutory tax rate to pretax income, as follows:

(In Millions)	1998	1997	1996
Income before income taxes	$1,648	$1,415	$ 276
Items not deductible for tax purposes:			
Meals and entertainment	42	39	36
Amortization	9	9	9
Other, net	(27)	(17)	(8)
Adjusted pretax income	1,672	1,446	313
Federal statutory tax rate	35%	35%	35%
Income tax provision at statutory rate	(585)	(506)	(110)
State and other income taxes, net of federal income tax provision	(62)	(55)	(10)
Income taxes provided	$ (647)	$ (561)	$(120)

The Company made income tax payments, net of income tax refunds, of $244 million in fiscal 1998, $336 million in fiscal 1997 and $192 million in fiscal 1996.

6. Long-Term Debt

At June 30, 1998 and 1997, the Company's long-term debt (including current maturities) was as follows:

(In Millions)	1998	1997
9⅞% Notes, unsecured, due January 1, 1998	$ –	$ 207
Medium-Term Notes, Series A and B, unsecured, interest rates from 7.79% to 9.15%; maturities ranging from 1998 to 2007	128	157
9⅞% Notes, unsecured, due May 15, 2000	142	142
8½% Notes, unsecured, due March 15, 2002	71	71
8.10% Series C Guaranteed Serial ESOP Notes, unsecured, due in installments between 2002 and 2009	290	290
Development Authority of Fulton County, unsecured loan agreement, due $10 million on November 1, 2007 and $20 million on November 1, 2012. Interest rates from 6.85% to 6.95%	30	30
10⅛% Debentures, unsecured, due May 15, 2010	113	113
10⅜% Debentures, unsecured, due February 1, 2011	175	175
Development Authority of Fulton County, unsecured loan agreement, due $19 million on May 1, 2013, $85 million on May 1, 2023, and $21 million on May 1, 2033. Interest rates from 5.30% to 5.50%	125	–
9% Debentures, unsecured, due May 15, 2016	101	101
7⅝% Development Authority of Clayton County, unsecured loan agreement, due on January 1, 2020	45	45
9¾% Debentures, unsecured, due May 15, 2021	250	250
9¼% Debentures, unsecured, due March 15, 2022	64	64
10⅜% Debentures, unsecured, due December 15, 2022	66	66
Total	1,600	1,711
Less: Current maturities	67	236
Total long-term debt	$1,533	$1,475

Under its 1997 Bank Credit Agreement with a group of banks, the Company may borrow up to $1.25 billion on an unsecured and revolving basis until May 1, 2002, subject to compliance with certain conditions. Up to $700 million of this facility may be used for the issuance of letters of credit. The interest rate under this facility is, at the Company's option, the London Interbank Offered Rate or the prime rate, in each case plus a margin which is subject to adjustment based on certain changes in the credit ratings of the Company's long-term senior unsecured debt. The Company also has the option to obtain loans through a competitive bid procedure. The 1997 Bank Credit Agreement contains certain covenants that restrict the Company's ability to grant liens, to incur or guarantee debt and to enter into flight equipment leases. It also provides that if there is a change of control (as defined) of the Company, the banks' obligation to extend credit terminates, any amounts outstanding become immediately due and payable and the Company will immediately deposit cash collateral with the banks in an amount equal to all outstanding letters of credit. At August 14, 1998, no borrowings or letters of credit were outstanding under the 1997 Bank Credit Agreement.

At June 30, 1998, there were outstanding $290 million principal amount of the Delta Family-Care Savings Plan's Series C Guaranteed Serial ESOP Notes (Series C ESOP Notes), which are guaranteed by Delta and are payable in installments between July 1, 2002 and January 1, 2009. The Series C ESOP Notes were issued under note purchase agreements (1) which require Delta to purchase the Series C ESOP Notes at the option of the holders thereof (Noteholders) if the credit rating of Delta's long-term senior unsecured debt falls below Baa3 by Moody's and BBB – by Standard & Poor's (Purchase Event); but (2) which provide that Delta has no obligation to purchase the Series C ESOP Notes under the note purchase agreements so long as Delta obtains, within 127 days of a Purchase Event, certain credit enhancements (Approved Credit Enhancement) that result in the Series C ESOP Notes being rated A3 or higher by Moody's and A– or higher by Standard & Poor's (Required Ratings). If Delta is required to purchase the Series C ESOP Notes because of the occurrence of a Purchase Event, such purchase would be made at a price (Purchase Price) equal to the outstanding principal amount of the Series C ESOP Notes being purchased, together with accrued interest and a Make Whole Premium Amount. The Make Whole Premium Amount is based on, among other factors, the yield to maturity of U.S. Treasury notes having maturities equal to the remaining average life to maturity of the Series C ESOP Notes as of the date Delta purchases the Series C ESOP Notes.

On May 11, 1993, a Purchase Event occurred, and Delta became obligated to purchase on September 15, 1993 any Series C ESOP Notes tendered to it. Prior to September 15, 1993, Delta obtained an Approved Credit Enhancement in the form of a letter of credit to credit enhance the Series C ESOP Notes. This letter of credit was issued in favor of Wilmington Trust Company, as trustee (Trustee), under Delta's then-existing bank credit agreement. Due to the issuance of this letter of credit, the Series C ESOP Notes received the Required Ratings, and Delta no longer had an obligation to purchase the Series C ESOP Notes as a result of the Purchase Event that occurred on May 11, 1993.

On June 6, 1996, the Company entered into a credit agreement with ABN AMRO Bank, N.V. and a group of banks (Letter of Credit Facility) which, as amended, provides for the issuance of letters of credit for up to $500 million in stated amount to credit enhance the Series C ESOP Notes. The Letter of Credit Facility contains negative covenants and a change of control provision that are substantially similar to those contained in the 1997 Bank Credit Agreement. In the event of any drawing under the Letter of Credit Facility, Delta is required, at its election, (1) to immediately repay the amount drawn; or (2) to convert its reimbursement obligation to a loan for a period not to exceed one year at varying rates of interest. On June 6, 1996, Delta obtained a letter of credit under the Letter of Credit Facility to replace the letter of credit issued under its then-existing bank credit agreement to credit enhance the Series C ESOP Notes. The Letter of Credit Facility expires June 6, 2000.

At August 14, 1998, the face amount of the letter of credit issued under the Letter of Credit Facility was $445 million. It covers the $290 million outstanding principal amount of the Series C ESOP Notes, up to $123 million of Make Whole Premium Amount and approximately one year of interest on the Series C ESOP Notes.

An Indenture of Trust, dated August 1, 1993 (Indenture), among Delta, the Trustee, and Fidelity Management Trust Company, as ESOP trustee, contains certain terms and conditions relating to any letter of credit used to credit enhance the Series C ESOP Notes. The Indenture requires the Trustee to draw under the letter of credit to make regularly scheduled payments of principal and interest on the Series C ESOP Notes. The Indenture also requires the Trustee to draw under the letter of credit to purchase the Series C ESOP Notes in certain circumstances in which Delta would not be required to purchase the Series C ESOP Notes under the note purchase agreements. Subject to certain conditions, the Indenture requires the Trustee to purchase the Series C ESOP Notes at the Purchase Price at the option of the Noteholders in the event that (1) the Required Ratings on the Notes are not maintained; (2) the letter of credit is not extended 20 days before its scheduled expiration date; (3) Delta elects to terminate the letter of credit; or (4) the Trustee receives notice that there has occurred an event of default under the credit agreement relating to the letter of credit; unless, generally within 10 days of any such event, the Series C ESOP Notes receive the Required Ratings due to Delta's obtaining a substitute credit enhancement or otherwise.

The Required Ratings on the Series C ESOP Notes are subject to reconsideration at any time, and to annual confirmation, by Moody's and Standard & Poor's. Circumstances that might cause either rating agency to lower or fail to confirm its rating include, without limitation, a downgrading of the deposits of the letter of credit issuer below A3 by Moody's or A- by Standard & Poor's, or a determination that the Make Whole Premium Amount covered by the letter of credit is insufficient.

Subject to certain conditions, the Indenture does not permit the Trustee to purchase the Series C ESOP Notes at the option of the Noteholders if the Series C ESOP Notes receive the Required Ratings without the benefit of a credit enhancement. The Series C ESOP Notes are not likely to receive the Required Ratings absent a credit enhancement unless Delta's long-term senior unsecured debt is rated at least A3 by Moody's and A- by Standard & Poor's. On August 14, 1998, Delta's long-term senior unsecured debt was rated Baa3 by Moody's and BBB- by Standard & Poor's.

At June 30, 1998, the annual scheduled maturities of long-term debt during the next five fiscal years were as follows:

Years Ending June 30 *(In Millions)*	Amount
1999	$ 67
2000	142
2001	–
2002	75
2003	43

The Company's debt agreements contain certain restrictive covenants, but do not limit the payment of dividends on the Company's capital stock. The terms of the Series B ESOP Convertible Preferred Stock limit the Company's ability to pay cash dividends on the Company's Common Stock (Common Stock) in certain circumstances. (See Note 12.)

Cash payments for interest, net of interest capitalized, totaled $152 million in fiscal 1998; $171 million in fiscal 1997; and $232 million in fiscal 1996.

7. Lease Obligations

The Company leases certain aircraft, airport terminal and maintenance facilities, ticket offices and other property and equipment. Rent expense is generally recorded on a straight-line basis over the lease term. Amounts charged to rental expense for operating leases were $0.9 billion in fiscal 1998, 1997 and 1996.

At June 30, 1998, the Company's minimum rental commitments under capital leases (primarily aircraft) and noncancelable operating leases with initial or remaining terms of more than one year were as follows:

Years Ending June 30 *(In Millions)*	Capital Leases	Operating Leases
1999	$100	$ 950
2000	67	950
2001	57	940
2002	57	960
2003	48	960
After 2003	71	10,360
Total minimum lease payments	$400	$15,120
Less: Amounts representing interest	88	
Present value of future minimum capital lease payments	312	
Less: Current obligations under capital leases	63	
Long-term capital lease obligations	$249	

As of June 30, 1998, Delta leased 219 aircraft. These leases have remaining terms ranging from 18 months to 19 years and expiration dates ranging from 1999 to 2017. Of these leases, 48 are accounted for as capital leases.

Certain municipalities and airport authorities have issued special facility revenue bonds to build or improve airport terminal and maintenance facilities that Delta leases under operating leases. Under these lease agreements, the Company is required to make rental payments sufficient to pay principal and interest on the bonds as they become due.

8. Purchase Commitments

Future expenditures for aircraft, engines and engine hushkits on firm order as of August 14, 1998 are estimated to be $6.9 billion, as follows:

Years Ending June 30 *(In Millions)*	Amount
1999	$1,580
2000	1,610
2001	1,570
2002	300
2003	370
After 2003	1,460
Total	$6,890

The Company has authorized capital expenditures of approximately $550 million for fiscal 1999 for improvement of airport and office facilities, ground equipment and other assets.

The Company expects to finance its aircraft, engine and engine hushkit commitments, as well as other authorized capital expenditures, using available cash, short-term investments and internally generated funds, supplemented as necessary by debt financings and proceeds from sale and leaseback transactions.

The Company has entered into code-sharing agreements under which it has agreed to purchase seats at established prices from specific airlines, subject to certain conditions. None of these agreements has material noncancelable terms in excess of one year.

9. CONTINGENCIES

The Company is a defendant in certain legal actions relating to alleged employment discrimination practices, antitrust matters, environmental issues and other matters concerning the Company's business. Although the ultimate outcome of these matters cannot be predicted with certainty, management believes that the resolution of these actions is not likely to have a material adverse effect on Delta's consolidated financial statements.

Delta's approximately 8,800 pilots are represented by the Air Line Pilots Association, International (ALPA). The collective bargaining agreement between the Company and ALPA becomes amendable on May 2, 2000. The Company and ALPA are currently in negotiations to establish pay rates for certain aircraft equipment types. See "Personnel Matters" on page 31 of Management's Discussion and Analysis for additional information on this subject.

10. EMPLOYEE BENEFIT PLANS

The Company sponsors various pension plans, medical plans and disability and survivorship plans for employees who meet certain service and other requirements. In addition, the Company sponsors the Delta Family-Care Savings Plan (Savings Plan) in which employees who meet certain service and other requirements may elect to participate.

During fiscal 1997, the Company changed the annual measurement date for its employee benefit plan assets and liabilities from June 30 to March 31. This change in measurement date has been accounted for as a change in accounting principle. The change in measurement date had no material cumulative effect on employee benefit expense for prior years.

Defined Benefit Pension Plans – The Company's primary retirement plans consist of defined benefit pension plans. The Company has reserved the right to modify these plans to the extent permitted by the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA). The qualified defined benefit plans are funded, on a current basis, to meet the minimum funding requirements of ERISA.

The following table sets forth the defined benefit pension plans' change in projected benefit obligation for the plan years ended June 30, 1998 and 1997:

(In Millions)	1998	1997
Projected benefit obligation at beginning of year	$7,572	$7,430
Service cost	207	188
Interest cost	574	568
Actuarial (gain) loss	605	(46)
Benefits paid	(648)	(568)
Projected benefit obligation at end of year	$8,310	$7,572

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations in the above table was 7.0% and 4.3%, respectively, at March 31, 1998, and 7.75% and 4.7%, respectively, at March 31, 1997. The expected long-term rate of return on assets was 10.0% at March 31, 1998 and 1997.

The following table sets forth the defined benefit pension plans' change in the fair value of plan assets for the plan years ended June 30, 1998 and 1997:

(In Millions)	1998	1997
Fair value of plan assets at beginning of year	$7,512	$7,233
Actual return on plan assets	2,203	744
Employer contributions	54	103
Benefits paid	(648)	(568)
Fair value of plan assets at end of year	$9,121	$7,512

The accrued pension cost recognized in the Consolidated Balance Sheets is computed as follows:

(In Millions)	1998	1997
Funded status	$ 811	$ (60)
Unrecognized net actuarial gain	(1,239)	(331)
Unrecognized transition obligation	61	63
Unrecognized prior service cost	27	29
Contributions made between April 1 and June 30	11	18
Accrued pension cost recognized in the Consolidated Balance Sheets	$ (329)	$(281)

Net periodic defined benefit pension cost for fiscal 1998, 1997 and 1996 included the following components:

(In Millions)	1998	1997	1996
Service cost	$ 207	$ 188	$ 225
Interest cost	574	568	526
Expected return on plan assets	(685)	(653)	(591)
Amortization of prior service cost	2	2	1
Recognized net actuarial (gain) loss	(4)	3	8
Amortization of net transition obligation	2	2	–
Net periodic pension cost	$ 96	$ 110	$ 169

Delta also sponsors several non-qualified pension plans which are funded from current assets. The accumulated benefit obligation of these plans totaled $259 million at March 31, 1998.

Defined Contribution Pension Plans:

Delta Pilots Money Purchase Pension Plan – The Company sponsors the Delta Pilots Money Purchase Pension Plan (MPPP) to which the Company contributes 5% of covered pay for each eligible pilot. The MPPP is a continuation of the Delta Pilots Target Benefit Plan and is related to the Delta Pilots Retirement Plan through a floor-offset arrangement whereby the defined benefit pension payable to a pilot is subject to reduction by the actuarial equivalent of the accumulated account balance in the MPPP. During fiscal 1998, 1997 and 1996, the Company recognized expense of $54 million, $49 million and $2 million, respectively, for these plans.

Employee Stock Ownership Plan – The Company sponsors the Savings Plan, a qualified defined contribution pension plan under which eligible Delta personnel may contribute a portion of their earnings. The Savings Plan includes an employee stock ownership plan (ESOP) feature. Subject to certain conditions, the Company matches 50% of a participant's contributions to the Savings Plan, up to a maximum employer contribution of 2% of a participant's earnings. The Company's contributions are made quarterly through the allocation of Series B ESOP Convertible Preferred Stock (ESOP Preferred Stock), Common Stock or cash, and are recorded as salaries and related costs in the Company's Consolidated Statements of Operations. Delta's contributions to the Savings Plan were $49 million in fiscal 1998 and $45 million in fiscal 1997 and fiscal 1996.

In connection with the adoption of the ESOP in 1989, the Company sold 6,944,450 shares of ESOP Preferred Stock to the Savings Plan for approximately $500 million. The Company has recorded unearned compensation to reflect the value of ESOP Preferred Stock sold to the Savings Plan but not yet allocated to participants' accounts. As shares of the ESOP Preferred Stock are allocated to participants' accounts, unearned compensation is reduced. Dividends on unallocated shares of ESOP Preferred Stock are used by the ESOP for debt service on the Series C ESOP Notes and are not considered dividends for financial reporting purposes. Dividends on allocated shares of ESOP Preferred Stock are credited to participants and considered dividends for financial reporting purposes. For purposes of computing basic and diluted income per common share, allocated shares of ESOP Preferred Stock are considered outstanding, but unallocated shares of ESOP Preferred Stock are not considered outstanding.

Postretirement Benefits Other Than Pensions – Delta's medical plans provide medical and dental benefits to substantially all retirees and their eligible dependents. Benefits are funded from general assets on a current basis. Plan benefits are subject to co-payments, deductibles and certain other limits described in the plans and are reduced once a retiree is eligible for Medicare. The Company has reserved the right to modify or terminate the medical plans for both current and future retirees.

The following table sets forth the postretirement benefit plans' change in accumulated postretirement benefit obligation (APBO) for the plan years ended June 30, 1998 and 1997:

(In Millions)	1998	1997
APBO at beginning of year	$1,565	$1,505
Service cost	33	25
Interest cost	110	115
Actuarial gain	(17)	(35)
Benefits paid	(64)	(45)
APBO at end of year	$1,627	$1,565

The accrued postretirement benefit cost recognized in the Consolidated Balance Sheets is computed as follows:

(In Millions)	1998	1997
Funded status	$(1,627)	$(1,565)
Unrecognized net loss	61	76
Unrecognized prior service cost	(388)	(426)
Contributions made between April 1 and June 30	16	14
Accrued postretirement benefit cost in the Consolidated Balance Sheets	$(1,938)	$(1,901)

Net periodic postretirement benefit cost for fiscal 1998, 1997 and 1996 included the following components:

(In Millions)	1998	1997	1996
Service cost	$ 33	$ 25	$ 32
Interest cost	110	115	118
Amortization of prior service cost	(38)	(38)	(31)
Recognized net actuarial (gain) loss	(2)	1	4
Net periodic postretirement benefit cost	$103	$103	$123

The weighted average discount rate used to estimate the APBO was 7.0% at March 31, 1998 and 7.75% at March 31, 1997. The assumed health care cost trend rate used in measuring the APBO was 6.0% in fiscal 1998 and 8.0% in fiscal 1997, declining gradually to 4.25% by March 31, 2000, and remaining level thereafter. A one-percentage-point change in the health care cost rate used in measuring the APBO at March 31, 1998 would have the following effects:

(In Millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Increase (decrease) in the total service and interest cost	$ 14	$ (13)
Increase (decrease) in the APBO	130	(117)

Postemployment Benefits – The Company provides certain welfare benefits to its former or inactive employees after employment but before retirement. Such benefits primarily include those related to disability and survivorship plans. The Company has reserved the right to modify or terminate these plans at any time for all participants.

The Company's postemployment benefit expense for fiscal years 1998, 1997 and 1996 was $74 million, $71 million and $78 million, respectively. The amount funded in excess of the liability is included in other noncurrent assets in the Company's Consolidated Balance Sheets. Future period expenses will vary based on actual claims experience and the return on plan assets.

Gains and losses that occur because actual experience differs from that assumed will be amortized over the average future service period of employees. Amounts allocable to prior service for amendments to retiree and inactive insurance plans are amortized in a similar manner.

The Company continues to evaluate ways to better manage employee benefits and control costs. Any changes in the plans or revisions to assumptions that affect the amount of expected future benefits may have a significant effect on the amount of the reported obligation and future annual expense.

11. INCOME PER SHARE

During fiscal 1998, Delta adopted SFAS 128, which establishes new standards for computing, presenting, and disclosing income per share data. All prior year income per share data have been restated to conform with SFAS 128. Application of SFAS 128 did not have a material impact on previously reported income per share amounts for the fiscal years ended June 30, 1997 and 1996.

The following table shows a reconciliation of the numerator (net income) and the denominator (average shares outstanding) used in computing basic and diluted income per share:

Fiscal Year Ended June 30, *(In Millions, except per share data)*	1998	1997	1996
Basic:			
Net income	$1,001	$ 854	$ 156
Dividends on allocated Series B ESOP Convertible Preferred Stock	(11)	(9)	(8)
Dividends on Series C Convertible Preferred Stock	–	–	(74)
Income available to common shareowners	$ 990	$ 845	$ 74
Weighted average shares outstanding	74.6	74.2	51.8
Basic income per common share	$13.28	$11.39	$1.43
Diluted:			
Net Income	$1,001	$ 854	$ 156
Adjustment to net income assuming conversion of allocated Series B ESOP Convertible Preferred Stock	(4)	(5)	(5)
Dividends on Series C Convertible Preferred Stock	–	–	(74)
Income available to common shareowners	$ 997	$ 849	$ 77
Weighted average shares outstanding	74.6	74.2	51.8
Additional shares assuming:			
Exercise of stock options	1.9	.6	.3
Conversion of allocated Series B ESOP Convertible Preferred Stock	2.1	1.9	1.6
Conversion of Series C Convertible Preferred Stock	–	.3	–
Weighted average shares outstanding as adjusted	78.6	77.0	53.7
Diluted income per common share	$12.68	$11.03	$1.43

Fiscal 1996 diluted income per common share calculation does not assume conversion of the 3.23% Convertible Subordinated Notes due June 15, 2003 and the Series C Convertible Preferred Stock, because to do so would have been antidilutive.

12. Common and Preferred Stock

During fiscal 1998, the Company issued 4,160,501 shares of Common Stock under its broad-based employee stock option plans, and a total of 477,541 shares of Common Stock under its 1989 Stock Incentive and Dividend Reinvestment and Stock Purchase Plans. In addition, the Company distributed a total of 49,541 shares of Common Stock from treasury under its 1989 Stock Incentive Plan. Also during fiscal 1998, the Company repurchased 3,158,373 shares of Common Stock.

At June 30, 1998, 20,539,449 shares of Common Stock were reserved for issuance under the Company's broad-based employee stock option plans; 7,663,763 shares of Common Stock were reserved for issuance under the 1989 Stock Incentive Plan; 5,664,421 shares of Common Stock were reserved for conversion of the ESOP Preferred Stock; and 248,215 shares of Common Stock were reserved for issuance under the Non-Employee Directors' Stock Plan. In addition, 1,500,000 shares of preferred stock were reserved for issuance under the Shareowner Rights Plan.

The Shareowner Rights Plan is designed to enhance the ability of the Board of Directors to protect shareowners against attempts to acquire Delta that do not offer an adequate price to all shareowners, or that are otherwise not in the best interest of the Company and its shareowners. Under this plan, each outstanding share of Common Stock is accompanied by a preferred stock purchase right which entitles the holder to purchase from the Company 1/100 of a share of Series D Junior Participating Preferred Stock for $300, subject to adjustment in certain circumstances (Purchase Price). The rights become exercisable only after a person or group acquires beneficial ownership of 15% or more of the Common Stock or commences a tender or exchange offer that would result in such person or group beneficially owning 15% or more of the Common Stock. The rights expire on November 4, 2006, and may be redeemed by Delta for $0.01 per right until 10 business days following the announcement that a person or group beneficially owns 15% or more of the Common Stock. Subject to certain conditions, if a person or group becomes the beneficial owner of 15% or more of the Common Stock, each right will entitle its holder (other than certain acquiring persons) to purchase, for the Purchase Price, Common Stock having a market value of twice the Purchase Price. In addition, subject to certain conditions, if Delta is involved in a merger or certain other business combination transactions, or the Company sells or otherwise transfers more than 50% of its assets or earning power, each right will entitle its holder to purchase, for the Purchase Price, Common Stock of the other party having a market value of twice the Purchase Price.

Each share of ESOP Preferred Stock has a stated value of $72; bears an annual cumulative cash dividend of 6%, or $4.32; is convertible into 0.8578 share of Common Stock (a conversion price of $83.94), subject to adjustment in certain circumstances; has a liquidation preference of $72, plus any accrued and unpaid dividends; generally votes together as a single class with the Common Stock on matters upon which the Common Stock is entitled to vote; and has one vote, subject to adjustment in certain circumstances. The ESOP Preferred Stock is redeemable at Delta's option at specified redemption prices payable, at Delta's election, in cash or Common Stock. If full cumulative dividends on the ESOP Preferred Stock have not been paid when due, Delta may not pay cash dividends on the Common Stock.

13. STOCK OPTIONS AND AWARDS

Under its 1989 Stock Incentive Plan and a predecessor plan, the Company has granted non-qualified stock options and, prior to fiscal 1993, tandem stock appreciation rights (SARs) to officers and other key employees. The exercise price for all stock options, and the base price upon which the SARs are measured, is the fair market value of the Common Stock on the date of grant. Awards exercised as SARs are payable in a combination of cash and Common Stock.

The Company recognized compensation expense (included in salary and related costs) related to SARs in fiscal 1998, 1997 and 1996 of $8 million, $3 million and $14 million, respectively. Stock options are generally exercisable beginning one year, and ending ten years, after their grant date.

On October 24, 1996, the Company's shareowners approved two plans providing for the issuance of non-qualified stock options to substantially all of Delta's non-officer personnel to purchase a total of 24.7 million shares of Common Stock. One plan is for eligible Delta personnel who are not pilots (Nonpilot Plan); the other plan covers the Company's eligible pilots (Pilot Plan).

The Nonpilot and Pilot Plans involve non-qualified stock options to purchase 14.7 million and 10 million shares of Common Stock, respectively. The plans provide for grants in three annual installments at an exercise price equal to the opening price of the Common Stock on the New York Stock Exchange on the grant date. Stock options awarded under these plans are generally exercisable beginning one year and ending ten years after their grant dates, and are not transferable other than upon the death of the person granted the stock options. On October 30, 1997 and 1996, Delta granted eligible personnel non-qualified stock options to purchase 8.3 million and 8.2 million shares of Common Stock, respectively, at exercise prices of $98 per share and $69 per share, respectively. The third grant date under the Nonpilot and Pilot Plans is scheduled to occur on October 30, 1998.

Transactions involving stock options and SARs during fiscal 1998, 1997 and 1996 were as follows:

	Fiscal 1998		Fiscal 1997		Fiscal 1996	
Stock Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(000)		(000)		(000)	
Outstanding at beginning of fiscal year	9,901	$ 69	2,332	$65	3,386	$63
Granted	9,849	100	8,932	70	644	71
Exercised	(4,659)	69	(1,279)	67	(1,654)	63
Forfeited	(88)	92	(84)	75	(44)	65
Outstanding at end of fiscal year	15,003	89	9,901	69	2,332	65
Stock options exercisable at fiscal year end	5,211	$ 70	1,049	$63	1,698	$63

The following table summarizes information about stock options outstanding at June 30, 1998:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 1998	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at June 30, 1998	Weighted Average Exercise Price
	(000)	*(Years)*		*(000)*	
$52-$68	276	5	$ 56	276	$56
$69-$83	4,935	8	71	4,935	71
$84-$125	9,792	9	100	–	–

SFAS 123 requires pro forma information regarding net income and income per share, determined as if the Company accounted for its employee stock option plans under the fair value method of SFAS 123. The fair value of stock options granted in fiscal 1998, 1997 and 1996 was derived using the Black-Scholes stock option pricing model. The assumptions and the weighted average fair values were as follows:

	Stock Options Granted in Fiscal Year		
Assumptions	1998	1997	1996
Risk-free interest rate	5.8%	6.0%	5.4%
Average expected life of stock options *(Years)*	3.3	2.7	5.1
Expected volatility of Common Stock	25.3%	26.4%	26.5%
Expected annual dividends on Common Stock	$0.20	$0.20	$0.20
Weighted average fair value of stock options	$ 26	$ 17	$ 24

Pro Forma Net Income and Income per Common Share:

Fiscal Year Ended *(In Millions)*:	June 30, 1998	June 30, 1997	June 30, 1996
Net income:			
As reported	$1,001	$ 854	$ 156
Pro forma	875	791	152
Basic income per common share:			
As reported	$13.28	$11.39	$1.43
Pro forma	11.59	10.53*	1.36*
Diluted income per common share:			
As reported	$12.68	$11.03	$1.43
Pro forma	11.07	10.21*	1.35*

**Restated in accordance with SFAS 128. See Note 11.*

Under SFAS 123, stock options granted prior to fiscal year 1996 are not required to be included as compensation in determining pro forma net income. Therefore, the pro forma effects on net income and income per common share for fiscal 1998 may not be representative of the pro forma effects SFAS 123 may have in future years.

14. Stock Repurchase Authorization

In April 1996, Delta's Board of Directors authorized the Company to repurchase up to 24.7 million shares of Common Stock and Common Stock equivalents. Under this authorization, the Company could repurchase up to 6.2 million of these shares before October 30, 1997 – the date the initial stock option grants under the broad-based employee stock option plans became exercisable – and may purchase the remaining shares as Delta personnel exercise their stock options under those plans. (See Note 13.) The Company repurchased 3,079,000, 5,378,700 and 821,300 shares of Common Stock for $345 million, $379 million and $66 million during fiscal 1998, 1997 and 1996, respectively, under this authorization.

In July 1998, Delta's Board of Directors authorized the Company to repurchase Common Stock and Common Stock equivalents for an aggregate purchase price of up to $750 million from time to time through December 31, 1999. This authorization is in addition to the Company's stock repurchase plan discussed in the preceding paragraph.

Repurchases under both of the above authorizations are subject to market conditions and may be made on the open market or in privately negotiated transactions.

15. RESTRUCTURING AND OTHER NON-RECURRING CHARGES

During fiscal 1997 and 1996, the Company recorded pretax restructuring and other non-recurring charges of $52 million and $829 million, respectively. These charges were due to the writedown of Delta's L-1011 fleet in accordance with SFAS 121; employee early retirement programs; lease termination costs related to abandoned facilities and discontinued routes; and costs related to the realignment of the Company's transatlantic and European operations.

The Company made payments of $51 million related to these charges during fiscal 1998. The remaining liability related to the charges was $36 million as of June 30, 1998.

Actual costs incurred, realization on the sales of excess inventories, and costs associated with lease terminations and abandoned facilities may vary from current estimates. The appropriate accrued liability will be adjusted upon completion of these activities.

16. INTERNATIONAL REVENUES

Delta provides scheduled air transportation for passengers, freight and mail over a network of routes throughout the United States and abroad. Delta's operating revenues by international region are as follows:

(In Millions)	1998	1997	1996
Entity:			
Atlantic	2,092	2,024	1,909
Pacific	304	325	342
Latin America	245	218	187
	2,641	2,567	2,438

17. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal 1998 and 1997 (in millions, except per share data):

	Three Months Ended			
	Sept. 30	Dec. 31	Mar. 31	June 30
Fiscal 1998				
Operating revenues	$3,553	$3,434	$3,390	$3,761
Operating income	$ 431	$ 332	$ 336	$ 594
Net income	$ 254	$ 190	$ 195	$ 362
Basic income per common share	$ 3.41*	$ 2.52	$ 2.57	$ 4.77
Diluted income per common share	$ 3.26*	$ 2.40	$ 2.45	$ 4.52
Fiscal 1997				
Operating revenues	$3,433	$3,198	$3,421	$3,542
Operating income	$ 439	$ 227	$ 346	$ 519
Net income	$ 238	$ 125	$ 190	$ 301
Basic income per common share	$ 3.10*	$ 1.66*	$ 2.56*	$ 4.06*
Diluted income per common share	$ 2.98*	$ 1.63*	$ 2.47*	$ 3.90*

**Restated to conform with SFAS 128. See Note 11.*

The sum of the quarterly income per common share does not equal the fiscal income per common share due to changes in average share calculations.

Operating expenses for the March 1997 quarter include $52 million pretax restructuring and other non-recurring charges related to the realignment of the Company's transatlantic and European operations. (See Note 15.)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
DELTA AIR LINES, INC.

To the Shareowners and
Board of Directors of Delta Air Lines, Inc.:

We have audited the accompanying consolidated balance sheets of Delta Air Lines, Inc. (a Delaware corporation) and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of operations, cash flows and shareowners' equity for each of the three years in the period ended June 30, 1998. 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 consolidated financial position of Delta Air Lines, Inc. and subsidiaries as of June 30, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Atlanta, Georgia
August 14, 1998

REPORT OF MANAGEMENT
DELTA AIR LINES, INC.

The integrity and objectivity of the information presented in this Annual Report are the responsibility of Delta management. The financial statements contained in this report have been audited by Arthur Andersen LLP, independent public accountants, whose report appears on this page.

Delta maintains a system of internal financial controls which are independently assessed on an ongoing basis through a program of internal audits. These controls include the selection and training of the Company's managers, organizational arrangements that provide a division of responsibilities, and communication programs explaining the Company's policies and standards. We believe that this system provides reasonable assurance that transactions are executed in accordance with management's authorization; that transactions are appropriately recorded to permit preparation of financial statements that, in all material respects, are presented in conformity with generally accepted accounting principles; and that assets are properly accounted for and safeguarded against loss from unauthorized use.

The Board of Directors pursues its responsibilities for these financial statements through its Audit Committee, which consists solely of directors who are neither officers nor employees of the Company. The Audit Committee meets periodically with the independent public accountants, the internal auditors and representatives of management to discuss internal accounting control, auditing and financial reporting matters.

Warren C. Jenson
Executive Vice President
and Chief Financial Officer

Leo F. Mullin
President and
Chief Executive Officer

Consolidated Summary of Operations

Delta Air Lines, Inc.

For the fiscal years ended June 30

(In Millions, Except Per Share Data)	1998	1997[1]	1996[2]	1995[3]
Operating revenues	$14,138	$13,594	$12,455	$12,194
Operating expenses	12,445	12,063	11,992	11,533
Operating income (loss)	1,693	1,531	463	661
Interest expense, net	(148)	(174)	(243)	(262)
Gain (loss) on disposition of flight equipment	–	–	2	–
Miscellaneous income, net[6]	103	58	54	95
Income (loss) before income taxes	1,648	1,415	276	494
Income tax benefit (provision)	(647)	(561)	(120)	(200)
Amortization of investment tax credits	–	–	–	–
Net income (loss)	1,001	854	156	294
Preferred stock dividends	(11)	(9)	(82)	(88)
Net income (loss) attributable to common shareowners	$ 990	$ 845	$ 74	$ 206
Net income (loss) per common share:[7]				
Basic	$ 13.28	$ 11.39	$ 1.43	$ 4.07
Diluted	$ 12.68	$ 11.03	$ 1.43	$ 4.01
Dividends declared on Common Stock	$ 15	$ 15	$ 10	$ 10
Dividends declared per common share	$ 0.20	$ 0.20	$ 0.20	$ 0.20

Other Financial and Statistical Data

For the fiscal years ended June 30

(Financial Data In Millions)	1998	1997[1]	1996[2]	1995[3]
Total assets	$14,603	$12,741	$12,226	$12,143
Long–term debt and capital leases (excluding current maturities)	$ 1,783	$ 1,797	$ 2,175	$ 3,121
Shareowners' equity	$ 4,023	$ 3,007	$ 2,540	$ 1,827
Shares of Common Stock outstanding at year end	75,225,197	73,695,987	67,778,106	50,816,010
Revenue passengers enplaned *(Thousands)*	104,148	101,147	91,341	88,893
Available seat miles *(Millions)*	140,149	136,821	130,751	130,645
Revenue passenger miles *(Millions)*	101,136	97,758	88,673	86,417
Operating revenue per available seat mile	10.09¢	9.94¢	9.53¢	9.33¢
Passenger mile yield	12.83¢	12.79¢	13.10¢	13.10¢
Operating cost per available seat mile	8.88¢	8.82¢	9.17¢	8.83¢
Passenger load factor	72.2%	71.4%	67.8%	66.2%
Breakeven passenger load factor	62.7%	62.7%	65.1%	62.3%
Available ton miles *(Millions)*	19,890	18,984	18,084	18,150
Revenue ton miles *(Millions)*	11,859	11,308	10,235	10,142
Operating cost per available ton mile	62.57¢	63.54¢	66.31¢	63.55¢

[1] Summary of operations and other financial and statistical data include $52 million in pretax restructuring and other non-recurring charges ($0.43 basic and $0.42 diluted after-tax income per common share).

[2] Summary of operations and other financial and statistical data include $829 million in pretax restructuring charges and other non-recurring charges ($9.77 after-tax per common share).

[3] Summary of operations and other financial and statistical data exclude $114 million after-tax cumulative effect of change in accounting standards ($2.25 basic and $1.43 diluted income per common share).

[4] Summary of operations and other financial and statistical data include $526 million in pretax restructuring charges ($6.59 after-tax per common share).

[5] Summary of operations and other financial and statistical data include $82 million pretax restructuring charge ($1.05 after-tax per common share). Summary of operations exclude $587 million after-tax cumulative effect of changes in accounting standards ($11.78 after-tax per common share).

[6] Includes interest income.

[7] Income per share data for fiscal years 1988-1997 have been restated in accordance with SFAS 128. See Note 11 of Notes to Consolidated Financial Statements.

1994[4]	1993[5]	1992	1991	1990	1989	1988
$12,077	$11,657	$10,837	$9,171	$8,583	$8,089	$6,915
12,524	12,232	11,512	9,621	8,163	7,411	6,418
(447)	(575)	(675)	(450)	420	678	497
(271)	(177)	(151)	(97)	(27)	(39)	(65)
2	65	35	17	18	17	(1)
56	36	5	30	57	55	25
(660)	(651)	(786)	(500)	468	711	456
250	233	271	163	(187)	(279)	(181)
1	3	9	13	22	29	32
(409)	(415)	(506)	(324)	303	461	307
(110)	(110)	(19)	(19)	(18)	–	–
$ (519)	$ (525)	$ (525)	$ (343)	$ 285	$ 461	$ 307
$ (10.32)	$ (10.54)	$ (10.60)	$ (7.73)	$ 5.79	$ 9.37	$ 6.30
$ (10.32)	$ (10.54)	$ (10.60)	$ (7.73)	$ 5.28	$ 9.37	$ 6.30
$ 10	$ 35	$ 59	$ 54	$ 85	$ 59	$ 59
$ 0.20	$ 0.70	$ 1.20	$ 1.20	$ 1.70	$ 1.20	$ 1.20

1994[4]	1993[5]	1992	1991	1990	1989	1988
$11,896	$11,871	$10,162	$8,411	$7,227	$6,484	$5,748
$ 3,228	$ 3,716	$ 2,833	$2,059	$1,315	$ 703	$ 729
$ 1,467	$ 1,913	$ 1,894	$2,457	$2,596	$2,620	$2,209
50,453,272	50,063,841	49,699,098	49,401,779	46,086,110	49,265,884	49,101,271
87,399	85,085	77,038	69,127	67,240	64,242	58,565
131,906	132,282	123,102	104,328	96,463	90,742	85,834
85,268	82,406	72,693	62,086	58,987	55,904	49,009
9.16¢	8.81¢	8.80¢	8.79¢	8.90¢	8.91¢	8.06¢
13.23¢	13.23¢	13.91¢	13.80¢	13.63¢	13.56¢	13.15¢
9.49¢	9.25¢	9.35¢	9.22¢	8.46¢	8.17¢	7.48¢
64.6%	62.3%	59.1%	59.5%	61.2%	61.6%	57.1%
67.2%	65.6%	63.0%	62.6%	58.0%	56.1%	52.7%
18,302	18,182	16,625	13,825	12,500	11,725	11,250
9,911	9,503	8,361	7,104	6,694	6,338	5,557
68.43¢	67.27¢	69.24¢	69.59¢	65.30¢	63.21¢	57.05¢

Shareowner Information
DELTA AIR LINES, INC.

TRANSFER AGENT, REGISTRAR AND
DIVIDEND PAYING AGENT FOR COMMON STOCK
Registered shareowner inquiries regarding stock transfers, address changes, lost stock certificates, dividend payments or account consolidation should be directed to:

First Chicago Trust Company of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500
Telephone (201) 324-1225
(http://www.fctc.com)

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN
Registered owners of Common Stock may purchase additional shares of such stock through automatic dividend reinvestment or cash contributions under the Company's Dividend Reinvestment and Stock Purchase Plan. Inquiries, notices, requests and other communications regarding participation in the plan should be directed to:

First Chicago Trust Company of New York
P. O. Box 2598
Jersey City, New Jersey 07303-2598
Telephone (201) 324-1225

INDEPENDENT PUBLIC ACCOUNTANTS
Arthur Andersen LLP
133 Peachtree Street, N.E.
Atlanta, Georgia 30303

ANNUAL MEETING
The Annual Meeting of Shareowners will be held on Thursday, October 22, 1998, at 9:00 a.m., local time, at The Waldorf=Astoria, 301 Park Avenue, New York, New York 10022.

AVAILABILITY OF FORM 10-K AND
OTHER FINANCIAL INFORMATION
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1998 will be provided without charge upon written request. Requests for other financial documents may also be directed to:

Delta Air Lines, Inc.
Investor Relations, Department 829
P. O. Box 20706
Atlanta, Georgia 30320-6001
Telephone (404) 715-2170

Company documents filed electronically with the U.S. Securities and Exchange Commission (SEC) can also be found on the SEC's Web Site (http://www.sec.gov). A copy of this Annual Report can be found on Delta's Web Site (http://www.delta-air.com).

Telephone inquiries related to financial information, other than requests for financial documents, may be directed to Investor Relations at (404) 715-6679.

COMMON STOCK
Listed on the New York Stock Exchange under the ticker symbol DAL.

NUMBER OF SHAREOWNERS
As of August 1, 1998, there were 21,672 registered owners of Common Stock.

MARKET PRICES AND DIVIDENDS

Fiscal Year 1998	Closing Price of Common Stock on New York Stock Exchange		Cash Dividends Per Common Share
Quarter Ended:	High	Low	
September 30	**$107 1/8**	**$ 82**	**$0.05**
December 31	**120 3/8**	**94 5/8**	**0.05**
March 31	**123 1/8**	**110 1/8**	**0.05**
June 30	**129 3/8**	**110 1/4**	**0.05**

Fiscal Year 1997 Quarter Ended:	High	Low	
September 30	$ 82 7/8	$ 66 7/8	$0.05
December 31	77 1/2	67 3/4	0.05
March 31	87 3/4	69 1/4	0.05
June 30	98 1/8	82	0.05

AVAILABILITY OF EQUAL
EMPLOYMENT OPPORTUNITY REPORT
A copy of the Company's Equal Employment Opportunity Report is available without charge upon written request. Requests may be directed to:

Delta Air Lines, Inc.
Equal Opportunity, Department 955
P.O. Box 20706
Atlanta, Georgia 30320-6001

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DELTA AIR LINES AT-A-GLANCE

GLOBAL NETWORK*

Delta flies to 194 cities in 32 countries, carrying more passengers than any other carrier in the world. Delta's Atlanta Worldport is the largest single carrier hub in the world, with 622 daily departures to 123 nonstop destinations. Approximately 80 percent of Delta's operating revenue is from domestic operations, and 20 percent is from the international system.

NORTH AMERICAN NETWORK*

Delta is the largest U.S. airline measured by aircraft departures and passengers enplaned and the third-largest U.S. airline measured by operating revenues and revenue passenger miles flown. Delta's North American flight operations provides scheduled service to 148 cities in the U.S., Puerto Rico and the U.S. Virgin Islands and 10 cities in Canada, Bermuda, Mexico, the Bahamas and the Caribbean. Mexico is also served through eight cities on a code-share basis. Delta's domestic route service is supplemented by the Delta Connection carriers, which include Atlantic Southeast Airlines, Business Express Airlines, Comair, SkyWest Airlines and Trans States Airlines.

INTERNATIONAL NETWORK*

Delta is the leading transatlantic airline among U.S. carriers, with the most departures, nonstop destinations and passengers. Delta provides scheduled passenger service to 36 cities in 26 countries throughout Europe, Africa, Asia and Latin America. Including flights operated on a code-sharing basis, Delta's international network serves 95 cities in 51 countries.

**Service as of August 1, 1998.*

DELTA EXPRESS

Delta began operating Delta Express, a low-fare service targeting the Florida leisure traveler within the Delta system, on October 1, 1996. Delta Express initiated service with a dedicated fleet of 12 Boeing 737-200 jet aircraft and 62 daily departures to 13 cities. By December 1, 1998, Delta Express will operate 37 aircraft to 22 cities and offer 170 daily departures. The route system connects the Northeast and Midwest with Orlando and other Florida destinations.

DELTA SHUTTLE

The Delta Shuttle is a specialized, high-frequency product targeted toward the business customer. A dedicated fleet of 14 Boeing 727 aircraft provides 64 daily departures on the half hour. Service is provided between the Marine Air Terminal at New York's LaGuardia Airport to both Boston's Logan International Airport and Washington, D.C.'s Ronald Reagan National Airport. Delta Shuttle customers receive guaranteed seating and are offered complimentary juices, beer and wine. With an on-time departure rate exceeding 97 percent for fiscal 1998, the Delta Shuttle provides excellent service and reliability for travelers in the Northeast Corridor. In addition, Shuttle passengers have access to the Delta Water Shuttle, which offers quick access between LaGuardia Airport and downtown Manhattan.

DELTA AIR CARGO

Delta, the Delta Shuttle, Delta Express and the Delta Connection carriers offer over 4,600 flights daily to cities all over the world, and every flight has the ability to carry cargo. In addition, Delta Air Cargo and Swissair Cargo launched a worldwide alliance that creates one of the largest air cargo networks over the North Atlantic. The combined Delta and Swissair Cargo networks provide access to a global network. Delta services include expedited small package shipping (Delta Dash™) and time-definite heavy weight shipments.