DELTA AIR LINES, INC.

1996 { annual report

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FINANCIAL HIGHLIGHTS *fiscal 1996 and 1995*

(Dollar amounts in millions, except share data. Data excludes restructuring and other non-recurring charges and the cumulative effect of an accounting change.)

	1996	1995	*Change*
Operating Revenues	$12,455	$12,194	+ 2%
Operating Expenses	$11,163	$11,533	– 3%
Operating Income	$1,292	$661	+ 95%
Net Income	$662	$294	+125%
Primary Income Per Common Share	$11.13	$4.07	+173%
Fully Diluted Income Per Common Share	$8.49	$4.01	+112%
Dividends Declared on Common Stock	$10	$10	–
Dividends Per Common Share	$0.20	$0.20	–
Common Shares Issued and Outstanding at Year End	67,778,106	50,816,010	+ 33%
Debt-to-Equity Position	47%/53%	65%/35%	–
Revenue Passengers Enplaned (Thousands)	91,341	88,893	+ 3%
Revenue Passenger Miles (Millions)	88,673	86,417	+ 3%
Available Seat Miles (Millions)	130,751	130,645	–
Passenger Mile Yield	13.10¢	13.10¢	–
Operating Revenue Per Available Seat Mile	9.53¢	9.33¢	+ 2%
Operating Cost Per Available Seat Mile	8.54¢	8.83¢	– 3%
Passenger Load Factor	67.8%	66.2%	+1.6 pts.
Breakeven Passenger Load Factor	60.3%	62.3%	–2.0 pts.
Cargo Ton Miles (Millions)	1,368	1,500	– 9%
Cargo Ton Mile Yield	38.08¢	37.67¢	+ 1%
Fuel Gallons Consumed (Millions)	2,500	2,533	– 1%
Average Jet Fuel Price Per Gallon	58.53¢	54.09¢	+ 8%
Number of Aircraft in Fleet at Year End	539	543	– 1%
Average Age of Aircraft Fleet at Year End (Years)	11.2	10.4	+ 8%
Stage 3 Aircraft at Year End (As a Percent of Total Aircraft)	68%	68%	–
Average Seats Per Aircraft Mile	181	179	+ 1%
Average Passenger Trip Length (Miles)	971	972	[illegible]
Average Aircraft Flight Length (Miles)	772	753	+ 3%
Average Aircraft Utilization (Hours Per Day)	8.3	8.3	[illegible]
Full-Time Equivalent Delta Employees at Year End	60,289	59,717	[illegible]

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THE SPIRIT OF THE OLYMPIC GAMES

[illegible] pictured on the cover was specially prepared for the 1996 Centennial Olympic Games in Atlanta. This jet transported the Olympic flame on an historic 7,000 mile flight from Athens, Greece, to Los Angeles for the start of the 1996 Torch Relay. It symbolizes the extraordinary effort and pride, willingness to help and readiness to serve exhibited by the people of Delta, the Official Airline of the 1996 Olympic Games.

DELTA AIR LINES

CORPORATE GOALS

Providing safe, secure, and reliable air transportation is Delta Air Lines' absolute priority. In pursuing this imperative, our corporate vision is to become the Worldwide Airline of Choice for customers, stockholders and Delta people. We will achieve this vision by building on a hard-won competitive cost structure to provide value for our customers, sustained profitability and growth for our stockholders, and financial and personal rewards for Delta people.

CUSTOMERS

Safe, secure and reliable service
Distinctive products
Worldwide service

STOCKHOLDERS

Sustained profitability
Profitable growth
Hub carrier cost leader

DELTA PEOPLE

Sense of ownership
Trained for success
Focused on results
Rewarded for performance

DESCRIPTION OF BUSINESS

Delta Air Lines, Inc. provides scheduled air transportation over an extensive route network. Based on calendar 1995 data, Delta is the largest U.S. airline as measured by aircraft departures and passengers enplaned, and the third largest U.S. airline as measured by operating revenues and revenue passenger miles flown.

As of August 16, 1996, Delta provided scheduled service to 153 domestic cities in 43 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, and 44 cities in 25 foreign countries. Service over most of Delta's routes is highly competitive. In addition to scheduled passenger service, Delta also provides air freight, mail and other 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.

To the Owners of Delta Air Lines:

In fiscal 1996, Delta Air Lines achieved the best financial results in the company's history. This tremendous achievement is a tribute to the professionalism and commitment of the Delta people. Equally important for our future, Delta continued to put in place the foundation to provide our company with the potential to earn superior financial returns year after year.

Delta is not finished with the task begun more than two years ago to return to sustained profitability and to create opportunities for growth, but we are well on track. We approached the job in a disciplined, structured way. During fiscal 1995, we stopped severe financial losses through aggressive cost reductions, and we reported solid profits. Fiscal 1996 was a rebuilding year. Delta people reduced costs further while they increased revenues, rebuilt our financial base and began to reshape our corporate strategy. A solid economy helped produce record results, but most of all we helped ourselves through our actions. Fiscal 1997 will be a transition year. We will use our hard-won experience to build on our rich past and create our future.

People who once wondered, "Will Delta stop the losses?" now ask, "What will Delta become?" This letter is the first installment in the answer to that complex question.

FISCAL YEAR 1996 REVIEW

Delta's results for fiscal 1996 set the stage for our future. Here are some of the financial highlights (excluding restructuring and other non-recurring charges in fiscal 1996 and the cumulative effect of an accounting change in fiscal 1995):

- Operating income was $1.3 billion, the company's best fiscal year operating income performance ever, nearly doubling fiscal 1995 operating income of $661 million.
- Net income of $662 million also exceeded the previous record, increasing 125% over fiscal 1995.
- Total operating revenue and unit revenue (operating revenue per available seat mile) both grew 2% from fiscal 1995, the result of strong domestic passenger traffic growth.
- Total operating expenses and unit cost (operating cost per available seat mile) declined over 3% as a result of continued progress of Leadership 7.5 cost reduction initiatives, despite higher fuel costs, a 4.3¢ per gallon tax on jet fuel, and increased passenger traffic.
- Fully diluted earnings per common share increased by over 100% to $8.49, after preferred stock dividend requirements.
- Profit sharing earned by eligible Delta people totaled $144 million for the year.
- Long-term debt declined to $1.8 billion from a high of $3.6 billion in June 1993, primarily through voluntary debt repurchases and the conversion of Delta's 3.23% convertible subordinated notes into common stock. As a result of fiscal 1996 debt repurchases and the conversion, interest expense will decline by approximately $65 million annually.
- Stockholders' equity increased to $2.5 billion at June 30, 1996, from $1.8 billion at June 30, 1995.
- Delta's unsecured long-term debt ratings were upgraded by both Moody's and Standard & Poor's to investment grade with Moody's and one level below investment grade with Standard & Poor's.
- Cash generated from operations was nearly $1.4 billion.
- Delta's year-end liquidity position was $2.9 billion, including cash, short-term investments and available bank lines.

LEADERSHIP 7.5

Two years ago, Delta announced our Leadership 7.5 program to stop the financial threat to our company and to create a base for profitable growth. Our goal was to reduce annual operating costs permanently by $2 billion by the end of fiscal 1997 as measured in operating cost per available seat mile (ASM), the unit cost in commercial aviation. Our final unit cost target was 7.5¢ per ASM, close to the unit costs of low-cost carriers which were expanding rapidly into our markets. Today, two years into the three year program, Delta has the lowest costs of any major hub and spoke carrier, and during fiscal 1996 we reached our stated three year goal of earning a 10% operating margin.

We have not changed the 7.5¢ per ASM goal. There are many cost reduction opportunities we haven't found yet, and we will search them out. We intend to be smart about reaching that goal, however. The 7.5¢ goal was based on conservative revenue assumptions made in late 1993 and early 1994. Revenues have been better than we anticipated due to a strong economy and good work by Delta people in sales, pricing and marketing. In this environment, focusing solely on cost reductions could limit our profitability. We won't let that happen.

7.5¢ per ASM remains an important strategic goal. We will not reach that level, however, by the end of fiscal 1997. Instead, in fiscal 1997, we will focus on improved profitability. As part of that effort, we increased our three year goal for operating margin to 12%, a very tough target in our industry.

TOWARD A BROADER STRATEGIC VIEW

Renewed financial strength now enables Delta to broaden our strategic view. Cost reduction and control will be at the heart of that strategy. Today, commercial aviation is enjoying good economic times, and we will adjust our short-term strategies and goals to reflect this very welcome change. However, we won't be lulled into a false sense of security. In our cyclical industry, tough times will return, and an unrelenting commitment to control costs is the only way to sustain profits in good times and bad.

Delta can, however, take the next step forward. Our company is moving toward a leadership strategy which balances superior financial results for stockholders with our traditional dedication to safe, secure, reliable transportation, distinctive customer service and a strong sense of unity and shared purpose among Delta people. In a service industry like ours, each of those constituencies – stockholders, customers and Delta people – is critical to long-term profitability and growth.

Delta's turnaround has been more than a cost cutting exercise. Our company also is changing the way we work. The success of the past two years reveals the company we are becoming. We set clear priorities, with safety and security as the first commitments; understand that distinctive customer service is our competitive edge; rely on rigorous analysis, strategic planning and flexible thinking to recognize opportunities; lead change; set aggressive goals, strategies and plans; use cross-functional teams of Delta people to plan and accomplish our work; demand tough-minded discipline once a course is determined; have an unrelenting commitment to results; provide rewards for performance; respect each other and the work we do; and demand integrity in everything we do.

DELTA EXPRESS

On October 1, 1996, Delta begins Delta Express, our new low-fare product initially serving 10 cities in the northeast and midwest with 62 daily non-stop flights to Orlando and four other Florida cities. Delta saw the need to create this type of service to compete with the growing number of low-fare carriers in our markets. Equally important, Florida has long been a critical market for Delta, and we intend to maintain a strong competitive presence there. Before we could launch a product, however, we had to get our costs in line. Our cost reduction program achieved that, with a critical boost from the new pilot contract which makes pilot costs on the new service very competitive. The new Delta service will offer low fares with high value for our customers. This new service will be run by a dedicated group of Delta professionals on the ground and in the air. It will be low-fare travel with a Delta touch, including assigned seats, SkyMiles, and modern Delta aircraft maintained and flown by experienced Delta people.

GOALS AND VALUES

We don't have all the answers yet to every question about our future, but we have a clear view of what we intend to be as we work toward our vision of becoming the Worldwide Airline of Choice. Importantly for Delta, our business goals closely match our core values as we pursue our vision.

Delta will offer safe, secure and reliable transportation. This is the foundation of our service and our first commitment to our customers and to ourselves.

We will offer distinctive customer service. Our founder, C.E. Woolman, called it "service and hospitality from the heart." We know that this Delta-style service is our historical competitive edge, and we intend to build on that tradition. During fiscal 1996, Delta began a company-wide training program, "Success Through Service," to renew our commitment to customer service. Delta senior officers and I were in the first group to complete the program, and every Delta person will participate. Delta also added front line people in selected areas to bolster service as customer traffic increased. In addition, Delta opened the Operations Control Center, a state-of-the-art facility for improving customer service by closely coordinating the flow of aircraft on Delta's 2,600 daily flights across our worldwide system. Every month, we ask 1,200 of our customers to measure us on 18 critical aspects of customer satisfaction, such as the efficiency of our check-in process and the attentiveness of our flight attendants. We take this feedback seriously, and hold ourselves responsible for meeting tough targets.

Delta intends to be the financially strongest hub and spoke carrier in the United States. We intend to be the lowest cost and most profitable hub and spoke carrier in the United States, and a company that will provide superior returns for stockholders. Superior financial returns aren't the only measure of success, but they are the "enabler" that allows us to do everything else we must do to succeed.

Delta will serve customers worldwide. Delta has the strongest route network in the United States, and we are a leading international carrier. In addition, we have created a network of 13 code share agreements with quality airlines in Europe, the Pacific and Latin America. During fiscal 1996, Delta, Swissair, Sabena and Austrian Airlines received approval of antitrust immunity from the U.S. Department of Transportation to pursue a global marketing alliance.

Delta has the strongest route network in the United States, and we are a leading international carrier.

Our goal is to establish a seamless transportation system which allows our customers to go anywhere in the world by connecting through Delta hubs and the hubs of our partners and business associates. This ability to take people from Boise to Bucharest and beyond through a network of U.S. and international hubs distinguishes Delta from point-to-point airlines and makes us a worldwide carrier.

Delta people will be aligned with corporate goals and achievements through a sense of unity, ownership and shared purpose. Delta's internal strength is based on the belief that people who share a sense of unity and common purpose can create superior results for our stockholders, our customers and Delta people themselves.

Delta people will be aligned with corporate goals and achievements through a sense of unity, ownership and shared purpose.

So much has occurred at Delta in recent years that it is difficult at times to put it into perspective. In a very short period of time we have moved from a one-dimensional company with service primarily in the United States to a multi-dimensional company offering a variety of aviation products around the world. Our industry is going through difficult and very challenging times that require decisive and fundamental change. As the people of Delta face these challenges everyday, we are committed to emerge stronger and more focused than ever.

The one unshakable constant throughout the recent past has been the critical role of Delta people. They have a powerful commitment to this company and a deep respect for each other as professionals. Delta never lost the key to its future – Delta people.

New programs strengthened the ties. Pay for performance programs help align Delta people with results, but Delta people also share in the company's success through profit sharing. In fiscal 1996, these programs paid $144 million. Proposed, broad-based stock option programs for most Delta personnel to be considered by Delta stockholders in October would make the sense of ownership even stronger. In addition, during fiscal 1996, Delta people chose seven colleagues for the new Delta Personnel Board Council. Three members of that group, along with a Delta pilot, attend regularly scheduled, quarterly Board of Directors meetings. They don't vote, but they do have the ability to be heard and to make a difference. Other groups within Delta add to this sense of shared participation in the company.

During the fiscal year, Delta pilots overwhelmingly approved a new four year collective bargaining agreement. It was a forward-looking step by pilots and important for Delta. It not only helps to lower Delta's costs while addressing many issues critical to pilots, but it also allows the entire company to focus on the future together.

Belief in people is the critical core value of Delta. Some people contend that this company has moved away from this rich legacy. I take a very different view. I believe that the commitment to Delta and to each other by the people who work here is a deep reservoir of strength which allowed us to survive the testing times and has put us in position to prosper once again. We will not abandon our traditions which give us such great strength. We will build on them and replenish that reservoir in order to meet the ever-changing requirements of our fiercely competitive business.

Delta will continue to be a great airline. We are now becoming a better business as well, built on clear goals and solid values. That combination, which no other airline can match, is the new tradition of Delta.

Ronald W. Allen

Ronald W. Allen
Chairman of the Board, President and Chief Executive Officer

August 16, 1996

THE YEAR IN REVIEW

September 1995 Quarter Highlights

- Delta and All Nippon Airways announce plans for a broad-based business and marketing alliance between the two airlines. Plans include code sharing on flights between the two countries, starting with Tokyo (Narita) – Los Angeles, which is served by both carriers.
- Delta, Swissair, Sabena, and Austrian Airlines file a joint application to the U.S. Department of Transportation seeking antitrust immunity for agreements that would allow the carriers to pursue a global marketing alliance.
- USA Today names Delta best U.S. Domestic Airline as ranked by their survey of airline customers.
- Delta reports best-ever September quarter financial results, recording operating income of $386 million and net income of $201 million.

December 1995 Quarter Highlights

- Delta realigns its domestic route system and repositions resources as a strategic step in its plan to restore and sustain profitability. The realignment increases long-haul flying and reduces short-haul flying at Atlanta, adds frequencies and new service at Cincinnati, and reduces and refocuses resources at Dallas/Fort Worth.
- Delta announces formation of a new cargo unit, bringing cargo marketing, sales and service, and administrative functions into a single business unit.
- Delta reports operating income of $169 million and net income of $70 million for the quarter.

March 1996 Quarter Highlights

- Delta and the American Express Company launch the Delta SkyMiles® co-branded credit card, allowing card-members to earn one Delta SkyMile for every dollar charged to the card.
- Delta announces plans to begin phasing out its entire Lockheed L-1011 fleet, with all L-1011s to be removed from transatlantic service by late 1998.
- Delta and the Air Line Pilots Association (ALPA) announce a tentative collective bargaining agreement on a new four year contract for Delta pilots.
- Delta reports record March quarter operating income of $169 million and net income of $63 million, excluding restructuring and other non-recurring charges.

June 1996 Quarter Highlights

- Delta's Board of Directors adopts, subject to stockholder approval, two broad-based stock option plans for Delta people involving 24.7 million shares of Delta common stock. Concurrently, the Board authorizes a common stock repurchase program of up to 24.7 million shares and approves the attendance of Delta personnel representatives at regular quarterly Board of Directors meetings.
- Delta's new collective bargaining agreement with ALPA becomes effective May 1, 1996. Delta also announces projected cost savings under the agreement totaling approximately $760 million over the four year term of the contract, before considering any payments under the pilots' profit sharing program.
- Delta announces redemption of its 3.23 % Convertible Subordinated Notes due June 15, 2003. As a result of the conversion of substantially all the notes into shares of common stock, long term debt is reduced by $626 million and stockholders' equity is increased by approximately the same amount. In addition, approximately $46 million in annual interest expense will be eliminated.

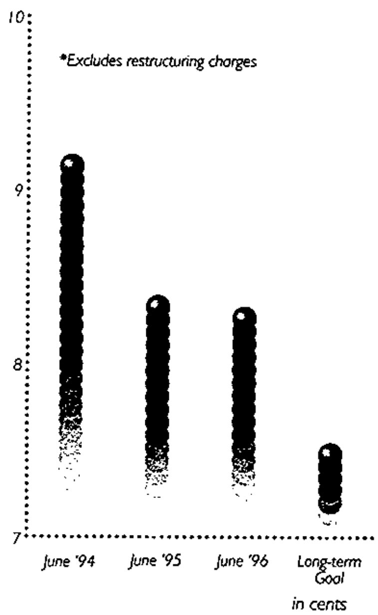
- Delta announces its election to redeem on July 11, 1996 all outstanding shares of its Series C Convertible Preferred Stock and related Depositary Shares. As a result of the conversion of the preferred stock into approximately 17.5 million shares of Delta's common stock, Delta will eliminate approximately $80 million in annual preferred dividend payments.
- Delta, Swissair, Sabena, and Austrian Airlines receive U.S. Department of Transportation approval of antitrust immunity for agreements allowing the carriers to pursue a global marketing alliance.
- Delta unveils its new worldwide corporate identity in conjunction with the Grand Reopening of its flagship Crown Room membership club at Hartsfield Atlanta International Airport.
- For the quarter, Delta reports best-ever operating income of $569 million and net income of $328 million, excluding a restructuring charge. For the fiscal year ended June 30, 1996, Delta reports all-time record operating income of $1.3 billion and net income of $662 million, excluding restructuring and other non-recurring charges.

LEADERSHIP 7.5 AND BEYOND

In April 1994, Delta announced Leadership 7.5, a three year plan to return the Company to sustained profitability and position it for future growth. The core of the program was a goal of reducing the Company's annual operating expense by approximately $2 billion by the end of the June 1997 quarter. Delta also established operating cost per available seat mile (unit cost) goals of 8.6¢ for the June 1995 quarter, 8.0¢ for the June 1996 quarter, and 7.5¢ for the June 1997 quarter. The unit cost goals reflected the phase-in of the $2 billion in targeted cost savings, excluding restructuring and other non-recurring charges, and assumed other costs and operating capacity would remain at calendar 1993 levels.

Developments in the airline industry during fiscal 1996 reaffirmed Delta's belief that the only way for the Company to succeed in the highly competitive environment in which it operates is to permanently reduce operating costs to a competitive level. The level of low-cost, low-fare competition in Delta's domestic markets continued to rise during fiscal 1996 at a rate faster than that experienced by Delta's major competitors, negatively impacting average fare levels in affected markets. Traffic patterns during fiscal 1996 validated the prediction that business traffic growth would stabilize while leisure traffic growth would accelerate.

As of June 30, 1995, Delta had succeeded in achieving its first Leadership 7.5 unit cost goal, beating the 8.6¢ goal by a generous margin with a unit cost of 8.39¢ for the June 1995 quarter. By the end of fiscal 1995, Delta had already implemented initiatives estimated to generate approximately $1.6 billion in annual cost reductions. During fiscal 1996, the Company continued to reduce costs, recording a 3% reduction in both total operating expenses and unit costs for the year, excluding restructuring and other non-recurring charges. Actual June 1996 quarter unit cost came in at 8.33¢, excluding a restructuring charge. The June 1996 quarter unit cost reflects expense reductions in several categories which were partially offset by a significant increase in the price of jet fuel, a



QUARTERLY UNIT COST*

4.3¢ per gallon federal tax on jet fuel and costs associated with carrying record levels of passenger traffic during the quarter.

A major milestone was reached in the Leadership 7.5 program in April 1996, when Delta pilots ratified a new four year collective bargaining agreement, which became effective May 1, 1996. The new agreement is expected to contribute approximately $760 million to Leadership 7.5 cost reductions over the four year term of the contract, before considering any payments under the pilots' profit sharing program.

A key outcome of the new pilot agreement is the formation of a low-fare operation. Subsequent to the end of fiscal 1996, the Company announced the October 1, 1996 launch of Delta Express, a low-fare business unit within Delta operating in certain highly competitive, leisure-oriented markets within Delta's system. Delta Express will begin daily nonstop service connecting 10 midwest and northeast cities with Orlando and four other Florida cities, operating with a dedicated fleet of Boeing 737-200 aircraft. Delta Express is scheduled to grow to 25 aircraft by January, 1997.

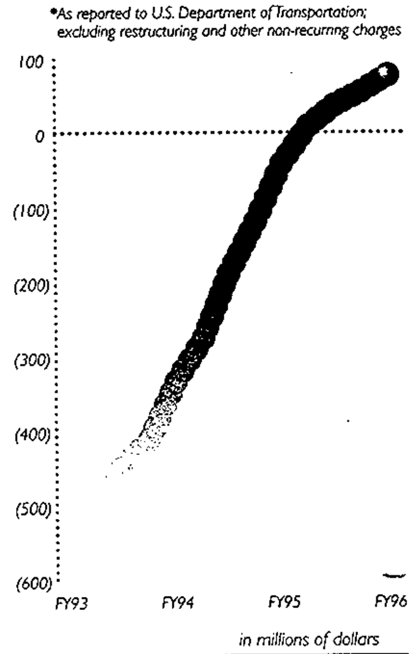
In July 1996, the Company announced a shift in strategy from a strict focus on operating costs to a more balanced approach that focuses on both operating cost reduction and revenue improvement. Delta's success in strengthening its financial condition, changes in the industry environment, and a renewed emphasis on customer service motivated the shift. While the unit cost goal of 7.5¢ per available seat mile will be maintained as a long-term goal, the Company no longer expects to reach this goal by the June 1997 quarter. Delta increased its three year operating margin goal to 12% by the end of fiscal 1999. Delta's operating margin goal is aggressive, and no assurance can be given that the Company will meet this goal.

INTERNATIONAL OPERATIONS

Transatlantic Performance

The financial performance of Delta's transatlantic operations continued to improve during fiscal 1996, with the June 1996 quarter representing the fourth consecutive quarter in which Delta reported twelve month operating profits in the transatlantic, excluding restructuring and other non-recurring charges. Cost reductions and marketing initiatives contributed to a $119 million improvement in transatlantic operating income for fiscal 1996 versus fiscal 1995. Delta reported $76 million in operating income, excluding restructuring and other non-recurring charges, in fiscal 1996 compared with an operating loss of $43 million for fiscal 1995. These results are based on allocations performed in accordance with requirements established by the U.S. Department of Transportation.

The improvement in transatlantic profitability resulted from both cost reductions and revenue improvements. Total operating expenses declined 5% as a result of continued implementation of cost reduction initiatives, excluding restructuring and other non-recurring charges. Unit revenues increased 7% over fiscal 1995, resulting from higher passenger mile yields and increased code share revenues. These improvements were accomplished despite a 6% reduction in transatlantic capacity as a result of cancellation of unprofitable routes.



TRANSATLANTIC OPERATING RESULTS*
12 MONTH MOVING TOTALS

During fiscal 1996, Delta announced service changes consistent with the Company's commitment to eliminating unprofitable routes. In the second quarter of fiscal 1996, the Company discontinued service from Paris to Tel Aviv; from New York-Kennedy and Atlanta to Hamburg; from Dallas/Fort Worth to Frankfurt; from Frankfurt to Delhi; and from New York-Kennedy to Lisbon.

Delta continued to pursue new or expanded code sharing arrangements as a means of establishing, maintaining, or increasing its presence in key international markets while efficiently managing resources. During fiscal 1996, Delta expanded its code sharing agreement with Austrian Airlines to form a trilateral agreement with Malev Hungarian Airlines to code share from Atlanta to Vienna and Budapest. Delta and Austrian Airlines also expanded their agreement to include code sharing on service from New York-Kennedy to Vienna. In addition, Delta announced a new code sharing agreement with Aer Lingus for service between New York-Kennedy, Dublin, and Shannon airports.

During the June 1996 quarter, Delta, Swissair, Sabena, and Austrian Airlines received approval of antitrust immunity from the U.S. Department of Transportation to pursue a global marketing alliance. The alliance agreements establish a legal framework, subject to the negotiation of definitive operating agreements, to allow the four carriers to form a seamless transatlantic air transport system while retaining their unique corporate and national identities, and to link Delta's strong U.S. domestic hub system with four additional hubs in Europe - Brussels, Zurich, Vienna, and Geneva. The alliance will include code sharing; pricing, scheduling, and operational coordination; and joint sales and marketing opportunities.

Other International Operations

Delta implemented several initiatives to strengthen its Pacific operations. During fiscal 1996, Delta and Korean Air announced a new code sharing agreement between the two carriers on Korean's flights between Atlanta and Seoul, Korea, via Chicago. Delta and All Nippon Airways also announced their formation of a broad-based alliance on flights between the United States and Japan, including code sharing. In December 1995, Delta discontinued service from Portland to Taipei and Bangkok, and from Los Angeles to Hong Kong.

DELTA CUSTOMERS

Superior customer service remains a core value of Delta Air Lines. During fiscal 1996, Delta identified refinements needed to ensure that during and after Leadership 7.5, Delta continues to serve its customers with the quality that the Company's customers and Delta's own people demand.

During fiscal 1996, Delta implemented "Success Through Service," a program designed to provide standards, training, and measurements for delivering an enhanced level of customer service to every Delta customer. Plans call for every Delta person to receive "Success Through Service" training by the end of fiscal 1997.

Since fiscal 1995, Delta has monitored customer satisfaction by surveying 1,200 customers each month. In response to customer feedback, Delta took actions to further enhance customer service, particularly in areas impacted by the strong growth in passenger traffic during the second half of fiscal 1996. Selective airport staffing was added at the Atlanta and Cincinnati stations. Three hundred additional flight attendants were hired to effectively handle higher passenger loads. Reservation centers increased staff and implemented technology to manage increasing call volumes and to provide special services for high value customers. Outsourcing programs were refined to ensure consistent delivery of "Delta-style" service.

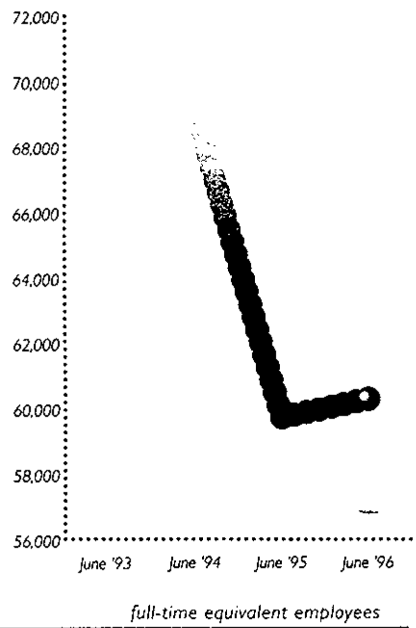
These programs and others demonstrate Delta's long-standing commitment to consistently meet and exceed its customers' expectations. Delta's customer service continues to improve as a result of these and other initiatives, and such measures as customer satisfaction ratings, on-time performance, and reliability showed marked improvements during the June 1996 quarter as compared to the March 1996 quarter.

DELTA PEOPLE

By the beginning of fiscal 1996, Delta had substantially concluded the staffing reductions called for under Leadership 7.5, reducing headcount by 14% in fiscal 1995. During fiscal 1996, Delta took necessary steps to address specific customer service issues primarily related to higher passenger loads. At the conclusion of fiscal 1996, headcount had increased 1% from June 30, 1995, reflecting selective recall and hiring of personnel in critical customer service areas.

As a result of continued control of headcount, salaries and related costs, in fiscal 1996, Delta achieved reductions in salaries and related costs of 8% from the level of fiscal 1994, the year in which Leadership 7.5 was announced. Delta's employee productivity as of June 30, 1996, exceeded that of its major competitors, as measured by available seat miles per employee.

Delta's new collective bargaining agreement with its pilots represented a major step toward restoring the Delta people's traditional sense of unity and shared purpose. In addition, the Company initiated several other efforts during fiscal 1996 to reward its people for their dedication and commitment and further align personnel objectives with stockholder goals:



STAFFING LEVELS AT YEAR END

- During fiscal 1996, Delta people earned $144 million through the Company's profit sharing program. With the implementation of the new collective bargaining agreement for Delta pilots, substantially all Delta personnel now participate in a profit sharing or other incentive compensation program.
- On April 24, 1996, Delta's Board of Directors adopted, subject to stockholder approval, two broad-based stock option plans for Delta people involving 24.7 million shares of Delta common stock.
- On April 25, 1996, the Board adopted a proposal inviting selected representatives of various personnel groups across Delta to attend its regular quarterly meetings. This initiative will provide Delta personnel with a new channel of communication with the Board.

Delta continues to maintain one of the youngest, most efficient and technologically advanced fleets in the U.S. airline industry. During fiscal 1996, the Company continued to refine its aircraft fleet plan to simplify the fleet, improve operating efficiency, and better meet customer expectations.

Aircraft Fleet
At June 30, 1996

Type of Aircraft	Average Age of Aircraft Type (years)	Owned	Leased	Total
B-727-200	19.3	106	23	129
B-737-200	11.6	1	53	54
B-737-300	10.4	–	13	13
B-757-200	7.4	45	41	86
B-767-200	13.1	15	–	15
B-767-300	7.1	2	24	26
B-767-300ER	4.2	10	7	17
L-1011-1	19.2	31	–	31
L-1011-200	18.0	1	–	1
L-1011-250	13.7	6	–	6
L-1011-500	15.4	17	–	17
MD-11	3.1	5	7	12
MD-88	6.0	63	57	120
MD-90	0.9	12	–	12
Total	11.2	314	225	539

During fiscal 1996, Delta announced plans to retire all 55 Lockheed L-1011 aircraft from its fleet, including the removal of all L-1011 aircraft from transatlantic service by the end of fiscal 1998. At the same time, Delta announced an agreement with The Boeing Company to purchase 12 additional Boeing 767-300ER aircraft for delivery in fiscal 1997 and 1998, and to cancel its 52 orders (22 of which were subject to reconfirmation by Delta) and 56 options to purchase Boeing 737-300 aircraft.

The newly ordered 767-300ER aircraft, together with aircraft already on order, will replace all L-1011 aircraft now being used in transatlantic service. The L-1011 aircraft being removed from transatlantic service will be reconfigured and used for domestic service, where they will replace older, less efficient versions of the L-1011. See Note 17 of Notes to Consolidated Financial Statements.

During fiscal 1996, Delta accepted delivery of 11 new aircraft, including one B-757-200 aircraft; two B-767-300ER aircraft; one MD-11 aircraft; and seven MD-90 aircraft.

Also during fiscal 1996, the Company sold one L-1011-1 aircraft, and returned to lessors the remaining nine A310-300 aircraft and five B-727-200 aircraft.

Subsequent to June 30, 1996, Delta entered into a definitive agreement with the Nordam Group, Inc., to purchase, between fiscal years 1997 and 2000, 25 shipsets of Stage 3 engine hushkits for B-737-200 aircraft, with an option to purchase an additional 30 shipsets.

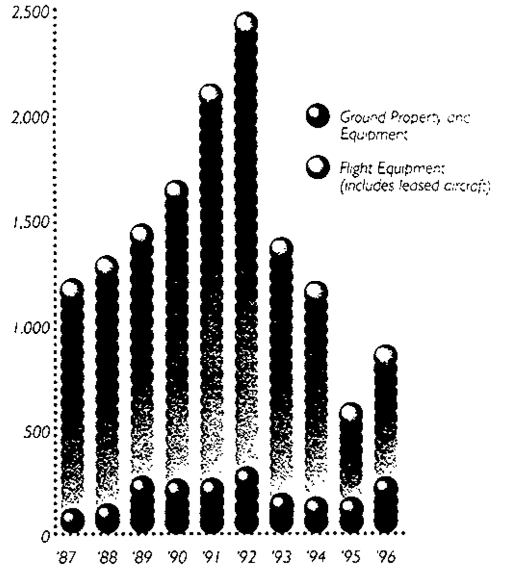
The aircraft orders include four MD-90 aircraft scheduled for delivery after fiscal 1997 that are subject to reconfirmation by Delta. See Note 9 of Notes to Consolidated Financial Statements.

Aircraft Delivery Schedule
Aircraft on Firm Order at June 30, 1996

Orders	*Delivery in Year Ending June 30:* 1997	1998	1999	2000	2001	After 2001	Total
B-757-200	–	–	–	1	3	–	4
B-767-300	–	–	2	–	–	–	2
B-767-300ER	5	9	–	–	–	–	14
MD-11	2	1	–	–	–	–	3
MD-90	4	–	9	5	3	2	23
Total	11	10	11	6	6	2	46

Aircraft Delivery Schedule
Aircraft on Option at June 30, 1996

Options	Delivery in Year Ending June 30: 1997	1998	1999	2000	2001	After 2001	Total
B-757-200.......	–	–	2	2	–	24	28
B-767-300ER.....	–	–	9	5	–	–	14
MD-11	–	–	5	5	5	2	17
MD-88	–	–	15	–	–	–	15
MD-90	–	–	11	7	8	24	50
Total	–	–	42	19	13	50	124



CAPITAL EXPENDITURES

Delta's aircraft which are subject to reconfirmation or are on option provide the Company with the flexibility to adjust scheduled aircraft deliveries.

The MD-88 options may be converted into MD-90 orders, and the B-767-300ER options may be converted into B-767-300 orders, all at Delta's election.

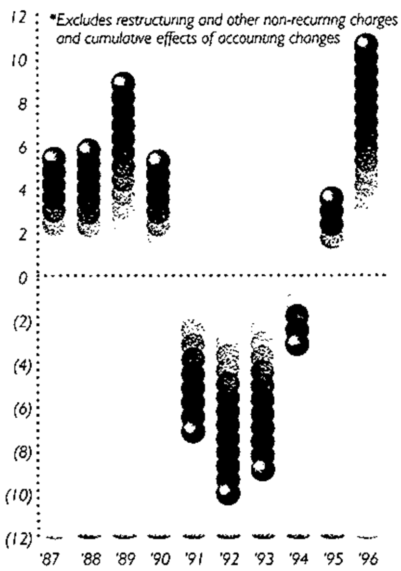
Delta continues to evaluate long-term aircraft alternatives with the goal of achieving the optimal mix of aircraft to meet operational needs. Delta also intends to continue its efforts to carefully manage capital spending and simplify the fleet.

FINANCIAL *review*

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS – *Fiscal 1996 Compared with Fiscal 1995*

For fiscal 1996, Delta recorded net income of $156 million ($1.42 primary and fully diluted earnings per common share after preferred stock dividend requirements) and operating income of $463 million. In fiscal 1995, Delta recorded net income of $408 million ($6.32 primary and $5.43 fully diluted earnings per common share after preferred stock dividend requirements), and operating income of $661 million.



PRIMARY EARNINGS (LOSS) PER COMMON SHARE*

Fiscal 1996 results include pretax restructuring and other non-recurring charges totaling $829 million ($506 million after-tax or $9.71 per common share) related to the write-down of Delta's Lockheed L-1011 fleet and the continuation of the Company's Leadership 7.5 cost reduction program. See Note 17 of Notes to Consolidated Financial Statements.

Fiscal 1995 results include a one-time $114 million after-tax benefit ($2.25 primary and $1.42 fully diluted benefit per common share) related to the adoption of Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112). See Note 10 of Notes to Consolidated Financial Statements.

Excluding the restructuring and other non-recurring charges in fiscal 1996 and the cumulative effect of the adoption of SFAS 112 in fiscal 1995, net income for fiscal 1996 totaled $662 million ($11.13 primary and $8.49 fully diluted earnings per common share after preferred stock dividend requirements) and operating income was $1.3 billion, compared to net income of $294 million ($4.07 primary and $4.01 fully diluted earnings per common share after preferred stock dividend requirements) and operating income of $661 million in fiscal 1995.

The improvement in financial results for fiscal 1996 as compared to fiscal 1995 primarily reflects cost reductions in most operating expense categories under the Company's Leadership 7.5 program. These reductions resulted in a $370 million, or 3%, decline in operating expenses, excluding restructuring and other non-recurring charges in fiscal 1996. Passenger revenue increased $297 million, or 3%, due to increased traffic stimulated by competitive pricing actions, the expiration of the U.S. transportation excise tax and general improvements in economies worldwide.

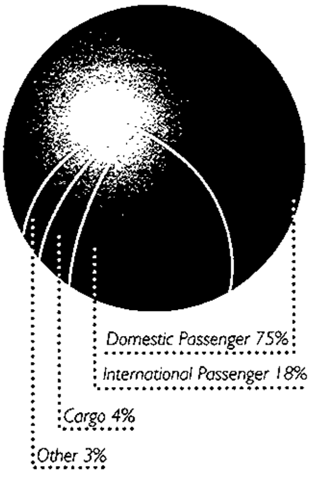
Financial Results Summary

	1996	1995	Change
	(In Millions, Except Share Data)		
Operating Revenues	$12,455	$12,194	+ 2%
Operating Expenses	11,992	11,533	+ 4
Operating Income	463	661	−30
Other Expenses, Net	(187)	(167)	+12
Income Before Income Taxes and Cumulative Effect of Accounting Change	276	494	−44
Income Taxes Provided, Net	(120)	(200)	−40
Income Before Cumulative Effect of Accounting Change	156	294	−47
Cumulative Effect of Accounting Change, Net of Tax	–	114	–
Net Income	156	408	−62
Preferred Stock Dividends	(82)	(88)	− 7
Net Income Available to Common Stockholders	$ 74	$ 320	−77%
Primary Income Per Common Share:			
Before Cumulative Effect of Accounting Change	$ 1.42	$ 4.07	−65%
Cumulative Effect of Accounting Change	–	2.25	–
	$ 1.42	$ 6.32	−78%
Fully Diluted Income Per Common Share:			
Before Cumulative Effect of Accounting Change	$ 1.42	$ 4.01	−65%
Cumulative Effect of Accounting Change	–	1.42	–
	$ 1.42	$ 5.43	−74%
Number of Shares Used to Compute Net Income Per Common Share:			
Primary	52,101,152	50,657,613	N/A
Fully Diluted	52,101,152	80,118,720	N/A

Operating revenues for fiscal 1996 were $12.5 billion, up 2% from $12.2 billion in fiscal 1995. Passenger revenue increased 3%, the result of 3% growth in revenue passenger miles. The passenger mile yield was virtually unchanged. Domestic load factor increased two points to 66%, as domestic revenue passenger miles and domestic capacity rose 6% and 3%, respectively. The domestic passenger mile yield decreased 1%, the result of discount fare promotions and the continued presence of low-cost, low-fare carriers in markets served by Delta. International load

Operating Revenue Detail

	1996	1995	Change
	(In Millions)		
Passenger	$11,616	$11,319	+ 3%
Cargo	521	565	− 8
Other, Net	318	310	+ 3
Total	$12,455	$12,194	+ 2%



1996 DISTRIBUTION OF OPERATING REVENUES

Revenue-Related Statistics

	1996	1995	Change
Revenue Passengers Enplaned (Thousands)	91,341	88,893	+ 3%
Revenue Passenger Miles (Millions)	88,673	86,417	+ 3%
Passenger Load Factor	67.8%	66.2%	+1.6 pts
Passenger Mile Yield	13.10¢	13.10¢	–
Cargo Ton Miles (Millions)	1,368	1,500	– 9%
Cargo Ton Mile Yield	38.08¢	37.67¢	+ 1%
Operating Revenue Per Available Seat Mile	9.53¢	9.33¢	+ 2%

factor increased one point to 73%, as international revenue passenger miles decreased 7% while operating capacity decreased 8%. The decline in international capacity is mainly due to the cancellation of service on certain international routes. The international passenger mile yield increased 2%, primarily due to higher average fare levels in certain international markets.

Cargo revenues in fiscal 1996 decreased 8% to $521 million, the result of a 9% decline in cargo ton miles, partially offset by a 1% increase in the ton mile yield. The decrease in cargo ton miles is primarily due to the cancellation of service on certain international routes and the resulting decrease in the average cargo trip length.

All other revenues were up 3% to $318 million, mainly due to increased revenues from joint marketing programs associated with the Company's SkyMiles® frequent flyer program. See Note 1 of Notes to Consolidated Financial Statements.

Operating expenses in fiscal 1996 totaled $12.0 billion, up 4% from $11.5 billion in fiscal 1995. Operating capacity increased less than 1% to 130.8 billion available seat miles, and operating cost per available seat mile increased 4% to 9.17¢. Excluding restructuring and other non-recurring charges in fiscal 1996, operating expenses were down 3%, and operating cost per available seat mile decreased 3%.

Salaries and related costs decreased 3%, primarily due to a lower average number of employees during the year and lower employee travel and benefit expenses, partly offset by increased costs associated with other employee compensation plans, primarily profit sharing.

Aircraft fuel expense increased 7%, as the average fuel price per gallon rose 8% to 58.53¢, partially offset by a 1% reduction in gallons consumed.

Passenger commissions expense declined 13%, mainly due to the implemen-

Operating Expense Detail

	1996 (In Millions)	1995 (In Millions)	Change
Salaries and Related Costs	$ 4,206	$ 4,354	– 3%
Aircraft Fuel	1,464	1,370	+ 7
Passenger Commissions	1,042	1,195	–13
Contracted Services	704	556	+27
Depreciation and Amortization	634	622	+ 2
Other Selling Expenses	594	618	– 4
Aircraft Rent	555	671	–17
Facilities and Other Rent	379	436	–13
Aircraft Maintenance Materials and Outside Repairs	376	430	–13
Passenger Service	368	443	–17
Landing Fees	248	266	– 7
Restructuring and Other Non-Recurring Charges	829	–	–
Other	593	572	+ 4
Total	$11,992	$11,533	+ 4%

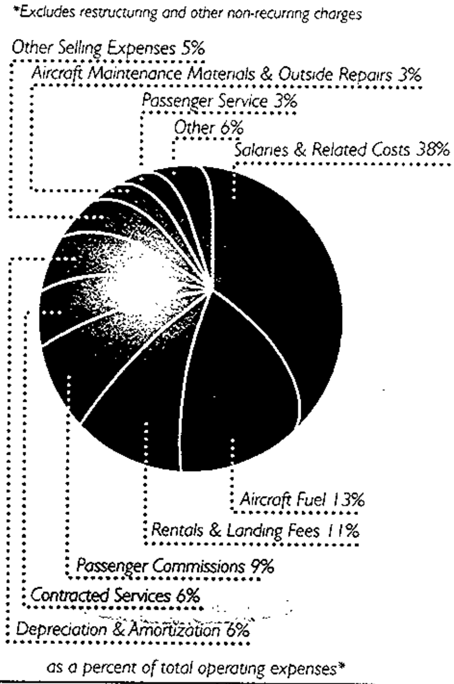
tation of a maximum commission payment on domestic tickets and lower base commission rates.

Contracted services expense rose 27%, the result of increased outsourcing of information technologies services and certain airport functions.

Depreciation and amortization expense increased 2%, the result of the acquisition of additional owned aircraft and the extension of leases on 40 B-737-200 aircraft in the June 1995 quarter which, for accounting purposes, resulted in those leases being reclassified from operating to capital leases. This increase was partially offset by certain international routes becoming fully amortized and the write-down of the L-1011 fleet. See Note 17 of Notes to Consolidated Financial Statements.

Other selling expenses decreased 4%, primarily the result of lower advertising and promotion expense, partially offset by higher booking fee payments to computer reservation system providers related to domestic traffic growth.

Aircraft rent expense decreased 17% due to the return of certain aircraft to lessors and the extension of leases on 40 B-737-200 aircraft previously discussed.



1996 DISTRIBUTION OF OPERATING EXPENSES

Facilities and other rent expense declined 13%, the result of reduced charges for certain airport facilities and the subleasing of excess space in some locations.

Aircraft maintenance materials and outside repairs expense decreased 13%, reflecting credits received from engine and brake manufacturers, improved engine reliability resulting in fewer engine removals, the elimination of certain engine types from service due to fleet simplification, and lower material cost resulting from the write-down of inventory related to the L-1011 aircraft. See Note 17 of Notes to Consolidated Financial Statements.

Passenger service expense declined 17%, reflecting continued benefits from catering changes and other cost reduction programs, partially offset by increased passenger traffic, primarily on domestic routes.

Operating Statistics

	1996	1995	Change
Available Seat Miles (Millions)	**130,751**	**130,645**	**–**
Available Ton Miles (Millions)	**18,084**	**18,150**	**–**
Fuel Gallons Consumed (Millions)	**2,500**	**2,533**	**– 1%**
Average Fuel Price Per Gallon	**58.53¢**	**54.09¢**	**+ 8%**
Breakeven Passenger Load Factor:			
Including Restructuring and other Non-Recurring Charges	**65.1%**	**62.3%**	**+2.8 pts.**
Excluding Restructuring and other Non-Recurring Charges	**60.3%**	**62.3%**	**–2.0 pts.**
Operating Cost Per Available Seat Mile:			
Including Restructuring and other Non-Recurring Charges	**9.17¢**	**8.83¢**	**+ 4%**
Excluding Restructuring and other Non-Recurring Charges	**8.54¢**	**8.83¢**	**– 3%**

Landing fees expense declined 7%, mainly reflecting favorable rate adjustments and credits received at certain airports.

Fiscal 1996 operating expenses include $829 million pretax restructuring and other non-recurring charges. The charges include a $452 million write-down of Delta's Lockheed L-1011 fleet and related assets and $377 million related to the continuation of the Company's Leadership 7.5 cost reduction programs. See Note 17 of Notes to Consolidated Financial Statements.

All other operating expenses increased 4%, primarily reflecting the October 1, 1995, expiration of the exemption from the 4.3¢ per gallon federal tax on commercial aviation jet fuel used in domestic operations, partially offset by an increase in services provided to outside parties.

Nonoperating expense for fiscal 1996 totaled $187 million, compared to $167 million in fiscal 1995. Interest expense decreased 8%, primarily due to a lower average level of outstanding debt, partially offset by an increase in interest related to the extension and reclassification of 40 B-737-200 aircraft leases previously discussed. Interest capitalized on funds advanced for the purchase of flight equipment and construction of facilities decreased 13%, primarily resulting from a lower average balance of outstanding advance payments for equipment. Interest income declined 9% to $86 million, primarily due to a lower average level of short-term investments and lower interest rates during the year. Miscellaneous expense, net was $30 million for fiscal 1996 compared to less than $1 million for fiscal 1995. This expense was primarily due to costs associated with the repurchase and retirement of long-term debt and foreign exchange losses.

RESULTS OF OPERATIONS – Fiscal 1995 Compared with Fiscal 1994

For fiscal 1995, Delta recorded net income of $408 million ($6.32 primary and $5.43 fully diluted earnings per common share after preferred stock dividend requirements) and operating income of $661 million. In fiscal 1994, Delta recorded a net loss of $409 million ($10.32 primary and fully diluted loss per common share after preferred stock dividend requirements), and an operating loss of $447 million.

Fiscal 1995 results include a one-time $114 million after-tax benefit ($2.25 primary and $1.42 fully diluted benefit per common share) related to the adoption, effective July 1, 1994, of SFAS 112. See Note 10 of Notes to Consolidated Financial Statements. Fiscal 1994 results include pretax restructuring charges totaling $526 million ($331 million after tax, or $6.59 per common share) related to the Company's Leadership 7.5 program, and an early retirement program completed during the December 1993 quarter. See Note 17 of Notes to Consolidated Financial Statements.

Excluding the cumulative effect of the adoption of SFAS 112, net income for fiscal 1995 totaled $294 million ($4.07 primary and $4.01 fully diluted earnings per common share after preferred stock dividend requirements) and operating income was $661 million. Excluding restructuring charges, the net loss for fiscal 1994 totaled $77 million ($3.73 primary and fully diluted loss per common share after preferred stock dividend requirements) and operating income was $79 million.

The improvement in financial results for fiscal 1995 versus fiscal 1994 was primarily due to cost reductions under the Company's Leadership 7.5 program. Leadership 7.5 initiatives contributed to cost reductions in most operating expense categories, resulting in a $465 million, or 4%, decline in operating expenses in fiscal 1995 compared to fiscal 1994, excluding restructuring charges in fiscal 1994.

Operating revenues for fiscal 1995 were $12.2 billion, up 1% from $12.1 billion in fiscal 1994. Passenger revenue increased less than 1%, the result of 1% growth in revenue passenger miles partly offset by a 1% decline in the passenger mile yield to 13.10¢. Domestic load factor increased slightly, as domestic revenue passenger miles grew 2% while domestic capacity rose 1%. Domestic traffic growth was primarily due to traffic stimulated through discount fare promotions and other competitive pricing actions, which contributed to a 1% decrease in the domestic passenger mile yield. International load factor rose five points to 72%, as international revenue passenger miles grew 1% and international operating capacity fell 6%. The international passenger mile yield was unchanged.

Cargo revenues in fiscal 1995 increased 3% to $565 million. Cargo ton miles increased 8%, primarily due to international cargo traffic growth, and the ton mile yield declined 5%, mainly the result of increases in long-haul cargo traffic and lower domestic mail contract rates. All other revenues were up 21% to $310 million, mainly due to increased revenues from joint marketing programs.

Operating expenses in fiscal 1995 totaled $11.5 billion, down 8% from $12.5 billion in fiscal 1994. Operating capacity decreased 1% to 130.6 billion available seat miles, and operating cost per available seat mile declined 7% to 8.83¢. Excluding the fiscal 1994 restructuring charges, operating expenses for fiscal 1995 were down 4%, and operating cost per available seat mile decreased 3%, in fiscal 1995 compared to fiscal 1994.

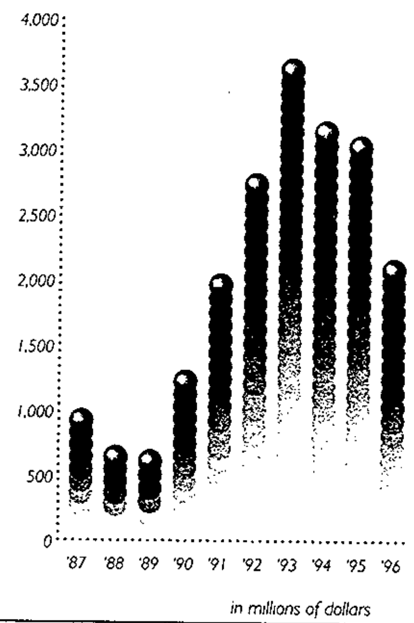
Nonoperating expense for fiscal 1995 totaled $167 million, compared to $213 million in fiscal 1994. Interest expense decreased 4%, primarily due to a lower average level of outstanding debt, partially offset by an increase in interest expense related to the extension of 40 B-737-200 aircraft leases previously discussed. Interest capitalized on funds advanced for the purchase of flight equipment and construction of facilities declined 9%, primarily resulting from a lower average balance in construction work in progress. Interest income increased 67%, or $38 million, primarily due to a higher average level of short-term investments and higher interest rates during the year.

CAPITALIZATION, FINANCING AND LIQUIDITY – *Fiscal Year 1996*

Cash and cash equivalents and short-term investments totaled $1.6 billion at June 30, 1996, compared to $1.8 billion at June 30, 1995. The principal sources of funds during fiscal 1996 were $1.4 billion of cash from operations; $35 million from the issuance of common stock; and $26 million from the sale of flight equipment.

During fiscal 1996, Delta invested $639 million in flight equipment and $297 million in ground property and equipment. The Company also made payments of $440 million on long-term debt and capital lease obligations, including Delta's voluntary repurchase and retirement of $224 million principal amount of long-term debt. The Company 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. In addition, Delta paid $66 million to repurchase 821,300 common shares under the common stock repurchase program discussed below. The Company may repurchase additional long-term debt and common stock from time to time.

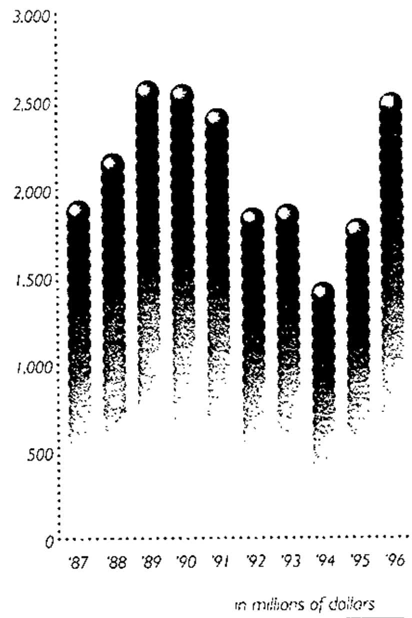
As of June 30, 1996, the Company had negative working capital of $356 million, compared to negative working capital of $427 million at June 30, 1995. A negative working capital position is normal for Delta and does not indicate a lack of liquidity. The Company expects to meet its current obligations 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 16, 1996, the Company had $1.25 billion of credit available under its 1995 Bank Credit Agreement, subject to compliance with certain conditions. See Note 7 of Notes to Consolidated Financial Statements.



LONG-TERM DEBT & CAPITAL LEASES

Long-term debt and capital lease obligations, including current maturities, totaled $2.3 billion at June 30, 1996, compared to $3.3 billion at June 30, 1995. Stockholders' equity was $2.5 billion at June 30, 1996, compared to $1.8 billion at June 30, 1995. The Company's debt-to-equity position, including current maturities, was 47% debt and 53% equity at June 30, 1996, compared to 65% debt and 35% equity at June 30, 1995.

At August 16, 1996, 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. The Series C ESOP Notes currently have the benefit of a credit enhancement in the form of a letter of credit in the amount of $470 million under Delta's Credit Agreement with ABN AMRO Bank and a group of banks. Delta is required to purchase the Series C ESOP Notes in certain circumstances. See Note 7 of Notes to Consolidated Financial Statements.



STOCKHOLDERS' EQUITY

FISCAL YEAR 1995

In fiscal 1995, the principal sources of funds were $1.1 billion of cash from operations, $139 million from Pan Am Corporation for the repayment of certain debtor-in-possession financing (including $24 million recorded in cash from operations representing accrued interest, net of the settlement of certain other claims); and $137 million from the sale of flight equipment. During fiscal 1995, Delta invested $458 million in flight equipment and $168 million in ground property and equipment. The Company also made payments of $572 million on long-term debt and capital lease obligations, including Delta's voluntary repurchase and retirement of $534 million principal amount of long-term debt. In addition, the Company 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.

FISCAL YEAR 1994

In fiscal 1994, the principal sources of funds were $1.3 billion of cash from operations, which included $300 million from the sale of certain accounts receivable (see Note 5 of Notes to Consolidated Financial Statements); $748 million proceeds from aircraft sale and leaseback transactions; $226 million of long-term borrowings; and $103 million from the sale of flight equipment. Delta invested $1.0 billion in flight equipment, net of advance payment refunds of $94 million, and $173 million in ground property and equipment. The Company made payments of $547 million on long-term debt and capital lease obligations, and 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.

NEW ACCOUNTING STANDARDS

During fiscal 1996, Delta adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). This statement requires that the carrying values of long-lived assets, including certain identifiable intangibles held and used by an entity, be reviewed for impairment, and potentially written down, whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. See Note 17 of Notes to Consolidated Financial Statements for information regarding the write-down of Delta's L-1011 aircraft and related assets due to the early retirement of this fleet.

Effective July 1, 1994, Delta adopted SFAS 112, which resulted in a cumulative after-tax transition benefit of $114 million ($2.25 primary and $1.42 fully diluted benefit per common share) in fiscal 1995, primarily due to the net overfunded status of the Company's disability and survivorship plans. See Note 10 of Notes to Consolidated Financial Statements.

Also effective July 1, 1994, the Company adopted American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" (SOP 93-6). The adoption of SOP 93-6 increased reported net income available to common stockholders shown in the Consolidated Statements of Operations by $8 million for fiscal 1995, and increased primary and fully diluted earnings per common share for that period by $0.16 and $0.28, respectively. See Note 15 of Notes to Consolidated Financial Statements.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123 establishes a fair value based method of accounting for stock options. Entities may elect to either adopt the measurement criteria of the statement for accounting purposes, thereby recognizing an amount in results of operations on a prospective basis, or disclose the pro forma effects of the new measurement criteria in Notes to Consolidated Financial Statements. The Company intends to adopt the pro forma disclosure features of SFAS 123, which are effective for fiscal year 1997.

FUTURE OUTLOOK

Deferred Tax Asset

At June 30, 1996, Delta had a net cumulative deferred tax asset of $767 million, which consists of $2.2 billion of deferred tax assets, offset by $1.4 billion of deferred tax liabilities. Included in the deferred tax assets are, among other items, $724 million related to obligations for postretirement benefits and $354 million related to alternative minimum tax (AMT) credit carryforwards. The AMT credit carryforwards do not expire.

Management believes that a significant portion of the deferred tax assets will be realized through reversals of existing taxable temporary differences with similar reversal patterns. To realize the benefits of the remaining deferred tax assets, excluding AMT credits, Delta needs to generate approximately $1.1 billion in future taxable income. Based on expectations for future taxable income, the extended period over which postretirement benefits will be recognized, and the fact that AMT credits do not expire, management believes that it is more likely than not that the deferred tax assets will be realized.

Although Delta experienced book and tax losses in fiscal years 1991 through 1994, the Company reported book and tax income in fiscal years 1995 and 1996. Furthermore, the Company has consistently reported book income in all other fiscal years since 1947 with the exception of fiscal year 1983. The accompanying chart is a summary of Delta's pretax book income (loss) and taxable income (loss) for the last three fiscal years, prior to net operating loss carrybacks.

	1996	1995 (In Millions)	1994
Pretax Book Income (Loss)	**$276**	**$494**	**$(660)**
Taxable Income (Loss)	**$635**	**$282**	**$(411)**

The book and tax income reported for fiscal years 1995 and 1996 reflect significant improvements in the Company's financial performance, primarily resulting from operating expense reductions achieved under the Leadership 7.5 program.

Delta's ability to generate the expected amounts of taxable income from future operations is dependent upon various factors, many of which are beyond management's control. Accordingly, there can be no assurance that Delta will meet its expectations of future taxable income. However, after considering Delta's earnings history, the actions that Delta has already taken and will continue to take to improve its financial performance, expectations of future taxable income, and other relevant considerations, management believes that it is more likely than not that future taxable income will be sufficient to fully utilize the deferred tax assets which existed at June 30, 1996. See Note 16 of Notes to Consolidated Financial Statements.

Commitments

Future expenditures for aircraft, engines and engine hushkits on firm order as of August 16, 1996, are estimated to be $2.4 billion, excluding aircraft orders subject to reconfirmation by Delta. The Company expects to finance these commitments 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 also has certain commitments related to its code sharing arrangements. See Note 9 of Notes to Consolidated Financial Statements. Also, see Note 8 of Notes to Consolidated Financial Statements for information on the Company's lease commitments.

Competitive Environment

Delta expects that low-fare competition is likely to 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.

Fuel Tax

The Omnibus Budget Reconciliation Act of 1993 imposes a 4.3¢ per gallon tax on commercial aviation jet fuel purchased for use in domestic operations. Based on Delta's fiscal 1997 expected domestic fuel requirement of 2.1 billion gallons, the continued imposition of this fuel tax will result in operating expense of approximately $90 million annually. Delta and other U.S. airlines are actively lobbying for a repeal of this tax. The outcome of these efforts cannot be determined.

Transportation Excise Tax

Upon the January 1, 1996, expiration of the 10% transportation excise tax applicable to domestic travel, the 6.25% domestic cargo waybill tax and the $6 per passenger international departure tax, the Company discontinued collecting these taxes. These taxes were reinstated during August 1996, effective for the remainder of the calendar year. The impact of this reinstatement on Delta cannot be determined.

Broad-Based Stock Option Plans

On April 24, 1996, Delta's Board of Directors adopted, subject to stockholder approval, two broad-based, non-qualified stock option plans for Delta personnel providing for the issuance of stock options to purchase 24.7 million shares of Delta common stock.

One plan is for eligible non-pilot personnel and the other is for Company pilots. The non-pilot and pilot plans involve stock options to purchase 14.7 million and 10 million shares of common stock, respectively. The non-pilot and pilot plans are being presented to stockholders as one proposal. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

The pilot stock option plan is an integral part of the new collective bargaining agreement between the Company and the Air Line Pilots Association (ALPA), which represents Delta's pilots. ALPA has the right to reopen the new collective bargaining agreement in its entirety if any required stockholder approval of the pilot stock option plan is not obtained, and Delta and ALPA are unable to reach agreement within 30 days on providing pilots with equivalent value to the pilot stock option plan.

Stock Repurchase Authorization

On April 24, 1996, Delta's Board of Directors authorized the Company to repurchase up to 24.7 million shares of its common stock and common stock equivalents. For additional information see Note 14 of Notes to Consolidated Financial Statements.

Antitrust Litigation

In February 1995, Delta changed its travel agency commission program by implementing certain maximum commission payments for the sale of domestic airline tickets. Class action antitrust litigation filed by travel agents against Delta and several other airlines that initiated travel agent commission cap programs is pending in the United States District Court in Minneapolis. The travel agents allege that the defendant airlines conspired to reduce the commissions paid to travel agents in violation of the federal antitrust laws, and are seeking damages of approximately $725 million, to be trebled under the antitrust laws. The District Court has denied the motions for summary judgment filed by the airlines. The jury trial of this lawsuit is scheduled to begin on September 3, 1996. See Note 11 of Notes to Consolidated Financial Statements.

Forward-Looking Information

The information contained in this Annual Report regarding the cost savings that Delta currently anticipates under the new collective bargaining agreement with ALPA is forward-looking, and the actual results could differ materially from the results that Delta currently anticipates. The specific factors that could cause the actual results to differ materially from the expected results include, among other things, (1) ALPA's right to reopen the new contract if there is a Change of Control (as defined) of Delta or if any required stockholder approval of the pilot stock option plan is not obtained; (2) the number of B-737-200 aircraft that Delta utilizes under reduced operating costs; (3) aircraft deployment and utilization rates; and (4) competitive factors and general economic conditions.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the 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, 1996 and 1995, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended June 30, 1996. 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 (pgs. 28-49) referred to above present fairly, in all material respects, the financial position of Delta Air Lines, Inc. and subsidiaries as of June 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

As discussed in Notes 15 and 10 in the Notes to Consolidated Financial Statements, effective July 1, 1994, the Company changed its methods of accounting for employee stock ownership plans and postemployment benefits.

Arthur Andersen LLP

Atlanta, Georgia
August 16, 1996

REPORT OF MANAGEMENT

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.

Tom Roeck — Ronald W. Allen

THOMAS J. ROECK, JR.
Senior Vice President – Finance and Chief Financial Officer

RONALD W. ALLEN
Chairman of the Board, President and Chief Executive Officer

DIRECTORS AND *officers*

BOARD OF DIRECTORS

RONALD W. ALLEN
Chairman of the Board, President and Chief Executive Officer, Delta Air Lines, Inc.
EDWIN L. ARTZT
Chairman of the Executive Committee of the Board of Directors, The Procter & Gamble Company; Retired Chairman of the Board and Chief Executive Officer, The Procter & Gamble Company, Cincinnati, Ohio
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
Chairman of the Executive Committee of the Board of Directors, The Travelers Group, Inc., New York, New York; Retired Chairman of the Board and Chief Executive Officer, The Travelers Corporation, Hartford, Connecticut
GEORGE D. BUSBEE
Of counsel to law firm of King & Spalding, Atlanta, Georgia; former Governor of Georgia
R. EUGENE CARTLEDGE
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
Retired Chairman, Burlington Northern Santa Fe Corporation; Retired Chairman and Chief Executive Officer, Burlington Northern Inc., Fort Worth, Texas
JESSE HILL, JR.
Retired Chairman of the Board, Atlanta Life Insurance Company, Atlanta, Georgia
PETER D. SUTHERLAND
Chairman and Managing Director of Goldman Sachs International, London, England, and a General Partner of The Goldman Sachs Group, L.P. and Goldman, Sachs & Co., New York, New York; former Director-General of the General Agreement on Tariffs and Trade
ANDREW J. YOUNG
Vice Chairman, Law Companies Group, Inc., Atlanta, Georgia; former Mayor of Atlanta, Georgia; Co-Chairman of the Atlanta Committee for the Olympic Games

AUDIT COMMITTEE
JESSE HILL, JR., *Chairman*
HENRY A. BIEDENHARN, III
JAMES L. BROADHEAD
MARY JOHNSTON EVANS
PETER D. SUTHERLAND

FINANCE COMMITTEE
R. EUGENE CARTLEDGE, *Chairman*
EDWIN L. ARTZT
EDWARD H. BUDD
GEORGE D. BUSBEE
GERALD GRINSTEIN

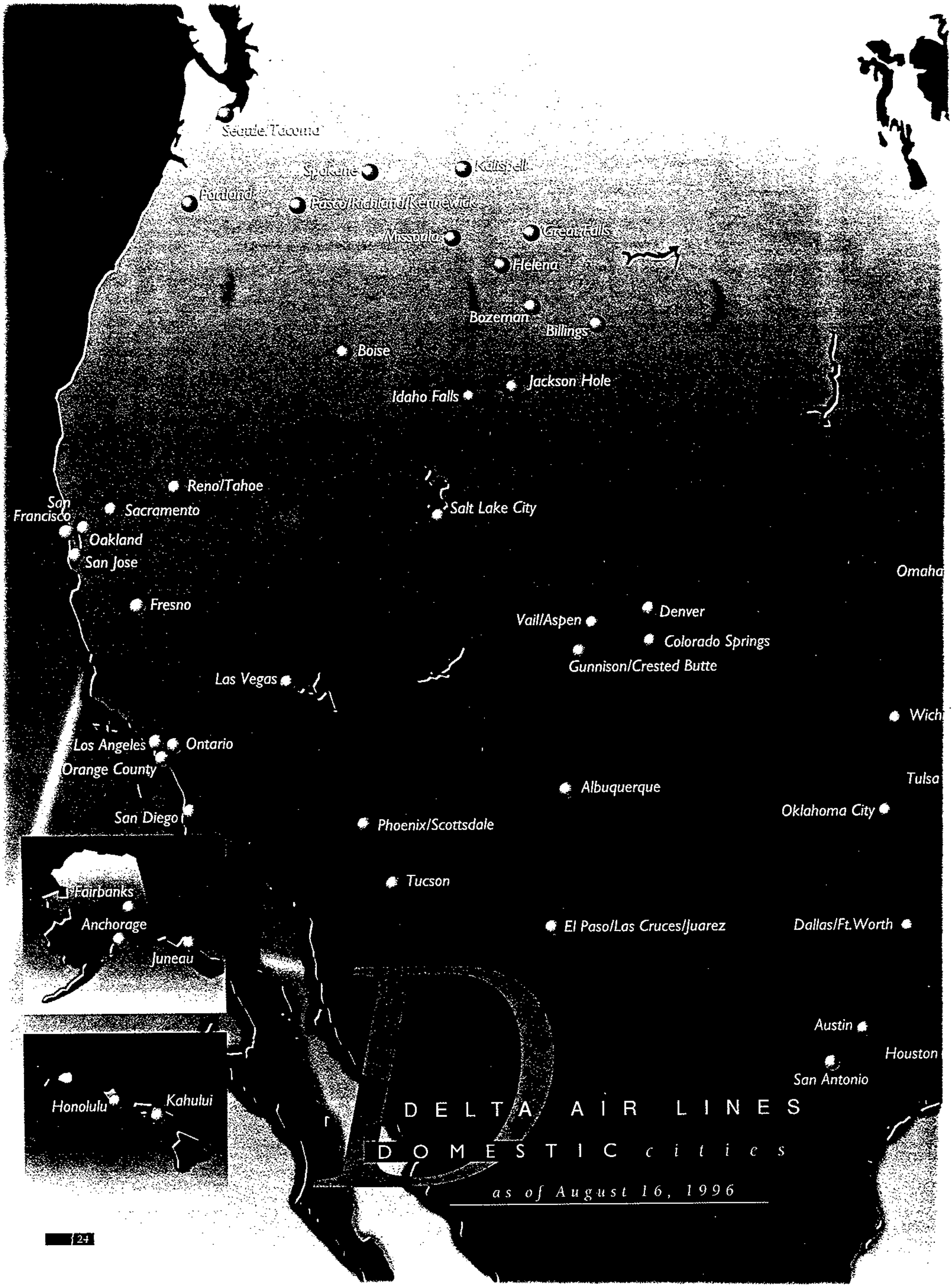
EXECUTIVE COMMITTEE
RONALD W. ALLEN, *Chairman*
EDWARD H. BUDD
R. EUGENE CARTLEDGE
GERALD GRINSTEIN
JESSE HILL, JR.

BENEFIT FUNDS INVESTMENT COMMITTEE
EDWARD H. BUDD, *Chairman*
EDWIN L. ARTZT
HENRY A. BIEDENHARN, III
JESSE HILL, JR.
ANDREW J. YOUNG

PERSONNEL, COMPENSATION & NOMINATING COMMITTEE
GERALD GRINSTEIN, *Chairman*
JAMES L. BROADHEAD
R. EUGENE CARTLEDGE
MARY JOHNSTON EVANS

OFFICERS

RONALD W. ALLEN
Chairman of the Board, President and Chief Executive Officer
HARRY C. ALGER
Executive Vice President – Operations
ROBERT W. COGGIN
Executive Vice President – Marketing
MAURICE W. WORTH
Executive Vice President – Customer Service
W. MARTIN BRAHAM
Senior Vice President – Delta Staffing Services Business Unit Development
ROBERT S. HARKEY
Senior Vice President – General Counsel and Secretary
THOMAS J. ROECK, JR.
Senior Vice President – Finance and Chief Financial Officer
ROBERT G. ADAMS
Vice President – Personnel
HAROLD L. BEVIS
Vice President – Public Affairs
VINCENT F. CAMINITI
Vice President – Sales
W. E. DOLL
Vice President – Cargo
MARK A. P. DRUSCH
Vice President – Marketing Development
MICHAEL S. ELLENBURG
Vice President – Purchasing
TERRY M. ERSKINE
Vice President – Personnel Relations
VICKI B. ESCARRA
Vice President – Airport Customer Service
H. D. GREENBERG
Vice President – Flight Operations
JULIUS P. GWIN
Vice President – Business Planning
JOHN K. LAUBER
Vice President – Corporate Safety and Compliance
PAUL G. MATSEN
Vice President – Corporate Planning
HAROLD G. MCDONALD
Vice President – Aircraft and Hangar Maintenance
MICHAEL G. MEDLICOTT
Vice President – Europe and Asia
LEON A. PIPER
Vice President – Personnel Benefits
JENNY R. POOLE
Vice President – In-Flight Service
THOMAS J. SLOCUM
Vice President – Corporate Communications
RAY VALEIKA
Vice President – Technical Operations
D. SCOTT YOHE
Vice President – Government Affairs
MICHAEL M. YOUNG
Vice President – Community Affairs
JAMES G. MATHEWS
Controller
JAMES H. SANREGRET
Treasurer
DEAN C. ARVIDSON
Assistant Secretary
SUSAN T. HUDSON
Assistant Secretary
LESLIE P. KLEMPERER
Assistant Secretary

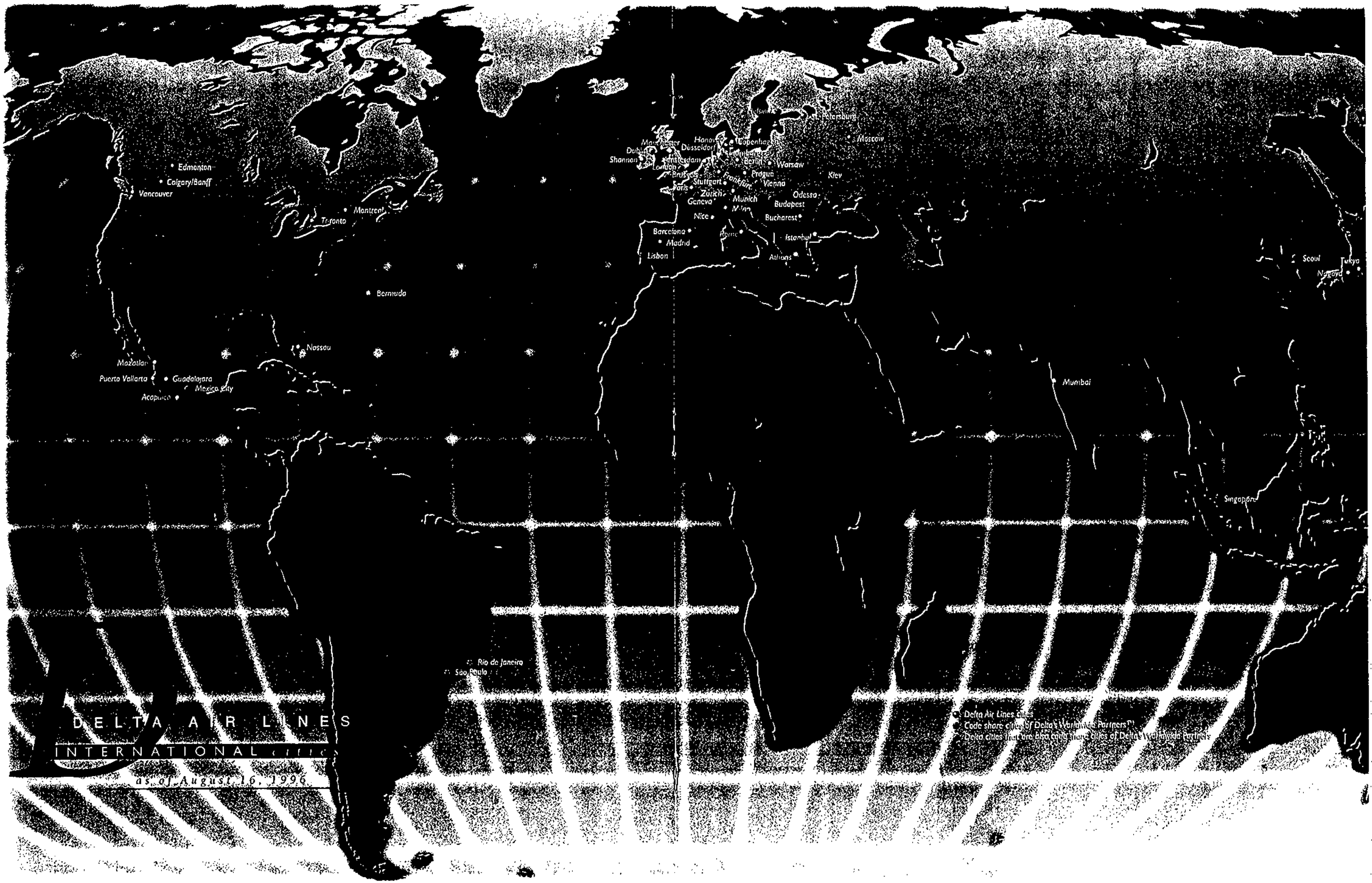


DELTA AIR LINES

DOMESTIC *cities*

as of August 16, 1996


Bangor
Portland
Minneapolis/
St. Paul
Rochester
Syracuse
Albany
Boston
Milwaukee
Grand Rapids
Buffalo/Niagara Falls
Providence/Newport
Hartford/Springfield
Detroit
Wilkes-Barre/Scranton
Newburgh
Chicago
Allentown/Bethlehem/Easton
New York
South Bend/Elkhart/Mishawaka
Toledo
Cleveland
Newark
Ft. Wayne
Pittsburgh
Harrisburg
Philadelphia
Columbus
Indianapolis
Dayton
Baltimore
Cincinnati
Washington D. C.
Kansas City
St. Louis
Louisville
Lexington
Richmond
Norfolk/Virginia Beach/Williamsburg
Greensboro/High Point/Winston-Salem
Nashville
Knoxville
Raleigh/Durham
Charlotte
Memphis
Greenville/Spartanburg
Little Rock
Huntsville/Decatur
Columbia
Atlanta
Augusta
Birmingham
Charleston
Monroe
Montgomery
Shreveport
Jackson
Savannah
Mobile/Pascagoula
Pensacola
Baton Rouge
Tallahassee
Jacksonville
New Orleans
Gainesville
Daytona Beach
Orlando
Tampa/St. Petersburg/Clearwater
Melbourne
Sarasota/Bradenton
West Palm Beach
Ft. Myers
Ft. Lauderdale/Hollywood
Miami
To San Juan
To St. Thomas
To St. Croix


DELTA AIR LINES
INTERNATIONAL cities
as of August 16, 1996
Edmonton
Calgary/Banff
Vancouver
Montreal
Toronto
Bermuda
Nassau
Mazatlan
Puerto Vallarta
Guadalajara
Mexico City
Acapulco
Rio de Janeiro
São Paulo
Shannon
Dublin
Manchester
London
Amsterdam
Brussels
Paris
Düsseldorf
Hanover
Hamburg
Copenhagen
Berlin
Frankfurt
Stuttgart
Zurich
Geneva
Munich
Milan
Nice
Barcelona
Madrid
Lisbon
Rome
Prague
Vienna
Warsaw
Budapest
Bucharest
Istanbul
Athens
Odessa
Kiev
Moscow
St. Petersburg
Mumbai
Singapore
Seoul
Tokyo
Nagoya
Delta Air Lines cities
Code share cities of Delta's Worldwide Partners
Delta cities that are also code share cities of Delta's Worldwide Partners

CONSOLIDATED *balance sheets*

June 30, 1996 and 1995

ASSETS	1996	1995
	(In Millions)	
Current Assets:		
Cash and cash equivalents	$ 1,145	$ 1,233
Short-term investments	507	529
Accounts receivable, net of allowance for uncollectible accounts of $44 at June 30, 1996, and $29 at June 30, 1995	968	755
Maintenance and operating supplies, at average cost	73	68
Deferred income taxes	352	234
Prepaid expenses and other	237	195
Total current assets	3,282	3,014
Property and Equipment:		
Flight equipment	8,202	9,288
Less: Accumulated depreciation	3,235	4,209
	4,967	5,079
Flight equipment under capital leases	515	537
Less: Accumulated amortization	127	99
	388	438
Ground property and equipment	2,697	2,442
Less: Accumulated depreciation	1,532	1,354
	1,165	1,088
Advance payments for equipment	275	331
	6,795	6,936
Other Assets:		
Marketable equity securities	473	398
Deferred income taxes	415	506
Investments in associated companies	266	265
Cost in excess of net assets acquired, net of accumulated amortization of $84 at June 30, 1996, and $75 at June 30, 1995	265	274
Leasehold and operating rights, net of accumulated amortization of $183 at June 30, 1996, and $165 at June 30, 1995	140	177
Other	590	573
	2,149	2,193
	$12,226	$12,143

LIABILITIES AND STOCKHOLDERS' EQUITY

	1996	1995
	(In Millions, Except Share Data)	
Current Liabilities:		
Current maturities of long-term debt	**$ 40**	$ 151
Current obligations under capital leases	**58**	61
Accounts payable and miscellaneous accrued liabilities	**1,540**	1,473
Air traffic liability	**1,414**	1,143
Accrued rent	**201**	235
Accrued salaries and vacation pay	**385**	378
Total current liabilities	**3,638**	3,441
Noncurrent Liabilities:		
Long-term debt	**1,799**	2,683
Postretirement benefits	**1,796**	1,714
Accrued rent	**616**	556
Capital leases	**376**	438
Other	**425**	395
	5,012	5,786
Deferred Credits:		
Deferred gain on sale and leaseback transactions	**802**	860
Manufacturers' and other credits	**96**	109
	898	969
Commitments and Contingencies (Notes 7, 8, 9 and 11)		
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 6,738,740 shares at June 30, 1996, and 6,786,632 shares at June 30, 1995	**485**	489
Unearned compensation under employee stock ownership plan	**(347)**	(369)
	138	120
Stockholders' Equity:		
Series C Convertible Preferred Stock, $1.00 par value, $50,000 liquidation preference; issued and outstanding 13,978 shares at June 30, 1996 and 23,000 shares at June 30, 1995	**–**	–
Common Stock, $3.00 par value; authorized 150,000,000 shares; issued 72,265,994 shares at June 30, 1996, and 54,537,103 shares at June 30, 1995	**217**	164
Additional paid-in capital	**2,627**	2,016
Accumulated deficit	**(119)**	(184)
Net unrealized gain on noncurrent marketable equity securities	**126**	83
Treasury stock at cost, 4,487,888 shares at June 30, 1996, and 3,721,093 shares at June 30, 1995	**(311)**	(252)
	2,540	1,827
	$12,226	$12,143

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

CONSOLIDATED STATEMENTS *of operations*

For the years ended June 30, 1996, 1995 and 1994

	1996	1995	1994
	(In Millions, Except Per Share Data)		
Operating Revenues:			
Passenger	**$11,616**	$11,319	$11,269
Cargo	**521**	565	551
Other, net	**318**	310	257
Total operating revenues	**12,455**	12,194	12,077
Operating Expenses:			
Salaries and related costs	**4,206**	4,354	4,589
Aircraft fuel	**1,464**	1,370	1,411
Passenger commissions	**1,042**	1,195	1,255
Contracted services	**704**	556	457
Depreciation and amortization	**634**	622	678
Other selling expenses	**594**	618	614
Aircraft rent	**555**	671	732
Facilities and other rent	**379**	436	380
Aircraft maintenance materials and outside repairs	**376**	430	418
Passenger service	**368**	443	522
Landing fees	**248**	266	261
Restructuring and other non-recurring charges	**829**	–	526
Other	**593**	572	681
Total operating expenses	**11,992**	11,533	12,524
Operating Income (Loss)	**463**	661	(447)
Other Income (Expense):			
Interest expense	**(269)**	(292)	(304)
Interest capitalized	**26**	30	33
Interest income	**86**	95	57
Miscellaneous income (expense), net	**(30)**	–	1
	(187)	(167)	(213)
Income (Loss) Before Income Taxes and Cumulative Effect of Accounting Changes	**276**	494	(660)
Income Taxes (Provided) Credited, Net	**(120)**	(200)	251
Income (Loss) Before Cumulative Effect of Accounting Changes	**156**	294	(409)
Cumulative Effect of Accounting Changes, Net of Tax	**–**	114	–
Net Income (Loss)	**156**	408	(409)
Preferred Stock Dividends	**(82)**	(88)	(110)
Net Income (Loss) Attributable to Common Stockholders	**$ 74**	$ 320	$ (519)
Primary Income (Loss) Per Common Share:			
Before cumulative effect of accounting changes	**$ 1.42**	$ 4.07	$(10.32)
Cumulative effect of accounting changes	**–**	2.25	–
	$ 1.42	$ 6.32	$(10.32)
Fully Diluted Income (Loss) Per Common Share:			
Before cumulative effect of accounting changes	**$ 1.42**	$ 4.01	$(10.32)
Cumulative effect of accounting changes	**–**	1.42	–
	$ 1.42	$ 5.43	$(10.32)

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

CONSOLIDATED STATEMENTS *of cash flows*

For the years ended June 30, 1996, 1995 and 1994

	1996	1995	1994
		(In Millions)	
Cash Flows From Operating Activities:			
Net income (loss)	**$ 156**	$ 408	$ (409)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Cumulative effect of accounting changes	**–**	(114)	–
Restructuring and other non-recurring charges	**829**	–	526
Depreciation and amortization	**634**	622	678
Deferred income taxes	**(57)**	96	(242)
Amortization of deferred gain on sale and leaseback transactions	**(58)**	(63)	(62)
Rental expense in excess of rent payments	**26**	54	134
Postemployment benefits expense less than payments	**(6)**	(22)	–
Pension expense less than payments	**(141)**	(89)	(45)
Compensation under ESOP	**37**	38	29
Other postretirement expense in excess of payments	**56**	73	66
Changes in certain assets and liabilities:			
Decrease (increase) in accounts receivable	**(213)**	131	169
Decrease (increase) in prepaid expenses and other current assets	**(47)**	28	123
Increase (decrease) in air traffic liability	**271**	(104)	57
Increase in accounts payable and miscellaneous accrued liabilities	**67**	26	207
Decrease in other payables and accrued expenses	**(57)**	(31)	(34)
Increase (decrease) in other noncurrent liabilities	**(48)**	–	64
Other, net	**(58)**	61	63
Net cash provided by operating activities	**1,391**	1,114	1,324
Cash Flows From Investing Activities:			
Property and equipment additions:			
Flight equipment, including advance payments	**(639)**	(458)	(1,032)
Ground property and equipment	**(297)**	(168)	(173)
Decrease (increase) in short-term investments, net	**22**	(121)	(408)
Proceeds from sale of flight equipment	**26**	137	103
Debtor-in-possession loan repayment	**–**	115	–
Net cash used in investing activities	**(888)**	(495)	(1,510)
Cash Flows From Financing Activities:			
Payments on long-term debt and capital lease obligations	**(440)**	(572)	(547)
Cash dividends	**(120)**	(120)	(120)
Issuance of common stock	**35**	4	1
Proceeds from sale and leaseback transactions	**–**	–	748
Issuance of long-term obligations	**–**	–	226
Repurchase of common stock	**(66)**	–	–
Net cash provided by (used in) financing activities	**(591)**	(688)	308
Net Increase (Decrease) in Cash and Cash Equivalents	**(88)**	(69)	122
Cash and cash equivalents at beginning of period	**1,233**	1,302	1,180
Cash and Cash Equivalents at End of Period	**$ 1,145**	$ 1,233	$ 1,302

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

CONSOLIDATED STATEMENTS *of stockholders' equity*

For the years ended June 30, 1996, 1995 and 1994

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Unrealized Gain (Loss) on Equity Securities	Treasury Stock	Total
	(In Millions, Except Share Amounts)					
Balance at June 30, 1993	$ 163	$2,012	$ 36	$ (1)	$ (297)	$1,913
Fiscal Year 1994:						
Net loss	–	–	(409)	–	–	(409)
Dividends on Series C Convertible Preferred Stock	–	–	(80)	–	–	(80)
Dividends on common stock ($0.20 per share)	–	–	(10)	–	–	(10)
Dividends on Series B ESOP Convertible Preferred Stock, net of tax benefit of $8	–	–	(22)	–	–	(22)
Issuance of 17,140 shares of common stock under dividend reinvestment and stock purchase plan ($50.38 per share)	–	1	–	–	–	1
Transfer of 370,226 net shares of common stock from treasury under ESOP and stock incentive plan ($67.75 per share)	–	–	(5)	–	25	20
Net unrealized gain on marketable equity securities	–	–	–	54	–	54
Balance at June 30, 1994	163	2,013	(490)	53	(272)	1,467
Fiscal Year 1995:						
Net income	–	–	408	–	–	408
Dividends on Series C Convertible Preferred Stock	–	–	(80)	–	–	(80)
Dividends on common stock ($0.20 per share)	–	–	(10)	–	–	(10)
Dividends on Series B ESOP Convertible Preferred Stock allocated shares	–	–	(8)	–	–	(8)
Issuance of 67,612 shares of common stock under dividend reinvestment and stock purchase plan, stock options and Series C Preferred Stock conversions ($56.13 per share)	1	3	–	–	–	4
Transfer of 295,126 net shares of common stock from treasury under ESOP and stock incentive plan ($67.75 per share)	–	–	(4)	–	20	16
Net unrealized gain on marketable equity securities	–	–	–	30	–	30
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 net 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	–	–	–	43	–	43
Balance at June 30, 1996	$ 217	$2,627	$ (119)	$ 126	$ (311)	$2,540

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

June 30, 1996, 1995 and 1994

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – Delta Air Lines, Inc. 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 16, 1996, Delta Air Lines served 153 domestic cities in 43 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands as well as 44 cities in 25 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 accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform with the current 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.

Investments in Associated Companies – The Company's investments in the following companies are accounted for under the equity method: TransQuest Information Solutions (TransQuest), an information technology joint venture; WORLDSPAN, L.P. (WORLDSPAN), a computer reservations system partnership; Atlantic Southeast Airlines, Inc. (ASA); Comair Holdings, Inc. (Comair), the parent of Comair, Inc.; and SkyWest, Inc. (SkyWest), the parent of SkyWest Airlines, Inc. ASA, Comair, Inc., and SkyWest Airlines, Inc. are participants in the Delta Connection program. (See Note 3.)

Accounting Changes – During fiscal 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). (See Note 17.) During fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112), and American Institute of Certified Public Accountants Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans" (SOP 93-6). (See Notes 10 and 15, respectively.)

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 Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) and are stated at fair value. (See Note 2.)

Cost in Excess of Net Assets Acquired – The cost in excess of net assets acquired (goodwill), which is being amortized over 40 years, is related to the Company's acquisition of Western Air Lines, Inc. on December 18, 1986. The Company periodically reviews the value assigned to goodwill to determine whether there exists any impairment, as defined by SFAS 121. Management believes that goodwill is appropriately valued.

Leasehold and Operating Rights – 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. The Company periodically reviews the value assigned to leasehold rights, landing slots and route authorities to determine whether there exists any impairment, as defined by SFAS 121. Management believes that leasehold rights, landing slots and route authorities are appropriately valued.

3. INVESTMENTS IN ASSOCIATED COMPANIES:

During the December 1994 quarter, Delta and AT&T Global Information Solutions Company formed TransQuest, an equally owned joint venture partnership, to provide information technology services to Delta and others in the travel and transportation industries. On June 26, 1996, Delta and NCR Corporation (formerly AT&T Global Information Solutions Company) announced an agreement to discontinue the TransQuest partnership. Effective July 1, 1996, the partnership ended and TransQuest, Inc. was formed as a wholly owned subsidiary of Delta. TransQuest, Inc. will provide information technology services to Delta and others in the travel and transportation industries.

The Company's percentage ownership in associated companies at June 30, 1996 and equity earnings (losses) for fiscal 1996, 1995 and 1994 were as follows:

Investment	Percent Ownership	Equity Earnings (Losses) 1996	1995	1994
			(In Millions)	
TransQuest	50%	$ (8)	$ (3)	$ –
WORLDSPAN	38	(5)	(4)	1
ASA	26	13	12	12
Comair	21	13	6	6
SkyWest	15	1	2	2

WORLDSPAN provides certain computer reservations services to Delta and Delta provides certain communications, information processing and administrative services to WORLDSPAN. (See Note 1 for additional information regarding investments in associated companies.)

4. FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET RISK:

Balance Sheet Financial Instruments: Fair Values – The carrying amounts reported in the Company's Consolidated Balance Sheets for cash and cash equivalents approximate fair values at June 30, 1996 and 1995. Short-term investments classified as available-for-sale are recorded at fair value in accordance with SFAS 115.

These values are based on quoted market prices, where available, or on the estimated current rates offered to the Company for debt of the same remaining maturities. The carrying values of all other financial instruments approximate their fair values.

The fair values and carrying values of long-term debt, including current maturities, at June 30, 1996 and 1995 were as follows:

	1996	1995
	(In Billions)	
Fair value	**$2.0**	**$3.0**
Carrying value	**1.8**	**2.8**

Off-Balance Sheet Financial Instruments: Risks and Fair Values – During fiscal 1996, Delta initiated a fuel hedging program under which the Company may enter into certain contracts with counterparties, not to exceed one year in duration, to manage the Company's exposure to jet fuel price volatility. Gains and losses resulting from fuel hedging transactions are recognized as a component of fuel expense when the underlying fuel being hedged is used. Any premiums paid to enter into hedging contracts are recorded as a prepaid expense and are amortized to fuel expense over the respective contract periods. At June 30, 1996, Delta had contracted for approximately 200 million gallons of its projected fiscal 1997 fuel requirements. At June 30, 1996, the fair value of option contracts used for purchases of jet fuel at fixed average prices was immaterial. The Company is exposed to fuel hedging transaction losses in the event of nonperformance by counterparties, but management does not expect any counterparty to fail to meet its obligations. To manage its credit risk, 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.

The Company has entered into certain foreign exchange forward contracts, all with maturities of less than two months, to manage risks associated with foreign currency exchange rate and interest rate volatility. The aggregate face amount of such contracts was approximately $40 million at June 30, 1996. The related realized and unrealized gains and losses for such contracts were not material for any of the years presented.

Financial Guarantees – 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 (see Note 8).

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 that it is subject to any significant concentration of credit risk.

5. SALE OF RECEIVABLES:

In June 1994, Delta entered into a revolving accounts receivable facility (Facility) providing for the sale of a defined pool of accounts receivable (Receivables) through a wholly owned subsidiary to a trust in exchange for a senior certificate in the principal amount of $300 million (Senior Certificate) and a subordinate certificate in the principal amount of $189 million (Subordinate Certificate). The subsidiary retained the Subordinate Certificate, and the Company received $300 million in cash from the sale of the Senior Certificate to a third party. At June 30, 1995, the principal amount of the Senior Certificate was $229 million and was recorded as a reduction in accounts receivable in the Company's Consolidated Balance Sheets. The principal amount of the Subordinate Certificate at June 30, 1995 was $190 million and was included in accounts receivable on the Company's Consolidated Balance Sheets.

In fiscal 1995, the Company paid $19 million in fees under the Facility. These fees are included in miscellaneous income (expense), net in the Company's Consolidated Statements of Operations. During fiscal 1995, Delta elected to pay down the Facility, and the Senior Certificate was reduced to $0 on August 14, 1995.

In March 1996, Delta reactivated the Facility on a reserve basis. At June 30, 1996, no Receivables had been sold under the Facility. While the Facility is in reserve, the Company is obligated to pay commitment fees. For fiscal 1996, these fees were immaterial.

6. SHORT-TERM BORROWINGS:

During fiscal 1996 and 1995, the Company had no commercial paper or short-term bank borrowings. The maximum and average outstanding balances of the Company's short-term bank borrowings during fiscal 1994 were $164 million and $2 million, respectively. The weighted average interest rate of these borrowings during fiscal 1994 was 5.03%.

7. LONG-TERM DEBT:

During fiscal 1996 and 1995, the Company voluntarily repurchased and retired $224 million and $534 million, respectively, principal amount of its long-term debt. As a result of these transactions, the Company recognized net pretax losses of $18 million and $4 million in fiscal 1996 and 1995, respectively, which are included in miscellaneous income (expense), net in the Company's Consolidated Statements of Operations.

On June 24, 1993, the Company issued $800 million principal amount at stated maturity of 3.23% Convertible Subordinated Notes due June 15, 2003 (Notes). The Notes were issued at an original issue discount of 28.2% from the principal amount at stated maturity, were convertible by the holders thereof into shares of Common Stock at a conversion rate of 12.68 shares per $1,000 principal amount at stated maturity of the Notes, and were redeemable by the Company on or after June 15, 1996 at a price for each Note equal to the issue price plus accrued original issue discount to the redemption date, together with accrued and unpaid interest to the redemption date. On May 15, 1996, the Company gave notice that it elected to redeem effective June 15, 1996, all outstanding Notes. Substantially all outstanding Notes were then converted by the holders thereof into approximately 10 million shares of Common Stock, and the Company redeemed the remaining outstanding Notes. As a result of the conversion of substantially all the Notes, long-term debt declined by $626 million and stockholders' equity increased by approximately the same amount in the Company's Consolidated Balance Sheet. This transaction was treated as a noncash transaction in the Company's Consolidated Statement of Cash Flows for the year ended June 30, 1996.

At June 30, 1996 and 1995, the Company's long-term debt (including current maturities) was as follows:

	1996	1995
	(In Millions)	
8.10% Series C Guaranteed Serial ESOP Notes, unsecured, payable in installments between 2002 and 2009	$ 290	$ 290
9¾ % Debentures, unsecured, due May 15, 2021	251	271
9⅞ % Notes, unsecured, due January 1, 1998	220	225
Medium-Term Notes, Series A and B, unsecured, interest rates ranging from 7.55% to 9.15% and with maturities ranging from 1997 to 2007	196	235
10⅜ % Debentures, unsecured, due February 1, 2011	176	176
9⅞ % Notes, unsecured, due May 15, 2000	142	165
9% Debentures, unsecured, due May 15, 2016	126	135
9¼ % Debentures, unsecured, due March 15, 2022	116	184
10⅛ % Debentures, unsecured, due May 15, 2010	113	113
8½ % Notes, unsecured, due March 15, 2002	71	96
10⅜ % Debentures, unsecured, due December 15, 2022	66	66
Development Authority of Clayton County, 7⅝ % unsecured loan agreement, repayable on January 1, 2020	45	45
Development Authority of Fulton County, unsecured loan agreement, repayable $10 million on November 1, 2007 and $20 million on November 1, 2012. Interest ranges from 6.85% to 6.95% over the life of the loan	30	30
3.23% Convertible Subordinated Notes, unsecured, due June 15, 2003, net of unamortized discount of $0 and $179 million at June 30, 1996 and 1995, respectively	0	621
8¼ % Notes, unsecured, due May 15, 1996	0	150
Development Authority of Clayton County, 6⅞ % unsecured loan agreement, repayable in installments beginning in 2000, with the remaining balance payable in 2011	0	35
Other, net	(3)	(3)
Total	1,839	2,834
Less: Current maturities	40	151
Total long-term debt	$1,799	$2,683

On September 27, 1995, the Company and a group of banks entered into the 1995 Bank Credit Agreement, an amendment and restatement of the 1992 Bank Credit Agreement. The 1995 Bank Credit Agreement provides for unsecured borrowings by the Company of up to $1.25 billion on a revolving basis until September 26, 2000. Up to $500 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 LIBOR 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 1995 Bank Credit Agreement contains certain negative covenants that restrict the Company's ability to grant liens, incur or guarantee debt and enter into flight

At June 30, 1996, the annual scheduled maturities of long-term debt during the next five fiscal years were as follows:

Years Ending June 30	Amount *(In Millions)*
1997	$ 40
1998	249
1999	67
2000	142
2001	0

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 June 30, 1996, no borrowings or letters of credit were outstanding under the 1995 Bank Credit Agreement.

At August 16, 1996, 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. The Series C ESOP Notes, which were issued pursuant to certain note purchase agreements, are payable in installments between July 1, 2002 and January 1, 2009. The note purchase agreements 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) provided that Delta has no obligation to purchase the Series C ESOP Notes under the note purchase agreements so long as it 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 for the Series C ESOP Notes 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.

As a result of Moody's rating action on May 11, 1993, a Purchase Event occurred, and Delta became obligated to purchase on September 15, 1993, any Series C ESOP Notes properly 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 1992 Bank Credit Agreement (which, as discussed above, was amended and restated as the 1995 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) providing for the issuance of letters of credit for up to $550 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 1995 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 the 1995 Bank Credit Agreement to credit enhance the Series C ESOP Notes. The Letter of Credit Facility expires June 6, 1999.

At August 16, 1996, the face amount of the letter of credit under the Letter of Credit Facility was $470 million. It covers the $290 million outstanding principal amount of the Series C ESOP Notes, up to $148 million of Make Whole Premium Amount and approximately one year of interest on the Series C ESOP Notes.

An Indenture of Trust (Indenture), dated August 1, 1993, 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 Series C ESOP 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 ten 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 16, 1996, Delta's long-term senior unsecured debt was rated Baa3 by Moody's and BB+ by Standard & Poor's.

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 ESOP Preferred Stock limit the Company's ability to pay cash dividends on Common Stock in certain circumstances.

Cash payments of interest including that on Series C ESOP Notes and net of interest capitalized totaled $232 million in fiscal 1996, $238 million in fiscal 1995, and $265 million in fiscal 1994.

8. 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 1996 and $1.1 billion in fiscal years 1995 and 1994.

At June 30, 1996, the Company's minimum rental commitments under capital leases and non-cancelable operating leases with initial or remaining terms of more than one year were as follows:

Years Ending June 30	Capital Leases	Operating Leases
	(In Millions)	
1997	**$101**	**$ 871**
1998	**97**	**863**
1999	**96**	**868**
2000	**65**	**842**
2001	**55**	**823**
After 2001	**166**	**10,800**
Total minimum lease payments	**580**	**$15,067**
Less: Amounts representing interest	**146**	
Present value of future minimum capital lease payments	**434**	
Less: Current obligations under capital leases	**58**	
Long-term capital lease obligations	**$376**	

During the June 1995 quarter, the Company extended the lease terms for 40 B-737-200 aircraft, which, for accounting purposes, resulted in the reclassification of these leases from operating leases to capital leases. This reclassification resulted in an increase of $385 million, net of deferred rent credits, in flight equipment under capital leases and an increase of $415 million in capital lease obligations in the Company's Consolidated Balance Sheet at June 30, 1995. This transaction was treated as a noncash transaction in the Company's Consolidated Statement of Cash Flows for the year ended June 30, 1995.

9. PURCHASE COMMITMENTS:

Subsequent to June 30, 1996, Delta entered into a definitive agreement with the Nordam Group, Inc. to purchase, between fiscal 1997 and 2000, 25 shipsets of Stage 3 engine hushkits for B-737-200 aircraft, with an option to purchase an additional 30 shipsets.

In addition, at August 16, 1996, the Company had authorized capital expenditures of approximately $250 million for fiscal 1997 for improvement of airport and office facilities, various 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.

Future expenditures for aircraft, engines and engine hushkits on firm order as of August 16, 1996 are estimated to be $2.4 billion, excluding aircraft orders subject to reconfirmation by Delta, as follows:

Years Ending June 30	Amount (In Millions)
1997	$ 800
1998	700
1999	330
2000	250
2001	210
After 2001	70
Total	$2,360

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

10. EMPLOYEE BENEFIT PLANS:

Substantially all of the Company's employees are covered under various defined benefit pension plans, medical plans and disability and survivorship plans, and certain employees meeting service requirements are eligible to participate in the Savings Plan discussed in Note 15.

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 ERISA.

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.75% and 4.7%, respectively, at June 30, 1996 and 8.0% and 4.7%, respectively, at June 30, 1995. The expected long-term rate of return on assets was 10% at June 30, 1996 and 1995.

Included in the restructuring charges described in Note 17 are aggregate related charges of $298 million and $108 million for fiscal 1996 and 1994, respectively.

The following table sets forth the defined benefit pension plans' funded status and amounts recognized in Delta's Consolidated Balance Sheets as of June 30, 1996 and 1995:

	1996	1995
	(In Millions)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation[1]	$6,186	$5,293
Projected benefit obligation	$7,420	$6,532
Plan assets at fair value[2]	7,222	6,108
Projected benefit obligation in excess of plan assets	198	424
Unrecognized net gain (loss)	195	(196)
Unrecognized transition obligation	(64)	(67)
Unrecognized prior service cost	(31)	(20)
Accrued pension cost recognized in the consolidated balance sheets	$ 298	$ 141

[1]Substantially all of the accumulated benefit obligation is vested.

[2]Plan assets were invested at June 30, 1996, approximately as follows: cash equivalents (7%), government and corporate bonds and notes (18%), common stock and other equity-oriented investments (71%) and real estate and other investments (4%).

The net periodic cost of defined benefit pension plans for fiscal 1996, 1995 and 1994 included the following components:

	1996	1995	1994
		(In Millions)	
Service cost – benefits earned during the year	$ 225	$221	$248
Interest cost on projected benefit obligation	526	489	466
Actual return on plan assets	(1,194)	(795)	(355)
Net amortization and deferral	612	266	(119)
Net periodic pension cost	$ 169	$181	$240

These charges represent costs primarily associated with special termination benefits and curtailment losses related to the defined benefit pension plans as a result of workforce reductions.

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, although amounts sufficient to pay claims incurred but not yet paid are held in trust. 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.

Net periodic postretirement benefit cost for fiscal 1996, 1995 and 1994 included the following components:

	1996	1995	1994
		(In Millions)	
Service cost – benefits earned during the year	$ 32	$ 32	$ 35
Interest cost on accumulated post-retirement benefit obligation	118	118	101
Amortization of prior service cost	(31)	(29)	(31)
Amortization of accumulated losses	4	4	6
Net periodic postretirement benefit cost	$123	$125	$111

The weighted average discount rate used to estimate the accumulated postretirement benefit obligation (APBO) was 7.75% at June 30, 1996, and 8.0% at June 30, 1995. The assumed health care cost trend rate used in measuring the APBO was 8.0% in fiscal 1996 and 8.5% in fiscal 1995, declining gradually to 4.25% by June 30, 2002, and remaining level thereafter. Increasing the assumed health care cost trend rate annually by 1% for all future years would increase the APBO as of June 30, 1996 by approximately $132 million and the net periodic postretirement benefit cost by $19 million for fiscal 1996.

The accumulated postretirement benefit obligation (APBO) at June 30, 1996 and 1995 consisted of the following components:

	1996	1995
	(In Millions)	
Retirees and dependents	$ 928	$ 879
Fully eligible participants	323	333
Other active participants	254	271
Total accumulated postretirement benefit obligation	1,505	1,483
Unamortized prior service cost (from plan changes)	464	396
Unrecognized net loss	(112)	(109)
Accrued postretirement benefit cost recognized in the consolidated balance sheets	$1,857	$1,770

Included in the restructuring charges described in Note 17 are aggregate charges of $32 million and $203 million for fiscal 1996 and 1994, respectively. These charges represent costs primarily associated with special termination benefits and curtailment losses related to the postretirement benefits other than pensions as a result of workforce reductions.

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.

Effective July 1, 1994, Delta adopted SFAS 112, which requires recognition of the liability for postemployment benefits during the period of employment. The adoption of SFAS 112 resulted in a cumulative after-tax transition benefit of $114 million in fiscal 1995, primarily due to the net overfunded status of the Company's disability and survivorship plans. The Company's postemployment benefit expense for fiscal years 1996 and 1995 was $78 million and $85 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 in which it can better manage employee benefits and control costs. Any changes in the plan 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. 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 and could have a material adverse effect on Delta's consolidated financial condition, results of operations or liquidity, management presently believes that the resolution of these actions is not likely to have a material adverse effect on Delta's consolidated financial condition, results of operations or liquidity.

During fiscal 1996, the Company renewed its aircraft hull and general liability insurance policies (Policies). Beginning December 18, 1995, Delta's captive insurance subsidiary agreed to reimburse the primary insurers for losses under the Policies in an amount not to exceed $100 million per occurrence and $118 million in the aggregate for each policy year. The obligations of the primary insurers to the insureds under the Policies are not limited or reduced in any way by this reimbursement obligation.

The reimbursement obligation of Delta's captive insurance subsidiary to the primary insurers is supported by letters of credit. The letters of credit have an aggregate stated amount equal to the maximum reimbursement obligation. To the extent the primary insurers make a draw under a letter of credit, Delta is required to reimburse the issuer of the letter of credit. Delta accrues amounts estimated to be payable for probable losses under the reimbursement agreements with the primary insurers, as incurred. The methods of making such estimates and establishing the resulting accrued liabilities are periodically reviewed and adjusted as required.

12. COMMON AND PREFERRED STOCK:

At June 30, 1996, 5,116,097 shares of Common Stock were reserved for issuance under the 1989 Stock Incentive Plan, 5,780,491 shares of Common Stock were reserved for conversion of the ESOP Preferred Stock and 10,629,285 shares of Common Stock were reserved for conversion of the Series C Preferred Stock.

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 A Junior Participating Preferred Stock for $200, subject to adjustment in certain circumstances. The rights become exercisable only after a person or group acquires beneficial ownership of 20% or more of the Common Stock or commences a tender or exchange offer that would result in such person or group beneficially owning 30% or more of the Common Stock. The rights expire on November 4, 1996, and may be redeemed by Delta for $0.05 per right until 15 days following the announcement that a person or group beneficially owns 20% or more of the Common Stock. Subject to certain conditions, if a person or group becomes the beneficial owner of 30% or more of the Common Stock or a person or group beneficially owning 20% or more of the Common Stock receives compensation from Delta other than compensation for full-time employment as a regular employee, each right will entitle its holder (other than certain acquiring persons) to receive, upon exercise, Common Stock having a value equal to two times the right's exercise price. In addition, subject to certain conditions, if Delta is involved in a merger or certain other business combination transactions, each right will entitle its holder (other than certain acquiring persons) to receive, upon exercise, common stock of the acquiring company having a value equal to two times the right's exercise 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.

On July 1, 1992, the Company issued 23 million Depositary Shares, each representing 1/1,000 of a share of Series C Preferred Stock. Each share of Series C Preferred Stock bore annual cumulative cash dividends of $3,500 (equivalent to $3.50 per annum per Depositary Share), had a liquidation preference of $50,000 (equivalent to $50 per Depositary Share) plus accrued and unpaid dividends, was convertible by the holder into shares of Common Stock at a conversion price of $65.75 per share of Common Stock (equivalent to a conversion rate of 0.7605 share of Common Stock per Depositary Share), and was redeemable by Delta in certain circumstances for such number of shares of Common Stock as equaled the liquidation preference of the Series C Preferred Stock being redeemed divided by the conversion price (equivalent to a conversion rate of 0.7605 share of Common Stock for each Depositary Share). On June 11, 1996, Delta gave notice that it elected to redeem the Series C Preferred Stock and the related Depositary Shares on July 11, 1996. Subsequent to this notice, all the outstanding Series C Preferred Stock and related Depositary Shares were converted or redeemed for a total of approximately 17.5 million shares of Common Stock. All conversions of Series C Preferred Stock and the related Depositary Shares were treated as noncash transactions in the Company's Consolidated Statement of Cash Flows.

13. STOCK OPTIONS AND AWARDS:

Under the Company's stock option plan for key employees, selected employees have received awards of stock options and, prior to fiscal 1993, tandem stock appreciation rights.

The exercise price for all stock options, and the base upon which stock appreciation rights are measured, is the fair market value of Common Stock on the date of grant. Awards exercised as stock appreciation rights are payable in a combination of cash and Common Stock.

Subject to certain exceptions, stock options and tandem stock appreciation rights, if any, are generally exercisable between one and ten years after the date of award.

Transactions involving stock options and tandem stock appreciation rights during fiscal 1994, 1995 and 1996 were as follows:

	Awards	Award Price Range
Balance June 30, 1993	**2,447,950**	**$54.00–$73.125**
Fiscal 1994:		
Granted	**650,200**	**$54.375**
Exercised	**(47,400)**	**$54.00**
Expired	**(9,000)**	**$54.00**
Forfeited	**(27,000)**	**$68.375–$73.125**
Balance June 30, 1994	**3,014,750**	**$54.00–$73.125**
Fiscal 1995:		
Granted	**718,750**	**$52.00**
Exercised	**(78,900)**	**$54.00–$68.375**
Expired	**(257,750)**	**$67.375**
Forfeited	**(10,700)**	**$52.00–$73.125**
Balance June 30, 1995	**3,386,150**	**$52.00–$73.125**
Fiscal 1996:		
Granted	**643,500**	**$71.00**
Exercised	**(1,653,765)**	**$52.00–$73.125**
Forfeited	**(43,700)**	**$52.00–$73.125**
Balance June 30, 1996	**2,332,185**	**$52.00–$73.125**

Substantially all awards of stock options with tandem stock appreciation rights have been exercised as stock appreciation rights. In fiscal 1996, the Company issued 711,830 shares of Common Stock, at an average price of $57.96 per share, in connection with the exercise of stock options and tandem stock appreciation rights.

On April 24, 1996, Delta's Board of Directors adopted, subject to stockholder approval at Delta's 1996 Annual Meeting of Stockholders, two broad-based, non-qualified stock option plans for Delta personnel providing for the issuance of stock options to purchase 24.7 million shares of Common Stock. The plans are intended to cover substantially all of Delta's non-officer personnel. One plan is for approximately 47,000 Delta employees who are not pilots. The second plan is for approximately 8,000 Delta pilots.

Awards outstanding as of June 30, 1996 and the exercise prices of those awards were as follows:

Date of Award	Awards Outstanding	Award Price
January 26, 1989	1,000	$54.00
January 25, 1990	134,500	$67.375
January 24, 1991	247,050	$68.375
January 23, 1992	548,750	$73.125
January 27, 1994	335,210	$54.375
January 26, 1995	431,975	$52.00
January 25, 1996	633,700	$71.00
	2,332,185	$52.00-$73.125

The non-pilot and pilot plans involve stock options to purchase 14.7 million and 10 million shares of Common Stock, respectively. Both plans provide for grants of non-qualified stock options in three equal annual installments at a stock option exercise price equal to the opening price of the Common Stock on the New York Stock Exchange on the applicable grant date. Stock options awarded under these plans will generally be exercisable beginning one year and ending ten years after their grant dates, and will not be transferable other than upon the death of the person granted the option. The non-pilot and pilot plans are being presented to stockholders as one proposal.

The pilot stock option plan is an integral part of the new collective bargaining agreement between the Company and the Air Line Pilots Association, International (ALPA), which represents Delta's pilots (13% of Delta's employees). ALPA has the right to reopen the new collective bargaining agreement in its entirety if any required stockholder approval of the pilot stock option plan is not obtained, and Delta and ALPA are unable to reach agreement within 30 days on providing pilots with equivalent value to the pilot stock option plan.

14. STOCK REPURCHASE AUTHORIZATION:

On April 24, 1996, Delta's Board of Directors authorized the Company to repurchase up to 24.7 million shares of its Common Stock and Common Stock equivalents. Under this authorization, the Company may repurchase up to 6.2 million of these shares before the initial stock option grants become exercisable under the two broad-based, non-qualified stock option plans and repurchase the remaining shares as Delta personnel exercise their stock options under those plans. Repurchases are subject to market conditions and may be made on the open market or in privately negotiated transactions. During fiscal 1996, the Company repurchased 821,300 shares of Common Stock for $66 million under this authorization.

15. 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 contributes to the ESOP 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 contribution is made quarterly through the allocation of the ESOP Preferred Stock, Common Stock or cash.

In connection with the adoption of the ESOP, 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 ESOP but not yet allocated to participants' accounts. As shares of the ESOP Preferred Stock are allocated to participants, compensation expense is recorded and 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 paid to participants and are considered dividends for financial reporting purposes.

Effective July 1, 1994, Delta adopted SOP 93-6. Under SOP 93-6, the compensation and interest components of ESOP costs are reduced by the amount of dividends accrued on the allocated ESOP Preferred Stock, and only the allocated ESOP Preferred Stock is considered outstanding in computing primary and fully diluted earnings per common share. Prior to adoption of SOP 93-6, the compensation and interest components of ESOP costs were reduced by the amount of dividends accrued on all ESOP Preferred Stock, and all ESOP Preferred Stock was considered outstanding for primary and fully diluted earnings per common share calculations. The adoption of SOP 93-6 increased reported net income attributable to common stockholders shown in the Company's Consolidated Statement of Operations by $8 million for fiscal 1995 and increased primary and fully diluted earnings per common share for that period by $0.16 and $0.28, respectively. The provisions of SOP 93-6 require that it be adopted prospectively.

16. 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 the amounts used for income tax purposes.

The alternative minimum tax credit carryforwards do not expire. The net operating loss carryforwards will generally expire in 2008 and 2009 if not utilized prior to that time.

Management believes, based on the Company's earnings history, the actions the Company has taken and will continue to take to improve its financial performance, expectations of future taxable income, and other relevant considerations, that it is more likely than not that future taxable income will be sufficient to fully utilize the deferred tax assets which existed at June 30, 1996.

Significant components of the Company's deferred tax assets and liabilities as of June 30, 1996 and 1995 are a result of temporary differences related to the items described as follows:

	1996	1995
	(In Millions)	
Deferred Tax Assets:		
Postretirement benefits	$ 724	$ 655
Alternative minimum tax credit carryforwards	354	284
Gains on sale and leaseback transactions (net)	336	344
Other employee benefits	232	161
Rent expense	202	174
Spare parts repair expense	114	97
Tax accruals	43	33
Frequent flyer expense	40	37
Accrued compensation expense	36	42
Net operating loss carryforwards	5	122
Other	93	134
Total Deferred Tax Assets	$2,179	$2,083
Deferred Tax Liabilities:		
Depreciation and amortization	$1,083	$1,084
Postemployment benefits	82	89
Marketable equity securities	81	49
Software development costs	58	35
Other	108	86
Total Deferred Tax Liabilities	$1,412	$1,343

Income taxes (provided) credited in fiscal 1996, 1995 and 1994 consisted of:

	1996	1995	1994
		(In Millions)	
Current taxes	$(177)	$(104)	$ 8
Deferred taxes	54	(99)	227
Increase in corporate statutory rate	–	–	13
Tax benefit of dividends on allocated ESOP Preferred Stock	3	3	2
	(120)	(200)	250
Amortization of investment tax credits	–	–	1
Income taxes (provided) credited	$(120)	$(200)	$ 251

The Company made income tax payments, net of income tax refunds, of $192 million in fiscal 1996 and $25 million in fiscal 1995 and received income tax refunds, net of cash income tax payments, of $13 million in fiscal 1994.

The income tax (provisions) credit generated for fiscal 1996, 1995 and 1994 differ from amounts which would result from applying the federal statutory tax rate to pretax income (loss), as follows:

	1996	1995	1994
		(In Millions)	
Income (loss) before income taxes	$ 276	$ 494	$ (660)
Items not deductible for tax purposes:			
Meals and entertainment	36	41	16
Amortization	9	9	9
Other, net	(8)	3	–
Adjusted pretax income (loss)	313	547	(635)
Federal statutory tax rate	35%	35%	35%
Income tax (provision) credit at statutory rate	(110)	(191)	222
State and other income taxes, net of federal income tax (provision) credit	(10)	(9)	15
Benefit due to increase in corporate statutory tax rate	–	–	13
Amortization of investment tax credits	–	–	1
Income taxes (provided) credited	$ (120)	$ (200)	$ 251

17. RESTRUCTURING AND OTHER NON-RECURRING CHARGES:

During fiscal years 1994 and 1996, the Company recorded pretax restructuring and other non-recurring charges of $526 million and $829 million, respectively. The $526 million pretax restructuring charge recorded in fiscal 1994 included a $112 million charge primarily for special termination benefits relating to an early retirement program under which approximately 1,500 employees elected to retire effective November 1, 1993 and a $438 million charge for the Company's Leadership 7.5 cost reduction program, partially offset by a $24 million reversal related to the fleet simplification charge recorded in fiscal 1993.

The $438 million charge for the Leadership 7.5 program included $280 million for workforce reductions of approximately 8,700 employees expected to occur during fiscal 1995. During fiscal 1995 and 1996, the Company reduced its staffing by approximately 9,200 and 1,200 personnel, respectively. Cash payments in fiscal 1995 and 1996 for workforce reductions totaled approximately $30 million and

Fiscal 1996 and 1994 pretax restructuring and other non-recurring charges are summarized in the table below:

	Charges (Credits)		
	1996	1994	Total
Fleet Simplification	$ –	$ (24)	$ (24)
Early Retirement Program	–	112	112
Leadership 7.5	104	438	542
Pilot Special Early Retirement Program	273	–	273
Lockheed L-1011 fleet early retirement	452	–	452
Totals	$ 829	$ 526	$ 1,355

$9 million, respectively, primarily for severance payments, with an additional $5 million expected to be paid during fiscal 1997. Payments associated with the curtailment loss and special termination benefits will be expended as required for funding appropriate pension and other postretirement plans in future years.

The $438 million charge for the Leadership 7.5 program also included $158 million for cash and noncash costs associated with reductions in inventory levels, the suspension of service in certain transatlantic markets and lease termination costs for facilities to be abandoned. Through fiscal 1996, the Company incurred cash costs of approximately $57 million for these initiatives and expects to incur additional cash costs of $16 million related to this program in future years. During fiscal 1996, approximately $8 million of the fiscal 1994 restructuring charge was reversed due to changes in estimates associated with lease terminations and abandoned facilities. The remaining $77 million represents noncash costs.

The $829 million pretax charge for restructuring and other non-recurring charges recorded in fiscal 1996 includes a $452 million write-down of Delta's Lockheed L-1011 fleet and related assets. In connection with its decision to accelerate the replacement of its 55 L-1011 aircraft fleet, the Company performed an evaluation to determine, in accordance with SFAS 121 (see Note 1), whether future cash flows (undiscounted and without interest charges) expected to result from the use and the eventual disposition of the L-1011 fleet will be less than the aggregate carrying amount of the L-1011 aircraft and related assets. As a result of the evaluation, management determined that the estimated future cash flows expected to be generated by L-1011 assets will be less than their carrying amount, and therefore, the L-1011 assets are impaired as defined by SFAS 121. Consequently, the original cost basis of the L-1011 fleet was reduced to reflect the fair market value at the time of the evaluation, resulting in a $452 million non-recurring charge. In determining the fair market value of L-1011 assets, the Company considered recent transactions involving sales of L-1011 aircraft and market trends in aircraft dispositions.

The $829 million pretax charge for restructuring and other non-recurring charges also included $273 million related to the special early retirement program for approximately 500 pilots expected to retire during fiscal 1997. Actual timing of the retirements is dependent upon the Company's operational needs. Payments associated with the curtailment loss and special termination benefits will be expended as required for funding appropriate pension and other postretirement plans in future years.

Also included in the fiscal 1996 charge is $65 million (net of reversals of $36 million related to the Company's $526 million restructuring charge recorded in fiscal 1994) for previously announced non-pilot workforce reductions, including pension plan curtailment losses and special termination benefits of $62 million, post-retirement medical plan curtailment gains and special termination benefits of $16 million (for approximately 525 employees) and severance payments and related costs of $23 million.

The remaining $39 million of the $829 million charge for fiscal 1996 represents cash and noncash costs related to lease terminations and other costs associated with discontinued routes and abandoned facilities. The charge includes (net of reversals of $8 million related to the Company's $526 million restructuring charge recorded in fiscal 1994) $37 million for lease termination costs for abandoned facilities and $10 million noncash costs related to routes discontinued as a result of the restructuring. Actual cash costs associated with lease terminations and abandoned facilities are expected to be approximately $4 million in fiscal 1997.

Actual costs incurred for certain amounts accrued, 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.

18. FOREIGN OPERATIONS:

Delta conducts operations in various foreign countries, principally in North America, Europe, the Middle East and Asia. Operating revenues from foreign operations were approximately $2.7 billion in fiscal 1996, $2.6 billion in fiscal 1995 and $2.5 billion in fiscal 1994.

19. QUARTERLY FINANCIAL DATA (Unaudited):

Operating expenses for the March 1996 quarter include $556 million pretax restructuring and other non-recurring charges related to the write-down of the Company's Lockheed L-1011 fleet and related assets and the continuation of the Company's Leadership 7.5 cost reduction program. Operating expenses for the June 1996 quarter include a $273 million pretax restructuring charge for costs associated with a special early retirement program under which approximately 500 pilots are expected to retire during fiscal 1997. (See Note 17.)

The following is a summary of the unaudited quarterly results of operations for fiscal 1996 and 1995 (in millions, except per share data):

	Three Months Ended			
	Sept. 30	Dec. 31	Mar. 31	June 30
Fiscal 1996				
Operating revenues	$3,188	$2,944	$2,964	$3,359
Operating income (loss)	$ 386	$ 169	$ (387)	$ 295
Net income (loss)	$ 201	$ 70	$ (276)	$ 161
Primary income (loss) per common share	$ 3.47	$ 0.93	$(5.77)	$ 2.69
Fully diluted income (loss) per common share	$ 2.57	$ 0.93	$(5.77)	$ 2.08
Fiscal 1995				
Operating revenues	$3,157	$2,919	$2,902	$3,216
Operating income	$ 154	$ 18	$ 40	$ 449
Income (loss) before cumulative effect of accounting changes	$ 72	$ (18)	$ (11)	$ 251
Cumulative effect of accounting changes, net of tax	114	–	–	–
Net income (loss)	$ 186	$ (18)	$ (11)	$ 251
Primary income (loss) per common share:				
Before cumulative effect of accounting changes	$ 1.00	$(0.79)	$(0.66)	$ 4.49
Cumulative effect of accounting changes	2.25	–	–	–
	$ 3.25	$(0.79)	$(0.66)	$ 4.49
Fully diluted income (loss) per common share:				
Before cumulative effect of accounting changes	$ 0.99	$(0.79)	$(0.66)	$ 3.21
Cumulative effect of accounting changes	1.43	–	–	–
	$ 2.42	$(0.79)	$(0.66)	$ 3.21

CONSOLIDATED SUMMARY *of operations*

(In Millions, Except Per Share Data)

For the years ended June 30

	1996[1]	1995[2]	1994[3]	1993[4]
Operating revenues	$ **12,455**	$ 12,194	$ 12,077	$ 11,657
Operating expenses	**11,992**	11,533	12,524	12,232
Operating income (loss)	**463**	661	(447)	(575)
Interest expense, net	**(243)**	(262)	(271)	(177)
Gain (loss) on disposition of flight equipment	**2**	–	2	65
Miscellaneous income, net[5]	**54**	95	56	36
Income (loss) before income taxes	**276**	494	(660)	(651)
Income taxes (provided) credited	**(120)**	(200)	250	233
Amortization of investment tax credits	**–**	–	1	3
Net income (loss)	**156**	294	(409)	(415)
Preferred stock dividends	**(82)**	(88)	(110)	(110)
Net income (loss) attributable to common stockholders	$ **74**	$ 206	$ (519)	$ (525)
Net income (loss) per common share:				
Primary	$ **1.42**	$ 4.07	$ (10.32)	$ (10.54)
Fully diluted	$ **1.42**	$ 4.01	$ (10.32)	$ (10.54)
Dividends declared on common stock	$ **10**	$ 10	$ 10	$ 35
Dividends declared per common share	$ **0.20**	$ 0.20	$ 0.20	$ 0.70

OTHER FINANCIAL *and statistical data*

(Dollars In Millions, Except Share Data)

For the years ended June 30

	1996[1]	1995[2]	1994[3]	1993[4]
Total assets	$ **12,226**	$ 12,143	$ 11,896	$ 11,871
Long-term debt and capital leases (excluding current maturities)	$ **2,175**	$ 3,121	$ 3,228	$ 3,716
Stockholders' equity	$ **2,540**	$ 1,827	$ 1,467	$ 1,913
Shares of common stock outstanding at year end	**67,778,106**	50,816,010	50,453,272	50,063,841
Revenue passengers enplaned (thousands)	**91,341**	88,893	87,399	85,085
Available seat miles (millions)	**130,751**	130,645	131,906	132,282
Revenue passenger miles (millions)	**88,673**	86,417	85,268	82,406
Operating revenue per available seat mile	**9.53¢**	9.33¢	9.16¢	8.81¢
Passenger mile yield	**13.10¢**	13.10¢	13.23¢	13.23¢
Operating cost per available seat mile	**9.17¢**	8.83¢	9.49¢	9.25¢
Passenger load factor	**67.82%**	66.15%	64.64%	62.30%
Breakeven passenger load factor	**65.12%**	62.28%	67.21%	65.58%
Available ton miles (millions)	**18,084**	18,150	18,302	18,182
Revenue ton miles (millions)	**10,235**	10,142	9,911	9,503
Operating cost per available ton mile	**66.31¢**	63.55¢	68.43¢	67.27¢

[1]Summary of operations and other financial and statistical data include $829 million in pretax restructuring and other non-recurring charges ($9.71 per common share).

[2]Summary of operations excludes $114 million after-tax cumulative effect of change in accounting standards ($2.25 primary and $1.42 fully diluted earnings per common share).

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

[4]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 excludes $587 million after-tax cumulative effect of changes in accounting standards ($11.78 after-tax per common share).

[5]Includes interest income.

1992	1991	1990	1989	1988	1987	1986
$ 10,837	$ 9,171	$ 8,583	$ 8,089	$ 6,915	$ 5,318	$ 4,460
11,512	9,621	8,163	7,411	6,418	4,913	4,426
(675)	(450)	420	678	497	405	34
(151)	(97)	(27)	(39)	(65)	(62)	(55)
35	17	18	17	(1)	96	16
5	30	57	55	25	8	8
(786)	(500)	468	711	456	447	3
271	163	(187)	(279)	(181)	(219)	2
9	13	22	29	32	36	42
(506)	(324)	303	461	307	264	47
(19)	(19)	(18)	–	–	–	–
$ (525)	$ (343)	$ 285	$ 461	$ 307	$ 264	$ 47
$ (10.60)	$ (7.73)	$ 5.79	$ 9.37	$ 6.30	$ 5.90	$ 1.18
$ (10.60)	$ (7.73)	$ 5.28	$ 9.37	$ 6.30	$ 5.90	$ 1.18
$ 59	$ 54	$ 85	$ 59	$ 59	$ 44	$ 40
$ 1.20	$ 1.20	$ 1.70	$ 1.20	$ 1.20	$ 1.00	$ 1.00

1992	1991	1990	1989	1988	1987	1986
$ 10,162	$ 8,411	$ 7,227	$ 6,484	$ 5,748	$ 5,342	$ 3,785
$ 2,833	$ 2,059	$ 1,315	$ 703	$ 729	$ 1,018	$ 869
$ 1,894	$ 2,457	$ 2,596	$ 2,620	$ 2,209	$ 1,938	$ 1,302
49,699,098	49,401,779	46,086,110	49,265,884	49,101,271	48,639,469	40,116,383
77,038	69,127	67,240	64,242	58,565	48,173	39,582
123,102	104,328	96,463	90,742	85,834	69,014	53,336
72,693	62,086	58,987	55,904	49,009	38,415	30,123
8.80¢	8.79¢	8.90¢	8.91¢	8.06¢	7.71¢	8.36¢
13.91¢	13.80¢	13.63¢	13.56¢	13.15¢	12.81¢	13.72¢
9.35¢	9.22¢	8.46¢	8.17¢	7.48¢	7.12¢	8.30¢
59.05%	59.51%	61.15%	61.61%	57.10%	55.66%	56.48%
62.99%	62.64%	57.96%	56.09%	52.69%	51.09%	56.01%
16,625	13,825	12,500	11,725	11,250	9,000	6,934
8,361	7,104	6,694	6,338	5,557	4,327	3,372
69.24¢	69.59¢	65.30¢	63.21¢	57.05¢	54.60¢	63.82¢

STOCKHOLDER *information*

TRANSFER AGENT, REGISTRAR AND DIVIDEND PAYING AGENT FOR COMMON STOCK

Registered stockholder inquiries regarding stock transfers, address changes, lost stock certificates, dividend payments, or account consolidations 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

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Registered holders 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 Stockholders will be held on Thursday, October 24, 1996, at 9:00 a.m., local time, in the Holiday Inn Professional Centre/Atrium, 2001 Louisville Avenue, Monroe, Louisiana 71201

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, 1996, 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) 715-2391

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

COMMON STOCK

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

NUMBER OF STOCKHOLDERS

As of August 16, 1996, there were 24,157 registered holders of Common Stock.

MARKET PRICES AND DIVIDENDS

Fiscal Year 1996	*Market Closing Price Range of Common Stock on New York Stock Exchange*		*Cash Dividends Per Common Share*
Quarter Ended:	*High*	*Low*	
September 30	$80 ½	$66¼	$0.05
December 31	79⅝	64	0.05
March 31	82	67⅜	0.05
June 30	86	77¼	0.05
Fiscal Year 1995			
Quarter Ended:	*High*	*Low*	
September 30	$49¾	$43 ½	$0.05
December 31	52 ½	43⅛	0.05
March 31	64	51	0.05
June 30	75	58¾	0.05