



President and Chief
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To: All Delta Retirees and Survivors
From: Ed Bastian
Subject: Response to the DALRC

On Wednesday of last week, Richard and I published a letter to you about the planned merger with Northwest that explained the impact that transaction will have on your Delta benefits. The bottom line is that this transaction will strengthen Delta and enhance our ability to support all those benefits going forward. The case for this merger is compelling. Combining our two companies, whose networks have virtually no overlap, means that the new Delta will be able to generate more revenues at less cost than the two companies can achieve separately. While that does not guarantee protection against all the challenges we face, it helps tremendously, and we have received strong support for the merger across many of our key constituencies.

However, the Board of one organization – the DALRC – has continued its consistent pattern of attacking Delta and actively working to undermine this transaction. The rhetoric put forth by the DALRC Board has intensified in recent days, despite the fact that I am scheduled to meet with them this week. Instead of dealing in facts, the DALRC Board chooses to spread fear among Delta retirees with unfounded accusations. This group purports to represent your interests, but their views are not reflective of the many retirees that I've met with in recent months. I want to take this opportunity to set the record straight on a number of issues the DALRC Board has distorted:

- *Delta's major shareholders overwhelmingly support this deal.* I've spoken with many of them personally over the last few months, including JP Morgan Securities who holds the PBGC's shares and voting rights. They support this deal because it is the right thing to do for our business. They also know that standing around waiting for fuel costs to go down – what the DALRC Board would apparently have us do – is no answer at all.
- *Delta did a great job of fixing our cost problems in bankruptcy.* And so did Northwest. Together we have the lowest cost per available seat mile of any of the network carriers. For the DALRC Board to imply that we didn't do our job in bankruptcy is ridiculous. Fuel costs have doubled in the year since we exited bankruptcy. That's what has changed the game.
- *Delta continues to invest substantially in our retirees.* Over the next five years, we will spend an estimated \$1 billion in cash on benefits for retirees and survivors when you include pension contributions, healthcare, survivor benefits and life insurance. This amount is about 20% less than it would have been without the changes we made to retiree benefits during bankruptcy. Those sacrifices contributed much needed savings to Delta's restructuring plan and they are very much appreciated, but for the DALRC Board to say that Delta "no longer focuses...on protecting the interests of retirees" is just plain wrong.

- *The combined company's exposure to unfunded pension liability will be no greater on a relative basis than it is as two stand-alone businesses.* The combined company will have about \$5.3 billion in total unfunded pension liability – not \$7.5 billion as the DALRC Board states. What the DALRC Board fails to say is that the combined company will also have roughly \$35 billion in annual revenue and substantially greater cash flow. Harping on the total amount of unfunded liability out of context simply creates unwarranted fear. Remember, both companies, working with both groups of employees and retirees, were able get funding relief from the Pension Protection Act that make these obligations affordable.
- *Unions are not a "cure all" for retiree benefits.* Despite the DALRC Board's rhetoric about how union represented retirees fare better than Delta's, this claim is unfounded. Certainly, the changes that Delta made to retiree benefits in bankruptcy hit retired pilots at least as hard if not harder than non-pilots. Heavily unionized USAir and United terminated their pensions and reduced or eliminated their healthcare benefits as well. Of course one can find elements of our health plan, for example, that may provide less than another carriers does for its retirees. But then again no other carrier provides monthly survivor income benefits like we do. When looked at as a total package, our retiree benefits are competitive in our industry.

We are very disappointed that the DALRC Board appears intent on spending that organization's resources to try to derail this merger. I intend to deliver this message personally in our meeting this week. We continue to have a very positive relationship with many of our retirees both directly and through other organizations of Delta retirees and we will focus our efforts on communicating with you directly and through those groups. Thank you for your past contributions in building this great company. We will continue to carry on the proud Delta tradition for many years to come.



Ed Bastian