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COMPANY OVERVIEW

Delta Air Lines, Inc. (Delta or “the company”) provides scheduled air transportation for passengers and cargo throughout the US and around the world. The company is headquartered in Atlanta, Georgia and employed 77,755 people as on December 31, 2013.

The company recorded revenues of $37,773 million during the financial year ended December 2013 (FY2013), an increase of 3% over FY2012. The operating profit of the company was $3,400 million in FY2013, an increase of 56.3% over FY2012. Its net profit was $10,540 million in FY2013, compared to the net profit of $1,009 million in FY2012.

KEY FACTS

| Head Office | Delta Air Lines, Inc.  
1030 Delta Boulevard  
Atlanta  
Georgia 30354 1989  
USA |
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<tbody>
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<td>Phone</td>
<td>1 404 715 2600</td>
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<td>Fax</td>
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<tr>
<td>Web Address</td>
<td><a href="http://www.delta.com">http://www.delta.com</a></td>
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<td>Revenue / turnover (USD Mn)</td>
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<td>Financial Year End</td>
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<td>Employees</td>
<td>77,755</td>
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<td>New York Ticker</td>
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Delta provides scheduled air transportation for passengers and cargo throughout the US and around the world. The company has a strong market position and wide global presence, which helps to expand its service offerings in new markets and enhance its market share. However, intense competition may pressurize the operating margins of Delta.

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**Strengths**

Strong market position and wide global presence enhances the market share.

Delta has a strong market position in the airline industry worldwide. It is one of the largest and admired airlines in the world. For instance, in February 2014, the company was named in the top 50 of FORTUNE magazine’s 2014 World's Most Admired Companies list. Similarly, in January 2014, the company was named the 2014 Airline of the Year by Air Transport World magazine, the first time for a US carrier in a decade. Further in February 2013, the company was recognized as the “Best Airline to North America” on the Premio Destaque Companhia de Viagem, delivered by Grupo Companhia de Viagem, responsible for travel magazine and television show Companhia de Viagem.

Moreover the company has a diversified geographical presence. For instance, as of February 2014, the company and the Delta Connection carriers offer transportation service to 322 destinations in approximately 59 countries in six continents. Delta offers customers more than 15,000 daily flights.
(including its worldwide alliance partners), with hubs in Amsterdam, Atlanta, Cincinnati, Detroit, Memphis, Minneapolis-St. Paul, New York-LaGuardia, New York-JFK, Paris-Charles de Gaulle, Salt Lake City and Tokyo-Narita. It also participates in the industry's leading trans-Atlantic joint venture with Air France-KLM and Alitalia. Its route network also include a transatlantic joint venture with Virgin Atlantic; alliances with other foreign airlines, including Aeromexico and GOL; a domestic marketing alliance with Alaska Airlines, which supplements its west coast service; and agreements with multiple domestic regional carriers, which operate as Delta Connection.

Therefore, a strong market position and wide global presence helps Delta expand its service offerings in new markets and enhance its market share.

Alliances to improve access to international markets enhances competitive advantage

Delta has bilateral and multilateral marketing alliances with foreign airlines to improve its access to international markets. These arrangements include reciprocal codesharing and frequent flyer program participation, airport lounge access arrangements, joint sales and marketing coordination, co-location of airport facilities and other commercial cooperation arrangements. The company’s international codesharing agreements enable it to market and sell seats to an expanded number of international destinations. Under international codesharing arrangements, Delta and a foreign carrier each can publish their respective airline designator codes on a single flight operation. This allows the company and the foreign carrier to offer joint service with one aircraft, rather than operating separate services with two aircraft. These alliances also present opportunities in other areas, such as airport ground handling arrangements and aircraft maintenance insourcing.

Delta has international codeshare arrangements with Aeromexico, Air Europa, Air France, Alitalia, Aeroflot, China Airlines, China Eastern, China Southern, CSA Czech Airlines, KLM Royal Dutch Airlines, Korean Air, Olympic Air, VRG Linhas Aereas (operating as GOL), Vietnam Airlines, Virgin Australia and WestJet (and some affiliated carriers operating in conjunction with some of these airlines). In addition to its marketing alliance agreements with individual foreign airlines, Delta is a member of the SkyTeam global airline alliance, which includes members like Aeroflot, Aerolineas Argentinas, Aeromexico, Air Europa, Air France, Alitalia, China Airlines, China Eastern, China Southern, CSA Czech Airlines, Kenya Airways, KLM, Korean Air, Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines, Garuda Indonesia and Xiamen Airlines.

Moreover, the company also has a joint venture agreement with Air France and KLM, to share decision making, revenues and costs on transatlantic routes. Hence, such alliances enable Delta to offer increased flight frequencies and better customer service, which helps to enhance its competitive advantage.

Consistent top-line growth enables to seek more growth avenues in future

Despite economic slowdown, the company has recorded strong financial performance in recent years. The company's revenue increased at a compounded annual growth rate (CAGR) of 8% for the last five years from 2009 to 2013. The revenue increased from $28,063 million in FY2009 to $37,773 million in FY2013. Delta witnessed an increase of 3% in its FY2013 revenues over FY2012.
The increase in revenues was due to strong performance of the company's businesses, fare increases, higher revenue under corporate travel contracts and improvements in its products and services. Hence, a consistent top line growth indicates the strong operational performance of Delta. In addition, it provides financial stability to the company, which could then be leveraged to seek more growth avenues in the future.

Weaknesses

Legal issues and proceedings would impact the cost structure

The company is involved in various legal issues in the recent past which may impact its brand image in the market. For instance, in 2011, a putative class action was filed in the US District Court for the Northern District of Illinois seeking to represent all US passengers who were passengers on flights during February 2009 to the present, and who are allegedly entitled to compensation under EU Regulation 261 because their flight was cancelled or delayed by more than three hours. Plaintiffs allege that Delta has incorporated a duty to pay this compensation into its contract of carriage, and assert a claim for breach of contract as the basis for their cause of action. The complaint seeks recovery of the EU Regulation 261 compensation of €600 (approximately $835.4) for each US resident on a flight qualifying for such compensation. Delta disputes the allegations in the complaint, filed a motion to dismiss all claims, and intends to vigorously defend the matter. In October 2013, the District Court granted Delta’s motion to dismiss all claims with prejudice.

In addition, in 2009, a number of class action antitrust lawsuits were filed in the US District Courts for the Northern District of Georgia, the Middle District of Florida, and the District of Nevada, against Delta and AirTran Airways. The case alleged that Delta and AirTran were engaged in collusive behavior in violation of the Sherman Act. All of these cases were consolidated for pre-trial proceedings in the Northern District of Georgia by the Multi-District Litigation (MDL) Panel. Further in 2010, the plaintiffs in the MDL proceeding filed a consolidated amended class action complaint which substantially expanded the scope of the original complaint. In the consolidated amended complaint, plaintiffs added new allegations concerning alleged signaling by both Delta and AirTran. These allegations were based upon statements made to the investment community relating to industry capacity levels by both carriers during 2008-2009. Plaintiffs also added a new cause of action against Delta alleging attempted monopolization in violation of the Sherman Act. This motion remains pending.

Therefore, such legal issues negatively impact the brand image of the company and also levy a burden on its cost structure, which in turn can have a material adverse impact on its financial position, results of operations or cash flows.

Substantial indebtedness could impact the financial agreements

Delta has substantial indebtedness. A significant portion of the company’s assets are subject to lien. Delta has a total long-term debt of $9,396 million in FY2013. Total net interest expense on these
debts was $698 million in FY2013. This may limit the financial and operating activities of the company, adversely impacting its ability to obtain additional financing on acceptable terms for its future liquidity needs, make the company more vulnerable to economic downturns, limit its ability to withstand competitive pressures and its flexibility in responding to changing business and economic conditions.

Additionally, Delta’s credit facilities and indentures for secured notes have various financial and other covenants that require it to maintain, minimum fixed charge coverage ratios, minimum liquidity and/or minimum collateral coverage ratios. The value of the collateral that has been pledged in each facility may decline over time due to factors that are not under the Delta’s control, in which case it may not be able to maintain the collateral coverage ratio. If the company fails to comply with these covenants and is unable to obtain a waiver or amendment, an event of default would result. If an event of default, the lenders or the trustee could, among other things, declare outstanding amounts due and payable, and the company’s cash may become restricted and other financing agreements could get adversely impacted.

Opportunities

Growing global tourism industry could help to increase market position

The tourism industry in the world has witnessed a strong recovery since its downfall due to recession in 2008. The recovery is primarily boosted by improved economic conditions worldwide. According to the World Tourism Organization (UNWTO), international tourist arrivals grew by 5% in 2013 to a total 1,087 million, up from 1,035 million in 2012. In terms of regions, Central and Eastern Europe was the best performer with a 7% growth in arrivals.

Furthermore, UNWTO forecasts international tourism to continue growing in 2014. Arrivals are expected to increase by 4% to 4.5% globally. In terms of region, prospects for 2014 are stronger for Asia and the Pacific (+5% to +6%) and Africa (+4% to +6%), followed by Europe and the Americas (both +3% to +4%). In the Middle East (0% to +5%) prospects are positive yet volatile. With the anticipated growth, business and consumer confidence has picked up. This growth in world tourism industry will enhance airline business. Thus, a growing end market auger well for Delta as it is well positioned to capitalize on the growing global tourism industry.

Favorable outlook of global air freight market could help to grow sales and profit

The market for air freight is showing signs of recovery after being hit by the global financial crisis in 2008. The financial slump had a direct impact on people’s willingness to spend and hence on international trade growth, which grew at just 2% from 2008, with much of this coming from the emerging markets. The more mature markets, especially Europe, were the most negatively impacted by the sovereign debt issues and resulting austerity measures. This had very clearly affected air freight, as these are the markets with the large numbers of consumers of high value products, which tend to use air freight. Currently, the situation is improving in the air freight market mainly due to
growth in demand from emerging markets. For instance, currently 70% of the traffic is from, to, or between emerging countries; up from 64% 10 years ago.

Furthermore, the future is promising for this industry as industrial production is expected to nearly double over the next 20 years. According to Airbus’ Freight Global Market Forecast, annual freight traffic growth rate is expected to be 4.8% over the next 20 years; Asia Pacific (including India and China) are expected to reach 42% by FY2032; Europe/ Commonwealth of Independent States (CIS), and North America combined will be 45%. Thus, the favorable outlook for global air freight market could help Delta to grow its sales and profits.

Positive outlook of the global aircraft MRO business could provide increased business opportunities

The demand for aviation MRO market is expected to rise as most of the airlines are focusing to reduce costs and increase profits. MRO can help airlines to lower their cost bases by optimizing the MRO structure and maintenance schedules of the fleet. MRO-related software can provide considerable money savings to differently structured providers as the number of aircraft being used around the globe increases, the need for efficient MRO systems and cutting edge information technology is paramount. According to market experts, the global aviation MRO market is expected to reach $57.5 billion in 2014 and grow to $86.5 billion by 2024. MRO may normally account for up to 20% of an airline’s operating costs.

The company’s MRO operation known as Delta TechOps is one of the largest airline MRO’s in North America. In addition to providing maintenance and engineering support for the company’s fleet, Delta TechOps serves aviation and airline customers around the world. Thus, the rising global aviation MRO market could provide increased business opportunities to Delta.

Threats

Intense competition could impact the results of operations

The airline industry is highly competitive. Delta faces significant competition with respect to routes, services, products, fares and frequent flyer programs. The company’s domestic routes are subject to competition from both new and existing carriers, some of which have lower costs than Delta and provide service at low fares to destinations served by it. In particular, Delta faces significant competition at its hub airports in Atlanta, Cincinnati, Detroit, Memphis, Minneapolis-St. Paul, New York-JFK and Salt Lake City either directly at those airports or at the hubs of other airlines that are located in close proximity to the company’s hubs. In addition, Delta faces competition in smaller to medium-sized markets from regional jet operators. Low-cost carriers, including Southwest, AirTran and JetBlue, in the US have exerted significant competitive pressure on Delta.

Also, the company competes with foreign carriers, both on interior US routes and in international markets. International marketing alliances formed by domestic and foreign carriers, including the Star Alliance and the oneworld Alliance have significantly increased competition in international
markets. The adoption of liberalized Open Skies Aviation Agreements with an increasing number of countries around the world, particularly the Open Skies Treaty with the Member States of the European Union, Japan and the Gulf states, could significantly increase competition among carriers serving those markets. Through marketing and codesharing arrangements with US carriers, foreign carriers have obtained access to interior US passenger traffic. Similarly, US carriers have increased their ability to sell international transportation, such as transatlantic services to and beyond European cities, through alliances with international carriers.

Hence, the increased competition in these international markets, particularly due to consolidation in the airline industry, may have a material adverse impact on Delta’s results of operations, financial condition and liquidity.

Fluctuating fuel prices would impact the cost structure

The demand for petroleum and related products has historically been cyclical and sensitive to the availability and prices of oil and related feedstock. Historically, international prices of crude oil and refined products have fluctuated widely due to many factors that are beyond the control of companies like Delta. Fuel prices and availability are subject to wide price fluctuations based on geopolitical issues and supply and demand, which can neither be controlled nor accurately predicted. According to IATA (International Air Transport Association), in May 2014, average price of jet fuel increased by about 6.7% to $122.2 per barrel as compared to average fuel price in May 2013. Moreover, the average fuel price is expected to be around $123.3 per barrel in 2014 which is expected to impact the overall fuel bill of the airline industry by $6.3 billion.

In 2013, Delta’s average fuel price per gallon was $3, an 8% decrease from the company’s average fuel price in 2012. In 2012, the company’s average fuel price per gallon was $3.25, a 6% increase from the average fuel price in 2011. Fuel costs represented 33% of the company’s operating expense in 2013. Therefore, volatility in fuel costs may have a significant negative effect on Delta’s results of operations and financial condition. Hence, increase in global and regional oil prices and any inability to obtain jet fuel at competitive prices could adversely impact Delta’s results of operation and financial condition.

Extensive government regulation could impact the profitability

Airlines are subject to extensive regulatory and legal compliance requirements that result in significant expenditures. For instance, the Federal Aviation Authority (FAA) from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that necessitate significant costs. Delta expects to continue incurring expenses to comply with the FAA’s regulations. Other laws, regulations, taxes and airport rates and charges have also been imposed from time to time that significantly increase operating expenses or reduce revenues.

The airlines industry is also heavily taxed. The Aviation and Transportation Security Act mandates the federalization of certain airport security procedures and imposes security requirements on airports and airlines, most of which are funded by per ticket tax on passengers and a tax on airlines. The federal government has on several occasions proposed a significant increase in the per ticket tax,
which, if implemented, could negatively impact the company’s results of operations. Furthermore, proposals to address congestion issues at certain airports or in certain airspace, especially in the Northeast US, have included concepts such as “congestion-based” landing fees, “slot auctions” or other alternatives, which could impose a significant cost on the airlines operating in those airports or airspace.

Hence, complying with such regulation increases the operating costs of Delta which could have a significant impact on its profitability.