

Delta Finance 101



Value Drivers Unique to Delta

Jill Greer

Vice President - Investor Relations

Safe Harbor

Statements in this presentation that are not historical facts, including statements regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from the estimates, expectations, beliefs, intentions, projections and strategies reflected in or suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to, the effects of terrorist attacks or geopolitical conflict; the cost of aircraft fuel; the impact of fuel hedging activity including rebalancing our hedge portfolio, recording mark-to-market adjustments or posting collateral in connection with our fuel hedge contracts; the availability of aircraft fuel; the performance of our significant investments in airlines in other parts of the world; the possible effects of accidents involving our aircraft; the restrictions that financial covenants in our financing agreements could have on our financial and business operations; labor issues; interruptions or disruptions in service at one of our hub, gateway or key airports; breaches or security lapses in our information technology systems; disruptions in our information technology infrastructure; our dependence on technology in our operations; the effects of weather, natural disasters and seasonality on our business; the effects of an extended disruption in services provided by third party regional carriers; failure or inability of insurance to cover a significant liability at Monroe's Trainer refinery; the impact of environmental regulation on the Trainer refinery, including costs related to renewable fuel standard regulations; our ability to retain management and key employees; competitive conditions in the airline industry; the effects of extensive government regulation on our business; the sensitivity of the airline industry to prolonged periods of stagnant or weak economic conditions; uncertainty in economic conditions and regulatory environment in the United Kingdom related to the likely exit of the United Kingdom from the European Union; and the effects of the rapid spread of contagious illnesses.

Additional information concerning risks and uncertainties that could cause differences between actual results and forward-looking statements is contained in our Securities and Exchange Commission filings, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. Caution should be taken not to place undue reliance on our forward-looking statements, which represent our views only as of December 14, 2017, and which we have no current intention to update.

In this presentation, we will discuss certain non-GAAP financial measures. You can find the reconciliations of those measures to comparable GAAP measures on our website at delta.com

Value Drivers Unique to Delta

Key value drivers often present challenges when modeling Delta's financial performance

1 **Joint Ventures & Equity Investments**

- Core to Delta's International strategy

2 **Profit Sharing**

- Aligns employees' incentives with owners' interests

3 **Ancillary Businesses**

- Complementary businesses that benefit earnings and cash flows

4 **Tax Structure**

- Differences between cash and book tax rates

Joint Ventures & Equity Investments

International Joint Ventures and Equity Investments

Delta employs a unique strategy of joint ventures and equity investments

Joint Ventures

- Commercial arrangements based on contracts, not equity
- Allow close cooperation and provide more choice for customers
- Equal sharing of economic benefits drives customer-focused partner alignment

Equity Investments

- Reinforces commitment to relationship with board level participation
- In addition to joint venture contribution in operating results, Delta recognizes its portion of the benefit from partners' results in non-operating income



Approach Mimics the Benefits of Cross-Border Consolidation

Driving Value Through Joint Ventures and Equity Investments

Benefits from improved revenues, cost efficiencies, & recognizing partner earnings

Revenue for Delta-operated flights in JV flow through Passenger Revenue

JV profit sharing settlements in Other Revenue

Delta realizes cost efficiencies through scale & scope – expenses for Delta-operated JV flights flow through Operating Expense

49% of Net Income for Aeromexico and Virgin Atlantic flow through non-operating income

Delta 3Q17 Press Release

DELTA AIR LINES, INC.
Consolidated Statements of Operations
(Unaudited)

(in millions, except per share data)	Three Months Ended September 30, 2017	2016	$ Change	% Change
Operating Revenue:				
Passenger:				
Mainline	$ 7,924	$ 7,615	$ 309	4%
Regional carriers	1,475	1,456	19	1%
Total passenger revenue	9,399	9,071	328	4%
Cargo	187	167	20	12%
Other	1,474	1,245	229	18%
Total operating revenue	11,060	10,483	577	6%
Operating Expense:				
Salaries and related costs	2,715	2,463	252	10%
Aircraft fuel and related taxes	1,519	1,422	97	7%
Regional carriers expense				
Fuel	266	230	36	16%
Other	890	889	1	-%
Depreciation and amortization	574	474	100	21%
Contracted services	561	520	41	8%
Aircraft maintenance materials and outside repairs	503	462	41	9%
Passenger commissions and other selling expenses	482	466	16	3%
Landing fees and other rents	400	399	1	-%
Passenger service	315	264	51	19%
Profit sharing	314	326	(12)	(4)%
Aircraft rent	89	72	17	24%
Other	593	527	66	13%
Total operating expense	9,221	8,514	707	8%
Operating Income	1,839	1,969	(130)	(7)%
Non-Operating Expense:				
Interest expense, net	(100)	(95)	(5)	5%
Miscellaneous, net	66	26	40	NM
Total non-operating expense, net	(34)	(69)	35	(51)%
Income Before Income Taxes	1,805	1,900	(95)	(5)%
Income Tax Provision	(627)	(641)	14	(2)%
Net Income	$ 1,178	$ 1,259	$ (81)	(6)%
Basic Earnings Per Share	$ 1.64	$ 1.70		
Diluted Earnings Per Share	$ 1.64	$ 1.69		

How Joint Venture Settlements are Determined

Settlements balance split of profits above a baseline

- Baseline profitability was set for each carrier at the start of the joint venture contract
- Current year profits are measured against the established baseline and split proportionately
- Joint venture settlements are accrued quarterly as part of Other Revenue based on full year expected profitability

JV Settlement - Sample Calculation

	Delta	Partner	Total
Baseline (2017) Profit (A)	100	60	160
Total 2018 Profit (B)	250	220	470
Incremental Value (C = B-A)	150	160	310
50/50 Split of Value (D)	155	155	310
Settlement (E = D - C)	**5**	**(5)**	**0**

3Q17 Earnings Press Release:

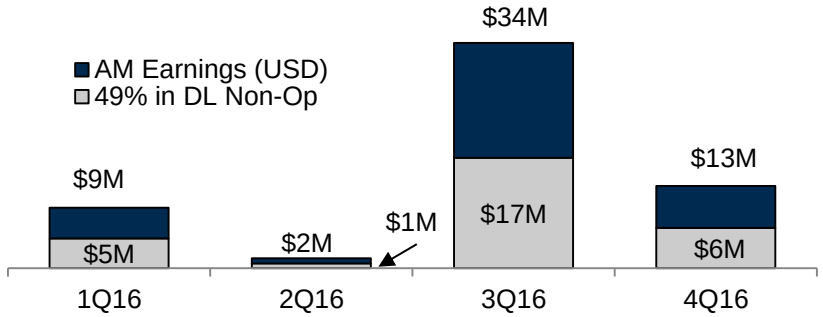
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Equity Method Used to Account for Ownership Stakes >20%

Delta currently owns 49% of Virgin Atlantic & Aeromexico

- Delta recognizes its 49% share of both Virgin Atlantic's and Aeromexico's results in non-operating income
- Fluctuations in their profitability driven by economic factors, seasonality and currency need to be considered when modeling Delta's non-operating expense
  - Virgin Atlantic and Aeromexico often earn the majority of their annual profits in the September quarter

Seasonality Example –
If Delta Owned 49% of Aeromexico in 2016



3Q17 Earnings Press Release:

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Accounting for Equity Stakes <20%

Beginning in 2018, GOL, Air France-KLM, and China Eastern stakes will be impacted by a new accounting standard

Current – Available for Sale

- Market value adjustments recognized in AOCI on Balance Sheet with no impact to Income Statement

Example - GOL Investment 3Q17 - Under Available for Sale	
Investment Value @ 6/30/2017 (A)	$75M
Investment Value @ 9/30/2017 (B)	$140M
9/30/2017 AOCI Balance Sheet Impact (B-A)	**$65M**
Earnings Impact	$0

2018 – Fair Value in Net Income

- Changes in the fair value of equity instruments held will be recognized in non-operating income
- Will drive increased volatility in the line item

Example - GOL Investment 3Q17 - Under Fair Value in Net Income	
Investment Value @ 6/30/2017 (A)	$75M
Investment Value @ 9/30/2017 (B)	$140M
3Q17 Non-Op Impact (B-A)	**$65M**
AOCI Impact	$0

3Q17 Earnings Press Release:

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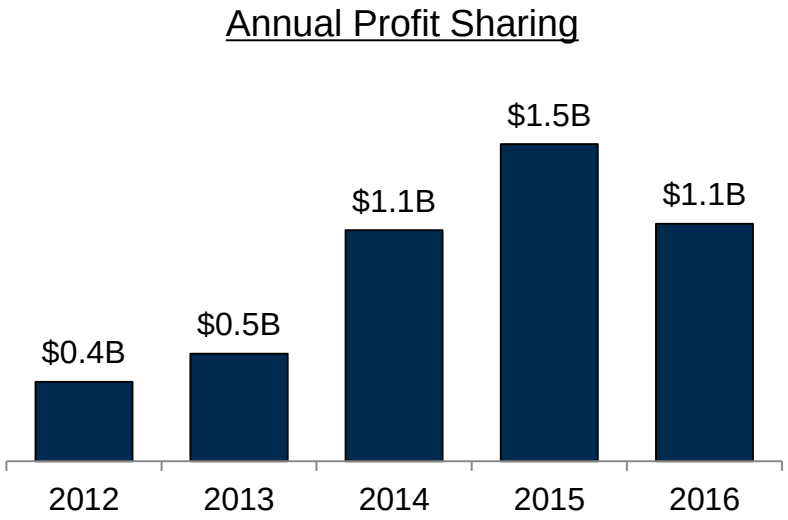
Delta's ownership stake in Air France-KLM will be recognized under the cost method in 4Q17 with no material impact to the financial statements

Profit Sharing

Profit Sharing Program

Profit Sharing is a unifying force for the Delta people and aligns the interests of employees, customers and owners

- Eligible profit sharing pool is Delta's pre-tax profits before profit sharing
  - Employees share 10% of first $2.5 billion of eligible profits and 20% above that amount
  - Delta also accrues for employer taxes and other benefits which adds 2-2.5% at 10% sharing level and 3-4% at 20% sharing level
- Delta accrues profit sharing monthly based on updated full year forecasts and recognizes changes to profit sharing amounts quarterly



Profit Sharing Calculation – 2015 Example

Delta's 2015 profit sharing plan was consistent with the current plan, providing a good example of how profit sharing expense will be calculated going forward

2015 Profit Sharing Calculation Example

($M)	**$5.9B Pre-Tax Income**					
Profit Sharing Calc						
Revenue	$40,704					
Expenses (Excludes Profit Sharing)	33,349					
Profit Sharing Eligible Profits	**7,355**					
	Profit Sharing Eligible Profits		**Accrual Rates with Benefits**		**Profit Sharing**	
Profit Sharing (up to $2.5B Threshold)	2,500	x	~12.5%	=	324	
Profit Sharing (over $2.5B Threshold)	4,855	x	~23.5%	=	1,166	
Profit Sharing Pool	**$7,355**				**$1,490**	

Blended Avg Profit Sharing Rate

1,490 / 7,355 = ~20%

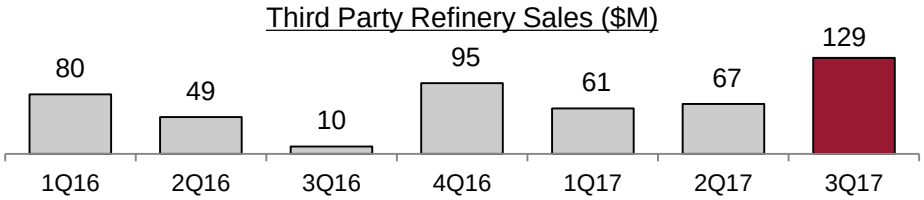
Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

Third Party Refinery Sales and Ancillary Businesses

Third Party Refinery Sales

Delta excludes third party refinery sales from TRASM and adjusted margins

- Delta has created a virtual “jet-only” refinery by exchanging most non-jet fuel products produced by its Monroe refinery for jet fuel with third parties
- Roughly $250-400 million per year in products are not exchanged and are sold to third parties
  - Margins earned on these sales are de minimis
  - Sales are recorded in Other Revenue
- Delta’s TRASM and adjusted margins exclude the impact of third party refinery sales from revenue as they are volatile, profit neutral, and are not indicative of trends in our airline business



Third Party Refinery Sales Disclosures

3Q17 10-Q Filing:

NOTE 9. SEGMENTS

(in millions)	Refinery	Intersegment Sales/Other
Three Months Ended September 30, 2017		
Operating revenue:	$ 1,357	
Sales to airline segment		$ (239) (1)
Exchanged products		(910) (2)
Sales of refined products		(79) (3)
Operating income	37	—

Third Party Refinery Sales: $129M

3Q17 Conference Call Non-GAAPs:

	Three Months Ended September 30, 2017
Operating margin	16.6 %
Adjusted for:	
MTM adjustments and settlements	(0.7)%
Refinery sales	0.2 %
Operating margin, adjusted	16.1 %

Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

The Impact of Delta's Ancillary Businesses

Ancillary businesses are complementary to the airline operation and are earnings and cash flow positive

- Delta's ancillary businesses include Maintenance Repair and Overhaul (MRO), Delta Global Services (DGS), Delta Vacations, and Delta Private Jets (DPJ)
- Ancillary businesses are complementary to the airline operation, but may have different seasonality and timing trends
- Delta excludes expenses related to its ancillary businesses from CASM-ex fuel as these costs are not directly impacted by capacity
  - Allows for a clean comparison of the cost performance of the airline operation

Delta's CASM-Ex Calculation	3Q17
($M)	
Adjusted Total Operating Expenses	9,295
Less: Aircraft Fuel	1,859
Less: Ancillary Business Expenses (Ex. Third Party Refinery)	258
Less: Refinery Third Party Expense	129
NF CASM Expense Base	7,049
Capacity - (ASMs)	70,167
NF CASM Including Profit Sharing	10.05¢

End Notes

3Q17 Earnings Press Release – End Notes;

(2) CASM - Ex, including profit sharing: In addition to fuel expense, Delta believes adjusting for certain other expenses is helpful to investors because other expenses are not related to the generation of a seat mile. These expenses include aircraft maintenance and staffing services Delta provides to third parties, Delta's vacation wholesale operations and refinery cost of sales to third parties. The amounts excluded were $387 million and $247 million for the September 2017 and September 2016 quarters, and $975 million and $845 million for the nine months ended September 30, 2017 and 2016, respectively. Management believes this methodology provides a more consistent and comparable reflection of Delta's airline operations.

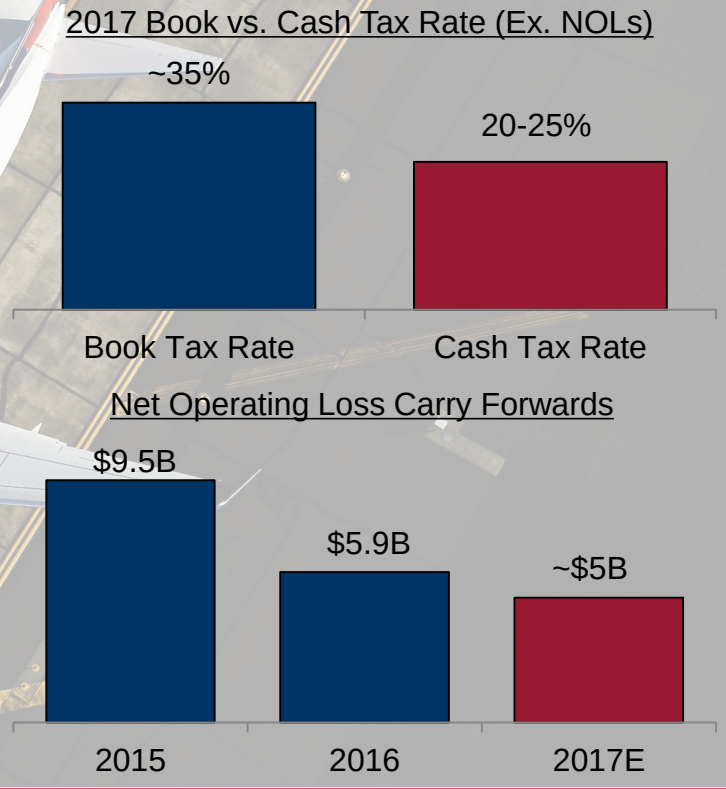
Note: Adjusted for special items; non-GAAP financial measures reconciled in Appendix

Tax Overview – Current Tax Law

Delta's Cash Taxes Are Below Book Expense

Delta's cash tax rate will be below its book rate for several years

- Delta's cash tax rate is significantly below its ~35% book tax rate due to:
  - Accelerated depreciation
  - Pension funding
  - Permanently reinvested foreign earnings
- Under current tax law, Delta does not expect to pay cash taxes until 2019
  - Cash tax rate is expected to remain roughly 10 points below the book tax rate driven by the factors listed above





Upcoming Accounting Standard Changes

Bryan Treadway

Senior Vice President – Finance & Controller

Upcoming Accounting Standard Changes

New accounting standards will change income statement geography

1 Revenue Recognition

- Revenue reclassification improves comparability of reporting across the industry

2 Pension Costs

- Benefits from Delta's recent pension funding will be seen in pre-tax margin

3 Financial Instruments

- Contribution from partner investments will be evident in Delta's P&L, but may drive some volatility in non-operating expense

4 Lease Obligations

- No earnings impact expected when off-balance sheet leasing moves on-balance sheet in 2019

Revenue Recognition – P&L Impact Immaterial

Drives increase in frequent flyer liability on balance sheet, with P&L impact primarily to geography

- Effective January 1, 2018 – Delta will provide a recast of the prior two years, including estimated 2017 impacts shown below

Income Statement

- Reclassification of ~$2 billion of other revenue to passenger revenue including baggage fees, administrative and other fees, and portion of loyalty revenues
- Shift to equivalent-ticket value (ETV) method will result in an estimated ~$100 million non-cash reduction to net income recast for 2017
- No material impact to year-over-year PRASM/TRASM growth

Balance Sheet

- Higher deferral rate used for outstanding mileage credits under equivalent-ticket value (ETV) method will increase the frequent flyer liability by ~$2 billion

Pension and Other Post-Employment Costs – Change in P&L Geography

Future pension funding benefits will fall below-the-line

Old Standard

- Net benefit or cost for pension and related plans is reported within operating expense
- Delta will report under current standard in 2017

New Standard

- Service costs reported in salaries and related costs (~$110M in 2017E vs. $90M in 2016)
- Other components will be reported in non-operating expense, and have been declining with 2017E expense ~$50M vs. $325M in 2016 and $465M in 2012
- Effective January 2018, Delta will recast previous two years

Impact

- Geography change within P&L with no impact on pre-tax income
- Pension funding benefit realized in non-operating expense and pre-tax margins

Financial Instruments – Ownership Stakes Visible in P&L

Likely to result in incremental volatility in non-operating income

Old Standard

- Market value adjustments for investments accounted for as available-for-sale currently recognized in equity

New Standard

- Market value adjustments recognized in non-operating income
- Unrealized gain/loss in equity at end of 2017 reclassified to retained earnings
- Effective January 2018 – applied on a go forward basis

Impact

- Impacts ~50% of $2 billion equity portfolio – stakes in GOL, Air France-KLM, China Eastern
- Likely to result in incremental volatility in non-operating income

Leases – Balance Sheet Impact, but Likely P&L Neutral

Delta continues to evaluate the impact to the Balance Sheet

Old Standard

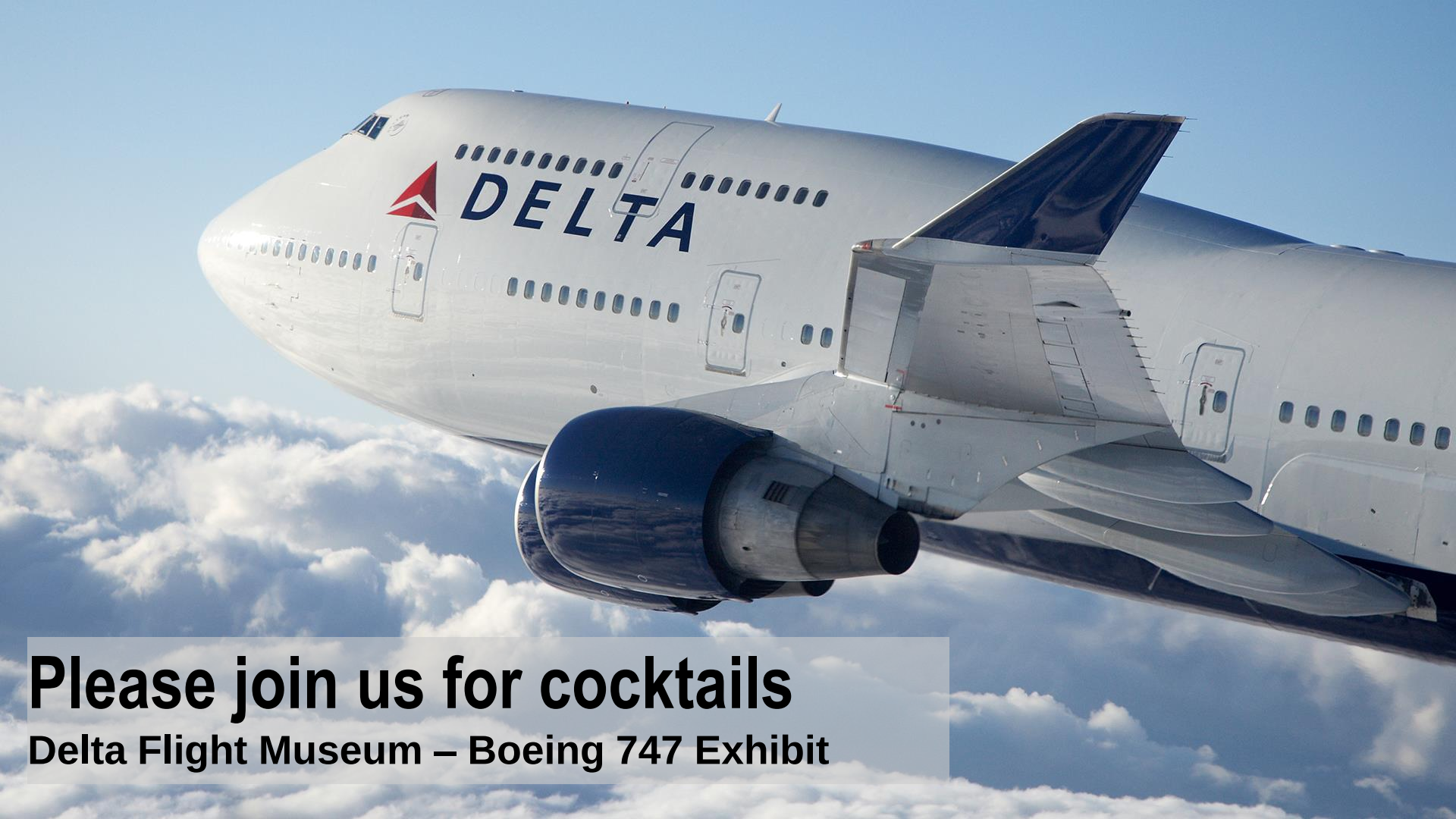
- Generally allowed off-balance sheet treatment as a future commitment, this included primarily airport and aircraft leases

New Standard

- Requires leases to be recorded on the balance sheet if certain criteria are met
- Effective January 2019

Impact

- Delta has commenced the process of adopting the new lease standard, and is currently evaluating its leases to determine future treatment and impacts
- While there will be a gross up of the balance sheet to recognize certain of these leases, we are not expecting any impacts to pre-tax earnings



Please join us for cocktails

Delta Flight Museum – Boeing 747 Exhibit

Non-GAAP Reconciliations

Non-GAAP Financial Measures

Delta sometimes uses information ("non-GAAP financial measures") that is derived from the Consolidated Financial Statements, but that is not presented in accordance with accounting principles generally accepted in the U.S. (“GAAP”). Under the U.S. Securities and Exchange Commission rules, non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for or superior to GAAP results. The tables below show reconciliations of non-GAAP financial measures used in this presentation to the most directly comparable GAAP financial measures.

Forward Looking Projections. Delta is unable to reconcile certain forward-looking projections to GAAP as the nature or amount of special items cannot be estimated at this time.

Pre-Tax Income, adjusted for special items

We adjust for the following items to determine pre-tax income, adjusted for special items, for the reasons described below:

MTM adjustments and settlements. MTM adjustments are defined as fair value changes recorded in periods other than the settlement period. Such fair value changes are not necessarily indicative of the actual settlement value of the underlying hedge in the contract settlement period. Settlements represent cash received or paid on hedge contracts settled during the period. These items adjust fuel expense to show the economic impact of hedging, including cash received or paid on hedge contracts during the period. Adjusting for these items allows investors to understand and analyze our core financial performance in the periods shown.

Restructuring and other. Because of the variability in restructuring and other, the adjustment for this item is helpful to investors to analyze the company's recurring core performance in the period shown.

Virgin Atlantic MTM adjustments. We record our proportionate share of earnings from our equity investment in Virgin Atlantic in non-operating expense. We adjust for Virgin Atlantic's MTM adjustments to allow investors to understand and analyze the company's core financial performance in the period shown.

(in millions)		Year Ended December 31, 2015
GAAP	$	7,157
Adjusted for:		
MTM adjustments and settlements		(1,301)
Restructuring and other		35
Virgin Atlantic MTM adjustments		(26)
Total adjustments		(1,292)
Non-GAAP	$	5,865

Total Expense, adjusted

We adjust total expense for MTM adjustments and settlements, restructuring and other and Virgin Atlantic MTM adjustments for the same reasons as described above under the heading Pre-Tax Income, adjusted.

(in millions)	Year Ended December 31, 2015
Operating expense	$ 32,902
Non-operating expense	645
Total expense for Profit Sharing	$ 33,547
Adjusted for:	
Profit sharing	(1,490)
MTM adjustments and settlements	1,301
Restructuring and other	(35)
Virgin Atlantic MTM adjustments	26
Total expense for Profit Sharing, adjusted	$ 33,349

Operating Expense, adjusted

We adjust operating expense for MTM adjustments and settlements for the same reasons as described above under the heading Pre-Tax Income, adjusted.

(in millions)	Three Months Ended September 30, 2017
Operating expense	$ 9,221
Adjusted for:	
MTM adjustments and settlements	74
Operating expense, adjusted	$ 9,295

Fuel expense, adjusted

The table below shows the components of fuel expense, including the impact of the refinery segment and airline segment hedging on fuel expense. We then adjust for MTM adjustments and settlements for the same reasons as described above under the heading Pre-Tax Income, adjusted.

(in millions)	Three Months Ended September 30, 2017
Fuel purchase cost	$ 1,822
Refinery segment impact	(37)
Total fuel expense	$ 1,785
MTM adjustments and settlements	74
Total fuel expense, adjusted	$ 1,859

Non-Fuel Unit Cost or Cost per Available Seat Mile, Including Profit Sharing ("CASM-Ex")

We adjust CASM for the following items to determine CASM-Ex, including profit sharing for the reasons described below:

Aircraft fuel and related taxes. The volatility in fuel prices impacts the comparability of year-over-year financial performance. The adjustment for aircraft fuel and related taxes (including our regional carriers) allows investors to understand and analyze our non-fuel costs and year-over-year financial performance.

Other expenses. Other expenses include aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, and refinery cost of sales to third parties. Because these businesses are not related to the generation of a seat mile, we adjust for the costs related to these sales to provide a more meaningful comparison of the costs of our airline operations to the rest of the airline industry.

	Three Months Ended September 30, 2017
CASM (cents)	13.14
Adjusted for:	
Aircraft fuel and related taxes	(2.54)
Other expenses	(0.55)
CASM-Ex	10.05