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 call script to the most directly comparable GAAP financial measures.

Forward Looking Projections. Delta does not reconcile forward looking non-GAAP financial measures because MTM adjustments and settlements will not be known until the end of the period and could be significant.

Pre-Tax Income and Net Income, adjusted and Pre-Tax Income and Net Income, adjusted, Including Pilot Contract Impact, Normalized. We adjust for the following items to determine pre-tax income and net income, adjusted, and pre-tax income and net income, adjusted, including pilot contract impact, normalized for the reasons described below:

Mark-to-Market ("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 better understand and analyze our core operational performance in the periods 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 better understand and analyze the company's core financial performance in the periods shown.

Income tax. We included the income tax effect of adjustments when presenting net income, adjusted. We believe that presenting the income tax effect of adjustments allows investors to better understand and analyze the company's core financial performance in the period shown.

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, and the contract is retroactive to January 1, 2016. As a result, Delta recognized $475 million in wages and other benefits in the December 2016 quarter. We have excluded the retroactive portion of the contract expense that was not related to the December quarter to allow investors to better understand and analyze the company's core operational performance in the period shown.

	Three Months Ended December 31, 2016			Three Months Ended December 31, 2016
(in millions, except per share data)	Pre-Tax Income	Income Tax	Net Income	Net Income Per Diluted Share
GAAP	$ 952	$ (330)	$ 622	$ 0.84
Adjusted for:				
MTM adjustments and settlements	(11)	4	(7)	
Virgin Atlantic MTM adjustments	(18)	7	(11)	
Total adjustments	(29)	11	(18)	(0.02)
Non-GAAP	$ 923	$ (319)	$ 604	$ 0.82
Pilot contract impact, normalized	380	(131)	249	0.34
Pre-tax income, adjusted, including pilot contract impact, normalized	$ 1,303	$ (450)	$ 853	$ 1.16

	Year Ended December 31, 2016
(in millions)	Pre-Tax Income
GAAP	$ 6,636
Adjusted for:	
MTM adjustments and settlements	(450)
Virgin Atlantic MTM adjustments	(115)
Total adjustments	(565)
Non-GAAP	$ 6,071

Pre-Tax Margin, adjusted, and Pre-Tax Margin, adjusted, Including Pilot Contract, Normalized. We adjust for the following items to determine pre-tax margin, adjusted, and pre-tax margin, adjusted, including pilot contract impact, normalized, 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 better understand and analyze our core operational performance in the period shown.

Refinery sales. Delta's refinery segment provides jet fuel to the airline segment from its own production and from jet fuel obtained through agreements with third parties. Activities of the refinery segment are primarily for the benefit of the airline. However, from time to time, the refinery sells fuel by-products to third parties. These sales are recorded gross within other revenue and other operating expense. We believe adjusting for refinery sales allows investors to better understand and analyze the impact of fuel cost on our results 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 better understand and analyze the company's core financial performance in the period shown.

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, and the contract is retroactive to January 1, 2016. As a result, Delta recognized $475 million in wages and other benefits in the December 2016 quarter. We have excluded the retroactive portion of the contract expense that was not related to the December quarter to allow investors to better understand and analyze the company's core operational performance in the period shown.

	Three Months Ended December 31, 2016
Pre-tax margin	10.1 %
Adjusted for:	
MTM adjustments and settlements	(0.1)%
Refinery sales	0.1 %
Virgin Atlantic MTM adjustments	(0.2)%
Pre-tax margin, adjusted	9.9 %
Pilot contract impact, normalized	4.0 %
Pre-tax margin, adjusted, including pilot contract impact, normalized	13.9 %

Operating Margin, adjusted, and Operating Margin, adjusted, Including Pilot Contract Normalized. We adjust for the following items to determine operating margin, adjusted and operating margin, adjusted including pilot contract impact, normalized, 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 better understand and analyze our core operational performance in the periods shown.

Refinery sales. Delta's refinery segment provides jet fuel to the airline segment from its own production and from jet fuel obtained through agreements with third parties. Activities of the refinery segment are primarily for the benefit of the airline. However, from time to time, the refinery sells fuel by-products to third parties. These sales are recorded gross within other revenue and other operating expense. We believe adjusting for refinery sales allows investors to better understand and analyze the impact of fuel cost on our results in the periods shown.

Pilot contract impact, normalized. Delta’s new pilot contract was ratified on December 1, and the contract is retroactive to January 1, 2016. As a result, Delta recognized $475 million in wages and other benefits in the December 2016 quarter. We have excluded the retroactive portion of the contract expense that was not related to the December quarter to allow investors to better understand and analyze the company's core operational performance in the period shown.

	Three Months Ended December 31, 2016
Operating margin	10.8 %
Adjusted for:	
MTM adjustments and settlements	(0.1)%
Refinery sales	0.1 %
Operating margin, adjusted	10.8 %
Pilot contract impact, normalized	4.0 %
Operating margin, adjusted, including pilot contract impact, normalized	14.8 %

	Year Ended December 31, 2016
Operating margin	17.5 %
Adjusted for:	
MTM adjustments and settlements	(1.1)%
Refinery sales	0.1 %
Operating margin, adjusted	16.5 %

Return on Invested Capital. Delta presents return on invested capital as management believes this metric is helpful to investors in assessing the company's ability to generate returns using its invested capital and as a measure against the industry. Return on invested capital is adjusted total operating income divided by average invested capital.

(in millions, except % of return)		Year Ended December 31, 2016
Adjusted book value of equity	$	19,954
Average adjusted net debt		6,601
Average invested capital	$	26,555
Adjusted total operating income	$	6,921
Return on invested capital		26 %

Operating Cash Flow, adjusted. We adjusted operating cash flow because management believes this metric is helpful to investors to evaluate the company's ability to generate cash that is available for use for capital expenditures, debt service or general corporate initiatives. Adjustments include:

Hedge deferrals. During the March 2015 quarter, we effectively deferred settlement of a portion of our fuel hedge portfolio by entering into transactions that, excluding market movements from the date of inception, would provide approximately $300 million in cash receipts during the second half of 2015 and require approximately $300 million in cash payments in 2016. During the March 2016 quarter, we further deferred settlement of a portion of our hedge portfolio until 2017 by entering into transactions that, excluding market movements from the date of inception, would provide approximately $300 million in cash receipts during the second half of 2016 and require approximately $300 million in cash payments in 2017. Operating cash flow is adjusted to include the impact of these deferral transactions in order to allow investors to better understand the net impact of hedging activities in the periods shown.

Hedge margin and other. Operating cash flow is adjusted for hedge margin as we believe this adjustment removes the impact of current market volatility on our unsettled hedges and allows investors to better understand and analyze the company's core operational performance in the periods shown.

(in millions)		Three Months Ended December 31, 2016
Net cash provided by operating activities (GAAP)	$	1,125
Adjustments:		
Hedge deferrals		75
Hedge margin and other		17
Net cash provided by operating activities, adjusted	$	1,217

(in millions)		Year Ended December 31, 2016
Net cash provided by operating activities (GAAP)	$	7,205
Adjustments:		
Hedge deferrals		(159)
Hedge margin and other		(92)
Net cash provided by operating activities, adjusted	$	6,954

Free Cash Flow. We present free cash flow because management believes this metric is helpful to investors to evaluate the company's ability to generate cash that is available for use for debt service or general corporate initiatives. Adjustments include:

Hedge deferrals. During the March 2016 quarter, we entered into transactions to defer settlement of a portion of our hedge portfolio until 2017. These deferral transactions, excluding market movements from the date of inception, would provide approximately $300 million in cash receipts during the second half of 2016 and require approximately $300 million in cash payments in 2017. Free cash flow is adjusted to include these deferral transactions in order to allow investors to better understand the net impact of hedging activities in the periods shown.

Hedge margin and other. Free cash flow is adjusted for hedge margin as we believe this adjustment removes the impact of current market volatility on our unsettled hedges and allows investors to better understand and analyze the company’s core operational performance in the periods shown.

Net purchases of short-term investments and other investing. Net purchases of short term investments represent the net purchase and sale activity of investments and marketable securities in the period, including gains and losses. We adjust free cash flow for this activity, net, to provide investors a better understanding of the company's free cash flow position core to operations.

(in millions)		**Three Months Ended December 31, 2016**
Net cash provided by operating activities	$	1,125
Net cash provided by investing activities		445
Adjustments:		
Hedge deferrals		75
Hedge margin and other		17
Net purchases of short-term investments and other investing		(1,022)
Total free cash flow	$	640

(in millions)		**Year Ended December 31, 2016**
Net cash provided by operating activities	$	7,205
Net cash used in investing activities		(2,155)
Adjustments:		
Hedge deferrals		(159)
Hedge margin and other		(92)
Net purchases of short-term investments and other investing		(967)
Total free cash flow	$	3,832

Adjusted Net Debt. Delta uses adjusted total debt, including aircraft rent, in addition to long-term adjusted debt and capital leases, to present estimated financial obligations. Delta reduces adjusted debt by cash, cash equivalents and short-term investments, and hedge margin receivable, resulting in adjusted net debt, to present the amount of assets needed to satisfy the debt. Management believes this metric is helpful to investors in assessing the company's overall debt profile. Management has reduced adjusted debt by the amount of hedge margin receivable, which reflects cash posted to counterparties, as we believe this removes the impact of current market volatility on our unsettled hedges and is a better representation of the continued progress we have made on our debt initiatives.

(in millions)	December 31, 2016		December 31, 2015	
Debt and capital lease obligations	$ 7,332		$ 8,329	
Plus: unamortized discount, net and debt issuance costs	104		152	
Adjusted debt and capital lease obligations		7,436		8,481
Plus: 7x last twelve months' aircraft rent		1,995		1,750
Adjusted total debt		9,431		10,231
Less: cash, cash equivalents and short-term investments		(3,249)		(3,437)
Less: hedge margin receivable		(38)		(119)
Adjusted net debt		$ 6,144		$ 6,675

Operating Expense, adjusted. We adjust for MTM adjustments and settlements from operating expense for the same reasons as described above under the heading Pre-tax Income and Net Income, adjusted.

	Three Months Ended December 31,	
(in millions)	2016	2015
Operating expense	$ 8,438	$ 7,785
Adjusted for:		
MTM adjustments and settlements	11	91
Operating expense, adjusted	$ 8,449	$ 7,876
Year-over-year change	$ 573	

Non-Fuel Unit Cost or Cost per Available Seat Mile, Including Profit Sharing ("CASM-Ex") and CASM-Ex, adjusted, Including Pilot Contract Impact, Normalized. We adjust CASM for the following items to determine CASM-Ex, including profit sharing, and CASM-Ex, adjusted, including pilot contract impact normalized, 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 better 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.

Pilot contract impact. Delta's new pilot contract was ratified on December 1, and the contract is retroactive to January 1, 2016. As a result, Delta recognized $475 million in wages and other benefits in the December 2016 quarter. We believe this adjustment allows investors to better understand and analyze the company's core operational performance on a year-over-year basis.

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, 2016, and the contract is retroactive to January 1, 2016. As a result, Delta recognized $475 million in wages and other benefits in the December 2016 quarter. If the contract had been in place on January 1, the impact in the fourth quarter (excluding the retroactive portion of the contract) would have been as shown below. We believe that adjusting in this way allows investors to better understand and analyze the company's core operational performance as if the agreement was ratified on January 1.

	Three Months Ended			
	December 31, 2016	December 31, 2015		
CASM (cents)	14.37	13.38		
Adjusted for:				
Aircraft fuel and related taxes	(2.54)	(2.84)		
Other expenses	(0.58)	(0.37)		
CASM-Ex	11.25	10.17	10.6%	
Adjusted for:				
Pilot contract impact	(0.81)	-		
CASM-Ex, adjusted for pilot contract impact	10.44	10.17	2.7%	~ 8 pts.
Pilot contract impact, normalized	0.16	-		
CASM-Ex, adjusted, including pilot contract impact, normalized	10.60	10.17	4.2%	

Fuel Expense, adjusted. The tables below show the components of fuel expense, including the impact of the refinery segment and hedging on fuel expense. We then adjust for MTM adjustments and settlements for the reason 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 better understand and analyze our core operational performance in the periods shown.

	Three Months Ended December 31,	
(in millions)	**2016**	**2015**
Fuel purchase cost	$ 1,461	$ 1,415
Airline segment fuel hedge gains	(11)	245
Refinery segment impact	42	(8)
Total fuel expense	$ 1,492	$ 1,652
MTM adjustments and settlements	11	91
Total fuel expense, adjusted	$ 1,503	$ 1,743
Change year-over-year	$ (240)	
Percentage change year-over-year	~ 15%	

Capital Expenditures, net. Capital expenditures, net is adjusted for proceeds for sales of E190 aircraft because management believes investors should be informed that these proceeds effectively offset the cash paid for these aircraft earlier in the year. This provides a more meaningful measure of cash outflows for capital expenditures.

(in millions)		**Three Months Ended December 31, 2016**
Property and equipment additions	$	794
Proceeds for sales of E190 aircraft		(185)
Capital expenditures, net	$	609