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## PARTICIPANTS

### Corporate Participants

**Jill Sullivan Greer** – Managing Director-Investor Relations, Delta Air Lines, Inc.
**Richard H. Anderson** – Chief Executive Officer & Director, Delta Air Lines, Inc.
**Edward H. Bastian** – President & Director, Delta Air Lines, Inc.
**Paul A. Jacobson** – Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
**Glen W. Hauenstein** – Executive Vice President and Chief Revenue Officer, Delta Air Lines, Inc.
**Gary L. Chase** – Senior Vice President – Financial Planning and Analysis, Investor Relations and Corporate Planning, Delta Air Lines, Inc.
**Kevin Shinkle** – Senior Vice President and Chief Communications Officer, Delta Air Lines, Inc.

### Other Participants

**Jamie N. Baker** – Analyst, JPMorgan Securities LLC
**Mike J. Linenberg** – Analyst, Deutsche Bank Securities, Inc.
**Duane Pfennigwerth** – Analyst, Evercore ISI
**Julie A. Yates-Stewart** – Analyst, Credit Suisse Securities (USA) LLC (Broker)
**David Fintzen** – Analyst, Barclays Capital, Inc.
**Darryl Genovesi** – Analyst, UBS Securities LLC
**Andrew G. Didora** – Analyst, Bank of America Merrill Lynch
**Helane R. Becker** – Analyst, Cowen & Co. LLC
**Tom Kim** – Analyst, Goldman Sachs & Co.
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**Joe W. DeNardi** – Analyst, Stifel, Nicolaus & Co., Inc.
**Susan Carey** – Editor, The Wall Street Journal
**Dominic Gates** – Reporter, The Seattle Times Co.
**Jeffrey Dastin** – U.S. Airlines Correspondent, Thomson Reuters

## MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Delta Air Lines June Quarter Financial Results Conference Call. My name is Lauren and I will be your coordinator. At this time, all participants are in a listen-only mode until we conduct a question-and-answer session following the presentation. As a reminder, today's call is being recorded.

I would now like to turn the call over to Ms. Jill Sullivan Greer, Managing Director of Investor Relations.

### Jill Sullivan Greer, Managing Director-Investor Relations

Thanks, Lauren. Good morning, everyone, and thanks for joining us. Our CEO, Richard Anderson, is joining us remotely today. And Ed Bastian, our President; Paul Jacobson, our CFO, and the remainder of the leadership team is here in Atlanta today. Richard will open the call, Ed will then address our financial and revenue performance, and Paul will conclude with a review of our cost performance and cash flow. To get in as many questions as possible during the Q&A, please limit yourself to one question and a brief follow-up.

Today's discussion does contain forward-looking statements that represent our beliefs or expectations about future events. All forward-looking statements involve risks and uncertainties that could cause the actual results to differ materially from the forward-looking statements. Some of the factors that may cause such differences are described in Delta's SEC filings. We'll also discuss non-GAAP financial measures. All results exclude special items unless otherwise noted and you can find the reconciliation of our non-GAAP measures on the Investor Relations page at ir.delta.com.

And with that, I'll turn the call over to Richard.

**Richard H. Anderson, Chief Executive Officer & Director**

Thank you, Jill. This morning, we reported another record quarterly result. We maintained our revenue base despite an 18% decline in fuel prices, which allowed us to expand our pre-tax margin by 200 basis points, improving earnings per share by 22% year-on-year, and generated free cash flow of $1.6 billion in the quarter. We also delivered a return on invested capital of 23.5% for the last 12 months. We benefited from lower fuel expense in the quarter despite a $600 million hedge loss.

Excluding the impact of hedges, our operating margin would have expanded nearly 700 basis points to more than 21%. As of July 1, the fuel hedge headwind we have faced over the last six months is behind us and we expect the fuel price we will pay in the second half to be in line with the industry. Our strong cash generation continued with $2.5 billion of operating cash flow and $1.6 billion of free cash flow for the quarter. This allowed us to accelerate returns to our owners with $1 billion in dividends and share buybacks while also reducing our adjusted net debt by another $250 million to $7.1 billion.

We continue to run the industry's best operation by far. In the June quarter, we delivered 99.8% completion factor including 43 days with zero mainline cancellations. Our mainline on-time rate improved two points to 85.3%. None of our global or national competitors are even close to this level of performance. These outstanding results were made possible by the dedication of our employees, who work extremely hard every day to provide an industry-leading customer experience and outstanding returns to our owners.

Regarding the current environment, business conditions generally remain favorable. Currency volatility continues to impact our international business while domestic yields have been under pretty significant pressure.

Despite these headwinds, the result we reported this morning marks the best June quarter in our history. We still have great momentum in the business and we expect to report record earnings again in the third quarter. Specifically, we are forecasting EPS growth in 3Q of well over 30%, operating margins of 19% to 21%, and $1.9 billion of operating cash flow in the September quarter. We will use that cash flow to reinvest in the business, reduce our debt, return cash to our owners, all of which will be consistent with the capital deployment plan we provided to the marketplace last May.

Last week, we announced a strategic investment in GOL that will play a key role in helping us achieve our long-term goals. Ed will provide specifics, but I'd highlight that building out our Latin network is a major initiative for Delta. Our stake in GOL will further this effort as the largest domestic carrier in Brazil, and it will provide significant long-term upside in the region for Delta, particularly as we move toward open skies with Brazil.

When we couple our investment in GOL with the significant investment we have in Aeromexico, we have the foundation for the strongest network in Latin America. We have a long and successful history with our partner, Air France-KLM, that has allowed us to build a very profitable trans-Atlantic business. That, coupled with our Virgin Atlantic investment, will allow us to continue to leverage that kind of model with new partners in other markets in regions of the world.

I also want to comment on our fourth quarter capacity outlook. Margin expansion is a key component of the long-term plan at Delta, and adjusting Delta's supply to meet market-based demand is necessary to drive margin growth and to hit our long-term financial targets. We are currently benefiting from lower fuel prices. We do not believe margin expansion, driven largely by declining fuel prices, is sustainable over the long term, and our plan assumes rising fuel prices over time. Because of this, RASM growth is a necessary component of our business strategy over time, and we will unilaterally determine Delta's capacity at levels consistent with achieving our long-term goals. Much like consumer retail, our store sales must be positive year-over-year over the long term.

For the fourth quarter, our domestic growth will be 2%. As we announced last April, international capacity will be down 3.5% in 4Q. This is slightly a larger change than we announced last April. This reduction in international capacity is driven by currencies and economic weaknesses in certain countries around the world. These actions will result in system capacity being consistent with last year's levels and in line with current demand expectations, which we expect will get to unit revenue to be roughly flat by year-end.

Lastly, regarding the recent pilot vote, we were disappointed our pilots turned down an agreement that would have improved upon their already industry-leading contract; however, this outcome doesn't mark any change to the strong working relationship we have with our pilots, who are leaders in our operation and key stakeholders in the enterprise. We will continue to work together with them to find common solutions. We've been doing this quite well for the last decade, and I have confidence that we'll continue to do so in the future.

Operating our business with a long-term perspective has proven very beneficial for Delta's customers, employees and shareowners. We have been able to invest in our employees through wage increases, healthy profit sharing and job growth. For our customers, we run absolutely the best operation in the world. We've improved our products, technologies, operations and service with nearly $10 billion in capital investment in the last five years.

And for our owners, we've returned over $3 billion in the last two years while improving the strength of our balance sheet with over $10 billion of debt reduction and we've increased our market capitalization to over $30 billion. We have a lot of upside in the business. We can do more in the future as we continue to execute on our plan the way we have consistently executed over the last decade.

With that, I'll turn the call over to Ed and Paul to go through the details of the quarter. Thank you.

**Edward H. Bastian, President & Director**

Thanks, Richard. Good morning, everyone. Thanks for joining us today. We delivered a record June quarter, with pre-tax income increasing 14% to $1.64 billion. Our net income was slightly north of $1 billion or $1.27 per share, $0.06 higher than consensus. We expanded our operating margin 1.7 points to 16.8%, which is in line with our initial guidance range for the quarter of 16% to 18%.

I would like to thank Delta employees for their contributions to another record result, which we are pleased to recognize with an additional $411 million contribution to next year's profit-sharing payout. We're able to grow our top line slightly as a number of our revenue initiatives and non-passenger revenue sources helped offset a $160 million foreign exchange headwind. Corporate demand remains solid with volume growth of 3% in the quarter, while that was largely offset by fare pressure. We continue to see good performance with our Branded Fares initiative.

 

Total merchandising revenues and fees grew by 11%, led by incremental First Class revenue growth of 17% and Comfort+ growth of nearly 30%. We increased our paid First Class load factor to 57%, up 8 points year-over-year on a base of 7% more First Class seats. Our enhanced agreement with American Express produced an incremental $60 million in revenue this quarter. Our partnership with AmEx remains strong.

Despite these improvements, the strong dollar and lower fuel surcharges remain headwinds for our international business while softer yields in certain domestic markets resulted in revenues that fell short of our initial expectations. For the June quarter, passenger unit revenues declined 4.6% with 2.5 points attributable to currency and lower surcharges, and the remainder attributable to lower domestic yields. This yield weakness domestically was limited to a small group of markets. In fact, three markets accounted for 50% of the overall domestic yield weakness.

Despite these pressures, we were able to expand our domestic revenue premium to the industry, which now stands at 115% year-to-date. Margins did expand across all our domestic hubs in the quarter and excluding the effect of our fuel hedge losses, achieved a 23% domestic margin, up 800 basis points relative to last year.

Relative to some of our growth initiatives, Seattle performed well, absorbing 35% higher capacity while maintaining RASM levels. We were also pleased with the performance of our JFK long-haul markets, especially the LAX and San Francisco transcons, and we announced late last month that we'll be adding additional and upgraded service as United exits JFK.

In the trans-Atlantic, unit revenues declined 11.5% with over six points of impact from currency and fuel surcharges. We faced a tough comp in the region this quarter, as trans-Atlantic unit revenue improved by more than seven points last year. In core European markets, we saw improved U.S. point-of-sale demand, but this was more than offset by a reduced point-of-sale demand in Europe and the effect of the weaker euro.

While we continue to face headwinds in Africa, the Middle East and Russia, we are seeing some positive signs in places like Johannesburg. We continue to make capacity adjustments in these challenging markets including the suspension of service to Moscow for the upcoming winter season.

We were pleased with the performance of our two trans-Atlantic joint ventures this quarter, as these relationships with Air France-KLM and Virgin Atlantic saw margins expand once again despite continued currency pressure. We are using the success of these joint ventures as the model, as we deepen our partnerships with carriers in other parts of the world.

In Latin America, unit revenues were down eight points on 8% higher capacity. The decline was driven by currency and pressure from last year's Venezuelan capacity reductions. This quarter marks the last of our high-single-digit growth in Latin America, as we've largely finished building out that portion of our network. Going forward, our capacity growth in the region will return to levels more consistent with the system average. Our partners, GOL and Aeromexico, contributed $25 million in incremental revenue this quarter, and we are taking advantage of the opportunity to expand upon these relationships.

As Richard highlighted, we'll be increasing our equity investment in GOL by up to $56 million as part of a larger rights offering, which will result in Delta potentially increasing our position up to 9%. At the same time, we'll be guaranteeing $300 million of unsecured debt to be entered into by GOL. That guarantee will be secured by GOL's interest in SMILES, the company's publicly-traded loyalty program. This will raise GOL's cash position to a level that ensures the carrier will have ample liquidity in a difficult economic environment in Brazil.

Adjusted for these initiatives, GOL would have ended its second quarter with $1.1 billion in liquidity, 35% of their annual revenues. We feel great about our long-term prospects with GOL and are pleased to stand behind the company and the work Kakinoff and his team are doing to address these challenges.

As part of the transaction, we'll extend our exclusive commercial partnership with a target of getting to a joint venture with GOL as open skies with Brazil becomes effective later this year. When combined with the joint venture that we have planned with Aeromexico, we will have immunized the alliances in the two largest aviation markets in Latin America.

In the Pacific, the revenue environment remains challenging with unit revenues down 8.5% on 4% lower capacity and roughly 12 points of impact from FX and fuel surcharges. Specifically, the yen revenue headwind in the quarter was $27 million net of hedges. As we've laid out previously, restructuring our Pacific network is one of our biggest opportunities for margin improvement going forward, and the early results of these efforts are positive. As part of these efforts, we'll be reducing our winter capacity in the Pacific by 6% to 8% including retiring six of the 747s and canceling the loss-making Seattle-Haneda service.

Now looking forward to the September quarter guidance, we expect the revenue environment across the system to remain under pressure, and we're forecasting total revenue to decline slightly from prior-year levels with RASM down 4.5% to 6.5% on three points of higher capacity. The quarter will be a bit choppy with July and September months posting better results than August. However, we are expecting fuel expense to be $1 billion lower year-over-year, which will more than offset this revenue weakness to result in another record profit with an operating margin of 19% to 21%, up more than 400 points year on year.

As Richard mentioned, the right balance of supply and demand in the business is key to achieving positive unit revenues over the long term. This is a fundamental component of our plan and the financial targets we outlined at our capital meeting in May. Based on the current environment, we believe that our previously-announced capacity plans are still the appropriate levels for this winter. As such, we're planning for 2% growth domestically and a 3.5% reduction internationally, which is a 50 basis point further reduction from what we previously announced, which will result in overall system capacity being flat year-over-year in the fourth quarter. We believe this plan is in line with current demand in GDP forecast, and it will allow us to get our unit revenue back on the right trajectory with our goal to be flat by the end of the year.

Now I'll turn the call over to Paul to go through the details on cost and cash flows.

**Paul A. Jacobson, Chief Financial Officer & Executive Vice President**

Thanks, Ed, and good morning, everyone. Consistent cost execution continued again this quarter and was a key contributor to the 160 basis points of operating margin expansion relative to last year. Total operating expenses were $85 million lower, as the decline in fuel costs offset the investments we're making in our product as well as $71 million in higher profit-sharing expense. Non-fuel CASM declined just under a point on a 3.4% capacity increase. This performance was slightly better than guidance as a result of some favorability and one-time benefits that occurred during the close process. This marks the eighth consecutive quarter of non-fuel CASM growth below 2% and the sixth consecutive below 1%. As is evident in this result, the entire Delta organization is highly focused on controlling costs.

Our up-gauging progress, maintenance initiatives and other productivity improvement efforts were the key drivers of this strong cost performance. As an example, since 2010 in the domestic entity, we have increased capacity approximately 1.2% per year, but that's been on 13% total fewer departures and 9% total fewer aircraft over that time. FX also benefited non-fuel CASM by about a point. We expect non-fuel CASM to be flat in the September quarter, as our cost reduction initiatives continue to keep our performance below our 2% growth target.

Moving on to fuel, our total fuel expense declined 16%, as lower market fuel prices more than offset higher consumption in our hedge losses. Our all-in fuel price was $2.40 per gallon, down from $2.93 in the same period last year. Hedge losses were a $0.58 per gallon headwind in the quarter. The refinery made a $90 million profit this quarter versus a $13 million profit the same period last year, driven by lower crude costs and improved mix of North American supply. A continued favorable crack spread environment and increased throughput also contributed to the refinery's profit.

Over the last four quarters, the refinery has produced a cumulative profit of $300 million. We expect that trend to continue to build in 3Q with a projected profit of approximately $60 million. With the recent sharp drop in fuel prices, we currently expect our September quarter fuel expense will be $1 billion lower year-over-year, net of roughly $200 million of hedge losses. At $1.90 to $1.95 per gallon, our second half fuel price will be 28% lower than what we paid in the first half of 2015 according to the current curve. We expect this price will be in line with the industry average for the balance of the year.

For the remainder of the year, we are approximately 15% hedged against an increase in prices with approximately 85% downside participation to Brent prices of $40 per barrel. Overall, we continue to expect fuel costs to be an enormous tailwind and provide a net benefit of more than $2 billion for Delta this year. We are also well positioned to benefit if fuel remains at these levels through 2016.

Our already strong cash flow will continue to benefit from these lower fuel prices, which will allow us to return cash to our owners while also further strengthening the balance sheet by paying down debt and funding our pension plans. For the June quarter, we generated $2.5 billion of operating cash flow, net of $300 million in pension contributions.

At this point, we've made all of our planned 2015 contributions for a total of $1.2 billion. We also reinvested $900 million back into the business, primarily related to 737-900 and A330 deliveries, as we continue our long-term focus. For the September quarter, we are projecting roughly $800 million in capital expenditures.

With the $1.6 billion of free cash flow we generated during the June quarter, we continued our path that we set out in May of increasing shareholder returns with $72 million of dividends and $925 million of share repurchases during the quarter.

We completed all that remained under our $2 billion authorization from 2014 as we had planned. We also opportunistically repurchased an additional $200 million under our new $5 billion authorization, as we took advantage of share price weakness during the quarter. In addition, we've repurchased another $50 million in just the first two weeks of July. We expect to return nearly $2.5 billion to shareholders this year consistent with our goal of returning at least 50% of free cash flow through dividends and buybacks.

Adjusted net debt at the end of the quarter was $7.1 billion and our debt reduction lowered interest expense by nearly $50 million for the quarter relative to last year. Our goal was to achieve and maintain $4 billion in adjusted net debt levels by 2017, and we are on track to do so. The improvements in our balance sheet were recently recognized with a credit upgrade from Moody's, which now has Delta two notches away from investment grade alongside the other agencies.

In closing, I'd like to thank the entire Delta team for another record-breaking quarter, in fact our ninth consecutive. We have the best employees in the industry and our performance is driven by your contributions. Thank you.

Jill?

**Jill Sullivan Greer, Managing Director-Investor Relations**

Lauren, we're now ready for questions from the analysts, if you could give everybody instructions on how to get in the queue.

## QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Jamie Baker with JPMorgan.

**<Q – Jamie Baker – JPMorgan Securities LLC>:** Hey, good morning, team. First question for Richard. I wouldn't expect you to comment on the legal merits of the DoJ's recent inquiry, but I am curious in your mind, in a worst-case scenario, if you can envision an outcome that would impair your current level of transparency?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** I don't really think I want to comment on any of that, Jamie.

**<Q – Jamie Baker – JPMorgan Securities LLC>:** Okay. All right.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** But I think that we're going to always be transparent with our investors. I don't think that there's any legal prohibition on being transparent unilaterally, that is, with our investors. And if you think about the data that's available on airlines, our schedules are public. They're filed in OAG and ATPCO. And under DoT regulations, we're required to file huge amounts of data with the government in addition to all the public data that's made available through the GDS systems. So bottom line is we're going to continue to comply with the law, act unilaterally, and do our best to give our investors visibility into our business.

**<Q – Jamie Baker – JPMorgan Securities LLC>:** Excellent. I appreciate it. And a follow-up since you brought up the topic, Richard, of the pilots. Rather than just rely on my contacts or trolling the message boards, what are the three or four biggest reasons in your mind that the TA was rejected by a fairly wide margin? Was it noise around the sick leave issue, changes around JV flying and how Virgin got treated? I'm just trying to get a sense for what portions of the drawing board you might need to return to as opposed to just pay rates or something like that?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** I think it's premature to do that. The Delta Master Executive Council is going to be meeting in a couple of weeks and we really need to hear back from them. I think the overarching story is that we have an incredible track record with them, and if you think about it, we're still five months ahead of the amendable day. So bottom line is the relationship is still strong. It's intact. We have a decade history of being able to work well together, and we're still operating on both sides in that same spirit.

**<Q – Jamie Baker – JPMorgan Securities LLC>:** Got it. I appreciate the answers, Richard. Take care. Safe travels.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Thank you.

Operator: Our next question comes from Michael Linenberg with Deutsche Bank.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Yeah, hey. Two questions here. Ed, I want to go back to trans-Atlantic. I think you talked about fuel surcharges and currency weakness accounting for, like, six points of the 11.5% decline and then I know you also had a difficult comp. What sort of component as it relates to connecting flows and how that number builds up, what are you seeing on just your connecting traffic to your partners, as we see a lot of capacity getting added into the marketplace? Is that also driving that number down or putting pressure on the trans-Atlantic PRASM?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** Mike, it's Glen.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Hi, Glen.

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** One of the things that our great relationship with Air France-KLM and now Virgin allows us to do is to contract during periods of lower economic growth and route that traffic over the European hubs in Amsterdam, de Gaulle and in London. So what you see, for example, is as we reduce our capacity into Russia because of the weakness in the demand to Russia, we expect to generate a significant – or retain a significant amount of that over those hubs. And so as we work our way through the situation with the lower euro and the lower European demand, we actually would increase – we would expect to increase our connecting traffic over our European hubs.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Yeah, but I'm wondering, Glen, are you seeing some displacement of that traffic to competitors such as Emirates or Etihad or Qatar, as they continue to add more and more seats into the marketplace? I'm looking more like U.S. into India, Middle East, Africa, because there is a decent amount of flow traffic between you and your partners?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** Correct. As we've stated in the past, we are not and we have not been the largest player in the U.S. to India or the Indian subcontinent. But it is a significant long-term threat to us. It's as much a missed opportunity. We believe that under the right and fair circumstances, that we should be able to fly nonstop from the U.S. into India.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Okay. Great. And then just a quick one. Monthly PRASM, was June the last month or are you going to continue to provide that?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** We're going to continue to provide it for the time being.

**<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>:** Great. Thanks, Ed.

Operator: Our next question comes from Duane Pfennigwerth with Evercore ISI.

**<Q – Duane Pfennigwerth – Evercore ISI>:** Thanks. Good morning. Appreciate your commentary on the small number of markets that drove yield weakness in the U.S. I wonder, one, did you comment on what you think domestic unit revenue will be in that third quarter guidance? And then with respect to those weaker markets, are you detecting any firming or how is your maybe forecasting approach changed with respect to those smaller but weaker markets?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Duane, we did not disclose our domestic unit revenue expectations for the third quarter, but what I can tell you is that we have embedded within our third quarter overall unit revenue guide the expectation that through the summer that domestic weakness is going to remain.

**<Q – Duane Pfennigwerth – Evercore ISI>:** Okay. Thanks. And then just on the Branded Fares, can you expand a little bit about what's driving that $56 million and how you define whether or not that that's incremental?

**<A – Glen Hauenstein – Delta Air Lines, Inc.** Well, there are three really Branded Fares that we're talking about today. One is Basic Economy which is our Spirit match fare, if you will, or our ultra-low cost carrier match, which is a decontented product. We have Comfort+, which we re-launched in the quarter with a few additional amenities and we saw a huge uptick. Now, we believe this is all incremental because the transaction is actually a post-purchase transaction. So you have to go in and buy the additional service upgrade after you purchased your ticket. And so we view that as fully incremental.

And then First Class upsell is really the amount of incremental seats that we've sold net of the cost of the – or the displacement of the coach fares that were upgraded from. So achieving a 57%

payload factor in First Class is another steppingstone along our path. I believe when we started, we told our investors that we thought this was a several billion dollar opportunity in total with all four of these classes intact or three of the classes intact in the main cabin. And so 70% is our long-term goal. We're at 57% today. And we started at 13%, so we've made quite a bit of progress in the last several years on that front and we're very pleased with the results in all of our product lines.

**<Q – Duane Pfennigwerth – Evercore ISI>:** Okay. Thanks very much.

Operator: Our next question comes from Julie Yates with Credit Suisse.

**<Q – Julie Yates-Stewart – Credit Suisse Securities (USA) LLC (Broker)>:** Good morning. Thanks for taking my question. First, just a clarification on commentary. It sounds like you're now saying the goal is to achieve flat unit revenues by the end of the year, and I believe at the risk of getting too granular, I hear that at a conference in June, you cited that the company would be on a path to get to positive unit revenue by the end of the year. So am I reading too much into that or is there a slight shift here?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** There is no shift in that, Julie. Our goal is to get there by the end of the year. We'd like to get to positive but we've got to get to flat before we get to positive, right?

**<Q – Julie Yates-Stewart – Credit Suisse Securities (USA) LLC (Broker)>:** Makes sense, okay. And then just a quick one on buybacks. So clearly the market is not ascribing the same value to fuel-driven earnings versus PRASM-driven earnings, so on the scenario where jet fuel stays below $2 and the market continues to undervalue your stock with a P/E multiple sub-10 times, how do we think about the sustainability of the nearly $1 billion buyback we saw in the second quarter?

**<A – Paul Jacobson – Delta Air Lines, Inc.>:** Julie, good morning. This is Paul. Clearly as we articulated back in June, we have taken the opportunity given these low prices to accelerate the buyback a little bit. Part of our long-term goals, is what we talk about, is returning at least 50% of cash to shareholders in a balanced fashion. So we don't have any comment on what our pace is going to be in the second half of the year, but we need to continue to make progress against all of our goals that we outlined in May.

**<Q – Julie Yates-Stewart – Credit Suisse Securities (USA) LLC (Broker)>:** Understood. Thank you, Paul.

Operator: Our next question comes from David Fintzen with Barclays.

**<Q – David Fintzen – Barclays Capital, Inc.>:** Hey, good morning, everyone. Just I'm sort of setting the supply and the demand and getting that right into year-end. Can you just talk a little bit about what's embedded in kind of your domestic demand assumption? Is it that some of that weakness we've seen lately sort of stabilizes, improves? Just kind of how are you at least starting to think about the end of the year?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** Hi, this is Glen again. So I think as you look at where the weakness is, it is not in corporate demand. It is in the yield that we're obtaining from corporate demand. And so as we continue to move forward, we don't talk about future pricing initiatives. We never have. And so what I would say is I think the corporate demand remains very, very strong, and very, very strong even out of these cities that have had this yield impact and how the industry reacts will determine how those three cities do.

**<Q – David Fintzen – Barclays Capital, Inc.>:** Okay. Okay. Appreciate that. And then just slightly bigger picture, if we're getting the kind of record earnings on lower fuel, lower RASM, does that start to change some of the sort of return on investment on some of the density adds or the up-gauging? Does that kind of mitigate some of the speed of sort of up-gauging regionals, et cetera, or is that still sort of ahead in sort of incremental opportunities?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Let me take this. The up-gauging strategy is a continuing important part of our fleet strategy because no matter what, operating the fleet more efficiently makes good sense from a margin standpoint. And so when we up-gauge a 50-seater to a 76-seater or a 76-seater to a 100-seater and all the way up the line, we're still going to be able to operate a larger number of ASMs with a fewer number of shells, and that kind of efficiency if you just think about it from a factory standpoint, we're running our factories much more efficiently and you will always invest in efficiency in an industrial business.

**<Q – David Fintzen – Barclays Capital, Inc.>:** Okay. Appreciate that. Thank you.

Operator: Our next question comes from Darryl Genovesi with UBS.

**<Q – Darryl Genovesi – UBS Securities LLC>:** Hi. Good morning, guys. Paul, does the CASM ex-fuel guidance for the third quarter contemplate any deal with the pilots happens that actually impacts the third quarter?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Darryl, this is Ed. We never project future labor deals in our cost guidance.

**<Q – Darryl Genovesi – UBS Securities LLC>:** Okay. And then I guess on pension, discount rates seemed to be up about 50 basis points year-to-date. Could you guys just give us an update on where the pension expense and the deficit is projected at this point?

**<A – Paul Jacobson – Delta Air Lines, Inc.>:** Sure, Darryl. It's Paul. The sensitivity on the underfunded pension plan is about $1.5 billion for every 50 basis points, so we would expect to see obviously some goodness on the liability, but the rate isn't as sensitive on expense, but as we continue to fund above-the-minimum contributions, we should see some expense go into next year as well.

**<Q – Darryl Genovesi – UBS Securities LLC>:** Thanks. And then if I could just squeeze one last one in. On the American Express deal, you laid out at the Investor Day a plan to essentially double that revenue stream over the next four years or five years. Can you give us a sense of how much of that incremental revenue should drop through to earnings?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** I would anticipate and – we haven't publicly disclosed what the deal or the margin performance in that is, but there's a high contribution margin associated with the improved AmEx economics.

**<Q – Darryl Genovesi – UBS Securities LLC>:** Okay. Great. Thanks very much, guys.

Operator: Our next question comes from Andrew Didora with Bank of America.

**<Q – Andrew Didora – Bank of America Merrill Lynch>:** Hi. Good morning, everyone. Thanks for taking my questions. I guess, Ed, a housekeeping question. Are you able to disclose kind of the cadence of domestic PRASM over the course of 2Q by month?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Domestic RASM by month? I don't have that in front of me, but we've disclosed that already.

**<Q – Andrew Didora – Bank of America Merrill Lynch>:** Okay. I just didn't know what it was for June.

**<A – Ed Bastian – Delta Air Lines, Inc.>:** I'm sorry, we did overall, not domestic. We'll need to get back to you. We don't have that in front of us.

**<Q – Andrew Didora – Bank of America Merrill Lynch>:** Okay. And then, Paul, in your prepared remarks, at 15% hedge for the rest of the year obviously remains lower than where you have been in the past. How are you thinking about hedging now that oil has stayed in this kind of $60-ish per barrel range now for a good part of the year? Are you content remaining to float at these levels? Are you interested in layering on some more hedges as we go throughout the course of 2015?

**<A – Paul Jacobson – Delta Air Lines, Inc.>:** Good morning, Andrew. We haven't actually materially changed our hedge profile really since February. We've been kind of sitting back watching the market. There isn't really any urgency here. We're not really changing a course of action and we're content with where the book sits right now.

**<Q – Andrew Didora – Bank of America Merrill Lynch>:** Got it. Thank you.

Operator: Our next question comes from Helane Becker with Cowen & Company.

**<Q – Helane Becker – Cowen & Co. LLC>:** Thanks very much, operator. Hi, guys. Thanks for the time. Did you say, and I missed, the three cities that you were seeing weakness in in the domestic market and can you say if you didn't?

**<A –Glen Hauenstein – Delta Air Lines, Inc.>** We did not say, but they are Chicago, Dallas and Orlando.

**<Q – Helane Becker – Cowen & Co. LLC>:** Great. Okay. Thank you. And then my other question is you guys do deliver a pretty amazing product to your customers out of some pretty tough markets in which to operate like the Northeast where you get a lot of thunderstorms and a lot of air traffic control issues and so on. So two questions, or an A and a B. One, as you get bigger especially in New York, how do you ensure that you continue to deliver that great operational performance? And then, B is, do your code share and JV partners deliver the same product? And how do you ensure that your customers get the same product across all Delta-coded flights? Thanks.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Let me try to answer those. As to the second point, without going into the specifics because they're proprietary to Delta, we have very good programs to be certain that our products are consistent across our code share partners both domestically and internationally. And we have a pretty significant focus on that and some firm specific proprietary strategies and processes that actually have our connection carriers running better on a reliability basis than some of our mainline competitors.

And I think in New York and in Minneapolis and Detroit where you have really cold weather all the time and Atlanta, we have just made a lot of investments and I think have the leading operations management team in the world for an airline. And if you look at the performance of our operation, there is no airline even close to our size that performs at the kinds of levels. I think Ed had described it well at an analyst conference a while back last year, and we're going to beat the record this year, but last year we had in the domestic system I think 195 days where we didn't cancel a domestic flight. I think American, United, and Southwest together had 12 domestic flight cancellations. And that same operating know-how and capability, which is driving huge share and revenue shifts to Delta, can continue to improve and will continue to improve because we're just about at scale in both JFK and LaGuardia.

**<Q – Helane Becker – Cowen & Co. LLC>:** Okay. So as we think about that, it's really that you're making investments on the technology side or on, I guess, the air side technology-wise in an effort to really drive this improved performance, because you're also doing it with fewer air traffic controllers and a pretty big decline in the ATC system as well.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** We are, but we also have employees that are all incredibly committed to making the airline run. And in the end, there's no substitute for the power and the know-how of the employees. But I would say it's a myriad of investments. It's better planning tools, it's a lot of technology investment, it's core reliability investments, it's process investment and how we build our schedules. I mean it's a very long list of actions that we've taken over time and investments that we've taken over time.

**<Q – Helane Becker – Cowen & Co. LLC>:** Great. Thank you so much for the time. I really appreciate it, Richard.

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Helane, if I can jump in, I just want to clarify one thing. Andrew from Merrill Lynch asked earlier about our domestic unit revenues by month. Domestic unit revenue in April was flat. Domestic unit revenue in May was down 3%. And in June, it was also down 3%. So I just wanted to give that additional data.

Operator: Our next question comes from Tom Kim with Goldman Sachs.

**<Q – Tom Kim – Goldman Sachs & Co.>:** Good morning. Thanks for your time. Glen, I just wanted to press a little bit on your comment on corporate demand. How do I sort of reconcile some of the industry commentary about weakness in close-in bookings with your comment that corporate demand remains really strong?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** I don't know where that weakness in close-in bookings came into play, and I apologize for not knowing when that comment was made, but it really has not been a weakness in close-in bookings, it's been a weakness in close-in yield. And there's a big difference in that. If corporate was not traveling, that would be one where there was a demand weakness in terms of total load factor that would lead you to one conclusion, if there was a weakness in yield because of a change in pricing, that would lead you to a different conclusion. So I did want to clarify that because I have read it in several reports where people were talking about close-in demand deterioration which is not what Delta has experienced, but we have experienced close-in yield deterioration in several key business markets.

**<Q – Tom Kim – Goldman Sachs & Co.>:** Okay. Thanks for clarifying that. And then I just wanted to also ask you maybe a little bit of a longer term question in nature with regard to ancillaries and the other revenue category. This year looks like it's going to be a flat, if not a down, year for passenger revenue, but clearly you're seeing really good growth in contribution from other revenues. And I'm just wondering, we've had really two strong good years of growth. Can you give us a sense of what 2016 growth rate should look like as we start to try to model something around something that's arguably a little bit more defensible or a little bit more resilient where we can sort of hang our hat on with a little bit more certainty?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** I think we'll save that for our Investor Day later in the year. But what is safe to say is some of the products that are very, very popular with our customers are still very difficult to purchase from us. And so 2016 is about our ability to bring those to market in a much more user-friendly environment and continue to expand out the products and services we have. So we see a lot of continued upside through 2016, and I think we'll save the punch line for our next Investor Day.

**<Q – Tom Kim – Goldman Sachs & Co.>:** Okay. Fair enough. Thanks a lot.

Operator: Our next question comes from Savi Syth with Raymond James.

**<Q – Savi Syth – Raymond James & Associates, Inc.>:** Hey. Good morning. Two questions. The first is on the third quarter unit revenue guide, I was just wondering if you could provide a little bit more color on what you're expecting from an FX and fuel surcharge drag? And then generally if there's any expectation of trend change within the regions?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** We're pulling out a little bit of that. Gary, do you have that? Why don't you ahead?

**<A – Gary Chase – Delta Air Lines, Inc.>:** FX is three points and the surcharges are about a half a point.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Okay.

**<A –Ed Bastian – Delta Air Lines, Inc.>: :** Gary, why don't you reiterate that?

**<A – Gary Chase – Delta Air Lines, Inc.>:** Yeah, sorry. Savi, you asked for the FX impact and the impact of surcharges. The FX is about three points and the surcharge is about a half a point for the third quarter.

**<Q – Savi Syth – Raymond James & Associates, Inc.>:** Okay. And then generally the trends, especially in national regions, you're expecting a continuation of what you're seeing in the second quarter?

**<A Ed Bastian – Delta Air Lines, Inc.>:** Yes, we are.

**<Q – Savi Syth – Raymond James & Associates, Inc.>:** Okay. And then just a second question, in Brazil and Mexico with open skies likely coming out here and the potential to do a antitrust immunized JV with your partners, just wondering, one, is there sufficient slots in this market to take advantage of an open sky situation? And then also what a kind of ATI JV might contribute versus the type of partnership you have today with these partners?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Well, obviously in the key markets in São Paulo, Mexico City, they're slot constrained and this will take time to continue to build out the efficiencies. But as we create the joint ventures and get our operations working together, we think there will be opportunities to certainly increase throughput there in the big markets and then to me more importantly working throughout the domestic landscape in both markets.

**<Q – Savi Syth – Raymond James & Associates, Inc.>:** What's the benefit of kind of getting an ATI JV here? I know in the trans-Atlantic you can just do a little bit more scheduling. And what can't you do today there that you could do with that and what kind of contribution can we think of?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** With ATI protection, we can go to the market together, so we can sell together, we schedule together our international feed. Today we can't do that in those markets.

**<Q – Savi Syth – Raymond James & Associates, Inc.>:** Okay. All right. Thank you.

**<A – Jill Greer – Delta Air Lines, Inc.>:** We're going to have time for one more question from the analysts.

Operator: Our next question comes from Joseph DeNardi with Stifel.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>:** Hey. Thanks. Good morning. Ed, sorry to harp on the PRASM here, but just kind of the walk from 3Q to 4Q, I get the sense that there's some skepticism about the flat 4Q. So is it just the function of the surcharges and FX, comps get easier in 4Q and then you get the benefit of lower capacity? Is that all you guys are kind of planning for to get to flat in fourth quarter?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Well, to be specific, we said by year-end, so we didn't say by fourth quarter. And yes, there will be a considerable amount of capacity reallocations, particularly in the international arena. We will lap the big effects of the unit revenues hit largely come the fourth quarter on FX. And our goal is to get, as we're heading into 2016, on a positive trajectory.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>:** Okay. And then, Glen, on the basic economy product, can you just kind of walk me through how broadly that's deployed across the network at this point and whether that's contributing to any of the yield weakness you're seeing domestically?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** Absolutely. It's not contributing to the yield weakness because it's a very restrictive product that really isn't purchased by most of our corporate clients. So as a matter of fact, many of the corporate agreements we have exclude that as the lowest fare in the marketplace. So what we've seen is a very high upsell rate from that. Once people see what that fare is and what it offers, that they're actually not purchasing that sort of through delta.com. When you look at that fare and then you're presented with other options, 65% of the customers opt out of that fare, and so we actually think that's yield accretive for leisure and really not very applicable for business travelers.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>:** Okay. So as you've seen more people opt out of it, does that result in you guys reducing the capacity that you're allocating to Basic Economy?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** No. When I say opt out of that fare, that means they're purchasing a higher fare on that flight. And let's just give an example of this. If the lowest fare from Detroit to Orlando was $59 and that was a match of an existing Spirit fare, it was presented on delta.com that $59 get you a product that is without a seat assignment. Most people are opting not to take that fare but to take the next higher fare which is essentially an added-on price.

**<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>:** Okay. Thank you.

**Jill Sullivan Greer, Managing Director-Investor Relations**

Great. That's going to conclude the analyst portion of the call, and I will now turn the call over to Kevin Shinkle, our Chief Communications Officer.

**Kevin Shinkle, Senior Vice President and Chief Communications Officer**

Thanks, Jill. We have a limited amount of time for media, so we can take as many questions as possible. Please keep them brief and limit yourself to one follow-up.

And with that, we'll go to our first call. Go ahead.

## QUESTION AND ANSWER SECTION

Operator: Our first question comes from Susan Carey with Wall Street Journal.

**<Q – Susan Carey – The Wall Street Journal>:** Good morning. Could you all tell us a little bit more about your plans for Skymark?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** Sure, Susan. This is Ed. We are discussing with the creditors of Skymark the opportunity to invest as part of their rehabilitation and reconstruction process. We've long been fairly public about our interest in having a local domestic Japanese partner. This is an opportunity potentially to create that. But I think it's premature to speculate as to the odds of success or where this is going to go given there's a lot of unique attributes to the Japanese rehabilitation process that are being explored, and we're in the discussion phase.

**<Q – Susan Carey – The Wall Street Journal>:** Thank you. Let me just follow up with one more. What's going to happen to the airplane order for the 737-900s and the Embraer 190s as a result of this pilot rejection?

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Those orders will be cancelled.

**<Q – Susan Carey – The Wall Street Journal>:** That's Richard, speaking.

**<A – Richard Anderson – Delta Air Lines, Inc.>:** Yes.

**<Q – Susan Carey – The Wall Street Journal>:** Okay. Thank you.

Operator: [Operator Instructions] Our next question comes from Dominic Gates with Seattle Times.

**<Q – Dominic Gates – The Seattle Times Co.>:** Hi. I wanted to ask first, you've had very heavy growth here in Seattle, 35% year-on-year. Are you expecting the same level of growth to continue? What's your projection?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** We couldn't hear that question. Could you speak up?

**<Q – Dominic Gates – The Seattle Times Co.>:** Sorry. I'll switch to handset. Are you expecting to maintain the same level of growth out of Seattle in SeaTac, as you have had in the past year?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** We have said that our growth will start to meter down a bit, but we still are projecting future growth at SeaTac, yes.

**<Q – Dominic Gates – The Seattle Times Co.>:** Have you got a number on that?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** No. We have not given a number, no.

**<Q – Dominic Gates – The Seattle Times Co.>:** And could I just follow up? The longer term trend specific strategy, could you just talk about where you see that going and about your fleet replacement plans there?

**<A – Glen Hauenstein – Delta Air Lines, Inc.>:** We think that the Pacific continues to be a bright spot in terms of global economic development, and Seattle of course is our best-positioned U.S. hub. We're very enthusiastic about the results to-date in Seattle, and today as of last month, we are connecting now over 700 people a day in SeaTac from our domestic system to our international network, and that's why it's very important for us to continue to work with the city to ensure that we have adequate facilities to be able to create a world-class connecting opportunity in the City of Seattle. So we're very enthusiastic about the potential in the future, and we're committed to working with the community to make sure that that facility is a world-class experience for a connecting customer.

Operator: Our next question comes from Jeffrey Dastin with Reuters.

**<Q – Jeffrey Dastin – Thomson Reuters>:** Thank you very much for your time. Would a deal with Skymark make – strengthen Delta's relationship with Korean Air less important or would the two complement each other?

**<A – Ed Bastian – Delta Air Lines, Inc.>:** We're not going to speculate on future transactions, Jeffrey.

**<Q – Jeffrey Dastin – Thomson Reuters>:** Okay. Thank you very much.

**Kevin Shinkle, Senior Vice President and Chief Communications Officer**

Well, if there are no other calls, I think we will conclude – no other questions, we'll conclude this call. Thank you very much.

Operator: This concludes today's conference. Thank you for your participation.