



# 3Q THIRD QUARTER EARNINGS BY THE NUMBERS

DELTA REPORTS THE BEST QUARTERLY PERFORMANCE IN AIRLINE HISTORY



ADJUSTED  
OPERATING CASH FLOW\*

**\$2.4B**



RETURN  
TO SHAREHOLDERS

**\$532M**



REINVESTED BACK  
INTO THE BUSINESS

**\$1B**



RECORD PRE-TAX PROFIT\*

**\$2.2 BILLION**

UP 33% YOY

\*Non-GAAP financial measure. Reconciliation to GAAP measures can be found in Delta's press release at [news.delta.com](http://news.delta.com).

100 DAYS  
OF  
100%

MAINLINE  
COMPLETION FACTOR

86.1%

ON TIME  
MAINLINE ARRIVALS

up 5 pts  
TO  
21%

OPERATING  
MARGIN\*

"It's an honor to recognize the hard work of 80,000 outstanding employees of Delta. Our team consistently delivers best-in-class operations and service to our customers, develops innovative solutions with our global partners and produces strong returns for our shareholders."

- CEO Richard Anderson

DELTA ALSO RUNS THE BEST OPERATION IN THE INDUSTRY

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**DELTA**

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Delta Air Lines (NYSE: DAL) shattered the airline industry's record for quarterly results Wednesday, reporting \$2.2 billion in pre-tax income.

The financial results, despite currency volatility and global economic uncertainty, underscored the fact that the airline continues to manage the company for long-term, sustained success amid a low fuel price environment.

Pre-tax income increased by \$547 million over the third quarter of 2014. Delta's adjusted net income was \$1.4 billion, or \$1.74 per diluted share, up 45 percent from the same quarter of 2014. On a GAAP basis, pre-tax income totaled \$2.1 billion with earnings of \$1.65 per share for the quarter.

"Despite currency volatility and global economic uncertainty which drove a modest decline in revenues, we expanded operating margins by over five points to 21 percent, grew earnings per share by 45 percent, and generated \$1.4 billion of free cash flow as demand remains solid and fuel prices

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have dropped materially,” said Richard Anderson, Delta’s Chief Executive Officer, [in a press release](#). “It’s an honor to recognize the hard work of 80,000 outstanding employees of Delta with over \$1 billion of profit sharing accrued so far this year.

“Our team consistently delivers best-in-class operations and service to our customers, develops innovative solutions with our global partners, and produces strong returns for our shareholders,” Anderson said.

### **Focused on the Future**

Delta President Ed Bastian said that fuel prices remain volatile and Delta will not recast the business for this low fuel price environment. The airline’s plan is for 2016 capacity growth of 0-2 percent, he said, “which we believe is the appropriate level to balance supply and demand and to ensure the momentum in our business continues.”

Operating revenue for the quarter decreased by 0.6 percent, and passenger unit revenues were down 4.9 percent, including about 2.5 points of impact from foreign currency volatility.

But Delta’s commercial initiatives are producing good momentum, the airline reported, and have allowed Delta to expand its revenue premium versus the industry in the domestic market. At the same time, it continues to improve cost efficiency while upgauging its fleet and building on its hubs in New York, Seattle and Los Angeles.

Delta’s Branded Fares program has increased Delta’s paid first class load factor by 8 points, and the Basic Economy product has been expanded to 450 markets, the airline reported. Overall, Branded Fares produced more than \$75 million in incremental revenue in the September quarter.

### **Fuel Impact**

Fuel was a major factor in the results, with adjusted fuel expense down \$1.1 billion compared to the same period in 2014. The refinery operated by Delta subsidiary Monroe Energy produced a profit of \$106 million for the quarter, up from \$19 million a year ago.

“We continue to benefit from the decline in fuel prices, which provided a \$1 billion-plus tailwind this quarter and, at current prices, will drive a \$750 million benefit in the December quarter,” said Paul Jacobson, Delta’s Chief Financial Officer.

“With volatile fuel prices and revenues under pressure, we are using the current environment to evaluate and prune costs across all parts of the business, including our overhead functions, making sure we’re investing in the right parts of the airline and at levels we can sustain over time,” he said.

Delta is the first major airline to report earnings for the third quarter. Starting next week, American Airlines, United Airlines, Southwest Airlines, JetBlue Airways and Alaska Airlines will all report their results. The industry overall is expected to post strong results for the quarter. Delta has been consistently profitable, on an annual basis, since 2010.

<sup>1</sup> 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

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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 release 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 and Net Income, adjusted for special items.** We adjust for the following items to determine pre-tax income and net income, adjusted for special items, 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.

*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 other 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.

*Loss on extinguishment of debt.* We adjusted for loss on extinguishment of debt in 2014 to assist investors with their analysis of the company’s core financial performance.

*Income tax.* Pre-tax income is adjusted for the income tax effect of special items. We believe this adjustment allows investors to better understand and analyze the company’s core financial performance in the periods shown.

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**Operating Margin, adjusted.** We adjust for the following items to determine operating margin, adjusted 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.

*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 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.

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**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 2015 quarter, we effectively deferred settlement of a portion of our hedge portfolio until 2016 by entering into fuel derivative transactions that, excluding market movements from the date of the transactions, would provide approximately \$150 million in cash receipts during the September 2015 quarter and \$150 million in cash receipts for the December 2015 quarter. Additionally, these transactions will require approximately \$300 million in cash payments in 2016 (excluding market movements from the date of the transactions). By effectively deferring settlement of a portion of the original derivative transactions, the restructured hedge portfolio provides additional time for the fuel market to stabilize while adding some hedge protection in 2016. 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 period shown.

*Hedge margin.* 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 period shown.

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**Fuel expense, adjusted and Average fuel price per gallon, adjusted.** The tables below show the components of fuel expense, including the impact of the refinery segment and hedging on fuel expense and average price per gallon. 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.

