PARTICIPANTS

Corporate Participants

Jill Sullivan Greer – Vice President - Investor Relations, Delta Air Lines, Inc.
Edward H. Bastian – Chief Executive Officer, Delta Air Lines, Inc.
Glen W. Hauenstein – President, Delta Air Lines, Inc.
Paul A. Jacobson – Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.
Steve Sear – EVP-Sales & President-International, Delta Air Lines, Inc.
Peter W. Carter – Chief Legal Officer, Executive Vice President, & Corporate Secretary, Delta Air Lines, Inc.
Kevin Shinkle – Chief Communications Officer & SVP, Delta Air Lines, Inc.

Other Participants

Mike J. Linenberg – Analyst, Deutsche Bank Securities, Inc.
Andrew George Didora – Analyst, Bank of America Merrill Lynch
Duane Pfennigwerth – Analyst, Evercore ISI
J. Yates – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Helane Becker – Analyst, Cowen & Co. LLC
Hunter K. Keay – Analyst, Wolfe Research LLC
Jamie N. Baker – Analyst, JPMorgan Securities LLC
Jack Atkins – Analyst, Stephens, Inc.
Darryl Genovesi – Analyst, UBS Securities LLC
Joseph DeNardi – Analyst, Stifel, Nicolaus & Co., Inc.
Savanthi N. Syth – Analyst, Raymond James & Associates, Inc.
Dan J. McKenzie – Analyst, The Buckingham Research Group, Inc.
Jeffrey Dastin – Journalist, Thomson Reuters Corp.
Michael Sasso – Airlines/UPS reporter, Bloomberg News
David Koenig – Reporter, The Associated Press
Kelly Yamanouchi – Business Writer, The Atlanta Journal-Constitution
Ted Reed – Reporter, TheStreet
Edward Russell – Reporter, Flightglobal
Linda Loyd – Staff Writer, Philadelphia Inquirer & Daily News
Elliott Blackburn – Reporter, Argus Media, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Delta Air Lines June financial quarter results conference call. My name is Kyle, 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 Jill Sullivan Greer, Vice President of Investor Relations. Please go ahead.

Jill Sullivan Greer, Vice President – Investor Relations, Delta Air Lines, Inc.

Good morning, everyone, and thanks for joining us for our June quarter call. Joining us in Atlanta today are Ed Bastian, our CEO; our President, Glen Hauenstein, and our CFO, Paul Jacobson. Ed will open the call, Glen will then address our financial and revenue performance, and Paul will conclude with a review of 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 contains 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 our Chief Executive Officer, Ed Bastian.

Edward H. Bastian, Chief Executive Officer

Thanks Jill. Good morning. Thanks to everyone for joining us.

For the June quarter, we reported a $1.7 billion pre-tax profit, and we generated $1.6 billion in free cash flow. We grew our earnings per share 16% to $1.47, beating consensus by $0.05. Strong cost execution and lower fuel prices allowed us to offset a decline in revenues, as we continue to face persistent unit revenue headwinds. In this challenging revenue environment, it's more important than ever that we differentiate ourselves on service, and in this area the Delta people have truly risen to the top. We continue to run the industry's best operation. We delivered a 99.95% completion factor for the June quarter, including 71 of the 90 days with zero mainline cancellations.

More importantly, we had 23 days of zero system cancellations on any Delta carrier, nearly 6,000 flights a day, or one out of every four days for the entire quarter. Our mainline on-time rate improved 1.5 points, year-over-year, to 86.9%. This operational result is contributing to continued solid increases in customer satisfaction. We have achieved all-time highs in our net promoter scores, and our customer complaint rate has decreased by 14% so far this year.

These high levels of customer satisfaction are widening our revenue lead relative to the industry, with our system RASM index reaching 110% as of the March quarter. Congratulations to the entire Delta team, and thank you. We recognize your outstanding efforts with another $324 million accrued towards our profit sharing program, bringing us to $596 million accrued already this year.

Despite our strong results, we continue to face persistent headwinds on our unit revenues on a number of fronts that we are working hard to combat. Capacity is one of the biggest levers we have to move the needle on our unit revenue performance. In May, we announced that we plan to take one point of capacity out of the fourth quarter. That brought our second half capacity growth plan to below 2%.

Now, with the foreign currency pressure from the steep drop in the pound, the economic uncertainty from Brexit, and continuing yield pressures in the North Atlantic, we've decided to take an additional six points of capacity out of the UK for the winter IATA [International Air Transport Association] season. We've also been working closely with our partner, Virgin Atlantic, who will be making their own capacity changes. Combined, our overall UK capacity this winter will be down 2% to 4% compared to the prior year.

For Delta these changes along with other network actions will take roughly one point of capacity out of the system, and we now expect our fourth quarter capacity to grow by only 1% year-over-year. Glen will take you through the details, but I want to stress to you that the company is very focused on getting back to positive RASM growth. While admittedly, we have done a poor job forecasting when unit revenues will turn positive, we are working hard to achieve our goal hopefully by the end of the year. And even if ultimately it takes a little bit longer than year-end, we are confident we are on the right path.

We expect July and August monthly RASM results to be weak. However, we are anticipating a marked improvement in our September monthly numbers, as we implement our capacity changes, and see benefits from our domestic revenue management initiatives, and easing of foreign exchange headwinds, and an improvement in the overall pricing environment as we hit the traditional nine-month period that it takes for revenues to catch up to higher fuel prices that we began experiencing earlier this year. And if we're not seeing the right progress in our results as we move through the fall, we're prepared to take additional actions, as you saw us announce this morning. Because the reality is that the large year-on-year savings driven by lower fuel are now behind us. Market prices are essentially flat for the third quarter, and look to be higher year-over-year in the fourth quarter for the first time since 2012.

All that said, our results for the third quarter should be a record, as we expect to generate a pre-tax margin of 20%, consistent with what we posted a year ago. Demonstrating the sustainability of our performance is key to delivering the margin, cash flow, and return targets that we outlined for you in May. And as we look to drive that performance longer-term to the business, we'll continue to execute on this strategy that has already delivered tremendous value for all of our stakeholders.

First, we'll continue to strengthen our brand around the world. A strong brand improves customer loyalty while driving a sustainable revenue premium and higher margins. Second, we'll maintain our rigorous discipline around cost and capital. This provides a solid foundation for the business day in and day out. With our sustainable revenue premium, solid cost foundation, and modest capacity growth, we have the engine for consistent 15% plus long-term earnings growth.

Finally, we'll use our strong cash flow to reinvest in the business for the long-term, fortify our balance sheet through debt and pension reductions, while also returning at least 70% of our free cash flow to our owners.

So to conclude, our second quarter results were strong. However, we need to get unit revenues back on a positive track, and Glen and the commercial team are executing on our plan. Longer-term, our revenue premium, solid cost base, balance sheet and cash flows provide the foundation for the earnings growth and substantial capital returns for our owners that we believe will drive value long into the future.

And with that, I'm happy to turn the call now over to Glen.

Glen W. Hauenstein, President

Thanks, Ed, and good morning, everyone.

While the overall revenue environment continues to present challenges, we expect to outperform our network peers on unit revenues once again in the second quarter. This is truly a testament to our entire team who continued to provide industry-leading revenues by delivering an unparalleled level of reliability and great customer service every day.

Turning to our June quarter performance, revenues declined 2% compared to last year including roughly $65 million of pressure from currency. We continued to see close-in domestic yield deterioration on stable corporate ticket volumes producing domestic corporate unit revenue trends that are down in the high-single digits. This pressure, combined with continued foreign currency impacts and supply/demand imbalances primarily in the transatlantic and China regions, drove a 4.9% decline in system passenger revenues.

While we faced a number of headwinds in the quarter the expansion of our ancillary revenue initiative remains a significant positive for us. Our Branded Fare (sic) [Fares] initiative continues to see strong momentum. Total merchandising revenues for the quarter increased more than $40 million or 13% year-on-year. Comfort+ paid load factor increased by 15 points to 46%, as we began selling this product in the purchase path in mid-May. We now expect Comfort+ to generate nearly $300 million of up-sell revenues in the second half of 2016, with further upside in 2017 as we begin the international rollout scheduled to be complete by the end of 2017.

We now have rolled out our Basic Economy product to over 7,000 domestic markets, or about 50% of our domestic revenue base. We anticipate that we will have full domestic coverage sometime in 2017. Our international rollout of this product has begun, and we are now testing the product in over 50 international markets. Our intent is to have this in all international markets during the year 2018.

Our partnership with American Express produced $90 million of incremental value in this quarter, and we expect over $300 million for the year. New card acquisitions are on a pace for another record year and have increased 30% year to date over a record 2015. A special thanks to the SkyMiles and American Express teams for the great success we have had in enrolling new members this year. We have a great partner in American Express and look forward to our continued efforts to provide the leading co-brand offering to our mutual customers.

While there are areas of the business that have great momentum, there are others that require additional work. Our entire commercial team is focused on changing the revenue trajectory and getting back to positive RASM by year end. Let me outline for you some of the major initiatives we have underway by region to ensure that we can achieve our goal. Domestically, our unit revenues declined 6% on a 5% capacity growth for the June quarter.

And while absolute volumes for business traffic remain solid, quite simply they did not keep pace with Delta's growth. Yields were further pressured as traditional AP and minimum stay requirements were absent in many major U.S. markets. On the other hand, leisure yields are strengthening and demand remains strong. So going forward, our path to improving domestic RASM starts by moderating our domestic capacity growth. This will begin in our post-summer schedule that begins late August.

With continued strength in leisure demand and yields, reduced capacity growth should allow us to position our inventory towards higher-yielding, long AP leisure fares. This should provide a cushion to unit revenues that will more than offset stubbornly low business fares that are largely sold within the month. July and August will post strong domestic margins and cash flow as we run out the remainder of our summer schedule. We are confident that we will then see substantial RASM improvement in the September timeframe and may even achieve positive domestic revenue as early as September.

In Latin America, unit revenues were down 5% in the quarter, but June achieved our first positive unit revenue results in 26 months. This result was achieved as Brazil unit revenue declines moderated to just 4% on strengthening currency and capacity reductions. Delta has removed 25% of capacity in Brazil to deal with the economic crisis. Mexico continued to be strong for us on both leisure and business demand, and RASM during the quarter was up four points. Caribbean demand remained solid, and we expect favorable unit revenues beginning in 3Q as we lap our own and industry capacity increases. For the remainder of the year, our Latin capacity will decline two to three points, and we expect this entity to inflect in RASM consistently as early as the September quarter on reduced currency pressures, strengthening demand, and reduced capacity offering.

Moving to the Pacific, the 5% unit revenue decline in the June quarter was the result of a four-point headwind from lower year-on-year hedge gains. Additionally, there were two points of negative impact from negative fuel surcharges, partly offset by the appreciation of the yen spot rate. As a business practice, we hedge at least 50% of our net yen exposure in any given quarter. However, in 2015 we had more significant positions in place at more favorable rates than we do currently. In fact, we expect to recognize a $5 million hedge loss in the back half of this year compared to a $90 million gain last year. $70 million of that headwind will occur in the September quarter alone, accounting for nearly one point of negative system PRASM and more than seven points of impact on the Pacific unit revenues.

Excluding hedges, we achieved flat RASM in Japan in the June quarter, helped by our capacity adjustments while focused on higher yielding U.S. point-of-sale traffic, and recovery in the Japan point-of-sale resort markets, driven by a stronger yen. The strength in Japan was partly offset by yield pressures in China. Passenger growth in China was up 7% in the quarter, and we continue to see increasing demand for connecting traffic with our partners, China Eastern and China Southern. However, industry capacity to and from the U.S. increased nearly 25% in the second quarter, which pressured yields. This capacity is expected to continue in the second half.

For the remainder of the year in the Pacific, we are accelerating our capacity reductions and expect to be down roughly 7.5% in the third quarter and 5% for the winter season. We expect the combination of our planned capacity reductions along with a stronger yen to achieve positive RASM growth later this year, excluding the hedge impact.

Finally, in the transatlantic entity, Delta's second quarter capacity grew in line with traffic trends at 2% while the industry increased capacity by 10%, pressuring yields. Although this drove our unit revenues down 4.5% for the quarter, the transatlantic is still on track to produce one of the most profitable summers in history. That said, this area continues to be where we face the greatest challenge in our efforts to get back to positive RASM, and we are now facing even additional pressures from Brexit.

In our Continental European markets, customer growth nearly matched capacity growth of 5%, but double-digit low-cost carrier growth pressured yields. In the second quarter, Delta and Air France-KLM began a codeshare agreement with Jet Airways. We are very optimistic about this opportunity to feed Paris, Amsterdam, and London going forward. And given the contra-seasonal nature of the India market, we expect that to have a positive impact on fourth quarter transatlantic revenues.

In the UK, Delta's British pound-denominated revenue is roughly $350 million on an annual basis. And when the pound devalued 12% versus the pre-Brexit levels, our revenues were reduced by $40 million from currency alone. Since the leave decision, we haven't seen a material impact on volumes. But as Ed mentioned, along with our partner, Virgin Atlantic, we are taking additional capacity out of the UK for winter to address the headwinds in the region. The reduction is focused on UK-origin leisure markets. These changes combined with other actions we're taking will result in our winter IATA schedule capacity in the transatlantic being down for the second consecutive year. Even with these capacity actions, we do not expect RASM in the transatlantic to inflect until sometime in 2017.

At a system level, with these plans in place across all of our entities and the trends that we see today for the September quarter, we are forecasting system unit revenues to be down between 4% and 6% on a 1% to 2% year-over-year capacity increase. We expect July and August to be at or slightly below the bottom end of that range, with September markedly better than both of those months. Calendar placement creates noise between the months and will be a two-point headwind in August and a two-point benefit to September. Additionally, September should see benefit as currency and fuel surcharge headwinds ease, and the fall capacity changes begin to be implemented.

So to wrap everything up, while the current environment remains challenging, we continue to outperform our peer set. We have plans in place to address the challenges we face and are executing against those plans. Where we haven't seen the desired traction in our unit revenues, we are taking actions with revenue management strategies and capacity levels. And if necessary, we will take further actions to make sure that we maintain the momentum to achieve our goal of getting to positive unit revenue by year end and ahead of our network peers.

And with that, I'd like to turn it over to my good friend, Paul Jacobson.

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

Thanks, Glen, and thanks to your entire team. We all appreciate the efforts and hard work that they are undergoing.

Good morning, everyone, and appreciate you joining us this morning. Consistent cost execution again this quarter was a key contributor to Delta delivering an operating margin that was within our initial guidance range before the 4-point headwind from the early fuel hedge settlements. While we continue to benefit from lower fuel costs, prices remain volatile as does the global environment and we must remain vigilant on those costs that we can control. At the same time, it is critical that we continue to invest in our product and enhance our performance and service to our customers.

Total operating expenses declined by roughly $300 million in the quarter, driven by lower fuel expense. Non-fuel CASM was essentially flat, despite pressure from higher wages and product and service investments. Our strong operational performance, our up gauging initiatives and the commitment across the organization to delivering productivity savings, drove our solid cost performance again this quarter. I'd like to thank the entire Delta team for driving another outstanding result this quarter. We have the best employees in the industry and this strong performance was made possible by their contributions. We expect our non-fuel unit cost, including profit sharing, to be roughly flat again in the September quarter and increase less than 2% for the full year.

Turning to fuel, our total fuel expense declined by over $400 million as lower market fuel prices offset higher consumption and hedge losses. We made a decision in the quarter to early settle all of our remaining 2016 hedges, which brought in an additional $450 million of losses to the quarter. Our all in fuel price was $1.97 per gallon, including $0.43 from those early settlements.

The refinery lost a modest $10 million for the quarter, and we expect the lower crack spread environment, which is a positive for Delta overall, will likely result in a modest loss for the refinery for the full year.

Looking ahead, we expect an all-in September quarter fuel price of $1.52 to $1.57 per gallon, which is down 15% from the prior year. With the early hedge settlements complete, we don't expect to report any additional hedge losses in 2016.

Now, let me address our margin outlook. With another quarter of solid cost performance, despite persistent RASM headwinds and a moderating fuel environment, we are forecasting a September operating margin in the 19% to 21% range, which is roughly flat to last year.

Moving onto cash flow. We generated $2.6 billion of operating cash flow in the quarter. We reinvested over $1 billion back into the business during the quarter, with spending primarily related to aircraft deliveries and modification projects. We expect capital spending will approximate $750 million in the third quarter, as we now expect our Aeromexico tender offer to close in the fourth quarter.

We will continue to take a balanced approach to the deployment of our cash as we remain focused on long-term durability and sustainability for the business model. This is what we are driving for with each dollar we spend, whether it is going back into the business, the balance sheet or return to our owners.

We ended the June quarter with net debt of $6.8 billion, down from $7.1 billion a year ago. That debt reduction saved another $34 million in interest expense this quarter. With the additional $135 million we contributed to the pension plan this quarter, we've completed our funding commitment for the year. The progress we have made on de-risking the balance sheet and paying down our debt was recognized by Fitch in the quarter with an upgrade to BBB minus. We are now proud that two of the three rating agencies have provided us with this strong endorsement of our commitment to the long-term stability and viability of our business model.

With the $1.6 billion of free cash flow we generated during the quarter, we continued on the path of also increasing shareholder returns, with $103 million of dividends and just over $1 billion of share repurchases. As we announced at our May analyst meeting, our dividend will increase to $0.81 per share annually, beginning in the September quarter. At current stock prices, this is just over a 2% dividend yield. In addition, we expect to complete our current $5 billion share repurchase authorization by next May, over six months ahead of schedule, which will represent our third consecutive authorization completed ahead of time. We expect to return nearly $3.5 billion to shareholders this year, consistent with our goal of returning at least 70% of free cash flow through dividends and share repurchases.

In closing, I want to express my excitement about the opportunities ahead for our business. We're going to continue to stretch ourselves. We're going to continue to follow through on our near-term and long-term plans. Our performance is simply remarkable against any measure, and we are focused on remaining a leading S&P 500 company.

Jill?

Jill Sullivan Greer, Vice President – Investor Relations, Delta Air Lines, Inc.

And we are now ready for the analyst Q&A, if you could give them their instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we will take our first question from Michael Linenberg with Deutsche Bank.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Hey, just two quick ones. Can you just give us the breakout between domestic and international capacity growth for the third and fourth quarters?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: For the fourth quarter, which is the endpoint, so I'll start there, we will be up about 2% to 2.5% domestic and about down 2% to 2.5% internationally.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay. And then do you have that for the third quarter, Glen?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: For the third quarter, I do not have that. I'm going to estimate it's about plus 3.5% for domestic and minus 1% for international.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay, that's perfect. And then just a quick question on the Virgin Atlantic, the 49% stake. I know that runs through the non-op. In your June quarter, does that reflect their June quarter, or is that a lag? I know sometimes with private companies there's a quarter lag. I just want to clarify that.

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah, that's current, Mike.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Oh, so it is the June quarter of Virgin's number in your June quarter?

<A – Ed Bastian – Delta Air Lines, Inc.>: Yes, they can count just like we can.

<Q – Mike Linenberg – Deutsche Bank Securities, Inc.>: Okay, perfect. Thank you.

Operator: And we will take our next question from Andrew Didora with Bank of America.

<Q – Andrew Didora – Bank of America Merrill Lynch>: ...for the questions. Paul, just given the 2Q CASM results and the 3Q guide, is there anything from a timing or maintenance perspective in 4Q that would prevent you from coming in significantly below your sub-2% long-term CASM goal this year?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Good morning, Andrew. We haven't given any guidance on the fourth quarter. I would say that there isn't anything on the horizon in terms of maintenance that would cause us to deviate from that. I think we continue to run a great operation and manage through that, so our goal is still to keep it below 2%. We're not going to give any forward guidance on 4Q.

<Q – Andrew Didora – Bank of America Merrill Lynch>: Okay. And then I guess secondly, Paul, obviously there's been a lot of movement in the bond market since the Brexit vote, and the 10-year Treasury is near record lows. Are there any significant pension implications that could end up creating a bit of a CASM headwind over the next year or so, or is it too small?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Well, I think it's a little bit too soon to tell. Obviously, our balance sheet liability is impacted by rates. We've talked about that in the past, so assuming rates don't revert back higher, we could see a higher balance sheet liability. But keep in mind that that has little impact on expense and little impact at all – no impact at all on our minimum funding requirements or our strategy going forward, which is much longer-term based.

<Q – Andrew Didora – Bank of America Merrill Lynch>: Great, thanks a lot.

Operator: And we'll take our next question from Duane Pfennigwerth with Evercore ISI.

<Q – Duane Pfennigwerth – Evercore ISI>: Hey, thanks. Good morning. Glen, I wonder if you could play back for us what you were expecting to see with respect to the June quarter monthly, how that was different than what you expected to see, and how that maybe is impacting your forecast here into the third quarter, because I thought the idea was peak demand, July, August, would sort of soak up those excess seats and fix the close-in yield problem, but now it sounds like we're dependent much more on September and maybe a return to corporate?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Yeah, I think what we didn't expect in the beginning of the year was the continuation and acceleration of the declines in the business traffic sector. So what we had anticipated is the strong demand leisure, and that has borne out. The demand set for leisure is quite good and in-line with our capacity offering, but it has not offset the close-in yield weakness that we see. And so that's how it played out.

And that leaves us with really no other choice but to decrease the capacity levels moving forward because we can't count on it as we said in the earnings call the stubbornly low, close in yields go away. So what we need to do now is not go into a month flat because if we go into a month with flat RASM we come out with a RASM that's in the minus 4% – 5% range. So we have to hit that up 3% to 4% to 5% as we come into the month knowing we're going to give away some of that yield within the month. So that's kind of how it played out and that's how we're looking towards September. Of course, when we planned the summer capacity that was back in the February/March time period. And while we are looking in our rearview mirror it will be an incredibly profitable record summer for us. So it's not as disastrous as some people are characterizing it, but it's really robust and we're going to take the necessary actions to fix it moving forward.

<Q – Duane Pfennigwerth – Evercore ISI>: Thanks. And then just as a follow-up, could you give us maybe capacity growth by month? It looks like it's fairly similar right now in July, August, September. And then is there any implication for 2017 from that 1% year-to-year growth in the fourth quarter? Thanks for taking the questions.

<A – Ed Bastian – Delta Air Lines, Inc.>: Duane, we didn't give the monthly capacity, so we're not going to lay it out. But I think you can roughly estimate where we're at today is the July/August and then once capacity starts to tick down as we get out of the summer season, late August into September, the numbers start to inflect (sic) [reflect] the greater reductions. We haven't given 2017 guidance out, but again if you look at our Q4, up 1%. I'd expect our Q1 probably to be in that same range and certainly by the time we get to the – planning for the spring, if conditions are the same we're going to continue to take the same tack on capacity.

<Q – Duane Pfennigwerth – Evercore ISI>: That's very helpful, thank you.

Operator: We'll take our next question from Julie Yates with Credit Suisse.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Good morning, thanks for taking my question. Glen, I just wanted to clarify on the PRASM cadence for the third quarter, you mentioned that July and August were looking weak and just to help calibrate expectations, should we expect to see July RASM worsen from June's down 5% and then improve steadily with September being the best month of the quarter?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think that's probably exactly how you would read it.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Okay, understood. And then just to reconcile, domestic is now the worst performing entity and that's where capacity growth is still the highest. How do we get confidence on the level of sequential improvement that you need to see in order to write the PRASM trajectory to get to positive by year end?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Right, I think that it's also where on an absolute basis we're decreasing our rate of growth the most. And so we are going to be coming down about 300 to 350 basis points from where we are in peak summer versus international, which is going down about 100 basis points. So I think if we have to go further we will but this is the next step in seeing if we can get the numbers to where we need them to be to continue to expand our margin into next year.

<A – Ed Bastian – Delta Air Lines, Inc.>: Julie, this is Ed. Just domestic is incredibly strong in aggregate. I realize the RASM numbers have been weak, but the bottom line results have been phenomenal. And the premium that we continue to generate versus the competition for domestic is about 120. So the team is doing a great job domestically, but we realize in order to get the RASM improvement to match the increasing fuel prices we're going to be paying, we need to be making the adjustments that Glen talked about.

<Q – Julie Yates – Credit Suisse Securities (USA) LLC (Broker)>: Got it, thanks so much.

Operator: And we'll take our next question from Helane Becker with Cowen & Company.

<Q – Helane Becker – Cowen & Co. LLC>: Excuse me, sorry. I just choked on some water.

<A – Ed Bastian – Delta Air Lines, Inc.>: Sorry, Helane.

<Q – Helane Becker – Cowen & Co. LLC>: Other than choking I'm okay. I just was wondering. Could you update us on where you are with respect to aircraft retirements in the Pacific and how that affects capacity growth in that market for the back half of the year?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: We still have six 747-400s that are flying in the Pacific that are all scheduled to be retired by year end of 2017. We're trying to accelerate that closer to September, but that would likely in and of itself would have a negative bias on Pacific capacity through the year and next year. It would also be a significant improvement to our P&L as we replace the aging airplanes with much more efficient equipment.

<Q – Helane Becker – Cowen & Co. LLC>: Okay. And is that included in that system capacity guidance of down 1% that you're referring to in the comments today?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I may have missed – you may have misinterpreted what I said. The last six don't come out till the fourth quarter of next year, not this year.

<Q – Helane Becker – Cowen & Co. LLC>: Okay, got you, fourth quarter 2017. And then on an unrelated topic, I'm just wondering. The tax rate was down. I think it was maybe guidance was 34%? Or somehow I thought it was going to be 34% and the actual was 33%. So is there something special in there?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Good morning, Helane. It's Paul. I hope you've got your breath back here. During the quarter we early-adopted the new FASB policy on stock compensation. It was a benefit to our tax rate for the quarter, but we still expect our full-year tax rate to be 34%.

<Q – Helane Becker – Cowen & Co. LLC>: Got you. Okay, thank you very much for your help.

<A – Ed Bastian – Delta Air Lines, Inc.>: Thank you, Helane.

Operator: And we'll take our next question from Hunter Keay with Wolfe Research.

<Q – Hunter Keay – Wolfe Research LLC>: Thank you very much, good morning.

<A – Ed Bastian – Delta Air Lines, Inc.>: Good morning, Hunter.

<Q – Hunter Keay – Wolfe Research LLC>: Hey. So, Ed, I think the last year or so has proven out that investors probably care more about fundamental behavior from airlines rather than traditional business metrics, like profit, for example. So as you think about, you have the long-term financial goals that you guys have laid out relating to ROIC, cash flow, debt, and earnings growth. I'm curious why you still think earnings growth is a factor. You actually highlighted that specifically in your prepared remarks. The question is, do your investors tell you that that is something they still want? Because it's certainly not something that other transport or industrial companies achieve or even strive for that trade at multiples that are much higher than airlines right now. So I guess the question is, why is that one metric still included in the bunch?

<A – Ed Bastian – Delta Air Lines, Inc.>: I'm not sure I follow entirely your question, Hunter. Why are we focused on growing our earnings? Is that your question?

<Q – Hunter Keay – Wolfe Research LLC>: Yes, I guess let me put it this way. 15% is a lot, and inherent in that implies some degree of probable capacity growth to get there. So you'd think you talk about ROIC, and debt and cash flow, and people I think all appreciate that, but you guys will probably always be a value stock. So why focus on earnings growth? Is that something you hear from your investors that's something important?

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

<Q – Hunter Keay – Wolfe Research LLC>: You do?

<A – Ed Bastian – Delta Air Lines, Inc.>: We hear from our long-term investors that continuing to improve all of our financial metrics, whether it's our ROIC or our earnings potential, our top line growth, are all important. We realize we sit in a volatile industry, in a volatile space, but our goal is to prove the sustainability and durability of the model. And we think earnings growth is important, yes.

<Q – Hunter Keay – Wolfe Research LLC>: Okay, all right. That's fine. And then, Glen, you talked about corporate a little bit. We've heard other airlines talk about this issue of dilution as it relates to some of the close-in pricing. Obviously, you said volumes are pretty good. So would you categorize dilution as the biggest source of controllable factors contributing to some of the domestic PRASM weakness? And if it's not that, what would you say it is?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think we've talked about this before. It's more of the same. It's the way you're approaching the time value for time-sensitive customers. And are you getting what people would be willing to pay for their time versus what the market is charging for time? And if you look, business fares, as these quarters roll out with government, we can all look at it, but what I think you'll see is that the business fares are well below where they have been historically. And in a lot of markets where there have been little capacity, even no capacity, even negative capacity changes over the medium term.

So I hear your question and I wish I had the best answer for why that is there. But I think, like everything, it's a part of a cycle. I think it has to do with lower fuel. And I think as higher fuel rolls through everybody's P&Ls that there will be a lot more focus on that. But that's not – we're a small percentage of the industry. We represent less than 20% of the total industry, so we don't have that kind of power or predictions to be able to go out and say those things.

<Q – Hunter Keay – Wolfe Research LLC>: Okay, thank you.

<A – Ed Bastian – Delta Air Lines, Inc.>: Thank you.

Operator: And we'll take our next question from Jamie Baker with JPMorgan.

<Q – Jamie Baker – JPMorgan Securities LLC>: Hey. Good morning, everybody.

<A – Ed Bastian – Delta Air Lines, Inc.>: Good morning, Jamie.

<Q – Jamie Baker – JPMorgan Securities LLC>: Glen, other revenue declined slightly from the first quarter, which seems a bit inconsistent with seasonality. I know there's stuff in that category other than ancillary revenue. I'm just wondering what the moving pieces were that drove the decline, especially since, as you noted, Comfort+ turned on in the month of May.

<A – Paul Jacobson – Delta Air Lines, Inc.>: Hey. Good morning, Jamie. It's Paul.

<Q – Jamie Baker – JPMorgan Securities LLC>: Hey, Paul.

<A – Paul Jacobson – Delta Air Lines, Inc.>: One of the big items in that was lower year-over-year third-party sales from the refinery, so there's a piece of that that has to flow through gross up revenues and netted out of expense. So with the lower crude oil prices, the product values are substantially down, so that was about $65 million of that number.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay, that makes perfectly good sense. Second, if we exclude the hedge impact in the second quarter, you essentially achieved a 21% operating margin, and you're guiding 19% to 21% for the third quarter. I'd have to go back, I think it's eight years now, to find a time when third quarter margins were softer, potentially softer, than in the second quarter. Look, I'm not asking you to rehash the components of the guide. The currency disclosures were certainly helpful. But it seems puzzling to me that against an industry backdrop that is so much better today than in 2008, you aren't even able to achieve normal seasonality. Is it just a blip or potentially a new normal in how we think about the seasonal margin peaks?

<A – Ed Bastian – Delta Air Lines, Inc.>: Jamie, this is Ed. You asked a lot in that question, and I have not gone back to check to 2008 – 2008 to me is a blur going back in time. Listen, our guide's our best estimate to where we sit now. We do not think that we're trying to forecast any type of inflection on the cycle or the margins if that's your question. It's really where we are. Fuel prices have bounced around a fair bit, and fuel prices are up a bit in Q3 versus Q2, hedge aside. And we realize that we do have unit revenue weakness particularly in the first half of Q3 that we're recognizing, so I think that if you look at Q3 year-on-year I think we're about flat. 20% pre-tax margin, and I think that's about all I can draw from that.

<Q – Jamie Baker – JPMorgan Securities LLC>: So nothing structural to suggest that in the long run you would not continue to be a third quarter airlines, so to speak, third quarter representing the absolute peak of the year.

<A – Ed Bastian – Delta Air Lines, Inc.>: Yes, I think the third quarter is the peak of the year. Candidly it's June, July and August, right?

<Q – Jamie Baker – JPMorgan Securities LLC>: Yes.

<A – Ed Bastian – Delta Air Lines, Inc.>: So that continues to be our – that's our sweet spot.

<Q – Jamie Baker – JPMorgan Securities LLC>: Okay, I appreciate the disclosures. Thanks, everybody.

<A – Ed Bastian – Delta Air Lines, Inc.>: Sure.

Operator: We'll take our next question from Jack Atkins with Stephens.

<Q – Jack Atkins – Stephens, Inc.>: Hey, good morning. Thanks for the time. When we think specifically about the capacity actions that you're taking, both those announced in May and those announced this morning, can you quantify specifically how those actions will impact RASM? Can you sort of bracket that in terms of impact?

<A – Ed Bastian – Delta Air Lines, Inc.>: It will improve RASM. How's that?

<Q – Jack Atkins – Stephens, Inc.>: Okay. So that I guess when you think about your desire to get a positive RASM by year end, will you be willing to go to negative capacity growth year-over-year to get to that level?

<A – Ed Bastian – Delta Air Lines, Inc.>: No, that's not our plan.

<Q – Jack Atkins – Stephens, Inc.>: Okay, thank you.

Operator: We will take our next question from Darryl Genovesi from UBS.

<Q – Darryl Genovesi – UBS Securities LLC>: Hi, guys. Thanks for the time.

<A – Ed Bastian – Delta Air Lines, Inc.>: Sure.

<Q – Darryl Genovesi – UBS Securities LLC>: Ed, Glen, you both mentioned that you think fuel is the biggest driver of higher RASM on a perspective basis, and I was just wondering how you come to that conclusion? Do you mean to imply that this move from $27 or so Brent that we saw for a short period in January up to $46, $47 today is likely to have driven a negative profit contribution from some flying in the network, either Delta or your peers, and that that's likely to drive a capacity reduction? I mean, is that kind of the thought process?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Well, if you look historically the trends that follow, and we started with fuel around $100, we got it all the way down to about $25 to $27, and then now we've been moving back up into the mid to high $40s. It's very, very high R-Squared to go back and look at airline revenues with fuel over time, and the lag time that produces the highest R-Squared is about nine months.

So that's over a very, very long period of time within the industry. And I think that's what we are counting on is that, on the margin when fuel was $25, there were players who were pricing their products at the incremental marginal cost of $25 fuel. That marginal cost of production has gone up substantially since the low point, and normally it would take about nine months for that to flow through to airline revenues.

<Q – Darryl Genovesi – UBS Securities LLC>: Okay. Okay. And thanks for that. And then I guess just maybe to follow up just on Hunter's question a little bit. With regard to the close-in yield weakness that we've seen, I guess, I would've thought that by this point, assuming that problem isn't actually getting worse – and maybe it is. But I guess I would've thought at this point the RM systems would be sort of calibrated and thus holding on – sorry – thus not holding onto as much inventory for sort of late in the booking curve bookings. Is that not the case?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Well, late in the booking curve bookings, even though they're depressed, are significantly higher than early in the booking curve bookings. So you never want to turn a late in the booking curve booking away, even though they are depressed on a relative basis.

<Q – Darryl Genovesi – UBS Securities LLC>: Okay. I mean I guess I just – it seems like at least – it seems like in some cases, some of these fares that are being offered very close in are actually lower than what you can buy in it far in advance. And I mean I've seen some of that myself and heard about it anecdotally and just wondered if there was any progress being made towards cleaning some of that up.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Yeah, we can't comment on forward pricing. But generally, close-in yields are significantly higher than long AP yields. And so that hasn't changed.

<Q – Darryl Genovesi – UBS Securities LLC>: Okay, thank you.

<A – Ed Bastian – Delta Air Lines, Inc.>: Thank you.

Operator: And we will take our next question from Joseph DeNardi with Stifel.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Hey. Thank you. Glen, can you clarify the flat RASM or positive RASM, what does it mean for 4Q or the month of December? And then secondly, it sounds like the capacity actions you're taking today are entirely or exclusively focused on the UK and Brexit. If you're seeing weaker close-in yields domestically and softer corporate traffic domestically, why isn't domestic capacity coming down?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: No, I think you misread that. Domestic capacity is coming down significantly. We are decreasing our domestic offering in the fourth quarter versus the current quarter by about 300 basis points, so a very significant decrease in domestic capacity coming from us.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Okay. And the RASM goal, is that flat for the month of December or positive for December or for the full fourth quarter?

<A – Ed Bastian – Delta Air Lines, Inc.>: That's our goal, Joe. Our goal has been to try to get there by the end of the year. And when we get there, we'll let you know.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Okay. Does the end of the year mean December or the fourth quarter?

<A – Ed Bastian – Delta Air Lines, Inc.>: We will take either.

<Q – Joe DeNardi – Stifel, Nicolaus & Co., Inc.>: Okay. And then, Paul, is next year a year when we should expect maybe a bigger step up from the Amex agreement? Is there some sort of contractual amendment that's coming next year? Any color there?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Good morning, Joe. There's no amendment. As we announced in Investor Day, we talked about a couple of year period from the overlap with the prior agreement, and then the new agreement beginning in 2017. So we have talked about having some additional benefits occurring in 2017 going forward. We'll have more on that probably at Investor Day.

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

Operator: We will take our next question from Savi Syth with Raymond James.

<Q – Savi Syth – Raymond James & Associates, Inc.>: Hey, good morning. Paul, if I may ask, the core cost performance, I think if you adjust for the labor increased pressures, it's been quite impressive. And I'm guessing FX is going to benefit of that maybe 0.5 point. But could you talk a little bit more about what's driving on a per-ASM basis and this kind of the declines that we're seeing in contract carrier maintenance? I think landing fees and pax services. And I'm just trying to get an understanding of, does that continue into the second half in 2017, or how should we think about these offsets that you've been driving?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Sure. Good morning, Savi, and thanks for those comments. The biggest driver of our cost performance has obviously been the continued up gauging and efficiency being created in the business through that. As we've talked about in the past, our up-gauging has been accruing at about a rate of about 5% a year from 2012 through 2015, and we have with our current fleet plans about a 7% up-gauge between 2016 and 2020.

So clearly, that has had a material benefit on our ability to drive cost efficiencies in the business. That, combined with the innovation of Gil's team and others across the operational sphere have been a huge, huge benefit for us going forward, and we've got to continue to find ways to drive productivity in the business without impacting, and in fact enhancing the customer and employee experience, which I think the team has done a great job of.

<Q – Savi Syth – Raymond James & Associates, Inc.>: All right, thanks for that. And then for a follow-up question, and Glen, I hate to beat a dead horse on this, but I just – I'm trying to understand on the close-in yields, if it deteriorated as you went through the quarter and the reason I ask that is with your comment that leisure yields strengthened, I thought it was kind of those lowest fares that are putting pressure on – then on close-in yields, and if kind of the lowest fares and leisure fares strengthened, I'm kind of surprised that we're not seeing at least no further deterioration in those close-in yields, and so I'm wondering is this maybe potential weakness in corporate that we're seeing?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: So I think there are a couple of things that – we just did a pulse survey, and maybe I'll let Steve talk to that. Steve, do you want to pipe in on...

<A – Steve Sear – Delta Air Lines, Inc.>: Yeah, our June corporate survey actually had an uptick year-over-year, but basically stable outlook from all of our top corporate accounts. So we see really relatively flat demand throughout the entire year so far. So again, we see a little bit on that yield pressure.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: And so that would say that the real component is that we have flattish corporate demand. We have corporate yields down in the 5% to 7% category, and we have capacity that's growing in excess of the rate of growth of the corporate demand set which is also putting downward pressure on the total RASM, and those are kind of the three components we see.

<Q – Savi Syth – Raymond James & Associates, Inc.>: That's very helpful, thanks, and just one clarification. On the earnings growth over time, you're talking about EPS growth, right, and not necessarily just earnings?

<A – Ed Bastian – Delta Air Lines, Inc.>: We're talking EPS growth. That's right, Savi.

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

<A – Ed Bastian – Delta Air Lines, Inc.>: Thank you.

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

Operator: And we will take our final question from Dan McKenzie from Buckingham Research.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Hey, good morning, guys. Thanks for squeezing me in here. Glen, how is Delta getting to less capacity exactly from the reduced Atlantic flying? Is it less capacity with the same number of planes, is it flying being redeployed to other markets as an optimization move, or are some planes potentially being early retired here?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: It's a little of all of the above. If you look at our fleet count for summer of this year versus summer of last year, it is almost flat. I think based on about 1,500 flying airplanes, we were up eight, so the increased capacity has been coming on the marginal utilization because of lower fuel. And what we're seeing is we're not getting paid for that, so that's coming out. And we'll be doing a lot of – more cancellations in the off-peak, more cancellations in the ad-hoc world as well as gauge reductions and maybe – we haven't committed to it yet, but some markets will not make it through.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Understood. Okay. And then, Glen, in May you talked about seeing some green shoots in the Latin American region, and since then, we've had a huge move in FX, particularly to Brazil. And just given what's happening with capacity and foreign exchange to the country, into the region, I wonder if you can elaborate a little bit more on the revenue roadmap from here in this entity? And then tied to that, is there revenue benefit potentially from Aeromexico that could be incremental in the back half of the year?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: I think we've mentioned in the prepared remarks that the Latin unit revenues were up in the month of June for the first time in 26 months. So those green shoots that we saw last quarter are actually coming in, and again, being driven by strength in Mexico. And a lot of that strength may be related to the presence of Delta and Aeromexico together because it seems that we're getting a much higher share of some of the corporate travel to and from Mexico than we have had historically, even before our ATI-enabled joint venture goes into place.

And Peter Carter is sitting next to me. Maybe Peter can talk about the timing of when we believe Aeromexico will be approved.

<A – Peter Carter – Delta Air Lines, Inc.>: Good morning, Dan. We expect it to be approved in the fourth quarter.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Understood, thanks, and then just one final housecleaning, Paul. Has Delta been active in buying back the stock since June 30?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Dan, good morning. As we talked about before, we're in the market every day buying back stock, and this quarter is no different.

<Q – Dan McKenzie – The Buckingham Research Group, Inc.>: Thanks for the time, guys.

<A – Ed Bastian – Delta Air Lines, Inc.>: Thanks, Dan.

<A – Jill Greer – Delta Air Lines, Inc.>: That's going to wrap up the analyst portion of the call, and I will now turn it over to Kevin.

<A – Kevin Shinkle – Delta Air Lines, Inc.>: Good morning. This is Kevin Shinkle. Welcome to the media portion of the call. We'll have about 10 minutes for questions, so please limit yourself to one question and one brief follow-up. Kyle, will you please provide the instructions on how to register to ask a question?

Operator: [Operator Instructions] We will take our next question from Jeffrey Dastin of Reuters.

<Q – Jeffrey Dastin – Thomson Reuters Corp.>: Thank you for taking the question. Might you break down why transatlantic flights will have one of their most profitable summers in history? Is it countries? Which countries and which point of origin, leisure versus corporate bookings, that sort of thing.

<A – Ed Bastian – Delta Air Lines, Inc.>: We don't provide that level of detail, Jeffrey. Transatlantic for us historically has been a strong source of profit. And as we've expanded to the UK with our Virgin relationship, we've just built on that.

<Q – Jeffrey Dastin – Thomson Reuters Corp.>: Great, thank you. And then the follow-up would be how do forward bookings to the United Kingdom for the fourth quarter compare to how they were last year, as in more bookings factor in the capacity tweaks, not just the currency?

<A – Ed Bastian – Delta Air Lines, Inc.>: The currency certainly has impacted the booking point of sale, and we have seen some strength in the U.S. point-of-sale to the UK as the pound has deteriorated. Likewise, we've seen some reduction in our UK point-of-sale coming to the U.S. And that's why we're making certain of the capacity adjustments combined with overall high levels of capacity in the North Atlantic, which is putting pressure on yields even before Brexit.

<Q – Jeffrey Dastin – Thomson Reuters Corp.>: Great, thank you.

Operator: And we will take our next question from Michael Sasso with Bloomberg News.

<Q – Michael Sasso – Bloomberg News>: Good morning. I'm just a little confused about the issue with close-in bookings. It sounds like demand is still okay but that maybe some of the problem is too much capacity. Is that what I'm hearing? Could you just explain what specifically is causing those close-in yields to be lower?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Industry pricing is lower year over year, and that's probably the main driver of it. But when you have capacity growth and you have stable demand, that's also a negative impact to the total composition of your unit revenues because corporate travel is, of course, the highest yielding piece of our yield curve. So it's a combination of too much capacity and too low fares.

<A – Kevin Shinkle – Delta Air Lines, Inc.>: Next question?

Operator: We'll take our next question from David Koenig with the Associated Press.

<Q – David Koenig – The Associated Press>: Hi. I thought you might touch on this in the last answer in the analyst section. But should we expect you to drop any routes or markets entirely as part of your reduced planned capacity in the fourth quarter? Hello?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Hello, we don't comment on future schedule changes or future pricing initiatives as a general rule.

<Q – David Koenig – The Associated Press>: Okay, I'm not asking you to name the routes or markets. I just wonder if that's something we should expect as a possibility.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: We evaluate them all the time and we add routes and delete routes from our network on a regular basis. So the answer is that we'll adjust to market conditions as we see them evolve.

<Q – David Koenig – The Associated Press>: Okay, thanks.

Operator: We will take our next question from Kelly Yamanouchi with The Atlanta Journal-Constitution.

<Q – Kelly Yamanouchi – The Atlanta Journal-Constitution>: Hey. I am wondering about the UK origin leisure markets that you mentioned the capacity cuts will be targeted at. I was just wondering what kinds of markets are UK origin leisure markets.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Clearly, London is the biggest market in the UK, but London has a very, very high business component. As a matter of fact, London represents about 35% of the total business to and from the U.S. between the U.S. and Europe. So what we're doing is we're taking potentially down frequencies in off-peak days. We're down-gauging equipment into the regional cities. Manchester tends to be a perfect example of much higher UK point-of-origin market than London because there's a lot of leisure travel coming out of Manchester, and those would be the types of markets that we would look at to reduce.

<A – Ed Bastian – Delta Air Lines, Inc.>: Hi, Kelly. This is Ed. We've grown substantially in the UK in the last several years, both we and our partner, Virgin Atlantic. So I wouldn't be focused on it because this is more trimming from the overall growth. You have to look at this over a longer time horizon. And our capacity is up substantially to the UK over any period of time. So I think this is a normal part of the ebb and flow of supply and demand.

<Q – Kelly Yamanouchi – The Atlanta Journal-Constitution>: All right, great. Thank you very much.

Operator: We'll take our next question from Ted Reed from TheStreet.

<Q – Ted Reed – TheStreet>: I have a Brexit question. My impression from what you said was that more Americans are going to UK in the summer, and so there's very good summer travel, but in the winter, the UK travel to the U.S., to U.S. leisure destinations is what's declining. Is that fair?

<A – Ed Bastian – Delta Air Lines, Inc.>: That's our best estimate, Ted, yes.

<Q – Ted Reed – TheStreet>: When you say leisure destinations, does that mean Florida? For the UK people coming in the winter, is that Florida?

<A – Glen Hauenstein – Delta Air Lines, Inc.>: Florida, Vegas.

<A – Ed Bastian – Delta Air Lines, Inc.>: Just broadly.

<A – Glen Hauenstein – Delta Air Lines, Inc.>: New York.

<Q – Ted Reed – TheStreet>: Okay, all right. Thank you.

Operator: We'll take our next question from Edward Russell with Flightglobal.

<Q – Edward Russell – Flightglobal>: Hi, yes. On the UK cuts, I was wondering, are those going to be seasonal? Just during the winter and the off-peak periods? Or are they intended to be permanent cuts?

<A – Ed Bastian – Delta Air Lines, Inc.>: Those are seasonal.

<Q – Edward Russell – Flightglobal>: Okay. And then a second question, what does this mean for the new routes that you've announced for 2017 to the UK Portland, additional frequencies from Detroit and Atlanta?

<A – Ed Bastian – Delta Air Lines, Inc.>: There's no changes.

<Q – Edward Russell – Flightglobal>: Thank you very much.

Operator: And we will take our next question from Linda Loyd with The Philadelphia Inquirer.

<Q – Linda Loyd – Philadelphia Inquirer & Daily News>: Thank you. Thank you for taking my questions. With the Trainer refinery posting a loss for the second quarter, a $10 million loss in the latest quarter and a $28 million loss in the first quarter, is the refinery still a benefit to Delta? Are you still glad you bought it?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Good morning, Linda. This is Paul Jacobson. Yeah. The answer is absolutely. The Trainer refinery, for us, has been a huge success, and as we talked about the lower crack spread environment that exists for the entire refining complex is a tremendous benefit to the airline. So as part of the integrated fuel management strategy, we are absolutely still very pleased with that purchase and that investment.

<Q – Linda Loyd – Philadelphia Inquirer & Daily News>: Is there a time you envision the refinery becoming profitable again as you look out in future quarters or this year?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Certainly, we've had profitable years with the refinery, and that business is very cyclical. We certainly hope it doesn't come at the expense of significantly higher fuel for the airline. But you've got to remember that it's part of that integrated strategy and we know we'll have good times and bad times with that refinery, but we're absolutely committed to it, despite or irrespective of its profits.

<A – Ed Bastian – Delta Air Lines, Inc.>: Yeah. Linda, this is Ed. Let me be really clear. We are very happy with the refinery. They're doing a great job, and yes we expect they will continue to generate profits, as they have historically for Delta, over time.

<Q – Linda Loyd – Philadelphia Inquirer & Daily News>: Okay, thank you very much.

<A – Kevin Shinkle – Delta Air Lines, Inc.>: Kyle, we have time for one last question.

Operator: And we will take our final question from Elliott Blackburn with Argus Media.

<Q – Elliott Blackburn – Argus Media, Inc.>: Good morning. Thanks for taking the question. Just building off that last question, can you go through, considering the fact that the refinery will be adding to your fuel costs it seems like through the rest of the year, what does success look like more broadly for that refinery? How do you guys evaluate that refinery as a contributor?

<A – Paul Jacobson – Delta Air Lines, Inc.>: Elliott, the main purpose of buying that refinery as articulated in all of our commentary has been to self-supply jet fuel and increase the supply of jet fuel, which we've done very successfully. We measure the success of that refinery based on how well it operates. And the team that we have there has been performing extraordinarily well, from a cost basis, from an operational reliability basis, the refinery leads all comparable indices, both in size and geography for its efficiency and its productivity. The absolute crack spreads and the economics of that, you've got to take into account the airline. And when crack spreads are down, that puts pressure on refinery profits, but it's a huge windfall for the airline as well. So we feel very good about that. And as long as it continues to operate the way it is, we view it as strongly successful.

<Q – Elliott Blackburn – Argus Media, Inc.>: But it seems like your peers that are also buying jet fuel benefit from that without actually having the risk of operating a refinery. So I guess, can you help me understand why the refinery itself is a unique benefit to Delta in light of that?

<A – Paul Jacobson – Delta Air Lines, Inc.>: The fact that it may or may not be a benefit to our customers doesn't have any – or our competitors – doesn't have any bearing as to whether or not we view it as a success for Delta. And we do things that are good for us, and the refinery is a great example of that.

<A – Ed Bastian – Delta Air Lines, Inc.>: Don't forget, this was a refinery that was closed. And when we reopened it, we added 40% more supply of jet fuel into the New York Harbor. That alone was a substantial benefit for Delta. And to the extent it benefits our colleagues in the industry, all the better.

<Q – Elliott Blackburn – Argus Media, Inc.>: Thank you very much.

Operator: And that does conclude our...

Kevin Shinkle, Chief Communications Officer & SVP

Go ahead, Kyle.

Operator: That does conclude our Q&A session. I would now like to turn it back over to management for any additional or closing remarks.

Kevin Shinkle, Chief Communications Officer & SVP

Nope. That's it. That concludes everything. Thank you for joining us.

Operator: And this does conclude today's conference call. Thank you all for your participation. You may now disconnect.