

Note A: The following tables show reconciliations of non-GAAP financial measures. The reasons Delta uses these measures are described below.

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

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

Pre-Tax Income, adjusted and Net Income, adjusted. We adjust for the following items to determine pre-tax income, adjusted and net income, adjusted, 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 understand and analyze our core financial performance in the periods shown.

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

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

(in millions, except per share data)	Three Months Ended September 30, 2017			Three Months Ended September 30, 2017
	Pre-Tax Income	Income Tax	Net Income	Net Income Per Diluted Share
GAAP	\$ 1,805	\$ (627)	\$ 1,178	\$ 1.64
Adjusted for:				
MTM adjustments and settlements	(74)	27	(47)	
Virgin Atlantic MTM adjustments	(7)	3	(4)	
Total adjustments	(81)	30	(51)	(0.07)
Non-GAAP	\$ 1,724	\$ (597)	\$ 1,127	\$ 1.57

Operating Margin, adjusted. We adjust for the following items to determine operating margin, adjusted, as described below. Adjusting for these items allows investors to understand and analyze our core operational performance in the periods shown.

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.

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.

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, 2016 and was retroactive to January 1, 2016. As a result, Delta recognized \$380 million in retroactive wages and other benefits in the December 2016 quarter. On a normalized basis, approximately \$140 million of this amount related to the September 2016 quarter.

	Three Months Ended September 30, 2017	Three Months Ended December 31, 2016
Operating margin	16.6 %	10.8 %
Adjusted for:		
MTM adjustments and settlements	(0.7)%	(0.1)%
Refinery sales	0.2 %	0.1 %
Operating margin, adjusted	16.1 %	10.8 %
Pilot contract impact, normalized	—%	4.0 %
Operating margin, adjusted, including pilot contract impact, normalized	16.1 %	14.8 %

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

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

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

(in millions)	Three Months Ended	
	September 30, 2017	
Net cash provided by operating activities (GAAP)	\$	1,645
Adjustments:		
Hedge deferrals, including early settlements		(83)
Net cash provided by operating activities, adjusted	\$	1,562

Operating Expense, adjusted. We adjust for the following items to determine operating expense, adjusted, as described below. Adjusting for these items allows investors to understand and analyze our core operational performance in the periods shown.

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.

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, 2016 and was retroactive to January 1, 2016. As a result, Delta recognized \$380 million in retroactive wages and other benefits in the December 2016 quarter. On a normalized basis, approximately \$140 million of this amount related to the September 2016 quarter.

(in millions)	Three Months Ended	
	September 30,	
	2017	2016
Operating expense	\$ 9,221	\$ 8,514
Adjusted for:		
MTM adjustments and settlements	74	(23)
Operating expense, adjusted	\$ 9,295	\$ 8,491
Pilot contract impact, normalized	-	143
Operating expense, adjusted, including pilot contract impact, normalized	\$ 9,295	\$ 8,634
Year-over-year change	\$ ~ 660	

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 airline segment 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 understand and analyze our core operational performance in the periods shown.

(in millions, except per gallon data)	Three Months Ended September 30,		Average Price Per Gallon Three Months Ended September 30,	
	2017	2016	2017	2016
Fuel purchase cost	\$ 1,822	\$ 1,585	\$ 1.64	\$ 1.44
Airline segment fuel hedge impact	-	22	-	0.02
Refinery segment impact	(37)	45	(0.03)	0.04
Total fuel expense	\$ 1,785	\$ 1,652	\$ 1.61	\$ 1.50
MTM adjustments and settlements	74	(23)	0.07	(0.02)
Total fuel expense, adjusted	\$ 1,859	\$ 1,629	\$ 1.68	\$ 1.48
Year-over-year change	\$ 230			

Non-Fuel Unit Cost or Cost per Available Seat Mile, Including Profit Sharing ("CASM-Ex"). We adjust CASM for the following items to determine CASM-Ex, including profit sharing for the reasons described below:

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

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

Pilot contract impact, normalized. Delta's new pilot contract was ratified on December 1, 2016 and was retroactive to January 1, 2016. As a result, Delta recognized \$380 million in retroactive wages and other benefits in the December 2016 quarter. On a normalized basis, approximately \$140 million of this amount related to the September 2016 quarter.

	Three Months Ended		
	September 30, 2017	September 30, 2016	Change
CASM (cents)	13.14	12.33	
Adjusted for:			
Aircraft fuel and related taxes	(2.54)	(2.39)	
Other expenses	(0.55)	(0.36)	
CASM-Ex	10.05	9.58	4.8%
Adjusted for:			
Pilot contract impact, normalized	—	0.21	
CASM-Ex, adjusted for pilot contract impact, normalized	10.05	9.79	2.6%

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

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

(in millions)	Three Months Ended September 30, 2017	
Net cash provided by operating activities	\$	1,645
Net cash used in investing activities		(1,322)
Adjustments:		
Hedge deferrals		(83)
Net purchases of short-term investments and other		231
Total free cash flow	\$	471

Capital Projects. We present capital projects, which includes strategic investments, because management believes incorporating these amounts provides a more meaningful financial measure for investors when comparing capital spending in relation to the industry.

(in millions)	Three Months Ended September 30, 2017	
Flight equipment, including advance payments	\$	614
Ground property and equipment, including technology	\$	328
Adjustments:		
Purchase of equity investments	\$	173
Capital projects	\$	1,115

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

(in millions)	September 30, 2017	December 31, 2016
Debt and capital lease obligations	\$ 8,808	\$ 7,332
Plus: unamortized discount, net and debt issuance costs	<u>97</u>	<u>104</u>
Adjusted debt and capital lease obligations	\$ 8,905	\$ 7,436
Plus: 7x last twelve months' aircraft rent	<u>2,381</u>	<u>1,995</u>
Adjusted total debt	11,286	9,431
Less: cash, cash equivalents and short-term investments	(2,438)	(3,249)
Less: hedge margin receivable	—	(38)
Adjusted net debt	<u>\$ 8,848</u>	<u>\$ 6,144</u>
Unfunded Pension	6,783	10,558
Total adjusted net debt and unfunded pension	<u>\$ 15,631</u>	<u>\$ 16,702</u>