DELTA AIR LINES INC /DE/
Form 10-K
February 15, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-5424

DELTA AIR LINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**58-0218548**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Post Office Box 20706	
Atlanta, Georgia	**30320-6001**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (404) 715-2600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Smaller reporting company o Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2018 was approximately $34.2 billion.

On January 31, 2019, there were outstanding 678,950,098 shares of the registrant's common stock.

This document is also available on our website at http://ir.delta.com/.

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

Table of Contents

Unless otherwise indicated, the terms "Delta," "we," "us," and "our" refer to Delta Air Lines, Inc. and its subsidiaries.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K (or otherwise made by us or on our behalf) that are not historical facts, including statements about our estimates, expectations, beliefs, intentions, projections or strategies for the future, may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or our present expectations. Known material risk factors applicable to Delta are described in "Risk Factors Relating to Delta" and "Risk Factors Relating to the Airline Industry" in "Item 1A. Risk Factors" of this Form 10-K, other than risks that could apply to any issuer or offering. All forward-looking statements speak only as of the date made, and we undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

Part I

ITEM 1. BUSINESS

General

We are a major passenger airline, providing scheduled air transportation for passengers and cargo throughout the United States ("U.S.") and around the world. Through the dedication of our employees, we are committed to providing exceptional customer service through our global route network. Our route network is centered around a system of significant hubs and key markets at airports in Amsterdam, Atlanta, Boston, Detroit, London-Heathrow, Los Angeles, Mexico City, Minneapolis-St. Paul, New York-LaGuardia, New York-JFK, Paris-Charles de Gaulle, Salt Lake City, São Paulo, Seattle, Seoul-Incheon and Tokyo-Narita. Each of these operations includes flights that gather and distribute traffic from markets in the geographic region surrounding the hub or key market to domestic and international cities and to other hubs or key markets. Our network is supported by a fleet of aircraft that is varied in size and capabilities, giving us flexibility to adjust aircraft to the network. Through our international joint ventures, our alliances with other foreign airlines, our membership in SkyTeam and agreements with multiple domestic regional carriers that operate as Delta Connection,® we are able to bring choice to customers worldwide.

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at Hartsfield-Jackson Atlanta International Airport in Atlanta, Georgia. Our telephone number is (404) 715-2600 and our Internet address is www.delta.com. Information contained on our website is not part of, and is not incorporated by reference in, this Form 10-K.

Expanded Product Offerings

We have a retail oriented, merchandised approach to distribution with well-defined and differentiated products for our customers. We offer distinct travel experiences with clear value propositions that enable customer choice. Delta One™, Delta Premium Select, First Class and Delta Comfort+™ include varying premium amenities and services while Main Cabin and Basic Economy allow varying levels of pre-travel flexibility as well as exceptional service onboard the aircraft. We are investing in our fleet, acquiring new, more efficient aircraft with increased premium seating to replace older aircraft.

Our tickets are sold through various distribution channels, including: (1) digital channels, such as delta.com and mobile applications/web, (2) telephone reservations, (3) online travel agencies and (4) traditional "brick and mortar" and other agencies. We make fare and product information widely available across those channels, ensuring customers always receive the best information and service options. An increasing number of our tickets are sold through Delta digital channels, driving more direct, personalized interactions with our customers and reducing distribution costs.

We expect that these merchandising initiatives as implemented across our distribution channels will allow customers to better understand our product offerings, make it easier to buy the products they desire and increase customer satisfaction. This merchandising effort is most effective in Delta's digital channels where customers can compare all product options in a single, easy to understand display.

Leveraging Technology to Improve Service and Efficiency

We are engaged in a digital transformation by continuing to invest in technology that supports our operations and provides tools for our employees, with our long term goal to convert our technology into a competitive advantage. These investments include improvements to infrastructure and technology architecture to unify and improve access to data sources and continue innovations in customer facing applications. This digital transformation will enhance interactions with our customers and allow us to deliver more personalized service, further enhancing the customer experience and strengthening our brand and competitive position.

We continue to make technological improvements that personalize the travel experience for our customers and empower our employees. We made significant progress in 2018 on the digital transformation to create a single view of the customer. We delivered several capabilities that enable our front-line employees to personalize their interactions with our customers. We also added self-service features on both the mobile app and delta.com and launched the first facial recognition biometric terminal for international travelers at the Atlanta airport.

Global Network

International Alliances

Our international alliance relationships are an important part of our business as they improve our access to international markets and enable us to market globally integrated air transportation services. The most significant of these arrangements are commercial joint ventures that include joint sales and marketing coordination, co-location of airport facilities and other commercial cooperation arrangements. Our alliance arrangements also include reciprocal codesharing and reciprocal loyalty program participation and airport lounge access arrangements. These alliance relationships also may present opportunities in other areas, such as airport ground handling arrangements, aircraft maintenance insourcing and joint procurement.

Joint Venture Agreements. We have implemented five separate joint venture arrangements with foreign carriers, each of which has been granted antitrust immunity from the U.S. Department of Transportation ("DOT"). Each of our joint venture arrangements provides for joint commercial cooperation with the relevant partner within the geographic scope of the arrangement, including the sharing of revenues and/or profits and losses generated by the parties on the joint venture routes, as well as joint marketing and sales, coordinated pricing and revenue management, network and schedule planning and other coordinated activities with respect to the parties' operations on joint venture routes. Our implemented commercial joint ventures consist of the following:

- A joint venture with Virgin Atlantic with respect to operations on non-stop routes between the United Kingdom and North America. In addition to the joint venture, we own a non-controlling 49% equity stake in Virgin Atlantic Limited, the parent company of Virgin Atlantic Airways.

- A transatlantic joint venture with Air France and KLM, both of which are subsidiaries of the same holding company, and Alitalia. In addition to the joint venture, we own a non-controlling 9% ownership stake in the parent company of Air France and KLM.

- A joint venture with Aeroméxico with respect to trans-border operations on flights between the U.S. and Mexico. In addition to the joint venture, we own a non-controlling 51% equity stake in Grupo Aeroméxico, S.A.B. de C.V., the parent company of Aeroméxico. In addition, we and Aeroméxico have established a joint venture relating to an airframe maintenance, repair and overhaul operation located in Queretaro, Mexico.

- A joint venture with Virgin Australia and its affiliated carriers with respect to operations on transpacific routes between North America and Australia/New Zealand.

- In 2018, we launched a joint venture with Korean Air Lines with respect to operations on transpacific routes between the United States and certain countries in Asia.

In 2018, we entered into a joint venture agreement with WestJet with respect to trans-border routes between the U.S. and Canada, as well as an agreement with Air France-KLM and Virgin Atlantic to combine our separate existing transatlantic joint ventures into a single three-party transatlantic joint venture. Both of these agreements remain subject to required regulatory approvals.

Enhanced Commercial Agreements with Foreign Carriers. We have a 9% non-controlling ownership stake in GOL Linhas Aéreas Inteligentes, S.A., the parent company of Gol Linhas Aéreas (a Brazilian air carrier), with whom we have a strategic joint marketing and commercial cooperation arrangement, which includes reciprocal codesharing, loyalty program participation, airport lounge access and joint sales cooperation.

We also own a 3% equity interest in China Eastern, with whom we have a strategic joint marketing and commercial cooperation arrangement, which also includes reciprocal codesharing, loyalty program participation, airport lounge access and joint sales cooperation.

SkyTeam. In addition to our marketing alliance agreements with individual foreign airlines, we are a member of the SkyTeam global airline alliance. The other members of SkyTeam are Aeroflot, Aerolíneas Argentinas, Aeroméxico, Air Europa, Air France, Alitalia, China Airlines, China Eastern, China Southern, CSA Czech Airlines, Garuda Indonesia, Kenya Airways, KLM, Korean Air, Middle East Airlines, Saudi Arabian Airlines, Tarom, Vietnam Airlines and Xiamen Airlines. Through alliance arrangements with other SkyTeam carriers, Delta is able to link its network with the route networks of the other member airlines, providing opportunities to increase connecting traffic while offering enhanced customer service through reciprocal codesharing and loyalty program participation, airport lounge access and cargo operations.

Regional Carriers

We have air service agreements with domestic regional air carriers that feed traffic to our route system by serving passengers primarily in small and medium-sized cities. These arrangements enable us to better match capacity with demand in these markets. Approximately 15% of our passenger revenue in 2018 was related to flying by these regional air carriers.

Through our regional carrier program, Delta Connection, we have contractual arrangements with regional carriers to operate aircraft using our "DL" designator code. We have contractual arrangements with:

- Compass Airlines, LLC ("Compass") and GoJet Airlines, LLC, both subsidiaries of Trans States Holdings, Inc. ("Trans States");
- Endeavor Air, Inc., a wholly owned subsidiary of ours;
- Republic Airline, Inc. ("Republic"), a subsidiary of Republic Airways Holdings, Inc.; and
- SkyWest Airlines, Inc., a subsidiary of SkyWest, Inc.

Our contractual agreements with regional carriers primarily are capacity purchase arrangements, under which we control the scheduling, pricing, reservations, ticketing and seat inventories for the regional carriers' flights operating under our "DL" designator code. We are entitled to all ticket, cargo, mail, in-flight and ancillary revenues associated with these flights. We pay those airlines an amount, as defined in the applicable agreement, which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. These capacity purchase agreements are long-term agreements, usually with initial terms of at least 10 years, which grant us the option to extend the initial term. Certain of these agreements provide us the right to terminate the entire agreement, or in some cases remove some of the aircraft from the scope of the agreement, for convenience at certain future dates.

SkyWest Airlines operates some flights for us under a revenue proration agreement. This proration agreement establishes a fixed dollar or percentage division of revenues for tickets sold to passengers traveling on connecting flight itineraries.

Loyalty Program

Our SkyMiles® loyalty program is designed to retain and increase traveler loyalty by offering incentives to customers to increase travel on Delta. The loyalty program allows program members to earn mileage credit for travel awards by flying on Delta, its regional carriers and other participating airlines. Mileage credit may also be earned by using certain services offered by program participants, such as credit card companies, hotels and car rental agencies. In addition, individuals may purchase mileage credits. Miles do not expire, but are subject to the program rules. We reserve the right to terminate the program with six months advance notice, and to change the program's terms and conditions at any time without notice.

Loyalty program mileage credits can be redeemed for air travel (including upgrades) on Delta and participating airlines, for membership in our Delta Sky Clubs® and for other awards. We offer last-seat availability for travel awards on our own flights (including most Delta Connection flights). Mileage credits are subject to certain transfer restrictions and travel awards on partner airlines are subject to capacity-controlled seating. In 2018, 8.2% of revenue miles flown on Delta were from award travel, as program members redeemed miles in the loyalty program for 17.2 million award redemptions.

Fuel

Our results of operations are significantly impacted by changes in the price and availability of aircraft fuel. We purchase most of our aircraft fuel under contracts that establish the price based on various market indices and therefore do not provide material protection against price increases or assure the availability of our fuel supplies. We also purchase aircraft fuel on the spot market, from off-shore sources and under contracts that permit the refiners to set the price.

The following table shows our aircraft fuel consumption and costs.

Year	Gallons Consumed(1) (in millions)	Cost(1)(2) (in millions)	Average Price Per Gallon(1)(2)	Percentage of Total Operating Expense(1)(2)
2018	4,113	$9,020	$ 2.20	23.0 %
2017	4,032	$6,756	$ 1.68	19.2 %
2016	4,016	$5,985	$ 1.49	18.3 %

(1) Includes the operations of our regional carriers operating under capacity purchase agreements.
(2) Includes the impact of fuel hedge activity and refinery segment results.

Monroe Energy

Our wholly owned subsidiaries, Monroe Energy, LLC and MIPC, LLC (collectively, "Monroe") operate the Trainer refinery and related assets located near Philadelphia, Pennsylvania. The facilities include pipelines and terminal assets that allow the refinery to supply jet fuel to our airline operations throughout the Northeastern U.S., including our New York hubs at LaGuardia and JFK. These companies are distinct from us, operating under their own management teams and with their own boards of managers. We own Monroe as part of our strategy to mitigate the cost of the refining margin reflected in the price of jet fuel, as well as to maintain sufficiency of supply to our New York operations.

Refinery Operations. The facility is capable of refining approximately 200,000 barrels of crude oil per day. In addition to jet fuel, the refinery's production consists of gasoline, diesel and other refined petroleum products ("non-jet fuel products"). Monroe sources domestic and foreign crude oil supply from a variety of providers.

Strategic Agreements. Monroe exchanges the non-jet fuel products the refinery produces with third parties for jet fuel consumed in our airline operations.

Fuel Hedging Program

Our derivative contracts to hedge the financial risk from changing fuel prices are primarily related to Monroe’s refining margins. We may utilize different contract and commodity types in this program and frequently test their economic effectiveness against our financial targets. We closely monitor the hedge portfolio and rebalance the portfolio based on market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates.

Fuel Supply Availability

We are currently able to obtain adequate supplies of aircraft fuel, including fuel produced by Monroe or procured through the exchange of non-jet fuel products the refinery produces, and crude oil for Monroe's operations. However, it is impossible to predict the future availability or price of aircraft fuel and crude oil. Weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, changes in government policy concerning aircraft fuel production, transportation, taxes or marketing, changes in refining capacity, environmental concerns and other unpredictable events may result in future fuel supply shortages and fuel price increases.

Other Businesses

Cargo

Through our global network, our cargo operations are able to connect the world's major freight gateways. We generate cargo revenues in domestic and international markets through the use of cargo space on regularly scheduled passenger aircraft. We are a member of SkyTeam Cargo, a global airline cargo alliance, whose other members are Aeroflot, Aerolíneas Argentinas, Aeroméxico Cargo, Air France-KLM Cargo, Alitalia Cargo, China Airlines Cargo, China Cargo Airlines, China Southern Cargo, Czech Airlines Cargo and Korean Air Cargo. SkyTeam Cargo offers a global network spanning six continents.

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Ancillary Businesses

We have several other businesses arising from our airline operations. In 2018, the total revenue from these businesses was approximately $1 billion.

- In addition to providing maintenance and engineering support for our fleet of over 1,000 aircraft, our aircraft maintenance, repair and overhaul ("MRO") operation, known as Delta TechOps, serves aviation and airline customers from around the world.
- Our vacation wholesale business, Delta Vacations, provides vacation packages to third-party consumers.
- Our private jet operations, Delta Private Jets, provides aircraft charters, aircraft management and programs allowing members to purchase flight time by the hour.

In December 2018, we sold DAL Global Services, LLC (“DGS”), which provides aviation-related, ground support equipment maintenance and professional security services, to a new subsidiary of Argenbright Holdings, LLC. We received a non-controlling 49% equity stake in the new company and $40 million cash. The new company will continue to service our customers and third parties, and is expected to continue operating at the same airport locations it currently serves.

Competition

The airline industry is highly competitive, marked by significant competition with respect to routes, fares, schedules (both timing and frequency), services, products, customer service and loyalty programs. The industry has evolved through mergers and new entry, both domestically and internationally, and changes in international alliances. Consolidation in the airline industry, the rise of subsidized government sponsored international carriers, changes in international alliances and the creation of immunized joint ventures have altered, and will continue to alter, the competitive landscape in the industry, resulting in the formation of airlines and alliances with significant financial resources, more extensive global networks and more competitive cost structures.

Domestic

Our domestic operations are subject to competition from traditional network carriers, including American Airlines and United Airlines, national point-to-point carriers, including Alaska Airlines, JetBlue Airways and Southwest Airlines, and other discount or ultra low-cost carriers, including Spirit Airlines and Allegiant Air, some of which may have lower costs than we do and provide service at low fares to destinations served by us. Point-to-point, discount and ultra low-cost carriers place significant competitive pressure on network carriers in the domestic market. In particular, we face significant competition at our domestic hub and key airports either directly at those airports or at the hubs of other airlines that are located in close proximity to our hubs and key airports. We also face competition in smaller to medium-sized markets from regional jet operations of other carriers.

International

Our international operations are subject to competition from both foreign and domestic carriers. Competition from government-owned and subsidized carriers in the Gulf region, including Emirates, Etihad Airways and Qatar Airways, is significant. These carriers have large numbers of international widebody aircraft on order and have increased service to the U.S. These carriers' government subsidies have allowed them to grow quickly, reinvest in their product and expand their global presence at the expense of U.S. airlines.

Through alliance and other marketing and codesharing agreements with foreign carriers, U.S. carriers have increased their ability to sell international transportation, such as services to and beyond traditional European and Asian gateway cities. Similarly, foreign carriers have obtained increased access to interior U.S. passenger traffic beyond traditional U.S. gateway cities through these relationships. In particular, alliances formed by domestic and foreign carriers, including SkyTeam, the Star Alliance (among United Airlines, Lufthansa German Airlines, Air Canada and others) and the oneworld alliance (among American Airlines, British Airways, Qantas and others) have enhanced competition in international markets.

In addition, several joint ventures among U.S. and foreign carriers, including our transatlantic and transpacific joint ventures, have received grants of antitrust immunity allowing the participating carriers to coordinate schedules, pricing, sales and inventory. Other joint ventures that have received antitrust immunity include a transatlantic alliance among United Airlines, Air Canada and Lufthansa German Airlines, a transpacific joint venture between United Airlines and All Nippon Airways, a transatlantic joint venture among American Airlines, British Airways and Iberia and a transpacific joint venture between American Airlines and Japan Air Lines.

Regulatory Matters

The DOT and the Federal Aviation Administration (the "FAA") exercise regulatory authority over air transportation in the U.S. The DOT has authority to issue certificates of public convenience and necessity required for airlines to provide domestic air transportation. An air carrier that the DOT finds fit to operate is given authority to operate domestic and international air transportation (including the carriage of passengers and cargo). Except for constraints imposed by regulations regarding "Essential Air Services," which are applicable to certain small communities, airlines may terminate service to a city without restriction.

The DOT has jurisdiction over certain economic and consumer protection matters, such as unfair or deceptive practices and methods of competition, advertising, denied boarding compensation, baggage liability and disabled passenger transportation. The DOT also has authority to review certain joint venture agreements between domestic and international carriers and engages in regulation of economic matters such as transactions involving allocation of "slots" or similar regulatory mechanisms which limit the rights of carriers to conduct operations at those airports. The FAA has primary responsibility for matters relating to the safety of air carrier flight operations, including airline operating certificates, control of navigable air space, flight personnel, aircraft certification and maintenance and other matters affecting air safety.

Authority to operate international routes and international codesharing arrangements is regulated by the DOT and by the governments of the foreign countries involved. International certificate authorities are also subject to the approval of the U.S. President for conformance with national defense and foreign policy objectives.

The Transportation Security Administration and the U.S. Customs and Border Protection, each a division of the Department of Homeland Security, are responsible for certain civil aviation security matters, including passenger and baggage screening at U.S. airports and international passenger prescreening prior to entry into or departure from the U.S.

Airlines are also subject to various other federal, state, local and foreign laws and regulations. For example, the U.S. Department of Justice has jurisdiction over airline competition matters. The U.S. Postal Service has authority over certain aspects of the transportation of mail. Labor relations in the airline industry, as discussed below, are generally governed by the Railway Labor Act with oversight by the National Mediation Board. Environmental matters are regulated by various federal, state, local and foreign governmental entities. Privacy of passenger and employee data is regulated by domestic and foreign laws and regulations.

Fares and Rates

Airlines set ticket prices in all domestic and most international city pairs with minimal governmental regulation, and the industry is characterized by significant price competition. Certain international fares and rates are subject to the jurisdiction of the DOT and the governments of the foreign countries involved. Many of our tickets are sold by travel agents, and fares are subject to commissions, overrides and discounts paid to travel agents, brokers and wholesalers.

Route Authority

Our flight operations are authorized by certificates of public convenience and necessity and also by exemptions and limited-entry frequency awards issued by the DOT. The requisite approvals of other governments for international operations are controlled by bilateral agreements (and a multilateral agreement in the case of the U.S. and the European Union) with, or permits or approvals issued by, foreign countries. Because international air transportation is governed by bilateral or other agreements between the U.S. and the foreign country or countries involved, changes in U.S. or foreign government aviation policies could result in the alteration or termination of such agreements, diminish the value of our international route authorities or otherwise affect our international operations. Bilateral agreements between the U.S. and various foreign countries served by us are subject to renegotiation from time to time. The U.S. government has negotiated "Open Skies" agreements with many countries, which allow unrestricted access between the U.S. and the foreign markets. These agreements include separate agreements with the European Union and Japan.

Certain of our international route authorities are subject to periodic renewal requirements. We request extension of these authorities when and as appropriate. While the DOT usually renews temporary authorities on routes where the authorized carrier is providing a reasonable level of service, there is no assurance this practice will continue in general or with respect to a specific renewal. Dormant route authorities may not be renewed in some cases, especially where another U.S. carrier indicates a willingness to provide service.

Airport Access

Operations at three major domestic airports and certain foreign airports served by us are regulated by governmental entities through allocations of "slots" or similar regulatory mechanisms. Each slot represents the authorization to land at or take off from the particular airport during a specified time period.

In the U.S., the FAA currently regulates the allocation of slots, slot exemptions, operating authorizations, or similar capacity allocation mechanisms at Reagan National in Washington, D.C. and LaGuardia and JFK in the New York City area. Our operations at these airports generally require the allocation of slots or analogous regulatory authorizations. Similarly, our operations at Tokyo's Narita and Haneda airports, London's Heathrow airport and other international airports are regulated by local slot coordinators pursuant to the International Air Transport Association's Worldwide Scheduling Guidelines and applicable local law. We currently have sufficient slots or analogous authorizations to operate our existing flights, and we have generally been able to obtain the rights to expand our operations and to change our schedules. There is no assurance, however, that we will be able to do so in the future because, among other reasons, such allocations are subject to changes in governmental policies.

Environmental Matters

Our operations are subject to a number of international, federal, state and local laws and regulations governing protection of the environment, including regulation of greenhouse gases and other air emissions, noise reduction, water discharges, aircraft drinking water, storage and use of petroleum and other regulated substances, and the management and disposal of hazardous waste, substances and materials.

Emissions. Carbon emissions by the aviation industry and their impact on climate change have become a particular focus in the international community and within the U.S. For several years, the European Union has required its member states to implement regulations to include aviation in its Emissions Trading Scheme ("ETS"). Under these regulations, any airline with flights originating or landing in the European Union is subject to the ETS and, beginning in 2012, was required to purchase emissions allowances if the airline exceeds the number of free allowances allocated to it under the ETS. The ETS was amended to apply only to flights within the European Economic Area from 2013 through 2016. In 2017, the EU extended the exemption for foreign flights through 2023 based on the International Civil Aviation Organization’s ("ICAO") adoption of a global market-based program.

In 2016, ICAO formally adopted a global, market-based emissions offset program known as the Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"). This program is designed toward a medium-term goal for the aviation industry of achieving carbon-neutral growth in international aviation beginning in 2020. A pilot phase of the offset program will begin in 2021, followed by a first phase of the program beginning in 2024 and a second phase beginning in 2027. Countries can voluntarily participate in the pilot and first phase, but participation in the second phase is mandatory. We plan to submit our CORSIA Emissions Monitoring Plan to the FAA in 2019 and begin emissions monitoring for the 2019 baseline year. In 2017, ICAO also adopted new aircraft certification standards to reduce carbon dioxide (CO_2) emissions from aircraft. The new aircraft certification standards will apply to new aircraft types in 2020 and to new in-production aircraft starting in 2023 but no later than 2028. These standards will not apply to existing in-service aircraft. However, exemption from the certification requirement could affect how these aircraft are treated under other programs governing CO_2 emissions.

In 2016, the U.S. Environmental Protection Agency ("EPA") issued a final finding under the Clean Air Act that greenhouse gases threaten the public health and welfare, and further determined that aircraft cause or contribute to greenhouse gases. The endangerment finding does not establish standards, but triggers an obligation for the EPA to regulate greenhouse gas emissions from aircraft. The EPA has historically implemented air emissions control standards adopted by ICAO; therefore, the ICAO aircraft engine certification standards are expected to influence the development of any future EPA greenhouse gas emission standards for aircraft.

We may face additional regulation of aircraft emissions in the U.S. and abroad and become subject to further taxes, charges or additional requirements to obtain permits or purchase allowances or emission credits for greenhouse gas emissions in various jurisdictions. Additional regulation could result in taxation, regulatory or permitting requirements from multiple jurisdictions for the same operations and significant costs for us and the airline industry. In addition to direct costs, such regulation could result in increased fuel costs passed through from fuel suppliers affected by any such regulations. We are monitoring and evaluating the potential impact of such legislative and regulatory developments.

We seek to minimize the impact of carbon emissions from our operations through reductions in our fuel consumption and other efforts, and have realized reductions in our carbon emission levels since 2005. We have reduced the fuel needs of our aircraft fleet through the retirement of older aircraft and replacement with newer, more fuel efficient aircraft. In addition, we have implemented fuel saving procedures in our flight and ground support operations that further reduce carbon emissions. We are also supporting efforts to develop alternative fuels and efforts to modernize the air traffic control system in the U.S. as part of our efforts to reduce our emissions and minimize our impact on the environment.

Noise. The Airport Noise and Capacity Act of 1990 recognizes the rights of operators of airports with noise problems to implement local noise abatement programs so long as such programs do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. This statute generally provides that local noise restrictions on Stage 3 aircraft first effective after October 1, 1990, require FAA approval. While we have had sufficient scheduling flexibility to accommodate local noise restrictions in the past, our operations could be adversely impacted if locally-imposed regulations become more restrictive or widespread. In addition, foreign governments may allow airports to enact similar restrictions, which could adversely impact our international operations or require significant expenditure in order for our aircraft to comply with the restrictions.

Refinery Matters. Monroe's operation of the Trainer refinery is subject to numerous environmental laws and extensive regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures and greenhouse gas and other air emissions.

Under the Energy Independence and Security Act of 2007, the EPA has adopted Renewable Fuel Standards ("RFS") that mandate the blending of renewable fuels into gasoline and on-road diesel ("Transportation Fuels"). Renewable Identification Numbers ("RINs") are assigned to renewable fuels produced or imported into the U.S. that are blended into Transportation Fuels to demonstrate compliance with this obligation. A refiner may meet its obligation under RFS by blending the necessary volumes of renewable fuels with Transportation Fuels or by purchasing RINs in the open market or through a combination of blending and purchasing RINs. Because Monroe blends only a small amount of renewable fuels, it must purchase the majority of its RINs requirement in the secondary market or obtain a waiver from the EPA. Market prices for RINs have been volatile, marked by periods of sharp increases and decreases.

Other Environmental Matters. We are subject to certain environmental laws and contractual obligations governing the management and release of regulated substances, which may require the investigation and remediation of affected sites. Soil and/or ground water impacts have been identified at certain of our current or former leaseholds at several domestic airports. To address these impacts, we have a program in place to investigate and, if appropriate, remediate these sites. Although the ultimate outcome of these matters cannot be predicted with certainty, we believe that the resolution of these matters will not have a material adverse effect on our Consolidated Financial Statements.

Civil Reserve Air Fleet Program

We participate in the Civil Reserve Air Fleet program (the "CRAF Program"), which permits the U.S. military to use the aircraft and crew resources of participating U.S. airlines during airlift emergencies, national emergencies or times of war. We have agreed to make available under the CRAF Program a portion of our international aircraft during the contract period ending September 30, 2020. The CRAF Program has only been activated twice since it was created in 1951.

Employee Matters

Railway Labor Act

Our relations with labor unions representing our airline employees in the U.S. are governed by the Railway Labor Act. Under the Railway Labor Act, a labor union seeking to represent an unrepresented craft or class of employees is required to file with the National Mediation Board (the "NMB") an application alleging a representation dispute, along with authorization cards signed by at least 50% of the employees in that craft or class. The NMB then investigates the dispute and, if it finds the labor union has obtained a sufficient number of authorization cards, conducts an election to determine whether to certify the labor union as the collective bargaining representative of that craft or class. A labor union will be certified as the representative of the employees in a craft or class if more than 50% of votes cast are for that union. A certified labor union would commence negotiations toward a collective bargaining agreement with the employer.

Under the Railway Labor Act, a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. Either party may request that the NMB appoint a federal mediator to participate in the negotiations for a new or amended agreement. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists and offer binding arbitration. If either party rejects binding arbitration, a 30-day "cooling off" period begins. At the end of this 30-day period, the parties may engage in “self help,” unless the U.S. President appoints a Presidential Emergency Board ("PEB") to investigate and report on the dispute. The appointment of a PEB maintains the "status quo" for an additional 60 days. If the parties do not reach agreement during this period, the parties may then engage in self help. Self help includes, among other things, a strike by the union or the imposition of proposed changes to the collective bargaining agreement by the airline. Congress and the President have the authority to prevent self help by enacting legislation that, among other things, imposes a settlement on the parties.

Collective Bargaining

As of December 31, 2018, we had approximately 89,000 full-time equivalent employees, approximately 19% of whom were represented by unions. The following table shows our domestic airline employee groups that are represented by unions.

Employee Group	Approximate Number of Active Employees Represented	Union	Date on which Collective Bargaining Agreement Becomes Amendable
Delta Pilots	13,203	ALPA	December 31, 2019
Delta Flight Superintendents (Dispatchers)[1]	432	PAFCA	March 31, 2018
Endeavor Air Pilots	1,976	ALPA	January 1, 2024
Endeavor Air Flight Attendants[1]	1,307	AFA	December 31, 2018
Endeavor Air Dispatchers[1]	60	PAFCA	December 31, 2018

(1) We are in discussions with representatives of these employee groups regarding terms of amendable collective bargaining agreements.

In addition to the domestic airline employee groups discussed above, 196 refinery employees of Monroe are represented by the United Steel Workers under an agreement that expires on February 28, 2019. This agreement is governed by the National Labor Relations Act ("NLRA"), which generally allows either party to engage in self help upon the expiration of the agreement.

Labor unions periodically engage in organizing efforts to represent various groups of our employees, including at our operating subsidiaries, that are not represented for collective bargaining purposes.

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Executive Officers of the Registrant

Edward H. Bastian, Age 61**:** Chief Executive Officer of Delta since May 2016; President of Delta (September 2007 - May 2016); President of Delta and Chief Executive Officer Northwest Airlines, Inc. (October 2008 - December 2009); President and Chief Financial Officer of Delta (September 2007 - October 2008); Executive Vice President and Chief Financial Officer of Delta (July 2005 - September 2007); Chief Financial Officer of Acuity Brands (June 2005 - July 2005); Senior Vice President - Finance and Controller of Delta (2000 - April 2005); Vice President and Controller of Delta (1998 - 2000).

Peter W. Carter, Age 55**:** Executive Vice President - Chief Legal Officer of Delta since July 2015; Partner of Dorsey & Whitney LLP (1999 - 2015), including co-chair of Securities Litigation and Enforcement practice group, chair of Policy Committee and chair of trial department.

Glen W. Hauenstein, Age 58**:** President of Delta since May 2016; Executive Vice President - Chief Revenue Officer of Delta (August 2013 - May 2016); Executive Vice President - Network Planning and Revenue Management of Delta (April 2006 - July 2013); Executive Vice President and Chief of Network and Revenue Management of Delta (August 2005 - April 2006); Vice General Director - Chief Commercial Officer and Chief Operating Officer of Alitalia (2003 - 2005); Senior Vice President- Network of Continental Airlines (2003); Senior Vice President - Scheduling of Continental Airlines (2001 - 2003); Vice President Scheduling of Continental Airlines (1998 - 2001).

Paul A. Jacobson, Age 47: Executive Vice President - Chief Financial Officer of Delta since August 2013; Senior Vice President and Chief Financial Officer of Delta (March 2012 - July 2013); Senior Vice President and Treasurer of Delta (December 2007 - March 2012); Vice President and Treasurer of Delta (August 2005 - December 2007).

William P. Lentsch, Age 55: Executive Vice President - Flying/Air Operations of Delta since August 2018; Senior Vice President - Delta Connection and Delta Global Services, CEO - Endeavor Air (April 2017 - August 2018); Senior Vice President - Airport Customer Service and Airline Operations of Delta (September 2013 - April 2017); Senior Vice President - Minnesota Operations of Delta (June 2009 - September 2013); Senior Vice President - Flight Operations of Northwest Airlines, Inc. (October 2008 - June 2009); Vice President - Flight Operations of Northwest Airlines, Inc. (October 2007 - October 2008); Vice President - Customer Service - Minneapolis of Northwest Airlines, Inc. (May 2006 - October 2007); Vice President - Station Operations of Northwest Airlines, Inc. (July 2005 - May 2006).

Rahul Samant, Age 52: Executive Vice President - Chief Information Officer of Delta since January 2018; Senior Vice President and Chief Information Officer of Delta (February 2016 - December 2017); Senior Vice President and Chief Digital Officer of American International Group, Inc. (January 2015 - February 2016); Senior Vice President and Global Head, Application Development and Management of American International Group, Inc. (September 2012 - December 2014); Managing Director of Bank of America (1999 - September 2012).

Steven M. Sear, Age 53**:** President, International and Executive Vice President - Global Sales of Delta since February 2016; Senior Vice President - Global Sales of Delta (December 2011 - February 2016); Vice President - Global Sales of Delta (October 2008 - December 2011); Vice President - Sales & Customer Care of Northwest Airlines, Inc. (June 2005 - October 2008).

Joanne D. Smith, Age 60: Executive Vice President and Chief Human Resources Officer of Delta since October 2014; Senior Vice President - In-Flight Service of Delta (March 2007 - September 2014); Vice President - Marketing of Delta (November 2005 - February 2007); President of Song (January 2005 - October 2005); Vice President - Marketing and Customer Service of Song (November 2002 - December 2004).

W. Gil West, Age 58: Senior Executive Vice President and Chief Operating Officer of Delta since February 2016; Executive Vice President and Chief Operating Officer of Delta (March 2014 - February 2016); Senior Vice President - Airport Customer Service and Technical Operations of Delta (February 2012 - February 2014); Senior Vice President - Airport Customer Service of Delta (March 2008 - January 2012); President and Chief Executive Officer of Laidlaw Transit Services (2006 - 2007).

Additional Information

We make available free of charge on our website at ir.delta.com our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after these reports are filed with or furnished to the Securities and Exchange Commission. Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of those filings.

ITEM 1A. RISK FACTORS

Risk Factors Relating to Delta

Our business and results of operations are dependent on the price of aircraft fuel. High fuel costs or cost increases, including in the cost of crude oil, could have a material adverse effect on our operating results.

Our operating results are significantly impacted by changes in the price of aircraft fuel. Over the last decade, fuel prices have increased substantially at times and have been highly volatile. In 2018, our average fuel price per gallon, including the impact of fuel hedges, was $2.20, a 31.0% increase from our average fuel price in 2017. In 2017, our average fuel price per gallon was $1.68, a 12.8% increase from our average fuel price in 2016. In 2016, our average fuel price per gallon was $1.49, a 21.6% decrease from our average fuel price in 2015. Fuel costs represented 23.0%, 19.2% and 18.3% of our operating expense in 2018, 2017 and 2016, respectively.

Our ability to pass along rapidly increasing fuel costs to our customers may be affected by the competitive nature of the airline industry. In addition, because passengers often purchase tickets well in advance of their travel, a significant rapid increase in fuel price may result in the fare charged not covering that increase. At times in the past, we often were not able to increase our fares to offset fully the effect of increases in fuel costs, and we may not be able to do so in the future.

We acquire a significant amount of jet fuel from our wholly owned subsidiary, Monroe, and through strategic agreements that Monroe has with third parties. The cost of the fuel we purchase under these arrangements remains subject to volatility in the cost of crude oil and jet fuel. In addition, we continue to purchase a significant amount of aircraft fuel in addition to what we obtain from Monroe. Our aircraft fuel purchase contracts alone do not provide material protection against price increases as these contracts typically establish the price based on industry standard market price indices.

Significant extended disruptions in the supply of aircraft fuel, including from Monroe, could have a material adverse effect on our operations and operating results.

Weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, changes in governmental policy concerning aircraft fuel production, transportation, taxes or marketing, changes in refining capacity, environmental concerns and other unpredictable events may impact crude oil and fuel supply and could result in shortages in the future. Shortages in fuel supplies could have negative effects on our results of operations and financial condition.

Because we acquire a large amount of our jet fuel from Monroe, the disruption or interruption of production at the refinery could have an impact on our ability to acquire jet fuel needed for our operations. Disruptions or interruptions of production at the refinery could result from various sources including a major accident or mechanical failure, interruption of supply or delivery of crude oil, work stoppages relating to organized labor issues, or damage from severe weather or other natural or man-made disasters, including acts of terrorism. If the refinery were to experience an interruption in operations, disruptions in fuel supplies could have negative effects on our results of operations and financial condition. In addition, the financial benefits from the operation of the refinery could be materially adversely affected (to the extent not recoverable through insurance) because of lost production and repair costs.

If Monroe's cost of producing non-jet fuel products exceeds the value it receives for those products, the financial benefits we expect to achieve through the ownership of the refinery and our consolidated results of operations could be materially adversely affected.

Fuel hedging activities are intended to manage the financial impact of the volatility in the price of jet fuel. The effects of rebalancing our hedge portfolio and mark-to-market adjustments may have a negative effect on our financial results.

To the extent that we may reduce the financial impact of changes in the price of jet fuel through a hedging program, we may utilize different contract and commodity types in the program and test their economic effectiveness against our financial targets. Any hedging program may not be successful in providing price protection due to market conditions and the choice of hedging instruments. We closely monitor any hedge portfolio and rebalance the portfolio based on market conditions, which may result in locking in gains or losses on hedge contracts prior to their settlement dates. In addition, we record mark-to-market adjustments ("MTM adjustments") on our fuel hedges. MTM adjustments are based on market prices at the end of the reporting period for contracts settling in future periods. Losses from rebalancing or MTM adjustments (or both) may have a negative impact on our financial results.

Our fuel hedge contracts may contain margin funding requirements, which require us to post margin to counterparties or cause counterparties to post margin to us as market prices in the underlying hedged items change. If fuel prices decrease significantly from the levels existing at the time we enter into fuel hedge contracts, we may be required to post a significant amount of margin, which could have a material impact on the level of our unrestricted cash and cash equivalents and short-term investments.

Our significant investments in airlines in other parts of the world and the commercial relationships that we have with those carriers may not produce the returns or results we expect.

An important part of our strategy to expand our global network has been to make significant investments in airlines in other parts of the world and expand our commercial relationships with these carriers. We expect to continue exploring ways to expand our relationships with other carriers as part of our global business strategy. These investments and relationships involve significant challenges and risks, including that we may not realize a satisfactory return on our investment, that they may distract management from our operations or that they may not generate the expected revenue synergies. These events could have a material adverse effect on our operating results or financial condition.

In addition, we are dependent on these other carriers for significant aspects of our network in the regions in which they operate. While we work closely with these carriers, we do not have control over their operations or business methods. To the extent that the operations of any of these carriers are disrupted over an extended period of time or their actions subject us to the consequences of failure to comply with laws and regulations or adversely affect our operations, our results of operations may be adversely affected. We also may be subject to consequences from any improper behavior of joint venture partners, including for failure to comply with anti-corruption laws such as the United States Foreign Corrupt Practices Act.

We are at risk of losses and adverse publicity stemming from a serious accident involving our aircraft or aircraft of our airline partners.

An aircraft crash or other serious accident could expose us to significant liability. Although we believe that our insurance coverage is appropriate, we may be forced to bear substantial losses from an accident in the event that the coverage was not sufficient.

In addition, any accident involving an aircraft that we operate or an aircraft that is operated by an airline that is one of our regional carriers or codeshare, alliance or joint venture partners could create a negative public perception about safety, which could harm our reputation, resulting in air travelers being reluctant to fly on our aircraft and therefore harm our business.

Breaches or lapses in the security of our technology systems and the data we store could compromise passenger or employee information and expose us to liability, possibly having a material adverse effect on our business.

As a regular part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and information of our business partners. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy.

Our information systems and those of our service providers are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information or those of our service providers, including through fraud or other means of deception. Hardware or software we develop, acquire or use in connection with our systems may contain defects that could unexpectedly compromise information security.

We were notified in 2018 that a third-party vendor of chat services for Delta and other companies determined it had been involved in a cyber incident for a short period in 2017. We have incurred remedial, legal and other costs in connection with this incident but the costs are not material to our financial position or results of operations.

The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving and may be difficult to anticipate or to detect for long periods of time. As a result of these types of risks and regular attacks on our systems, we regularly review and update procedures and processes to prevent and protect against unauthorized access to our systems and information and inadvertent misuse of data. In addition to continuously risk assessing and reviewing our procedures, processes and technologies, we also continue to monitor, review and update the process and control requirements we expect our third parties and vendors to leverage and implement for the protection of Delta information that is in their care. However, the constantly changing nature of the threats means that we may not be able to prevent all data security breaches or misuse of data.

The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information or failure to comply with regulatory or contractual obligations with respect to such information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business. The costs to remediate breaches and similar system compromises that do occur could be material. In addition, as cybercriminals become more sophisticated, the cost of proactive defensive measures may increase.

Disruptions of our information technology infrastructure could interfere with our operations, possibly having a material adverse effect on our business.

Disruptions in our information technology network could result from a technology error or failure impacting our internal systems, whether hosted internally at our data centers or externally at third-party locations, or large scale external interruption in technology infrastructure support on which we depend, such as power, telecommunications or the internet. For example, we experienced a power outage at our data center in 2016 that disrupted our operations even though it was quickly addressed. The operation of our technology systems and the use of related data may also be vulnerable to a variety of other sources of interruption, including natural disasters, terrorist attacks, computer viruses, hackers and other security issues. A significant individual, sustained or repeated failure of our network, including third-party networks we utilize and on which we depend, could impact our customer service and result in increased costs. While we have in place initiatives to prevent disruptions and disaster recovery plans (including the creation of a back-up data center since 2016) and continue to invest in improvements to these initiatives and plans, these measures may not be adequate to prevent a business disruption and its adverse financial and reputational consequences to our business.

Failure of our technology to perform effectively could have an adverse effect on our business.

We are dependent on technology initiatives to provide customer service and operational effectiveness in order to compete in the current business environment. For example, we have made and continue to make significant investments in customer facing technology such as delta.com, mobile device applications, check-in kiosks, customer service applications, application of biometric technology, airport information displays and related initiatives, including security for these initiatives. We are also investing in significant upgrades to technology infrastructure and other supporting systems. The performance, reliability and security of the technology are critical to our ability to serve customers. If our technology does not perform effectively, our business and operations would be negatively affected, which could be material.

Agreements governing our debt, including credit agreements, include financial and other covenants. Failure to comply with these covenants could result in events of default.

Our primary credit facility has various financial and other covenants that require us to maintain a minimum fixed charge coverage ratios and a minimum asset coverage ratio. We have other smaller facilities, some of which are secured and also contain collateral coverage ratios. A decline in the value of our assets supporting these facilities from factors that are not under our control could affect one or more of the ratios. In addition, the credit facilities contain other negative covenants customary for such financings. These covenants are subject to important exceptions and qualifications. If we fail to comply with these covenants and are unable to remedy or obtain a waiver or amendment, an event of default would result.

The credit facilities also contain other events of default customary for such financings. If an event of default were to occur, the lenders could, among other things, declare outstanding amounts due and payable. In addition, an event of default or declaration of acceleration under any of the credit facilities could also result in an event of default under other of our financing agreements. The acceleration of significant amounts of debt could require us to renegotiate, repay or refinance the obligations under the credit facilities or other financing arrangements.

Employee strikes and other labor-related disruptions may adversely affect our operations.

Our business is labor intensive, utilizing large numbers of pilots, flight attendants, aircraft maintenance technicians, ground support personnel and other personnel. As of December 31, 2018, approximately 19% of our workforce, primarily pilots, was unionized. Relations between air carriers and labor unions in the United States are governed by the Railway Labor Act, which provides that a collective bargaining agreement between an airline and a labor union does not expire, but instead becomes amendable as of a stated date. The Railway Labor Act generally prohibits strikes or other types of self help actions both before and after a collective bargaining agreement becomes amendable, unless and until the collective bargaining processes required by the Railway Labor Act have been exhausted. Monroe's relations with unions representing its employees are governed by the NLRA, which generally allows self help after a collective bargaining agreement expires.

If we or our subsidiaries are unable to reach agreement with any of our unionized work groups on future negotiations regarding the terms of their collective bargaining agreements or if additional segments of our workforce become unionized, we may be subject to work interruptions or stoppages, subject to the requirements of the Railway Labor Act or the NLRA, as the case may be. Strikes or labor disputes with our unionized employees may adversely affect our ability to conduct business. Likewise, if third-party regional carriers with whom we have contract carrier agreements are unable to reach agreement with their unionized work groups in current or future negotiations regarding the terms of their collective bargaining agreements, those carriers may be subject to work interruptions or stoppages, subject to the requirements of the Railway Labor Act, which could have a negative impact on our operations.

Our results can fluctuate due to the effects of weather, natural disasters and seasonality.
Our results of operations are impacted by severe weather, natural disasters and seasonality. Severe weather conditions and natural disasters (or other environmental events) can significantly disrupt service and create air traffic control problems. These events decrease revenue and can also increase costs. In addition, increases in the frequency, severity or duration of thunderstorms, hurricanes, typhoons or other severe weather events, including from changes in the global climate, could result in increases in delays and cancellations, turbulence-related injuries and fuel consumption to avoid such weather, any of which could result in loss of revenue and higher costs. In addition, demand for air travel is typically higher in the June and September quarters, particularly in our international markets, because there is more vacation travel during these periods than during the remainder of the year. The seasonal shifting of demand causes our financial results to vary on a seasonal basis. Because of fluctuations in our results from weather, natural disasters and seasonality, operating results for a historical period are not necessarily indicative of operating results for a future period and operating results for an interim period are not necessarily indicative of operating results for an entire year.

An extended disruption in services provided by third parties, including third-party regional carriers, could have a material adverse effect on our results of operations.

We utilize the services of third parties in a number of areas in support of our operations that are integral to our business, including third-party carriers in the Delta Connection program and ground operations at some airports. While we have agreements with these providers that define expected service performance, we do not have direct control over their operations. In particular, some third-party regional carriers are facing a shortage of qualified pilots due to government mandated increases in flight experience required for pilots working for airlines. If this shortage becomes more widespread, third-party regional carriers may not be able to comply with their obligations to us. To the extent that a significant disruption in services occurs because third party providers are unable to perform their obligations over an extended period of time, our revenue may be reduced or our expenses may be increased, resulting in a material adverse effect on our results of operations.

The failure or inability of insurance to cover a significant liability related to an environmental or other incident associated with the operation of the Monroe refinery could have a material adverse effect on our consolidated financial results.
Monroe's refining operations are subject to various hazards unique to refinery operations, including explosions, fires, toxic emissions and natural catastrophes. Monroe could incur substantial losses, including cleanup costs, fines and other sanctions and third-party claims, and its operations could be interrupted, as a result of such an incident. Monroe's insurance coverage does not cover all potential losses, costs or liabilities, and Monroe could suffer losses for uninsurable or uninsured risks or in amounts greater than its insurance coverage. In addition, Monroe's ability to obtain and maintain adequate insurance may be affected by conditions in the insurance market over which it has no control. If Monroe were to incur a significant liability for which it is not fully insured or for which insurance companies do not or are unable to provide coverage, this could have a material adverse effect on our consolidated financial results of operations or consolidated financial position.
The operation of the refinery by Monroe is subject to significant environmental regulation. Failure to comply with environmental regulations or the enactment of additional regulation could have a negative impact on our consolidated financial results.

Monroe's operations are subject to extensive environmental, health and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures and greenhouse gas emissions. Monroe could incur fines and other sanctions, cleanup costs and third-party claims as a result of violations of or liabilities under environmental, health and safety requirements, which if significant, could have a material adverse effect on our financial results. In addition, the enactment of new environmental laws and regulations, including any laws or regulations relating to greenhouse gas emissions, could significantly increase the level of expenditures required for Monroe or restrict its operations.

In particular, under the Energy Independence and Security Act of 2007, the EPA has adopted RFS that mandate the blending of renewable fuels into Transportation Fuels. RINs are assigned to renewable fuels produced or imported into the U.S. that are blended into Transportation Fuels to demonstrate compliance with this obligation. A refinery may meet its obligation under RFS by blending the necessary volumes of renewable fuels with Transportation Fuels or by purchasing RINs in the open market or through a combination of blending and purchasing RINs.
Because Monroe blends only a small amount of renewable fuels, it must purchase the majority of its RINs requirement in the secondary market or obtain a waiver from the EPA. As a result, Monroe is exposed to the market price of RINs. Market prices for RINs have been volatile, marked by periods of sharp increases and decreases. We cannot predict the future prices of RINs. Purchasing RINs at elevated prices could have a material impact on our results of operations and cash flows.
Existing laws or regulations could change, and the minimum volumes of renewable fuels that must be blended with refined petroleum products may increase. Increases in the volume of renewable fuels that must be blended into Monroe's products could limit the refinery's production if sufficient numbers of RINs are not available for purchase or relief from this requirement is not obtained, which could have an adverse effect on our consolidated financial results.

If we lose senior management and other key employees and they are not replaced by individuals with comparable skills, our operating results could be adversely affected.

We are dependent on the experience and industry knowledge of our officers and other key employees to design and execute our business plans. If we experience a substantial turnover in our leadership and other key employees, and these persons are not replaced by individuals with comparable skills, our performance could be materially adversely impacted. Furthermore, we may be unable to attract and retain additional qualified executives as needed in the future.

Our reputation and brand could be damaged if we are exposed to significant adverse publicity through social media.

We operate in a highly visible, public environment with significant exposure to social media. Adverse publicity, whether justified or not, can rapidly spread through social or digital media. In particular, passengers can use social media to provide feedback about their interaction with us in a manner that can be quickly and broadly disseminated. To the extent we are unable to respond timely and appropriately to adverse publicity, our brand and reputation may be damaged. Significant damage to our overall reputation and brand image could have a negative impact on our financial results.

Risk Factors Relating to the Airline Industry

Terrorist attacks, geopolitical conflict or security events may adversely affect our business, financial condition and operating results.

Terrorist attacks, geopolitical conflict or security events, or fear of any of these events, could have a significant adverse effect on our business. Despite significant security measures at airports and airlines, the airline industry remains a high profile target for terrorist groups. We constantly monitor threats from terrorist groups and individuals, including from violent extremists both internationally and domestically, with respect to direct threats against our operations and in ways not directly related to the airline industry. In addition, the impact on our operations of avoiding areas of the world, including airspace, in which there are geopolitical conflicts and the targeting of commercial aircraft by parties to those conflicts can be significant. Security events, primarily from external sources but also from potential insider threats, also pose a significant risk to our passenger and cargo operations. These events could include random acts of violence and could occur in public areas that we cannot control.

Terrorist attacks, geopolitical conflict or security events, or fear of any of these events, even if not made directly on or involving the airline industry, could have significant negative impact on us by discouraging passengers from flying, leading to decreased ticket sales and increased refunds. In addition, potential costs from these types of events include increased security costs, impacts from avoiding flight paths over areas in which conflict is occurring, reputational harm and other costs. If any or all of these types of events occur, they could have a material adverse effect on our business, financial condition and results of operations.

The global airline industry is highly competitive and, if we cannot successfully compete in the marketplace, our business, financial condition and operating results will be materially adversely affected.

The airline industry is highly competitive, marked by significant competition with respect to routes, fares, schedules (both timing and frequency), services, products, customer service and loyalty programs. Consolidation in the airline industry, the rise of subsidized government sponsored international carriers, changes in international alliances and the creation of immunized joint ventures have altered and will continue to alter the competitive landscape in the industry, resulting in the formation of airlines and alliances with increased financial resources, more extensive global networks and competitive cost structures.

Our domestic operations are subject to competition from traditional network carriers, including American Airlines and United Airlines, national point-to-point carriers, including Alaska Airlines, JetBlue Airways and Southwest Airlines, and other discount or ultra low-cost carriers, including Spirit Airlines and Allegiant Air, some of which may have lower costs than we do and provide service at low fares to destinations served by us. Point-to-point, discount and ultra low-cost carriers place significant competitive pressure on network carriers in the domestic market. In particular, we face significant competition at our domestic hub and key airports either directly at those airports or at the hubs of other airlines that are located in close proximity to our hubs and key airports. We also face competition in smaller to medium-sized markets from regional jet operations of other carriers. Our ability to compete in the domestic market effectively depends, in part, on our ability to maintain a competitive cost structure. If we cannot maintain our costs at a competitive level, then our business, financial condition and operating results could be materially adversely affected.

Our international operations are subject to competition from both foreign and domestic carriers. Competition from government-owned and subsidized carriers in the Gulf region, including Emirates, Etihad Airways and Qatar Airways, is significant. These carriers have large numbers of international widebody aircraft on order and have increased service to the U.S. These carriers are government-subsidized, which has allowed them to grow quickly, reinvest in their product and expand their global presence at the expense of U.S. airlines.

Through alliance and other marketing and codesharing agreements with foreign carriers, U.S. carriers have increased their ability to sell international transportation, such as services to and beyond traditional European and Asian gateway cities. Similarly, foreign carriers have obtained increased access to interior U.S. passenger traffic beyond traditional

U.S. gateway cities through these relationships. In addition, several joint ventures among U.S. and foreign carriers have received grants of antitrust immunity allowing the participating carriers to coordinate schedules, pricing, sales and inventory.

Increased competition in both the domestic and international markets may have a material adverse effect on our business, financial condition and operating results.

Extended interruptions or disruptions in service at major airports in which we operate could have a material adverse impact on our operations.

The airline industry is heavily dependent on business models that concentrate operations in major airports in the United States and throughout the world. An extended interruption or disruption at an airport where we have significant operations could have a material impact on our business, financial condition and results of operations.

The airline industry is subject to extensive government regulation, and new regulations may increase our operating costs.

Airlines are subject to extensive regulatory and legal compliance requirements that result in significant costs. For instance, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that necessitate significant expenditures. We expect to continue incurring significant expenses to comply with the FAA's regulations.

Other laws, regulations, taxes and airport rates and charges have also been imposed from time to time that significantly increase the cost of airline operations or reduce revenues. The industry is heavily taxed. Additional taxes and fees, if implemented, could negatively impact our results of operations.

Airport slot access is subject to government regulation and changes in slot regulations or allocations could impose a significant cost on the airlines operating in airports subject to such regulations or allocations. In addition, the failure of the federal government to upgrade the U.S. air traffic control system has resulted in delays and disruptions of air traffic during peak travel periods in certain congested markets. The failure to improve the air traffic control system could lead to increased delays and inefficiencies in flight operations as demand for U.S. air travel increases, having a material adverse effect on our operations. Failure to update the air traffic control system in a timely manner, and the substantial funding requirements of an updated system that may be imposed on air carriers, may have an adverse impact on our financial condition and results of operations.

Future regulatory action concerning climate change, aircraft emissions and noise emissions could have a significant effect on the airline industry. While the specific nature of future actions is hard to predict, new environmental laws or regulations adopted in the U.S. or other countries could impose significant additional costs on our operations, either through direct costs in our operations or through increases in costs that our suppliers pass along to us.

We and other U.S. carriers are subject to domestic and foreign laws regarding privacy of passenger and employee data that are not consistent in all countries in which we operate. In addition to the heightened level of concern regarding privacy of passenger data in the U.S., certain European government agencies have recently updated privacy regulations applicable to private industry, including airlines. Ongoing compliance with these evolving regulatory regimes is expected to result in additional operating costs and could impact our operations and any future expansion.

Because of the global nature of our business, unfavorable global economic conditions or volatility in currency exchange rates could have a material adverse effect on our business, financial condition and operating results.

As a result of the discretionary nature of air travel, the airline industry has been cyclical and particularly sensitive to changes in economic conditions. Because we operate globally, with approximately 30% of our revenues from operations outside of the U.S., our business is subject to economic conditions throughout the world. During periods of unfavorable or volatile economic conditions in the global economy, demand for air travel can be significantly impacted as business and leisure travelers choose not to travel, seek alternative forms of transportation for short trips or conduct business through videoconferencing. If unfavorable economic conditions occur, particularly for an extended period, our business, financial condition and results of operations may be adversely affected. In addition, significant or volatile changes in exchange rates between the U.S. dollar and other currencies, and the imposition of exchange controls or other currency restrictions, may have a material adverse effect on our liquidity, financial conditions and results of operations.

Economic conditions following the United Kingdom's exit from the European Union could adversely affect our business.

Following a referendum in June 2016 in which voters in the U.K. approved an exit from the European Union (often referred to as Brexit), the U.K.'s withdrawal is scheduled to become effective March 29, 2019 but there is substantial uncertainty regarding the terms of the withdrawal. Regardless of what happens with Brexit, the U.S.-EU Open Skies air services agreement will remain in effect and the recently signed U.S.-U.K. Open Skies agreement will take effect, maintaining the current liberal air services regime in the transatlantic market. The imposition of restrictions on flying rights between the EU and U.K. in connection with Brexit could negatively impact Virgin Atlantic, our joint venture partner in which we have 49% ownership, and could impact the planned integration of our transatlantic joint ventures.

The exit of the U.K. from the EU without agreement on matters such as trade, customs, financial services and the movement of goods and people between the EU and the U.K. could adversely impact the demand for air travel in the U.K. and increase costs for us and our joint venture partners. Furthermore, post-Brexit ambiguity or changes in regulations could diminish the value of route authorities, slots or other assets owned by us or our joint venture partners and, therefore, could adversely impact on our business and results of operations.

The rapid spread of contagious illnesses can have a material adverse effect on our business and results of operations.

The rapid spread of a contagious illness, or fear of such an event, can have a material adverse effect on the demand for worldwide air travel and therefore have a material adverse effect on our business and results of operations. Moreover, our operations could be negatively affected if employees are quarantined as the result of exposure to a contagious illness. Similarly, travel restrictions or operational issues resulting from the rapid spread of contagious illnesses in a part of the world in which we have significant operations may have a materially adverse impact on our business and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Flight Equipment

Our operating aircraft fleet, commitments and options at December 31, 2018 are summarized in the following table:

	Current Fleet[1]					Commitments	
Aircraft Type	Owned	Finance Lease	Operating Lease	Total	Average Age	Purchase	Options
B-717-200	3	16	72	91	17.3	—	—
B-737-700	10	—	—	10	9.9	—	—
B-737-800	73	4	—	77	17.3	—	—
B-737-900ER	73	—	39	112	2.7	18	—
B-757-200	89	9	2	100	21.4	—	—
B-757-300	16	—	—	16	15.9	—	—
B-767-300	2	—	—	2	25.5	—	—
B-767-300ER	55	1	—	56	22.6	—	—
B-767-400ER	21	—	—	21	18.0	—	—
B-777-200ER	8	—	—	8	19.1	—	—
B-777-200LR	10	—	—	10	9.8	—	—
A220-100	4	—	—	4	0.1	36	50
A220-300	—	—	—	—	—	50	—
A319-100	55	—	2	57	16.8	—	—
A320-200	55	3	4	62	23.4	—	—
A321-200	37	—	28	65	1.2	62	—
A321-200neo	—	—	—	—	—	100	100
A330-200	11	—	—	11	13.8	—	—
A330-300	28	—	3	31	9.9	—	—
A330-900neo	—	—	—	—	—	35	—
A350-900	11	—	—	11	1.0	14	—
MD-88	71	13	—	84	28.1	—	—
MD-90	43	—	—	43	21.8	—	—
Total	675	46	150	871	16.0	315	150

(1) Excludes certain aircraft we own, lease or have committed to purchase that are operated by regional carriers on our behalf shown in the table below.

The following table summarizes the aircraft fleet operated by regional carriers on our behalf at December 31, 2018:

	Fleet Type					
Carrier	CRJ-200	CRJ-700	CRJ-900	Embraer 170	Embraer 175	Total
Endeavor Air, Inc.[1]	42	3	109	—	—	154
SkyWest Airlines, Inc.	77	22	41	—	49	189
Compass Airlines, LLC	—	—	—	—	36	36
Republic Airline, Inc.	—	—	—	21	16	37
GoJet Airlines, LLC	—	22	7	—	—	29
Total	119	47	157	21	101	445

(1) Endeavor Air, Inc. is a wholly owned subsidiary of Delta.

Aircraft Purchase Commitments

As part of a multi-year effort, we have been investing in new aircraft to provide more premium products, an improved customer experience and better operating economics. Our purchase commitments for additional aircraft at December 31, 2018 are detailed in the following table:

	Delivery in Calendar Years Ending				
Aircraft Purchase Commitments	**2019**	**2020**	**2021**	**After 2021**	**Total**
A220-100	24	12	—	—	36
A220-300	—	6	12	32	50
A321-200	32	27	3	—	62
A321-200neo	—	16	36	48	100
A330-900neo	4	4	9	18	35
A350-900	2	2	—	10	14
B-737-900ER	18	—	—	—	18
CRJ-900	7	8	—	—	15
Total	87	75	60	108	330

Ground Facilities

Airline Operations

We lease most of the land and buildings that we occupy. Our largest aircraft maintenance base, various equipment maintenance, cargo, flight kitchen and training facilities and most of our principal offices are located at or near the Atlanta airport on land leased from the City of Atlanta. We lease ticket counters, passenger holdrooms, operating areas and other terminal space in most of the airports that we serve. At most airports, we have entered into use agreements which provide for the non-exclusive use of runways, taxiways and other improvements and facilities; landing fees under these agreements normally are based on the number of landings and weight of aircraft. These leases and use agreements generally run for periods of less than one year to 30 years or more, and often contain provisions for periodic adjustments of lease rates, landing fees and other charges applicable under that type of agreement. We also lease aircraft maintenance, equipment maintenance and air cargo facilities at several airports. Our facility leases generally require us to pay the cost of providing, operating and maintaining such facilities, including, in some cases, amounts necessary to pay debt service on special facility bonds issued to finance their construction. We also lease computer facilities, marketing offices, reservations offices and other off-airport facilities in certain locations for varying terms.

We own our Atlanta reservations center, other real property in Atlanta, and reservations centers in Minot, North Dakota and Chisholm, Minnesota.

Refinery Operations

Our wholly owned subsidiaries, Monroe and MIPC, own and operate the Trainer refinery and related assets in Pennsylvania. The facility includes pipelines and terminal assets that allow the refinery to supply jet fuel to our airline operations throughout the Northeastern U.S., including our New York hubs at LaGuardia and JFK.

ITEM 3. LEGAL PROCEEDINGS

Capacity Antitrust Litigation

In July 2015, a number of purported class action antitrust lawsuits were filed alleging that Delta, American, United and Southwest had conspired to restrain capacity. The lawsuits were filed in the wake of media reports that the U.S. Department of Justice had served civil investigative demands upon these carriers seeking documents and information relating to this subject. The lawsuits have been consolidated into a single Multi-District Litigation proceeding in the U.S. District Court for the District of Columbia. In November 2016, the District Court denied the defendants' motion to dismiss the claims, and the matter is now proceeding through discovery. Delta believes the claims in these cases are without merit and is vigorously defending these lawsuits.

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For a discussion of certain environmental matters, see "Business-Regulatory Matters-Environmental Matters" in Item 1.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol DAL.

Holders

As of January 31, 2019, there were approximately 2,450 holders of record of our common stock.

Dividends

Our Board of Directors initiated a quarterly dividend program in the September 2013 quarter, with a payment of $0.06 per share. The Board has increased the quarterly dividend payment several times, most recently to $0.35 per share in the September 2018 quarter. The Board expects to be able to continue to pay cash dividends for the foreseeable future, subject to applicable limitations under Delaware law and compliance with covenants in certain of our credit facilities. Dividend payments will be dependent upon our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors.

Stock Performance Graph

The following graph compares the cumulative total returns during the period from December 31, 2013 to December 31, 2018 of our common stock to the Standard & Poor's 500 Stock Index and the NYSE ARCA Airline Index. The comparison assumes $100 was invested on December 31, 2013 in each of our common stock and the indices and assumes that all dividends were reinvested.

Issuer Purchases of Equity Securities

The following table presents information with respect to purchases of common stock we made during the December 2018 quarter. The total number of shares purchased includes shares repurchased pursuant to our $5 billion share repurchase program, which was publicly announced on May 11, 2017 and will terminate no later than December 31, 2020. Some purchases made in the December 2018 quarter were made pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934.

In addition, the table includes shares withheld from employees to satisfy certain tax obligations due in connection with grants of stock under the Delta Air Lines, Inc. Performance Compensation Plan (the "Plan"). The Plan provides for the withholding of shares to satisfy tax obligations. It does not specify a maximum number of shares that can be withheld for this purpose. The shares of common stock withheld to satisfy tax withholding obligations may be deemed to be "issuer purchases" of shares that are required to be disclosed pursuant to this Item.

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value (in millions) of Shares That May Yet Be Purchased Under the Plan or Programs**
October 2018	1,538,432	$53.25	1,538,432	$ 3,350
November 2018	2,188,178	$56.38	2,188,178	$ 3,225
December 2018	2,221,305	$54.22	2,221,305	$ 3,100
Total	5,947,915		5,947,915	

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ITEM 6. SELECTED FINANCIAL DATA

The following tables are derived from our audited Consolidated Financial Statements and present selected financial and operating data as of and for the five years ended December 31, 2018.

We adopted Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” using the full retrospective transition method and recast results from 2016 and 2017 including interim periods therein. Results from periods prior to 2016 have not been recast for the adoption of this standard.

Consolidated Summary of Operations

	Year Ended December 31,				
(in millions, except share data)	2018	2017	2016	2015	2014
Operating revenue	$44,438	$41,138	$39,450	$40,704	$40,362
Operating expense	39,174	35,172	32,454	32,902	38,156
Operating income	5,264	5,966	6,996	7,802	2,206
Non-operating expense, net	(113)	(466)	(643)	(645)	(1,134)
Income before income taxes	5,151	5,500	6,353	7,157	1,072
Income tax (provision) benefit	(1,216)	(2,295)	(2,158)	(2,631)	(413)
Net income	$3,935	$3,205	$4,195	$4,526	$659
Basic earnings per share	$5.69	$4.45	$5.59	$5.68	$0.79
Diluted earnings per share	$5.67	$4.43	$5.55	$5.63	$0.78
Cash dividends declared per share	$1.31	$1.02	$0.68	$0.45	$0.30

Supplemental Information

The supplemental information below represents the adjustments used in our non-GAAP financial measures. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" where our non-GAAP financial measures are defined and reconciled. Amounts presented below are stated before consideration of income taxes, except for the impact of the Tax Cuts and Jobs Act.

	Year Ended December 31,				
(in millions)	2018	2017	2016	2015	2014
MTM adjustments and settlements	$(53)	$259	$450	$1,301	$(2,346)
Restructuring and other	—	—	—	(35)	(716)
Loss on extinguishment of debt	—	—	—	—	(268)
Equity investment MTM adjustments	29	(8)	115	26	(134)
Unrealized (gain)/loss on investments	(14)	—	—	—	—
Tax Cuts and Jobs Act	—	(394)	—	—	—

Consolidated Balance Sheet Data

	December 31,				
(in millions)	2018	2017	2016	2015	2014
Total assets	$60,266	$53,671	$51,850	$53,134	$54,005
Long-term debt and finance leases (including current maturities)	9,771	8,834	7,332	8,329	9,661
Stockholders' equity	13,687	12,530	11,277	10,850	8,813

Other Financial and Statistical Data (Unaudited)

	Year Ended December 31,				
Consolidated[1]	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue passenger miles (in millions)	225,243	217,712	213,098	209,625	202,925
Available seat miles (in millions)	263,365	254,325	251,867	246,764	239,676
Passenger mile yield	17.65¢	16.97¢	16.81¢	16.59¢	17.22¢
Passenger revenue per available seat mile	15.09¢	14.53¢	14.22¢	14.10¢	14.58¢
Total revenue per available seat mile	16.87¢	16.18¢	15.66¢	16.50¢	16.84¢
Operating cost per available seat mile	14.87¢	13.83¢	12.89¢	13.33¢	15.92¢
Passenger load factor	85.5 %	85.6 %	84.6 %	84.9 %	84.7 %
Fuel gallons consumed (in millions)	4,113	4,032	4,016	3,988	3,893
Average price per fuel gallon[2]	$2.20	$1.68	$1.49	$1.90	$3.47
Full-time equivalent employees, end of period	88,680	86,564	83,756	82,949	79,655

(1) Includes the operations of our regional carriers under capacity purchase agreements. Full-time equivalent employees exclude employees of regional carriers that we do not own.

(2) Includes the impact of fuel hedge activity and refinery segment results.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Year in Review

Our pre-tax income for 2018 was $5.2 billion, representing a $349 million decrease compared to the prior year, primarily resulting from higher fuel expense and salaries and related costs, offset by increased operating revenue. Pre-tax income, adjusted (a non-GAAP financial measure) was $5.1 billion, a decrease of $137 million compared to the prior year. The adjustments to pre-tax income were primarily related to $53 million of fuel hedge mark-to-market ("MTM") adjustments and settlements in the current year compared to $259 million in the prior year.

Delta had a solid year in 2018 as the company maintained focus on its long-term strategy while also addressing the short-term challenges from higher fuel prices. Our culture and solid foundation enabled the company to successfully offset the majority of the $2.3 billion increase in fuel during 2018. Our strategic priorities for the year were (1) leveraging our strong brand to drive revenue growth, (2) improving our cost performance, (3) continuing to build our global franchise and (4) investing for the future.

Strong Brand Drives Revenue Growth

Compared to 2017, our operating revenue increased $3.3 billion, or 8.0%, with strong demand for our premium products and growth in revenues from non-ticket sources. Total revenue per available seat mile ("TRASM") and TRASM, adjusted (a non-GAAP financial measure) increased 4.3% compared to the prior year, led by (1) unit revenue growth in each of our four geographic regions, (2) broad-based strength in both leisure and corporate demand and (3) double-digit growth in premium products and non-ticket revenues.

Improving Our Cost Performance

Operating Expense. Operating expense increased $4.0 billion, or 11.4%, primarily due to $2.3 billion higher fuel expense and higher wages and profit sharing for employees. The increase in fuel expense primarily resulted from a 31% increase in the market price per gallon of fuel and our 3.6% capacity growth compared to 2017, which was partially offset by improved fuel efficiency driven by our investment in new aircraft. Salaries and profit sharing were higher due to pay rate increases for eligible employees implemented during 2017 and 2018, along with an adjustment to our profit sharing plan in 2018.

Our operating cost per available seat mile ("CASM") increased 7.5% to 14.87 cents compared to 2017, primarily due to higher fuel expense and salaries and related costs. Non-fuel unit costs ("CASM-Ex, a non-GAAP financial measure) increased 1.4% to 10.31 cents due to the pay rate increases discussed above.

Non-Operating Expense. Total non-operating expense was $113 million during 2018 compared to $466 million in 2017, primarily due to an increase in the pension benefit compared to the prior year, gains from investment-related transactions and lower interest expense.

Expanding Our Global Network

In 2018, international revenues grew 6.7% on a 0.9% increase in capacity. We made significant progress in expanding our global reach, implementing a transpacific joint venture with Korean Air Lines, entering into a joint venture agreement with WestJet with respect to trans-border routes between the U.S. and Canada and reaching an agreement with Air France-KLM and Virgin Atlantic to combine our separate transatlantic joint ventures into a single three-party transatlantic joint venture. The WestJet and three-party transatlantic joint venture agreements remain subject to receipt of required regulatory approvals.

Investing for the Future

Our $7.0 billion cash flows from operations funded $5.2 billion in capital expenditures for the business. As part of our multi-year refleeting initiative, we took delivery of 68 new aircraft, including A321-200s, B-737-900ERs, A350-900s, A220-100s and CRJ-900s. These deliveries allowed for the retirement of older, less efficient aircraft.

The non-GAAP financial measures pre-tax income, adjusted, TRASM, adjusted, and CASM-Ex, used above, are defined and reconciled in "Supplemental Information" below.

Results of Operations - 2018 Compared to 2017

Operating Revenue

(in millions)	Year Ended December 31, 2018	2017	Increase	% Increase
Ticket - Main cabin	$21,196	$20,380	$816	4.0 %
Ticket - Business cabin and premium products	13,754	12,087	1,667	13.8 %
Loyalty travel awards	2,651	2,403	248	10.3 %
Travel-related services	2,154	2,077	77	3.7 %
Total passenger revenue	$39,755	$36,947	$2,808	7.6 %
Cargo	865	744	121	16.3 %
Other	3,818	3,447	371	10.8 %
Total operating revenue	$44,438	$41,138	$3,300	8.0 %
TRASM (cents)	16.87 ¢	16.18 ¢	0.69 ¢	4.3 %
Third-party refinery sales[(1)]	(0.21)	(0.20)	(0.01)	NM
TRASM, adjusted (cents)	16.66 ¢	15.98 ¢	0.68 ¢	4.3 %

[(1)] For additional information on adjusting for third-party refinery sales, see "Supplemental Information" below.

Passenger Revenue

Ticket and Loyalty Travel Awards Revenue

Ticket, including both main cabin and business cabin and premium products, and loyalty travel awards revenue increased $2.5 billion and $248 million, respectively, compared to the year ended December 31, 2017, consistent with the discussion of passenger revenue by geographic region, below. Business cabin and premium products ticket revenue includes revenues from fare products other than main cabin, including Delta One, Delta Premium Select, First Class and Comfort+. The growth in this ticket revenue primarily results from an increased number of premium seats driven by new aircraft deliveries, the continued expansion of our branded fare products and strength in business demand.

Passenger Revenue by Geographic Region

		Increase (Decrease) vs. Year Ended December 31, 2017					
(in millions)	Year Ended December 31, 2018	Passenger Revenue	RPMs (Traffic)	ASMs (Capacity)	Passenger Mile Yield	PRASM	Load Factor
Domestic	$ 28,159	8.0 %	4.9 %	5.2 %	2.9 %	2.6 %	(0.2) pts
Atlantic	6,165	11.4 %	3.9 %	2.7 %	7.2 %	8.4 %	1.0 pt
Latin America	2,888	0.9 %	(1.7)%	(0.5)%	2.6 %	1.4 %	(1.0) pt
Pacific	2,543	3.0 %	(1.8)%	(1.4)%	4.9 %	4.5 %	(0.3) pts
Total passenger revenue	$ 39,755	7.6 %	3.5 %	3.6 %	4.0 %	3.9 %	(0.1) pts

Passenger revenue increased $2.8 billion, or 7.6%, compared to the prior year. PRASM increased 3.9% and passenger mile yield increased 4.0% on 3.6% higher capacity. Load factor was slightly lower than the prior year period at 85.5%.

Unit revenues of the domestic region increased 2.6%, resulting from our commercial initiatives, including branded fares, strong demand and fare increases implemented throughout 2018 in response to higher fuel prices. Our domestic operations have generated year-over-year unit revenue and business yield growth throughout 2018. During the

September 2018 quarter, we signed a definitive agreement with WestJet that, after regulatory approval, will create a U.S.-Canada trans-border joint venture, providing enhanced offerings and more choice for customers.

Passenger revenue related to our international regions increased 6.7% year-over-year including growth in all three regions, despite reduced capacity in the Pacific and Latin America. During 2018, we continued to expand our branded fare products and leveraged the relationships with our alliance partners to generate unit revenue increases across all three international regions.

In the Atlantic, unit revenues increased due to year-over-year yield strength from business cabin traffic and the benefit provided by foreign currency fluctuations. Yield growth was particularly strong as we continued to leverage our alliance partners' hub positions in Europe's leading business markets of Amsterdam, London and Paris. During 2018, we initiated service on our flagship A350-900 with Delta One suites and the Delta Premium Select cabin from Detroit to Amsterdam. We also launched several new routes, including Los Angeles to Paris and Amsterdam, Indianapolis to Paris and Atlanta to Lisbon.

Unit revenues increased in Latin America principally as a result of yield growth, particularly in the Caribbean which has generated seven consecutive quarters of unit revenue growth. Key destinations impacted by the 2017 hurricane damage continue to recover. The increase was partially offset by the impact of political and economic uncertainty and foreign currency fluctuations in Mexico, Brazil and Central America. The negative impact of travel advisories and political uncertainty in Mexico has diminished toward the end of the year. We benefited from our joint cooperation agreement with Aeroméxico, which marked its first anniversary during 2018. Over that time, we have combined with Aeroméxico to launch nine new routes between the United States and Mexico, providing our customers with improved connectivity, more convenient schedules and seamless service between the two carriers.

Unit revenues increased in the Pacific region due to yield strength, particularly in Japan and Korea, and a benefit provided by foreign currency fluctuations. In May 2018, we launched a joint venture with Korean Air which provides more opportunities for our customers to reach destinations throughout Asia. During 2018, we also introduced our flagship A350-900 on routes from Los Angeles to Shanghai, Detroit to Beijing and Shanghai and Atlanta to Seoul-Incheon, which has improved the customer experience and added premium seats to the market, resulting in unit revenue increases.

Other Revenue

(in millions)	Year Ended December 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Ancillary businesses and refinery	$1,801	$1,591	$ 210	13.2 %
Loyalty program	1,459	1,269	190	15.0 %
Miscellaneous	558	587	(29)	(4.9)%
Total other revenue	$3,818	$3,447	$ 371	10.8 %

Ancillary Businesses and Refinery. Ancillary businesses and refinery includes aircraft maintenance and staffing services provided to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. The increase compared to 2017 primarily resulted from growth in our aircraft maintenance business of 19% on higher engine overhaul volume.

In December 2018, we sold DAL Global Services, LLC ("DGS"), which provides aviation-related, ground support equipment maintenance and professional security services, to a new subsidiary of Argenbright Holdings, LLC. We received a non-controlling 49% equity stake in the new company and $40 million cash. The new company will continue to service our customers and third parties, and is expected to continue operating at the same airport locations it currently serves. In 2019, DGS will no longer be reflected within ancillary businesses and refinery. DGS generated $244 million and $214 million in third-party revenues during 2018 and 2017, respectively.

Loyalty Program. Loyalty program revenues relate to brand usage by third parties and other performance obligations embedded in mileage credits sold, including redemption of mileage credits for non-travel awards. Loyalty program revenues increased compared to 2017 related to growth in our co-brand credit card relationship with American Express through both additional card acquisitions and increased spend.

Miscellaneous. Miscellaneous revenue is primarily composed of lounge access and codeshare revenues.

Operating Expense

(in millions)	Year Ended December 31, 2018	2017	Increase (Decrease)	% Increase (Decrease)
Salaries and related costs	$10,743	$10,058	$685	6.8 %
Aircraft fuel and related taxes	9,020	6,756	2,264	33.5 %
Regional carriers expense, excluding fuel	3,438	3,466	(28)	(0.8)%
Depreciation and amortization	2,329	2,222	107	4.8 %
Contracted services	2,175	2,108	67	3.2 %
Passenger commissions and other selling expenses	1,941	1,827	114	6.2 %
Ancillary businesses and refinery	1,695	1,495	200	13.4 %
Landing fees and other rents	1,662	1,501	161	10.7 %
Aircraft maintenance materials and outside repairs	1,575	1,591	(16)	(1.0)%
Profit sharing	1,301	1,065	236	22.2 %
Passenger service	1,178	1,123	55	4.9 %
Aircraft rent	394	351	43	12.3 %
Other	1,723	1,609	114	7.1 %
Total operating expense	$39,174	$35,172	$4,002	11.4 %

Salaries and Related Costs. The increase in salaries and related costs is primarily due to pay rate increases for eligible employees implemented during 2017 and 2018.

Aircraft Fuel and Related Taxes. Fuel expense increased $2.3 billion compared to the prior year due to a 31% increase in the market price per gallon of fuel and a 3.6% capacity growth, which was partially offset by improved fuel efficiency driven by our investment in new aircraft.

The table below shows the impact of hedging and the refinery on fuel expense and average price per gallon, adjusted (non-GAAP financial measures):

(in millions, except per gallon data)	Year Ended December 31, 2018	2017	Increase (Decrease)	Average Price Per Gallon Year Ended December 31, 2018	2017	Increase (Decrease)
Fuel purchase cost[1]	$9,131	$6,833	$2,298	$2.22	$1.70	$ 0.52
Fuel hedge impact	(53)	33	(86)	(0.01)	0.01	(0.02)
Refinery segment impact	(58)	(110)	52	(0.01)	(0.03)	0.02
Total fuel expense	$9,020	$6,756	$2,264	$2.20	$1.68	$ 0.52
MTM adjustments and settlements[2]	53	259	(206)	0.01	0.06	(0.05)
Total fuel expense, adjusted	$9,073	$7,015	$2,058	$2.21	$1.74	$ 0.47

(1) Market price for jet fuel at airport locations, including related taxes and transportation costs.

(2) MTM adjustments and settlements include the effects of the derivative transactions disclosed in Note 5 of the Notes to the Condensed Consolidated Financial Statements. For additional information and the reason for adjusting fuel expense, see "Supplemental Information" below.

Regional Carriers Expense, Excluding Fuel. The decrease in regional carriers expense compared to the prior year results from the $75 million reduction in rent expense following the impairment of the Endeavor CRJ-200 fleet effective January 1, 2018. For additional information on this impairment, see Note 8 of the Notes to the Consolidated Financial Statements.

Depreciation and Amortization. The increase in depreciation and amortization primarily results from our increased capital expenditures in recent years. These investments have allowed for additional new aircraft deliveries, including A321-200s, B-737-900ERs, A350-900s, A220-100s and CRJ-900s, fleet modifications and technology enhancements. As we take delivery of new aircraft, we continue to evaluate our current fleet compared to network requirements.

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In addition to investing in our fleet, we have also increased our technology investments in an effort to enhance interactions with our customers and allow us to deliver more personalized service, further enhancing the customer experience and strengthening our brand and competitive position. During 2018, we delivered several capabilities that enable our front-line employees to personalize their interactions with our customers, added self-service features on both the mobile app and delta.com and launched the first facial recognition biometric terminal for international travelers at the Atlanta airport.

Ancillary Businesses and Refinery. Ancillary businesses and refinery includes expenses associated with aircraft maintenance and staffing services we provide to third parties, our vacation wholesale operations, our private jet operations and refinery sales to third parties. Expenses related to refinery sales to third parties, which are at or near cost, increased $46 million compared to the prior year, primarily resulting from higher sales volume. The remainder of the increase in ancillary businesses and refinery primarily resulted from growth in our aircraft maintenance business.

In December 2018, we sold our staffing services business, DGS, to a subsidiary of Argenbright Holdings, LLC. Therefore, in 2019, this business will no longer be reflected within ancillary businesses and refinery. During 2018 and 2017, DGS incurred expenses of approximately $200 million per year related to services performed for third parties.

In addition, during 2018 and 2017, DGS incurred expenses of approximately $350 million related to internal Delta services that were primarily recorded in salaries and related costs. After the sale of DGS to a third party, Delta will record these expenses and our portion of the new entity's financial results under the equity method of accounting, in contracted services.

Profit Sharing. Profit sharing expense increased $236 million to $1.3 billion, marking the fifth consecutive year that Delta employees will receive over $1 billion in recognition of their contributions to the company's performance. The increase in profit sharing is related to the alignment of our profit sharing programs under a single formula, which was implemented October 1, 2017. Under this formula, our profit sharing program pays 10% to all eligible employees for the first $2.5 billion of annual profit (as defined by the terms of the program) and 20% of annual profit above $2.5 billion. Prior to October 1, 2017, the profit sharing program for merit, ground and flight attendant employees paid 10% of annual profit and, if we exceeded our prior-year results, the program paid 20% of the year-over-year increase in profit to eligible employees.

Results of Operations - 2017 Compared to 2016

Operating Revenue

(in millions)	Year Ended December 31, 2017	2016	Increase (Decrease)	% Increase (Decrease)
Ticket - Main cabin	$20,380	$20,489	$(109)	(0.5)%
Ticket - Business cabin and premium products	12,087	11,045	1,042	9.4 %
Loyalty travel awards	2,403	2,234	169	7.6 %
Travel-related services	2,077	2,046	31	1.5 %
Total passenger revenue	$36,947	$35,814	$1,133	3.2 %
Cargo	744	684	60	