

NATIONAL PRESS CLUB HEADLINERS LUNCHEON WITH DELTA CEO ED BASTIAN

SUBJECT: TRANSFORMING THE CUSTOMER EXPERIENCE

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ANDREA EDNEY: Hello, everyone. We're going to get this event started. Welcome, everyone, to the National Press Club, the place where news happens. I'm Andrea Edney. I'm an editor at Bloomberg News, and I am the 111th President of the National Press Club.

So for a long time, the airline industry had been flying high, but in recent months it has hit some turbulence. There have been highly publicized incidents with passengers captured on cell phone video and posted for all the world to see. The industry also has suffered mechanical failures, one resulting in a passenger's death, and misjudgments on the ground leading to damaged aircraft and shaking passengers. What's more, as reported by Bloomberg earlier this month, airlines face political, economic and workforce hurdles. Trade spats are clouding the outlook for global commerce, rising fuel prices are eating into profits, and a shortage of pilots and technicians threatens to limit opportunities for growth.

But Delta Airlines remains comfortably airborne under CEO Ed Bastian. Delta's last quarter brought a 10 percent revenue increase versus the same quarter a year earlier. And Mr. Bastian says demand remains healthy. He noted that Delta flew more than three million passengers over the recent Memorial Day weekend. The company has paid out more than a billion in profit sharing to employees over the past four years, or for the past four years.

A 20-year veteran of Delta Airlines, Mr. Bastian was named CEO in May 2016. He has been working to expand Delta's global footprint and enhance the customer experience in the air and on the ground. Earlier this year, he was named one of the world's 50 greatest leaders by *Fortune* magazine. Joining the ranks of Bill and Melinda Gates, South Korean

President Moon Jae-in, and groundbreaking athlete, Serena Williams. During his tenure as CEO, Delta has become the world's most awarded airline, named *Wall Street Journal's* top U.S. airline, *Fortune's* most admired airline worldwide, the most on time global airline by Flight Global, and a Glass Door Employees Choice company.

When asked to sum up his job in five words, his response is, "Taking care of our people." Please join me in welcoming Delta CEO, Ed Bastian, to the National Press Club. (Applause)

I'm now going to introduce the people who are sitting at our head table. They are, starting here from the left, Ashley Roque, North America Editor at Shephard Media; we have Edward Russell, America's finance editor at Flightglobal; we have Tom Young, a freelance writer and commercial airline pilot, and NPC Headliners team member; we have Captain Tim Canoll, president of the Airline Pilots Association, International; we have Ed Hazelwood, Editor-in-Chief of conferences at *Aviation Week & Space Technology*; we have Gillian Rich, a reporter at Investor's Business Daily; we have Ned Walker, the SVP and Chief Communications Officer at Delta

Coming from this end, we have Paul Minehart, head of Corporate Communications for North America at Syngenta, and a National Press Club Headliners team member; we have Patrick Host, America's aviation report at Jane's; we have Bill Cassidy, senior editor at the *Journal of Commerce*; we have Graeme Burnett, SVP of fuel management at Delta Airlines; we have Bill Lord, the former news director at Washington CBS affiliate, WUSA, and a member of the National Press Club Headliners team; we have Tamar Hallerman, Washington correspondent at the *Atlanta Journal Constitution*.

Skipping over our speaker for just a moment, but only a moment, we have Betsy Fischer Martin, executive in resident at American University and co-chair of the National Press Club Headliners team. She is also the organizer of today's event. Well, thank you everybody for being here. Please join me in welcoming the head table and, of course, our speaker today, Mr. Bastian. Mr. Bastian, would you join me at the armchairs up here?

So thank you for being here today, welcome to Washington.

MR. BASTIAN: Well, thank you, it's great to be here.

MS. EDNEY: It is not your first visit here; nor will it be your last, I'm sure.

MR. BASTIAN: That's correct.

MS. EDNEY: So, let's jump right in to, since we're in Washington, let's talk a little bit about some political debates. Where do you see Delta's place in sensitive national political debates on issues such as immigration? Your airline took heat last week for not condemning Trump's family separation policy as forcefully as some of your competitors. Does a major airline like Delta have a responsibility to speak out on such issues? You've talked about the morality of the situation. Can you talk about it a little bit here today?

MR. BASTIAN: Well, to bring that issue to the fore, our mission-- and it's an honorable mission in the world-- is to connect the world. Is to make the world a better place, to connect families, not to separate families. And anything that runs counter to that mission, as we said, and I said at the time that was an issue last week, we're opposed to it. And we're opposed to it, actually, in the strongest possible words. We also know that many of the actions that were interpreted as separating-- actually, the airlines were flying kids to reunite with families as compared to separate them. So I think the story got out before the facts got out and we wanted to make certain that while there's an important need to speak with speed in this climate, you also want to make certain you understand the facts.

MS. EDNEY: Fantastic, that is exactly right. You said last week that companies are needing to step in politically due to a vacuum in leadership, not just in the U.S. but around the world. I think you were using the example of environmental issues while Delta was pledging to reduce emissions. So can you tell me a little bit, what do you mean with a vacuum in leadership, and what are some of the other areas in which Delta has had to step in?

MR. BASTIAN: Well, the context for the question, I was speaking with Richard Branson, we were together in Atlanta last week, and we were speaking on a wide-ranging set of topics. And one of the topics that came up was the fact that in the world today, and as an airline we live in the world. We're out there worldwide, we're going to carry 200 million customers this year, that there's a lot of angst, there's a lot of fear. And there's polarization at a level that, at least in my lifetime, I don't recall having to encounter.

And that polarization, again, it runs counter to our mission as an airline, which is to unite the world, not to actually separate the world. And it's not just here in Washington where you see some very divisive discussions going on, it's whether it's Brexit. You see it going on in Italy, you see it going on in Mexico with the election that's likely to occur next week. The world's in a position that people are retreating rather than coming in a more unified manner.

And that was, to me, one of the reasons why I said that business leaders, increasingly today, are being called into that vacuum to speak and to let people know where we stand on topics. So it's not an issue with an unwillingness to speak, I think it's an issue in terms of what are the topics that you're going to speak on.

MS. EDNEY: Very good. So one of the topics you spoke on, certainly with your actions, was you ended-- the NRA when you ended a discount program for groups from the NRA. So that prompted a fight in Georgia, in the Georgia legislature, you're based in Atlanta, and legislators eventually stripped Delta of some tax breaks. So, would you do this again? What are the lessons that you learned from this political fight?

MR. BASTIAN: The issue around the NRA came out as a result of what happened at Parkland High School with the shootings there. And shortly after that, in a lot of the divisive commentary that was, and rhetoric, that was being expressed at the time, a lot of it coming from the NRA itself, we saw this was not something that I personally even knew, that

our brand was on the NRA website because we offered a very small discount program for their members to travel to their annual convention.

MS. EDNEY: Got you.

MR. BASTIAN: We could not be seen as endorsing or implying any kind of support for the actions and the words that the NRA was using, and we asked them to remove our brand from the debate and to take us off the website, and that we were going to be ending that discount program going forward. Which, in Georgia, there is a-- particularly in the state legislature-- a high number of NRA card holders, created backlash on us because they were also about ready to pass a jet fuel tax exemption that would have saved Delta \$40 million and threatened us if we did not undo that decision, that they would not provide us that tax abatement.

We weren't going to let the Georgia state legislature dictate our policies or our values, and we said that that's not something that we're willing to have a discussion with them around. And if they decide to keep the money, they keep the money, but we're not going to change our values based on having money held over our head.

MS. EDNEY: All right. Lieutenant Governor Cagle led the fight against Delta. If he wins his bid to be Georgia's next governor, how will his role impact your relationship?

MR. BASTIAN: Well, we'll be supportive of the state. That's home for Delta. There's a lot of topics and a lot of issues that we have a lot of debate around with our governor, here in Washington, as well as in Georgia and other parts of the world. And if Casey is the governor, we will certainly do our very best to support him in the role and want him to succeed.

MS. EDNEY: Thank you. Do you see any long-term impact from your decision to end the discount program?

MR. BASTIAN: Well, the immediate impact was the loss of the tax value, which is \$40 million, which is not a small amount of money.

MS. EDNEY: That's right.

MR. BASTIAN: But I'll tell you that a lot of people-- and while it's an emotional issue with a lot of rhetoric on both sides, it's also something I can tell you I received many, many more positive comments of support than negative expressions relative to that decision. And I'm sure we made a lot of fans around that. That wasn't what we were trying to do, and I'm sure there's a number of people that were upset with us including, by the way, some of our employees on both sides of the issue.

But it was one that we thought was important to speak out on, and one of the things I've talked a lot about is wanting to make certain that those issues that we do choose to speak

out on-- I'm not looking to run and be a social activist as a CEO. I want to be the best airline CEO in the world and run the very best airline in the world. That's our goal.

But when you have your values and you have your culture and you know who you are and you know what you stand for in a service business leading 85,000 people around the world, there's times that you're called to speak. And those are the moments, and that was a moment for us.

MS. EDNEY: Thank you. So, let's talk a little bit more about passengers. So, what steps has Delta taken to avoid some of the passenger related incidents that other airlines have experienced in the past year or so? And how is technology, social media, perhaps, changing that?

MR. BASTIAN: Well, social media has changed the experience for all of us in our businesses in various ways and certainly the travel experience is one we carry a lot of people. This year, we'll carry 200 million customers. And unlike years over time, every one of those 200 million is an amateur videographer, or thereabout, or a picture taker or a camera-- so at any point of some type of disruption, whether it's in an airport, whether it's in an airplane-- by the way, it's in other forms of life. You will see people pulling out their phone and taking a video and seeing what they might make of it.

You also see people stage these. You know, people will have a moment where they want to draw attention to themselves and then create a ruckus and try to shop it and look for something in return. So it's something that our people have grown up around, our employees are the very best in the business. They're used to being on stage all the time, but it's usually in front of 200 people as compared to 200 million people when you think about the effects of social media around the globe.

Our team's done a very good job. We've maintained-- knock on wood here, I don't want to jinx us-- but I think we've done a good job of maintaining the Delta brand and the focus on taking care of our customers' needs and not getting caught up in too many of these social media uproars.

One of the things we did do is that when things started to explode on that front a couple of years ago, we increased in our operations control center, and Ned Walker heads up our communications group, he's now got people that sit right inside our operations control group. So when a pilot on board a plane who has the ultimate decision as to what needs to occur, relative to a decision to take a passenger off or stop a mission or anything else relative to flight, he or she can call into our operations control center and get the full access of experts, including our social media and communications team to understand what's happening.

MS. EDNEY: Very good. Recently, Paula Jacobson mentioned the creation of a best in class transportation group within Delta Cargo to serve as the single source for all of Delta logistics needs. It's moving from passengers to cargo a little bit. But how do you envision this group operating, and what savings or benefits do you expect to gain from it?

MR. BASTIAN: Well, we're in the logistics business. We may be an airline, and our logistics are actually serving customers. But we also have a very large cargo business. We'll carry and generate close to a billion dollars of revenue of cargo. And we have an opportunity to not only run that more efficiently but also logistically have a good opportunity for some cost savings and efficiencies. And I think that's what Paula's talking about.

MS. EDNEY: Excellent. Let's talk a little bit about trade. So this is an easy one. So what threats does Delta face from-- or I think it's easy-- what threats does Delta--

MR. BASTIAN: This is an easy one?

MS. EDNEY: --does Delta face from the budding trade war between the U.S. and other countries?

MR. BASTIAN: Well, we've been victimized by unfair trade practices over some period of years. And with the respect to the administration's policy of giving U.S. workers the best chance at success to create that level playing field, we are 100 percent in agreement with what the administration is doing in terms of giving the American workers an opportunity to compete on a level field.

With respect to Delta, we had an issue with respect to the middle eastern carriers, the Gulf carriers, and we've been very public about it. The tens of billions of dollars of subsidies that they have used to move traffic off of the traditional U.S. airlines and other big airlines around the world. And basically serving as a form of a government agency that you're competing against. You can't win against a government agency that has an unlimited pocketbook. And we appreciate the stance that our administration took to stop the subsidies from violating our ability to grow into those parts of the world that we had been run out of, as well as the opportunity to make certain that our customers understood that Delta has that right to fly just as those carriers have that right to fly.

We announced as a result of that that we're going back into India. We announced an expansion of our services to Seoul, South Korea. We're going to be going into Japan and we're launching next, or a couple of weeks, service from Atlanta to Shanghai. And long term at Delta, I think our opportunity for the greatest amount of growth is on the international field as compared to the U.S. U.S., we're very large, about two-thirds of our revenue base is in the U.S. Over time, I'd like our revenues on the international side of our business to rival what they are on the domestic side. We couldn't do that as long as we were facing government agencies that were taking our flying opportunities away from us. So in that respect, I have a fulsome level of support for what the government has done.

MS. EDNEY: Okay. So, these settlements appear to be maybe disclosures, verbal commitments to not add new routes for markets like Europe the U.S. Do you see some-- what sort of benefits do you see for Delta there? How can you, in the Europe to U.S. segment of it, can expect from that?

MR. BASTIAN: Well, Europe to us is about 20 percent of our revenues and it's our strongest international base and we travel across the transatlantic, not just with Delta, but with Air France, KLM, Alitalia, and Virgin Atlantic. And we're in the process of combining our two JVs there to make the largest international airline JV in the world.

As a result of that, we'll be able to grow and expand that European flying. The issue that you're referring to was fifth freedom flying, and that was having stopovers in Milan, going to JFK, or Athens going to Newark. Those were the routes that we were particularly sensitive around because that was taking traffic that was genuinely from two countries. That was not sourced or coming out of the Middle East. And that was, you know, 100 percent of that traffic was being stolen, in our view, off of the traditional carriers.

We have no objection to the amount of flying that those carriers do between our country and Doha or Dubai or Abu Dhabi. What we object to most vehemently is when they take traffic that belongs to other countries and start to use their subsidies to steal that flow.

MS. EDNEY: All right. Can you give us some examples of some new flights or new links that you might see--

MR. BASTIAN: You want me to make some news?

MS. EDNEY: Yeah, please, let's do it.

MR. BASTIAN: Sorry.

MS. EDNEY: [laughter] Maybe later in the conversation.

MR. BASTIAN: Keep it going.

MS. EDNEY: All right. So, you mentioned India. So what do you think your growth potential as a company is in India? What are some of your plans for that market?

MR. BASTIAN: India is one of the-- the largest populist-- some of the largest economies in the world. And when you think about growth and long term, we need to be in India. We've served India for many, many years. Unfortunately, the national airline of India today are the Middle Eastern airlines that have taken a lot of the traffic space and lowered prices to the point we can't economically afford to fly there. Again, with our administration's support and backing, we're now going to go back into India. We're going to be coming out of the east coast direct to Mumbai and we'll be starting that flying next year.

MS. EDNEY: Can you tell us some specifics on your goals for that market, perhaps?

MR. BASTIAN: Well, it's a high technology field. There's a tremendous amount of innovation that's going on in the Indian marketplace. Our partner in India is an airline called Jet Airways, and we'll be working in concert with them and we'll be bringing traffic to Mumbai and they'll be taking that traffic from Mumbai and flying it to other parts of India as

well. So, on a one stop basis out of either Atlanta or JFK, you'll be able to go to many, many points across Southeast Asia on that one route.

I think it's going to be a significant opportunity. When you look at growth projections for the world, Southeast Asia, particularly in our business, is one of the highest growth regions that we expect for the future.

MS. EDNEY: Okay, thank you. You mentioned technology there. Some aircraft manufacturers are planning smaller, more efficient regional aircraft, even battery powered models are in the works. One, is that something that you could see yourself employing in a space like southeast Asia? And two, how do you see that just generally impacting major airlines?

MR. BASTIAN: Well, we don't have the ability to fly in Southeast Asia-- within Southeast Asia. We can fly to Southeast Asia, but you're not going to see us flying--

MS. EDNEY: Oh, within.

MR. BASTIAN: Because we don't have--

MS. EDNEY: Sorry, right.

MR. BASTIAN: --the air rights to fly within Southeast Asia.

MS. EDNEY: Got you. So that would not be internal.

MR. BASTIAN: But to your point, is one of the airlines, the new technologies, aircraft technologies, that we're very excited about is a product that Bombardier is introducing where we're going to be the launch customer here in North America. It's called the C series and it's going to be 110-seat plane. It's going to be, in my opinion, one of the nicest domestic aircraft that's flying. It's going to have spacious seats, it's going to have wide body windows on a narrow body chassis. It's going to be a great upgrade from a lot of markets that have smaller regional jets moving to larger regional jets.

So most of what we're doing in our business is actually taking more customers, larger aircraft, building larger airports with larger technologies to create more flow for customers; not downsizing, but actually upsizing our business.

MS. EDNEY: Okay. So, that's a mention of Bombardier. Let's talk a little bit about Boeing. You have said that you'd like to be a launch customer for Boeing's new midmarket airplane, the 797, which is a midrange jet that Boeing is looking into. Is that still the case? And do you have enough information about the plane's capabilities to assess whether it would fit into Delta's fleet?

MR. BASTIAN: Well, we are not at a position to be making those type of decisions, as I understand the Boeing board hasn't even made the decision to build the aircraft yet. So,

it's still in the discussion phase. But when we look at our fleet needs, we need a successor aircraft to the 767. Delta has about 107 767s that we fly, as well as 757s, particularly the larger version of the 757, the 757 300. The majority of those aircraft are going to be retiring in the next decade, and we'd like new technologies that they've been very successful around, say, the 787, to continue to up gauge that market segment and create what they call their next midmarket aircraft, 797 if that's what it's labeled.

We've had discussions with Boeing about being a potential launch customer. It would be premature to make any comments along those lines. But I think Boeing is interested in getting a feel from the marketplace as to where the price point needs to be, what are the parameters, what's the range, what's the cost target that we want to see, what's the expectations of the airlines, not just operationally but also from a customer standpoint to make certain that they hit the mark. The launch of a new aircraft is extraordinarily expensive.

MS. EDNEY: Yes.

MR. BASTIAN: And the 787 was tens of billions of dollars in the build, and I think that they want to get smarter off of that and bring airlines in potentially sooner rather than later. And we'd be happy to be one of those airlines.

MS. EDNEY: So what are some of the parameters that you would like to see?

MR. BASTIAN: Well, we want the cheapest price possible, of course, for our customers so you can actually fly cheaper around the world.

MS. EDNEY: And investors, okay.

MR. BASTIAN: You can agree with that. We want to have range capacity. We don't want it overbuilt. You know, sometimes with aircraft, you build too much capability in it and too much range and it actually becomes more expensive.

MS. EDNEY: Uh-huh, to fly it.

MR. BASTIAN: And you are suboptimal relative to what your mission needs are. You certainly want, in the customer's eyes, an aircraft that is comfortable, particularly on the international front. We've been making big investments in our international product. One of the things I was most proud of the team last year is we won the Crystal Cabin Award, which is the aircraft design award of the year with the best new product, which is our Delta One Suites on our new A350. It's the first time a U.S. airline had won that in over ten years. The Middle Eastern airlines typically win those awards. Delta won it this past year. So, the needs of the customer and the comfort and continued innovation that we bring into that marketplace is real important.

MS. EDNEY: So if you could talk a little bit about ideally, what would that plane look like inside for the customer? Ideally, if you had your druthers, right? Some airlines we've read recently are moving toward seats that are almost stand up in part of the aircraft.

MR. BASTIAN: Not at Delta.

MS. EDNEY: So are you looking at wider seats in first class and economy or what would that airplane look like inside?

MR. BASTIAN: Well, one of the things that we have been innovation in is trying to differentiate our seat and our product specs to price points for customers and give them a chance to-- if they have a lower price point and are willing to, such as basic economy, forego some of the traditional benefits, not stand up seats. You know, we have a 31" pitch minimum that we deploy on our aircraft. But forego potentially a seat assignment, forego some frequent flyer miles, maybe be last on board and actually get a reduced cost for that. We have that product.

The other end of the spectrum, we have the suites I'm talking about, which are not only a lie flat product, but comes with an enclosed door and it's the ultimate in privacy. We've also introduced a new product that we call Delta Premium Select on our international aircraft, which is more of a domestic business cabin-like product, only in international. So that if you can't afford the cost of the lie flat bed, but for maybe a 2x price over the main cabin you want to have a little more luxury, 38 inch pitch, a much more spacious, comfortable product to rest as you're traveling to Europe or over to Asia, we've got that product for you.

Delta Comfort Plus is also a main cabin product that's got several inches of additional pitch. And doing that product differentiation all within the same two, all the different price points, is both a marketers dream as well as a marketers dilemma. Because you're trying to communicate to your customers, who all basically are arriving and departing at the same time, and getting there, why they need to pay, or should pay, a premium for the experience. It's part of the fun of what we do.

MS. EDNEY: So in terms of-- we're talking a lot about comfort. In terms of comfort, what are some of the next things that Delta is looking at for its aircraft, for its fleet?

MR. BASTIAN: Well, Comfort Plus is a very popular option. So for our main cabin customers to be able to upgrade, it's a relatively modest upcharge and you'll get, from the traditional 31 inch pitch, you'll get probably something closer to 33 to 35 inches of legroom. And that's the thing we know customers most desire, is legroom and the ability to pay more for a more spacious product.

MS. EDNEY: Okay. Is there anything you can tell us about what might be in the pipeline that we haven't heard about yet?

MR. BASTIAN: I think I just gave you our full product portfolio.

MS. EDNEY: Okay, thank you. So let's go back to Atlanta for a moment, where your headquarters are. So that city, Atlanta, owns and operates the biggest airport in the

world. But now the state legislature is looking at the possibility of taking over the airport. What is your position on that?

MR. BASTIAN: We don't understand the need for the state to come in and take the airport away from the city. Hartsville Jackson is the largest airport in the world. While it's large, it's also the best run. It's the most successful asset that the southeast region has, in my opinion, because it draws such a huge amount of economic development and growth and one of the reasons why Atlanta is growing at a faster clip than most any other big metropolitan region in the country.

Yes, there have been political and some corruption scandals in Hartsville Jackson, there have been over time a series of corruption scandals. I think that may be part of the impetus for the state to come in and take a more active view as to what the ownership and the governance of the airport is. I don't understand why the state is necessarily going to do a better job of cleaning it up than the city, and we're opposed to it. We don't think there should be anything-- the airport is not something that we should politicize. The airport is something we should invest in and grow. And so that's my view on the topic.

MS. EDNEY: Very good, thank you. I had a question here about investment that I wanted to ask you. Oh, here's one more question about premium seats that I'm going to throw in there. In April you said it would have-- that Delta would have double digit increases throughout the year in premium seats. What kind of premium seating will you be offering more of? When and where?

MR. BASTIAN: Well, we're talking specifically first class, our first class Delta One on our business cabin domestically as well as internationally. I think we're growing our first class premium seats by 12 percent year over year basis. Delta as an airline has more premium seating than any airline in the globe in size and scale and we're continuing to grow that because that's what we know our customers are looking for, particularly our business travelers, the heavy business road warriors.

MS. EDNEY: Let me ask you about, since we're talking about overseas flights, let's talk a little bit about some of your joint ventures with airlines in other countries. So, you set up your newest joint venture with Korean Air in May. How is it performing and how does Delta plan to leverage this joint venture to expand in Asia?

MR. BASTIAN: It's our latest joint venture and it's our latest international partnership. Korean Air is one of the largest airlines in the globe, as well as certainly across Asia, and the transpacific. Delta has long been partners with Korean. However, only recently have we created a joint venture which gives us an ability to share an exchange traffic on an enhanced basis.

Delta has historically operated out of Asia with this hub in Narita, Japan, which has been-- is small and it's been challenged because the Japanese have moved more of the flying away from Narita opening up Haneda, which is the close-in airport within Tokyo, which has

put a lot of pressure on Narita, which is the far-- it would be the National versus Dulles. You're always going to fly to DCA if you have an option if you're coming into D.C.

As a result of that, we are opening up a hub in Seoul, South Korea, together with Korean Air, and they just opened up a new terminal. It's called terminal two, which has 45 gates. I think it's the nicest terminal in all of Asia. It just opened in advance of the most recent winter Olympic games. The only airlines that will operate out of that terminal are Korean, Delta, Air France and KLM, so it's a facility that we have with 45 gates. And it immediately gives Delta the opportunity to have 80 destinations beyond Seoul at our disposal. So as we bring customers to Seoul, Korean can then distribute them on a nonstop basis to 80 different destinations, including 30 destinations in China alone with one of the most efficient hubs in the world in terms of operations.

So from a Delta customer standpoint, we unlock tremendous value and tremendous access to the world flying one stop out of, say, Minneapolis, which we just announced, or Atlanta or Seattle, to almost anywhere you'd want to go in Asia. That's what the power of that partnership does.

MS. EDNEY: All right, thank you. And can you tell us any of those new spots that you haven't announced yet?

MR. BASTIAN: You're still trying to get a new route out of--

MS. EDNEY: I would like a new route.

MR. BASTIAN: Okay, keep working.

MS. EDNEY: All right. So let's talk about this, then. The Virgin Atlantic/Delta Airlines transatlantic joint venture is going to combine with Delta, Air France, KLM, Alitalia joint venture next year. So, what does this mean for the various divisions of those various airlines? And will AFI, KLM, E and M cooperate with Delta tech ops, for example?

MR. BASTIAN: Well, today we own 49 percent of Virgin Atlantic. We acquired it about five years ago, and we're partners with Richard Branson on that venture. And the Virgin Atlantic/Delta partnership is going great. Ten years ago, when you think about Delta, in some perspective, Delta did not even fly to London Heathrow's airport. We were not allowed to. There were bilateral restrictions against access into that market.

And once open skies opened the market to us, it became very expensive to get access to it. Heathrow, to get access to Heathrow, going market rate is in excess of 50 million pounds for just the right to have one slot into that market to take off and land once a day. So, it was cost prohibitive to gain access.

And so how we gained access was by investing in Virgin. And together now this summer, we'll operate 35 flights a day across the transatlantic, Delta and Virgin combined, whereas ten years ago, Delta operated none. So you get a chance to see the power of the

partnership not just from a growth perspective, but certainly from our customer's perspective as well.

The next step in our journey across the transatlantic is to take that JV and then link it together with what we have with Air France and KLM, which is our longest standing JV and partnership, which is almost 25 years that we've been partners together, and create a single JV so that all of the European partners can then operate as one, working together to make the seamless service for customers and make the investments in new technology that are going to enhance the customer's experience and carry about 50 percent of the volume of passengers, while Delta on the North American front will carry the other 50 percent.

So rather today those two joint ventures compete against each other, in the future they're going to actually be operating as one primarily for the benefit of our customers.

MS. EDNEY: All right, thank you. So you mentioned China a moment ago. Growth in routes to and from China and thus business relations between the U.S. and China are a key area of growth, as you mentioned. Your Atlanta-Shanghai route restarts next month, and that takes advantage of a partnership with China Eastern. What are your views on the tariff debate in Washington particularly as it relates to China, and how else could those tariffs impact Delta?

MR. BASTIAN: Well, I gave you my view on the trade discussions, but specifically how it impacted Delta, which actually impacted us positively, seeing the administration speak out. I really don't want to weigh into other industries and say whether they should have tariffs or not have tariffs. Really not my place. I'm an airline guy, not an international trade and tariff expert. That said, trade wars and tariffs generally are not good for business, it's not good for future national economies. They tend to be a zero sum, or a minus game at times.

But to the extent some of our U.S. industries have legitimate concerns, I think they ought to be addressed and I think the administration should look into the concerns there. With respect to travel between China and the U.S., it's growing in double digits and we've not seen any slowdown or any pullback in any meaningful way as a result of some of the more recent headline news about pending tariff actions between our two countries.

Long term, could it impact Delta? Sure. I mean, if you see the cost of steel or aluminum, commodities rise, all that would come back to impact us in some way. But I'm not going to be an international trade expert on this. I'm very, very appreciative of what the administration did to address our trade issue.

MS. EDNEY: Okay, thank you. So with travel to and from China growing so exponentially, are you looking to expand your partnerships in China? And if so, how?

MR. BASTIAN: Yeah. Again, we just announced, or not announced, we're now sort of starting to fly into Shanghai out of Atlanta direct. We invested several years ago in China Eastern, which is the Shanghai based carrier, one of the best carriers in all of China. And

Shanghai, as we know, is going to be one of the truly commercial capitals of the world, not just within Asia. And our opportunity to work alongside them is going to be meaningful.

MS. EDNEY: Okay. I have one more question that's China related.

MR. BASTIAN: This is like a school test here. You got all your test questions there.

MS. EDNEY: You know all the answers, though, right? You have all the answers. In October 2016, Dennis Muilenburg, who leads Boeing, said his company is working on a long-term R&D project to increase jet aircraft speed to mach six, which is six times the speed of sound, which you know better than I do, probably.

MR. BASTIAN: We don't own any of those, so no, I don't.

MS. EDNEY: So that would enable a flight from New York to Beijing in just a few hours. So what are your thoughts on this and how realistic and how soon, if it is realistic?

MR. BASTIAN: Well, I don't think it's soon. I think the question would be we've seen that already, it was the Concorde. It didn't work for lots of different reasons. I think one of the challenges with that technology, though I think that's great innovation and there will be a market segment that will desire it. The question will be is that market segment going to be large enough, and what's the price premium they're willing to pay for that time savings that they'll be seeing? Because it's going to be an enormous investment that's going to have to be undertaken to create that level of technology.

One of the great successes in air transportation is the democratization of air travel. It dates back to deregulation over 40 years ago, and I describe our brand today as a lifestyle brand. People travel like never before. People incorporate our brand into their daily decisions in terms of what they're going to do and how they're going to work and where they're going to visit and where they're going to live. And we've made it very easy and comfortable to be part of a consumer brand rather than as a transportation brand.

I use myself as an example. I never stepped foot on an airplane until I was 25 years old. How I ever wound up in this seat, I'm not sure yet. But it wouldn't have been possible if it were not for the ability to bring prices down and to expand travel to the masses. Yet, there are still billions of people in the world that haven't yet traveled like I hadn't when I was 25 years old.

You know, a lot living in Asia, not necessarily North America. And I think that's where the opportunity for our industry is, is to continue to make prices more affordable for travel, as compared to some premium niche supersonic travel. So we'll see what Boeing's going to do in that regard. But for myself, I'm a proponent of making it easier to access more people rather than to invest in a significant sum for the select few.

MS. EDNEY: Okay, thank you. Speaking of investments and passenger capacity, your planned investments and recent investments in new aircraft and terminal renovations

will help expand passenger capacity. So what investments, if any, are you looking to make to expand freight capacity and how would you characterize air cargo capacity today?

MR. BASTIAN: Well, we do not have a dedicated air cargo business. Air cargo sits in the belly of our aircraft, so we're working on logistics and distribution arrangements and sales arrangements to carry better cargo. It's not necessarily to carry more cargo, but certainly to add better tracking devices and better technologies so that our customers know the location and the delivery times on a more efficient means.

You know, you talk about the airports. The airports are a big part of our investment for the future. We invested a lot in our product with respect to the aircraft and our seats and comfort of flying and bigger aircraft to fly through. I think the airports are the single biggest opportunity that we have that's still ahead of us to change our customer experience on the ground. We don't have airports today that meet the needs. If you think about our airports, the footprint of our airport, and many of them were built 50 and 60 years ago, that emphasized the head house, it emphasized the front door with the big ceilings. I don't know anyone in this room that spends a lot of time in the head house of an airport. Probably none of you do. You want to be at the gate, you want to make sure you get there in time. You want to make sure you get on board as quickly as possible and why everybody today wants to get on board at the same time I don't understand and expect that we can all get there and you got that little scrum around the boarding-- the boarding process, that's what we've got to fix. And we're working on that to create more real estate, more space in our boarding areas and our gates, and less in our head house using technology.

Another thing we've invested heavily at Delta is in biometrics. So as we go through the security process, which is another big pinch point for customers, the security queues and the lines and the inefficiencies of that process working with TSA, we've almost made investment in clear. And so using biometrics, that speeds people through the travel security process, even getting access into our Sky Clubs.

Sky Clubs is another thing where we've invested heavily in. And actually, part of the impetus of that has been our relationship with Virgin and using many of the design teams and design elements. Sunday this week, I was in London. I was at our clubhouse, Virgin clubhouse. And any of you that haven't been there yet, you really should go. As much as I was looking forward to coming home on Sunday, I actually didn't want to leave the clubhouse to go on the plane, it was so nice. And it truly is that level of experience, and we're building that into more of our experiences.

And so today, for anyone that travels on Delta, we're reopening the Delta Sky Club here at DCA. It's been under renovation for a period of time, and today it's back out and so that's your news, I guess, that you're looking for. The destination is the Sky Club at DCA that we're announcing.

MS. EDNEY: And all of you can find a Delta CEO there later this afternoon, very good.

MR. BASTIAN: Absolutely.

MS. EDNEY: So what are some of-- so tell us a little bit about the upgrades at that Sky Club there. What are some of the changes that people will see at the Sky Club?

MR. BASTIAN: Well, you'll see an expanded, more comfortable seating area. You'll see better food options. You'll see better drink service. And it's just a more comfortable environment, a more relaxed environment.

MS. EDNEY: Okay, thank you. So, I have a question from the audience here about automation. The question reads automation is an emerging technology concept affecting travel on the ground, in the air, and without human input. How's Delta preparing for an increasingly autonomous world, both in terms of potential travel substitution and the actual travel experience?

MR. BASTIAN: Well, we're watching that. Captain Canoll here, he can tell me whether there's going to be pilotless aircraft in our future. I don't see it. Exactly, I'm not getting on it if there is. But I think whether it's hyper loop, whether it's autonomous vehicles, I think anything that creates more motion and more opportunity for people to travel and go distances and go places is going to add to our experience as well. The debate for years in our space was that video conferencing was going to eliminate the need for people to travel. Human interaction just feeds on itself and the video conferencing world, while it still exists, hasn't made any dent at all in our need to continue to travel for business or pleasure.

And I think these new alternative forms of transportation will be the same thing. Anything that keeps people moving together is a good thing for our business as well.

MS. EDNEY: Thank you. Let's talk a little bit about loyalty programs. What is Delta doing with its partners to enhance loyalty benefits?

MR. BASTIAN: Well, loyalty is a great topic. We have the best partnership loyalty arrangement in the industry with American Express. We are exclusive partners to American Express. From a customer standpoint, carrying that Delta American Express credit card gives you benefits, whether it's for free bags or your opportunities to upgrade your experience.

I think one of the things you're going to see us develop over time is taking the sky mile program and looking to create a currency out of it. It already is a currency, it's points, but we want to turn it into a currency that people can use for more things and actually put a value against it and have people actually want to own more of the currency and do more with it. Many of our, especially our higher value and volume travelers, have an enormous amount of miles that have been banked and they're sitting there waiting to be expended. We want to create more burn opportunities and American Express working with Delta will do that. We want to be able to take that currency to buy trips. Maybe if you want to buy down the cost of your trip, maybe you want to fly-- pay for it one way and use your miles on the second way. There's a lot of things you can do when you think about it from a currency standpoint rather than a seat mile. Whether it's for product, whether it's for seat, whether it's to spend and

earn, because we are interested, actually, in redeeming that currency and keeping that currency fresh.

MS. EDNEY: So, if we're talking about sky miles, by using the sky miles to purchase a flight on Delta, often you have to use more miles to buy a flight to Minneapolis, say, than you would if you were using United miles. Is there any thought to making Delta sky miles more valuable?

MR. BASTIAN: Well, I'm not sure that's the case. You'll have to show me later your illustration.

MS. EDNEY: All right.

MR. BASTIAN: But the one thing that we've done with our sky miles program is we've turned it to a dynamic form of pricing and currency so that the prices change. It used to be for years, it was 20,000 miles to go on a domestic ticket. And there was no rhyme or reason to it, it was just a very simplistic model. Today, we have many trips that are actually a lot less than 20,000 miles that you can go on. And we have some trips that are more popular that have a higher price that are more.

So it really is a function of supply and demand as compared to having a kind of this traditional black and white ingrained price point that everyone works-- because the world doesn't work that way. I mean, there's higher demand, you want to be able to get greater value for it. And where there isn't as much demand, we want to incent more travel and we'll drop the price points lower.

MS. EDNEY: That seems like a pretty standard business practice.

MR. BASTIAN: It is, and we should use it with our sky miles as well as our pricing, right?

MS. EDNEY: All right, excellent. No plan to make those sky miles-- give them a little more oomph?

MR. BASTIAN: They've got tremendous oomph.

MS. EDNEY: They've got tremendous oomph? All right. Are there any, switching back to markets for you for a couple of moments, are there any particular markets where you're thinking of cutting capacity?

MR. BASTIAN: No.

MS. EDNEY: You've talked a lot about expansion. No?

MR. BASTIAN: No.

MS. EDNEY: Okay. That's interesting also, just expansion for you?

MR. BASTIAN: My answer no is I'm not going to answer your question.

MS. EDNEY: Oh, okay. All right.

MR. BASTIAN: We just did announce recently that we are stopping service coming up between Seattle and Hong Kong because the market demand wasn't what we thought it was going to be. But every day, we're making adjustments to our capacity. But I'm not going to speak to any future capacity decisions.

MS. EDNEY: Future capacity, okay.

MR. BASTIAN: I really don't look good behind bars.

MS. EDNEY: In stripes? You're among the last of the global airlines to not comply with China's order to recognize Taiwan as part of China. The deadline for action is July 25th. What will Delta do?

MR. BASTIAN: We're working with the U.S. authorities on the topic and we'll stay close to our U.S. government.

MS. EDNEY: Okay. That seems like a sound plan of action.

MR. BASTIAN: A good plan of action.

MS. EDNEY: Yeah. So, let me ask briefly, what impact are rising oil prices having on Delta and are you lobbying the administration to keep oil prices down?

MR. BASTIAN: We're not lobbying to keep prices down. Rising oil prices are a function of, like in this business, oil prices are one of the highest cost inputs we have. On a year over year basis, I think oil prices are up 35, 40 percent. We have to cover that, ultimately, in ticket pricing or else we'll see our profit margins decline.

MS. EDNEY: Sure, of course.

MR. BASTIAN: Our margins are down a little bit this year because of the rising fuel prices. I think the last estimate I saw, it's going to cost us about \$2 billion more this year at the current market price for fuel than what we paid just a year ago. And that's a pretty hefty tax on the business that we have to work through and pricing, typically in our business it takes somewhere between 6 and 12 months before you'll see fuel prices be able to be successfully included in terms of an increased price in the market.

But we've made money at fuel prices, which are today in the \$80 range. In the past, we've made money with fuel prices at \$100. We've made money at \$40. One of the things I'm most proud of the company is that this will be our fourth year in a row with pre-tax profits

over \$5 billion. No airline's ever done that more than twice, and this will be our fourth year we've done that, and that's in all different types of fuel environments.

So, there's a resiliency and a stability to our business like never before. Founded on the operational reliability of the company, and that reliability is what the people are delivering. One of the things we're most proud of is the fact that our reliability not just leads the industry, it's breaking records around the industry. Last year, we had a streak of 50 days in a row, five oh, without a cancellation worldwide on the main line. No airline has ever done anything close to that.

So our people are outstanding. They keep building greater product. The greater product that you have builds greater customer satisfaction which then enables you to be able to price for fuel or whatever else the market forces you to carry.

MS. EDNEY: So I have a question here about specific products. As fuel costs rise, and you try to make up-- try to bring revenues higher with great products, are there any specific products you see driving higher revenue, where you see the biggest revenue opportunities there?

MR. BASTIAN: Well, the biggest revenue opportunities we have right now are the international growth that we're having in the business. We're seeing good pricing traction, we're seeing opportunities to grow. We're growing in every region around the globe. You know, you hear about concerns, particularly in Europe. Our European revenues are up 15 percent this year on a year over year basis. Our revenues in the U.K. are up 25 percent. So we have a considerable amount of traction that we see going on on the international front.

We also have, getting back to the products specifically, I was talking about all the different product categories we have, everything from lie flat, enclosed cabins to basic economy where people just walk on the plane last and grab their seat. We're pricing each one of those segments differently, and so the opportunities to actually charge a differentiated price for a differentiated service is something the industry's never seen before. And it's enabling us to generate hundreds of millions of dollars of incremental revenue, all which is customer choice. Customers are choosing product they want to buy as compared to in the past where fees and add ons were forced for the market. We want to create pull for those products as compared to push in terms of pricing.

MS. EDNEY: Speaking of fees, the *Wall Street Journal* today reported on carrier imposed fees on international flights. Those began as fuel surcharges but are now arbitrary. What is Delta's policy on these?

MR. BASTIAN: For fuel surcharges?

MS. EDNEY: Yeah?

MR. BASTIAN: Well, internationally we are allowed, in most jurisdictions, not all-- not in the U.S. but in most international jurisdictions, to add a fuel surcharge based on the

rising price of fuel in the marketplace. So in Tokyo, in Japan, for example, there's a process you apply to the government and you can add a surcharge at a certain price point.

In the U.S., we're not able to add for surcharges to our ticket prices. And as a result of that, we've got to get it embedded within the core pricing scheme.

MS. EDNEY: One more question on fuel. What have been the biggest challenges of owning the Trainer refinery and would Delta have bought the refinery if it had to do it all over again?

MR. BASTIAN: Absolutely. The Trainer refinery that we own sits outside of Philadelphia, has been a great success. We are proud owners of it. It was a refinery that had been closed and we reopened it. It's an almost hundred year old facility. We opened it about five years ago when many of the refineries in the northeast were actually in the process of being closed. It gave us an opportunity not only to put a lot of people back to work, but also create much greater fuel supply for jet fuel going into the New York harbor.

The moment that we opened Trainer back online, we increased the jet fuel supplies in the New York harbor by 40 percent. And in so doing, not only provided us great feed for our aircraft, but it also kept pricing lower because you immediately reduce the cost of that crack spread in the marketplace. Because it was at that point in time, it was costing us in the market almost \$25 a barrel on top of the \$100 a barrel it was for the crude to buy a jet crack. Those cracks have come down. It's been good for us, it's been good for our consumers.

This year, I think we've made year to date close to \$100 million net profit. The refinery itself only cost us \$150 million, so pretty good deal.

MS. EDNEY: Those are good numbers. What are the challenges that you've seen there?

MR. BASTIAN: Well, the challenge is it's large, it's complex. It's like running an airline, it's not for the faint of heart. It's a capital investment, it's a hundred year old facility. You've got to stay on top of it. You've got all the safety concerns in terms of being able-- the maintenance. And it's not something that's core to our business. So we went out and hired-- we don't have Delta people in the facility, we have oil professionals. Graeme Burnett's sitting down here, he runs it. You should be up here answering these questions, Graeme. He's evaluating my answers. But we have some of the leading oil professionals in the world actually on the ground working Trainer. And it's a big part of our cost structure, and we, as a result of Trainer, we directly/indirectly self supply 80 percent of our domestic fuel needs out of that one facility. So it's a pretty impressive little operation.

MS. EDNEY: All right, thank you. So we just have a couple minutes left here. I have two more questions for you. One, looking back on your career, who have been your greatest mentors and why?

MR. BASTIAN: I've had so many. I'd get in trouble if I start to single them out. I'd say number one's my mom. She's my hero in life and she keeps me in check. Any time this job adds too many accolades to my credentials, she's sure to knock me and put me in the right frame of mind, as moms tend to do and keeps me focused and she's been a great hero to me.

You know, I think one of the real mentors I've had that I've taken great pleasure for is a fellow by the name-- known well here in Washington-- Jerry Grinstein. Jerry's the guy that actually put me on this track at Delta, gave me the opportunity. He was our CEO for many years. He's a wonderful friend and he gave me a lot of confidence. I was surprised when he told me he thought I could do this job one day. And it's always-- that's something, when you think about a mentor, it's somebody that forces you to stretch beyond what you think is possible. And he believed in me before I believed in myself.

MS. EDNEY: That's fantastic, I'm glad. So, final burning question: window or aisle?

MR. BASTIAN: Aisle. Aisle in coach.

MS. EDNEY: Aisle in coach, yes. Mr. Bastian on domestic flights travels only in coach, right?

MR. BASTIAN: Mostly in coach.

MS. EDNEY: You talked-- yeah, mostly in coach.

MR. BASTIAN: Occasionally, there's no room and I have to move up.

MS. EDNEY: You have to move up.

MR. BASTIAN: Mostly in coach.

MS. EDNEY: Well, we would really like to thank you for coming here and speaking with us today.

MR. BASTIAN: Thank you. It's been fun.

MS. EDNEY: The time has gone so very quickly.

MR. BASTIAN: It's a great pleasure and I appreciate the opportunity.

MS. EDNEY: Well, before you leave, we'd like to present you with our National Press Club mug. We give this to all of our esteemed speakers. We hope that you use in good health.

MR. BASTIAN: Thank you, I appreciate that.

MS. EDNEY: Thank you for coming to the National Press Club. [applause] Thank you.

MR. BASTIAN: Thank you.

MS. EDNEY: I have one more announcement.

MR. BASTIAN: Okay.

MS. EDNEY: Thank you, everybody, for coming to today's luncheon and hearing Delta CEO Ed Bastian speak. I think it was an excellent experience, certainly for me. We're very happy to have you here, we hope that you come back. Upcoming headliners, speakers coming to the National Press Club include Alan Alda, who will be here in July 11th. On July 12th, we have the President and CEO of Union Pacific. On July 16th, we have a luncheon with the Commissioner of Major League Baseball.

There are lots of other great events happening at the National Press Club. Please check out our website, take a look. You're all invited, please come back. And with that, we are out. Thank you.

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