# Airbus SE (OTCPK:EADSF) Q3 2023 Earnings Call November 8, 2023 1:30 PM ET

**Company Participants**

Helene Le Gorgeu - Investor Relations
Guillaume Faury - Chief Executive Officer
Thomas Toepfer - Chief Financial Officer

**Conference Call Participants**

Ben Heelan - Bank of America
Milene Kerner - Barclays
Victor Allard - Goldman Sachs
Robert Stallard - Vertical Research
Douglas Harned - Bernstein
Tristan Sanson - BNP Paribas
Phil Buller - Berenberg
Ken Herbert - RBC
Ian Douglas-Pennant - UBS

**Helene Le Gorgeu**

Good evening, ladies and gentlemen. This is the Airbus Nine Months 2023 Results Release Conference Call. Guillaume Faury, our CEO; and Thomas Toepfer, our CFO, will be presenting our results and answering your questions. This call is planned to last around an hour. This includes Q&A, which we will conduct after the presentation. This call is also webcast. It can be accessed via our homepage by clicking on the dedicated banner. Playback of this call will be accessible on our website but there is no dedicated phone replay service.

The supporting information package was published on our website earlier today. It includes the slides which we will now take you through as well as the financial statements. Throughout this call, we will be making forward-looking statements. I invite you to refer to our Safe Harbor statement that appears in the presentation slide which applies to this call as well. Please read them carefully.

And now over to you, Guillaume.

**Guillaume Faury**

Thank you, Helene. And, hello, ladies and gentlemen, and thank you for joining us today for nine months 2023 results call. I'm here in Amsterdam with Thomas, our CFO, who joined the team at the beginning of September, warm welcome again, Thomas. Since then we've been working closely, and I'm very happy to present the nine months results today with Thomas. So, let me start with a high level overview.

Operationally, we continue to make progress on our plan. I have to say, it has not been and it still is not a walk in the park, as the global environment has become increasingly complex. It means that management of the supply chain remains a crucial part of our activities. And there, while the situation is progressively getting better, our needs for material and components keep increasing as we continue to ramp-up.

So, we expect the supply chain to remain challenging for a while, and we expect the ramp up to continue to be paced by a few critical suppliers. This is notably the case for engines, where we continue to work closely with manufacturers in order to secure deliveries for production ramp-up as well as the support of the fleet.

In Q3, we delivered 172 commercial aircrafts. This brings our year-to-date deliveries to 488 aircrafts as compared to 437 last year, so in-line with our plan. And we started Q4 on the same track as shown by our October deliveries, 71 commercial airplanes in October. Our EBIT adjusted stood at EUR3.6 billion. This reflects the commercial aircraft deliveries and the good performance of our Helicopter division. It also includes charges recorded to reflect the reassessment of certain of our satellite development programmes.

Our free cash flow before M&A and customer financing was EUR1 billion, mainly reflecting the inventory buildup in Q3, consistent with the back loaded delivery profile and the ramp up. On that basis, we maintain our 2023 guidance, while acknowledging that the charges recording in our Space business are putting some additional pressure on EBIT adjusted.

Let's now look at our commercial positioning. Aircraft continued to improve in the third quarter, and forward ticket sales indicate a sustained growth for air travel despite inflationary pressures and higher fuel prices. In nine months, we booked 1,280 gross orders, including 200 in Q3. On the A220, we booked 33 gross orders in nine months. The recently announced order from Air Niugini for six aircraft is not yet reflected in our order book. Looking at the A320 Family, we booked 1,087 gross orders, including 149 in the third quarter, bringing our backlog to 6,754 aircrafts.

Moving to the widebodies. We recorded 160 gross orders as of nine months including 28 A330s and 23 A350s in Q3 confirming the recovery of the widebody market. Nine months net orders amounted to 1,241 aircraft following 39 cancellations and our backlog in units stood at almost 8,000 being at 7,992 aircraft at the end of September.

Looking at Helicopters, in nine months, we booked 191 net orders versus 246 in the nine months 2022. And these 191 net orders are well spread across programmes. In this quarter, we signed an agreement with PHI Group for 20 H175 helicopters and eight H160s to serve the energy market worldwide. In addition, the H175 received its CAAC, Chinese Certification Authorities, and the CAAC Type Certificate in July, enabling deliveries to begin in China. Overall, we still see positive momentum in home countries for both civil and military markets as we continue to progress on some key strategic contents.

Finally, in Defence and Space, our third quarter is impacted by charges on our Space business and Thomas will further address it. However, we continue to see a good order momentum across our business. And as of nine months 2023, the division had an order intake of EUR8.5 billion, of which EUR2.4 billion in the third quarter. It includes the renewal of the contract for the A400M In-Service Support for Germany. And here I'd like -- I would highlight the recent groundbreaking of the new Airbus A400M maintenance center in Wunstorf.

In October, we signed contracts with France valued at EUR1.2 billion for the capability enhancement and for the In-Service Support of the French MRTT fleet. On Ariane 6, two important tests, the hot firing of the main and upper stages have been successfully achieved recently, another key milestone towards the inaugural flight next year. The priority now is on successfully completing the final test of Ariane 6 and securing its ramp-up to provide the sovereign access to space for Europe.

On that note, you may have followed the outcome of the summit which took placed earlier this week in Seville, European member states have reconfirmed their support to the continued operational phase of Ariane 6, which is an important milestone for the future of our European launches. On FCAS, we are working on Phase 1B and progressing according to plan with our partners.

And before we move on to the financials, let me give you a quick update on the transformation of Airbus Defence and Space. Recent geopolitical conflicts have actually reinforced the need for innovative Defence and Space and cyber capabilities. Meanwhile the execution of programmes is more and more challenging technically, financially and also sometimes politically to face this situation to improve our position in Defence and Space and our competitiveness and meet requirements, we launched a transformation programme aiming to adapt our ways of working, focusing on rigorous programme execution from bidding to delivery, including a reinforced risk assessment and mitigation commensurate with the nature of the programmes and the changed environment. At aiming to reinforcing end-to-end business ownership and fostering intrapreneur culture and improved competitiveness, as I said, via numerous measures, some of which are already delivering some efficiency gains.

We aim to implement in early 2024 a simplified organizational structure with peacefully empowered and accountable business lines, Air Power, combining our existing military air system and FCAS activities, space systems and connected intelligence and supported by a strong transitional operational functions. The consultation process with our social partners is ongoing for this change of organization. Obviously, it will take some time for all initiatives to deliver their full potential that is necessary to achieve our strategic and financial ambitions for the division.

And now I turn to you, Thomas. Thomas, will take you through our financials.

**Thomas Toepfer**

Well, thank you, Guillaume, and very warm welcome also from my side to everybody on the call. It's my pleasure to speak to you for the first time in my capacity as the Airbus CFO, and I'm very much looking forward to meeting as many of you as I can over the next coming months. And I'm, of course, also delighted to join Guillaume and the rest of the management team to actively contribute to the continued success of Airbus.

Now I'll walk you through our nine months financial performance in a little bit more detail. As you can see, our nine months 2023 revenues increased to EUR42.6 billion, up 12% year-on-year, and that is mainly reflecting the higher number of commercial aircraft deliveries.

If you look at the EBIT adjusted, before we're looking at the 2023 number, let me start by recalling that the nine month 2022 stood at EUR3.5 billion and included a net [EUR0.3] (ph) billion positive impact from non-recurring elements, which were related to retirement obligations and to international sanctions against Russia.

Now our nine month 2023 EBIT adjusted slightly increased to EUR3.6 billion, reflecting the higher commercial aircraft deliveries and a more favorable hedge rate versus the nine months of last year, partly offset by investments for preparing the future.

As Guillaume mentioned earlier, we recorded charges in certain of our satellite development programmes, mostly in the third quarter of this year, and these charges of EUR0.4 billion are the result of an update of our estimate at completion, and it accounts for revised time lines and cost estimates as well as for the reassessment of commercial risks and opportunities leading to these updated financial estimates on some major long-term contracts.

We have, therefore, today a better assessment of the risks in these programmes than we had before. And as a reminder, in 2023, we made further progress on our compliance related topics, which allowed us to release provisions for an amount of EUR0.1 billion in the first half of the year.

On R&D, our expenses in the first nine months of this year stood at EUR2.2 billion versus EUR2.0 billion in the nine months of last year, and we continue to expect our full year R&D to slightly increase compared to 2022.

As you can see, our nine months EPS adjusted stood at EUR3.59 based on an average number of 789 million shares, and our nine months free cash flow before M&A and customer financing was EUR1 billion, mainly reflecting the backloaded delivery profile in Airbus Commercial and Helicopters and the necessary inventory buildup as we execute our ramp-up.

Now turning to page seven of the presentation regarding our profitability. Our nine months 2023 EBIT reported was EUR2.7 billion and the level of EBIT adjustments totaled a net negative of EUR0.9 billion, including minus EUR806 million negative impact from FX mismatch and balance sheet revaluation, that is mainly reflecting the mechanical impact coming from the difference between transaction date and delivery date, of which negative or minus EUR155 million were recorded in Q3. It also includes minus EUR57 million related to the Aerostructures transformation, of which minus EUR23 million in Q3. And thirdly, it includes minus EUR56 million of other costs, including compliance costs, of which minus EUR10 million were recorded in the third quarter.

The EPS reported includes positive EUR231 million of financial result and that mainly reflects a positive impact from the revaluation of certain equity investments and also the evolution of the U.S. dollar, partly offset by negative impact coming from the revaluation of financial instruments. The tax rate of the core business continues to be around 27%. However, the effective tax rate is 25%, including the tax effect on the revaluation of certain equity investments and a net deferred tax assets impairment. Finally, the resulting net income is EUR2.3 billion with earnings per share reported of EUR2.96 per share.

Now let's move to the next page, page eight, and look at the U.S. dollar exposure coverage. In the nine months 2023, $15.2 billion of forwards matured with associated EBIT impact and Euro conversions were also realized at a blended rate of $1.20 versus $1.22 in the nine months of 2022. And in the first nine months of this year, we also implemented $8.7 billion of new coverage at a blended rate of $1.11. As a result, our total U.S. dollar coverage portfolio in U.S. dollars stands at $87.5 billion with an average blended rate of $1.23 as compared to $93.9 billion at $1.24 at the end of 2022.

Now with that, let's have a more detailed look at the free cash flow on page nine. Our free cash flow before M&A and customer financing was EUR1 billion in the first nine months of this year. This reflects on the one hand the level of deliveries and on the other hand the mechanical inventory buildup supporting our Q4 deliveries, both on commercial aircraft and helicopters as well as the execution of our ramp-up. This was partially compensated by a favorable timing of receipts and payments, notably the healthy PDPs inflows from orders placed at Le Bourget.

The A400M continued to weigh on our free cash flow before M&A, and the nine months 2023 CapEx was around negative EUR1.7 billion versus minus EUR1.3 billion in the nine months of last year. And looking forward, we expect our CapEx to slightly increase in 2023, supporting our industrial ramp-up. Now the free cash flow of EUR0.7 billion includes M&A activities for EUR58 million and customer financing of EUR261 million.

Overall, however, we can say that the aircraft financing environment remains solid with sufficient liquidity in financial markets for our products. And in the first nine months of this year, the customer financing cash outflow was mostly related to the planned execution of certain contractual obligations, and we might see additional usage of cash going forward in that respect. Now in total, our net cash position stood at EUR8.3 billion as of the end of September and our liquidity remains above EUR30 billion.

And with that, I would like to hand it back to Guillaume.

**Guillaume Faury**

Thank you, Thomas. Moving on to commercial aircraft. In the first nine months, we delivered 488 aircraft to 78 customers in-line with our plan. And looking at the situation by aircraft family, on the A220, we delivered 41 aircraft and we continue to ramp-up to reach rate 14 in 2026. September also marked the 10th Anniversary of the first flight of the A220.

On the A320, we delivered 391 aircraft, of which 222 A321 representing 57% of deliveries for the family. Production is progressing well towards the previously announced rate of 75 aircraft per month in 2026. We continue the modernization and digitalization of our industrial system as illustrated by the recent opening of the automated A321XLR equipment installation hangar in Hamburg. On the XLR, the aircraft completed in September its Route Proving Campaign and more recently its first passenger experience flight, two important milestones towards certification and the entry into service that is expected to take place in Q2 2024, no change compared to previous situation.

On widebody we delivered 56 aircrafts, of which 20 A330 and 36 A350. We continue to target rate four in 2024 on A330. On A350, I mentioned earlier the recovery of the widebody market and I'm happy to share that we decided to increase the production rate to 10 aircraft a month in 2026. Now let's look at Airbus commercial financials for the nine months.

Revenues increased 18% year-on-year, mainly reflecting a higher number of deliveries. The EBIT adjusted increased to EUR3.2 billion from the EUR2.9 billion last year in nine months 2022. This reflecting the increase in deliveries and a more favorable hedge rate, partially offset by the investments for preparing the future, which is also reflected in our R&D expenses. Nine months 2022 again included the non-recurring positive impact from retirement obligations, partly offset by the impact resulting from the international sanctions against Russia, while in 2023 we released provisions for EUR0.1 billion from compliance related topics in H1.

Looking at Helicopters. In nine months 2023, we delivered 197 helicopters, slightly above the nine months 2022. Revenues increased 3% year-on-year to EUR4.7 billion, reflecting the overall performance across programmes and services at Helicopters. As a result of this performance, EBIT adjusted increased to EUR417 million. Here also nine months 2022 included net positive non-recurring elements.

And let's complete our review of the nine months with Defence and Space. Revenues decreased 6% year-on-year mainly driven by backloaded A400M delivery profile and updated Estimates at Completion on certain satellite development programmes.

The decrease in EBIT adjusted reflects the charges resulting from the update of these EACs, of these Estimates at Completion, partially mitigated by the better performance of the rest of the business for the period. These charges are the result of revised time lines, cost estimates and the reassessments of technical and commercial risk and opportunities. We believe we have now more balanced, better balanced assessment of the overall risk and opportunities, noting that these programmes bring new technologies which naturally carry a certain level of risk. As a normal part of the development process, we will continue to closely monitor our exposure on our programmes.

On the A400M, we delivered four aircraft in nine months. We continue with development activities towards achieving the revised capability roadmap. You know this retrofit activities are progressing in close alignment with customer, no further net material impact was recognized in the first nine months of 2023, but risks remain on the qualification of technical capabilities and associated costs, on aircraft operational reliability, on cost reduction and on securing overall volume as per the so-called revised baseline. And here again, let me recall that the nine months 2022 included some net positive non-recurring elements like for the two other divisions.

So page 15 and on to the guidance slide. As the basis for its 2023 guidance, the company assumes no additional disruptions to the world economy, air traffic, the supply chain, the company's internal operations and its ability to deliver products and services. The company's 2023 guidance is before M&A. And on that basis, the company targets to achieve in 2023 around 720 commercial aircraft deliveries, EBIT adjusted of around EUR6 billion and the free cash flow before M&A and customer financing of around EUR3 billion. As I said earlier, we maintain the guidance. But why do we maintain the guidance? We acknowledge that the charges recording in our Space business are putting some additional pressure on EBIT adjusted.

Now a word on our key priorities moving forward before wrapping up. We obviously remain fully focused on serving the very strong demand for our latest generation aircraft as we continue to ramp-up production across all our commercial aircraft programmes. Let me briefly touch upon the upcoming evolution to our Airbus leadership team.

We operate and actually we are ramping up in a rapidly changing world impacted by profound geopolitical shifts, accelerating innovation as well as ecological and digital transformations. In this context, our new organization going live in January 2024. We serve primarily two objectives: first, reinforcing our focus on our operational business. This is why we decided to create a fully dedicated commercial aircraft management under the hand of Christian Scherer.

Second, it will also allow me to focus strongly on our company's strategy and to drive transformation across our group-wide businesses as well as on international matters. Given the growing importance of sustainability in our business, we have also decided as part of the reorganization to create the role of Chief Sustainability Officer.

Let me mention here a few highlights for the quarter on decarbonization. We unveiled the Airbus Helicopters PioneerLab demonstrator to test and mature technologies aiming for a fuel reduction of up to 30%, three zero. We signed a contract with EasyJet of the Airbus carbon capture offer using direct air carbon capture and storage with DACCS technology. And we became a strategic partner of DG Fuels for the production of sustainable aviation fuel in the U.S. in-line with our ambition to act as a catalyst in that SaaS domain.

While on this topic, I'd like to say we welcome the recent adoption of the ReFuelEU Aviation Regulation. That's an important step to get sustainable aviation fuels flowing in Europe. And on that note, I think we are, I will get you, Helene, ready to take your questions. Thank you.

**Question-and-Answer Session**

**Helene Le Gorgeu**

Thank you, Guillaume. Thank you, Thomas. We will now start our Q&A session. Please introduce yourself and your company when asking a question. [Operator Instructions]

So Sharon, please go ahead and explain the procedure for the participants.

**Operator**

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from the line of Ben Heelan from Bank of America. Please go ahead.

**Ben Heelan**

Yes. Thank you. Good afternoon, good evening. Thomas, nice to speak to you for the first time. The first question I have is around deliveries and in particular the GTF. Guillaume, is there any color that you can give now in terms of how we should think about production and delivery growth into 2024? And in particular, as we think about the mix of A320 deliveries from an engine perspective, has that changed between LEAP and GTF versus what you were thinking maybe four months ago?

**Guillaume Faury**

Thank you, Ben, for these questions. So, color on GTF. I'd like to say that this is not going to impact 2023. So, and that's why we confirm the guidance. I mean not more than what we agreed with Pratt & Whitney, end of 2022, beginning of 2023 when we sized the ramp-up for this year, taking into account the time-on-wing challenges and the need to better support the fleet at that time.

When it comes to 2024 and as it's been reconfirmed by Pratt & Whitney and RTX, they will stick to their commitments to Airbus for our ramp-up. But obviously, we're also paying a lot of attention to the situation in the fleet and the many, many planes that will be AOG for some time as a result of the recall campaign for the metal powder issue. Therefore, you could expect the mix to be slightly more in favor of the LEAP and a bit less in favor of the GTF. And what we would have had absent the recall contained on the GTF.

**Ben Heelan**

Okay. Very clear. Thank you.

**Operator**

Thank you. We will now go to the next question. And your next question comes from the line of Milene Kerner from Barclays. Please go ahead.

**Milene Kerner**

[Bonjour] (ph) Helene, Guillaume, welcome, Thomas. Milene Kerner from Barclays. I have two questions, please. My first question relates to the Airbus headcount. At the end of September, you had over 88,000 employees at Airbus Commercial, and that's 7,000 more than what you had in 2019. So, I understand that productivity is not the same. But could you try to quantify what delivery number you have labor for currently? And then my second question is on your inventory. I mean, as you flagged, I mean, it was up a billion versus Q2, up over 4 billion versus last year. I was wondering if there is also any increase that is related buffer inventory given the supply chain constraints, and if they are, if you could quantify how much these are? Thank you.

**Guillaume Faury**

Okay. Thank you, Milene, for your questions. For the second one, the answer is yes, but I will let maybe, Thomas see if you can give color, I'm not sure, to that one. Yes, so the headcount. So indeed, as you rightly said, productivity is not what it was in 2019. We are rehiring a lot of people, training them. We have employees to train the newcomers. We are heavily impacted by disruptions in the supply chain, and that creates rather inefficient environment, that we believe we will continue to have to live with. On top and as we prepared with Thomas and Thierry Baril, our Head of HR for that, for the Board we had before and for those calls.

On the headcount side, we have also some change of scope of business and more consolidation of entities, which means we have also part of the additional headcount compared to previously that come from change of scope. We have also re-internalize or internalize a number of activities because we think it's more efficient to have Airbus employees, to have Airbus workforce other than subcontractors of the third-parties, and without impact on cost or actually with a slightly positive impact on cost. So, the direct comparison to 2022 needs those explanations and it's even more complex when we come back to 2019 to, just to try to answer as good as I can to this question.

Now on the inventory and but first, Thomas, do you want to try to give some color on where we stand?

**Thomas Toepfer**

I think on that question, the way I would look at it is, if you look at our free cash flow statement, you see that for the first nine months of the year, we built-up EUR4.3 billion of inventory. I would say first of all, this is fully in-line with our plan to achieve the ramp-up that we have ahead of us for the rest of the year. And of course, to your question, it also takes into account that we want to take some precaution because the supply chain is still very challenging, and therefore, I'm not sure whether I would call it a buffer. But of course, there is some kind of elevated inventory level included in this simply because the supply chain is pretty much disrupted.

On that note, however, since we're not expecting the situation to improve significantly in the short-term but also 2024, we'll probably have to deal with some challenges. I would just make the statement that you should not expect that this will be reversed very quickly. But it's probably some issues that we will have to deal and continue to deal with over the course of the next quarters to come.

**Guillaume Faury**

Yes, that's indeed something that we've been discussing very closely with operations. We have the high level of the first stock of intermediary inventory that we believe is necessary given the landscape and the very volatile nature of the supply chain to be able to secure the ramp-up even if we have crisis popping up here, and that's the very nature of the environment we have at the moment. So, I fully confirm what Thomas said just before.

**Milene Kerner**

Thank you.

**Operator**

Thank you. We will now go to the next question. And your next question comes from the line of Victor Allard from Goldman Sachs. Please go ahead.

**Victor Allard**

Good evening. Thank you for taking my question. Could you please share with us some color regarding the main moving parts baked in your implied 4Q guidance at EBIT? I guess, needless to say that D&S is clearly tracking below the expectation that we had at the time of formulating the guidance in February. So, I was curious to hear what has done better than expected elsewhere in the business and beyond FX? And also should we assume that the views you shared with us earlier this year in terms of inflation, which I think was roughly EUR200 million headwind for the full year remains valid today? Thank you.

**Thomas Toepfer**

Yes. Maybe on that topic, essentially, if you look at Q4, I would say the most telling thing is the comparison with last year. So, we're not assuming a major uplift, but just a slight uplift relative to last year. That is coming from the deliveries. On the one side, that should be helpful and provide some tailwind.

And secondly, it should come from a little bit of tailwind from our FX rate which also should be helpful. And again that, you mentioned some headwinds that we might to face. Overall, the Q4 that we're expecting is slightly above what we had last year. And I think with delivery trajectory that we currently have, this is also what we deem fully realistic. But those are the major moving parts in there. I think there's nothing really big that other than that you should have on the agenda.

**Victor Allard**

Thank you. Okay.

**Operator**

Thank you. We will now go to our next question. And the next question comes from the line of Robert Stallard from Vertical Research.

**Robert Stallard**

Thanks so much. Good evening.

**Guillaume Faury**

Hi. Good evening.

**Robert Stallard**

Guillaume, just wanted to follow-up on Ben's question at the start of the Q&A session on engines. We’ve talked a lot about the GTF issues, but CFM also reduced their growth target in terms of their ramp-up, recently as well. I was wondering if these two combined are pushing out your plans, for the A320 ramp in 2024, although they're still holding to your longer term target of $75 a month.

**Guillaume Faury**

Well, CFM, they have commented on their overall business, I would not take their remarks for valid for Airbus. So they have confirmed that they will stick to their commitments with us. So, I need to say it very clearly. And for Pratt & Whitney that's the case as well for 2024. So, we will be ramping up in 2024. We are not at the point of being specific on this. But again, this is going to be about ramp-up on the 220, on the 320, including given the complex engine landscape with Pratt & Whitney, and on our widebodies. So, that's where we are and we keep going in that direction. Obviously, the Pratt & Whitney situation is creating a lot of additional complexity for us and for aircraft and less our customers. But in spite of those difficulties, we have found ways of managing the situation with Pratt & Whitney. They have commitments to us that they have reconfirmed several times that they intend to stick to. So 2024 is again about ramp-up.

**Robert Stallard**

Yes. And then also on the supply chain, we've talked about engines. But are there any other areas that are proving particularly challenging at the moment?

**Guillaume Faury**

Well, that's a good question. I mean, we have now more and more situations, which are more linked to a given equipment or a certain part or supply rather than suppliers. So, we have few suppliers that are the so-called pacing ones. And then we have a number of specific situation to manage with, yes, again critical suppliers, but not as suppliers, but given the fact that they are providing a certain number of equipment and parts and on some of them, in sometimes only one of them, they are in difficulties.

So, that's a bit of a different landscape than what we had last year. And in the ones that are difficult and challenging, as suppliers we have obviously Pratt & Whitney, and we have also a spirit that is of public knowledge. So, that's basically the best way I can answer to your question.

**Robert Stallard**

Thank you very much.

**Guillaume Faury**

It's more specific, it's more targeted, but still we have difficult situations to manage.

**Robert Stallard**

Okay. Thank you very much.

**Operator**

Thank you. We'll now go to the next question. And your next question comes from the line of Douglas Harned from Bernstein. Please go ahead.

**Douglas Harned**

Good evening. Thank you. I wanted to actually, first question, go to Spirit because you've got the Boeing agreement. They've got the Boeing agreement in place. Where do you stand there given, particularly given that the situation is quite different for you on the A350, the A220 and the A320 at Spirit. And then second, just going back to the geared turbofan, one more time. On the Air Lease earnings call, Steve Hazy talked about the likelihood that Pratt would divert engines to customers for spare engines. We've heard something similar from other [lessors] (ph). How do you -- and that that could cause shortfalls in your deliveries, how do you work this so that you can incentivize Pratt, to deliver to you as OEM deliveries as opposed to some of their other direct customers at airlines?

**Guillaume Faury**

Let me maybe start with the latter. I heard what Steve said. And obviously, my previous statements are not consistent with what Steve said, I confirm that we will deliver according to our ramp-up plans, at least at the confirmation of the guidance and that's what we have in the cards. And we think we are well placed to deliver the 161 planes that would around the 161 that will bring us around the 720 for the year. And when I say 161, that's what we need to deliver between end of October and end of December to fulfill the guidance. And that's what we see. And again for those deliveries, we have obviously a high degree of visibility on parts including engines. So, I want to be very clear on this.

Now going back to the question of Spirits, indeed we are in a different place compared to Boeing. Our level of dependency to Spirit is to a much lesser degree, we are providing A350 and A220 shipsets mainly also A321, but it's A320 shipset, but it's mainly A350 and A220. And we are working very closely with Spirit to support operationally. We have a lot of people dedicated to the support of the A350 and the 220 to help. And we're also discussing on how to find ways that would be deemed acceptable by Spirit and by Airbus to move those programmes forward in a way that would make better sense for them but remain acceptable for us. So, working very closely with Spirit operationally and from a contractual standpoint.

**Douglas Harned**

Very good. Thank you.

**Operator**

Thank you. We will now go to the next question. And your next question comes from the line of Tristan Sanson from BNP Paribas. Please go ahead.

**Tristan Sanson**

Yes. Good evening, Guillaume, Helene, and welcome, Thomas, to the show. A couple of questions on my side. The first one was on Defence and Space. I'm not sure I understand why the charge is so large for a business that is EUR2.7 billion of sales a year. I guess you probably said were the maximum you can say for the moment, but I'm surprised that if you assume you have like three quarters of that in Q3, the underlying margin for Defence and Space in Q3 is actually quite high and way higher than what it was in H1 or throughout the first three quarters of last year at around 9%. So, if you could you give us a feel for what is going on elsewhere in Defence and Space in Q3? That would be helpful to get a feel for whether the right level going forward is closer to 9% or closer to the reported level. And the second question, I'm sorry to come back to the GTF. I think you mentioned, Guillaume, on the Q2 call that, in your view, the risk on the Pratt, PW1100 was more risk of second order, not coming from the risk so much of relocation of engines to the support of the fleet in service, but coming from the risk of industrial difficulties and disruption at Pratt on staffing, on parts production that would put them under pressure to deliver on their commitments. How do you see the specific risk evolving now?

**Thomas Toepfer**

Maybe I'll start with the first question and try to shed a little bit color on the topic of the charges that we've recorded in Defence and Space. So, I think the way you have to think about it is we're talking about a satellite program, which of course consists over several satellites that have to be developed, sold etcetera, and such a programme runs over several years. Now the way that you look at it and account for it is that you build a so-called Estimate at Completion. So, you build a business phase which takes into account all the positives and the negatives for the programme over the years to come. And accounting rules has it that, if you make changes to that, it can be that negative, can have to be already accounted for in a single quarter if certain conditions are fulfilled.

And therefore, what we did, and this is nothing really new, but we already started with it in the first half of this year, we looked at exactly these Estimates at Completion. And we carefully, looked at the time lines, the cost estimate but also the balance between the risk and the opportunities of those programmes and the result is that we had to take some charges in Q3, but I can absolutely confirm what you said. Those are charges that do not relate solely to the third quarter of this year, but which are a result of an assessment of an, as I said, Estimate at Completion and therefore, a much longer time line that is then financially reflected in Q3 of this year.

So therefore, I would also say we had against that, and I think we were transparent about it, released some provisions which were helping to the positive. And therefore, I don't think that Q3 is really representative of the underlying performance of the business. We said that we think we're able to generate a high-single-digit margin on it going forward, and I think that is also the ambition that we have for the business in the future.

**Guillaume Faury**

Thank you, Thomas.

**Tristan Sanson**

I'm not sure I haven't identified the positive revenue you are talking about, but we can follow-up [indiscernible].

**Operator**

Thank you.

**Guillaume Faury**

Okay. No, no, if I may, sorry, Tristan, on the GTF question and what I call the -- I think I used the word indirect impact. That was not very explicit and I had to explain myself afterwards. No, I don't think we see anything of that kind as of today. That's maybe a bit early by the way. I think that's something we would see if it will be the case developing over time. And what we see for the moment, be it on the 220 or the 320, so on 1500 or the 1100 engines is what relative engines on time. We have a very good alignment on the industrial plan and its execution. So as of today, no, what I call, potential indirect impact is materializing or at least not to my knowledge, not at my level.

**Tristan Sanson**

That's really helpful. Thank you, Guillaume.

**Operator**

Thank you. We will now go to the next question. And your next question comes from the line of Phil Buller from Berenberg. Please go ahead.

**Phil Buller**

Hi, good evening. Thanks for the question. It does sound like in the prepared remarks, there is something being flagged around this increased complexity statement, but nothing seems to have really changed in the numbers. If I look at the ‘23 guide, that’s unchanged, but it feels like D&S and Helicopters are below budget. Maybe that's unfair. And in answering the questions, it sounds like you believe you will get the GTFs and LEAPs you need next year and the midterm rates come 2026 are even higher on the A350. So, I guess financially speaking, what are we to interpret here? Is it that commercial aero deliveries in 2024 might be a bit more challenging somehow? Is the cost of realizing those deliveries, be that inflation or whatever, ticking up next year?

Anything you could add to try and make sure we're interpreting the complexity statement better as we think into 2024 would be great is the first question? Thanks.

**Guillaume Faury**

Yes. Okay. Thanks for the question. I think what we mean by increased complexity is trying to reflect our day-to-day lives in the current environment, which indeed is dealing with geopolitical, regulatory, supply, political complexities around this, fast moving picture. And that's what we see in terms of environment to deliver what we have to deliver. We are not suggesting that we're not going to meet or that there is a higher risk profile here and there, but we're trying to reflect on the, yes, the complex, the growing complex nature of the environment we are operating in, and therefore the time and efforts we spend, but that's mainly management resources that are involved in dealing with that complexity, in better anticipating the risk and putting in place the mitigation plans and maybe the more volatile and a bit unpredictable nature of what we are doing. And we are trying to factor this also in our plans.

Thomas, commented on the question on the buffers, indeed, we have an industrial system that is more preferred than what we would do in an easy and predictable environment, that's not the situation. So, we are not trying to suggest anything else than reflecting that other complex, unpredictable, volatile, sometime a bit ambiguous environment that makes our life more complex. And that creates more potential for unexpected crisis here and there and therefore the need to be eyes open to be better anticipation and also in our ability to react and to adapt to the situation. That's basically what we're trying to reflect through the so-called increased complexity.

**Phil Buller**

Okay. Thank you. And then just to follow-up, I guess it's a different question really, but the transformation in Defence and Space is a nice thing to see. Just to read between the lines, is there more to this than getting the operations and margins in the right place? Is this, for example, a precursor to something more strategic, i.e. is there an opportunity perhaps that you see for improved European defence collaboration or consolidation in some way the Airbus could stay at [indiscernible] Thanks.

**Guillaume Faury**

I would not directly make the link. That's also something we have obviously insight. I mentioned the more complex changing geopolitically in freelance environments and of course being agile and being able to act accordingly is important. That's something we factor in the transformation that we are running at Defence and Space, but that's not directly targeting this.

**Phil Buller**

Thank you.

**Operator**

Thank you. We will now go to the next question. And your next question comes from the line of Ken Herbert from RBC. Please go ahead.

**Ken Herbert**

Yes. Hi. Good evening, everyone.

**Guillaume Faury**

Hi. Good evening.

**Ken Herbert**

Yes. Guillaume, maybe just to start, two part question. A number of your suppliers have talked about a slower, recent slower ramp on the A220 programme, and I wondered if you can provide an update on that programme and, I guess, more specifically, as you think about the potential launch of a stretched aircraft, you've got a new management team, running Airbus, you've talked historically about wanting that extension or new aircraft to pay for itself as we get to breakeven towards the middle of the decade. But, can you give an update on the A220 specifically and how you're thinking about the 500 variant?

**Guillaume Faury**

So, on the 220, we are going to or we think we're going to deliver this year according to our plan that contributes to the reaching the guidance, the ramp-up it still targets the rate 14 by 2026. We had said earlier, I think a year ago that we were targeting mid of the decade, so indeed it's probably slightly going to the right. And that's maybe what you've heard from suppliers, but I would not see it as really material. We have a level of booking that supports this ramp-up as far as we can see, so that's okay.

On the Dash 500, no change compared to the previous quarters. We believe that's a version of the A220 that will make a lot of sense one day. But again, we stay very focused on reaching the rate 14, the breakeven of the programme, managing to reduce the costs and there's a lot of activity ongoing to make this happen. So we have said with Tristan that, Dash 500 is not a matter of if, but it's a matter of when and the when is not now and we are not changing on this.

So that's premature. Dash 500, we don't even know today what it really means, looking at different architectures, different solutions, different possibilities and different trade-offs. So, we are not in the situation to launch even if we would like to do it now. And it's not the case, we don't want to do it now anyway.

**Ken Herbert**

Great. Thank you very much.

**Operator**

Thank you. We will now take our final question for today. And your final question comes from the line of Ian Douglas-Pennant from UBS. Please go ahead.

**Ian Douglas-Pennant**

Thanks very much for squeezing me at the end. I appreciate it. Just going back to the inflation question that we had earlier, I wasn't quite sure I understood the direct answer to that. In the light of SAF you're also saying that inflation costs are slightly worse than expected this year and reiterating that at the call just recently. Is that what you're seeing as well? And should we bundle that into the comments you're making it in on investment in the future? And the second thing is, what aside from the demand picture, what gives you confidence to raise the A350 message that you've given to the supply chain today, especially around the supply chain. Do you perceive that to be less tight or able to ramp-up quicker than you've experienced in the narrow body? Thank you.

**Guillaume Faury**

I'll take the question on the A350. The reason why we are raising from the previously announced rate nine in 2025 to now rate 10 in 2026. It's because we have secured a number of orders because we have positioned ourselves in campaigns where we believe, we have a certain likelihood of winning and we continue to see a growing demand and a lot of customers coming to us with campaigns and needs and fleet plans. So, that's consistent with the message, I think we've been passing now in the last 18 months that we see a very significant recovery on the widebodies and the growing demand. And it's translating the demands into our ability to supply.

Now it's a fair question from you to say, well, are you going to manage the ramp-up on the widebodies, even what we have experienced previously on the ramp-up of the A320, mainly the difficulties in 2022. As I said earlier in the call and in previous calls, we have a much better understanding, we believe at least of the supply environment and of the supply the state of the supply chain and its ability to deliver, we've done a lot of work on the A350 to try to take the lessons and the learnings from the initial A320 ramp-up. And we have based our assumptions for the A350 ramp-up on this work, on those activities, and the very detailed understanding we think we have of the ability of the supply chain to deliver on that ramp-up. And, Thomas --

**Thomas Toepfer**

Just on the inflation question. So yes, I think just to confirm, of course, we're also seeing that inflation is playing a role. And as I tried to indicate, in Q4 we have, of course, the positive from the deliveries and a little bit of tailwind from the FX. But of course, we're also seeing that the inflationary environment continues to evolve. As we have indicated, that is roughly the EUR200 million per year. We have been on track, in-line with the trajectory for the first nine months of the year, and therefore, we're also expecting that Q4 will evolve accordingly. That is fully baked into our guidance and also, therefore, I can confirm that, of course, we're also seeing the inflation, but it's not an additional risk relative to what we have that we would achieve this year.

**Guillaume Faury**

Thank you.

**Ian Douglas-Pennant**

Thanks very much.

**Operator**

Thank you. I will now hand the call back to Helene for closing remarks.

**Helene Le Gorgeu**

Thank you, Sharon. This closes our conference call for today. If you have any further questions, please send an e-mail to Philippe Gastar or myself and we will get back to you as soon as possible. Thank you again and see you soon.