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Company Participants

Guillaume Faury - Chief Executive Officer
Dominik Asam - Chief Financial Officer
Helene Le Gorgeu - Head of Investor Relations and Financial Communication

Conference Call Participants

Celine Fornaro - UBS Ltd.
Tristan Sanson - Exane BNP Paribas
Benjamin Heelan - Bank of America, Merrill Lynch
David Perry - JP Morgan
Neil Glynn - Credit Suisse
Milene Kerner - Barclays
Christophe Menard - Deutsche Bank
Robert Stallard - Vertical Research Partners
Andrew Humphrey - Morgan Stanley
Harry Breach - Stifel
Jeremy Bragg - Redburn

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Airbus on the Year 2021 Results Release Conference Call. I'm Christine, the operator for this conference. [Operator's Instructions]. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to your host, Guillaume Faury, Dominik Asam, and Helene Le Gorgeu.

Helene Le Gorgeu

Thank you, Christine. And good morning, ladies and gentlemen. This is the Airbus full-year 2021 results release conference call. Guillaume Faury, our CEO and Dominik Asam, our CFO will be presenting our results and answering your questions. This call is planned to last around one hour and 15 minutes. This includes Q&A, which we will conduct after the initial presentation. This call is also webcast. It can be accessed via our homepage where we have set a special banner. Playback of this call will be accessible on the website but there is no dedicated phone replay service.

The supporting information package was e-mailed to you earlier this morning. 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. The package you receive contains the safe harbor statement which applies to this call as well. Please read it carefully.

And now over to Guillaume.

Guillaume Faury

Thank you, Helene, and good morning, ladies and gentlemen. Thank you for joining us today for our full year 2021 results call. I'm happy to be here with Dominik to walk you through our results. 2021 has been another challenging year but it was also a year of transition where our attention shifted from navigating the crisis towards recovery and growth. In the early months of 2021, we still had to demonstrate our resilience in a global context of low air traffic and a lower or lack of predictability.

We gained visibility as we progressed in the year. We saw that air traffic accelerated quickly once further restrictions were lifted, starting in key domestic markets and demonstrating the fundamental need for connecting people and cultures worldwide. This visibility together with the strengthening of our customer’s demand gave us confidence to set our ramp up trajectory, engage our supply chain and launch all necessary actions to prepare for a strong recovery in the single-aisle market.

2021 has also been a remarkable year for Airbus, thanks to the resilience and efforts of our teams to deliver outstanding industrial, commercial and financial results. Let's now look at our commercial aircraft deliveries in our financials both showing that we delivered on the guidance we provided in October. In Q4, we delivered 187 aircraft taking our full-year ’21 delivery number to 611, an 8% increase compared to 2020 and in line with our 2021 guidance. I am proud of this collective achievements by team members together with our customers and suppliers.

For the full-year ’21 our EBIT adjusted was €4.9 billion and our free cash flow before M&A and personal financing was €3.5 billion. Our strong 2021 financial results and in some ways they are very strong, reflect the number of commercial aircraft deliveries, the good performance of our divisions as well as our cost containment and efforts on competitiveness. While carefully managing our cost base for the year, we progressively resume activities to prepare our future and we will further accelerate in 2022.

Our EBIT adjusted also benefited from the reduction of risk exposures, which enabled us to release some provisions. Our record net income of €4.2 billion together with our strengthening net cash position at €7.6 billion and Dominik will comment on both later, that underpin our proposal to reintroduce dividend payments going forward, which will amount to €1.5 per share for 2021.

Today, as we have entered 2022, the pandemic is not yet fully behind us. We experience additional complexity coming from the global macroeconomic landscape, including tensions on supply, logistics and labor. Nonetheless, we continue to deliver on our production ramp up as planned while closely monitoring and managing the associated challenges.

Let's now look at our commercial environment. After a sharp decline in 2020, and in spite of the shipping challenges in 2021, the global economy rebounded. The air traffic also progressively recovered over the year, even though the crisis is not over yet, the aviation industry continues to emerge from it. It has become clear that people want to fly again. And they do so as soon as COVID restrictions are relaxed.

Yet 2021 has also shown that some key markets remain volatile and the Omicron variant has confirmed once again that the path to full recovery is not linear. These uncertainties are not today of the nature to change our expectations that the market will recover between 2023 and 2025 with domestic and regional markets, clearly leading the way. This is underpinned by our customer’s strong demand for latest generation fuel-efficient aircraft, which reinforce their competitiveness and lower their fleet emissions.

In fact, latest generation aircraft represents today only around 13% of global fleet, underlining the strong potential of fleet replacements to decarbonize commercial aviation with today's technologies. Let me now remind you of our orders and backlog which also reflect a strong commercial activity in Q4. For the full-year 2021, we booked 771 gross orders. In Q4, we recorded 501 gross orders including 43 A220’s, 46 A320 family aircraft, and 32 wide-bodies. This includes the first A350 freighter orders which together with several commitments mark an important milestone for this program.

I am pleased by this great commercial performance, and we at Airbus appreciate the strong endorsement from our customers who placed new orders for 2021 to answer both passenger and freighter market demands. We saw 264 cancellations in 2021. As a result, net orders were positive at 507 aircraft and our backlog in units amounted to 7,082 aircraft at the end of 2021. At group level, our backlog in value increased to €398 billion in 2021, mainly reflecting the strengthening US dollar.

I'd like to say a few words about the situation we are unfortunately experiencing with one of our customers, Qatar Airways. We had to make the decision to exercise our rights and terminate two A350-1000 delivery slots in the A321 contracts. These decisions followed many attempts to find mutually beneficial solutions and we continue to hope for an amicable solution. And I'd like to say as well that for us at Airbus the relationship with our customers is of the utmost importance, and we will continue to work hard to serve them.

Looking at Helicopters, in 2021, we achieved a record year of booking with book-to-bill well above one, which confirms the positive momentum for campaigns in our home countries as well as the good performance of our support and services business. Also in the year, we booked a total of 414 net orders compared to 268 in 2020. This includes 52 H160 helicopters, of which confirmed order by the French DGA for 30 units of the H160 military version as a first batch of the Light Joint Helicopter program, which plans for an overall total of 169 units. In addition, we recorded in Q4 an order for 36 H135 helicopters by the Spanish Ministry of Defense and Interior.

Finally, in Defence and Space, in 2021, our order intake was at €13.7 billion, up 15% year-on-year, corresponding to a book-to-bill of around 1.3. This commercial performance includes key orders in our Military Aircraft business such as two major contracts for the in-service support of the German and Spanish Eurofighter fleet; the Indian order for 56 C295 to replace the Air Force legacy fleet; MRTT related orders from the United Arab Emirates, the UAE and Spain, as well as the export contract with the Republic of Kazakhstan for two A400.

In our Space Systems business, we are going through the contract to design and manufacture six Galileo second-generation satellites. And in 2021, we launched 10 spacecraft in the OneWebs constellation deployment reached 394 satellites, so close to 400. We received orders for 12 more spacecraft and importantly, 20 of our satellites are now involved in climate change monitoring with 20 more in development.

For Eurodrone, we welcome the recent budgetary approval by Spain following that of France, Germany and Italy. Eurodrone will be the first project to be from the start, designed and developed through our new digital design manufacturing and service concepts. On FCAS, we continue to work with our industrial partners with the objective to move on to the next development phase later in the year.

Now, Dominik will take you through our financials.

Dominik Asam

Thank you, Guillaume, and good morning, ladies and gentlemen. Our fiscal year 2021 revenues increased to €52.1 billion, up 4% year-on-year, mainly reflecting the higher number of commercial aircraft deliveries, partially offset by a weakening average US dollar exchange rate. Our fiscal year EBIT adjusted increased to €4.9 billion, up from €1.7 billion in 2020, which included €1.1 billion of charges due to the impairments and write-offs triggered by COVID-19.

The strong yearly improvement of our EBIT adjusted is mainly driven by the commercial aircraft delivery performance and our efforts on cost containment and competitiveness. It also reflects the reduction of risk exposure which enabled us to leave some provisions. In particular, we reviewed the COVID-19 related charges and reassessed the level of exposure, which had a positive impact on our EBIT adjusted mainly in the second half of the year.

On research and development, our expenses in 2021 stood at €2.7 billion, slightly below the 2020 level. The R&D expenses are expected to increase to around €2.9 billion in 2022. Our fiscal year earnings per share adjusted stood at €4.33 per share, based on an average of 785 million shares outstanding.

Our fiscal year free cash flow before M&A and customer financing was €3.5 billion. It reflects our efforts in cash containment and a decrease in working capital, mainly driven by inventory improvement. It also includes the divestment of one of our sites in France.

All-in-all, we saw a very strong performance in ’21 while we're still managing our costs in a crisis mode in the first half of the year, and benefited from provision releases mainly in H2, we progressively resumed activities to prepare our future and this will further accelerate in 2022. This mainly includes additional investments in research and development, digitalization and cyber security and efforts to support the single-aisle ramp up.

Now on to the next slide regarding our profitability. Fiscal Year ’21 EBIT reported was €5.3 billion. The level of EBIT adjustments total a net positive of €0.5. billion including plus €274 million related to the A380 program, of which €84 million were booked in Q4; plus €122 million gain on disposal from the sale of the aforementioned site in France recorded in Q4; minus €212 million related to A400M, of which minus €209 million in Q4; minus 38 million negative impact from foreign exchange and balance sheet relation of which plus €127 million in Q4; and €331 million from other adjustments, mainly including around €4.2 billion of provision relief that’s related to the restructuring plan and payments by suppliers, plus €45 million were booked in Q4.

Earnings per share reported include minus €15 million of financial results. It mainly reflects minus €246 million of net interest result as well as the revaluation of financial instruments and of certain equity investments. The tax rate on the core business is around 27%. The effective tax rates on net income is 17%, including the positive effect from tax risk updates and the tax effect on the revaluation of certain equity investments, as well as a net release of deferred tax assets impairments, mainly due to an updated business outlook. All this result in a record net income of €4.2 billion with earnings per share reported of €5.36.

Regarding our hedging activities in fiscal year '21, $20.9 billion of the hedges matured with associated EBIT impact at the rate of $1.20 versus $1.19 in the prior year. During the year, we adjusted the phasing of our hedges by implementing around $5 billion of rollovers, mainly in Q1. We also implemented $29.5 billion of forward at a rate of $1.21 of which $6.7 billion in Q4 at a rate of $1.18, mainly for the years 2022 to 2025. As a result, our total hedging portfolio in US dollar including $1.2 billion of hedges disqualified in Q1 '21 stands at $88.3 billion, with an average exchange rate of $1.25 versus $1.26 in December 2020.

Now let's look at our cash evolution in '21. Our gross cash flow from operations of €4.5 billion mainly reflects our EBIT adjusted and includes a €4.6 billion provision consumption related to the restructuring plan. Our working capital has decreased by €1 billion. It mainly reflects the reduction in inventory with the deliveries of the last A380s and the continued optimization of our wide-body inventories largely offset by contract assets and liabilities.

Year-to-date the A400M continue to weigh on our free cash flow before M&A but less so than in 2020. 2021 CapEx was around minus €1.9 billion, slightly higher than in 2020. We expect our CapEx to be around minus €2.4 billion in 2022. Free cash free cash flow reported was €3.5 billion. M&A activities accounted only for minus €32 million, whereas customer financing represented an inflow of €28 million.

The aircraft financing environment in 2021 remained solid with sufficient liquidity in financial markets for our product. We also benefited from the support of export credit agencies. Going forward, a low level of customer financing may not be sustainable, and we anticipate some usage of cash in the coming years.

Our net cash position has improved to €7.6 billion as of the end of December and our liquidity position remained strong and stood at €28.7 billion. As mentioned during our last quarterly disclosure, we've extended the maturity of our €6 billion revolving syndicated credit facility by one year in Q4. Going forward, we will continue to adopt an active approach when it comes to managing our liquidity with the objective of maintaining our robust credit rating.

So, back to Guillaume.

Guillaume Faury

Thank you, Dominik. Now onto commercial aircraft, and in 2021, we delivered 611 aircraft to 88 customers of which two operating lease without revenue recognition at delivery. This delivery performance represents a year-on-year increase of 45 aircraft.

In 2021, we also provided additional visibility to our suppliers and in particular we secured the production rate for the A320 family up to summer 2023, which is mid of next year. In addition, we continue the development of our product portfolio with the launch of the A350 freighter, and the progress on the A321 XLR.

Let's now look at the more detailed situation by aircraft family. On the A220, we delivered 50 aircraft. We continue to ramp up and are on track for rate 14 that we envisage by the middle of the decade. The prefile in Mirabel is now operational and will support this ramp up. On A320, we deliver on the 483 aircraft of which 221 A321. We continue to deliver on our production ramp up and we are on the trajectory to achieve rate of 65 by summer 2023.

We continue to derisk the ramp up including by enabling all of our assembly sites to become A321 ready. For production rates beyond 2023, we are still in the assessment phase, and we are working with our suppliers to potentially enable an increase above rate 65. On the A321XLR, the first of the development aircraft to enter the FAL in Hamburg in November, this aircraft will perform the flight testing and type certification program starting this year to pave the way for service production and entry into service next year, 2023.

On A330, we delivered 18 aircraft of which the MRTT. The A330-800 received its 251 ton Max-Take-Off Weight certification in December. And as previously announced, we target to increase our monthly production rate to almost three aircraft at the end of 2022. On the A350, 55 aircraft were delivered. We continue to expect to increase the A350 production rate from around five per month to around six in early 2023. On the A380, we delivered around five aircraft in 2021, of which the last produced A380 to Emirates. The A380 will continue to fly without support for many, many years.

Let's now look at Airbus commercial financials for the year. Revenues increase by 6% year-on-year, mainly reflecting the higher deliveries as compared to 2020. The increase in EBIT adjusted is mainly driven by the delivery performance, our efforts on cost containment and competitiveness. In addition, we released some provisions reflecting among others, the good progress made on the remarketing of unplaced aircrafts, as we did in [Hungary].

Finally, let me remind you that our full year 2020 EBIT adjusted, included €1.1 billion of charges due to impairments and write-offs triggered by COVID-19. Looking at Helicopters, in 2021, we delivered 338 helicopters, which is 38 more than in 2020 and it includes the first H160 delivery. Revenues increased by 4% year-on-year up to €6.5 billion reflecting growth in services and higher delivery.

EBIT adjusted increased by around 14% year-on-year to €535 million, mainly driven by support and services program execution and cost focus. As a result, the profit margin stood in 2021 at 8.2% compared to 7.5% in 2020.

And let's complete our review of 2021 with Defence and Space. Revenues are slightly lower compared to 2020, mainly driven by Military Aircraft, partially offset by space systems. The increase in EBIT adjusted reflects cost containment continuation. As a reminder, the performance of 2020 was impacted by the COVID-19 on new [DOF] projects.

On the A400M, we delivered eight aircrafts in 2021. We've continued with development activities towards achieving the revised capacity roadmap. Retrofit activities are progressing in close alignment with the customer. In the fourth quarter, we recorded the charge of €4.2 million, mainly reflecting the updated estimates of delivery pattern of the launch contract and the associated impact on unabsorbed cost.

Risk remain on the development of technical capabilities and associated costs on aircraft operational reliability, in particular with regard to power plants on cost reductions, and on securing export orders in time, as per the revised baseline.

Now, let's move to 2022. And let me read our 2022 guidance for you. As the basis for 2022 guidance, the company assumes no further disruptions to the world economy, air traffic, the company's internal operations, and its ability to deliver products and services. The company's 2022 guidance is before M&A. On that basis, the company targets to achieve in 2022 around 720 commercial aircraft deliveries, EBIT adjusted of €5.5 billion and free cash flow before M&A and customer financing of €3.5 billion. This guidance reflects our expected growth trajectory and the investments we are making to prepare our future in the future of aviation.

And now a few words to wrap up and address key priorities. In 2021, we delivered on our commitments. We intend to do so again this year while, as I said, we lay the foundations for our future. We will remain focused on managing our contract and delivery. And as we speak, we have to adapt to the effects of Omicron. We will also focus on further strengthening our backlog across businesses.

Ramping up our A320 family production will be at the heart of our priorities. We continue to work closely with our suppliers to execute our plans. We also announced a global plan to recruit around 6000 new employees across the entire group to support both the ramp up and the company long term project and ambitions. The production ramp up will also be supported by our investment in upgrading and transforming the industrial value chain.

We achieved major steps early in the year. We launched, there was a launch of our new wholly owned subsidiary Airbus Atlantic in France and the agreement with our social partners in Germany to establish a fully integrated similar aerostructure assembly company, which will be operational on the first of July this year, 1st of July 2022.

Looking forward, let me mention our future A321 final assembly line in Toulouse which will fully benefit from our latest progress in digitalization and robotics. The transformation of our company, including a continuing focus on operational excellence across the globe is key to prepare the future of aviation. This brings me to our long term ambition to lead the development of sustainable aerospace, which remains at the center of what we do and who we are as a company.

We have all seen how aerospace plays a critical role in society over the last years, connecting people and culture and driving prosperity, which will ensure the availability of the levels of investments required to meet the world's ambitious climate targets. Making our sector carbon free is essential to ensure aerospace can continue to play this vital role.

The decarbonisation of air travel is a key pillar of Airbus’ sustainability strategy. And this strategy was given a renewed impetus last year with the commitment of the entire sector to reach Net Zero Emissions by 2050. This was enforced by the recent so called Toulouse Declaration signed earlier this month by the 27 EU member states.

At Airbus, we'll continue to invest and to grow our skills and know how in order to meet this objective, by maturing the enabling technology bricks, and continuing to work on reducing our own emissions as a company.

Furthermore, our industry will ensure we benefit from peace, stability and security, without which sustainability can simply not exist. As such, we remain proud to see our Defence and Security solutions contributing to a safe and united world.

Finally, and before taking your questions, let me reiterate that delivering on our guidance will remain one of our top priorities in 2022. Strong financial results will secure our ability to invest in our long term ambitions across our portfolio.

And now, we are ready to take your questions. Thank you.

Helene Le Gorgeu

We now start our Q&A time. [Instructions] So Christine, please go ahead and explain the procedure for the participants.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator's Instruction] First question is from Madame Celine Fornaro from UBS. Madame, please go ahead.

Céline Fornaro

[indiscernible] everyone. Good morning, thanks for taking my questions. And so first of all, well done on the 2021 results and also it's good to see some of the non-Airbus divisions having the record margins, I would say. And on that, my first question would be for the Defence performance, towards the last quarter of the year. If you could just explain maybe a little bit the dynamics there and how sustainable that performance is? And similarly for Helicopters when we're thinking about 2022, but also maybe the midterm? And then my second question would be regarding your delivery outlook for 720 deliveries. If you could also, maybe try to explain to us how you're thinking about the inventory levels, that you're ready to take towards this year compared to the levels that you've ended around in 2021, which was around 100 and what level do you think you will see towards the end of the year? Thank you.

Dominik Asam

Okay, thank you, Celine. Maybe I can take these questions. So on the performance of our divisions, the Defence and Space and Helico, they're normally this year, again, notoriously back-end loaded. So I would not recommend extrapolating from the Q4 performance into the future. I think what we can say is that we don't expect much change in the profitability in the coming year. We see some opportunities to gradually, over a five year planning horizon, move the margin slightly up.

On the question of deliveries, 720 and how that would correlate with the inventories? First of all, yes, you're right. We mentioned that we had close to 100 aircrafts, which were finished, or quasi-finished and not delivered in the last year, year 2020. End of '21, we were slightly down. So a couple of handful, I would say, very much wide-bodies, which we could place. You recall, we had some unplaced aircraft, and we were successful in placing them. Not all of them have been placed, so we'll see further progress. Sorry, all of them have been placed and not delivered, so now we will see in '23, '24, that they will be delivered. So that will reduce and we will also see a slight reduction on single-aisle but still, let's not forget the situation is very dynamic. So we have to have to match the specific granular customer demand with our manufacturing. And that will in that turbulent period still mean a certain high level of that inventory, which over time as things normalize, can be worked down because pre-crisis, yes, we were lower with this single-aisle inventories at year end.

Céline Fornaro

And so just a quick follow up on that, Dominik, when would you expect normalization of the inventory level? Towards 2023 or you think that would be too early?

Dominik Asam

I think it could take a little bit longer but a gradual decrease. And again, we're not talking about huge numbers, we talked about a mid-double digit potential there in terms of deliveries over the next two, three years, I'd say.

Céline Fornaro

Thank you.

Operator

Thank you, madam. The next question is from Mr. Tristan Sanson from BNP Paribas Exane. Please go ahead.

Guillaume Faury

Yeah, now it’s okay.

Tristan Sanson

I'm sorry. Can you hear me?

Guillaume Faury

Yes, it’s okay, now.

Tristan Sanson

Apologies for that. And so it's Tristan Sanson from BNP Paribas. So first question, please can you give us a few hints of where you see the bottlenecks, the main bottlenecks that you need to monitor in the management of deliveries in 2022? Is it at the delivery center? Is it on the supplier side? Is it HR related? That will be quite helpful. And maybe a question for Dominik, if you could give us some elements of the main moving parts of the Bridge for ’22? You provided some helpful comments of about €150 million of costs increase from R&D. What are the other big moving parts that we should be aware of for ’22, in essence?

Guillaume Faury

Yes, maybe I take the first one. Hello, Tristan. Well, the bottleneck at the moment and most probably for the whole year is on the supply chain. And with a large diversity of situations, what are the root causes of those bottlenecks at the supply chain? Well, that's just basically, I think, been either for a while with COVID-19, having to ramp up again in a very complex environments of high prices and scarcity of raw material, difficulties to -- with logistics around the world, and incredible prices, by the way. Energy situation is complex, and a number of places around the world and around [overseas] where it's really difficult to find the resources again. But at Airbus, we don't have too much of this HR challenge this year in 2022. We think 2022 will be okay. Moving forward, this will continue to remain a point of attention.

Dominik Asam

Maybe on the bridge from the extra the €4.9 billion EBIT adjusted in '21 to the €5.5 billion we've guided for '22. So, you mentioned already the R&D increment. So you're stepping up the R&D effort to €2.9 billion with a couple €100 million round about. We will also resuscitate and accelerate on our digital roadmap, including the famous DDMS project, which is paramount to our future success and competitiveness. And we'll reduce time-to-market. That's another €0.2 billion-ish. And last but not least, we'll also invest more than in the prior year in the ramp up securitization because of these challenges you were mentioning. So all together that kind of investment in the future, as we call it, and again it's technically not investment, it's expenses is €0.5 billion round about.

If I add the kind of protection we take on inflation risks and the €0.02 of dollar depreciation, that's another €0.5 billion. So take that together, you have €1 billion. And then don't forget, there is a kind of non-repetition of these releases of provisions, which are about €0.4 billion. So if you take all that together, you see that for the incremental aircraft deliveries and don't forget in the increment, there are also A220s, which don't add margin. We actually do a pretty good job to bring the incremental deliveries to a healthy contribution margin, additionally. Including the mix effects, we had 46% A321 deliveries in 2021 and you see the backlog disclosed is now at 59% A321. So that will also help to add the margin from the incremental delivery. So that's how you can kind of easily walk from '21 into '22.

Tristan Sanson

That's good. Kind of makes sense, Dominik, thank you.

Operator

Thank you, sir. Next question is from Mr. Benjamin Heelan from Bank of America, Merrill Lynch. Sir, please go ahead.

Benjamin Heelan

Yeah. Morning, guys. Thanks for the question. And so I've got a question first on the production rates for the 320. You said you're still in the assessment phase for beyond ’23. When do you anticipate that you can make some decisions here? And what do you see as the hurdles to this? Is it demand? Is it supply chain? I think you've just talked about supply chain, so any incremental color there would be great. And then my second question is on the kind of more medium term, I think in your key priorities, you highlight that you're focused on cash and earnings growth beyond ’22. How should we think about the margin potential of this business medium-term and any potential for a Capital Markets Day at some point? Thank you.

Guillaume Faury

We’ll let the question two and three to Dominik. And hello, Ben. Good speaking to you. Production rates, well that's front and center, for the first half of this year. We want to be in a position to decide by mid of the year. And this would be the right timing for decision for ’24, ’25. So that's why we're targeting mid of the year. And it will be all about the balance between demand and the demand is very strong. It could go quite high, actually, if we would just look at the demand, but we have to balance it with the supply and the supply capacities. And as I said before, the result of the assessments of the whole supply chain and its capacity and willingness to go to higher rates and we need to look at it over time. We need have sustainability of the rates, we will consider for beyond the mid of 2023. So the short answer is, by mid of this year, we want to have concluded on what we do for ’24, ’25 and beyond. Dominik, the two other ones?

Dominik Asam

So, on the margin prospect, I mean, now we've guided ’22, so I think you have quite solid data points to start extrapolating a little bit from ’21, ’22 and into the coming years. Yeah, it's clear that there are certain opportunities we have because the year ’23 is still burdened by a lot of activities. I mean, there is the introduction of the XLR, which is of course only giving us the harvesting in ’24, ’25 timeframe. And freighter enter into service in ’25, well we have now all the burden of the investment, and then we’ll benefit. And yet on the R&D and we’re also stepping up DDMS, the project I just mentioned is kind of highest spent rate in these years ’23, ’24. So there is opportunities to expand the margin. I mentioned the mix, the positive mix that we have 59% of FY21 in the backlog.

Now, the reason why we don't want to give a specific guidance and say middle of the decade, is that we have a couple of inbound abilities which are still quite speculative. So what's the wide-body pricing on the open slots in that timeframe? We have the big question about inflation now. What does it really mean in the short term? And as I mentioned, we can handle it quite well but in the longer term, it might cause an issue. And then there's always the question of R&D invest, what's the product policy? What reaction is needed towards what the competitor is doing? So that's out of our control and all these topics together make us cautious in terms of really giving you a precise number. But yes, they are ingredients which give us hope that there is potential to go to higher margins beyond ’22, ’23.

Benjamin Heelan

Okay, and Capital Market Day at some point, is that something that you've thought about?

Dominik Asam

I’ll let Guillaume to comment.

Guillaume Faury

Let’s just stay [on the beach].

Dominik Asam

Not fair. I would like to do more, let's put it that way. But again, I mean, it's more that we regularly have done it in the past. Don't expect any miracles on that day. I think one topic we want to really, really work on is on also the ESG related topics. There's always a debate about Defence, which is currently heating up. I think we need to invest some time with our investors, so I am looking for opportunities to do that, yes.

Benjamin Heelan

Cool. Thank you, guys.

Operator

Thank you, sir. Next question is from Mr. David Perry from JP Morgan. Please go ahead.

David Perry

Yes, good morning Guillaume and Dominik. So my two questions, the first one, yesterday afternoon some headlines popped up on Reuters about Airbus undertaking a review of its defence activities. So maybe Guillaume, you could make some comments on that if there is anything to say? The other one is also some press reports a few days ago of the threat of a strike in the UK. I believe it's about policy on pay. So just more broadly, and in this high inflation world, what will your policy be on paying? And can you just remind us how much of it will be covered? Any pay increases are covered by the escalation clauses? Thank you.

Guillaume Faury

So I will take those questions, thank you. I think the first one is, you're referring to the paper on the defence review at Airbus. Well there is no news here, we are conducting strategic reviews with the Board on our defence business lines every year and that's something, I believe, we'll continue to do. And I think that's what the paper was about. So there's nothing I can comment on that topic. Strike in the UK? Well, let me take maybe a step back. We had two very difficult years. I think Airbus employees have really done a great job. As you have seen, we have decided to put the dividend, again, in place. And that's about moving forward now and finding the right balance between the different stakes, the short term, the mid-term, the long term. And I respect the fact that employees want to have a fair share of the results that they have contributed to create. So we need to find a solution case by case. You might remember we had a situation to manage -- a similar situation to manage in Germany. By end of last year, we resolved the situation by negotiation. We have a culture in the company to find solution and to work together for the good of the company. And I guess that's what we will do again in that case.

Moving forward and Dominik made some comments about it. There are a number of areas of uncertainty. We think we will continue to perform but we need to be all together finding those right trade-offs to make sure this will continue to be the case. And that's the kind of discussion we are used to have with our unions and social representatives and employees. And that's what we're going to do in the UK as well.

David Perry

Okay, thank you. Thank you and maybe just to clarify. If there are pay increases, I mean what is allowable in the escalation clauses in the contract with the customs?

Guillaume Faury

Well there are pay increases given the environment we're in and given the fact that we were very prudent in 2020 and 2021. So it's clear that there will be increases in the pay. And the contracts are taking reference to indexes, which are by far more general data points. And there is no direct correlation between what we do on salary in one country or one division, and where the contracts are protecting us on inflation, in the way escalation is managed. So we have an overall protection from the contracts and then we have to manage our costs. And by the way, all cost to make sure these remain quite balanced and in a situation where inflation is putting up very quickly and to very high number, that's quite of a challenge. And that's what Dominik tried to explain before.

David Perry

Okay, thank you very much.

Guillaume Faury

Thank you.

Operator

Thank you, sir. Next question is from Mr. Neil Glynn from Credit Suisse. Sir, go ahead.

Neil Glynn

Well, good morning, everybody. I'll ask two questions, please. The first one following on from the previous comment on R&D over the medium term, I appreciate there are moving parts here. But reflected in your take as to whether the R&D level will eventually step up from the €2.9 million in 2022, towards a 2019 level of €3.4 million or something like that? Keen to understand how you think about that progression and recovery? Then the second question, you mentioned a low level of customer financing not sustainable and obviously, that's been very, very low for some time. Could you give us some additional color as to whether it's the issue changing your, I guess, necessarily approach to that activity is driven by pockets of weakness, for example, in Southeast Asia? Or are there any other changes, you're observing in the appetite from financiers of interest rates rise that may prompt you to have to step into the bridge? Thank you.

Dominik Asam

Yeah, so on R&D, yes, I think as a trend we see R&D scaling a little bit with the deliveries going up and I think your assessment is a reasonable starting point. But once we get back to what we've seen in 2019, we might be at a similar level of R&D. So there's nothing I can say that could make that come implausible. But as I said, also, we need to review year-by-year what we exactly do there. On the customer financing, what we wanted to highlight is that we have been really going down and reducing that exposure to close to nothing. We do have certain obligations going forward like buybacks. You've heard some stories on A380 buybacks. Some financing would be required. We don't see that the market itself will weaken. I mean, obviously, we have to monitor the interest rate environment. Should there be a massive increase in interest rate, that might have a negative impact but on the other hand, that has positive impacts. But at Airbus, recall we have a net cash position, we have a pension liability, which would benefit from higher interest rates. And so these are the things that we look at. I just wanted to highlight that the fact that we reduced our vendor financing portfolio every year. It's not something we can continue because simply it's close to zero, and that there are some obligations we need to fulfill going forward.

Neil Glynn

Understood and many thanks.

Operator

Thank you, sir. Next question is from Madame Milene Kerner from Barclays. Madame, please go ahead.

Milene Kerner

Yes, and Guillaume, Dominik, Helene, and everyone, thank you for taking my question. I have two related to the free cash flow. First Dominik, you mentioned that the A400M cash outs was lower in 2021 than it was in 2020. Could you comment what you expect for 2022 and the total amount that is left to cash out over what timeframe? And then secondly, also can you help us, how should we think about the PDP inflow from now on as you're going to ramp your production on the A320? Thank you.

Dominik Asam

Milene, on that question of A400M, I would like to add also the A220 because these are the two big blocks which has caused a kind of negative bridge from catering cash conversion. So from the earnings down to the free cash flow and the guidance I'm going to give you is that for this year ’22, I think that the sum of the two will a headwind in that cash conversion calculation of about half a billion, I don't want to single out any of the two but that's just a rough order of magnitude. There is a little bit of headwind left from provision payouts for restructuring and from the compliance case where we will need to spend some money. And this is explaining why we go from the €5.5 billion EBIT adjusted down to a €3.5 billion free cash flow. So it also shows you that if you adjust for these two effects I mentioned, we actually are on a super trajectory to convert a bit into cash advance there. So it's actually quite solid for ’22 if you think about these headwinds which as you know will stop overtime or reduce overtime.

PDP flows, you have heard us comment on this deferral discussion that we basically were clinging on to PDP’s in the COVID times have been deferring aircraft. You've seen that this has cost us quite some cash flow in ’21 and you have already disclosed the full cash flow statements. So you see what's happening there. And it was less pronounced than what we thought because we had actually a very good commercial activity, we're collecting a lot of PDPs in ’21. And that combination of seeing less of that hangover of the COVID kind of issue plus picking up in commercial activities should bode well for actually the cash conversion and you should -- we should not see a repetition of such a negative PDP inflow in ’22.

Milene Kerner

Thank you, very clear. Thanks.

Operator

Thank you, Madame. Next question is from Christophe Menard from Deutsche Bank. Please go ahead.

Christophe Menard

Yes, good morning. I had two quick questions. Could you comment please, on the supply chain constraint, raw material and logistic costs? And have you seen any worsening of the situation? I mean, following your comments in January, essentially, and I’ll follow up on the second question, afterwards.

Guillaume Faury

No, I would not see think there was significant modifications. Since January, that means the same environment, nothing significantly different.

Christophe Menard

And nothing on continuum, for instance and still, you're not seeing any additional constraint on that specific raw material.

Guillaume Faury

No.

Christophe Menard

And the second question was on the 2024/2025 production levels, is -- I mean, we understand it's a supply issue with suppliers. Is it also tied to their capacity to deliver some cost reduction, i.e. is your decision linked to or fostered by their ability to cut the cost or is it just I mean, to ensure the supply of parts?

Guillaume Faury

We are having discussions on rates and on cost at the same time with suppliers. But I guess the outcome of the decision will be mainly the result of the ability of the supply chain to do that ramp up. And I think the certainty on the demand side that there is enough sustainability in the demand to make sure that once we have ramped up, we can stay at the higher level of ramp up. We don't want to ramp up at the peak and ramp down immediately. That would be meaningless for most of us. So that's the complex balance of the different stakes. And that's why it takes time and when we get there, we have to stick to what we will have decided. So balance between demand and supply and the ability to keep that level of activity for a while.

Christophe Menard

Okay, thank you very much.

Operator

Thank you, sir. Next question is for Mr. Robert Stallard from Vertical Research. Please, go ahead.

Robert Stallard

Thanks, so much. Good morning.

Dominik Asam

Good morning.

Guillaume Faury

Hi, good morning.

Robert Stallard

A couple of questions. Thank you. a couple of questions from me. First of all, Guillaume, on the whole Qatar issue, has this had any negative ramifications on the broader A350 demand environment, and sort of if you could comment on that? And then Dominik for you, you've given us quite a few components on the 2022 cash guidance, whereas only if you could give us some idea of your assumptions on what working capital is going to be doing? Thank you.

Guillaume Faury

I’ll take the first question. No, I don't see any impact on the broader A350 situation. And as you have seen, we are quite successful on the launch of the A350 freighter. The commercial launch is now and a number of customers are being signed up committed to the A350 freighter in the last month. So no, I don't see any ramification so far.

Robert Stallard

Okay, so and on working capital. I mean, I already hinted to some of the topics. The first big thing is always the kind of net PDP flows, which you find under contract assets and liabilities in the cash flow statement, which was a negative €2.3 billion in 2001. And I mentioned that this will come to an end because we will start collecting better PDPs. So I'm anticipating that this is really turning neutral if not slightly positive. And on inventories, yes, while on the one hand, we can still divest some of the finished goods and get cash out of them, there is a big, heavy lifting happening on the single-aisle ramp. So I see that more as on a trend as a headwind on working capital. And then there's some other accruals where, for instance, we had a very strong target achievement in ’21 and now this needs to be paid in ’22. So these are the hints I can give you but overall, if you pool it all together, and embark the big items like A400M and the A220 headwind because of loss making contract provisions, which are used to offset the cash burn and give you a neutral EBIT on cash burn, €3.5 billion is what kind of impacts all of that.

Robert Stallard

That's very helpful. Thank you.

Operator

Thank you, sir. Next question is for Mr. Andrew Humphrey from Morgan Stanley. Sir, go ahead.

Andrew Humphrey

Good morning, and thank you. Could I come back to Defence and David’s question earlier. I’ve got a couple on that, if I may? Would it be fair to assume that this year's review of Defense activities and strategy is focused on or primarily on FCAS? And yeah, what are the scenarios you're considering in relation to that? And the second question is, what are the areas where you perceive a most pressing or acute need for strategic partnership in Defence?

Dominik Asam

So, FCAS is obviously an important part of the Defence review, but the strategy is not FCAS. It’s one brick of the strategy and we are already in partnership in many areas in Defence, that's very much the nature of the Defence business, especially in Europe. And I will not comment on what we consider or we should be doing for the future. That's part of the strategic review and that's not something that we comment on.

Andrew Humphrey

Okay, thank you.

Operator

Thank you. Our next question is from Mr. Harry Breach from Stifel. Please go ahead.

Harry Breach

Yes, and can you hear me?

Guillaume Faury

Yes, loud and clear.

Harry Breach

Yes, thank you. Good morning Guillaume, good morning Dominik. Thank you for taking my question. Just two from me. First maybe A400M revision to the delivery schedule, small charge that you announced today, can you can you give us any understanding in light of when we can get to stable production rates, stable cost at completion and the order backlog or the order intake we'll need to get there? And second one, maybe more generally on the sales campaign activity. We had a very strong end to last year. I think that the Dubai Air Show commercial success you had there, you know, certainly surprised me very strongly. Can you give us some sense about the level of sales campaign activity at the moment? Is it, would you still characterize it as being strong. Is it strong and getting stronger about the same? Any hesitation caused by Omicron? Any feeling for that will be great.

Guillaume Faury

Maybe I'll start, again, speaking about the second one. Yes, the end of the year was very strong in terms of bookings. And it was also a bit of a surprise for me compared to what we were expecting a year ago. But indeed, it represents an acceleration that is steady, beginning of this year. And it's very much in line with what I said, with the airlines being now very active to look into the future, becoming by far more optimistic, looking beyond Omicron for sure on the domestic markets, but as well for international flights and long distance flights. So I would consider it as a trend, as a solid trend. And always remain very prudent when it comes to forecasting the future. But yes, it's very active at the moment and we see as well that the Singapore Air Show is a bit of that nature. So I take it as something that is that is rather positive, moving forward. Dominik, you want to take the other one?

Dominik Asam

On A400M, I mean, you mentioned the chart we've taken in Q4, yes, it was charged. But I would also like to mention that if you compare how we've kind of reduced these charges or what time, we're really kind of converging and stabilizing, that program is a very tricky program. So you can never kind of be entirely sure but we think the worst is behind us. And on top of that, we had some export success. And the assumptions, we have embarked in our provisions in loss making contract provisions on the program, such that we feel confident that we should be on the right trajectory. And so all what we can see today is that we are not anticipating huge charges going forward and that the trend is [indiscernible] actually on that topic.

Harry Breach

Dominik, you spoke earlier on about the about the level of cash burn on A400M. I think together with the A220, I think you talked about around a half billion number. Where -- when do we, what sort of run rate level should we think about maybe in next year in 2023, or 2024, for those two programs, and do they get to breakeven in cash out in any year?

Dominik Asam

First, I have to highlight, we're not talking about the cash burn directly here. What I mentioned is the offset between earnings and cash. That's different, because we will also have some losses on A220. So there's higher cash burn than what is embarked in that €500 million-ish for both of them. I mean, I mentioned we had half a billion round about last year for the year prior, it was lower this year. So we're trending down, we're trending towards kind of, I'd say low triple-digit numbers over the coming years, every year. But it should also be over the next couple, two to three years. So we're not talking about massive cash out on the A400M. It's stabilizing and trending down to levels which are clearly below the half billion or so, we've seen in the prior years.

Harry Breach

Great. Thank you. Thank you, both.

Dominik Asam

Thank you.

Operator

Thank you, sir. Last question is for Mr. Jeremy Bragg from Redburn. Please go ahead.

Jeremy Bragg

Good morning. So my first question please would be to you Guillaume, and it would be, how competent do you feel? What's the level of visibility on the 720 deliveries in 2022?

Do you see this as a realistic number or potentially a floor? And then the second question, please, is a medium-term one on capital allocation. You've restarted the dividend. What level of net cash buffer do you think you need medium-term? Is that still around €10 billion? And how are you thinking about capital allocation in the medium term because you're quite quickly going to get to €10 billion of net cash? Thank you.

Guillaume Faury

Thank you, Jeremy. The second question is obviously too difficult for me, so I will handover to you Dominik, sorry for that. And visibility on the 720, well, we guided for 2021, 600. If you look at the 720, it’s plus 20%. Actually we did the 611 which I consider a very strong result compared to the 600, so it just gives you an indication that 720, the balance. And we think it's not going to be easy but we think we can definitely do it, that's why we guide on it. Significantly more is, in my view, extremely difficult. So I would not bet, if I were you, on significantly more than 720. It's a challenge and we need to earn our right to hitch this 720, every month, every week and maybe every day. It's a difficult on that. Now, the more the more difficult one, Dominik?

Dominik Asam

Well, it's actually not that difficult, because we, again reiterate what we said before. €10 billion net cash seems to us to be a reasonable target. Don't forget, our net cash definition is excluding the pension liability. The pension liability has benefited clearly from the increase in interest rates. So interest rates have moved up and the pension liability is now reduced to more than €7 billion. We used to be €10 billion plus now it is €7 billion plus. And we will need to close that gap over time. Obviously, how much cash will be used for that is very much dependent on further development of interest rates. So that's why it's hard to predict and that will also be a question in the capital allocation. So yeah, yes, we work very hard to bring it up to €10 billion as quickly as possible. But there are some items we have to take care of before we can think about measures beyond the dividend. And obviously also, with the earnings growing, we also want to see the dividend evolving accordingly.

Jeremy Bragg

Thank you. And you mentioned a compliance charge this year. Could you just remind me what that was?

Dominik Asam

No. I mean, we have previously told you that there is still some provisions that will need to be settled, so to speak. And it's not about taking more provisions, it's about paying these provisions.

Jeremy Bragg

Right.

Dominik Asam

But I think the good news is that I think we, at some point in time said it could be as high as the mid-to-high triple digit million. I think I'm a little bit more optimistic today of what’s left to be paid.

Jeremy Bragg

Okay, thank you. Thanks very much.

Dominik Asam

Thank you.

Helene Le Gorgeu

This closes our conference call for this time. If you have any further questions, please send an e-mail to Philippe, Goesta or myself and we will get back to you as soon as possible. Thank you and I'm looking forward to seeing you or speaking to you again soon.

A - Guillaume Faury

Thank you, everyone. Bye-bye, have a good day.

Operator

Ladies and gentlemen, this concludes the conference call now. You may disconnect your telephone. Thank you for joining and have a good day. Goodbye.