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Company Participants

Thorsten Fischer – Head of Investor Relation
Guillaume Faury – Chief Executive Officer
Dominik Asam – Chief Financial Officer

Conference Call Participants

Benjamin Heelan – Bank of America
Celine Fornaro – UBS
Tristan Sanson – Exane BNP Paribas
Andrew Humphrey – Morgan Stanley
Douglas Harned – Bernstein
Carter Copeland – Melius Research
Harry Breach – MainFirst
Robert Stallard – Vertical Research
Olivier Brochet – Crédit Suisse

Thorsten Fischer

Thank you, Guy. Good morning, ladies and gentlemen. This is the Airbus H1 2020 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 1 hour and 15 minutes. This includes Q&A, which we'll 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 received contains the safe harbor statement, which applies to this call as well. Please read it carefully. Now over to Guillaume.

Guillaume Faury

Thank you, Thorsten, and good morning, everyone. Welcome to our H1 2020 results, and thank you for joining today. As you are aware, COVID-19 triggered an unexpected and unprecedented situation for the aerospace industry, and its scale required us to promptly deploy an adaptation plan to adjust our business to the new commercial aircraft environment. The latest view on commercial aircraft business is consistent with the commercial aircraft rates set by Airbus in April. We may still make minor adjustments, but we have growing clarity for the short term and in 2020 and 2021. And from today's perspective, we believe that we have defined the right calibration points that fits with the new environment, or the understanding we have today of this new environment.

Our industrial system, including our whole supply chain, has adjusted to the new levels, and we are producing in accordance with the new production plan. This makes me confident that we are capable to further adapt in case the situation evolves. Actually, we launched a wide range of cash containment measures. We adjusted our incoming supply to manage our working capital. We deployed the available partial unemployment schemes to flex our workforce. We reviewed our R&D road map and other fixed costs and cut 2020 CapEx while still protecting key projects like the A321XLR or our DDMS project, the ones that are key to prepare the future.

We're also addressing our long-term cost structure, and we have announced plans to adapt our global workforce and resize our commercial aircraft activity. This adaptation is expected to result in a reduction of around 15,000 active workforce positions no later than summer next year, summer 2021.

We're working with our social partners in order to limit the social impact in this bigger picture of – the huge impact on economies. We will rely on the full set of measures available – made available while retaining our skills, competencies and know-how as much as possible so we can be ready to meet our customer demand when the market recovers, because we believe it will recover.

Our H1 financials reflect COVID-19 impact coming through in the second quarter, mitigated by our adaptation measures. In Q2, we delivered 74 aircraft, slightly ahead of my expectation when entering into the crisis, end of Q1.

Our H1 EBIT adjusted was at minus €0.9 billion driven by commercial aircraft deliveries, which were 193 aircraft lower year-on-year, so roughly half of what it was in the first half of 2019. EBIT adjusted also includes €0.9 billion COVID-19-related charges, which are not shown as adjustment.

Free cash flow before M&A and customer financing is at €12.4 billion, of which minus €4.4 billion in Q2, minus €4.4 billion free cash flow before M&A and customer financing in Q2. Our Q1 free cash flow, excluding the fine under the Deferred Prosecution Agreement was also at minus €4.4 billion, which demonstrates that in spite of only 74 deliveries in Q2 demonstrates that the measures we have launched to contain cash, including the adjustment of incoming supply, have already delivered results in Q2. They are partially compensated, for the lower cash flow, from the low number of deliveries in the quarter, the 74 I was mentioning before.

The strong liquidity position we have built will support us in our ongoing efforts. It will also enable us to act in case new challenges are to come. And we are preserving our ability to invest, innovate, grow and perform again after the crisis to ensure we can return to normal operations in a strong position once the situation improves again.

Before we look at our commercial aircraft environment, let me come back to the WTO dispute. We recently agreed with the government of France and Spain to make amendments to the A350 RLI, the repayable launch investment contracts, to reflect what the WTO considers the appropriate interest rates and risk assessment benchmarks. With this final move, Airbus considers itself in complete compliance with all WTO rulings, with no doubt. From my perspective, this removes any justification for U.S. tariffs moving forward. Now to our commercial aircraft environment in more details.

The latest world economic outlook projects global GDP growth at minus 4.5%, so close to minus 5% – sorry, at minus 4.9%, so close to minus 5% in 2020. The latest IATA figures show that the RTK in June were at 13.5% versus last year. Domestic travel was at about 32%, with China on the recovery, reaching about 65%, and international air traffic was about 3% versus June 2019, so – which was a very low level we've been.

Airline remains in a difficult situation, and there are as many situations as there are customers. They relied to diversity of situations, they have been reviewing their fleet planning, and we've been working closely with them to find mutually acceptable agreements and to align on the new delivery profile airline-by-airline that gives visibility to the customers and to us by defining a new way forward.

Our assessment is that air traffic would reach its 2019 level again somewhere between 2023 to 2025. The single-aisle market is expected to lead the recovery, while we believe wide-body should take longer. The current market situation has led us to slightly adjust A350 rates from six to five per month for now.

For my discussions with customers, and there are many, it appears that they're flying our products more than others during the crisis, and they tell me that we have the right product line for the post COVID-19 world. Finally, I'd like to thank our ECAs, including EDC, for their continued support, and we expect ECA financing to increase.

Now looking at H1 orders. In H1, we booked 365 gross orders largely driven by leasing companies. In Q2, despite being the worst quarter in the history of aviation, our net orders were roughly stable, with actually plus eight aircraft. Net orders stood at 298 aircraft, so close to 300 aircraft as of H1. And our backlog remains high at 7,584 aircraft. We recorded 67 cancellations, of which only 1 in the second quarter.

Looking at helicopters. In H1 2020, we booked 75 net orders versus 123 in H1 2019. This included in Q2 some good orders, 3 five-bladed H145, the product that's been certified in June. It's a new, very powerful product. We booked 1 Super Puma in 4 H135 for Japan's National Police Agency in Q2 as well and 1 H160 in the corporate version. The 160 has been certified as well recently, so we certified two very important products for the future of Airbus Helicopters just recently.

When it comes to the market, we expect the civil and parapublic segment to remain soft in 2020, particularly in oil and gas, to persist in lower oil prices and pressure on the segment. The support plan announced by the French government in June includes the following future order commitments: eight H225M for the French Air Force, 10 H160 for Gendarmerie Nationale and 2 H145 for security at Seville and as well a second demonstrator of the military drone that we developed for the French Navy.

Finally, in Defence and Space, we had an order intake of €5.6 billion. It's 32% more versus last year. And this is including the contract for the development, supply and integration of 100 – sorry, €115 Eurofighter ESCAN radars for the German and Spanish Eurofighter fleets, as well the contract to upgrade the training capabilities of the German Eurofighter pilots and the contract renewal to support the A400M French Air Force training center in Orléans.

We continue to see opportunities in the field of defense with our European governments. Europe feels the need to prepare for the sovereignty of the future, which includes the air and space power to protect its territory from the sky, and Airbus will play a major role in that, given our European presence and scale and our technologies and products. Now Dominik will take you through our H1 financials. Dominik, the floor is yours.

Dominik Asam

Thank you, Guillaume, and good morning, ladies and gentlemen. I hope you're well and remained safe. The H1 financials clearly show the impact directly linked to COVID-19. Revenues decreased to €18.9 billion, down 39% year-on-year driven by the difficult market environment impacting our commercial aircraft business as we delivered about 50% less aircraft year-on-year, partially offset by the appreciation of the U.S. dollar.

Our H1 EBIT adjusted was minus €0.9 billion, reflecting the lower deliveries in commercial aircraft and some idle costs. We've taken the necessary steps to adapt our cost structure to the new levels of production, and the benefits are materializing as we execute our plan. H1 EBIT adjusted also reflects charges recorded due to the impairments and write-offs following a comprehensive review of the balance sheet triggered by COVID-19.

Our H1 earnings per share adjusted stand at a loss of €1.01 per share, using an average of 783 million shares. Our H1 free cash flow before M&A and customer financing was minus €12.4 billion, of which minus €4.4 billion in Q2. As Guillaume mentioned, our Q2 free cash flow reflects the lower cash flow resulting from the unusually low number of deliveries, partially compensated by our efforts on cash containment. Going forward and in the absence of any unforeseen escalation of COVID-19 and new travel restrictions, it is our ambition not to consume cash before M&A and customer financing in the second half of the year.

Now on to the page with more details on our profitability. H1 2020 EBIT reported was minus €1.6 billion. The level of EBIT adjustments totaled a negative €614 million and included minus €332 million related to the A380 program costs, of which minus €299 million booked in Q2; minus €165 million impact from foreign exchange and balance sheet revaluation, of which 31 – minus €31 million in Q2; minus €117 million of other costs, including compliance costs, of which minus €82 million in Q2.

Earnings per share reported include minus €429 million of financial results. It mainly reflects a net €212 million negative related to Dassault Aviation as well as the impairment of a loan to OneWeb recorded in Q1 for an amount of minus €136 million. The tax rate on the core business is around 27%. The effective tax rate on net loss is 3%, impacted by impairments in certain tax jurisdictions and on certain investments.

The resulting net loss is minus €1.919 billion. Loss per share reported was minus €2.45. In the context of COVID-19, we are progressing in the discussions with our social partners. A restructuring provision is expected to be recognized once necessary conditions are fulfilled. The amount is expected to be between €1.2 billion and €1.6 billion.

Now on to our hedging activities. Our total hedging portfolio in U.S. dollar stands at $87.8 billion, with an average hedge rate of $1.23. In H1 2020, we implemented $2.4 billion of forwards, of which $2.1 billion in Q1. $7 billion of hedges matured at a rate of $1.18 in H1 with associated EBIT impact, and another $2.9 billion of Q2 hedges will be rolled in Q3. In addition, $1.8 billion of hedges has been disqualified in H1 with maturity dates mainly from 2022 and beyond, resulting in a negative impact to financial results of approximately €0.1 billion. In the second quarter, we rolled $3.3 billion of hedges mainly from Q2 to Q4 of 2020.

In order to adjust our portfolio to the new delivery profile, we have been rolling existing hedges to deferred delivery days while containing the short-term impact on cash also in

July. Now let's look at our cash evolution in the first half of 2020. Our gross cash flow from operations of €0.3 billion mainly reflects our EBIT adjusted. We paid the €3.6 billion penalty in Q1 2020. Our working capital, excluding penalties, has increased by €8.3 billion mainly driven by inventory build and a decrease in trade liabilities. This reflects lower incoming supply and work in progress in Q2, while we increased the number of stored aircraft as we were moving to the new production rates.

Our inventory as of the end of June includes around 145 aircraft that we could not deliver. We target production and deliveries to converge in Q3. PDPs are benefiting from positive phasing impacts. A400M continued to weigh on our free cash flow before M&A, but less so than in 2019. At around €0.9 billion, capital expenditures were stable versus H1 2019. On a full year basis, we still expect CapEx to be around €1.9 billion.

Free cash flow reported was minus €12.9 billion. Customer financing actually contributed approximately €67 million positive, whilst M&A activities accounted for €0.5 billion negative mainly related to the acquisition of Bombardier's remaining stake in ACLP for about $0.5 billion.

Now let's look at our liquidity as of the end of June. As a reminder, early in March, we secured sustainable access to funding sources mainly through a €15 billion credit facility. We've also taken additional steps to improve the long-term visibility of our financing and issued euro-denominated bonds, with cash proceeds accounted for in Q2. In April, we issued €2.5 billion of bonds with tenors of five, eight and 12 years partially terming out the €15 billion credit facility to €12.5 billion, at attractive rates.

In June, we issued another €3.5 billion of bonds with tenors of six, 10 and 20 years, used part of the proceeds to further reduce the credit facility, which as a result amounted to €9.5 billion as of the end of June. Also, we continued securing additional funding sources by increasing the size of the commercial paper programs in Q2.

So all in all, we further improved the robustness of our financing and extended the maturities of our funding sources. The strong liquidity will support us as we continue navigating the crisis and position us for growth once the situation improves. Now back to Guillaume.

Guillaume Faury

Thank you, Dominik. It's clear. Now on to commercial aircraft. Overall results in H1, we delivered 196 aircraft to 57 customers, a decrease of 193 aircraft year-on-year. So we roughly delivered in H1 half of what we delivered in H1 last year. We have, as said by Dominik, around 145 finished aircraft that we could not deliver given the situation. Our focus is to deliver aircraft industrially engaged, support stable production output, taking into account airlines' short-term priorities and replacement needs.

So where do we stand on each program? Starting with the A220, we delivered 11 aircraft to three customers. The FAL, the Final Assembly Line in Mirabel is expected to progressively return to pre-COVID levels at rate 4 and the new FAL in Mobile opened in May as planned. On the 320, we delivered 167 aircraft – 157, of which 151 neos. And on wide-body, we delivered 28 aircraft, of which 23 A350s and 5 A330s.

Now let's look at Airbus commercial financials in H1. Revenues mainly reflects lower deliveries, with the 193 aircraft less year-on-year, of which minus 137 A320 Family. EBIT adjusted mainly reflects these lower deliveries and lower cost efficiency, I have to say. It also includes €0.9 billion of COVID-19-related charges, of which €0.1 billion in R&D.

Looking at helicopters. In H1 2020, we delivered 104 helicopters in total compared to 143 in the same period of 2019. Revenues, stable, reflects lower deliveries partially compensated by higher services. EBIT adjusted reflects favorable mix mainly in military and higher services, partially offset by lower deliveries. The five-bladed H145, great helicopter, and the H160, another great helicopter, has been recently certified by the EASA. They're also expected to receive certification from the FAA later this year.

Now on to Defence and Space. Revenues were impacted by lower volume and mix, in particular in Space, which is quite impacted by the COVID-19 lockdowns and quarantines, and COVID-19 causing delays in some programs. EBIT adjusted reflects COVID-19 impact, mainly in Space, partially offset by cost reduction measures.

For the A400M, three aircraft were delivered in H1. In H1, we also achieved the certification for batch six with automatic low level flight capability and the simultaneous paratrooper dispatch, the famous one. This is a major milestone on the path of achieving A400M full development. The retrofit activities are progressing in close alignment with customers, and we updated our restructuring plan to also reflect the impact of coronavirus pandemic on the Defence and Space division.

So in this context, what are our key priorities? Overall, we believe aviation is and remain a long-term business, and we are convinced and we observe, we hear, that we have the right product portfolio. Since Q1, we've made good progress in ensuring the safety – the health and safety of our employees, adapting our production, and this is something we have completed, and securing liquidity and defining a plan to resize our business.

We'll continue to focus on cash in this environment. And in the absence of any significant deviation on the COVID-19 recovery compared to our plans, absent enforcing new escalation or new travel restrictions of a major scale, it is our ambition not to consume cash before M&A and customer financing in the second half of 2020. But let's not forget that the environment is still uncertain and evolving, and we remain humble in this environment.

In Q2, within the one quarter, we had adapted our industrial systems to the new environment, and we are progressing towards our new financial balance. This will put us in a strong position for when the market recovers because we think it will recover. It's not a question of if, but only when it will recover. Now we are ready to take your questions. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] And the first question received is from Benjamin Heelan of Bank of America.

Benjamin Heelan

I hope you guys are all well. A couple of questions from me. You've given us the stored inventory at the end of the first half of the year of 145 aircraft. Is there any commentary about where you think that would be at the end of the year?

And then secondly, on cash flow, you've said that you don't anticipate any cash flow drag in the second half of the year. If we look forward to 2021, do you think that the business could generate positive cash flow at these currently lower levels of production?

Guillaume Faury

I'll take the risk to hand over to you, Dominik, the questions. Hi, Ben, good to hear from you. And yes, we are well, and we hope you are well as well.

Dominik Asam

Sure. Yes, okay. Thank you. So on the stored inventory, I mean, you've seen us not voice any expectation on deliveries for the second half. And as a consequence, given that we have now put in a new production rate, that also implies that we don't want to kind of raise an expectation on the year-end inventory of finished aircraft. What we did say is that we tried to converge deliveries and production in Q3.

On the cash flow side, it is indeed the aim. We've set ourselves the objective to – not to consume cash in the second half of the year before M&A and customer financing. Now I don't want to speculate on next year. But obviously, curbing cash burn is a key priority and making sure that in a new financial balance, we are not bleeding cash is a key priority.

Operator

And the next question received is from Celine Fornaro of UBS.

Celine Fornaro

I hope you're all nice and doing well. My first question would be if you could share, Guillaume, a bit more than some of the headlines where you said the progress in July is doing well in terms of aircraft delivery and what's the visibility in August, which used to be a quiet month, in a way. How is it going to be this year, which is all a bit different?

And then my second question would be regarding the continued investment in digitalization that you're doing for the company. So you keep this investment. It started a year ago, at least. When should we expect that fixed cost increase less basically than top line? So should we see this benefiting potentially also margins and cash flow from 2021, 2022? Thank you.

Guillaume Faury

Thank you, Celine, for your questions. Yes, going well. Of same at your end. Well, I will not give the July deliveries today. First, because we are not at the end of July. And as you know, we like to be backloaded – or actually, we don't like, but we are used to be backloaded. Yes, I said we keep ramping up. So you could expect that July will be stronger than June.

For August, yes, August is always a quieter month. I would have liked 2020 to be different in that perspective, but I think it will not be very different. August will probably be much quieter, not only because of Airbus because we are organized very differently this year, but also due to customer constraints and probably as well less appetite to travel in this global environment and in this context. But we are on a recovery, and Dominik said it, we converge production and deliveries in Q3. That's the objective we have, and it gives an indication that we are, we believe, on the right trajectory.

Digital – I mean digital is serving many different objectives, the so-called DDMS program that we keep working on very actively has supported the – so from very short-term priorities has supported the ramp-up of the ACS in 2019. We've produced according to our objectives in the last quarter of 2019, which was a good success. That's why we could deliver that many planes in the last months of 2019. We've had a very good production rate on the A320 Family, the ACS in 2020, in Q1 2020. That's a bit cynical, but it is what it is.

And as I told you, I think, as I said already, we are very happy with the performance of the production that we have now, including with the complexity of all the changes we've had to make. So it's a benefit. And I think if we can still deliver planes in these numbers, which are obviously much lower than what we were expecting but still significant given the complex, is because we are on track on the production.

And digital serves as well the long-term perspective, which is the next generation of planes, the new – the development of the new systems. So it's not targeting short-term savings on R&T – or R&D. It's by far more design to produce – to design and produce planes for the next-generation, that will be modern planes and production systems having a much different efficiency when it comes to the overall performance of the program, and saving time in developments and outsources.

So don't expect on the short-term to have signs of savings from this project. It's more an investment that we do in the course of the four to five years to come. But these are investments, which are game changing, a bit like what we do on environment, technologies or green technologies, which have the potential to really transform what aviation will look like in the next decade.

Dominik Asam

Maybe on the fixed cost versus revenue question also. I mean, obviously, we're working currently very, very hard to bring fixed costs down. And honestly, we have currently no intention whatsoever to increase fixed cost in 2021.

Operator

And the next question received is from Tristan Sanson of Exane BNP Paribas. Your line is open. Please go ahead.

Tristan Sanson

It's Tristan from Exane. The first one will be a follow-up to Ben's question on the aircraft that are sitting on the balance sheet today, so the 145 you mentioned. Can you comment on the pace of delivery of these aircraft? When you begin on – begin to understand how long you're ready to keep produced aircraft as part of the negotiation with your customer airlines? Are you ready to keep this for a year or two? Or should we think about a much shorter period of time?

Second question would be whatever this number is, can you give us an idea of the timing to get to a normalized level of profitability for the A320 per aircraft under the new volume environment? So when do you think you will get rid of excess cost? And I don't expect the number, but a timing by which you could get there would be really helpful to us. Thank you.

Guillaume Faury

So thank you for the questions. I take the one on the deliveries, and the second one is too difficult for me, so I will give it to Dominik. No, more seriously, yes, 145 planes, it should be the high points. We intend to improve moving forward. And this convergence we were mentioning before aimed at reducing significantly the number of non-delivered aircraft by end of 2020. As Dominik explained before, we don't want to guide on that number. There's too much uncertainty and still a number of airlines with whom we keep adapting the situation to their needs and to their own situation moving forward. But it should go down significantly.

Can we – or how long do they stay? The majority of them stay a few months. But there are cases where we are preparing ourselves for a longer period of time where they stay with us. These are a few number of cases of very critical situation with airlines. We have different ways of maintaining the aircraft, depending on whether they stay for a short period of time. And there are specific maintenance programs to keep them completely ready to fly and available short-term, with other schemes that we are not using or with few exceptions today to put them on long-term storage.

But this is not the situation we're in for the very, very vast majority of airplanes. Those planes, the very vast majority of airplanes are stored for the moment where they will be delivered. We've reduced production for the majority of customers. We have produced planes, and we will deliver on priority the planes which have been already produced to those customers. And in many cases – actually, now it's the majority of cases, we have agreements with airlines. There is a new delivery flow, and it's just spread over, more time to cope with their situation. Now normalized situation on the profit for the A320, Dominik?

Dominik Asam

Yes. I mean it's clear that if you have such a massive reduction of rates by more than 1/3, that there is an impact on the profitability because there is a fixed cost base. The big chunk of the 15,000 headcount reduction we are targeting in active workforce, and don't forget there's also temporary workers coming on top of that, will materialize during the course of next year. So next year, we'll have still a kind of – we are not having the full year effect of these cost reduction measures yet, so that will be only in 2022. And by then, we should have basically mitigated a good chunk of it.

But don't forget, we also need to preserve our capability to snap back. So we have to find the right balance between really fully tackling the overmanning excess cost from a fixed cost base, but also kind of preserving the option value to snap back if and when the market recovers. So we need also rate increases to come back to the previous levels of profitability.

Operator

The next question we received is from Andrew Humphrey of Morgan Stanley. Your line is open. Please go ahead.

Andrew Humphrey

My first question really is a follow-up on that last point. You've clearly had – your main competitor earlier this week talking about a long-term production rate increasing gradually from 31 aircraft a month on the main narrow-body platform. Dominik, you've highlighted that Airbus might need to snap production back more quickly than that. And clearly, depending on when we believe the industry gets back to 2019 traffic levels, that could happen sooner or later. I'd love to kind of get your take on whether the kind of slight push out that we're seeing on when traffic could get back to that level is more dependent on a more negative view on medium-term demand, or whether, frankly, you're also factoring in the length of time the industrial – it will take back to get previous production levels.

And then I guess the second thing I'd ask is just around FX. Dominik, you've highlighted kind of substantial number of hedges rolled forward towards Q4. I'd like to kind of – could you kind of unpack a little bit more what flexibility you have to roll those forward to 2021 or 2022 in the event that some of those deliveries slip into later periods?

Guillaume Faury

Okay. Thank you for the questions. I'll try to address the first one. In early April, we reduced our production rates, I'll say the A320, that's the bulk of it, from 60 a month down to 40 a month. Sort of three to four months later, we are still with 40. And after all the work we have done on the market analysis and the potential recovery, and when it comes, what I call the top-down approach and the bottom-up work with all our airline customers plane-by-plane, we think 40 is still the right balance between demand and supply. And we keep it for the second half of 2020 and entering into 2021.

The question is there might be small adjustments around the 40. That's not, I mean, the big issue. I think the main question is when we consider ramping up again. When we want to start to be back to higher rates, 50 and then 60 and potentially more, when the market recovers? That's really the work we are doing today to try to anticipate as much and as good as we can the reramp-up, the snapback that Dominik was mentioning before.

It will not happen before mid of 2021. It is very likely that it will happen in 2022 for the single-aisle. And what we're trying to assess as good as we can is when, in that window, we will start to ramp up again to give to our supply chain the heads up and to be able to order and to enable the supply chain to do the ramp-up and not be too late in the ramp-up when it comes.

So it's trying to find the right balance, not to be naive or too optimistic on what's happening with COVID-19, and we think we are not. But as well, not to be too pessimistic, or at least to be prepared to take the benefits of the situation when it recovers. And we think it will recover. When we look at the long-term perspective, when COVID is behind us, we see again a very, very strong market demand, and in some cases, even bigger because there has been this one, two, three, four, five years of growth that we observed with COVID-19.

So that's where we are. So I don't know exactly what was said by others, but we are at rate 40 for the 320. It fits with our today's understanding of the market situation, I mean, the relationship between Airbus and our own customers in a very granular way. It fits with what we believe is the environment for the next 18 months, and we think there will be a point in time where the ramp-up will come again, and it should be around 2022 for the single-aisle. Hedging?

Dominik Asam

Hedging, yes. Because of the rephasing of the deliveries, which we're currently discussing with our customers, of course, we have to adjust the hedging portfolio. This has not, to a huge degree, happened in Q2 yet, but will be very much a topic also in Q3, where we really rephased all these hedges. The good news is on the single-aisle, we have a huge backlog, still 6,168 aircraft in backlog. So it's plenty of opportunities to rephase the hedges onto these deliveries. Because you know we are not hedging everything we get the order, but we gradually basically average in the rates ahead of delivery.

On the wide-body, it's a little bit more difficult. The backlog is smaller, not as long in reach. And there are certain customers, which are the usual suspects you heard about, where we had to disqualify. I mentioned $1.8 billion of hedges because the level of certainty on the deliveries is not as high enough anymore to qualify for hedge accounting. So still some work to do, but we will find new home, so to speak, for the hedges, especially on the single-aisle, for the lion's share of it.

Operator

And the next question received is from Douglas Harned of Bernstein. Your line is open sir. Please go ahead.

Douglas Harned

In June, you delivered 36 airplanes, and this is the first question, which is about 10 of them were on June 30. So I'm guessing that the customers do not take physical possession of all those airplanes. And so my first question is, right now, what's necessary to count an airplane as delivered? And does it involve full cash payment at the time? What are the ways you're approaching a delivery now?

And then second question is when you talk about converging in Q3 between production and deliveries, we – frankly, we haven't found that many airlines that are anxious to take deliveries this year. There are some. What levers are you using to try and get those deliveries to happen? And does this include greater role in financing?

Guillaume Faury

So deliveries, they are deliveries, no change compared to before. It's a transfer of title with the full payment of the plane. As Dominik explained, when customers have contractual obligations and are not willing or not capable of taking delivery, we find agreements, which come with intermediate payments sometimes. So that's one of the ways we have used to mitigate the lower number of deliveries. Basically, we're negotiating with airlines, looking at the role of relationship at the short term, the midterm and the long term, their obligations, our interest to support them, but as well our own constraints.

And I have to confess, in the vast majority of leases, this is a difficult discussion, but it's a professional one, where we end up with something that makes sense for both parties. And that's the way we are managing. We are not sacrificing the short term against the long term, not the opposite. And that's why we have a progressive recovery, that we believe it's a solid recovery. And this is what we are trying to accomplish. Did I miss part of your – of the question?

Douglas Harned

Are you doing – are you involved in more financing now to facilitate the...

Guillaume Faury

Okay, financing.

Dominik Asam

I mean as you've seen, actually our kind of contribution from customer financing, vendor financing has been positive in Q2, but this is not a trend. We have to anticipate there will be more. This is also why we took that definition before M&A and customer financing. But we don't expect a wave here. We are working very, very closely with the expert credit agencies, which are extremely helpful at present, and they've also established some schemes with – kind of principal repayment moratorium. So this is another leverage we use to make the delivery as digestible to the customer as possible because, of course, when there is a delivery, they get 85% of the purchase price recovered from the PDPs, and the equity portion is minor so they can finance more than actually the PDPs.

Operator

And the next question we received is from Carter Copeland of Melius Research. Your line is open. Please go ahead.

Carter Copeland

Just a couple of questions from me. The – on the positive side, how is the slowdown and the lower volume impacting your work on the ACF and the challenges that you face there? And then with respect to convergence between production and deliveries, just to be a little bit clearer, how long in your current planning process do you envision it will take for full convergence? I mean just given your comments on 2022 and potentially going back up, do you think this is a couple of quarters or a year for that sort of convergence to take place? Or is it longer than that?

Guillaume Faury

Thank you for the questions. So on the ACF, actually, the reduction in the rates of production and the results of all the work we accomplished in 2019 puts us in a situation where we are no longer in bottlenecks with the ACF. It's no longer the problem. We deliver our ACF ahead of variants. I mean anything we agree upon with customers on time, on quality. That's behind us, at least as long as we are in the low rates. We are taking benefit of the period of time to also prepare for the reramp-up at the end of the low periods.

So we think it's really behind us. It's very unlikely that we will very much discuss the ACF moving forward. I think we will have difficulties when we will be in the ramp-up again because we've done a big ramp-down, and all the supply chain has done a big ramp-down. And then we will have to ramp-up again. So that's really very difficult to manage. Rollercoaster situation is not an easy one. And this is something we are discussing with our customers, and we want to be prepared for that.

Now when it comes to convergence, well, actually, I told you that we – our mission is to have less planes stored by end of 2020 than what we have by end of H1 2020. So I'm suggesting that we want to have the convergence in H2 2020, or starting the convergence, not the full convergence, but we will reconverge. And when I told you our industrial system is adapted to the new situation and is delivering according to the new production scheme, means we are now adjusted to what we wanted to achieve for the new environment, and that's behind us. So obviously, we have to deliver the planes that have been stored. And this is the part of the uncertainty, which is ahead of us, which is the – what will really happen with the deliveries of planes between now and end of the year.

But I have to say, with what we've seen in Q2 when we have managed to find new agreements with airlines, when we have agreed upon new delivery schemes, in the very vast majority of cases, it's not all of them, airlines and Airbus have worked according to this new agreement. So would we have this situation in H2, and this is what we are expecting, then we would be managing this objective to reduce significantly the number of aircraft stored by end of 2020 compared to today.

Operator

And the next question we received is from Harry Breach of MainFirst. Your line is open sir. Please go ahead.

Harry Breach

Can I ask my couple of questions? Maybe just firstly, maybe a little bit for Dominik. Dominik, PDPs, can you give us any color, any sort of sense of where the PDPs are now – whether the vast majority are back to being paid on schedule at the moment? I think when we last spoke in April, that wasn't the case, but I'm wondering if sort of PDPs are getting made on schedule. And if you can clarify, I think your comments you made earlier on in the call about favorable PDP dynamics in the second quarter, just to help us understand a little more.

And then maybe my second question, well, it's a reflection of Tristan's question about sort of getting to normalized levels of profitability. You've spoken, in response to Tristan, about the pacing of the full-time headcount reduction. But can you give us a feeling, in terms of manufacturing flow, clearly in the second quarter with sanitization, with facility shutdowns, probably with the regular supply shipments, there was probably – I'm guessing a little bit, but considerable disruption in terms of labor hours to complete aircraft.

Can you give us a feeling about the manufacturing flow, whether things are just working through labor hours, that are normalizing per unit? And then for the component of labor costs, that's not your permanent employees, but it's your flexible, your in situ workers, your temporary, how quickly that element of costs comes out? And roughly what proportion of the labor cost last year that was?

Dominik Asam

Okay. On the PDPs, of course, when we entered into the crisis, not all customers are current. And this is, of course, part of the negotiation Guillaume referred to, to make sure that we find a new agreement on the skyline. And the skyline then entails a certain adjustment of PDPs. And once these negotiations have taken place, similarly to what Guillaume commented on deliveries, also customers tend to honor these new schedules. They are lower than what we had initially anticipated. My comment on the positive phasing on Q2 is that as some customers were not willing to take deliveries, we have been able to negotiate some other forms of anticipation of payments on the delivery, like pro notes or advanced PODs, and that has actually helped us a little bit to stabilize, to offset that negative effect that comes from lower PDPs.

So what we anticipate is there will be a big rephasing. We're in the process of doing that. Then we will have PDPs, which are lower because the rephasing is deferring deliveries to the right, but then that should be more predictable going forward. On the pacing of the headcount reductions and the disruption, yes, there was some costs in Q2, overcosts, so to speak, from COVID-19. I would characterize it as a kind of low triple-digit million number very roughly, which, of course, over the next quarters, by improving our processes going down the learning curve, we should improve.

On the question of how quickly the temps are out, it's something that is, of course, quicker than the active workforce reduction. I'd say, phasing over the second half of this year and then the lion's share should be done, but we want to keep also some temps in some areas to preserve some flexibility.

Harry Breach

And Dominik, sorry, just those alternatives you touched on in PDP, you said pro notes and advanced payments upon delivery. Sorry, I'm a little bit stupid, as I hope my colleagues will back me up on, what are pro notes, Dominik?

Dominik Asam

Well, it's promissory notes. It's basically customer tells you, "I can't take delivery now, but I'll take delivery in June." And they give you a note that promises that this payment will be made. And this is a bankable instrument you can get some liquidity for. So this is a very common tool. And the good news is – I mean we always try to get the money from the customer to really further enhance the skin in the game and to ensure and secure the delivery at a later stage then.

Operator

And the next question we received is from Robert Stallard of Vertical Research. Your line is open sir. Please go ahead.

Robert Stallard

Guillaume, just a quick one for you. On the Chinese market, you highlighted the domestic traffic has staged a pretty big recovery there. As you look to the second half of this year, are your Chinese customers now planning to take delivery of planes as you roughly expected, say, six months ago?

And then the second question, probably to Dominik, is on inventory, not the finished goods inventory, but the sort of buffer inventory you have in the system. I was wondering if you could give us just a ballpark number of how much that number might be. And also how long it could take to drive down the buffer inventory?

Guillaume Faury

Yes. Thank you for your questions, Robert. Well, actually, I think almost no customer is taking delivery like we were expecting six months ago. So we are no longer in pre-COVID situation. But indeed, the Chinese airlines will take by far more deliveries in the second half of 2020 than what they did in the first half. So – and this is consistent with the expectation that their domestic market will keep recovering, but they still have a market that is underserved in terms of number of planes, so they will need, in particular on the single-aisle, to keep procuring planes. So we think there will be a recovery. It will not be at the levels of pre-COVID-19, but it should be at a quite high level or higher level in H2 2020 and a significantly higher level in 2021.

Dominik Asam

So on inventories, if I may add. Indeed, there is also inventories which are not reduced yet as much as the rate reduction would imply, and this is simply due to the fact that we currently run all the lines with longer lead times. It also creates some buffers for suppliers. And I think this will be a key focus item for next year, in 2021, to stabilize the cash. We have some cash outs, exceptional cash outs like the severance pay that we'll need to deliver next year. And then, of course, there's an offset we're trying to achieve with working on these prefab, prefinished goods inventories to bring them more in line with the rates.

Operator

And the next question we received is from Olivier Brochet of Crédit Suisse. Your line is open sir. Please go ahead.

Olivier Brochet

Yes. I would ask two. First of all, on your comments, Guillaume, about rates that possibly could go up sometime in the second half or maybe sometime in the second half of 2021. What does it mean for free cash flow, in particular, working capital for next year? And second comment is on programs that we've not discussed a lot, which are A380s and A320ceos. How do they look in terms of deliveries for 2020, 2021?

Guillaume Faury

Good morning, Olivier. Okay, so on the rates, I said around 2022, potentially starting in the second half of 2021, that's uncertainty. It's beyond what we call the firm horizon, so we have not planned for the moment this ramp-up in our expectations for 2021. We are more at rate 40 flat until we see something new happening. Indeed, it would have some working capital impact when we start to ramp up again, but we have as well conditions of payments, terms of payments with suppliers that are helping in that direction. And we should see, symmetrically, some PDP inflows ramping up from the customer side. So it's all – a lot of moving parts. And maybe, Dominik, if you can give a little bit more color?

Dominik Asam

Yes. I think the very high-level comment I can give is our business model in terms of PDP schedules is designed in a way to avoid – that we absorb working capital in the ramp. And I also mentioned we have very generous inventories, as we speak, as of now, which would actually put us in a position to ramp if needed. But let's see how we're working on these inventories next year.

Guillaume Faury

The objective is to get rid of the vast majority of inventories, mostly by end of this year or part next year. And then the ramp-up would have to come when we would be with a low level of inventory. So it's a lot of moving parts, and planning 2021 is obviously not easy. We intend to keep reviewing very dynamically the situation in the last quarter of 2020 to see if and when we plan that ramp-up. If it's beyond the – if it remains beyond the horizon of 2021 or if we want to start to ramp up again somewhere prudently in 2021, and this applies only on the 320, to be very specific. Now you asked questions on the 320ceos, I think. Was it the 320ceos, your question?

Olivier Brochet

Yes. Yes, it is on the 320ceos.

Guillaume Faury

We are at the end. I think we communicated, we delivered a very small number of ceos.

Dominik Asam

The vast majority was in...

Guillaume Faury

We have – need to see it. Dominik, I think...

Dominik Asam

We've delivered six, I see here in the first half.

Guillaume Faury

So you can consider we're really now completely – and only with neos, it's not exactly right. But for every calculation, I think it's right. And on the A380, I think we still have, what, eight or nine?

Dominik Asam

Eight total.

Guillaume Faury

Are delivered? One for ANA and the rest is for any rates. Obviously, COVID-19 makes the situation a bit more complex, but we still plan to deliver all those planes. Maybe a bit slower than what was planned before COVID-19, but we are at the end-of-life of the product. You might have seen in the press, we had some sad but nice events on the last section going by road to lose and so on. So it's really now becoming a history, unfortunately.

Thorsten Fischer

So this closes our conference call for this time. Please allow me a quick note. Mohamed, who has been joining with us for the last five years, is leaving the team for a new exciting challenge within Airbus. I thank Mohamed for his exceptional dedication, professionalism and pragmatism over the last years. And in more – even more personal way, I would like to say, "Go West, young man. And all the best."

At the same time, I'm pleased to welcome Guston Clamp, who will take over for Mohamed in September. If you have any further questions, please send an e-mail to Mohamed, Philippe or myself, and we will get back to you as soon as possible. Thank you, and I look forward to speaking to you again soon.

Guillaume Faury

Thanks, Thorsten. And thanks, Mohamed. It's been great working with you.

Thorsten Fischer

Good luck.

Guillaume Faury

Thank you, everyone. Have a good day, and looking forward to talking to you or even meeting you at a later stage when aviation recovers. Keep safe. Thank you.