



Transcription

Rolls-Royce Trading Update

11 December 2020

PRESENTATION

Operator

Hello and welcome to the Rolls Royce Trading Update call. Throughout the call, all participants will be in a listen-only mode and afterwards there will be a question answer session. Just to remind you, this conference call is being recorded. I'll now hand you over to Isabel Green, Head of Investor Relations. Please go ahead with your meeting.

Isabel Green

Thank you and good morning everyone. With me on the call today, Warren East, CEO, and Stephen Daintith, CFO. We expect the call to last for around half an hour, including the prepared remarks, which will take 10 to 15 minutes. Before I hand over to Warren, I'm required to remind you that on the call we may make forward-looking statements and actual results could differ as per page four on our press release.

Thank you and over to you, Warren.

Warren East

Thanks very much, Isabel. Thanks very much everybody for joining us. I'll make a few opening remarks as usual.

We're coming to the end of 2020 now. It's been a year that's completely unprecedented, unprecedented challenges. I think it's right to just have a quick reflect on our performance and some of the commitments that we've made for the years ahead. Going all the way back to the beginning of the year, we came in with good momentum, having turned a bit of a corner as we emerged from a period of – extended period actually – of investment in new, large civil engine programmes to be looking forward to a period where we would see higher returns, reaping the returns from that investment and our large installed base and increased market share that had been achieved.

We were also on a position of solid growth in power systems and defence with a particularly strong order book there. Then COVID, and an exogenous issue. Nothing we could do about COVID; our focus had to be on the things that we could control. And when the first wave of COVID hit, we took quick, decisive actions to conserve cash, restructure our civil aerospace business. By the time of our interim results, we'd already achieved approximately £350 million of in-year cash savings, and now we are confident that we will deliver our target of more than a billion pounds for the full year.

We've also made good progress with a more fundamental restructuring. In May, we announced at least 9,000 roles will be removed by the end of 2022.

In October we launched our £5 billion refinancing package that was necessary to increase resilience to see us through this crisis and strengthen our balance sheet, as well as support our long-term strategy. And we're very pleased to have concluded that process. We're also very grateful for the support that our investors showed us at that time, both with the equity raise and with the debt that it served to unlock. This means that we can now look forward with confidence that we have sufficient liquidity to get through this crisis, no matter how extended it is.

Turning to what's happening in the business since we last gave you an update. In Civil Aerospace, our year to date, large engine invoiced flying hours were at 42% of 2019 levels. We've been seeing a gradual pickup in flying activity every month since April. October and November combined were at 33% of 2019 levels, and that was a trend up from 29% in Q3 and

24% in Q2. Meanwhile our business jets have continued to perform relatively well with demand much less affected by the pandemic.

And while the second wave of COVID-19 has delayed near-term recovery in air travel, it's very good to see the recent progress on vaccination. That's encouraging, welcome news. Flying looks likely to exit 2020 at a lower level than we expected and that is likely to recover more slowly in the first half of 2021, but we still expect recovery then to accelerate in the second half as borders start reopening and economies pick up.

We've continued to see the disparity in the pace of recovery for different routes and different aircraft, and in particular we've seen improvement in flying hours in areas like China, where infection rates have been kept very low after the first wave passed and travel restrictions have been reduced. We've also seen the fastest recovery on the younger aircraft. Those programmes that have had the newer planes, things like the Trent XWB-97 on the A350-1000. That's already back to 2019 levels. Now that's only a relatively small part of our installed base, but it's an indicator of what happens with our younger fleet.

To pre-empt any later questions, by the way, on in-service issues on some of our Trent 1000 and Trent XWB engines. Just a quick update there. We've completed our inspections of all high cycle Trent XWB engines. We found early signs of wear on the first stage of the IPC blade in around 20% of cases, which is exactly the same as we reported in August. Most of these have already been refurbished, returned to the customers and we have ample spares in place. The root cause investigation and testing is still proceeding, but it has progressed as planned.

Onto the Trent 1000 in service issues, we remain- We first achieved the ambition of zero aircraft on ground, clearly helped a little bit by the pandemic, but we have continued with the development work on the final fix for the HPT blade on the Trent 1010 and we remain on track to start installing that by the middle of next year. During the year we have built sufficient spare engine capacity such that even if all those Dreamliners took to the air again tomorrow, we would be fine to maintain that zero aircraft on ground position.

Our Defence business has been largely unaffected by COVID-19 throughout. We've been able to keep all our facilities operational throughout and demand has remained intact. We benefited from very good support from our government customers and 2021 revenue cover in our backlog is around 90% at the moment for defence. The recently announced multiyear defence budget increases in the UK, very encouraging. They're supporting the investment in next generation capabilities including the Tempest programme and we're a core partner there. We've recently received an order from the German Air Force for 56 new Eurofighter engines and that has benefited our Defence business. It's also benefited ITP Aero.

Our Power Systems business has been impacted by the pandemic, but much less so than our Civil Aerospace business. Some sectors and regions are holding up better than others. Again, a bright spot for us is China where we have been growing market share, as you know, in recent years and strategic relationships there have helped us increase our market presence.

At a recent China International Import Expo, we announced provisional agreements with six Chinese companies for almost 1000 MTU engines and systems, for instance. And our book-to-bill in Power Systems as a whole this year is getting to about one. Demand from government customers in Power Systems has been resilient throughout, and we're starting to see early signs of recovery in some of the other end markets.

Now whilst the current year is important and the impact of COVID is important, it is also important that we keep an eye on the future and look ahead and despite everything that has happened this year, we've been able to keep focused on our ambition to deliver more sustainable power. We know that society at large is at a pivotal moment in the drive towards a

net zero carbon economy, and we think that Rolls-Royce has a key role to play. We're a leading British industrial technology company and our key role is not only to do the right thing for ourselves, but to drive change through innovation in our products and services.

We already make some of the world's most efficient jet engines; things like the Trent XWB on the A350. That's the most efficient widebody plane available in the market today. But as we look ahead to the future, we are investing in hybrid and electrical alternatives. In November we ran ground tests to demonstrate that our Trent engines can operate with 100% sustainable aviation fuel, and that's an important piece of groundwork for industry-wide certification.

To achieve net zero, society needs a huge step-up in power generated from alternative sources like nuclear power. The UK government has committed 215 million pounds for a four-year development programme for our small modular reactor consortium. This investment in our nuclear energy solution will support the decarbonisation of power generation in the UK, but we've also signed strategic agreements with Exelon Generation and CEZ highlighting the international appeal of our small, modular, nuclear reactors.

Back inside the business, our key focus, as I said at the start, has been on controlling what we can control and the restructuring that we announced in May, for instance. We've had to adapt to a very challenging, new reality as we look forward, and that has presented difficult choices about consolidating our global production footprint. We've had to make some very tough proposals after the last few months, but we can't afford to retain capacity where demand in the medium term has been so dramatically reduced.

We announced a number of proposed changes for our Civil Aerospace business as we focus on reducing costs and positioning the business for recovery. Last week we announced the proposal to transfer some of our structures and product manufacturing to ITP Aero, and further changes at some of our civil manufacturing sites to make them more competitive and reduce costs. These changes are in addition to the proposals that we'd announced previously about bringing assembly and testing of our widebody engines back and consolidating in the UK and consolidating our fan blade manufacturing into Singapore. We'd already announced the closure of our manufacturing site in the US and a reduction to workforce in Germany.

Now, this makes it a very difficult time for some of our people. We have removed more than 5,500 roles this year, but that has mostly been achieved through voluntary severance and early retirement, and that's helped us move ahead much more quickly with less uncertainty for our people. We're actively engaging with the trade unions, and those discussions are very constructive, but remain ongoing.

So now moving on to our financial priorities. Rebuilding our balance sheet, increasing our resilience; these are absolutely key to positioning the company for the future. When we launched our £5 billion recapitalisation in October, we made a number of commitments and I'm very aware of the responsibility that that means we now have to deliver on those commitments over the coming years.

Firstly, we're targeting more than £2 billion in proceeds from disposals. On Monday, we announced the agreement to sell our Civil Nuclear Instrumentation and Controls business to Framatome. This business, by the way, doesn't include any of our nuclear submarines activity or any of our SMR, small modular nuclear reactor activity. It generated around 100 million euros in revenue last year and has a workforce of about 550 people across sites in France and the Czech Republic and in China.

There are other assets under consideration for disposal and we've talked before about ITP Aero, and we've also seen mention – and it's true – our medium speed, gas and diesel engines business, Bergen Engines, we're also looking to divest. We will say more about these as and when it's appropriate to talk about them.

So, moving on to operational cash flows. We do expect to see free cash outflow in the region of £4.2 billion this year. It's an approximate guidance. The actual out-turn is heavily influenced by timing of significant working capital, cash flows around the year end, so we can't be more than approximate at the moment, and in particular there are some issues around OE concession payments which depend on the timing of new aircraft deliveries to airlines and these are outside of our control. This guidance, however, I'll remind you, does include £1 billion of negative impact from the cessation of invoice discounting that we talked about with our half year results. It also reflects the huge effort group-wide to save more than a billion pounds of in-year cash costs. As a result, we expect overall our year-end net debt position to be around 1.5 to 2 billion pounds with liquidity of around 8.5 to 9 billion pounds, which is enough to see us through the crisis, even in a reasonable worst-case scenario.

Our primary goal from a financial standpoint, is to get the business away from consuming cash as soon as possible. We are targeting reaching breakeven at some stage during the second half of 2021, primarily driven by our reorganisation programme. Now the timing, the exact timing, will also be a little bit impacted by the pace of recovery and engine flying hours – if the recovery is slow, it might be a bit later in the second half, but we're going to do our best to get there as soon as possible.

The other key financial objective is to generate at least £750 million of free cash flow as early as 2022. And of course, that is linked to the pace of market recovery, but it does include headwinds like Trent 1000 remediation costs, foreign currency exchange, rightsizing on the hedge book, costs that we talked about earlier this year. And obviously as we look forward into the future those one-offs will disappear. So £750 million remains firmly within our sights in that time period. In the medium term, our restructuring will enable us to be a leaner, healthier business, stronger operational gearing than we would otherwise have been and well positioned for a recovery in revenue.

2020 has been a very tough year indeed. There's still a lot of work to be done in 2021, but we think the fundamental drivers behind our business remain intact and we can see structural and strategic growth opportunities across all our core businesses. I've talked long enough so I'll pause now and we'll answer your questions.

Q&A

Operator

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will just be a brief pause while any questions are being registered.

Our first question comes from the line of George Zhao from Bernstein. Please go ahead.

George Zhao

Hi. Good morning everyone. Warren, you've said in the past that there have not been discounts on the flight hour contract prices. So, when operators are under the service agreement with you, it may be more difficult for them to cut back their cash outlay. But how do you think about the downside of that? Where else do you envision potential pressure either now or in the future, as operators are still very much under pressure to cut back maintenance? And we've seen that where they have flexibility under time and materials model elsewhere, they have been doing exactly that to cut maintenance. Thanks.

Warren East

Well, I think what was said before is that as far as invoicing during 2020 is concerned, then the contracts are in place and we've tried to be reasonable with our airline customers in terms of rescheduling payments and the like, and we've tried to be reasonable. On a forward-looking basis, as airlines seek to resize their fleets, and there will be some aeroplanes that get retired and other aeroplanes that get flown. We'll do our best to maintain our flying hour rates, but where it's necessary to have a trade-off between offering temporary discounts on flying hour rates in order to keep our aeroplanes flying rather than somebody else's, then we'll work with airlines and with leasing companies to come up with sensible commercial win-win packages. And our flying hour rates are a portion of the costs, but they are by no means the only costs for an airline, there's the financing cost and many other operational costs, so our rates are a very small part, actually, of airline operating costs, but we recognise we've got a part to play in that.

George Zhao

Great. Thank you.

Operator

And the next question comes from the line of Andrew Gollan from Berenberg. Please go ahead.

Andrew Gollan

Hi guys, thanks for taking my questions. A couple, really, from me. Firstly, on the engine flying hours indicated at 70% down in Q4 roughly. You mentioned, Warren, within your prepared remarks about utilisation of the XWB. Can you give an indication of what's going on in terms of utilisation for the other models? So, particularly the Trent 700 I'm interested in, and the Trent 1000. The first question.

Warren East

Trent 700 – the older you get, the less utilised you are; that's the basic rule of thumb. And it's really quite difficult to generalise much more than that. Very, very approximately, Trent 700 is about half the utilisation rate of Trent XWB at the moment. XWB and Trent 1000, the A350 and the Boeing 787, these are the aircraft that are getting used most in the widebody space at the moment. And then when you get into A330s, used less. When you get into the older aircraft then it's used even less. And that's the rule of thumb. We've got a bunch of different airline customers that all have different approaches. Very approximately, utilisation of aircraft, whether an aircraft is being flown or not is just one measure, and how much it is being flown is another measure. So Trent XWB and Trent 1000, they're getting used a lot. So Trent XWB-97K is back to the levels that it was in 2019, but that is a very small part of our fleet.

When you get into higher, bigger volumes and so on, then they're used a bit less. And then during an individual day, whether an aircraft is used – maybe it used to be used two or three times a day and now it's being used once a day. On average, Trent XWB is about 12 hours a day at the moment for those that are getting used, which is significantly less than it would normally be used.

Andrew Gollan

Sure, OK, thank you very much. And then the second question is around free cash flow and various guidance you've given for 2021 and 2022. Can you confirm what your guiding is premised broadly around the base case scenario of a recovery to 70% in 2021 and 90% in 2022? And what gives you confidence that this is still realistic given the trends we're seeing today? Is it merely availability of vaccines is just going to free up everything in that time frame – is that what you're assuming? Or any comments around that would be helpful.

Warren East

I think we're going to give a bit more specifics about this when we do our full year results. There's a huge amount of uncertainty around what's going to happen in 2021, and there's less uncertainty obviously about what's going to happen in 2022 because we do see a picture of vaccines helping, vaccines being a significant factor. But it's all about government to government relationships and opening up of air corridors and routes. That is, we see a 2021 second half, 2021 phenomenon. And that's why we can be a bit more certain about 2022 than we can be about 2021, which is giving us confidence. Or that's giving us some confidence in underpinning our £750 million target for 2022.

What's giving us most confidence, however, is as I said in the remarks a moment or two ago, is the things that we can control. We know we are removing fixed cost from out of our business and improving the operational leverage. And that's the primary factor. Engine flying hours are going to – and the rate at which engine flying hours come back – is going to affect timing, and that's why we're a bit more uncertain about 2021. We remain confident we can get into positive cash generation territory in the second half of 2021, but whether that's at the beginning or the end of the second half, that depends a bit on engine flying hours and how they perform.

And don't forget, we do have the other half of our business which isn't Civil Aerospace, large engines. Business aviation holding up very well; Defence holding up very well; Power Systems responding a bit like Civil Aerospace, but much less so, and it's a shorter cycle business. And if we look, for instance, at the rate of recovery in Power Systems in China, we saw that come back quite swiftly. So, just remind people that there is another half to our business as well.

Andrew Gollan

Understood. Thank you very much.

Operator

And the next question comes from the line of Ben Heelan from Bank of America. Please go ahead.

Ben Heelan

Hi, good morning, thank you for taking my question. One, I guess, is back on what Andrew was asking there. I guess another way to ask it was – you said that the recovery to positive free cash flow is going to be dependent on the recovery and engine flying hours. Is there a way to gauge what level of engine flying hours need to be back relative to 2019 in a given month for you to be free cash flow positive? Is there a way to frame it around that? That would be the first question. And then the second question, could you talk a little bit, has there been any interest in ITP and Bergen, and are there any other facilities that you're considering putting into ITP to make it more attractive to a bidder? Thank you.

Stephen Daintith

Thanks, I'll take that those two questions Ben. So yeah, we're not going to go into specifics at this stage around the shape of flying hour recovery in 2021 and moving to cash positive. We will share more of that with our full year results in March. I think what I would say though, is that we've been tracking our cash flows very carefully over the last nine months. We've seen a good trajectory and we've got good confidence around our ability to turn cash positive sometime during the second half of next year.

On ITP, we are already engaging with the potential buyer universe on this. There are several interested parties, and we expect that there will be a pickup in activity in the first half of next year, if we really get into the sale process, and we go through the management presentations and all that usual sort of malarkey that goes on with the disposal process and we will keep you updated on the progress as we go along.

Ben Heelan

OK, great, thank you.

Operator

And the next question comes from the line of Nick Cunningham from Agency Partners. Please go ahead.

Nick Cunningham

Good morning, yes. A couple of slightly longer-term questions. Obviously, there's been a lot of learning in the last year or so for everybody. I was wondering what the experience has said to you about what a prudent capital structure is to aim for at the end of all this process. Does Rolls-Royce sort of have to be net cash – if you like? And would that be before or after the lease liabilities, to be more precise? And then the second question: The £1.3 billion of cost reductions, to what extent

are those just aligned with the anticipated lower revenue base? Or is some of it going to result in a lower unit cost? And if so, if there's any indication as to what proportion we might see contributing to a lower cost base going forward?

Warren East

In terms of our view on ideal balance sheet, that hasn't really changed. We're looking for a net cash positive of circa £2 billion in the medium term. We had that view coming into this crisis and we were on a good trajectory to get there during 2020, actually. We were confident of getting there in 2020, having come into the year at £1.3 to £1.4 net positive. And I think that's still a sensible goal; it's driven by requirements to keep R&D going and that sort of thing.

I'm terribly sorry – the second half of the question has completely slipped my mind.

Nick Cunningham

Sorry, it's the cost reduction. To what extent does that—?

Warren East

Of course, there are costs coming out through load coming out. But no, the £1.3 billion is structural.

Nick Cunningham

So in other words, that would entirely stick? If revenue came back up to 2019 levels, you would have a £1.3 billion lower cost base.

Warren East

Yeah. You only have to talk to some of the unfortunate people who are losing their jobs, and it's sticking as far as our cost reduction is concerned.

Nick Cunningham

Thank you.

Operator

And the next question comes from the line of Timm Schulze-Melander from Redburn. Please go ahead.

Timm Schulze-Melander

Hi there, thanks for taking my question. Standing in for Jeremy Bragg. Two-part question if I can. Just thinking about the Trent 1000, and aircraft on ground being a sort of unexpected beneficiary of this COVID crisis. First part of the question is could you tell us what will happen to the Trent 1000 provisioning flows in 2021 and 2022?

And then just again on those Trent 1000 sort of expected cash flows in 2021. What are you expecting now compared to what you would have expected let's say a year ago? Thank you.

Warren East

Yeah, so I think with our half year results we talked about a reversal of provision on Trent 1000 and that was based on the fact that disruption that we had previously anticipated to be continuing to accumulate during 2020, we're now not seeing. And because of the ability to generate spare engines we're now not anticipating -- even if they all started flying tomorrow, we wouldn't anticipate accumulating anymore disruption costs. And that's why we were able to reverse that provision.

And then, in terms of the impact on cash flow in 2021 and 2022, we're still anticipating the already accumulated disruption costs and things like credit notes being utilised as before. I don't think there's any rephrasing of that.

Stephen Daintith

Yeah, no change in previous guidance on that one. And as a reminder, 2021 and 2022 will be the last two years of any material cash outflow on the Trent 1000. So, 2023 will be unencumbered by those cash flows and that £750 million number that we guide to as well for 2022 includes the final year of Trent 1000 cash costs of around £250 million in that year.

Timm Schulze-Melander

Great, very clear. If I could just sneak in one follow up and that's, Stephen, on your replacement. Warren, could you maybe give us an update on where the company stands on the CFO search? Thank you.

Warren East

Well, it's still ongoing, but we expect to be able to -- we will have an announcement in due course, obviously, you can't announce these things until everything is signed and sealed. We want to choose the right person to replace Stephen, and I'm sure by the time we get to our full year results we will probably have some news.

Timm Schulze-Melander

Thanks, thanks very much.

Operator

The next question comes from the line of Sean Stewart from JPMorgan. Please go ahead.

Sean Stewart

Hi, good morning, Warren. Good morning, Stephen. I just have one quick question please. You've reiterated your guidance this morning for at least £750 million of free cash flow in 2022 pre the disposals. Are you able to give us any EBITDA guidance behind that free cash flow guidance please? Thanks a lot.

Warren East

No, we're not, actually. We may say something with our full year results next year, but no. And just a wording point here: Just to be specific, we said £750 million as early as 2022. So just to qualify that somewhat, but as it stands today, that's very much in our plans. But no, we're not giving any EBITDA guidance at this stage.

Sean Stewart

OK, thanks a lot.

Operator

The next question comes from the line of Harry Leech from Stifel. Please go ahead.

Harry Leech

Morning, Warren. Morning, Stephen. Morning, Isabel. Thanks for taking my question. Just a couple if I can. Can you give us any sense about how time and materials revenues are trending? Have we gone through the bottom there specifically, or are we still seeing a deteriorating trend? And then slightly different note, just thinking about receivables collection rates. Can you give us a feeling about how those are going and, Stephen, this is probably pushing it far too far, but in terms of payment deferrals and delays you've granted to customers, can you give us any sense about whether those are reducing now, the schedules are holding, customers aren't asking for payment deferrals? Any sense would be really helpful, thank you.

Stephen Daintith

Yeah, I'll do the second question first. As you might expect, we're seeing a number of dynamics right now. We're seeing airlines saying that they are just not able to pay minimum flying hour contractual terms right now, and we understand that, and we are building up a debtors' balance that you'll see at the year-end therefore of overdue debts. What we're also seeing and that we expect to see in 2021, is increasing credit note utilisation as well. So, we are seeing airlines using credit notes to avoid cash outflow – again, no surprise there. I'm not going to go into details of numbers at this stage, but these dynamics are certainly out there.

Beyond that, at the same time, though, we have many customers who are paying cash for their minimum flying hour terms as well, and they are in the majority. So it's just worth highlighting that side of it as well. And so, I think that is probably all I would say at this stage on the cash flow dynamics around our customers this year.

Warren East

And on the long-term service agreement versus time and materials, then it's broadly similar. And just a couple of comments: In the long run, of course, time and materials is more prevalent on the older programmes than it is on the newer programmes and so you would expect to see in the long run time and materials declining slightly as a proportion, but it's never going to disappear because, as we've said before, part of our long-term service agreement includes an element of

time and materials for parts that mutually we agree with airlines that are not covered by those long-term service agreements. So broadly similar is the picture at the moment.

Harry Leech

And just to clarify my understanding, Stephen, where you take a credit note from a customer is there any security you have for payment of that credit note?

Stephen Daintith

No, these are customer credit notes that they have that they can use against our flying hours. So, for instance, when we agreed a compensation payment for disruption on Trent 1000, instead of actually paying over pound notes to an airline, we gave them a credit note that they could then cash in at some stage in the future. And each contract is a bit different. Sometimes we talk about proportions of those that you're allowed to use, and so on and it's all individual commercial negotiations. But there is a picture, general picture, of credit note utilisation in this period as airlines are strapped for cash. And that's going to continue in 2021 and 2022. They each have their own timing terms, but also a degree of magnitude to hit terms as well.

Harry Leech

Thank you very much, Stephen.

Operator

And we have one more question from the line of Andrew Humphrey from Morgan Stanley. Please go ahead.

Andrew Humphrey

Hi, thanks very much. I know we're not talking in too much detail about 2021, but I wanted to make sure we understand some specific components of it if we're trying to kind of build models that bridge from 2020 on cash flow. You've obviously been quite clear about the non-recurrence of the invoice discounting effect. I think we can probably do our own arithmetic on the flying hour impact based on an assumed level and the sensitivity that you've given around that. But I wanted to ask about other specific effects on free cash in 2021, specifically the first half of 2021 versus 2020 that you can quantify versus- So, for instance, the benefit of restructuring or any other components that you'd care to highlight versus this year as we're building bridges.

Stephen Daintith

I'll highlight two or three. First of all, the savings from the restructuring. The full savings, the full run rate savings, to be delivered by 2022 is £1.3 billion. Now that will more than replace the £1 billion of cash mitigation actions that we've taken in 2020. That's a key component. Another important component is capital expenditure. I won't go into specific numbers at this stage, but we are expecting a further downwards revision of capital expenditure in 2021 versus the 2020 number. So that's important as well.

The third area I'd point to is our operating costs generally, and the work that we've done there during 2020 to really identify those non-essential items of spend where we can operate with a lower cost base. And I think we've all probably all experienced that during COVID-19 causes us to have a new lens of a way of working generally and we see opportunity in our operating costs as well. So those are the three key areas, sort of outside of those assumptions that you just highlighted.

Andrew Humphrey

OK, thanks.

Operator

And we have one more question from the line of Andrew Gollan from Berenberg. Please go ahead.

Andrew Gollan

Hi, thanks. One more from me please. Working capital question and cash again, I suppose. Can you give some idea of the quantum of risk around the customer concessions issue? Or maybe answer it this way – what is the scale of payables that built up on delayed Boeing 787 deliveries?

Warren East

I'm actually not going to go into specifics around it. They can be material; you'd have seen that in recent years, but I won't go beyond that. And it's very much down to, as we've said in our trading update, the timing of aircraft deliveries, whether it's before the year end, or after the year end. But beyond that, I wouldn't really want to add anymore.

Andrew Gollan

OK. So to be clear: the risk is over and above the £4.2 billion guide?

Warren East

Yes, that's correct. Yeah.

Andrew Gollan

Yeah, OK. Thank you.

Warren East

I think that's it as far as questions are concerned. So, let me just sort of summarise the messages we want you to take away. We're concentrating on controlling the things that we can control and we're very pleased with our progress on that, particularly around the restructuring and the operating costs as Stephen just discussed. And that means there's essentially no change to our forward-looking guidance. We remain confident of achieving positive cash flow going through that

breakeven point in the second half of 2021 and generating £750 million of free cash flow as early as 2022. And with that, we will thank you very much and we will be back to report on the full year properly in the first quarter.

Operator

This now concludes our conference call. Thank you all for attending. You many now disconnect your lines.