

Q4 2002 Earnings Call

Company Participants

- Anna Cecilia Bettencourt, Head of Investor Relations
- Horacio Forjaz, EVP Corporate Communications
- Mauricio Botelho, CEO

Other Participants

- Ashish Pallant, Analyst
- Carl Weaver, Analyst
- Heidi Wood, Analyst
- Mary Kirby, Analyst
- Paolo Di Sora, Analyst
- Paul Lewis, Analyst
- Robert Spingarn, Analyst
- Rodrigo Pereira, Analyst
- Ronald Epstein, Analyst
- Steve Trent, Analyst

Presentation

Operator

Excuse me everyone. We now have Mauricio Botelho, the Chief Executive Officer for Embraer along with Chief Financial Officer, Mr. Antonio Luiz Manso, Mrs. Anna Cecilia Bettencourt (ph.), Head of Investor Relations and Mr. Destrabo Pape (ph.) Industrial Relations Manager in Conference.

Please be aware that these lines are in 'listen only' mode. At the completion of today's presentation we will open the floor for questions. At that time participants will be given the procedure to follow if you would like to ask a question.

This conference call includes forward-looking statements or statements that have (indecipherable) circumstances which have not yet occurred. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business and future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions including among other things, general economic, political or business conditions both in Brazil and in our market. The words 'leaves', 'may', 'will', 'estimates', 'continues', 'anticipates', 'intends', 'expects'. And similar words are intended to identify forward-looking statements. We undertake no obligations to update publicly or revise any forward-

looking statements because of new information due to events and other factors. In the light of these risks and uncertainties, the forward-looking events and circumstances discussed on this conference call might not occur. Our actual results could differ substantially from those anticipated in our forward-looking statements. I would now like to turn the conference over to Mr. Botelho. Mr. Botelho, you may begin sir.

Mauricio Botelho {BIO 13386065 <GO>}

Good morning, everyone. It is a pleasure to be with you with this conference call. Thank you for joining our Q4 and full year 2002 conference call to discuss our results in the US GAAP, that we released yesterday.

(indecipherable) with the financial statement in Brazil again. I am here together with Antonio Luiz Manso, our CFO and (indecipherable), responsible for Investor Relationship and (indecipherable). We are web casting this conference call with this live presentation on our website at www.embraer.com.br on the Investor Relations section and we invite you all to follow it if you wish.

I will start the presentation with some highlights of the first year and will hand over to (indecipherable) later on, who will be making a brief presentation and then we will start on the q and a session.

The year 2002 was a very special year for the aviation industry as a whole. We have seen tremendous losses hitting our customers in the aviation industry in the world. The US airlines losses in the last two years. To sum it up something like \$14b. Some say that this is more than the sum of the profits. (indecipherable) we see that at the same time we see that this situation has caused for the airline for moves in terms of improving their productivity and cost effectiveness. But we see for sure, that the forecast that we, Embraer and other members of this industry, we have presented after September 11 2001 terrorist attacks, forecast our recovery and by the end of 2003 we see that this is not going to happen and it is very likely that we will have one year more ahead of us, to identify significant change in this (indecipherable).

However, what we saw was that in this unfriendly scenario, we could see that some segments of the industry who have profited and I refer to the regional airlines and the low cost no frills airlines and, in our opinion, they are growing their importance in the industry.

What we saw also, in this year, it was the effect of the (indecipherable) decision in terms of the dispute between Brazil and Canada while the (indecipherable) considered that Canada blacklisted (ph.) (indecipherable) illegal subsidies for their industry and making there, I think, the condition to allow for a fair agreement amongst the two countries on what would be the level of (indecipherable) in this operation. I think this was very good, of great importance, since after six years this dispute with (indecipherable) is over and now it is in the hands of both governments to get to a reasonable agreement amongst them.

In Brazil, we live in an election process that demonstrated the strength and the maturity of the Brazilian democratic institutions and also to that the forecast and the perception

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raised by (indecipherable) last year about the ability and the capability of at that point, the candidate who ran for us in the polls to implement a sound economic policy in this country. Fortunately we have seen that the new administration is reversing the negative perceptions through the implementation of a solid economic policy whilst respecting contracts as they should. And also with the great level of economical rationality. We have seen that this is reducing the Brazilian risk and at the same time it is holding the exchange rate at a level that is below the national (indecipherable) last year.

At the same time, inflation is being fought against and executive measures to reduce the inflation resulting from the freeze in the exchange rate are in place. I think that in this respect we are in an economic policy that is very much alike the policy that was practiced in the previous government and things are moving on.

We developed (indecipherable) last year actions in line with the values and the fundamentals of business as we understand them. We (indecipherable) and grew our global presence, implementing ourselves in areas in which we still did not operate such as in the United States with the acquisition of a maintenance, repair and (indecipherable) plant located in Tennessee, in Nashville and start to operate that facility under Embraer Aircraft Maintenance Services. This is an action that was taken looking for the ability to better serve our customers and to respond faster to their needs.

At the same time we have made a very relevant expansion forwards for China, the Asian market when by December last year we signed a joint venture with (indecipherable) to implement an assembly line of the ERJ 145 that family aircraft in China. This is a venture which will (indecipherable) not least for China is now in the final steps of the inauguration and starts operation in late April this year.

We believe that this move was a significant strategic move to put our presence in the Chinese market at the highest level and allowing us to approach that market, not only with the profits from that joint venture but as well as with the (indecipherable) of the new family of aircraft we have presently in development. The Embraer 170, 190 family. We also grew our service network in the (indecipherable) to provide service for our customers, both in the United States, in Europe, as well as in Asia.

As an additional accomplishment we have very (indecipherable) two points. First we got in February last year, the first flight of the Embraer 170. Currently we have six further (indecipherable) certificate (indecipherable) which is forecast to get the (indecipherable) by June this year. We operated our first phase of our new plant in (indecipherable) which is today operating at full strength in the (indecipherable) and we start to have it operated by mid-year, the first facility to handle the military aircraft production. We will progressively transfer the defense project assembly line to that facility allowing us to have in our main factory, in our headquarters, a facility wholly dedicated to the medium and small jet manufacture.

We got the Legacy executive certified by FAA and JAA allowing us to deliver the first aircraft for the American and European market. We have the Legacy Shuttle certified by

the CTA, the Brazilian authority and FAA and first delivery happened by the end of the year.

We also achieved certification by CTA and FAA on the new long-range, extra long-range Embraer ERJ 145 and allowing us to provide deliveries since October to (indcipherable) Express, now Express Jet. We also delivered the first four EMB 145 airborne air warning control air surveillance aircraft and one Embraer EMB 145 (indcipherable) for the Brazilian air force, which are now operating at the (indcipherable) the Amazon surveillance system and Brazil. The effectiveness of those projects are already demonstrated in terms of detecting illegal intrusions in our air space as well as a (indcipherable) find illegal runaway (indcipherable) by drug dealers in the Amazon region with their effective destruction. So, a very positive outcome.

(indcipherable) we just started the production this last year of the (ALX) which the first delivery is forecast for December of this year. We also started the modernization and overhauling of all F5 fighters of the Brazilian air force and we achieved the delivery of the 600 ERJ 145 to Swiss last year.

Commercial highlights; I can mention on the contrary of several of earlier years such as year 2000 where we achieved a total number of 300 aircraft including the (indcipherable). Commercially this year was not great. However in this unfriendly scenario we had to celebrate some actions that were outstanding in our view.

First, I can mention that the sales to India of the Embraer 175 the Jet Airways a contract which complies ten firm orders and ten options with the total value, if the options are confirmed of around \$520m. (indcipherable) Airline ordered 15 ERJ 135 and 7 ERJ 145 with options for 30 more aircraft that will fly in the Delta Connection (indcipherable). A very important move since that airline has operated so far with aircraft of (indcipherable). This is our first entrance in that market.

In 2002, we added to our catalogue 40 firm orders and 54 options for commercial aircraft. Embraer ended the fiscal year 2002 with a market share of 37% in the segment of (indcipherable) of the (indcipherable). In the world market (indcipherable) we achieved a market share of 45%. We delivered 8 Legacy's to the corporate market, 7 of the Executive version and 1 Shuttle and Embraer also was contracted by the Venezuelan air force to supply 12 AMX-T aircraft.

We will start now to present the results and performance and I will pass you over to Anna Cecilia (ph.) who will present them. Thank you.

Anna Cecilia Bettencourt

Good morning, everyone. I am going to talk about the results.

During Q4 of 2002, we delivered 41 aircraft and finalized the year with 131 delivered, three below our original estimated release right after the September 11 attack. We have

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had this year to revise down twice our guidance, due to Renegotiations with two of our customers. Our current guidance is 132 aircraft for this year and 136 aircraft for 2004.

We are currently working on a number of different (indecipherable) to us. These numbers are sustainable in the current environment.

Our net revenue in 2002 shows a drop of 14%, mainly due to the reduction in commercial aircraft delivery. Our growth margin was relatively stable at over 39% as compared to last year, showing that our flexibility in our advancement in productivity have been (indecipherable).

Net Revenue. In 2002 the commercial aviation segment decreased in (indecipherable) to 82% of total sales. Partially because of the reduction in commercial aircraft delivered and partially because of the (indecipherable) decisions to diversify our sales. The corporate aviation segment showed almost 100% growth in net revenue in 2002 as we initiated the deliveries of the 11 Executive and Shuttle versions to the corporate market. Our sales have been 98% in the US market and Europe and only 2% in Brazil, with the same breakdown as (indecipherable).

Our income from operations was showing a very good growth until 2001. But in 2002 it portrayed a 28% drop returning almost to the same level as in 2000, despite the fact that in 2000 we delivered 160 jets and last year, we delivered 131. We sustained the increase in our R&D expenses with the new family Embraer 170, 190. The ERJ 145 aircraft version and the Legacy is the (indecipherable) version.

The valuation of the (indecipherable) and the investment in other facilities have also contributed to this result helping maintain the margins above 18%.

Net income. Our net income in 2002 was mainly impacted by the reduction in income from operations. However, it was positively impacted by the 50% reduction in financial transaction losses, due to the increase of fair market value of the (indecipherable) despite the higher devaluation of the Real this year. At the end of 2001, we had 69.3% of net exposure of cash in Reals (ph.). This was reduced to only 8.5% at the end of 2002.

Indebt ness. Last year we extended our indebt ness profile at the end of the year to 56%. It was related to long term financing in comparison to 32% as of December 31 2001. Our total (indecipherable) debt represented only 1.80 x our income from operations which shows that the company ended the year with very good liquidity and financial strength.

With (indecipherable) our ROACE (ph.) debt cost around 17.2% per annum equivalent to 83.1% of the CVI. This debt is US dollars as a part of our 5.2% per annum.

Our net cash position was reduced during Q4 and it was influenced by the increase in working capital needs as we will see in the next slide.

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Trade account. During Q4 we delivered aircraft to some customers whose financing arrangements will be finalized with the financing agents. Most of these or 64% were related to BNDS disbursements which were (indcipherable) at the end of the year after the Presidential elections. We are today working on the retrieval of these amounts and we expect to receive most of these by the end of the first half of 2003.

Inventory. We have been able to reduce our inventories at the end of 2002 and 2001. We were able to reduce our (indcipherable) by \$150 million or 15%. We expect our inventory level to remain at the current level due to the (indcipherable) of the company and the developing of the new family Embraer 170, 190 planes.

(indcipherable) and order book. The order book for the ERJ 145 family includes 256 firm orders and 352 options plus 623 aircraft already delivered. 170, 190 family. The order book for the 170, 190 family presented here already gives the effect (indcipherable) announced two days ago. Our firm backlog remains strong with 88 firm orders and 128 options, considering that we have not started the delivery yet of this year's family.

(indcipherable) however do not include the announced sales of ten firm orders and ten options of the Embraer 175 by Jet Airways from India and six plus eleven options of the Embraer 170 from Poland as these contracts are being finalized.

We are strongly committed to this new family and most of the (indcipherable) we are working on now have a strong participation of the new family and the feedback we are receiving from potential customers shows that we made the right decision in terms of (indcipherable) our governments a new aircraft instead of a derivative.

Corporate aviation Our Corporate aviation order book has a total of 58 in firm backlog and 92 in options. Backlog. Our financial backlog was reduced at the end of 2002 (indcipherable) by the negotiation with Swiss. The firm backlog was at \$8.3 billion and options were reduced to \$11.2b. However the firm backlog still represents 3.6 x our 2002 (indcipherable).

(indcipherable) and productivity. PPNE and R&D. Here we see that the investment in PPNE and our R&D expenses. PPNE includes investment in (indcipherable) where we are already performing flight tests with the new family. R&D expenses has shown a 60% growth in 2002 as we started our (indcipherable) development of the Embraer 175, 190 and 195 aircraft and certified the ERJ 145 and the Legacy Executive and Shuttle version.

Production Cycle. Our productivity has been increasing and decreasing for (indcipherable) and we ended 2002 with a 3.7 month cycle.

Planned Investment, CAPEX, future CAPEX. We estimated around \$1.2 billion in total investments during the next five years. In 2003 around \$167 million are estimated to be related to R&D expenses and in 2004 around \$187m. R&D in the commercial and corporate aviation segment are estimated to be reduced. However, we are allocating in our budget \$27 million in 2003 and \$112 million in 2004 to a number of different projects

most of which are not for sale yet The (indecipherable) is expected to reach \$52 million in 2003 and \$44 million in 2004.

PPNE is expected to reach \$58 million in 2003 and \$44 million in 2004.

Here is our earnings announcement and now we are open for the question and the answers that you might have. Thank you, very much.

Questions And Answers

Operator

At this time we will open the floor for questions. If you would like to ask a question please press the '' key followed by the '1' key on your touch tone phone now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the question queue, please press '2'. Please limit your questions to one at a time.

Our first question comes from Rodrigo Pereira.

Q - Rodrigo Pereira {BIO 3824713 <GO>}

Good afternoon, everyone. My first question is regarding the recent delivery estimates revisions. I would like to know or get a sense for what kind of a downside risk which you have on these estimates? Especially considering the deliveries to American Airlines which may be on the brink of filing for bankruptcy protection over the next two months? Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

The reception is not very good. May I ask you to repeat the first part of your question because it was very badly received?

Q - Rodrigo Pereira {BIO 3824713 <GO>}

Okay. Regarding the correct delivery estimates. We have seen two revisions over the last few months. I would like to get a sense for what is the downside risk to the current estimates considering that American Airlines is basically on the brink of filing for bankruptcy protection over the next two weeks. If you could provide us with delivery estimates to American for 2003 and 2004, that would be very helpful. Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. Unfortunately we had to revise our forecast earlier this year, the last one the day before yesterday because of the present situation in the market. The market today is very sensitive to change. We unfortunately have a forecast to deliver this year 170 new aircraft, next year 136 aircraft. But what we are seeing is that the customers that we have, they are fulfilling completely their programs. We are with production going on and however we did

not expect to receive from Express Jet and from Swiss the revisions at the level (indecipherable).

In respect to American Airlines, I can tell you that they are fulfilling their programs entirely and we are providing the aircraft very near schedule. At the same time that that contract with (indecipherable), the creditor with NDS, the Federal Bank which supported the finance, is absolutely perfect and working (indecipherable). So what we can see is that there is a contract going on, steadily and firmly.

Operator

Our next question comes from Steve Trent.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, Mauricio. Hi it is Steve Trent from Salomon Smith Barney.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello. How are you doing? Good to talk to you.

Q - Steve Trent {BIO 5581382 <GO>}

Thanks very much. Just two quick questions and then I am going to hand over to my colleague Rob Spingarn.

I was wondering, it wasn't clear that you guys are now putting your non-recourse debt on the balance sheet and I was wondering if you could give us a little more color on that as well as what you are assuming for your tax rate, going forward?

A - Mauricio Botelho {BIO 13386065 <GO>}

Anna is going to answer this.

A - Anna Cecilia Bettencourt

If you look at the earnings release you will see that there is a full explanation about the non-recourse debt and collateralized accounts, accounts receivables on page 9. So these non-recourse debts are related to some specific sales contracts (indecipherable) we can especially propose (indecipherable) the full book price and then these that relate aircraft to the ultimate customers.

At the end of 2002, we had \$288.9 million accounted in this line and in September 2002 we had \$311 million in this specific account. So it is fully explained on the press release. Also you can find this on our 20-F filed with SEC under note 7 for collateralized accounts receivable non-reported which is based (indecipherable) of our (indecipherable). The next questions was on the tax rate isn't it?

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Q - Steve Trent {BIO 5581382 <GO>}

Yes, on the tax rate we were kind of curious as to why it came in so high this year and what you're forecasting for next year?

A - Mauricio Botelho {BIO 13386065 <GO>}

I think the (indecipherable) tax rate US GAAP has (indecipherable) caused by the (inaudible).

Q - Steve Trent {BIO 5581382 <GO>}

I'm sorry could you speak up I can't hear you?

A - Mauricio Botelho {BIO 13386065 <GO>}

In house there appears a (indecipherable) some of them (indecipherable) will be paid. So they've just been accounted for. The most of the tax is caused actually by the devaluation. But you have deferred assets (indecipherable) assets, which are (partly involved) partly R\$(). Because of the devaluation of these assets, they decreased in value and we have to (inaudible) (indecipherable).

Q - Steve Trent {BIO 5581382 <GO>}

Guys I don't know if you're near the microphone but it's very hard to hear you from this end.

A - Mauricio Botelho {BIO 13386065 <GO>}

We will come back again.

Q - Steve Trent {BIO 5581382 <GO>}

Now I can hear you Mauricio so you must be sitting closer; -

A - Mauricio Botelho {BIO 13386065 <GO>}

That's because I have a strong voice.

Q - Steve Trent {BIO 5581382 <GO>}

Yes I think so.

A - Mauricio Botelho {BIO 13386065 <GO>}

These guys they must learn that.

Q - Robert Spingarn {BIO 5996882 <GO>}

I think so. I have a couple of questions in general. First of all for the '03 and the '04 production forecast of 132 and 136 aircraft. What portion of those aircraft are firm orders, backed by firm orders?

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A - Mauricio Botelho {BIO 13386065 <GO>}

Horacio Forjaz to answer?

A - Horacio Forjaz {BIO 1932044 <GO>}

This year the 132 aircraft we have 83% firm orders. For the next year 176 aircraft we have 77% in firm orders.

Q - Robert Spingarn {BIO 5996882 <GO>}

77%. Then just as a follow up to that question can you break out the delivery number by commercial versus corporate jets?

A - Horacio Forjaz {BIO 1932044 <GO>}

Yes we have the ERJ 145 family 73%. The 170 family 11%. Legacy in the orders is 16%. For the next year 51%, 31% and 18%.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. Finally Mauricio just a general question. If the (RG) industry continues to remain an attractive growth market, in general can you explain what's happening with the cancellations, what's driving the Express Jet move, the Swiss move? We haven't heard anything negative out of your competitor up in Canada but I suspect that's just a question when. What's happening here, are we finding that the larger narrow bodied aircraft are just more competitively priced?

A - Mauricio Botelho {BIO 13386065 <GO>}

What we see with the Swiss and with the Express Jets is that there are different things. In respect of Express Jets, what they did was to postpone the news. So they were facing the moment that the industry is driven particularly their relationship with Continental Airlines. In respect of Swiss, what you have is something quite different. Then we have to come back to two years ago, or 1999, when this large order was placed with Embraer, our customer was Corsair. The largest regional airline in Europe. Corsair was developing there strongly and with the expansion plans. And really they were strong competitors for Swiss Air in European routes. With the failure of Swiss Air what happened was that Corsair was forced by government and by entrepreneurial movement to assume assets and people of Swiss Air. Changing their name to Swiss Air International Airlines. There is no company then have two points, two problems first to integrate two cultures. Second which is maybe harder is to integrate two fleets with two different problems. This is the big problem that Swiss has received now. Swiss is having to manage the joint fleet, because at the time of the asset assumption was about 52 medium and large aircraft and something like 80 something, regional aircraft that they had in there. So what is happening now is that together with (indecipherable) as a consequence of this adverse scenario that world airlines are living with, they had to consolidate their fleet to face the real requirements of that market. A fleet that was not the fleet of the company which acquired the aircraft but the company that resulted from the integration of two very different operations. So a different sort of problems.

What I really see. And this is very true, if you look at the regional airlines around the world, is that they are profitable while the major airlines, the majority of them are (indecipherable) living with losses or at an even position. I see that the market for the regionals is going to strengthen rather than to weaken.

Q - Robert Spingarn {BIO 5996882 <GO>}

Would you say then though it seems to me that what's happened here over the past two years is that the aftermath of September 11th has caused major airlines to migrate revenue to the regional carriers? What I think we are seeing out of Continental or Express Jet is a slow down in demand overall that is now affecting the regional routes. It sounds like what's happening at Swiss is they have these A319s and A320s, which they need to use and are probably more competitive than they would have been two years ago. Is that going to be a long term problem from the regional airline perspective?

A - Mauricio Botelho {BIO 13386065 <GO>}

What I see is that at the same time you have Express Jet to postpone some deliveries, you see (Shelfafa) expanding their operations. I didn't hear of any cancellation of any order from Sky West or (Ace J). So I think that those airlines are continuing to receive their regional jet and span in the market. If you look at the gross perspective in terms of revenue per mile on Express Jet, you can see that they forecast something around just below 30% growth. So what I think and I see that this as a very strong move, is that if, the point is if there were sufficient finances, the number of regional jets that could be introduced to the market would be much bigger than they are to day at this point.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay so this is a financing issue rather than a demand issue.

A - Mauricio Botelho {BIO 13386065 <GO>}

For sure.

Q - Robert Spingarn {BIO 5996882 <GO>}

Okay thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

You're welcome.

Operator

Our next question comes from Ron Epstein(ph.).

Q - Ronald Epstein {BIO 4430430 <GO>}

Good morning, everyone. A quick question for you with regard to the accounts receivable balance, in the release it states that 26% of that accounts receivable. So about \$160 million of it. The financing structure is still being negotiated? Does that mean that there is

no financing for that right now, or are you looking for financing? What is the risk associated with that \$160 million of accounts receivable?

A - Anna Cecilia Bettencourt

I'd say that of the 64% already approved and are going to be disbursed by DNDS. The next will start soon and that will be (indcipherable).

A - Horacio Forjaz {BIO 1932044 <GO>}

That's to say the (indcipherable).

A - Anna Cecilia Bettencourt

The remaining 24%, what's happening is we have an agreement but the agreements are not completely finalized or (indcipherable) 100% (indcipherable) but we have some financing backing up our business to supply the aircraft.

Q - Ronald Epstein {BIO 4430430 <GO>}

What's the opportunity cost associated with Embraer doing the financing. Are you charging customers enough to offset your cost of that capital or are you in effect losing, are you subsidizing your customers through your balance sheet and losing the financing cost on that accounts receivable?

A - Anna Cecilia Bettencourt

Well just for you to understand the 24% that came out of the total accounts receivable, we received already after the end of the year, 80%. So there are a good few aircraft that were not; ; (indcipherable). So some of them were already (indcipherable) okay?

In terms of our opportunity, what we decided that we are supporting our customers and it's more in terms of relationships and a strong commitment that we have with them instead of financing of the tourist business not our business.

Q - Ronald Epstein {BIO 4430430 <GO>}

Okay thank you.

Operator

Our next question comes from Paolo di Sora.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Good morning. I have basically two questions. One is related to the Q4 results. Operation expenses came out above what I was expecting. Basically we have seen an (indcipherable) increase on sales expenses and also on R&D. Could we have more color on why this is happening and what do you expect going forward?

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The second question is regarding dividend policy. We have seen Embraer distributing 45% of its results in '98, 49% in '99, then 36% in 2001 and in 2002 the company distributed 27% of its adjusted net profit. What's the policy for 2003 in terms of dividends?

A - Mauricio Botelho {BIO 13386065 <GO>}

I will start with the dividend policy. Of course we cannot have a firm statement in respect of dividend regarding the year 2003. But we have managed always to have distribution in the past for our shareholders of dividends in the range of 50% of the cash in profit. That was the trend that we liked to be applied in the past. That business was the situation that we lived with in '98 when we distributed 45.6%, '99 we distributed 49% and in 2000 49.8%. Then we had to reshape this policy because of the environment that we were living in. We distributed in 2001 36.1% and 37.2% in the year 2002. This is because I think, (just recalling) the fundamentals of this business as I see it. It is technology, it is people, qualified people, it is global presence, it is flexibility and cash (indecipherable). In an environment like that it is wise for the shareholders to try to keep the (indecipherable) of the company cash wise to face the uncertainties and difficulties of the market. So this is what happened in respect of this year.

In terms of US GAAP (40%). The fact is that this is the way that we sold the policy in the past and these are the reasons why this volume of dividend has decreased (indecipherable). So this is all I can say about the dividends (placed). About the operating expense, Anna Cecilia will handle this.

A - Anna Cecilia Bettencourt

Well standing expenses in 2001 were \$212 million and this year we ended with \$211m. Something similar but if you look to our standing expenses, we recognize (indecipherable) of 11 of a guarantee of \$50 million okay. So which at the end the standing expenses excluding distribution decreased compared to 2001. It sums up our general (indecipherable) expenses is decreased from \$120 million to \$109m. So this is what we have today.

Q - Paolo Di Sora {BIO 3285292 <GO>}

I was looking to the Q4 results not the full year. Expenses in the Q2 was \$39m, \$44 million in the Q3 and now \$77 million in Q4?

A - Anna Cecilia Bettencourt

Yes. This provision was made during the Q4 of 2002 okay the \$50 million in standing expenses and also it is related to some (indecipherable).

Q - Paolo Di Sora {BIO 3285292 <GO>}

Okay. My last question regarding receivables. Should we expect this account we see here to further go up or should we now consider this as the most money it should reach going forward?

A - Mauricio Botelho {BIO 13386065 <GO>}

In terms of a company policy. Definitely it is not our policy to finance our customers. However, we are facing the necessity of supporting customers temporarily in some specific issues and this is what has happened. What we see is that this is very likely to decrease along the next few months.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Thanks a lot.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Our next question comes from Paul Lewis(ph.).

Q - Paul Lewis {BIO 19839520 <GO>}

Hi Mauricio.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, how are you doing?

Q - Paul Lewis {BIO 19839520 <GO>}

Good. I wondered if you could just map out for me what the 170 deliveries are going to look like this year and next year in the wake of Swiss cutting back on its order? I am assuming that Al Italia will be probably the first carrier now to take the aircraft?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes you're right. Al Italia is going to be the first airline to operate this new aircraft. What you are seeing here in our forecast is that we will have about 14 aircraft delivered this year. That's our plan. We see a strong expansion on this number for the next year because at that point you will have the 170 (fully) ahead in terms of production and you'll have the certification of the 175 by mid-year. So we see that next year for our forecast goes around 40 aircraft.

Q - Paul Lewis {BIO 19839520 <GO>}

40 aircraft is that right?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes.

Q - Paul Lewis {BIO 19839520 <GO>}

Okay. The other question I wanted to quickly ask you was about the impact of FX because obviously that's been put on hold. In terms of your plans to grow the defense business, what impact did the FX postpone have on that? Then secondly what's your anticipation of when FX might come back as a program?

A - Mauricio Botelho {BIO 13386065 <GO>}

Be sure that the postponement from the FX program is frustrating in our limited developments of this (market design). However we have full, we are convinced that the strategy that we are implementing is correct. That we should expand our activities in the defense market, in the corporate market and in terms of customer service. As we see, this year we have already achieved a better split (than before) of market type.

The FX program (indecipherable) it should be for us as a business as revenues, it is not (that a big issue) because as you know the FX is an already developed aircraft. It is a French aircraft and what we would have in terms of our participation in terms of revenue in (indecipherable) program is not very significant. It is important but it is not very significant. The greatest impact and the greatest benefit coming out of the FX program has to do with technologies that will be absorbed and incorporated in this company. This is the highest value that we have, that we look for as a result of our participation with this (indecipherable).

I think that the FX program is just postponed. It is not cancelled. I don't see it being cancelled any way in the future, I think it's just a matter of some few months more and then (indecipherable) come back to the scene.

We are expanding our activities with (indecipherable) basically in the intelligence, reconnaissance and surveillance set up systems and in terms of the trainer and light attack aircraft. (The other areas) are specific business that we are looking for. There are several initiatives in the world market being pursued by us.

Q - Paul Lewis {BIO 19839520 <GO>}

Okay thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

You're welcome.

Operator

Our next question comes from Carl Weaver.

Q - Carl Weaver {BIO 3448134 <GO>}

Good morning. I would like to concentrate a little bit on US Airways. We know that US Airways number 1 secured the okay of most of its creditors in terms of its restructuring plan and that (GE) has already agreed to finance the purchase of a new regional jet. Now the whole process is before a Federal Judge to give it his final approval. Do you have any

idea when that final approval will come? Will that coincide with the lifting of Chapter 11 on March 31st? That would be my first question.

A - Mauricio Botelho {BIO 13386065 <GO>}

Carl how are you doing?

Q - Carl Weaver {BIO 3448134 <GO>}

Hi how are you?

A - Mauricio Botelho {BIO 13386065 <GO>}

It is for sure would seem as a very good move, what is happening with (USA). As far as we are following up and understanding the situation, they are just some 2 or 3 points, not of very big magnitude to be fulfilled before they have this Chapter 11 issue (granted). As far as I am informed this is expected to happen soon on a one week basis something like that. But

Q - Carl Weaver {BIO 3448134 <GO>}

One week basis?

A - Mauricio Botelho {BIO 13386065 <GO>}

Pardon?

Q - Carl Weaver {BIO 3448134 <GO>}

One week basis, is that correct one week?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes one week, that is what I have been listening to from other sources.

Q - Carl Weaver {BIO 3448134 <GO>}

Now Mr. Botelho what would be the next logical steps after that, I know that this is very hard to (be precise) but when could we at the very shortest, expect a new order from US Airways? If the judge gives his final approval in a weeks time?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well I think that things are moving. It makes a decision is then viable to happen immediately after the Chapter 11 is reached.

Q - Carl Weaver {BIO 3448134 <GO>}

So can we assume that we may see a US Airways order ready in the next couple of months, or is this a matter of weeks?

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A - Mauricio Botelho {BIO 13386065 <GO>}

That's not a matter of weeks but a matter of some months and (indecipherable) months to come.

Q - Carl Weaver {BIO 3448134 <GO>}

Okay, now just to finalize here. Assuming Embraer wins this contract, what sort of aircraft are we talking about? Will it be the 14 ---? Huh?

A - Mauricio Botelho {BIO 13386065 <GO>}

I said (God) listen to you.

Q - Carl Weaver {BIO 3448134 <GO>}

Thank you. But do you think it would be just the 145s or could there be 170s involved here as well?

A - Mauricio Botelho {BIO 13386065 <GO>}

Actually what they are looking for are for 50 seater and 70 seaters. So that is what is (in the road).

Q - Carl Weaver {BIO 3448134 <GO>}

Okay, now just a little piece of bad news here, we know that United now they're talking about liquidation and the 20 jets of United are actually owned by GE. Now if they have to take back those 20 jets, would that effect General Electric Capital Aviation Services' orders with you for the 170 and the 190? How do you see that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well I don't see that this may bother our contract. We have a firm contract of 50 orders and it is in place and forecast for delivery for the second half of this year.

Q - Carl Weaver {BIO 3448134 <GO>}

United wouldn't be a problem you think?

A - Mauricio Botelho {BIO 13386065 <GO>}

Specifically I don't see this as a problem. Generally speaking, yes that's the point that every time that a bad thing happens in the industry it has reflected on the other areas of the industry.

Q - Carl Weaver {BIO 3448134 <GO>}

Okay thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

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You're welcome.

Operator

Our next question comes from Heidi Wood.

Q - Heidi Wood {BIO 3095506 <GO>}

Good morning, nice quarter guys.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello Heidi.

Q - Heidi Wood {BIO 3095506 <GO>}

Hello Mauricio. Can you talk to us about the campaigns that you have going for the 170 family? Clearly when we take a look at your backlog and we compare that with the forecast for 40 ERJ 170s in 2004, you're going to need some orders? Outside of US Airways can you talk to us, maybe touch on what you see happening regionally Mauricio? What's happening in Asia? What's going on in Europe as well as in the US and the rest of the world?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, I can speak something but not everything. Yes there are campaigns going on in Europe, campaigns going in America, campaigns going on in Asia Pacific. What we see is some movements that are very interesting in Europe. Of course we don't expect too many things happening in a short period of time. I see that (through) next year things will be solidier than they are today. As you know, we don't chose to comment on individual campaigns but there are a lot of campaigns in Europe. Some of the campaigns have been postponed because decisions were likely to happen (indecipherable) months ago, over six months. And the decisions were postponed for this year. We are seeing things in Asia also to happen this year, still this year and we think that, this has a strong convincement (indecipherable) for the (percept) that I have.

I see Heidi that in spite of the severe losses that Federal Airlines are (indecipherable) we see that there are airlines which are in a good position to finance (indecipherable). I think that the impact, no matter who takes the orders from US Airways and we hope we will have sufficient strength to look for that. But I think that the most important thing that will derive from US Airways' action was the substantial (indecipherable) on something that is impacting the airlines, that is causing damage for the airlines, that is causing losses for the airlines and for consumers, which is (indecipherable). As far as US Airways emerge from Chapter 11 with a strong fleet of 70 seater or who knows (above it) that will be a (indecipherable) understood position. The other airlines will be asked to respond to this challenge either facing this challenge by agreeing with their operators or through Chapter 11, because in competition will be most impossible if you have a competitor operating with the right aircraft for the right routes in those markets.

If you look today, still today how many empty aircraft are flying, this is something incredible, this is because they are operating the wrong aircraft on their routes and saying that (indecipherable). So I think that this market will come strongly (indecipherable) what we are today (in terms of the 190 aircraft).

Q - Heidi Wood {BIO 3095506 <GO>}

Okay great. For the (GE cast 170's) that are going to be delivered in the second half of this year. What percentage of those, or do all of those (GE cast) planes have customers for them?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well what I have to say is supposition. They have for sure (under) next year already learnt that they are providing 6 aircraft to (indecipherable), though of course (indecipherable) and they maybe take another 6. I can answer that.

Q - Heidi Wood {BIO 3095506 <GO>}

I want to go back on the accounts receivables just to make sure I have clarity on the answer that was given. You talked about you had \$610 this year, what should we expect to be a normalized accounts receivable by mid-year, should \$220 be the target that we should be looking for by mid-year this year in accounts receivables?

A - Mauricio Botelho {BIO 13386065 <GO>}

Just a minute. Heidi sorry. Anna is going to address (indecipherable) what happens around the year, last year.

A - Anna Cecilia Bettencourt

So last year, it will look, just after September 11th, we increased our accounts receivables and we (indecipherable) in March 2002 because of that \$630m. Then we could collect almost, the greatest part of this accounts receivable. So we had \$175 million which increased to \$245 million and now we ended with \$500m, almost \$600m. So whilst we expect to collect, yes we already collected (86%) of these accounts receivables after the end of the year. We are finalizing and we are just expecting, this will be something (indecipherable) for a total of 64% of the total amount and the remaining (indecipherable) negotiated. There will be some increase and decreases will be volatile but (indecipherable) we do not expect the return of \$100 million that we had in the past.

A - Mauricio Botelho {BIO 13386065 <GO>}

(indecipherable) the market their assistance will be. But at levels somewhat above the traditional levels to something that goes to even up and down.

A - Anna Cecilia Bettencourt

The main thing, to finalize is taking longer than before, that's why we are presenting the accounts receivable (indecipherable).

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Q - Heidi Wood {BIO 3095506 <GO>}

Okay great. Can you talk to us a little bit about what you see as your cash requirements going into the next couple of quarters? Particularly what I'm wondering about is whether we should be anticipating an inventory build up as you prepare to ramp up on your 170 deliveries towards the second half of this year? Will you be net cash negative in the next couple of quarters? Is the second part of that question.

A - Anna Cecilia Bettencourt

The end results we believe that (indecipherable) \$865 million that we entered in 2002 are okay. What we have is that the inventories for the 170 are being built, (indecipherable) increasing the (indecipherable) beginning of the second half of the year (indecipherable) so the backlog will stay at the same levels that we ended 2002.

A - Mauricio Botelho {BIO 13386065 <GO>}

We don't expect to become cash negative.

A - Anna Cecilia Bettencourt

Yes.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay so the next couple of quarters you'll stay cash positive?

A - Anna Cecilia Bettencourt

We expect so.

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes after we've collected the accounts receivable (indecipherable).

Q - Heidi Wood {BIO 3095506 <GO>}

Okay I'll let someone else ask some questions. Thanks very much guys.

Operator

Our next question comes from Ashish Pallant(ph.).

Q - Ashish Pallant

Hi good morning. Two questions. First I just wanted to seek clarification on the SG&A line item, the provision for financial guarantees. In the previous quarter this number was I think about less than \$4m. It's at \$11.2 million and I know Antonio had given the overall estimate as to what you think it will be in the next two years. Are we still sticking to that estimate? Just in terms of understanding how these provisions are going to play out, is this quarter

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number a fair number to take for the purpose of annualizing as far as what the hit from this provision is going to be to the income statement for the next year or so?

A - Horacio Forjaz {BIO 1932044 <GO>}

Okay about the (indecipherable) position. We (indecipherable) \$20 million (indecipherable).

Q - Ashish Pallant

Right. So it's going to be \$20 million a year?

Just so it happens. So \$11.2 million that you took in this quarter is more than what it would be in the following quarters now? It will be closer to about \$5 million a quarter?

A - Horacio Forjaz {BIO 1932044 <GO>}

That is in the present moment we hope to achieve (indecipherable) that's the second part of the result. The (indecipherable). (indecipherable) the next quarter is more or less the same amount but at the rate of the year we talk about (indecipherable).

Q - Ashish Pallant

Okay.

A - Horacio Forjaz {BIO 1932044 <GO>}

(indecipherable).

Q - Ashish Pallant

Can you also talk a bit about the product guarantees, the guarantees, what was the increase in product guarantees about?

A - Horacio Forjaz {BIO 1932044 <GO>}

The product guarantees were used to calculate (indecipherable) around roughly 1.2% of each aircraft. But a year ago we decided to calculate that on a case by case basis (indecipherable) approach so that percentage increased a little bit (inaudible).

Q - Ashish Pallant

Is this now a stable number to assume going forward?

A - Horacio Forjaz {BIO 1932044 <GO>}

Yes, we should assume that number going forward.

Q - Ashish Pallant

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Okay. My next question is can you talk Mauricio a bit about the pressures that you might be facing from both customers as well as financiers in terms of providing loss guarantees to sort of attract capital to this business? And how are you guys keeping the discipline. It is a tough industry right now and the conventional lenders are out of it. A lot of them at least and you have a product advantage but it is simply a financing problem. In light of that also talk about the accounts receivable number that Anna was talking about. A few questions, firstly on the last guarantee that we can talk about how that has changed and secondly on the accounts receivable 64%, that is the BNDS Finance, is the equity portion of that lease available, or is the reason why BNDS of course has financed those already. Or is it just a disbursement problem from BNDS or is the problem that the 10%; 20% (indecipherable) is in scarce supply right now?

A - Mauricio Botelho {BIO 13386065 <GO>}

Coming from the end. We joke here in Brazil saying that when the government changed even the weather has changed and this is a new fact for people who is assigned to the position to get the control of the operations and-

Q - Ashish Pallant

I am sorry. Could you talk a bit louder please?

A - Mauricio Botelho {BIO 13386065 <GO>}

Can you hear me now?

Q - Ashish Pallant

Yes. That's better.

A - Mauricio Botelho {BIO 13386065 <GO>}

What I say is that we used to joke here in Brazil that when the government changed, in the government entity, even the weather changes. But this is just to mention the difficulties that governmental institutions have when the management change and a change of government. And later they can assume or understand and assume the operations that are in course and so on. And this is mostly the problem that exists today.

The problem is that they are getting acquainted with the operations and with the levels of the possibilities that are in place. That is all that we are seeing. We think that BNDS who has provided a great support in recent years, will continue doing so.

In respect of the accounts receivables, we see that this 64% are based with BNDS. They are BNDS and we are expecting this to be changed to cash in a matter of a few weeks but they will come back to us. There is no other constraint in that respect.

What we see in terms of the present market. Yes, it is a tough market. Tough discussions. As you saw we had to accept agreement with the customers to cancel firm orders, of course with appropriate compensation but what we see is that we cannot do that

normally in assuming portions or other parts permanently from our customers. Forces of finance dominate. On a temporary basis, yes we have to assist when we know that there is a financial structure to be built and to be put together. So it is a matter of time to handle the situation, we can support that customer. If there is no financial structure, we don't see how we can support the customer and eventually lose the view. But these are the consequences of what has happened in the market.

Q - Ashish Pallant

So the increase in receivables because of the BNDS disbursement is simply because of the change. And I understand the bureaucracy at BNDS has changed with the present government. But it has nothing to do with the fact the BNDS is not disposing the 80% debt component because the equity part of the lease has still not been financed. It is not that issue.

A - Mauricio Botelho {BIO 13386065 <GO>}

No it is not that issue. It is just (indecipherable) with the operations.

Q - Ashish Pallant

Okay. Could you just take us on the Lufthansa potential of Lufthansa business? Is there any further visibility on that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Lufthansa continues with intent to acquire a new fleet of 70-seater light aircraft but it is a (indecipherable) one. They should have made their minds up about eight months ago. But postponed. But they are still in talks. But I think that this is one of the campaigns that will move some months ahead with that.

Q - Ashish Pallant

Great. Thanks a lot guys.

Operator

Our next question comes from Mary Kirby.

Q - Mary Kirby {BIO 6249024 <GO>}

Hello Mauricio.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, Mary. How are you doing?

Q - Mary Kirby {BIO 6249024 <GO>}

Good. How are you doing? Just back briefly to the US Airways situation. Dave Seagal (ph.) of US Airways has more than hinted that he is leaning towards an order for the 170 but he

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has said the decision will come down to cost and specifically in a recent presentation, he said that he was waiting for Embraer to drop the price a little bit more for us. Does the decision by Swiss to cut its firm orders for 170's mean that you can or now will offer an attractive deal to US Airways and can we expect an order within the very near term?

A - Mauricio Botelho {BIO 13386065 <GO>}

Mary, you know that there is no buyer who says that the price is good. There is no seller that says that his price is high. So this is part of the game. My good friend David is willing to have the best deal of his life. We are willing to have the best deal of our lives and we will get eventually together to something that is acceptable for both parties.

Let me just say something just to illustrate that is a story about the contract that was witnessed by a Chinese gentleman. At the end of the signature ceremony, the gentleman asked of the both parties, 'do you think that this, how do you feel about that? Is it good?' 'Yes', everybody said 'yes, everything good, everything okay, everything is all right'. Then the Chinese gentleman said, 'well, then there is something wrong with this contract, because a contract to be good enough for both parties have to give up on something.'

Q - Mary Kirby {BIO 6249024 <GO>}

So you are fairly confident then that you will reach an agreement with them?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I am fighting hard to achieve this target.

Q - Mary Kirby {BIO 6249024 <GO>}

Great. Thank you.

Operator

Our next question comes from Ron Epstein.

Q - Ronald Epstein {BIO 4430430 <GO>}

Hi, guys. Just a quick second question. Could you Mauricio just give us an update on where the 170 program is now in its flight test program? We are quickly approaching the middle of the year and the flight testing is supposed to be done. Could you just give us some color on where the program is? What's going on? What's good, what's bad?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. Today there are six aircraft flying in the Baghdad campaign. Specification reports have been issued. Things are moving. Something that I think is important to say is about the landing gear. You will remember that we had a problem with the landing gear last year. New landing gear is already in place and is performing. There is no problem anymore in any circumstance so it is clean in that area. We are progressing with the tests

and with the certification procedures. We do believe that this aircraft will receive certification from JAA in June and FAA in July. That is what we expect.

Q - Ronald Epstein {BIO 4430430 <GO>}

Great. Thank you.

Operator

Mr. Botelho, there are no more questions at this time, sir.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much. I would like to thank all of you for your time, your attention and Anna is going to make an invitation here and I thank you again.

A - Anna Cecilia Bettencourt

We will have on a new (indecipherable) on Tuesday April 1 we will hold our third US annual analysts and investment meeting which will start at 8 a.m. and will end at 11 a.m. It will be at (indecipherable) at 118 West 57th Street, New York and we will be there holding this event. Please join us and you are more than welcome.

Thank you.

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