

## Q2 2005 Earnings Call

### Company Participants

- Anna Cecilia Bettencourt, Head of Capital Markets and Investor Relations
- Mauricio Botelho, CEO

### Other Participants

- Carl Weaver, Analyst
- Gerard Murrell, Analyst
- Lee Rawlings, Analyst
- Neal Rosenberg, Analyst
- Rajiv Varman, Analyst
- Rodrigo Goes, Analyst
- Ron Epstein, Analyst
- Sadesh Atavil, Analyst
- Steve Trent, Analyst
- Unidentified Participant
- Unidentified Speaker

### Presentation

#### Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call that will review Embraer's Second Quarter 2004 -- 2005 results in U.S. GAAP. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference call is being recorded and webcasted at [www.embraer.com](http://www.embraer.com).

This conference call includes forward-looking statements or statements about events or circumstances which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance.

These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things, general economic, political and business conditions in Brazil and other markets where the Company is present. The words 'believe', 'may', 'will', 'estimate', 'continue', 'anticipates', 'intends', 'expects' and similar words are intended to identify forward-looking statements.

Embraer undertakes no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed on this conference call might not occur. The Company's actual results could differ substantially from those anticipated in forward-looking statements.

Participants on today's conference call are Mr. Mauricio Botelho, Chief Executive Officer, Mr. Antonio Luiz Manso, Chief Financial Officer, Mr. (Marcello Rodriguez), Controller and Miss Anna Cecilia Bettencourt, Head of Capital Markets and Investor Relations. I would now like to turn the call over to Mr. Botelho. Sir, you may begin.

### **Mauricio Botelho** {BIO 13386065 <GO>}

Good morning. It's a pleasure being here with you. And appreciate very much the attention. We are now presenting the Second Quarter 2005 results in U.S. GAAP, which were released last Friday, simultaneously with the financial statement in Brazilian GAAP. We are webcasting this conference call with a slide presentation on our website at [www.embraer.com](http://www.embraer.com). And (inaudible) this we would very much welcome to those (inaudible).

Speaking generally, in terms of this quarter, I think that we fulfilled expectations in terms of the accomplishments, deliveries, sales. And our views on the market have very much followed what was planned. In May, we gave an important step in terms of positioning ourselves in an area of growth where Embraer -- where we think we have the core competence that allows us to progress, which is the Corporate aircraft business. We launched the Very Light Jet and Light Jet programs in May in Washington and we are, today, at full speed moving on in that (inaudible).

Financially speaking, I think that we must emphasize that we had our gross margin hit, basically, by a strong pressure on the revaluation. If we compare year-to-year basis, we had something like 18% valuation on reais and -- which hit the real component on our CPD.

We also have to recognize that, as planned; and this we have been very much cautious in advising you all from -- since last year, that we would have an increase in inventories this half-year, the first half of 2005, since we were preparing ourselves to deliver the 175 and 190 at the second half of this year at a significant rate of production. And this had, as a consequence, a pressure on cash and -- which made us to end with liquid investments around \$230m.

However, what I must tell you, which is very relevant also, is that we have started the deliveries of the 175 in July this year and we are also, as planned, in the certification and delivery of the 190 by the end of August. Sorry. And we progress with the deliveries of 170s, Legacies and 145, however at a lower rate.

We keep our visions and our directions of analyze the year, with 145 aircrafts delivered and the liquid -- and the cash coming back to the positive side, since stocks and inventories are going down to a level of \$1.3, \$1.2b, about that. And with accounts receivables coming to a better level, around \$400m.

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This is what I would like to tell you, my general view of the operation this Second Quarter. We have details here in terms of the deliveries of aircraft and our order book. We had an addition to our backlog of 78 aircraft, mainly in the -- most importantly this shows a positive perception from the market on our products. And very significant contracts were established with Saudi Arabian Airlines, Flybee in U.K., Satena in Colombia, TAME in Ecuador converting options as well as Copa and also GECAS. The investment in this new program, Very Light Jet and the Light Jet was forecast to \$235m. It is fully guaranteed and fully established and we look forward to delivery of the first VLJ on 2008 and the Light Jet by mid 2009. We are receiving a great interest from the market, in both aircraft. And would note but not something to consider in the backlog, (inaudible) things like that. We are happy to say that several orders, conditional orders at this point, have been recorded.

In June, we announced and finalized negotiations and have this contracted with IFC; International Finance Corporation, the private sector arm of the World Bank; a structured loan of \$180m, with final maturity from 8 to 12 years. This is a very important step, not only because of the proceeds that will help us in our financial planning. But also because we are transforming short-term debt to long-term debt, which, today, has a very interesting share today.

And, at the same time, we see that the loan from -- with the IFC represents really an award to Embraer and recognition on Embraer on several issues, such as not only our financial stability, the confidence in our backlog, the confidence in our future capabilities as well. But also on our social responsibilities and environmental commitments of the Company.

So I think that this was the very best general evaluation I could present. I will transfer to Anna Cecilia to detail the financial results. And I'll be gladly here to receive your comments after her presentation. Thank you.

### **Anna Cecilia Bettencourt**

Thank you, Maurizio. So, during the Second Quarter 2005, we delivered 30 aircraft (inaudible) in the Second Quarter 2004 and the same number of deliveries in the First Quarter 2005. As previously announced, 60% of the deliveries for 2005 are scheduled for the second half of the year, following the certification of the Embraer 175 which was completed in July, which delivered to Air Canada are already begun. And the Embraer 190 expected in the second half of 2005.

Net sales this quarter reached \$812.4m, a 12 decrease -- 12% decrease over the same period last year, which is associated to the lower number of aircraft delivered in the second half -- the Second Quarter 2005. Our gross margin was 31.4%, representing 120 basis points decrease over the same period last year, mainly because of the volatility of the Brazilian currency, since approximately 15% of our products of sales and services denominated in Brazilian reais. The 18% year-over-year appreciation of the Brazilian reais against the U.S. dollar has a negative impact in our gross margin.

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Commercial airline net sales reached \$537.8 million and represented 66.2% of our total net revenues. Defense represented 14.3% of our net revenues, totaling \$118.3m, an increase over the \$65.8 million recorded in the Second Quarter 2004. Most of these increases are attributable to deliveries of 2 Defense aircraft during the Second Quarter 2005; a Legacy configured for authority transportation and an ERJ 145 delivered to Satena, a government owned transportation company in Colombia.

Net revenues for the Business Jet segment reached \$59.7m, a slight increase over the \$55.5 million recorded in the Second Quarter 2004. Customer service and other segments also presented an increase in revenue, reaching \$98.6 million compared to \$54.4 million in the Second Quarter 2004 and representing 12.2% of total revenues, mainly due to the consolidation of the results of OGMA, an MRO facility in Portugal, with total revenues of R\$38.2m, equivalent to \$39.7 million in the Second Quarter 2005.

Income from operations reached \$98.9 million in the Second Quarter 2005, compared to R\$122.5 million recorded in the same period last year. Operating expenses reached \$156.4 million in the Second Quarter 2005, a 12% decrease over the same period last year. The decrease is mainly related to the reduction in selling expense which directly correlates to the number of aircraft deliveries. In addition, since approximately 80% of our administrative costs are real denominated, the appreciation of the Brazilian currency impacted our administrative expense, which increased \$15 million year-over-year.

Despite the volatility of the Brazilian currency, our Second Quarter 2005 bottom line results were positive, as net income and net margin reaches \$83 million and 12.2% respectively, an increase over the \$80.2 million and 8.7% reported in the Second Quarter 2004.

Our working capital needs are mostly associated to accounts receivable (inaudible) level. During the second half -- Second Quarter 2005, trade accounts receivable increased by \$47.6m, reaching \$900m. Of this amount, approximately \$654.4 million is related to aircraft delivered for which (any) financing arrangements are (inaudible). We, through our normal course of business, are constantly evaluating such transactions.

As the number of deliveries (inaudible). With the beginning of the serial production of the Embraer 175 and the Embraer 190, the first deliveries of which are scheduled for the Third Quarter 2005, inventories increased from \$1.6 billion at the end of First Quarter 2005 to \$1.7 billion in the Second Quarter 2005. As the number of deliveries increases in the second half of the year, we expect to reduce our inventory levels.

Due to the high working capital needs, total short and long-term debt increased by \$366.9 million to \$1.4b. Of this amount, 67.1% is long-term debt and 33% is short-term, compared to 22% at the end of First Quarter 2005. Despite the increase in our (nominals), our bad debt cost remains stable. The U.S. dollar cost at -- we ended with about 5% cost and the (narrow cost interim) at 13% at (inaudible) reached 12.4% this quarter.

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Despite -- we recently finalized a \$180 million loan facility structured by the International Finance Corporation, with final maturity of 8 to 12 years, which will change our debt profile by increasing our long-term position. The long-term (flat lines) loans are due to mature between 2006 and 2010 and have an average lifetime of three years and eight months.

The combination of higher inventories and accounts receivable resulted in a decrease in our net cash position, as we ended the quarter with a net debt of \$229m. Also, for the same reasons, our free cash generation in the Second Quarter 2005 was negative \$79m.

Despite the higher working capital needs, we distributed \$87 million to our shareholders, representing 48% of our net income in the first six months of the year.

We ended the quarter with 67 firm orders in backlog for the ERJ 145 family and 228 options as of June -- end of June. The Embraer 170 190 family backlog end at 412 firm orders, with 346 aircraft to be delivered and an additional 373 options. In the Second Quarter 2005, we have added 58 new firm orders into our Embraer 170 190 family backlog. At the end of the quarter, our firm order backlog increased by \$1b, reaching \$10.9b, which is a strong indication of our commitment towards long-term growth and customer diversification. We maintain our forecast for deliveries of 125 commercial, corporate and defense aircraft (inaudible) aircraft in 2005 and 2006.

Now, operator, we may start the questions -- open the question and answer session. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Your first question is from Neal Rosenberg of JP Morgan. Please go ahead.

### Q - Neal Rosenberg {BIO 15206706 <GO>}

Hey. Good morning. Just wanted to take a quick look at gross margin on a sequential basis. Gross margin fell by 370 basis points. And I know that a portion of it is foreign exchange in Q2 over Q1. But can you help us understand what drove the rest of the decline?

### A - Anna Cecilia Bettencourt

Product mix.

### Q - Neal Rosenberg {BIO 15206706 <GO>}

What's that?

### A - Anna Cecilia Bettencourt

Product mix.

**Q - Neal Rosenberg** {BIO 15206706 <GO>}

It was mix?

**A - Anna Cecilia Bettencourt**

Yes.

**Q - Neal Rosenberg** {BIO 15206706 <GO>}

Is the rest of it. And what do you -- Okay. And I guess just 1 more is on the Q1 call you talked about the (regional) market being challenging, although you booked 58 new orders in the quarter. Can you tell us how you're looking at the market right now and what you're currently seeing?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

For sure. I think that the market is (with some) better (colors) than in the recent past. We see today the total volume of passengers transported at a higher level than before September 11. So this is a good sign. The point is, however, that, mainly in the United States, the yield is not the same. It's much lower than at that point. And the airlines are also facing very strong hurdles because of the oil price. And -- However, I think that we are perceiving much stronger interest and different opportunities coming up for mainly this new family of aircrafts that we are delivering to the market. So I think the market has today a brighter colors.

**Q - Neal Rosenberg** {BIO 15206706 <GO>}

Okay. I guess I'd also like to talk about accounts receivable just briefly. Can you give us -- I know you expect accounts -- you said you expect accounts receivable to fall to about \$400 million by the end of the year. Can you help us understand the timing for Q3 versus Q4, I guess; the U.S. Airways bankruptcy situation is looking to get resolved in mid-September; and can you tell us where you stand on the continental EETC transaction?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

(Anna Cecilia)?

**A - Anna Cecilia Bettencourt**

We still maintain our (assessment) about accounts receivable. And we want to be something between \$400 and \$450 million by the end of the year. Regarding -- We cannot disclose too many things about it. So we are keeping this our guidance to the market.

**Q - Neal Rosenberg** {BIO 15206706 <GO>}

Okay, thanks a lot.

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## Operator

Thank you. Your next question is from Steve Trent of Citigroup.

**Q - Steve Trent** {BIO 5581382 <GO>}

Good morning, all. Steve Trent from Citigroup.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Good morning, Steve. How are you doing?

**Q - Steve Trent** {BIO 5581382 <GO>}

Very well, thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

That's great.

**Q - Steve Trent** {BIO 5581382 <GO>}

Just 1 or 2 quick questions for you. I was just curious if you could comment as to where we are in terms of the ACS program and does it seem like Lockheed is going to use the 170 190? And then my second question with respect to potential new orders. There's speculation that, although TAME Airlines has recently ordered some (narrow bodies), it really hasn't -- it's neither confirmed nor denied that it's still looking at the 170 190. And I was wondering if you might be able to give us some color there. Thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Sure, Steve. About the ACS, it is -- I think we -- It is interesting to make some comments (from the past). Aircraft operation is always a compromise between weight and performance. At the time of the (deal) -- that the deal was signed to this Group, there was a certain configuration in terms of systems; what would be the systems, how much they would look like; and as a consequence an evaluation on weight and on power demanded by such equipments to make the system operate. On the (development of the program), (inaudible) different configurations on the system. First to require additional weight capability and also a higher demand of power. And in that sense, I'm not (inaudible) I'm not telling anything new. But just things that were commented around around the past months.

You then had the second point. It was clear that the 145; and the second point is not so very far from now, it was the beginning of the year, some month within the First Quarter of the year; that 190 -- the 145 was not satisfying that demand any more. And then studies start to be developed in terms of using either our bigger aircraft on the 170 190 platform, or even it was considered the ability of our -- have another aircraft supplier.

What they have in hand is just what has been announced in the press, because of course we have worked very much towards the confirmation of our aircraft. I think it's still the best

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option. But there is no public announcement. There is no firm advice or no firm confirmation from our customer or the final customer on any decision. So the situation that we have today is just news that we have from the media. No official or formal statement on the situation.

Regarding new orders, as I said, I think that there are the manifestation of the interest from different airlines around the world in this new (inaudible) this new family of aircraft. You mentioned TAME and they just reported but probably you will remind that in (inaudible) year 2001, we -- I have signed with the TAME's President and CEO, who was at that time Mr. (inaudible) (Amaro), a letter of intent for up to 100 of this new family of aircraft. However, after that date, Mr. (Amaro) suffered an accident and passed away. And then on August -- September we had those terrible events and the world changed. But the interest is there. If it is feasible or not is something still to be defined. But, of course, we have them as a very key or a potential customer for our aircraft.

**Q - Steve Trent** {BIO 5581382 <GO>}

Okay, super. Thanks very much, Mauricio.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you, very much, Steve.

## Operator

Thank you. Your next question is from Ron Epstein of Merrill Lynch.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Good morning.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Hello, Ron. How are you doing?

**Q - Ron Epstein** {BIO 1868102 <GO>}

I'm good, I'm good. Just a couple of questions. Regarding OGMA; what are your plans strategically with OGMA?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Well, OGMA has -- fulfils different aspects in our strategy for growth. First, it is (centered) in a business which is service, something that we want to explore and we want to make it (great). And this is a significant operation in Portugal. They have a very good capability in terms of military aircraft, P-3 (their Hercules) aircrafts. They have capability on fighters, helicopters. And it is a good business in that aspect.

Furthermore, they have capabilities also in terms of commercial aircraft. And as commercial, they are the maintenance authorized facility for the ERJ 145 family of aircraft,

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since 1997, I believe. And this is from the day when our relationship started. They are --- They provide engines repair and overhaul for a number of different engines, including those which equip the ERJ 145, the Rolls Royce AE 3007. They have capability to expand in this area as well.

So (looking) to the service area, it fulfils our views, our (requirements). (Furthermore) and in addition, they also provide maintenance, repair and overhaul for Airbus' aircraft. So this is a very interesting (inaudible) activity and I must remind that, in Europe, it is located at a relatively low cost area. So I see there interest in that (new) relationship.

Furthermore, looking strategically, with OGMA, which is a plant which also has a certain manufacturing capability; (inaudible) they manufacture the fuselage and wings for the Pilatus PC12 and others; it is a significant plant which employs about 20,600 people.

And doing that, we also became Europeans. And this has a strategic relevance for us, because then we can and we (asked for) the knowledge and the participation on issues regarding the European Union. And this, strategically for us, in this global business, is important, as well as it is important for us being located, strongly located, in the United States, as well as in China. This was the reason why we have established (ties in that plant). So that was the reason why we acquired OGMA.

#### **Q - Ron Epstein** {BIO 1868102 <GO>}

Okay. Thanks. Just a couple more. You've mentioned that you've seen some conditional orders and strong interest for the VLJ and the LJ. Can you give us any more color on that? Any more to say on that?

#### **A - Mauricio Botelho** {BIO 13386065 <GO>}

Yes, sure. We start to receive orders, to accept orders, I think it's from (inaudible). June. Anna Cecilia is here telling me that it's from June. We are in the very initial phase of the program. But -- so there are not an avalanche of orders. But some order (stuff).

What we are doing about -- What's our viees on that is that, at this point, we still do not have a brand. We still did not show the aircraft physically. And the customer for this sort of aircraft is different from an airline customer. An airline customer has a technical staff who is able to study and analyze specifications and understand and identify very well the product, even if the product is not -- has not -- one only piece of it available.

This business, you do not have (inaudible) individuals, or most individuals are small companies that do not have that capability. Our intent is in the; during the (NBA) then present real visions of the Aircraft with mock-ups, real (inaudible) proper dimensions, real dimensions for mock-ups of fuselage to show they're (solid and most comfort). And also to make presentation in terms of the performance and how it will look like. And then we will start from that point, I believe, to face better number of orders. Today very few.

#### **Q - Unidentified Participant**

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Okay. And then one last question; if we look beyond Aerial Common Sensor, what's your strategy for growth in the Defense Business at Embraer?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

The first (reasons for us) to always be a niche market, a niche business. We will never have the ability to repeat what we have today in the Commercial Airline Market, or in what we intend to have in the Corporate Aircraft Market, repeated here in the Defense Market. And why?

We will be looking for developing very good products, very cost-effective products facing some specific requirements and they will be very effective in that operation. However, we cannot compete with those who have long -- a very wide range of products, very long tradition in sophisticated equipment, a number of (what we) -- in a presence in different markets. We have niche opportunities. Today these niche opportunities for us are located in the area of Training Aircraft and Intelligence, Surveillance and Reconnaissance sector, or some specific contracts that may come up on a more opportunistic basis. For instance, (Air 5's) overall, it is something that happens once in a while. But when it happens we have the (possibility) to compete and to present good results for the interested customer.

So this is what I see in terms of the Defense Market.

What we have to keep in mind, however, is that the ACS program has a value that goes beyond the (project) itself. The value of the ACS program is that we will make ourselves available and accepted to supply our very (inaudible) exceptionally convenient for Armed Forces with the reliability that do not -- they do not find normally in the products that they use for this -- in those needs.

So I think that other opportunities will come up. We are not talking about third rate War, Intelligence Surveillance equipment, we are talking about 21st Century threat which are drug in tradition, terrorism and this is the -- these are the threats. We do not need huge (inaudible) to subscribe those needs; we need (inaudible) ways and cost-effective ACS (CSF) Intelligence Surveillance and Reconnaissance Aircraft to perform (those missions).

**Q - Unidentified Participant**

Okay thanks.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you, Ron.

**Q - Unidentified Participant**

Yes, take care.

**Operator**

Thank you. Your next question is from Carl Weaver of Bear Stearns.

**Q - Carl Weaver** {BIO 3448134 <GO>}

Yes. Good afternoon.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Hello (inaudible). How are you doing?

**Q - Carl Weaver** {BIO 3448134 <GO>}

Good. How are you?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Very well.

**Q - Carl Weaver** {BIO 3448134 <GO>}

Good. Mauricio, I'd just like to mention a little bit about the margin behavior because I -- we notice that quarter-on-quarter the Real appreciated 12%. And Real costs are about 15% of total cost. We were very (inaudible) surprised to see that the (user) price per Jet in volumes increased significantly. What other cost pressures can you mention?

I mean you talked a little bit about mix. But we notice that last quarter you delivered two 135's and two Corporates. And this quarter you didn't deliver any 135's and you delivered three Corporates and two Defenses. So I would think that the mix, all in all, would probably -- is better, isn't it? And therefore the margin would have improved?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

The mix is better. We are talking; the 135 is a small aircraft, it is a lower level of price than those that we are talking about. So when you talk (that) today that we delivered 170's, we delivered Legacy Aircraft (in Defense); I'm talking about Defense; we're talking about Aircraft which are prepared with special issues that will go to serve Governments. So it is not a normal Aircraft, it is something goes beyond the normal Aircraft. So it represents at the very end a better mix of price.

**Q - Carl Weaver** {BIO 3448134 <GO>}

Well a better mix of price however, yes but the gross margin decreased during the quarter, did it not?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

And then we had a huge impact in terms of the Real valuation. And this is something that is permanent, they are doing quarter after quarter. So Anna, can you please elaborate on that?

**A - Anna Cecilia Bettencourt**

When we mention product mix, if you look, our Defense business increased, the results of the Defense business increased and I told you (inaudible), there are lots of specification in each of the programs that, from time to time, we suffer from pressure in terms of margin.

**Q - Carl Weaver** {BIO 3448134 <GO>}

Okay. So the Defense business maybe impacted margins as well.

**A - Anna Cecilia Bettencourt**

It (depends). In Defense business there is -- it's always long-term contracts, there's (percentage) of completion methodology.

**Q - Unidentified Speaker**

Labor intensive.

**A - Anna Cecilia Bettencourt**

It's labor intensive. And we are more; much more system-integrated and also we have some -- it's the labor (inaudible) which the currency effects more, impacts more the margin of this business, impacted this quarter more the margins of this business.

**Q - Carl Weaver** {BIO 3448134 <GO>}

Okay, that's very helpful. Thank you, very much.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Pleasure, Carl. Thank you, very much.

**Operator**

Thank you. Your next question is from Rodrigo Goes of UBS.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Hello guys, just two quick questions. The first one, I was wondering if you're still sticking to your gross margin guidance for the second half of this year and beyond that; which, I guess, is around 32% or so?

And also once orders for the new Corporate Jet start to come in, will you be disclosing them or will it be kept along the same lines as you had orders for the Legacy (today) which we don't really see?.

**A - Anna Cecilia Bettencourt**

The gross margins question, yes we are maintaining our forecast for our gross margin to be around 32, 34%.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Rodrigo, how are you doing?

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Hello (Mauricio).

**A - Mauricio Botelho** {BIO 13386065 <GO>}

We're doing; in this market people do not like very much to know ; to let the market know who is buying what. So we will announce, of course, when they become firm orders. Today we have conditional orders with deposits but these, frankly, are not very solid issue because the (inaudible) acquire can -- purchaser can review his mind and takes the deposit off and cancel the deal. But as far as this becomes effective. And we understand on our planet, is to just make these orders firm up to December, then we will disclose number of orders and number -- what it does represent in backlog. But not to whom we are selling it.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Okay. So that -- okay that's -- will do you the same for the Legacy because today --?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Yes.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Okay perfect.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

That's right.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Great. Thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you.

**Operator**

Thank you. Your next question is from (Rajiv Varman) of Oppenheimer Funds.

**Q - Rajiv Varman**

Hello. Could you perhaps discuss opportunities relating to the Airbus 350 that are provided by your relationship with the ADS? And does the OGMA acquisition actually help perhaps in getting you orders relating to manufacturing for the Airbus 350.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Hello Rajiv. How are you doing? (Good it is) to talk to you.

**Q - Rajiv Varman**

Thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

In respect of the A350, it is a new program from Airbus and so far there is no -- nothing in place that would make us to comment if we're going to have it or not. But of course, more and more we are looking for possibilities of being a component manufacturer as well, not only for our Aircraft but for third parties' Aircraft.

I think that OGMA, in this case as a manufacturer for an Airplane such as the A350, due to its dimension it will not fit. And we can provide here in Brazil much lower costs than those presently available in Portugal. So I think that they would not match.

**Q - Rajiv Varman**

Can I ask, on the issue of the 350 what could you do in Brazil for the 350? What capabilities do you have? Do you think that you can provide cheaper, better, faster for the 350?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

We were; when we expanded our facilities to the new area of (Gazumpe Swartzo), we had in mind to do some of their, not only our Test Flight Path (inaudible) or (reams) manufacturing facilities, or the similar line of Military, (or Sinto service). But due to the dimensions of that area, we have there the perfect condition to establish a component manufacturing facility because we have plenty of room to -- area to (build) up facility hangars and such as that. We have a long runway allowing us to receive transport aircraft to face the challenge of transporting big sections.

So we think that we have infrastructure, we have technical expertise and I think that we have the technical knowledge to contribute in the development of sections (or) components for (inaudible) out of that site.

**Q - Rajiv Varman**

Great, thanks very much.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you, very much, Rajiv.

**Operator**

Thank you. Your next question is from (Gerard Murrell) of Prudential Equity.

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## Q - Gerard Murrell

Thank you, very much. I was wondering if you could give us a little more color, a better idea of why you've decided to go to the IFC for this loan. What prompted that? You note in your press release this is the first time you've gone to the IFC for money, I'm wondering why is the first time and why now versus at any other point of the Company's development?

## A - Mauricio Botelho {BIO 13386065 <GO>}

Well traditionally the IFC is; very seldom they have operations with private (vendors). In Brazil at least; I don't remember if they have any such financial structure for any private company. They do have operations with state-owned institutions or companies. But IFC, first of all, it gives you a stamp. They go (the due diligence) and evaluation on the company, on its method and on its process, on its -- on areas that go beyond simply the operation of the company, vis-a-vis the products they (inaudible) supplier.

But in those (two areas) that you have social responsibility, areas such as environmental concerns and (have) the acceptance of a certain company to be entitled to receive such a finance is the recognition of quality first of all.

And on the other hand, we are trying and do as much as we can to transform short-time finance, loans, two long-term loans. And this is one of the great benefits because as well - as far as the IFC contributes with \$35m. And then it's \$180 million it puts a syndicate the rest of the bond in (the way) that we go from eight to twelve years to have this loan take. So it's very interesting this aspect this loan.

## Q - Gerard Murrell

Great, thank you very much.

## A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

## Operator

(Operator Instructions) The next question is from Ron Epstein of Merrill Lynch.

## Q - Ron Epstein {BIO 1868102 <GO>}

Just a quick follow-up on the accounts receivable; I think it was a question that was asked earlier and the answer didn't come out very clear. Your -- the, in terms of the guidance, what should we expect Q3 to follow out relative to Q4 with regard to accounts receivable balances?

## A - Anna Cecilia Bettencourt

Hello Ron.

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**Q - Ron Epstein** {BIO 1868102 <GO>}

Hello.

**A - Anna Cecilia Bettencourt**

We expect to reach something about 400, \$450 million by the end of the year with accounts receivable.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Does that mean that Q3's going to be somewhere between where we are now and \$400 and \$450, or is it all going to be in Q4?

**A - Anna Cecilia Bettencourt**

Well our goal is to be at the end of the year 400, \$450 million (and we expect; --

**A - Mauricio Botelho** {BIO 13386065 <GO>}

And this is a route to follow. It's not -- that's where -- that is a point accomplish (inaudible).

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay great, thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you.

**A - Anna Cecilia Bettencourt**

(inaudible)

**A - Mauricio Botelho** {BIO 13386065 <GO>}

(inaudible)

**A - Anna Cecilia Bettencourt**

Maybe Ron, for you to understand and for the market to understand, most of the (inaudible) that we will have (are) during the second half of the year already financed. So we do not see additional Aircraft, new Aircraft, in the (inaudible) into our accounts receivable in the second half of the year. And most of them are already financed.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay that's great. Thank you, Anna.

**A - Mauricio Botelho** {BIO 13386065 <GO>}



I would like to also make a clarification because when I talk about cash, (Michael Lees) here pointed that I've got confused and gave a wrong forecast or estimate in terms of inventories level. When I made the niche presentation I just said that the final, the inventories by year-end would be in terms of \$1.3b; it is something more; it will be; expected to be \$1.5 billion by the end of the year. So I'd like to clarify this and you do not believe (inaudible). Thank you.

## Operator

Thank you. Your next question is from Carl Weaver of Bear Stearns.

### Q - Carl Weaver {BIO 3448134 <GO>}

Hello Mauricio, one last question here. I think about a month ago (inaudible) quite a bit of noise about JetBlue talking about exercising their; a 100 options there. Is there any new news there from that front?

### A - Mauricio Botelho {BIO 13386065 <GO>}

No, they said that they are; by the way I want to make a note here; JetBlue has been fantastically professional and efficient in their preparation to handle this new Aircraft. And they are very, very much organized. They have very (inaudible) with what they have seen here (is) with the Aircraft that they are (up) to receive. The Aircraft are ready and just with the final stretch that they're waiting for, the certification process. They have flown the Aircraft and they are extremely interested in that.

However, nobody would expect this to happen before they established their operation and have confirmed practically on the effectiveness of their program. So while I believe that they are keen in having the fleet expanded, I don't believe that this will happen easily in the first -- now. It's -- it would not be -- it's not -- it will be very optimistic to think about that. However, the interest is there.

### Q - Carl Weaver {BIO 3448134 <GO>}

Thank you, very much.

### A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, Carl.

## Operator

Thank you. Your next question is from (Sadash Atavil of KSA).

### Q - Sadash Atavil

Good morning, Mauricio.

### A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning. How are you doing?

**Q - Sadesh Atavil**

Pretty good, thank you. My question is relating to your comments, last (caller) on the conference call, when you mentioned the market for the Embraer 171/190's, you are still not (hard). This quarter we are very pleased to see your comments that market is showing brighter, much brighter color. But I was wondering if you can give us a little more color on what you are seeing from the customers and the market place that makes you so much more optimistic?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

What I can say is that (since people) are working more than before.

**Q - Unidentified Speaker**

(inaudible)

**A - Mauricio Botelho** {BIO 13386065 <GO>}

But what I practically can tell you is that beyond the level of deliveries that we have accomplished this quarter, our full order backlog grew \$1b. So this is the practical evidence of the market is reacting positively.

**Q - Sadesh Atavil**

Okay thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you.

**Operator**

Thank you. (Operator Instructions) Your next question is from (Lee Rawlings) of Morgan Stanley. Lee Rawlings.

**Q - Lee Rawlings** {BIO 19516407 <GO>}

Good morning, Mauricio, Anna Cecilia.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Hello Lee. How are you doing?

**Q - Lee Rawlings** {BIO 19516407 <GO>}

Good. Just wanted to -- wonder if you could shed some light on your relationship with your third party marketers for your Business Jets in Europe. And how integrated they are in helping you develop in new VLJ's?

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**A - Mauricio Botelho** {BIO 13386065 <GO>}

Sorry, can you repeat that? I -- there was something (inaudible) intermission. But what was the Business Jets in Europe, what was the concern?

**Q - Lee Rawlings** {BIO 19516407 <GO>}

If you could just discuss your relationship with the third party marketers in Europe, any goal you may have set with them. And how integrated they are in helping you develop the new VLJ's?

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Sure. Okay thank you. Well in Europe we are operating in different aspects. We are operating with our own sales team, which is located in Paris, at the same time that we have a representative in U.K., which is Harrods Aviation. And (J Ablesa) in Southern Europe. And they are integrated their efforts in our sales effort.

We also operate in some specific representation for countries such as Russia and Eastern Europe. But they are operating in looking for -- at now; exactly now they are operating only with the Legacy Executive. But our intent is to expand this relationship towards the Light Jet mainly, since they think the VLJ will be mostly a market in the United States rather than in other countries. However, let us just see how things progress.

**Q - Lee Rawlings** {BIO 19516407 <GO>}

Thank you.

**Operator**

Thank you.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you.

**Operator**

This does conclude today's question and answer session. I would like to invite Mr. Botelho to proceed with his closing statement. Please go ahead, sir.

**A - Mauricio Botelho** {BIO 13386065 <GO>}

Thank you, very much. Ladies and gentlemen. it is a pleasure to have had you listen to our conference and participating. What I want to finalize here to say is that I see -- I think that, as I said, I see more color in the scenario, it's not so gray. I see today, the agenda, what we have to take care is not to see too much red. But see the blue and the black and the yellow. And I think that this has started to happen.

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Traffic is growing. I think that European airlines are getting better. I think that the -- our products are being very well received and (then) perceived by the market. And today we are internally, in terms of looking to our Company internally, we are operating a lot and looking a lot with a view of improving our own positive (inaudible).

When you -- when we are obligated to -- and (plan it) to expand production, such as we are today, it troubles me, it takes some difficulties in putting the system working (oily), in an oily form. And we are working in that direction and I'm very glad to tell you that accomplishments were already achieved and we are moving forward.

We also have implemented, (that is) effective from August 1, now this month, a restructuring, organizational restructuring of the Company, in which we cut; we have cut one level on our; in our management structure. This will represent, for sure, additional flexibility, agility and, as a consequence, reduction in costs in the operation and this, I think, will present very good results.

One of the important; two of the important points in this reorganization is -- was that we split the (Bindusio), Executive Vice Presidency in two areas; one dedicated to Engineering Development, which is headed by Satoshi Yokota. And one dedicated to Industrial Operations. And headed by (Artu Funtin).

At the same time, we also put directly responding to me the area of Corporate Aircraft. So today we are facing three business areas; Airline Market, Corporate Executive Aircraft Market and Defense Market; the three of them reporting to me. I think that this will bring agility, aggressiveness and cost effectiveness to the operation.

The bad thing that still is in there has to do with the oil prices. About one year and a half ago I was -- I met; was meeting with a CFO of a very relevant, let's say a financial institution. And we were commenting about this issue, the oil prices. And the (inaudible) she said, No this, is --- suddenly, he said, That is nothing that will be maintained for a long time. This is something speculative, peculiar at the moment. So on. Well from that point on the oil has increased about 50% and this is something that is really a hurdle for the market. But let's see how it's going on.

I think that airlines are reacting to this fact. They are also restructuring, they're also trying to re-accommodate their business to this new situation, reshaping their fleets. And this, for us, specifically for us, represents an opportunity and we are working very much to have this in line with our capabilities in serving the customers with best choice and the best choice existing in the market with this new kind of Aircraft, Embraer 170 to the Embraer 195.

I, again I pass (the) word to Antonio Luiz Manso, the CFO, that will present my compliments and apologize to leave the room because I'll have to take a flight in about one hour and a half (for one flight).

Thank you, very much. Have a good day.

## Q - Unidentified Speaker

Thank you, very much, Mauricio. And the, for my side (I may hear) and the (inaudible) kind of answers we, all the Group, in the relation of the (inaudible) is presented to support you.

Anna Cecilia, please.

## A - Anna Cecilia Bettencourt

Yes, we thank you, your presence. And we'll be talking; soon we'll have our -- in November we'll hold our Analysts and Investors Meeting in November. So you are more than welcome. Soon you'll be receiving the (inaudible) date information.

Thank you. Bye bye.

## Operator

Thank you. That does conclude Embraer's Second Quarter 2005 results in U.S. GAAP audio conference for today.

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