

Q2 2003 Earnings Call

Company Participants

- Anna Cecilia, Investor Relations
- Mauricio Botelho, CEO

Other Participants

- Analyst
- Carl Weaver, Analyst
- Corporate Participantunidentified Corporate Participant

Presentation

Operator

Clear. So people that are on the line will be able to listen. Also we'll start the presentation. After the presentation we'll have the question and answers. And we will do some short breaks here in the room, then we'll open for questions and answers for people that are at the conference call with us. Okay. Thank you. And nice to see you here. Mauricio Botelho, our CEO will start the presentation.

Mauricio Botelho {BIO 13386065 <GO>}

Good morning, to all of you. Thank you for your presence. Thanks for your attention. When we talk about this Second Quarter of 2003, we must be very much focused on the insight that caused results very much beyond what we expected. The highlight here is the -- this result, US \$4.9 million net income. It was strongly hit by two factors that were beyond our control. The Real appreciation against US dollar causing a negative impact on the gross margin. Contributions were higher, recession development expense and a non-realized US \$85 million loss on stock transactions. The other point -- the other factor successive trade accounts receivables, election postponements causing short-term debt and financial expense increase and mismatches in our Real-denominated assets and liability.

Now the last is results, we would also recognize some very positive aspects for this quarter. One and I think most important is the endorsement that we have received from the market on the new Jet family that we are developing, the Embraer 170-190. And we can just emphasize the order from US Airways, 85 firm orders on the Embraer 170; JetBlue Airways 100 firm orders with Embraer 190; LOT 10 firm orders for Embraer 170. Out of them, four will be supplied by GE Caps. At the same time, US Airways will have 30 supplied by GE Caps and (end-scores) of customers with them firm orders for Embraer 190. We also see the Embraer 170 certification process moving on in spite of postponing for November of this year where we'll have the first delivery, the initial deliveries to El Italia and US Airways. This program is well going on, moving ahead very well in terms of 175 had

FINAL

Bloomberg Transcript

the first flight -- first aircraft is flown in June this year. The second aircraft took off one week ago. We see the 190 already in the production lines, two aircraft in the production line. So the program is moving on at a correct pace. We manifested though as a result of the expansion of all our actions, we expect to increase our defense contract in the world. We are now (also) to intent to establish an effective facility in Jacksonville, Florida to assemble here in the United States the aircraft dedicated to the Defense Department and Homeland Security Department. On July, we announced an alliance with Lockheed Martin as a leading company, which was involving several other American companies to participate in the tender for the United States Army (inaudible). We revised the total number of jets to be delivered in this year from 132 to 110 already included in this figure. The cancellation of orders from Indigo 23 Legacy Shuttles and at this point here I want to emphasize that in June we announced this new delivery schedules in (inaudible). At that time, we already considered that this customer will not have conditions to fulfill his commitment and we have already discussed here it from our back log and our deliveries. However, we still have the contract in force and we could not be clear about that situation. On July, this contract was then fully cancelled just maintaining the position that we had disclosed on June. For 2004, we foresee an increase in our deliveries from 136 to 160 aircraft. I think that it is important to also to mention as highlight two issues that are going to be presented in the other slides, which are -- which has to do with the backlog and with cost control in the company. The backlog it is important to mention that we have came back to the level of over \$10 billion and from others at our backlog. We had always been above that figure up to last year. This year first half we started to decrease our backlog on December with the adjustments caused by cancellations and so on. We reached at the level \$57.9b. We are now back to \$10.7b, which is very positive. On the other hand, we will see that we have maintained the same level of percentage in relation to the revenues, for the operational expense, demonstrating -- in spite of the fact that the revenues came down, demonstrating that we are with a price control, in respect of our cost. A look at our order book, we'll see that the ERJ 145 is still count on to 106 aircrafts as per (mode) the backlog and the options of 485. The 170, the 190, about 126 per mode is where I get through the backlog in this first half of the year, making a total 144 per modus and 309 options making the total book order of 553 aircrafts. That's what I referred to before. We see that we were growing our backlog up to year 2000, then we started to consume the backlog coming to 10.7 in 2001 and now back to 10.3 in the Second Quarter of this year. I think this is a very positive achievement. At this point, I will ask Anna Cecilia to come and present there income statement and there financial explanations for our results and we will be back for the questions and answers. Thank you.

Anna Cecilia {BIO 17955675 <GO>}

Thank you. Well this quarter, we delivered 28 jets as compared to 23 jets last quarter, which makes 5 jets more during this quarter. But through (inaudible) our income statement you need to take into consideration the exchange rate volatility that Brazil faced during last year and beginning of this year. So, last year the U.S. dollar appreciated 52% and so far up to June this year, the U.S. dollar decreased 18% more or less. So with -- combined with this exchange rate volatility represented a decrease in our gross margins of 36% as compared to 39% in the First Quarter of 2003. Why represented this decrease, 10% of our cost of goods sold are real denominated which is our labor cost. So therefore this 14% decrease in the U.S. dollar presented an increase in put of our cost of our goods sold. Revenue breakdown; this first six months of this year, we have sold 76 aircraft to -- 76% of

FINAL

Bloomberg Transcript

our sales were related to the commercial market. The remaining being the defense corporate and the customer service base combined they represented 24% of our sales. And in terms of market still 97% of our sales were U.S. dollar denominated. They were related to export. In terms of the SG&A, as Mauricio explained, it increased in a figure \$76 million in the First Quarter of 2003 to \$86 million Second Quarter 2003. But if you analyze it as a percentage of our net sales, we maintain more or less the same levels which was 15% and if you look to the research and development, which is another operating expense that we have, represented an increase this quarter which was 51% as compared to -- \$51 million as compared to \$36 million First Quarter; in part of this increase was related also to the real evaluation against the U.S. dollars; 87% of our research and development expenses are real-nominated. Therefore being affected by this volatility that we mentioned, which impacted our income from operations. \$70 million was our total income from operations during the Second Quarter of 2003 compared to \$83m; and this represented a decrease in our income from operations margin, which First Quarter of 2003 it was 17% as compared to our first half now this quarter. Net income and net margin due to the decrease in margins and due to the higher research and development expenses and all the facts which Mauricio mentioned, the swap impacted the non-cash swap made us to present this quarter \$5 million net income as compared to \$44 million last quarter. If you analyze the mass income coming from the First Quarter 2003. And going to the Second Quarter of 2003 you will see that despite the increase in net sales the decrease in our mode -- decrease in our operations expenses, I mean increase our operation expenses due to the research & development expense and the financials transactions due to the swab \$85 million non-cash charge, we presented a \$5 million net income. To analyze and to understand our results, you need also to take into account some balance sheet items, with sale accounts receivables we presented a decrease from \$913 million to \$790 million and this decreased the number that we collected for our accounts receivable from the NDS, this quarter is okay. But that was sealed out to some receivables related to the NDS which is -- which makes \$213 million of already approved financing from the NDS, \$287 million are in negotiation with NDS. And the remaining are to be financed by the market and relates to the defense our sale and customers and service sales. Inventories, we presented the inventories was more or less at the same level as last quarter. And this is one of the highest levels of our inventories that we have and why that? You have to take into consideration that we have been building six prototypes for the ERJ -- for the Embraer 170. We have already an -- two prototypes for the Embraer 175; we are building the first prototypes for the Embraer 190. So we are in the development phase for this new family; we are in a certification campaign, which increases our inventories for business family. On the other hand, the sales segment has a different cycle than the commercial cycle. So we normally, we've acquired equipment and purchased both from our suppliers and the development for this advanced programs has a longer cycle than if you compare to the commercial cycle. But, if you look the engine service for the ERJ 145 family was been decreasing this inventories and; but the net cash position that we presented this quarter \$43 million compared to our net debt position of \$212 million was related to the receivables increase related to those receivables as we received from the BNDES this quarter -- we received it by the end of the quarter. So, if we look the lowest breakdown, 42% of our low was in US dollars and 58% in US dollars. This we are taking already, the swaps into consideration in our balance sheet. In terms of debt maturities, short-term debt is 61% compared to 39%. So this quarter comparing to the last quarter, we increased our short-term debt because as we received part of our accounts receivable; at the end of the quarter we made this cash (burns) during the quarter we need to encore in our debt. And our balance sheet exposure so as of June -- as of the

end of June 87% of our liabilities were in US dollars compared to 85%. So, this we are not taking into consideration the swaps transaction that we had. If we take this swap transaction, 74% of our liabilities were in US dollars and the 26% -- remaining 26% were in high (inaudible), which brings us a higher net denominated liability exposure, which impacted our income as well. So this mainly -- the points that we want to address. And now we'll open for questions and answers. Thank you.

Mauricio Botelho {BIO 13386065 <GO>}

Before the questions and the answers, I would like to emphasize that we do not use to have conference like that in partial results. We do that in year results. But we realized that the impacts that we are showing in our results would justify our presence in front of yourself to allow you to make every and any question that you may consider and to put ourselves available for anything that you need. Thank you.

Questions And Answers

Q - Analyst

Hi. Good morning on the last part you were just discussing -- you mentioned, I think, or you concluding that ended up increasing or increasing too much exposure to the Real on the liability side of the balance sheet by the end of the quarter. I guess I am interested now in your opinion of the experience during the quarter, you felt that there is something you could have done better in your management to the derivatives you used in the swaps, or is just a normal sort of volatility, we should expect from Embraer going forward?

Q - Corporate Participantunidentified Corporate Participant

Its not to that position, we during this first the last past of the year, we have the receivables strong and the debt receivables we transformed in reais then we had (inaudible). And then we wait that happened during the First Quarter of this year. That postpone and because that we anticipate in certain formats. The swaps for hedge to make (literally), if you should look at the projections and I believe the -- and I believe that is important thing -- perfect.

(inaudible).

When you look here, we have the best conditions in the First Quarter. And that we are waiting during the First Quarter. We have received (debt) because that we make these swap for (inaudible) two quarters and the same here, when we receive these, we receive less reais then we would because of the devaluation and to that was effect that we can (inaudible). The amount of reais we receive is little bit 20% less since we wait in that moment and to that makes excess of (equilibrium). We have today in our accounts receivable almost \$200 million to receive during the next quarter and to that we wait to receive that to the end of September and a part of this certainly go to comes in reais and the not the re-established a semi-equilibrium but we in the day we are very close that the \$10 on (hand) if you look the volatility of the dollar at the end of year go to increase from today is in 3 reais and we believe both are arriving 3 point standard (inaudible) today and in costs compensate parts of that in the equilibrium in this quarter.

(inaudible) may be I thought (inaudible) correct to Daniel.

Q - Analyst

Asset position in reais was lower than you expected because more of it was tied up in accounts receivable. Correct?

Q - Corporate Participantunidentified Corporate Participant

Yes exactly. When you receive a decent amount of reais less (than) we wait in that moment because of the evaluation of the dollar in the ratio of the reais happening during that quarter

Q - Analyst

And given that's likely to be an experience or at least your management of this large accounts receivables position is likely to continue at least for the next couple of quarters. Is there some thing the company can do to minimize these swings on a quarterly basis.

Q - Corporate Participantunidentified Corporate Participant

What's happened the best during the last three four years we are going to receive (inaudible) we are receiving the same (inaudible) after the delivery of the aircraft, (when) the change of registration in their delays the decisions to as soon you want (inaudible) the last and that delivers what's happen during the last quarter of the 2002 was in our accounts receivable doing nine months and that's not normal we don't consider that normal. We have today to finalize in the (earnestly) conduct the accounts receivable. Here we have today \$213 million to receive it from deliveries in the First Quarter of this year and that is one point if you look is possible to effect the in that quarter but if you look the number of swaps made is necessary to cover that more or less in the same level. We understand that the debt comes in the (inaudible) and we both consider the debt compensate by part of these swap we have with no balance today. That is important. And after these we will come back to -- don't know what's the situation in the end but we wait to deduct that term between deliver and the principals. And the less affect by the issue of the " late of the U.S. dollar.

To remember that the cash is one of our strategies to balance our net to have exposures. So the time that we receive this cash from EADS, they are converted and then they are invested in the in house because our future investments as you could realize with the research and development expenses are also in local currency. So we used part of our cash to invest in the jet programs that are mainly are denominated in the local currency.

Q - Analyst

Okay. (inaudible) impact your dividend that you pay?

Q - Corporate Participantunidentified Corporate Participant

It didn't. We paid the dividend based on the Brazilian GAAP and on the Brazilian GAAP, we didn't have this laws because it's a different type of accounting, okay. What we have in the

Brazilian GAAP was a different impact which, we presented a lower income and therefore according to the Brazilian Corporate Law, 25% of the company -- Brazilian company that income must be distributed to the shareholders.

Q - Analyst

So those --?

Q - Corporate Participantunidentified Corporate Participant

The minimum amount is 25%.

Q - Analyst

Going forward none of these -- the swaps cannot have any impact on your dividend hangability going forward as well?

Q - Corporate Participantunidentified Corporate Participant

These are non-cash items anyway.

Q - Analyst

Good morning, guys. I just had two or three quick questions. First of all, the net cash on the non-recourse level, your total debt figure, does that include non-recourse debt and if it doesn't what was the non-recourse debt level for the quarter? And my second question for now is on the financial guarantee with a non-cash charge of close to 11 million for the quarter, what are your expectations going forward?

Q - Corporate Participantunidentified Corporate Participant

The non-recourse that is not included as a loan. And so when we talk about net cash does involve for any non-recourse debt or the other side of the balance sheet accounts receivable. In (inaudible) the guarantee expense -- non-cash expenses as we incurred this quarter.

Yes. The provision for losses in the financial guarantees are covered on the captive insurance policy. So we work on a statistical basis to calculate the provision eventually. That's where the figure of \$11 million provision for this quarter has come from.

Q - Analyst

And given the basic mix of your customers on a credit level -- given the mix of your firm backlog right now, it seems to be partially driven by the creditworthiness of the customers. Do you have any guidance as to what you are expecting over the next 12 months let's say on the guarantees?

Q - Corporate Participantunidentified Corporate Participant

Yes for sure we do. But I don't have those figures here, right now. I will note your question and I can deliver it later for you.

What we can explain is -- was when we established the (captive) company, we considered the total exposure and the concept of the payments of the premiums. The total amount of the payment of the premiums were 100 -- no --

When we launch or issued that insurance policy, we had an expectation for the portfolio on September 2002, of total loss of \$105m. Of course, we measured that expectation continuously. Certainly the deterioration of the credits of the airline so to impact this (inaudible) calculations.

Q - Analyst

Great, thanks very much.

Q - Corporate Participantunidentified Corporate Participant

You are welcome.

Q - Analyst

Could you elaborate on this negotiation with BNDES? And what is the time frame for this? And that was one question; the other question in -- I didn't quite understand the gross margin comparison year-over-year excluding currency. If you had the same currency in First Quarter and Second Quarter this year -- same exchange rate, what would your gross margin have been?

Q - Corporate Participantunidentified Corporate Participant

Can you explain at first the BNDES and then I will go to the margin.

(inaudible). BNDES is -- sorry; actually I believe it is -- this year in relations with the BNDES receivables. BNDES is, as you know, is a state owned financial institution. What we have, I believe, in the past -- in the past -- towards the past eight years; where, as far as they got involved and I would say, (inaudible) plus. A customer used to -- with the operations which were new for them when -- 95-97 when we start to operate them. This sort of operation was new for them, then they took sometime to learn, to get acquainted. And then they started to operate in a very effective base. And this generated -- the first we had a change in our administration in the country, which caused a change in the management of the Bank, new people, new ideas, new visions. So difficulties in perception, what was already something practiced in the past What we see is that this is both in average six months delay, or 6-8 months delay in delivering the receivables or paying for the receivables we had. This is not going to be repeated. We expected that at this time, they are -- they have got the proper skills and knowledge on the operations. And they can respond faster. But as new industry may understand it is a matter that they cannot be very firm because it does not depend on us. It will depend on them. And we are constantly monitoring their -- the way that they are handling our business over there. In respect of --

Gross margin --

Gross margin.

Some of the behavior that are our exchange rates. So during the first -- during 2002 the U.S. dollar appreciated. The total appreciation of the U.S. dollars was 52%. If you've noticed our Second Quarter --.

Q - Analyst

Sorry, comments on what is the cause of the appreciation?

Q - Corporate Participantunidentified Corporate Participant

The cause of the appreciation was that our -- of the exchange rate was the instability that the market and some questions that the market had about the new government, which we had elections in the October and the new government arrived and took the right on stats and provide a stabilization a long-term deal for the country. But -- so this is instability -- the political issue caused an increase in the U.S. dollars compared to the Brazilian reals. But with the new government and the right actions that the new government took our exchange or the U.S. dollar decreased. The total decrease during these two First Quarters of the year represented at 18%. If you look just Second Quarter 14%. But if you turn to the gross margin impact it decreased from 39% to 36%, why? 10% of our cost of goods sold are real denominated which is the labor cost. So with depreciation of the local currency the labor cost related to our cost of good sold were more expensive. So, in fact it is -- one of most of this half, it is three basis point decreases in our gross margin were related to that and the other part was really product mix. Remember that this quarter, we believe, with last ERJ is 145, more ERJ is 135, than more Erg's 140. There was an increase in defense revenue, which when we are in a development phase, the margins of the defense business is not as high as the commercial business, because we are developing our product. So. But mainly -- the main reason here was this cost of goods sold composition was 10% were (laborly) related the local currency denominated. Yes.

Q - Analyst

You know, if you go back to your previous slide, I guess I don't -- may be I don't get it, Q1'02 versus Q1'03, your margin is ultimately 20 basis points despite the currency swing of over 10% and Q2'02 versus Q2'03 you are off 270 basis points or so. So are you saying how much of that swing year-over-year is mix versus currencies, is kind of what I was getting at?

Q - Corporate Participantunidentified Corporate Participant

Yes, we believe that this is most related to the currency. Okay although Real appreciated here, that was -- the increase in Real, if you look historically to come back, our historical model has been something in the range of 37-38%. So, that was already here on increase of this volatility of the appreciation of the US dollar against the local currency. Okay 2002, I mean 2001 gross margin was roughly 37% at the end of 2001.

Q - Analyst

On your press release, I think, \$450 million of your accounts receivables have financing to be negotiated. Should we assume that a 100% of that have letter of intent to provide financing or people are actually searching for financing?

FINAL

Q - Corporate Participantunidentified Corporate Participant

No what we -- when we presented here the accounts receivable, we broke it in more details, like part of the negotiation is being negotiated with the BNDES for which at the end we are almost in our 60% more or less being related to the BNDES deal.

Q - Analyst

The rest of the market --

Q - Corporate Participantunidentified Corporate Participant

Yes.

Q - Analyst

You have letters of intent for (inaudible)?

Q - Corporate Participantunidentified Corporate Participant

\$243 million on market, okay. What we did, we broke it down between our (BNDES) which is already committed, approved. And everything. \$287 million is just in finalization, okay let's say contract, a legal site. He had 287 million related to negotiation that we are having with (BNDES), \$243 million and the \$47 million are like (summer) market, which includes also some defense sales and other business like these commercial businesses.

Q - Analyst

Couple of questions. I apologize if you have already answered. I have come in late. Why has there been a significant increase in other accounts payable and accrued liabilities?

Q - Corporate Participantunidentified Corporate Participant

It's based on -- it's based on provisions for tax that we are accruing, that we are not paying but we are accruing. It has been denominated; when you have evaluation of reais against dollar it has a natural increase. Okay. Thank you. Next question.

Q - Analyst

Retuning to the matter of the financial guarantees, can you disclose the aggregate balance of these financial guarantees that you have outstanding. And what sort of guarantees are there. And primarily it was a residual value or they were recourse for the entire financing and are most of you deliveries at this point includes some kind of guarantee about Embraer?

Q - Corporate Participantunidentified Corporate Participant

Could you repeat again please?

Q - Analyst

Bloomberg Transcript

FINAL

With regard to the financial guarantees which you recorded a non-cash charge in the quarter. Can you disclose the total aggregate balance of financial guarantees that were outstanding as of June 30th? And can you tell us a little more about the breakdown of these guarantees are they residual value guarantees, are they 100% guarantees for the entire financing. And are most of your deliveries this year benefited from some kind of guarantee from Embraer?

Q - Corporate Participantunidentified Corporate Participant

The non-recourse debt that you are considering is not related to guarantees. Actually, its structures using special purpose entities where you are obliged to consolidate, which it registers a sales type lease, where you consolidate at present of the transaction which is a long-term structure and regarding the financial guarantees and the residual value guarantees, they are closed on the (20-F) I believe (inaudible) is important to take the (20-F) and read the balance and guarantees if you have here.

Q - Analyst

20-F

Q - Corporate Participantunidentified Corporate Participant

That the answer is in language of question.

Q - Analyst

But I am confused because you said non-recourse and special purpose entities, what is that to do with if it is non-recourse, there wouldn't be any guarantees. May be (inaudible) I think.

Q - Corporate Participantunidentified Corporate Participant

That's right. It is non-recourse debt. It is not related to guarantee. That the -- non-recourse is not related to guarantees. There are two different aspects. One is non-recourse in relation of the (SPGs). We need consolidated because the rules of the (inaudible). But (debt SPGs) is not in our (SPGs). This (SPG) is only for the finance (territory) and that is (inaudible) in the FAS before making that consolidation because that's not (recourse). It is completely different than the guarantee. The guarantee we are relating in the (inaudible) exposure we have in relation of (RBG) and then others and that Mauricio has the information here. Did you understand the separation between both there are two different things one is no recourse in debt, the other is guarantee.

Q - Analyst

Yes

Q - Corporate Participantunidentified Corporate Participant

Which has the difference requirements for disclosures.

Bloomberg Transcript

Q - Analyst

Right. Yes. Can you tell us has there been a meaningful increase in the total guarantee exposure from December 31st through June 30th, the provision for guarantees?

Q - Corporate Participantunidentified Corporate Participant

The amount of the guarantees.

The amount of the guarantees is the difference between the June and the December.

Q - Analyst

Right.

Q - Corporate Participantunidentified Corporate Participant

The provision was roughly \$21 million for the semester.

Q - Analyst

No the total outstanding balance of guarantees?

Q - Corporate Participantunidentified Corporate Participant

The balance of the guarantees itself doesn't change much. I mean if you look from this December now I mean it's similar. What is important to analyze is not just the guarantees itself but what we have backing up this guarantees. So we are talking on the (inaudible), we talk about roughly of \$1.4 billion in guarantee but the total amount of this asset supporting these guarantees which is the value of the asset or value at \$1.7b. So we are very comfortable with the value of the -- that's presented now and we did not see a large increase in there is -- or changes on this assets that are assets of these guarantees

Q - Analyst

Thanks all of you very much.

Q - Corporate Participantunidentified Corporate Participant

I believe its important we best try to answer for you to understand wells what the amount in the December and much -- is possible for making the estimation about to us -- the increase up to semester. We did not disclosed on this Second Quarter because it's requirement of a full US GAAP and we don't do a full US GAAP of all of the notes during the quarters. So, based on the full US GAAP that we issued in December where we have the discloser on the 20S (Note 37). I am extending, doing a mental calculation. I would say that the financial guarantees which should be disclosed briefly were doing an US GAAP could stand the same level as we disclosed and on the December 2002. What changed it from December to the actual figures is the level of consolidated amounts on temporary on the structure finance transactions. Where you can see in our consolidated financial statements, where we had \$950 million roughly consolidated based on those transactions where we consolidated for the Second Quarter \$1.3 billion on this structure.

Q - Analyst

Good morning, guys. Juts a quick follow up. With respect to well levels reported and the current exchange rate environments have you changed any of your U.S. dollar assumptions for with respect to your capital expenditure and R&D forecast for the next two years?

Q - Corporate Participantunidentified Corporate Participant

No. We are keeping our programs as planned and they are very much focused on the Embraer (170, 190). Remember please that we are going to deliver the first aircrafts, November was here doing 70. But August next year did it 175 August 2005 doing 90, August 2006 195. So, furthermore we are with several developments on the 145's that are come -- so we are keeping our programs going ahead. The only thing that we did is that we reduced the speed of implementation of the new facility. We are still moving there. And this month of August, we started our production of ALX the ALX and that (facility sold). This direction is the same we just put somewhat a lower speed in the (implementation) of the new facility. Today over there, we have the flight test team and stock over there. We have the ALX production and other structure that are being put together by (inaudible). That's what to have there. We are keeping our plan to further implement other operation facilities over there.

Q - Analyst

Great. Thank very much.

Q - Corporate Participantunidentified Corporate Participant

Thank you, very much.

Q - Analyst

Mauricio, on the non (inaudible) orders that you booked from U.S. Airways and JetBlue, could you update us on the financing?

Q - Corporate Participantunidentified Corporate Participant

Yes on JetBlue it is easy, because it is their task through from to finance; we do not have obligations in respect of finance. Of course we will help them to do whatever is necessary. And they know that they are also looking for being (inaudible) as one of the sources to have them finance. But this is for JetBlue, which has a fantastic credit rate and I don't see any problem there. U.S. Airways, we have the commitment to finance the range finance for a number of aircraft --

35.

35 aircrafts, which we are working with. That's how we spend the day.

Q - Analyst

Could you talk little bit, about your manufacturing capacity for the mix series of planes the 170s and 190s in 2004 and 2005? How many planes would you be able to produce a month by the end of 2004-2005?

Q - Corporate Participantunidentified Corporate Participant

We are expanding our capabilities in respect of the plan that we have -- we have stopped it -- we have forecast (inaudible) --

Q - Analyst

At the beginning for the next year 2004 is 46?

Q - Corporate Participantunidentified Corporate Participant

46.

Q - Analyst

And now?

Q - Corporate Participantunidentified Corporate Participant

We are now looking for something like 52 next year and we had planned to have a stable production of about 84 aircraft per year. We are already expanding that to make about 100 per year. So these are plans, production plans that we are looking for. We are -- this means that industrially we are preparing ourselves to move at that pace rather what we planned before.

Q - Analyst

And do you anticipate that margins on the new design are going to be comparable to what you are now making on the --.

Q - Corporate Participantunidentified Corporate Participant

I am sorry.

Q - Analyst

Are the margins and the possibility of the new jets are going to be initially lower and you are currently making under 145. So are you anticipating to be about the same or higher?

Q - Corporate Participantunidentified Corporate Participant

No -- no in proportionally speaking it is the same margin -- should be about the same margin in absolute value for the course of the figure.

Q - Analyst

Certainly there are of course and learning curve that -- its absolutely natural.

FINAL

Q - Corporate Participantunidentified Corporate Participant

Learning curve has a very important impact in this margin. I just recall that when we started it's not the same situation, not at all because what in fact what I am going to comment now were other factors just much beyond the learning curve process. The point is when we assumed the control of Embraer, the 145s were then manufactured and the production cycle would take 15 months. Today they are taking three and a half months. So we imagine what this may represent in terms of productivity. Of course, this is not the situation today with 170 to process (inaudible) implemented, that's much more effective. But we are going --we will be also taking the benefit of already incorporated products.

Now I think we'll open for the people that is on the call. So we will answer some questions that they have and then will return to the room.

Operator

Ladies and gentlemen if you would like to pose a questions please press the '*' followed by the '1' key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue press the '#' key.

Our first question comes from Mr. (inaudible) with CSFB

Q - Analyst

Hi. Good morning, ladies and gentlemen. Good morning, (inaudible) Well two questions first I would like to understand in the following quarters if you would expect the reversal in its operating margins or we should continue to see this significantly margin erosion in the coming quarters I mean third and Fourth Quarter? And the second question is more general question. What's your feeling about the overall industry outlook in the coming quarters, specifically, as it relates to aviation companies eventually increasing their appetite towards regional jets including the 170 family.

Q - Corporate Participantunidentified Corporate Participant

(inaudible) thank you very much. We see our operation margins to become to the levels that we have been practicing in the past. What's happened with us in this quarter was a specific charge that we received because of the swap operations as we mentioned. What (receive) them is the reestablishing of the operating margin that we have been practicing so far. With respect to the overall Industry I -- what I see is that the aviation industry is rethinking it self. I think that they are doing that in several aspects, looking to the cost, reshaping their organization, looking how they can better sell their customer, put in a real sense of value on what they are performing. And in this context I think that we took to the correct actions in event identifying the market requirements for this new phase. And what I mean is that in the recent past actually as of today you see the to (rules) that do not require a big jet, they are operations taken into consideration that equipment and causing damage and losses for their operations. You would see also on the quarterly (routes) that could be served by some bigger aircraft are still served by 50 seats or smaller jets. All of - everyone of those actions they cause damage and you will see that there is a large proportion of the market that is not served by the correct equipment. We made a survey in the United States market and we realized that about 50% of the correct figure we can

Bloomberg Transcript

FINAL

even present but something like 50% of the flights would comprise aircraft with less than 120 seats and where are there? They're not there. This market is being severed either by smaller jets or by bigger jets. Not the correct aircraft. So what I see is that the family of aircrafts that we are introducing in the marketplace, which offers the airlines and their final customers, the passengers offer the performance, the cost effectiveness, the comfort. And the reliability of a big jet with the adequacy in terms of operational cost and expense to that specific (load). I see then that this family of brothers that are been introduced in the market, they have all conditions to be very successful. And what happens this semester this first half of the 2003 is the endorsement of what I am saying. US. Airways with 85 aircrafts from JetBlue 70-seater JetBlue with 100-seat, LOT 70 seats, El Italia, which is going ahead. And this non disclosed customer with there 100 seats. So this means that we are in the right track. There are several, several airlines in the world looking with interest for this new family of aircraft. So I think that this is a real trend. There is a requirement for that. It is necessary for the airline to introduce the core (inaudible) equipment to the correct route -- to each specific group. So I see this as something that is going on.

About the low cost airlines, to introduce this aircraft it will depend on their expansion. It will depend on their views, on their operations. JetBlue did not denied their basic process. They are using in a certain market their Airbus 320, they decided to approach another market and then they choose the correct Aircraft to that specific market. So that routes that they operated with efficiency taking in consideration Boeing 737s or Airbuses A320s by the low cost airlines. I think necessarily they will keep with them. But if they want to expand to lighter market for sure they would need the proper aircraft to do so and we have the proper aircraft.

Q - Analyst

Just one final question related to the Chinese joint venture. There has been some speculation that you would be a little bit delayed with your original timetable. I know that you had (inaudible) some problems in accommodating the Chinese engineers that were sent to Brazil to integrate for our Embraer engineers. But you know, could you comment on -- are you on track or is any delay that we should expect from that part of the globe?

Q - Corporate Participantunidentified Corporate Participant

No, we have no delays. The first aircraft will be rolled out and delivered by December this year. Of course, there were difficult. But difficulties were managed out and we keep follow-up program.

Q - Analyst

Okay, thank you very much.

Q - Corporate Participantunidentified Corporate Participant

Thank you.

Operator

Our next question comes from Mrs. Sara Delsy (ph.) with Bear Stearns.

Q - Carl Weaver {BIO 3448134 <GO>}

Hi, this is (Carl Weaver). I just have a question concerning the BNDES financing. And that this is -- may be I'm not being able to visualize the flow of resources here. If we receive roughly \$400 million from the BNDES, I would like to know why doesn't total debt -- why doesn't it increase in the same proportion, that would be the first question. I mean it maybe part of that was used to drop down debt. I saw that drop down receivables, I saw that receivables go \$124m. If that's the case would the reminder be accounted for and recognized in Q3. In another words, do you see an increase in accounts receivables because of this BNDES financing? Thank you.

Q - Corporate Participantunidentified Corporate Participant

What you see in terms of our accounts receivables, yes we collected something about \$300 million this quarter. At the end of this quarter from BNDES. But we were still delivering aircraft. Let's say that we had different speeds than the BNDES. So by the end of this quarter, we ended -- we still have some receivables from BNDES some -- which we expect to collect it soon. We have still some negotiations going on with them and also we have some aircrafts to be financed by the market. Therefore, you did not see a decrease in accounts receivables in the same portion as we received the amount from BNDES. Therefore that wasn't an increase in our net cash position in the same proportion.

Q - Carl Weaver {BIO 3448134 <GO>}

Okay, that's very clear, thank you.

Q - Corporate Participantunidentified Corporate Participant

Welcome.

Operator

Ladies and gentlemen if you would like to pose a question, please press the '*' key followed by the '1' key on your touchtone phone.

Q - Corporate Participantunidentified Corporate Participant

Now, if we do not have more questions from the call, we will return to the questions here at the room. And after we ended the questions here, we'll return to the conference call. Thank you.

Q - Analyst

Two questions. How the implementation of 145 affect revenue recognition going forward. And how do you respond to the article on July 14th which callously said that Embraer should start looking for other means of financing pretty much as the BNDES is, I guess more of a developing companies? Thank you.

Q - Corporate Participantunidentified Corporate Participant

Yes there are several articles saying that we should not be dependent on BNDES, we should look for alternative source of finance. If you look at our operation, you'll see that from January '95 to December 2002, we exported somewhat over \$12b. Something more than -- likely more than \$6.5 billion were financed by international structures and operations, 5.5 by BNDES. Before September 2001, this ratio was bigger for the international structures, though the ratio was something like 65-35%. So, definitely we are not dependent on BNDES; however, there is an abnormal situation today, where the international market is very much avert to finance airlines and this is a specific moment in that we are living. And that's why it is necessary and that's why we are focusing very much in the support of our export credit agency which is BNDES. The point is that what structures are we talking about, most of them were based in the U.S. leverage lease or similar structure. This U.S. leverage lease took in account the distance from operations of huge amounts of profit and huge demand for tax benefits and aircraft is an assets that can be depreciated amortized in a very shorter time. So that would comply with that requirement. What happened from September 1, is at first, economy slow down. So there is smaller amount of profits and an aggregate value that is as a consequence as well as demand for tax benefit for the more. The investors are looking to the airline industry with great concerns still. And so there are very few opportunity in the international market to structure a financial operation, to face the airline requirement. So -- but this is something that is monetized. It is impossible to think in a world with out a strong aviation sector, it will not happen. Business requires that, pleasure tourism requires that. And I think that things are going to move up again to levels before, I don't know. But for sure it will be different from it what it is at yesterday. We see airlines commencing today that the bottom of the beat was evaluation and they are coming up again. We see Lufthansa announcing losses, yes, compared with profits one year ago. But smaller than what was expected and commenting that they think that the worse period is over. We see perception from different airlines and different countries say that traffic is growing. So I am confident that this is a matter of time, not too much time. But sometime to have this situation solid, profit operation coming back again. However, we have the transient and that's the problem. The transient is the problem and this transient the support from the export (inaudible) is necessary. And we will keep having it. I don't have any doubts about that because our objectives as a company are the same objectives of BNDES, our export (private agency); the same objectives of the government we provide very sound great balance contribution. We provide sophisticated employment with developed technology. So, we are in compliance with the strategic issues that are very, very dear for the government. So, that's how I react pursuing with confidence the way that we will have the support from our export (private agency). May be it's not the support that we would like. If I will have today source of finance, I would be delivering many, many more aircrafts that what you are doing may be that's not the support that I would like to receive. But for sure I would like -- I will receive the support that will allow us to proceed in our plan. And -- sorry excuse me -- and, I expect that the normalization against the national market comes back in a reasonable time.

Sorry there is another question.

Yes, regarding the, Embraer has (already) implemented the (inaudible) 45 effects on the U.S. GAAP 2002 and partially these kind effects has been (around) recognized on the

captive insurance structure.

Q - Analyst

Could you talk (well) say about -- I have two questions one as defense becomes bigger mix -- a bigger part of your sales mix what are margins in your defense right now. And where do you see this business growing to as a percentage of your revenues in the year from now and second question on -- could you comment on your outlook of what you see in terms of pricing for U.S. business jets and how you are traveling, entering, or getting share or whatever in that market?

Q - Corporate Participantunidentified Corporate Participant

Defense, yes we are increasing the defense portion of our business not at the base that I would like to have not that this is a standard I would like to have because this increase in share is done in a situation where I am decreasing the total revenue. My objective and what we are pursuing is to grow the defense and the corporate business parts of our operation with increase in revenue. But it is important at this movement to see that we are expanding in difference in different ways. We are expanding in Brazil, we are expanding in Europe, we are expanding in Asia. And I think and I believe that the moves that we have established to face the U.S. market they are good moves. It is important to realize that we are not intending to come to the next stage to supply for the defense market, to compete with the U.S. companies. No, on the contrary we are coming here to offer the U.S. companies ways and means to be more competitive here along, -- against the other competitors. To those who are allies with us we are providing the best effective, cost effective product to, -- I am talking about ISR systems, intelligence surveillance and reconnaissance which are systems which are manufactured by northeast, north (inaudible), Boeing and so on. But we are offering to a certain level of system, the best platform, the most cost effective, the most operationally tested platform to be used and to receive that those systems. So that's why I firmly believe in the success of our infant -- because we are not here to face a buyer from the competitors. On the contrary, we are supplying means and elements for those to whom we are allied to become more competitive and more -- to succeed. So I think that this is a very important move that we are taking and I believe that very soon we may have a result. The margins in defense, they are good margins, point with the defense system compared with the commerce is that they are longer term contracts. So they take more time to make this results effective but they are good margins. Look into the business jet, the corporate aircraft business, which today is in a crisis. It is in a crisis because of the economic situation, because of the scandals -- corporate scandal, which I think, would make very much difficult for a CEO to have the acquisition of a corporate jet approved in their boards. I think that this has an impact as well. But what we see is that in this scenario what are we presenting. We are presenting a product, which is extremely cost effective and providing the operational parameters and the comfort that is outstanding and similar products like that in the marketplace our priced at much higher value; not only talking about the acquisition price. But talking about maintenance and operational cost level. We have to remind that our view -- our products which is the Legacy for the corporate aircraft segment. It is as a machine, proceeds as a workhorse. We cannot forget that it is a machine. It is original Jet, which was designed to operate about 3,000 hours per year with 2,500 cycles per year. What is the corporate aircraft that performs like that; very few, very few. So, this means that that product that we are offering the market is an enduring product as an endurance much better than the

(sooner). What we see is that, of course, today there is a pressure on the price. Of course, competition today is much bigger; every one of the manufactures, I think, has (copious) capacity. So, today there is a very fierce competition. But it's -- again it is a matter of time because we are not only -- business jet they are not only luxury items, they are working too and those who can provide comfort, performance. And reliability with good price I think that they will succeed.

Q - Analyst

(inaudible) seeing any change on the margin, who are you talking to, what should we expect in that area? Thank you.

Q - Corporate Participantunidentified Corporate Participant

In respect of new orders versus (being dealt with) there are different complaints as I said in Europe, United States. And in Asia. There are some complaints that are discussed within the press, some that are not. And cannot be disclosed. But there are complaints for instance Sun Alliance, the four members -- four of the members of the Sun Alliance Group are today discussing for a significant acquisition of aircraft in the range of 70-100, 106, comprising SAS, Lufthansa, Austrian. And The AirCanada and their intent is to have a common (fleet) and the common acquisition of one type of aircraft only, which means to take the benefit of the size of order. So, I think that there are several complaints in course. There are several opportunities that are being pursued. I apologize but items that are not disclosed publicly by the customers we cannot comment on. Our goals for the three to five years, they have to do with the strategic views that we have with this business. We don't see this business because of its fundamentals which are in my view, the hi-tech, highly technological business not only because of the products. But because of the tools, the systems that you use everything at every part of the company, not only in engineering and in production. But also in financing, the management, logistics. This requires the passion, techniques and technologies available. As a consequence, demanding very highly qualified people and because it is a high-tech business with the challenges of this business, which is global business with the challenges of competing far very far from your own country and living with different environment and in a high-tech background concern, this demands very highly qualified people and you just have qualified people unless they are experience, if you are constantly motivating this people to grow personally and professionally and you just can do that if you grow. So, growth is a driving factor in this -- in this business. We must look to the future with the vision of growth. We cannot look at that as a future to be accommodate, this means that we will die if we do that. So growth is a permanent (backfire) that we have in our attitudes that we must come to grow, grow in terms of product line, grows in terms of customer base, grow in terms of global presence. This is the growth is the driving factor for this business. Of course though sequentially it will demands profit and it demands cash, it demands investment. So. And it is a long term business, not the short, we cannot have short term view in this business. So, when we look, when I look to the company, in the three, five years, I see a company that is in accordance to our plans, in accordance with our development. I see a company very well established in the commercial airline business with significant market share, we already have a significant market-to-market share, as you know from 30 to 50 to 70 seats we have about 48% of the market from you consider 32, 110 seats we have something like 38% of the market. So, very good market share. So, I see this continuing and growing. We see us establishing in different regions of the world firmly, not only for service but

including some manufacturing facilities outside our home base. I see us with a network for customer service that is first class, that's how we look at it. We see us solidly established cash with a proper investment in a modern company in every part that you may look at. So I can just answer your question conceptually. There is another one.

Q - Analyst

You indicate on June 15, your revised the backlog for both this year and next year, can you discuss why you reduced the back or the delivery schedule -- in the forecast delivery for this year and increased it next year, or have some orders at have been cancelled or postponed this year. And why the increase next year please?

Q - Corporate Participantunidentified Corporate Participant

Yes, they decreased this year because of cancellations, I have the cancellations of the Indigo at we at that time, by June 15 we did not believe that the customer could comply with their obligation so we had something like seven aircraft to deliver that the we just forgot. We saw for or other that we still were expecting to happen then we saw that it would not happen.

the certification.

The certification of the 170 that was forecast to happen by June, July and was postponed to November. And as far as this postponement happened that they retailed the customer to receive the record had to postponed as well. So, they were our different factors that caused us to revise downwards our forecast we delivered this year you know a 132-110. On the contrary, we saw that the success that we had with some orders with some complaints for the 170. They were -- they would require to deliver more aircraft next year then we were or seen at the beginning. So we have to grow our production (inaudible) delivers next year. We saw also some other customers that we were -- using these jets to be delivered next year instead of this year. So that's the evaluation of the situation and the scenario that rose the business and our customer's activities.

Q - Analyst

Thank you

Q - Corporate Participantunidentified Corporate Participant

Welcome.

Q - Analyst

Two questions one what do you expect the decision from (Star Alliance) this quarter or this year and second question regarding the dividend, I think, you mentioned that it's a government policy to pay out 25% some of those who have been under impression that you paid out 45% and is that 45% based on U.S. GAAP or local GAAP?

Q - Corporate Participantunidentified Corporate Participant

FINAL

Based on the -- I'll answer back wise from the last to the first. The dividends yes. The Brazilian law is not the government, it is a law that the corporations have to -- they must distribute 25% of their net profit. In some situation, very specific situations that must be thoroughly explained corporations may not distribute dividend. But that is something extremely serious to be allowed. 25% of the Brazilian GAAP profit meant in U.S. GAAP some to like 45% yes. But unfortunately that we have to comply with the basic regulation, which is the Brazilian law as we are a Brazilian corporation. The second point you raised about that alliance, there are making short yes, we expect a definition of this standard by December this year making sure. But I will elaborate a little bit on that because this Star Alliance issues started last year. So you will see that nothing is very determinate -- that deterministic in this scenario that we are in. But I think really think that we will be able to define the position by the end of this year. There are airlines that are with different speeds and different speed for there requirements, some are requiring aircraft very soon or those are requiring later on. Some of the airlines are not in conditions at all today to commit with acquisition of aircraft because of their financial situation. Air Canada is under Chapter 11 concept today. It do not have ability to commit with new aircraft at this moment. So, I believe that this order will come with this definition, will come by the end of the year. I'm very confident that they are keeping their concept up, which means one only type of aircraft, one only specification for 70 seats and the 110 seats. And -- but there will be different timing in respect to the any specific airline. But it will go on.

Q - Analyst

I was wondering if you could address the issue of market segmentation caused by the 100 (inaudible) some of their common factors announcement of the order indicated that they thought that this might eliminate large amount of the 50-seat market. I am not sure that would marred you. But I was referring what your thoughts are on how the market segments between the two planes, especially given your comment that many of the 50-seaters are on market (inaudible).

Q - Corporate Participantunidentified Corporate Participant

The aviation industry it -- they have to face a very different task. The task of determining what sort of aircraft and how (inaudible) locates the fleet and what sort of fleets we should have because a route is not only a geographic issue to connect two cities. It is in fact an economic situation because (guides) to that route you have certain demands of passengers who are willing to pay for a certain value to the transport. So, if you put together geographical parameters, demand. And price and pricing capabilities for that certain group of people then you have a very complex economic equation to show. What I think and I learned is that you have the correct aircraft, the most adequate aircraft to solve different solution. You don't have one only solution, you have several. And that's why you have aircraft with 120, 135, 100 whatever. The gap between 122, 130 is very small, 135 -- anyway you have a different aircraft segmentation in the large size of the business. What is wear and amazing is that this same situation did not happen between 70-110, 120 and that was because in a traditional (market industry) that's was the scope was since we long discussed issue. But the point is that I think that there will be a market for the 50 seater, for the 70, for the 90, for the 100 and they are specific markets because there are specific demands and the complexity for the operators for the airlines is exactly to manage a mix of products in their fleets that can supply all the markets that they address. For example, what happened with jet blue? The concept that rules jet blue is the same

concept that rules south west airlines. One only (samples) aircraft. But there is something under brackets that's not always, that does not always, spells out to that specific market, because if they change their views of the market they will not operate that aircraft or they will not serve that market. The point is that there will be always a market for a 50 seater as well as for 70 for 90 for 100, depends on the focus of that airlines to respect to the competitive environment, what they think they can have competitive advantage in terms of the competition that's all I see.

Lets open again for question for -- there is no questions. As a (foreigner) I am sorry but we do have some questions (inaudible) I was mentioning the phone.

Q - Analyst

Three questions. You mentioned the trade accounts receivables being (inaudible) still at normally high but as we think about going into '04 as you ramp-up from a 110 to the 140 what that number you are talking about 160 for 2004, can you talk about where you see trade account receivables going? And talk about where you see net cash by year end you swung from a net debt position to a net cash business quarter and part of the reason why in fact it looks like you could have easily done better if you hadn't had to add some debt given the timing on the (NDS) did you see the debt coming down and where do you see cash ending the year, I think I will stop, I will ask one at a time.

Q - Corporate Participantunidentified Corporate Participant

If you look that ways you will see that the level of trade accounts receivables through a much (moirÃ©) than they are today. So, what's happening? What's happening is that the market -- the (rate) is more -- it takes more time to complete the financial structure then it did in the past. And that's why we assume the interim support for the airlines during the time that we build up the financial structure or the customer gives up their financial structure. The point is (inaudible) not over Embraer (inaudible), I think, it was something that is very much concerning all the industry is that until you have the international financial market, up again and supporting the aviation industry this will be we maintained. I don't see that we can come back to handle (\$1m) trade receivables through the accounts receivables that we have to experience two years ago at this moment. I think that it would be very hard to be together, I think, that we will have the same level -- about the same level of trade accounts receivables for months to come. But with net cash that is reported -- net cash momentarily and (inaudible) we had a net investments but that was something that we don't expect to be reviewed.

Q - Analyst

Okay but can you (rewind) with the way you see your net -- your net cash ending by the end of the year. Do you have some visibility on to what you are expecting?

Q - Corporate Participantunidentified Corporate Participant

That strongly is -- that's difficult to say.

There are some of points the (inaudible), if you look at that figure we have three different level of the achievement in debt processes certainly in this debt we go faster. Debt is

FINAL

depended more going to be in the (inaudible) our debt closes is only (inaudible) across to finish the plus, (exactly) we spend it for at least six months, seven months may be if today we have a may be condition facilities. But don't know exactly go to finish that process and that using the market. We during the last few weeks and in the next week, we will expect many of the finance institutions to try to finalize certain statutory. We believe the (inaudible) related it's very difficult to say --say you would now exactly when go to finish with this. And the cash in the end of the year growth depends on the when go to finish with this and (inaudible) other is commencing in the next few months. We go to working to the next quarterly release will give you more information and better information.

Q - Analyst

Okay, Vitor, can you talk a little about pricing both you had a good order quarter this quarter 126 net orders. But obviously with U.S airways and JetBlue there is some question as to extent of expected profitability on those order, can you touch a little bit on that as well as touch on any color you are seeing as you talk about the campaign, some of them ones you mentioned that were known and unknown. Are you seeing any improvement in pricing or at least stabilization of pricing in that side?

Q - Corporate Participantunidentified Corporate Participant

Well, there is something that is very interesting because there is on buyer that says their price is good, there is no seller that say this price is cheap. So his expense is high. So, it is all about pricing, it is -- you don't have one only answer for that events. The only thing that I guarantee you is that we do not operate for market share, we operate for profits. And some operations will have a better margin than the others. But there is number of factors that may affect that, not only the price that you share. But what is the support that you are having from your suppliers, are they committed with that campaign in relates to support you or not, are they willing to really make significant efforts to preserve the feasibility of certain operations. So there are so many issues that it's difficult to say about if the prices are going to increase or decrease. But the point is there is tough competition today, of course there is. If the market is reduced and the players are the same, you will have tougher competition. And then you will have to be very creative to build up separations that may keep your competitiveness at the same time that you'll will keep your profitability. And we are working for profitability, we are not working to just say that we achieved the market share, no way.

Q - Analyst

Any color on pricing in the current environment. I mean --?

Q - Corporate Participantunidentified Corporate Participant

Sorry.

Q - Analyst

can you give us color on the current pricing environment? Are you seeing stabilization on pricing?

Q - Corporate Participantunidentified Corporate Participant

The campaigns are so unique, let's talk about stabilization. We still do not have poor rate of campaigns to say that price are stable. And the conditions that every airline also requires from the manufacturers are so different. It is difficult to answer this question of pricing, very difficult because you cannot be specific. There is not a secret to say yes, its that difficult.

Q - Analyst

Or then let me ask it another way I think, if you don't mind.

Q - Corporate Participantunidentified Corporate Participant

Sure.

Q - Analyst

You talked about when you -- earlier when the question was asked about the 170-190 profitability. You said that you felt that you were going to get to achieving similar profitability seen in the 145 family with the (inaudible) that you are going to go down the learning curve. If we address the issue of the deliveries that are going to be to the two major airlines that we saw in this quarter, would you make the case that the profitability on those deliveries are going to be similar to kind of good possibly your forecasting for the overall 170-190 family?

Q - Corporate Participantunidentified Corporate Participant

Yes, yes and the more that you -- the more affective you are in dealing with items that are in your hands -- that's best profitability that you have.

Q - Analyst

Okay, last and final question?

Q - Corporate Participantunidentified Corporate Participant

No problem, I have all the time, no problem.

Q - Analyst

Can you -- you talked about your expectations for deliveries this year and next, can you review for us the percentage of slots available that you have this year and next. So we can see what's the skyline looks like?

Q - Corporate Participantunidentified Corporate Participant

Yes, the percentage of revenue which is (inaudible)?

(inaudible).

Q - Analyst

No the full, the 110 and the 150 forecast deliveries this year and next.

Q - Corporate Participantunidentified Corporate Participant

For this year it is 110 is almost 95% --yes take it 94 or more or less. And for the next year we just delivered 8% -- sorry eight zero.

Q - Analyst

Great Thanks very much.

Q - Corporate Participantunidentified Corporate Participant

Welcome.

Q - Analyst

Could you update us on the certification of the 170 and (how you will) got their problems in hand?

Q - Corporate Participantunidentified Corporate Participant

We are committed with this November date. We are working strongly in that direction. Today, we are very close to Honolulu. We have an aircraft there at Honolulu's facility. We have 50 of our top engineers over there. And we are putting things up with them. They are very much -- things are progressing in that direction. And I mean that we provided old means to make that affective inclusively having an aircraft over there with 50 of our top engineers -- soft engineers to help put things there. So we are doing our job.

Q - Analyst

Since JetBlue is an airbus operator I am assuming when they have -- when looking at the 190 they also considered A-318, can you summarize how you believe that 190 and the 195 compared with the A-318 and 717.

Q - Corporate Participantunidentified Corporate Participant

Sure. Their A-318 will weigh something like 10 tons more than our Embraer 195 and some 12 tons more than our Embraer 190. So, this establish what sort of competitiveness that we have in addition to the A-318. Every time that you shrink an aircraft you bring with it some overhead, let's say that you cannot get rid of. So, this has a direct impact in weight and as a consequence acquisition price and operational cost. When you shrink an aircraft you don't think of system, you just think of aluminum and some seats. The rest of the aircraft is the same aircraft which was conceived to be bigger. So it is a big (budget). We've competed in airbus not with A-318. We competed with the A-319 and we won. This means that it is competitive with A-319 which is a bigger aircraft than the Embraer 190. So, it is a-- we are talking about aircraft in the same range (A318) is definitely; just in very special situation it will succeed, those two have it for the same -- for the mission that they are offering. The (A319) of course, is a bigger aircraft and then it will depend on the, sort

of, routes and demands and the economics of that route compared with what we would have with us. It will depend very much, a very much competitive aircraft.

Q - Analyst

And the 717, how do you bring them? How about (190 and 195) compared to (inaudible)?

Q - Corporate Participantunidentified Corporate Participant

The 717 from Boeing, it is an aircraft that is still heavier than ours and with the performance that is not the same, a smaller range than ours and somewhat heavier about 5 tons heavier than ours. Again, I think that the competition -- it was considered in the competition. But it has a burden on it. It is one only (bird), there are no other brothers or sisters to allow the airline to grow or to adopt their operation and take the benefit of commonality; and this is again a burden for them. If you are talking about an airline, which is, for instance, stocking on aircraft of 70 seater and 100 seats, for sure we have a competitive advantage on that because we can provide basically the same types of (inaudible) which means the same crew -- flying crew, the same mechanics, the same logistics which represents a benefit. And this is what Airbus so well has practiced it with their family of aircrafts. But to present difference in weight and as a consequence in acquisition price and operational cost for the (A318) makes it very difficult for it to compete in the market.

I think we have just time for one question.

Q - Analyst

Okay just one question. Can you comment on the announcement coming out of Russia on the Russian regional jet? And how do you see that developing?

Q - Corporate Participantunidentified Corporate Participant

Russia, they have been very good; the Russians have been very good. There are a lot of engineers since the beginning so they have the engineering capabilities for sure. There industry however was hit very much in the last 10 years and lost very competitive advantage that they could eventually have. So, what I see is that they have the engineering capability but industrially speaking there is big -- there is big hurdles to overcome because it's different and when you talk about an industrial product and you see it an engineering solution. Engineered solution is something that provides solutions for a specific (separation) and industrial product is an engineered product that has an industrial view which allows it to operate constantly efficiently for years with a very strong structure to back it up and this what that the difficulties are in the side of the Russian regional jet. They have the capability, they will do it if they have the cash to support the development they will do it no doubt about but if you take a time to provide a strong service network to assist the product.

Q - Analyst

Okay.

Q - Corporate Participantunidentified Corporate Participant

Okay. Ladies and gentlemen thank you very much, thank you for our patient, thank you for our presence. Look forward to see you in a better moment.

Thank you. Thank you, very much and if you need any kind of explanation (inaudible) figures and the results we -- on the last settlement we completed this (inaudible) practice.

Thank you, very much. And we'll have in November; we will hold our investor meeting in Brazil, which will be at 20 and 21st of November. Also, we are -- will just after our release. And we hope that we will have that 170 available to take you flight with some of you that are able to go Brazil. It is a pretty interesting event. And after that, we will be back in our New York meeting in April or March, April for the; -to announce and to update whatever we presented in the Brazil will be presenting here. Thank you.

Okay. Any technical or what prepared questions you can address through the question you can address to the Market Relations and we can answer that. Thank you, very much (inaudible)

Thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript