

## Q3 2003 Earnings Call

### Company Participants

- Anna Cecilia Bettencourt, Head of Investor Relations
- Luis Carlos Affonso, Vice President, Engineering and Development
- Mauricio Botelho, President and CEO

### Other Participants

- Fadud Agassi, Analyst
- Gregory Polek, Analyst
- Ricardo Fernandez, Analyst
- Ronald Epstein, Analyst
- Stephen Trent, Analyst
- Unidentified

### Presentation

#### Operator

Good morning, ladies and gentlemen and welcome to Embraer's Conference Call. Thank you for standing by. At this time all participants are in a listen only mode. Later we will conduct the question and answer session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero. As a reminder this conference is being recorded.

This conference call includes forward-looking statements or statements about events or circumstances, which had not occurred. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business and our 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 in other markets where we are present.

The words 'believe, may, will, estimate, continuous, anticipate, intends, expects' and similar words are intended to identify forward-looking statements. We undertake no obligations to update publicly or revise any forward-looking statements because of new information, 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. Our actual results could differ substantially from those anticipated in our forward-looking statements.

With us today are Mr. Mauricio Botelho, President and CEO; Mr. Antonio Luiz Pizarro Manso, Executive Vice President, Corporate and CFO; Mr. Marcel Rodriguez [ph], Controller and Ms. Anna Cecilia Bettencourt Head of Investor Relations. I would now like to turn the conference over to Mr. Mauricio Botelho. Please go ahead, sir.

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

Good morning, it's a pleasure being again with you and presenting our results for the Third Quarter 2003. And I would just add that I have also with me Mr. Luis Carlos Affonso, who is the Vice President for Engineering & New Products Development, who is in charge of the development of the Embraer 170/190 family of aircrafts.

I think that the most expressive news and the hottest news today is the issuance of a provisional type certificate for the Embraer 170 issued by the Brazilian airworthiness authority, CTA, Centro T cnico Aeroespacial and we are expecting the issuance of a similar certificate by the US Federal Aviation Administration, FAA by the end of this month. There is the; the issuance of this provisional type certificate allows the airlines first to receive the aircraft since it was considered in accordance to the best standards in the market as well as would allow the airlines to train the crews and to test the routes.

However revenue operation would not be feasible after the issuance of the final type certificate. The fact is that all the tests have been; they have been accomplished; flight tests and ground tests, the airplane was found to meet the specifications, performance specifications, safety, reliability. Interesting to know that one of the tests comprised the ...

## **Unidentified**

... function and reliability.

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

... function and reliability test, which took into consideration the transport of about 3,000 passengers in more than 50 flights just simulating a commercial operation to be followed by the authorities.

However, in terms of our final verification audits on the software, we've woven the fly-by-wire system, the authorities and Embraer and Hanover [ph] found that it would be necessary to complement the documentation for that system.

As a matter of fact, this would demand additional time and that's why we are now receiving just a provisional type certificate. We forecast issuance of the final certificate to happen on February 2004. I have; I'll pass the word here to Mr. Affonso to make some further comments on this issue.

## **Luis Carlos Affonso** {BIO 7234926 <GO>}

Thank you, Mauricio. Good morning, ladies and gentlemen. I would like to start by giving you an overall view of the current status and the results of the things this far on the development of the Embraer 170.

By the end of October, we concluded our flight test campaign, which totaled approximately 3,000 flight hours. We have also completed all of our ground test campaigns, which totaled 225 flights. And we had submitted something like 1,250 engineering reports to the authorities.

In other words, by the end of October all that was left was to close final negotiations with the certification authorities. It is important to point out that the results of things in the development phase, which I think is extremely important for the success of the aircraft has proven to be extremely positive.

The Embraer 170 meets and exceeds the requirements of performance, comfort, economic and other important points and requirements. It is an aircraft which will bring excellent returns to the airlines, the key points to its success.

Back to the certification process, we would like to inform you that the authorities have already approved the vast majority of the technical aspects of the Embraer 170. For example, all subjects restricted to flying quality, structures, systems, performance, interior and many others have been closed with the authorities. The innovative fly-by-wire flight control system has also improved in all its ground and flight-testing.

However, the recent audit of the formal software specification process involving our partner Hanover, Embraer and the certification authorities indicated a need to complement the documentation for the specification of the flight control software as a mandatory condition and this was defined as a mandatory condition to obtain the final certification.

So considering this scenario, the alternative; and I'm jumping to the second slide for those who are following this conference call through the Internet; so considering this scenario, the alternative was to obtain a provisional type certificate, which as explained by Mauricio, was obtained yesterday afternoon from the Brazilian authorities, the CTA. And this is of course a significant stamp for the Embraer 170/190 program. We expect shortly thereafter an equivalent certificate from the American authorities, the FAA.

What is the provisional type certificate? This certificate that the aircraft has reached international standards of safety. With this provisional TC, airlines; the airplane can be delivered to airlines and the airlines can start training of flight crew and routes testing. The only relevant restriction applicable is that commercial flights cannot be performed by the airlines.

However as I said earlier, the airlines can take delivery of the aircraft and start the preparation for commercial operation, which normally takes one to two months. To comprehend the scenario I would like to say that currently our planning indicates that the

final type certificate will be obtained in February 2004. So with that I conclude this overview and I will return the words to Mauricio. Thank you.

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

I'll make now some comments on the operational facts during this last quarter and talking about commercial aspects, we could record three sales contracts.

One for Columbian state government company named SATENA, which placed an order for two ERJ 145, which will be delivered by the end of this year. And those aircrafts are going to join with another similar aircraft, which is running operation with them; five Legacy aircrafts and special executive configuration and other systems that were ordered by the government of India, which will be delivered in 2005; one Embraer 170 aircraft sales to Cirrus, a German airline, with one option for the same model.

A relevant issue; not because the fact itself that what can be the resultant of this fact is that we are; we have formally joined Lockheed Martin to form a part of; to become a part of the group of companies that are participating in a bid for developing of the next generation of US Army's Intelligence Surveillance, Reconnaissance known as Aerial Sensor. Our role in this program is the supply of a platform based on our EMB 145, which is already operational in other countries like Brazil, Greece and starting to be delivered to Mexico.

The relevance of this bid is, that to the law has to penetrate under the FAS [ph] and the homeland security markets in the United States. If we succeed, we're going to have our factory installed in Jacksonville, Florida for the local assembly of such aircraft.

On September 29, we announced that the fuselage assembly of the Embraer 190 had been successfully completed. Today, those who will give us the honor to be present in our analysts' and investors' meeting next week will have the chance to see the aircrafts in our production facilities. Already receiving the (inaudible) the wings; sorry, the wings which are being matched now. So it is an impressive aircraft, which is following on the schedule as planned. We foresee a roll out beginning next year, first month or early February with a first flight in one month after the occasion [ph].

Talking about the financial issues that are relevant to comment now, concluded a US \$ 200 million syndicated loan with a seven-year term, which was cashed on July 1, 2003. The syndicate was led by Sumitomo Mitsui Banking Corporation and its commercial, political risk were guaranteed by Nippon Export And Investment Of Insurance NEXI, the Japanese government's export credit agency.

We developed further our partnership with BNDES, which the announcement of their support for a financial package for the export of aircraft, deliver them; to be delivered this year and holding up to a total of US \$1 billion. We are working to have this package implemented during the Fourth Quarter of 2003. And as of today, we have already received US \$407 million, which brought down our account receivable in an accrual of the amount.

Relevant to mention and we are very proud of that, is that for the third consecutive year we were nominated for the DOW Jones Sustainability Index. Selections were made among the best performers in social, environmental and economic areas. Besides Embraer, in Brazil, just three other; just only three other companies were appointed to this index. In the (inaudible) sector, Embraer ranks second among the four companies that were appointed. Well, I'll pass now the words to Anna Cecilia to present the Third Quarter results.

## **Anna Cecilia Bettencourt**

Thank you, Mauricio. So a total of 20 jets would lead this quarter, eight PU [ph] aircraft than Second Quarter 2003. This quarter we delivered seven ERJ 145, six ERJ 140, four ERJ 135 to the commercial airlines markets and three Legacies to the corporate market.

With the Embraer 170 certification, already explained by Luis Carlos Affonso, we revised our 2003 deliveries forecast and now we excluded Alitalia and US Airways, our Embraer 170 deliveries from our previous forecast. Therefore now we do expect a total of 31 [ph] jets to be delivered during the Fourth Quarter 2003.

Our net sales for the Third Quarter totaled \$438 million below the Second Quarter 2003 net sales. This decrease is a result of a few aircraft delivery partially offset by increase in the sales and customer sales revenues. The decline is also in part due to lower average sales price of our product mix. Gross margins this quarter increased from 36.5% in the Second Quarter of 2003, to 38.1% this quarter.

With the lower deliveries to the commercial airlines market experienced this quarter offset it by the sales and customers sales revenue, our corporate, defense; defense, corporate and customer service markets combined and represented 35% of our sales compared to 21% reached in the previous quarter.

During the Third Quarter 2003 SGNA and non-operating expense totaled \$79 million, lower than the \$86 million recorded in the Second Quarter 2003. As a percentage of net sales, they increased from 15.1% in the Second Quarter 2003 to 18.1% in Third Quarter 2003 due to the few aircraft deliveries as well as increasing in selling expenses, partially offset by decreasing GMA expenses.

R&D this quarter reached \$39 million and reflects the development of the new Embraer 170/190 jet family as well as improvements of the Legacy executive aircraft. In the Second Quarter 2003, R&D totaled \$51 million and was impacted in part by depreciation of the Reais during the quarter as most of these investments are denominated in Reais. Income from operations for Third Quarter 2003 totaled \$49.4 million rather than \$70 million recorded in the previous quarter.

In addition, operating margins for this quarter was 11.3% compared to 12.3% recorded in the Second Quarter 2003. This decline in operating margins is basically due to the decrease in net sales not matched by decrease in operating expenses. Net income this quarter was \$19 million and includes an extraordinary expense of \$9.2 million associated

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with the return of certain aircraft purchased by Indigo, which we are currently working to remarket in order to mitigate such expense. Net margin this quarter was 4.4%; higher than the 0.9% net margin obtained to the last quarter.

Looking through some balance sheet highlights. So we ended the Third Quarter 2003 with our total trade accounts receivables of \$981 million; an increase of \$191 million from last quarter. Of this total amount, \$853 million is related to pending aircraft financing arrangements and as of today, we have received \$407 million as already explained by Mauricio. And we are expecting to finalizing the BNDES package by the end of this year and therefore we do expect to see a decrease in these account receivables by the end of the quarter.

Inventories; inventories increased \$98 million from \$1 billion at the end of the Second Quarter to \$1.1 billion at the end of Third Quarter. Inventories are behind levels mainly due to the new Embraer 170/190 jet family, which we have six prototypes, Embraer 170 prototype, eight Embraer 175 as part of the certification process. The beginning of the 170 serial product, which the first delivery will occur after its certification.

The Legacy corporate jet production cycle which is longer than that of the ERJ 145 commercial jet family and higher supplier advances related to the defense products as the common practice within the segment.

Due to the increase in trade accounts receivables and higher inventory level we ended the quarter with a net debt position of \$178 million. With the finalization of the longstanding [ph] aircraft financing issues and we do expect to return to our net cash position by the end of the year. Total debts at the end of this quarter reached \$1 billion of which 48.9% were related to long-term financing, compared to 38.7% at the end of June.

Taking to account the currency swaps discussed in our earnings release, 66% of this debt are denominated in Reais and indebted to the CDI; and our weighted interest rates of 18.9% per annum, representing approximately 83% of the CDI. The remaining is denominated primarily in US dollars with a weighted average interest rate of 4.9% per annum.

Now looking to the backlog, as of September we have a total of 193 ERJ 145 jet family in our firm backlog and 491 options. For the Embraer 170/190 we have a total of 553 aircraft in backlog being 245 as firm order and that remaining 308 aircrafts as options. So considering the defense, corporate and commercial airline market orders, we ended the quarter with a total of \$10.4 billion as firm backlog and \$17.3 billion in options. So, thank you; now we will all go forward with the question and answer session. Thank you, very much.

## Questions And Answers

### Operator

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Ladies and gentlemen. we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touch-tone phone now. If at anytime you would like to remove yourself from the questioning queue, press the pound key. Our first question comes from Mr. Fadud Agassi [ph] with HSBC.

### **Q - Fadud Agassi**

Good morning, gentlemen. good morning, Anna Cecilia Bettencourt. Since we haven't heard from Embraer relating to your joint venture with Avic, China, could you please, Mauricio, give us an update on your current status in that country, please?

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

Very please to do so. Avic II and Embraer are progressing as planned with the joint venture activities. And actually we're having too the first aircraft run out of the production line on 16th of December this year. We are still dealing with two airlines to become the launch customers for this joint venture operation.

But at this moment we still do not have a contract signed with any of them. But the joint venture was implemented; Chinese workers trained, Brazilian workers over there will provide this news [ph] that the hand over of the operations to the Chinese are fully managed and already developing the customers services organization to support the operation over there. So the joint venture is moving on in a quite well (inaudible) position.

### **Q - Fadud Agassi**

Okay, just; let me just clarify this. When you said that your first aircrafts are coming out from the line in December. But you haven't signed any contract yet. So you mean by that, your operation could be most probably idle until your first contract gets signed or not?

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

What we are doing is that we are adapting the rate of production to the effectiveness in the commercial side. So what we are doing is that there is a long; we have always considered a conservative approach for the; in these operations and we will find for next year something like eight aircrafts will be developed over there.

But if we; we do not have at this moment a customer; of course, we are going to reduce the rate of production to face this reality. It is important to realize that there is a requirement of a very strong action in terms of training and preparing the systems and methods to allow for the production of this project over there. So it's a matter of adopting the rate of production, that's all I can say.

### **Q - Fadud Agassi**

Okay, Mauricio. If you allow me to do another question, well I wasn't able to attain your Brazilian GAAP conference call. I have seen from the news that regarding the 170 certification delay, you are going probably to have financial compensations. I just wanted to clarify the issue and how much exactly does the financial compensation and how are you going to truck [ph] out on your balance sheet please?

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

Very difficult to comment on that, because we do not have anything that is firm at this moment. If anything that we have we are sharing; agreement with our several industrial partners. In this we share our agreement and our point of view, they also represent responsibilities that are assumed by each of them. So it is very, very premature to talk about that.

**Q - Fadud Agassi**

Okay understood it, thanks.

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

Thank you.

**Operator**

Our next question comes from Mr. Ron Epstein, with Merrill Lynch.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Good Morning.

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

Morning Ron.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Just a couple of questions; what risk is there that the certification is going to slip again? Because I think there's a fear out there that this is the third or fourth slip in the certification. You know I understand that it is a complex airplane and it is a very, very, very hard task to complete. But what is the risk that it won't happen in February?

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

Well first of all thank you. And good to see you; not to; to listen to you. I'd prefer to see you but ...

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Next week.

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

... next week, good. But I understand the concern; but you see, what we have today is not any question about the function ability or the reliability of what was developed and implemented in the aircraft. So technically, there is no risk. The aircraft is all right. It is fine. It flew (inaudible) 3,000 of them in about 50 to 60 flights in the functional and reliability tests.

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So our aircrafts; no doubt; no problem; the systems; they are working. What we're talking about is preparation of engineering documents and this is what is going to take time because they have to be restructured to face the comments of the substitution authorities and it's a matter of preparing engineering reports. There is no risk that this may come to slide again.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Okay. Now just; following up on a question I was asked, by this person before me. Now if I understand, is there the potential that your risk sharing partners could help offset any costs that Embraer Unit incur because of this delay?

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

Let me tell you what I would wish. Yes, what I said is that is premature at this moment to talk about that. Of course, we will discuss the done decision.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Okay and then just one more question, then I'll let someone else ask something. The ECS program with Lockheed; can you provide us with some more color on how that's going?

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

It is still in the tendering phase. The proposal will be delivered in December and it is expected to have a definition by the end of the First Quarter next year; definition of contracts and so on. But I think that as Cecilia was saying, from the; the customer will come in the First Quarter of 2004.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Okay, thank you.

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

Thank you, very much.

**Operator**

Our next question comes from Mr. Steve Trent with Smith Barney.

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

Good morning, Mauricio.

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

How are you doing?

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

Very well thank you, thank you very much ...

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

Excellent.

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

Thank you.

Just a quick; one or two quick questions on the; in the arena, BNDES. I just wanted to make sure; I know you are received 470 semi billion dollars already and you've indicated that 850 semi million in receivables still remains to be financed. So even if you get the full billion dollars from BNDES, that you hope there'll still be a shortfall on your balance sheet and I was just wondering if that's the correct assessment?

**A - Anna Cecilia Bettencourt**

The correct assessment Steve is that we ended the quarter with this 900 million dollars in accounts receivable. After the end of the quarter we collected \$407 million, Okay? And there is still; if you consider that we have a package of one billion dollars and includes this 400 million dollars, there are still 600 million dollars to be finalized, to be implemented and to be cashed. Our grid is our Fourth Quarter this year.

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

Steve, another issue of those who are away from Brazil; they do not have access to this information but they are powerfully explained in the media. When you have officers from the bank, from BNDS saying that they are rushing to finalize agreements not only with us but with the different sectors of the industry in the way to also meet their budget in terms of investment from their side.

I do not have any doubt today that there is; the procedures are in place, the system is working. They already; in the last month, they already have been disbursing significant amounts of money, for different buyers and I'm very, very sure that this will be accomplished by year-end.

And that just reinforced what I was saying in previous conference, saying that I do not have any doubt about the importance and the relevance of the relationship between BNDS and the Embraer. I always said that our objectives are the same objectives, of the bank and of the Central Government; we are talking about exporting, strongly exporting.

We are talking about development technologists creating qualifier jobs, contributing a lot for our trade balance. So I do not have any doubts, never have and this is true to be the correct approach. We have seen this working and we are seeing that action has been taken and the bank has been acting, as has ever acted in support of our company.

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

Okay, very clear. I appreciate that and look forward to seeing you next week.

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

That's great news! Thank you, Steve.

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

Thank you.

**Operator**

Ladies and Gentlemen from the press, if you would like to pose a question please press the star key followed by the one key. To remove your self from the questioning queue, press the pound key. To the others who still wish to ask a question, you might prompt the operator to return to the questioning queue after these questions.

Our next question comes from Mr. Gregory Polek with Aviation International News.

**Q - Gregory Polek**

Good morning, ladies and gentlemen.

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

Hello Greg, how are you doing?

**Q - Gregory Polek**

How are you Mauricio?

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

Doing well. Working hard.

**Q - Gregory Polek**

I'm sure. I have a question for Luis Carlos. Luis Carlos, I was wondering if you could elaborate a little more on the reasons for the need for the additional documentation for the 170?

**A - Luis Carlos Affonso** {BIO 7234926 <GO>}

Sure, yes. As you know, this flight control system of the airplane is a fly-by-wire system, which is a very innovative system and as well it is a flight critical system. And so it's software is a Class 'A' software and each specification requires a very expensive process following the 0178 B [ph].

What happens is that during the audit as I have mentioned with the authorities, it was identified that there was few work to be done for us to be fully compliant with the 0178 B

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[ph]. It is important to mention that O5 task contained is finalized. We are not going to repeat any flight tasks, the simulators are qualified and we are not having to do any re-qualification; so it's not; it's nothing related to our structure. It's nothing related to how the airplane flies or anything like that. It is a purely formal task, which is; it is required and that was found not to be fully completed. So that is what we'll now have to do.

### Q - Gregory Polek

Right. So there weren't any flaws on the original documentation?

### A - Luis Carlos Affonso {BIO 7234926 <GO>}

Well this is a very, as you know, very complex or very expensive and very formal process, in which you have to demonstrate traceability to requirements, you have to demonstrate completeness and so on; especially for a critical software.

As I said, there were some points, which were found not to be a little bit with level and we have to complete that. But it's not a work; but not an important and not a big with; since it's the formalization of the development as that.

### Q - Gregory Polek

Okay. Also I was wondering whether you've arrived at a decision on what the delivery schedule is going to be for US Airways and Carrier now?

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

That's a point. You; I think that you may not have seen the press release we issued last evening and what we face this postponement of the finer substitution and the issues are of provisional type certification.

The point is we have to look for that with two views, one European approach and the US approach.

European; after the JAA, the Joint Aeronautical Authorities do not have this recognized provision of this certificate; of that certificate. They do not have it. So immediately the three aircrafts that Alitalia was supposed; sorry, two, I know it's the right (inaudible). Two aircrafts that Alitalia was supposed to pick this year necessarily have been postponed for September substitution. So that would have to be postponed.

We have also the suit aircraft from USA. And of course, if we believe all of them what are we going to do with them? They cannot operate because revenue operation will be just feasible after the final type certificate is issued.

Moreover, there is interest from USA to receive some aircraft, to train crews and test the rules. However this will only be possible after the issuance of a provisional tax certificate from FAA. This has not happened yet. We think it's likely to happen by the end of this month. However, we took a conservative approach in this respect and that is known that

we are postponing in our perception eight aircrafts for next year reducing the total number of aircrafts to be delivered this year to 102 aircrafts.

And next year what we are doing is that we think that the 160 that we have disclosed, is likely, very likely to be maintained or extended. However we have the final figures to present in our meeting next week. And you will be welcomed to that, Greg.

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**Q - Gregory Polek**

Okay great. How many airplanes does US Airways expressed interest in taking this year if the approval comes?

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

This is still under negotiation.

**Q - Gregory Polek**

I see, Okay. And just a quick financing question; has US Airways secured the financing for it's initial six airplanes yet?

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

We have the financial scheme. It is the same financial scheme that was started after the year [ph] was concluded. Nothing has changed. Some of them will be financed by the cash; others will be provided by Voyage [ph], which was used in our normal financing mechanisms.

**Q - Gregory Polek**

I see. And BNDES has?

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

Yes, that's correct.

**Q - Gregory Polek**

Okay, great. That's all I have. Thank you, sir.

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

Thank you, Greg, good talking to you.

**Q - Gregory Polek**

Good talking to you too.

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

Thank you. Bye.

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## Operator

Ladies and Gentlemen, if you would like to pose a question, please press the star key followed by the one key on your touch-tone phone.

Our next question comes from Mr. Ronald Epstein with Merrill Lynch.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Hello again.

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

Hello Ron.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Another quick question for you Mauricio. What impact, if any, do you see that this delay will have on the current sales campaigns for the new family? Because you know, I mean, there's a fair number of them going on globally. I mean what impact does this have? Is there a risk here that would shake the confidence of some of your potential customers regarding your airplane?

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

Absolutely not. On the contrary, what they have today is the assurance that the aircraft was found Okay and it's reliable and it's safe which is performing according to the stats. And so they are being assured that the aircraft is in condition to operate.

And what more, is there was required; it was required additional documents and to be prepared in different forms or whatever, that will still have to be supplied; that's all. But no authority would issue a provisional type certificate if the aircraft was not in good shape to receive it. The aircraft as a product is ready; is in condition. It is flying. And flying in accordance with the safety and the best standards in the industry. What is lacking is to fulfill engineering reports, which are going to be done in three months period.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Okay. Now the FAA issues a provisional as well then, right?

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

They are likely to do it. I don't; I cannot affirm that unless it was issued but that was the intent.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

When are you looking for that to happen, potentially?

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

There's another, more; and I do not (inaudible) that decision rather than anything else and so I think they are going to be on a very short-term basis.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Okay, very good. Thank you, very much.

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

Thank you, Ron.

**Q - Ronald Epstein** {BIO 4430430 <GO>}

Yes, take care.

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

Thank you.

## Operator

Our next question comes from Mr. Ricardo Fernandez [ph] with IMG.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Yes, hello.

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

Hello, Ricardo.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

I have a question regarding American Airlines. In the press release, I must have missed this before, it is that they converted some options to orders and also went from the 140 to the 145 Airplane. I was wondering if there's an estimate as to the dollar impact, the revenue impact of this? And when does it start?

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

That fact is that because of the negotiations that American Airlines evolved were very lenient in which they were reused to operate the 50-seater. There was no sense anymore to have them operate the 44-seater. So they asked for the conversion of the ERJ 140 aircrafts into 145, which we accepted and which were for the NYSE acceptable as well.

Some of this is in place and it is starting to be; I don't think I know if it has not already started, I think so and (inaudible) here has just confirmed that it has already started and so all the 140 will be transformed into the 145. The benefit for that is that the 145 aircraft is a much more valuable aircraft than the 140 and that is the same aircraft which arrived a bigger revenue compared with the 140. So it's going on very well.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Yes, I'm aware of that but can you give me an; is it going to be basically the same schedule as American had for the 140 but it's a bigger airplane now?

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

Yes, absolutely.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay.

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

They are just changing the 144 to 145.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay. Now the other question I have is a little bit more along the terms; I mean, well more in vision as to new orders, new customers what have you and there's been a lot of talk about Canada and South West and Wisconsin so forth and so on. Is there any body language that you get from these different conversations where you feel as if something could happen within the next year or so?

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

Yes, there are several companies that are in place; there are several manufacturer's interest which was last in our campaign, when modest and we should add those were just Air Canada was very keen in receiving the 190, South West realized that Embraer 190 is a fantastic aircraft. And Air Canada is there are already in a campaign for fighting strongly for the 190 and 170.

Lufthansa and the other airlines from Star Alliance group where SAS and Austrian. They are still; investing on Buenos Aires however postponed for next year. So there are a lot of things that are up to happen and if some have to happen, others postponed in a one-year time frame will happen.

South west, well we had a demo too made for them and they were very, very enthusiastic about the aircraft as well as I mentioned West Jack [ph] in Canada. But we do not have a campaign. They showed a lot of interest. They realized that this may fit in their plans. But there's still a long route to follow.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay and do you have a sense if or not the financing; the credit quality or the ability of banks and leasing companies has improved for purchase of aircrafts in the last couple of months or is it still very difficult?

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



Well as a general comment it is still very difficult. But I think progressing. If we're; and my revelation is that it will definitely progress in a good shape. If the lines are keeping their operation. And during days as they are, you see airlines already recognizing profits, net profits, others still in the operation of profits but they are definitely increasing in traffic, in load factors, in effectiveness of some of their operations. So this is what is necessary to have the financial market really to support again the airlines.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay and then just one final question. The repossessed Indigo [ph] aircraft that had a loss in the Third Quarter. When you turn around and you resell those airplanes, that goes away?

**A - Anna Cecilia Bettencourt**

Well, the revenue of one would be offsetting the other.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay and then one would assume then that, that those are corporate aircrafts; so you have to basically reconfigure the interior shuttle, what ever it's going to be more difficult to sell it than say if it were a regular 135 or what have you?

**A - Anna Cecilia Bettencourt**

No, what we are doing; we're mortgaging the aircraft, the corporate; remember, we are talking family; family courts [ph] and family platforms. So by this course, we assume that we are zooming on the mortgaging rates of the configuration that the aircraft has.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Okay, thanks a lot. Take care.

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

Actually only to give you this information, the Indigo [ph] aircraft that was already finalized on the production line. And we did not deliver it; we reconsidered that for regional airlines. So we can work on both in that area.

**Q - Ricardo Fernandez** {BIO 1815216 <GO>}

Thank you.

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

Thank you.

**Operator**

Ladies and gentlemen if you have a question please press the star key followed by the one key. Again, if you would like to pose a question please press star one.

This concludes today's question and answer session. I would like to invite Mr. Mauricio Botelho to proceed with his closing statements. Please go ahead sir.

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

Okay. Well I thank you again for your attention and your comments. I appreciate the time that you have given to us. Look forward to meet you soon; next week here in Brazil with our facilities. I think you would like to see what you are going to see. Thank you, very much and have a good day.

**A - Anna Cecilia Bettencourt**

Thank you, very much and if you are investors and I know most of you; have any questions, please our Investor Relations department is available to answer them and also for journalist that are willing to make present and we have our people in Brazil and France and US that will be there to answer all your questions that you all have. So we are fully available for you.

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

Thank you, very much and we await you in the next Q2.

**A - Anna Cecilia Bettencourt**

Yes thank you, bye-bye.

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

Bye-bye.

**Q - Unidentified**

Bye.

**Operator**

This concludes the Embraer conference call for today. Thank you, very much for your participation. Have a good day and thank you for using conference call de Brazil.

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