

Q1 2005 Earnings Call

Company Participants

- Anna Cecilia Bettencourt, Head of IR
- Antonio Luiz Manso, CFO
- Mauricio Botelho, CEO

Other Participants

- Cameron Jeffreys, Analyst
- Carl Weaver, Analyst
- Joe Nadol, Analyst
- Mark Phelps, Analyst
- Robert Pickles, Analyst
- Ron Epstein, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call about Embraer's First Quarter 2005 results. (Operator Instructions)

This conference call includes forward-looking statements, or statements about events or circumstances which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions, including among other things general economic, political and business conditions in Brazil and in other markets where the Company is present.

The words 'believes', 'may', 'will', 'estimates', 'continues', 'anticipates', 'intends', 'expects' and similar words are intended to identify forward-looking statements. Embraer undertakes 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. The Company's actual results could differ substantially from those anticipated in the forward-looking statements.

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Participants on today's conference call are Mr. Mauricio Botelho, Chief Executive Officer, Mr. Antonio Luiz Manso, CFO, Marcelo Rodriguez, Controller. And Anna Cecilia Bettencourt, Head of Investor Relations.

I would now like to turn the conference over to Mr. Botelho. Please go ahead sir.

Mauricio Botelho {BIO 13386065 <GO>}

Ladies and gentlemen. good morning. It is a pleasure again being together with you, at least by phone. And I will start this conference call talking about the First Quarter 2005 highlights. And then I will turn it to Anna Cecilia, who'll comment in detail the financial results and later on, immediately after, we will open for the Q&A session.

I'd like to start this presentation saying that at the end of this First Quarter 2005, Embraer shows a profitable situation; healthy, economically strong. And however, we still are living with pressure from account receivables and inventories. Account receivables because of the usual issues that we are always facing in this segment, which is first, in EETC operations expecting to have a certain volume of aircraft to be put in the market. And second, in terms of discussing the other structural finance for those operations.

Account receivables. We are, as we have mentioned in other occasions, we are in a situation where we have the 190 being delivered and the 175 will be delivered in the second half. So, we are increasing and growing our investment level to face this situation. Furthermore, it is a certain characteristic of our operation that about 40% of the annual deliveries happen in the first half of the year, then the second half with 60%.

Saying that, I will mention some other issues of relevance. Republic Airways Holdings added 16 firm and 34 options Embraer 170s to its order book. However, two of those 16 were already accounted for in our Fourth Quarter 2004 order book. In China, Harbin Embraer announced in March the sale of five ERJ 145s to China Eastern Airlines' subsidiary Jiansu Limited. Embraer delivered 900 Jet for Luxair on the ERJ 145 family.

We signed in February a Memorandum of Understanding with the Indian Defense, Research and Development Organization to support the Indian Air Force's new Airborne Early Warning and Control system development, which may represent a certain number of AEW and sea aircraft supplied by us.

The consortium formed by Embraer and the EADS received approval to acquire 65% of OGMA; Industria Aeronautica de Portugal; one of the largest maintenance, repair and overhaul facilities in Europe. Actually, we took the control -- effectively the control of the company late in March. Along this period also, we were finalizing the studies, which allowed us to announce early May the launch of two new programs; the VLJ and the LJ.

I will now turn it to Anna Cecilia, who will present the financial results.

Anna Cecilia Bettencourt

Thank you, Mauricio. Good morning, everyone. We delivered during the First Quarter of 2005 30 aircraft, seven aircraft more than the same period last year. Approximately 6% of the aircraft deliveries forecast for 2005 will be concentrated in the second half of the year, which is when the first deliveries of the Embraer 175 and the Embraer 190 are scheduled to begin. As a result, we delivered 12 aircraft less than the Fourth Quarter 2004.

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Net sales this quarter reached \$763m, 22% higher than the same period last year. And 21% lower than Fourth Quarter 2004, due to the large number of deliveries during the last quarter of the year. In addition, this is a better type of mix combined with the improvement in the Embraer 170, our learning curve gross margin in the First Quarter 2005 reached 35.1% higher than the 32.3% recorded in the First Quarter 2004. In Fourth Quarter 2004, we reached an exceptional gross margin of 37.6%, as the composition of our sales and product mix were extremely favorable.

Commercial Airline sales reached \$578m, an increase of 30% over the same period last year. And represented 76% of our total net revenues. In the same period, Customer Services increased 40% and the business segment revenue reached \$33 million with the two Legacy deliveries, one in its corporate version and the other one in its executive version.

On the other hand, Defense has declined from \$131 million in the First Quarter 2004 to \$79 million this quarter. The surveillance aircraft contracts, in particular a contract with the Mexican Air Force, are in their final stages. And as a result, a smaller amount of revenue has been recognized during the First Quarter 2005 compared to the First Quarter 2004.

Net revenues in this segment declined, despite revenues recognition from existing contracts, including the contract with the Indian Air Force for five Legacies, which are expected to be delivered during the second half of this year. Furthermore, one aircraft was delivered to Satena, a State-owned Colombian airline, in the First Quarter 2004.

Income from operations reached \$125 million compared to \$153 million in the First Quarter 2004. It is important to notice that in the First Quarter 2004 we recognized an operating income of \$88.7 million in payments received from our risk sharing partners, which were related to the fulfillment of certain contractual milestones in the development of the Embraer 170/190 jet family. In this quarter this contribution reached \$5.6m.

Comparing our income from operations this quarter to the \$142 million reached in the Fourth Quarter 2004, it declined 22% but we were able to increase its margin from 15 to 16%.

Driven by our improved performance, net income this quarter reached \$97m, 10% higher than the previous quarter. Also, our net margin increased from 8.7% in the Fourth Quarter 2004 to 12.6% in this quarter. However, due to the cash contribution that we mentioned, our net income slightly decreased if we compare to the First Quarter 2004.

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Trade accounts receivables and inventories are the two main items that impact our working capital needs. During First Quarter 2005, trade accounts receivables increased by \$171m, of which \$63 million were related to the consolidation of OGMA this quarter, which Mauricio already mentioned.

During the First Quarter this year, we delivered three aircraft to U.S. Airways, which have been in our inventories since the airline filed for bankruptcy protection last September. Such deliveries were part of an agreement filed with the bankruptcy court, which allowed U.S. Airways to maintain its equity investment in the aircraft using its down payments previously made by U.S. Airways to us.

In addition, we are jointly restructuring our EETC transaction with one of our customers to fund aircraft deliveries in 2005 for that customer. While this process is not concluded, these aircraft are being accounted for as accounts receivables.

This quarter our inventories increased by \$139m, being \$64 million related to OGMA. The increase was also due to the beginning of the serial production of the Embraer 175 and the Embraer 190 aircraft, which have their first deliveries scheduled for the Third Quarter of 2005.

Despite the higher working capital needs during the First Quarter 2005, total short and long-term loans decreased by \$301 million in this quarter. This decrease is mainly due to a pre-export credit financing prepayment in the amount of \$311m. Of the total debt, 77.6% is long-term loans and 98% is effectively denominated in other currency, primarily U.S. dollars, with a weighted average interest rate of 5.3% per annum. The long-term credit lines are due to mature between 2005 and have an average lifetime of three years and three months.

The combination of higher inventories and accounts receivables resulted in a decrease of our net cash position. And we ended the quarter with a net debt of \$166m. Also, for the same reasons, our free cash flow generation in the First Quarter 2005 was negative in \$136m.

We ended the quarter with 82 firm orders in backlog from the ERJ 145 family to be delivered and 233 options. Furthermore, during the quarter, as Mauricio mentioned, we received -- we added five ERJ 145s to our family order book. The Embraer 170/190 family backlog stands at 357 firm orders, with 301 aircraft to be delivered and an additional 387 options. In this quarter we have added 16 new firm orders into our backlog.

Our total order backlog, including Commercial Airline business, Business Commercial Airlines, Business Jet and Defense markets at the end of the quarter was \$9.9b, almost three times our last 12 months' net revenues. In addition, our options backlog was at \$15 billion at the end of the quarter, down from \$17.5 billion at the end of the year. This decrease was mainly due to the use of the option down payment that we received from U.S. Airways to pay the equity investment that we made in the three aircraft delivered in the First Quarter of this year that we already explained.

We maintain our forecast for deliveries of 145 Commercial, Business Jet and Defense aircraft, which includes only executive transport aircraft in each of the years of 2005 and 2006. Approximately 60% of the aircraft deliveries forecast for 2005 will be concentrated in the second half, as we already mentioned.

So, now we will open this conference call for question and answers. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question is coming from Joe Nadol of JP Morgan.

Q - Joe Nadol {BIO 3056499 <GO>}

Thanks. Good morning.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning, how are you doing?

Q - Joe Nadol {BIO 3056499 <GO>}

Not bad. My first question is on the accounts receivable. I'm wondering if you can tell us if the \$600 million that is pending financing deals, is that just the two airlines, the U.S. Airways 170s and the Continental Express 145s, or is there other items in there?

A - Anna Cecilia Bettencourt

The majority is related to Continental and U.S. Airways.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. And in terms of timing; and maybe, Mauricio, this is a question for you; on U.S. Airways, when do we expect to see a resolution of each of these two items? So, what do you see happening with U.S. Airways first?

And then secondly, what's the timing of the EETC Continental deal?

A - Mauricio Botelho {BIO 13386065 <GO>}

In terms of U.S. Airways, I think there is a lot of things happening at this time. And until they are clearly disclosed, it is difficult to say or to make an evaluation in that respect. We are talking about actions from different operators in terms of investment. And we're talking about -- we are looking at information publicized in terms of mergers and other things. So, I think it's difficult at this time to give a firm evaluation on what's going to happen.

Regarding the EETC, it is forecast to happen immediately after the middle of the year, by August, to have this issue solved.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay, okay. And then secondly, on the Defense side, still having troubles modeling out your Defense segment. Is this level of revenues in Q1, is this a better run rate for the year or do you expect some growth?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, we expect that to grow. We expect that to grow and deliveries of aircraft to happen later on in the second half. The Legacies are going to be there. Contracts which are in terms of definition, today we have just a letter of intent, they are coming to production. In terms of our near future, difficult to predict. But our view is to have this business growing. Of course, not at the rate that we have forecasted in Commercial Airlines. But it is a growing business.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. But Mauricio, in Defense, what contracts will grow over the rest of the year? Is India a major part of it or are there others?

A - Mauricio Botelho {BIO 13386065 <GO>}

India, there are some on the Brazilian Air Force.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay.

A - Mauricio Botelho {BIO 13386065 <GO>}

F5s, ALX.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. My final question is on R&D expectations. You've broken out for us before in 2005 and 2006 net R&D, net of contributions from partners of about \$45 million in each year. And I'm wondering what the new guidance is with the announcement of your two new Business Jets.

A - Mauricio Botelho {BIO 13386065 <GO>}

I will start to mention about the new programs, the executive jets, the VLJ and the LJ. Total investment will be \$230m. And we foresee it about half being supported by our partners, industrial partners. And some by financial institutions. And then our own cash generation. But this is something that we'll spread along the four years ahead for both programs.

In respect of existing investment, Anna, you give the details please.

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A - Anna Cecilia Bettencourt

Yes, not including the VLJ and LJ, we expect the gross R&D to be \$190 million for this year and for next year we expect \$66m. And for cash contribution from suppliers this year, we are forecasting something about \$70m, which will be recognized during the certification of the Embraer 170 -- 190, I'm sorry, in the second half of the year.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. So, in terms of the incremental in '05 and '06 from the two new projects, we're looking at very little this year and then \$50 or \$60 million next year, is that --?

A - Mauricio Botelho {BIO 13386065 <GO>}

About \$50m.

Q - Joe Nadol {BIO 3056499 <GO>}

\$50m?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. And the partner payments don't come in until certification?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, no, they come in milestones. They come in milestones along the program development. Certification is just -- is an issue, just the only requirement for payback if we do not accomplish the certification. But the funds from partners come along the process, along the development in certain milestones.

Q - Joe Nadol {BIO 3056499 <GO>}

Understood. Okay, thank you. I'll turn it over to someone else.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Good morning.

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A - Mauricio Botelho {BIO 13386065 <GO>}

Hello Ron, how are you doing?

Q - Ron Epstein {BIO 1868102 <GO>}

Good, good, good. Just a couple of questions for you. If you could give us just maybe a broad overview of how the sales campaigns are going on globally, with regard to the 170 and 190, that would be good.

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, there is -- unfortunately, the situation is not too hot. But we see interest and interesting things happening in Europe, as well as in the United States. But still the market is not that hot.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay.

A - Mauricio Botelho {BIO 13386065 <GO>}

We expect things to develop adequately along as time goes by along this year.

Q - Ron Epstein {BIO 1868102 <GO>}

Now, what implications do you think there could be for Embraer if U.S. Airways and America West merge? Do you think that would decrease the demand for 170s or increase it, or?

A - Mauricio Botelho {BIO 13386065 <GO>}

It is -- hello?

Q - Ron Epstein {BIO 1868102 <GO>}

Hello.

A - Mauricio Botelho {BIO 13386065 <GO>}

It is difficult to say at this point, Ron, because the details on the operations are not disclosed. So, it is -- we are just following up and trying to understand it better. But as far as I know, things will not last too long. It is forecast to have something announced along this week.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, okay. And then just a final follow-up question. During the quarter, given the backdrop of a strengthening real, operating margins and gross margins are actually at a pretty high level. Is that a reflection of -- maybe another way to ask this question, what is the cycle time now on the 170 program? Is that just a reflection of more efficient operations, or why was that the case?

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A - Mauricio Botelho {BIO 13386065 <GO>}

Undoubtedly it is the -- it reflects the improvement that we are getting in the 170 production. Today, the cycle came down to 4.1 months. And it's still going down. And we are, as well, starting to look at further programs.

So, it is going to increase the number of aircraft of the same family, which will represent a reduction in costs and overheads, production overheads. So, it is effectiveness -- better effectiveness in production.

Q - Ron Epstein {BIO 1868102 <GO>}

And what's the goal for cycle time on that program? Isn't it 3.1 months for the 145s? Do you think you can achieve that with the 170?

A - Mauricio Botelho {BIO 13386065 <GO>}

Our goal is to reach something similar, in the range of 3.5 in not a too long time. We reached this 3.1 production cycle for the ERJ 145 after several years. We intend to get to this 3.5 level in about not more than one year ahead. So, that would mean something like two years after the beginning of the production. So, it's moving fast.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, Ron.

Operator

Thank you. Our next question comes from Stephen Trent of Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, Mauricio, Steve Trent from Citigroup.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello Steve, how are you doing?

Q - Stephen Trent {BIO 5581382 <GO>}

Very well, thank you. Just two or three quick questions. One, I was curious on the R&D contributions from your risk sharing partners that you booked as operating income. Can you give us a sense as to -- any update as to how that might look this year, especially as you start to sell 175s and 190s?

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And my second question is any update on the certification campaign for the new jet family?

A - Mauricio Botelho {BIO 13386065 <GO>}

The Embraer 170/190, you mean?

Q - Stephen Trent {BIO 5581382 <GO>}

Right, the 175, I guess should be anytime and the 190, I believe delivery should start soon.

A - Mauricio Botelho {BIO 13386065 <GO>}

Starting from this point, the 190 will be certified in July/August this year before the first scheduled delivery, which is forecast to happen on August and it's maintained. On the 175, it is already certified in Brazil and in Europe. And we are working today in the certification in Canada. Canada will be the large customer for this program. The 195 will be certified one year later, by July 2006. So, the program is being kept in pace and according what we have forecast.

In respect of R&D, Anna will give the details.

A - Anna Cecilia Bettencourt

Regarding your question related to the cash contribution recognition as an income, we expect to recognize this year something about \$70 million of this contribution. We already recognized \$5 million in the First Quarter and the largest amount, of course, will be related to the certification of the Embraer 190.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, thanks very much.

A - Anna Cecilia Bettencourt

Welcome.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) Our next question is coming from Mark Phelps of Aviation International News.

Q - Mark Phelps {BIO 20253746 <GO>}

Good morning, Mauricio.

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A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, how are you doing?

Q - Mark Phelps {BIO 20253746 <GO>}

Very well, thank you. I'm going to focus in on the new light and very light Business Jet.

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes.

Q - Mark Phelps {BIO 20253746 <GO>}

The press release states an estimated demand for approximately 3,000 very light entry and light jets in the next decade. Can you tell us what your target market share would be with your two new products?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, for sure. We see this market being at a level of 3,000 aircraft. If the air taxi is new business, it is not -- has not developed. If the air taxi comes on, I think our view is that in the same period there will be something like the double of this figure, about something like 6,000 aircraft. And this is something ambitious.

That's why we did not consider this figure in our -- this estimate in our business case. We focused our estimates in the very light and light jet, as executive jets. And we foresee that out of the 3,000, we'll get something like 1,000 aircraft in this 10-years period.

Q - Mark Phelps {BIO 20253746 <GO>}

Okay. I have a few more questions. I understand that in early talks you had been discussing the possibility of the Honda engine. Why was it that you chose not to go with the Honda engine?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, as you know, definition of an engine, as well as any other component or part of an aircraft, is based on several issues. It is based on performance. It is based on price. It's based on ability to serve the product and also, the ability to invest in the program. So, there was not one only reason that would have justified our decision to use the Pratt & Whitney engines. But the conclusion was that the Pratt & Whitney engine, at present value, was better for us than the GE Honda aircraft.

Q - Mark Phelps {BIO 20253746 <GO>}

Okay. In terms of your target market, I understand you did some marketing research. How do you anticipate that it would break out among, well, you've mentioned air taxi possibilities. But how about owner flown and perhaps overnight parcel delivery, those different segments? And also geographically, how do you anticipate it distributing between, say the U.S. market, European, South American and Asian?

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A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. By far the North America market will be the largest portion of it, by far. To have an idea, today in the United States there are about something like 8,000 business jets in operation. And Europe, as a whole, has something like 2,500. And Brazil and Mexico dispute the second position, around 500 each. So, by far, the North America market will be the most important.

We see it as a positive, as a valid product also for us here in Brazil, for instance. But the dimension of this market here, it's not of any equivalent to -- in any way equivalent to what will happen in the United States. We focus our business plan on North America, which is the -- which will represent the success or failure of our forecast. But we focus on North America.

We see this as being an owner, or this aircraft operated by their owners. And also, we see it as operated by fraction ownership, or by flight departments of corporations. And -- but, by far, there will be the ownership operation will be the largest for them.

Q - Mark Phelps {BIO 20253746 <GO>}

Do you have any additional details on possible configuration of the aircraft, or is it going to be conventional?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, at this time, I don't have this with me. Probably, for sure, I think that our people, program people, have some more details about that, which I'm sorry, I apologize not to have it with me. But we can get in contact with you. And send you the information later on.

Q - Mark Phelps {BIO 20253746 <GO>}

That would be good. And a final question. I understand that Bombardier is stressing a marketing program for a corporate shuttle version of its RJs. How would you stack up the Legacy corporate shuttle program versus what Bombardier may be about to launch?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, ours is much better. But what I can say is that we are confident that the Legacy program has a lot of value to their users and owners. And we are still spreading it in the market. Today there are about, in the different configurations, it has about today 50 aircraft in the world market. And it keeps going on. And I think it is a good program and for sure, there'll be competition.

Q - Mark Phelps {BIO 20253746 <GO>}

Okay, thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, Mark.

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Operator

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

Q - Carl Weaver {BIO 3448134 <GO>}

Hello, hello?

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello Carl.

Q - Carl Weaver {BIO 3448134 <GO>}

How are you?

A - Mauricio Botelho {BIO 13386065 <GO>}

Very well. And you?

Q - Carl Weaver {BIO 3448134 <GO>}

Good, very well, thank you. Mr. Botelho, could you give us an idea of what you expect for the Paris Air Show, not only for Embraer but for the industry as a whole? What can we expect from that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, it is always something that comes into our mind, what's going to happen there in those air shows? Air shows promote a lot of visibility to whatever is brought to be announced in the show.

But what I see is that the market is not hot. So, I do not expect huge orders to come. I don't know from the big guys. But on our side I don't see -- our side, I mean the medium and regional aircraft, I don't see many huge orders to come, maybe some will come. And -- but it will be a show, an air show for interaction for contacts, for networking. But not so much as a place to be the stage for big announcements.

Q - Carl Weaver {BIO 3448134 <GO>}

Right, thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Q - Carl Weaver {BIO 3448134 <GO>}

Could you also explain a little bit to me, you mentioned the EETC -- hello, can you hear me?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, yes, sure.

Q - Carl Weaver {BIO 3448134 <GO>}

Could you just give us a little color as to the complexity of these mechanisms? Are they pretty straightforward? I understand it's something that the airlines do directly with the U.S. capital markets. Are there usually delays in this process or is it pretty transparent?

A - Mauricio Botelho {BIO 13386065 <GO>}

It is something that is a very well known and practiced mechanism to have aircraft financing. So. And it has been a very, very strong market until September 11, 2001.

In 2001, I believe the number was -- the total volume of operations were in the range of \$8 billion just in the United States. So, it was -- at that year. So, it was quite a known and practiced mechanism.

Later, with the health of the airlines coming down, because what this EETC represents to put in the market, the credit bonds from the airlines into the market. With the situation that airlines have today, it is harder to have it structured. But still it has been and use it too. It has to do with the credibility of the airline, credibility of the manufacturer, credibility of the asset itself.

And so, it is -- what else can I tell you? (multiple speakers) because if you have something extraordinarily bad in the market, maybe it would be more difficult to place this operation and to put this operation in effectiveness. But we don't see anything long term going on and we plan to go ahead by middle of the year.

A - Anna Cecilia Bettencourt

Carl, is it typical capital -- Carl, I'm sorry. It's a typical capital market transaction. It's five weeks as it is, the public known [ph] and so on.

Q - Carl Weaver {BIO 3448134 <GO>}

Okay. And just one last question. And this is always a little bit controversial here. But I've noticed that the revenue versus the number of jets that you sold this quarter, the average price seems to have improved. Is that a function of mix? Is that -- have you been getting better prices?

A - Mauricio Botelho {BIO 13386065 <GO>}

It's a function -- it's a consequence of the product mix. We are today growing and growing the delivery of the 170s, which are more valued products rather than the other. As well as, when you deliver a Legacy aircraft, for instance, it has a higher value than a regional aircraft. So, it is product mix, basically.

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Q - Carl Weaver {BIO 3448134 <GO>}

Okay. Great. Thank you, very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Robert Pickles of Manning & Napier.

Q - Robert Pickles {BIO 18104012 <GO>}

Good morning. Just wanted to dig a little deeper on your discussion of the market. And why it's not so hot. Is it because of the customer base? Are things more competitive? Are customers waiting to see the 190 fly first? Could you talk a little bit more about some of those things?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, for sure. What we see is that the market is not too hot because it is submitted to very strong pressures. Oil prices is the biggest one. I think that if you look at the present volume of traffic, the number of passengers transported, it has reached the same levels before 2001. So, the problem is not of volume. The problem is of use. And in this issue, we see the increase in costs as absolutely detrimental to the health of those airlines.

And among the costs, the most important today, which is influencing very hard their operation, is the oil price. IATA; which is the International Association for Transport Airline; has a report, which says that above the \$34 per -- for the oil barrel, every dollar above \$34 represents to the affiliated airline an increase in cost in the range of \$1.5 billion U.S. So, at the present oil price levels, you can imagine the pressure that is imposed on them.

But in doing that, they are more reluctant in expanding their fleets. So, they are more careful in analyzing investment in expansion. So, this is what has basically happened. I think that one factor that you mentioned is also true. The 190 (technical difficulty) operation is today with a lot of patience, in terms of what is going to happen with Jet Blue, what is going to happen with Air Canada operating those programs? And as far as the effectiveness of that operation is shown, as we are absolutely confident that we're to show that's a bright operation, they'll overcome reactions about them.

In terms of competition, today we are competing with -- at a higher level with Boeing and Airbus lower level aircraft, which are aircraft-by-aircraft not so that competitive with ours. So, the point is what is happening when you put together juice that can be mixed up with other things. For instance, when you mix 110 CTEC routes acquisition with 150 or 180 CTEC routes, because then things get blurred and you do not have the straight evaluation on cost for each product.

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So, this is what happens at that higher end. In the lower end, we are competing still with 70 seat aircraft from the other manufacturers, which in reality represents an aircraft of other category. It is a less comfortable aircraft. It is another concept of aircraft. We have a much better product to put forward the market, as we believe.

So, the situation is today that we have pressure on costs from the -- for the customers, the airlines, which makes them be very much careful with their expansion programs. Second, we see a sort of expectation on the factors of operation of our new product, the 190, which is -- for me, will be the most successful program out of the family.

Q - Robert Pickles {BIO 18104012 <GO>}

Okay, thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from Cameron Jeffreys of Credit Suisse First Boston.

Q - Cameron Jeffreys {BIO 4952736 <GO>}

Good morning, Mauricio. I'm just wondering if you had any comments regarding Bombardier, your main competitor's difficulties in getting engines for their C Series. I wondered if you had any thoughts there.

And what the 195 would look like against the lower end of the C Series, if they were to decide to go with a derivative engine rather than a new center line engine?

A - Mauricio Botelho {BIO 13386065 <GO>}

For sure. And thank you for your question. What -- for a long time I have been evaluating the C Series as a very risky program. And that is because first, I could not identify the sort of technology availability that would provide the results that they would be announcing.

So, I think that this operation is proving to be correct today, because the sort of reduction in operational costs for the program would be centrally based on engine effectiveness, which means technology conversion and other factors involving the engine. And what we are seeing is that none of the engine suppliers, manufacturers, are willing to enter into the investment of a new engine to face the requirements from the C Series program. And enter in the risk of the development, due to the limited number of aircraft that would be accepted by the market.

So, I confirm that I think that is a very risky program, in spite of the governmental support that they have recently announced. Which is another thing that is to be looked at very carefully, because the speech is that this support is in compliance with the WTO rules. But

we also are accustomed to see such declarations, which at the very end of a -- when being contested, they really represent a breach in those regulations.

So, I think that at this time not only us. But other manufacturers, are looking at that very carefully.

In respect of the development of an aircraft with the similar technology that is available today, I do not see it as a formidable competitor. I see it, if they come, it will compete but we are accustomed to that.

Q - Cameron Jeffreys {BIO 4952736 <GO>}

Okay. Great. Thanks very much for your comment Mauricio.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much.

Operator

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

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I have to thank you for your interest and your time. And anything that you think about our data and the facts that we've presented, which were not discussed today, feel free to contact us and we'll be very glad to supply them. For me, I'd like to thank you again and present my best wish for a good day. Thank you.

A - Anna Cecilia Bettencourt

Thank you, everybody and we'll see you in Paris. Thank you. Bye bye.

A - Antonio Luiz Manso {BIO 1845027 <GO>}

Thank you. Bye.

Operator

Thank you. That does conclude Embraer's audio conference for today. Thank you, very much for your participation.

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