

## Q1 2003 Earnings Call

### Company Participants

- Anna Cecilia Bettencourt, Head of the Investor Relations
- Mauricio Botelho, CEO

### Other Participants

- Alan Karp
- Ashish Pant
- Emerson Leite
- Gordon Lee
- Lori Ranson
- Paul Desora
- Paul Lewis
- Robert Fay
- Robert Spingarn
- Ron Eckstein
- Unidentified

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Embraer's First Quarter 2003 Conference Call. Today, we have a simultaneous Webcast with five presentations on the Internet that could be accessed at the site [www.embraer.com](http://www.embraer.com), investor relation area. There will be a replay facility for this call in the Website. We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a question and answer section.

At that time further instructions will be given. Should any participant need assistance during this conference, please press star zero for an operator. Before proceeding, let me mention that 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,' 'though,' '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 result could differ substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Mauricio Botelho, Chief Executive Officer, Mr. Antonio Luiz Manso, Chief Financial Officer. And Ms. Anna Cecilia Bettencourt, Head of Investor Relations of Embraer.

Now, I'll turn the conference over to Mr. Mauricio Botelho. Mr. Botelho, you may begin your conference sir.

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

Thank you, very much. Ladies and gentlemen. good morning everyone. It is with great pleasure that we are here today to present our First Quarter 2003 results in US GAAP that we released yesterday, simultaneously with the financial statements in Brazilian GAAP. Here with me Antonio Luiz Manso, our CFO, Marshall Rodriguez [ph] (inaudible), Anna Cecilia Bettencourt, Head of the Investor Relations. Anna Cecilia will be making a brief presentation and then we'll start the question and answer session. Anna, please take the ball [ph]. Thank you.

### **Anna Cecilia Bettencourt**

During the First Quarter 2003, we delivered 23 aircrafts, 22 for Commercial Airline and 1 (inaudible). As we have already informed you of the 132 deliveries forecast for this year, we expect to deliver 40% during the first half and the remaining 60% during the second half.

We are maintaining our delivery forecast guidance. And we expect to deliver 132 jets this year and 136 jets next year. Our net revenues in First Quarter 2003 showed the drop of 12% in comparison to the First Quarter 2002, mainly due to the reduction in commercial aircraft deliveries. Our gross margin, however, were relatively stable at over 39% during all quarters and First Quarter of 2002 showing that our flexibility in our investments and throughout the (inaudible) we have been successful with slight a volatile scenario that we have been living.

First quarter 2003, the Commercial Aviation segment decreased its participation to 80% of total sales. Partly because of the reduction in Commercial Aircraft delivery and partly because this strategic decision (inaudible) our sales. Geographically, our sales remain concentrated in the U.S. and Europe following the profile of our backlog. Our sales this

quarter were 96% in U.S. and Europe and only 4% in Brazil with the same breakdown as historical trends.

Our income from operations in the First Quarter 2003 was at \$83 million mainly due to the reduction in sales. Research and development represented 7.3% of our sales at \$35.5 million and employee profit sharing was reduced from \$6.5 million to \$0.1 million helping offset of the deafening sales and maintaining the margins at 17%.

Our net income this quarter was affected by the reduction in operating income already explained and by the increase in interest expenses. Embraer this quarter had roughly 256 million in net liability exposure (inaudible), which was caused by the increase in working capital needs. This net exposure covered with depreciation of 5.1% of daily out [ph] caused our financial expense to increase to \$27 million compared to our net financial income of \$2.1 million in the First Quarter of 2002.

Depreciation of (inaudible) has a positive impact on our Brazilian for income tax, which was at \$13.2 million down from \$29.4 million in the First Quarter of 2002 with effective tax rate of 22.9%. During the First Quarter, we've once again committed to the delivery schedule of our commitment and invested in working capital an additional \$250 million reaching \$826 million in accounts receivable.

Around 71% is accounts receivable, were related to BNDES (inaudible) and 21% are related to financing concept that are being finalized. We expect to initiate collecting this receivable during the Second Quarter of this year. Short-term inventories increased \$120.5 million between December 31, 2002 and March 31, 2003. This increase was related to the Embraer 170 development, which currently have six prototypes carrying out the flight certification campaign, the initial production of the EMBRAER 175 first prototype, the initial serial production of the EMBRAER 170 and the increase in production of the Legacy, which demand a longer period for interior finishing.

We ended First Quarter 2003 with a net debt level of \$212 million as a result of the net addition to inventories and trade accounts receivables. This position is still a better liquid position, which has no impact on the company's credit position. We increased our traders' related loans, which have short-term profile, therefore, the participation of the short-term debt increased to 52% of the total loans.

This year (inaudible) denominated debt also increased and the company ended the quarter with a net (inaudible) exposure and its liabilities. (inaudible) portion of the debt increased to 66% of the total debt already constituting the swaps [ph] we implemented last year. Our ERJ145 family backlog, at the end of March, remains strong with 234 aircrafts to be delivered.

The Embraer 170,190 family backlog was affected during this quarter by three (inaudible) negotiations; as a result Alitalia is the first government [ph] to receive our Embraer 170. The certification chart is on track and the Brazilian certification by the CTA [ph] is expected to occur in June next month. In April, we find the contract with loss adding 6 firms and 11 options to this backlog. This week, we announced the order from US Airways, which will

positively affect our backlog turning US Airways, the US (inaudible) of the Embraer 170 with deliveries starting already in 2003.

If we add to our March for a back order book, they obviously received from large and US Airways, it would reach 149 firm orders for the new family. Defining for backlog showed a decrease during the quarter due to the deliveries and the cancellation from SWISS. Still our firm order backlog was at \$7.9 billion over three times our annual sales. If we include the new orders from large and US Airways recently announced our total backlog would reach \$24.4 billion including \$9.3 billion in firm orders and \$13.1 billion in options.

We are maintaining our delivery guidance for this year and the next with the (inaudible) slide after presentation. I would like to hand over to our CEO Mr. Botelho who will make a few comments before we may shape our question and answer session.

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

What I see is that the relevant comment to do to make (inaudible) US Airways order. This order was a very significant one not only because of its size. But for sure because of the strategic relevance that's its employees [ph]. I think that what US Airways really achieved was a breakthrough in the industry and this order represents the first real hit on an artificial market restriction that is the scope-clause agreement. This order represents 85 firm orders of the EMBRAER 170, which includes 30 that were financed by GECAS. So, we are just counting in our as new order for us 55 EMBRAER 170. These orders also comprise 50 options for the EMBRAER 170 and 140 options for the ERJ 145.

It is important to say that the US Airways will have possession [ph] rights to between the EMBRAER 170 and EMBRAER 175, which is due to be entering the market by June 2004. Deliveries will start this year by November 2003. So, we'll be very pleased to listen to your questions and I'll ask the gentleman please to organize them. Thank you, very much.

## **Questions And Answers**

### **Operator**

Thank you, the floor is now open for questions. If you do have a question or a comment at this time, please press one followed by four on your touch-tone phone. If at any point your question is answered, you may remove yourself from the queue by pressing the pound key. Again ladies and gentlemen. if you do have a question or a comment at this time, please press one followed by four on your touch-tone phone. Please hold one moment while we do poll for question.

Our first question is coming from Robert Spingarn of Salomon Smith Barney.

### **Q - Robert Spingarn** {BIO 5996882 <GO>}

Good morning. First, let me congratulate you on a very strong order from US Airways. It was larger than I expected it would be.

## Q - Unidentified

... good to talk to you.

## Q - Robert Spingarn {BIO 5996882 <GO>}

I do have a question though why would be airline order Bombardier A 70-seater?

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

That is -- I am very much certain that it didn't happen. However, what in fact resulted from the -- out of this discussion were that we cannot -- we could not certify US Airways the speed of deliveries that they were requiring because, as you know, we will have our EMBRAER 170 certified on June this year by the Brazilian Authority followed by their European Authority and the (inaudible) remind that remember please that the first delivery (inaudible) which is due to happen by October. So, the first half -- the first delivery would just happen on November and we'll be just starting the production and they have to consider the learning curves that always happen with that.

If we recall our experience with the ERJ 145, we can note that the first delivery happened on December 96. We took two years to deliver the first 100. And then one year for the second. And then eight months for the third 100, seven months for fourth, six months for the fifth. And then we have September 11, which disrupted everything. So, there is, I think increase in production is a process that comes with time, we cannot start a new product with large number of deliveries.

## Q - Robert Spingarn {BIO 5996882 <GO>}

So Mauricio that leads me directly into my second question which is could you detail for us the production rate mix for this year 2003 between the two families, obviously understanding that this -- a new family doesn't come into the last quarter and then for next year, in other words how many 50-seat aircraft per month this year versus next year and then how many 70-seat this year versus next year?

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

Well, before I leave, Anna, I think transfer to Anna to allow her to answer you in details, I must tell you that we have designed our EMBRAER 170, 190 family production system to comply with 84 aircraft per year (inaudible) than a steady production. This also doesn't mean that we cannot increase it in certain points to face demand or decrease it according to the market requirements but in a normal basis, we would be reaching 84 aircraft per year and this is likely to happen in two years and a half from now. But Anna will answer your question in detail.

## A - Anna Cecilia Bettencourt

The breakdown per family for 2003 of the 132 jet are 73% are for the ERJ 145 family, 11% for the EMBRAER 170 family. And 16% for corporate market. For 2004, out of the 136 deliveries expected, we've forecast 51% to the ERJ 145 family, 31% EMBRAER 170 family and the remaining 18% to be delivered for the corporate jet market.

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**Q - Robert Spingarn** {BIO 5996882 <GO>}

Okay. Thank you. That's very helpful. Then my final question would be, what is the financing status for the US Airways order?

**Q - Unidentified**

The first 30 aircrafts, not the first but the (inaudible) 30 aircraft will be financed by GECAS. The other (inaudible) but it has already been disclosed that they would be supporting the deal.

**Q - Robert Spingarn** {BIO 5996882 <GO>}

Okay. Thank you, very much.

**Q - Unidentified**

You're very much welcome.

**Operator**

Thank you. Our next question is coming from Gordon Lee of UBS Warburg.

**Q - Gordon Lee** {BIO 1551117 <GO>}

Hi. Good morning, gentlemen.

**Q - Unidentified**

Good morning.

**Q - Gordon Lee** {BIO 1551117 <GO>}

Quick question on the -- just in terms of the year 2003 and 2004 delivery targets, could you just mention (inaudible) how much -- what share of those are already filled by orders scheduled in your backlog. And second on American Eagle, given the change or the agreement that they recently reached with there their pilots, do you expect an (inaudible) exchange their 140 orders and backlog 45s?

**Q - Unidentified**

I will start from the your last question and then I transfer to Anna to give you the details. We really cannot -- today, yes, American Eagle has -- is in negotiations with the unions to establish a new level of a regional jet (inaudible). We have to wait for the final position on this agreement to know what's really going to happen. But in fact, what I think is that it doesn't make any sense if American Eagle would not take the benefits of the contract that they had to do and expand the fleets with our aircraft. So. But today, we cannot assure anything because we don't have any thing changed in the present scenario. But we expect that this may represent additional opportunities for us. Anna will give you the details on the present situation.

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**A - Anna Cecilia Bettencourt**

2004, 84% of our delivery guidance is (inaudible).

**Q - Gordon Lee** {BIO 1551117 <GO>}

Perfect. Thank you, very much.

**Q - Unidentified**

Very welcome.

**Operator**

Thank you. Our next question is coming from Ron Eckstein [ph] of Merrill Lynch.

**Q - Ron Eckstein**

Good morning, everyone.

**Q - Unidentified**

Hello Ron [ph]. How are you doing?

**Q - Ron Eckstein**

Good. Just a couple of quick questions for you. On the ERJ 170 program, what is the accounting block size [ph]?

**Q - Unidentified**

Sorry, what's what?

**Q - Ron Eckstein**

The accounting block size [ph] on the ERJ 170 program?

**Q - Unidentified**

I am not understanding ...

**A - Anna Cecilia Bettencourt**

I'm sorry but Ron [ph]?

**Q - Ron Eckstein**

Yes.

**A - Anna Cecilia Bettencourt**

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We're talking about US GAAP; we recognize the research and development as we expand. So, we don't have this accounting program (inaudible) in other aircraft manufacturers.

**Q - Ron Eckstein**

Okay. Okay. And just two more very quick ones. On deal with US Airways did you have to take it any trading?

**Q - Unidentified**

Not at all. We're keeping our basic philosophy that [ph] we are trading.

**Q - Ron Eckstein**

No trading.

**Q - Unidentified**

No trading.

**Q - Ron Eckstein**

Okay, very good. And then one last quick question. When do you expect to collect, I mean right now the BNDES, you are going to have receivables with them its pretty sizeable, when you expect to start collecting them and when would you when do you forecast that your accounts receivable level might be back to roughly to historical level?

**Q - Unidentified**

We have already Ron [ph] and we (inaudible) this First Quarter about 100 million. And we expect to have the balance of that which is like the (inaudible) to be receiving it and cash it up to the end of June.

**Q - Ron Eckstein**

All right.

**Q - Unidentified**

But it is not going to take too long. But problem is that we don't, here in Brazil that we're on a government [ph] change. The change comes from the President up to the waiter who serves the coffee in their offices. It's not like that (inaudible) but it's like the large change. Then they have to face a very strong change in their management but (inaudible) administrations have changed and this make (inaudible) take them to roll a lot of time to understand the operations and to respond. But this is at the final stage as I believe.

**Q - Ron Eckstein**

Okay. Great. Thank you, very much and congratulations on the order from the ...



## Q - Unidentified

Thank you, Ron [ph]. Good to talk to you.

## Operator

Thank you. Our next question is coming from Paul Lewis of Flight International.

## Q - Paul Lewis {BIO 19839520 <GO>}

Hi. Congratulations on the ...

## Q - Unidentified

Hello Paul.

## Q - Paul Lewis {BIO 19839520 <GO>}

Yes. Hi. Congratulations on the order (inaudible) it's good news. I just wonder with the need of USA to have fairly rapid deliveries on the 170, on the 175 and also that fairly large number of options that -- does that still leave you the flexibility in '04 to meet other possible airline orders that could come out of box, I'm thinking that'll be (inaudible) expected RJ order, have you (inaudible) flexibility to respond the other customer demands?

## Q - Unidentified

Very good question Paul as usual. The point is that today we are already talking with our (inaudible) partners to increase the production next year. We will have that flexibility.

## Q - Paul Lewis {BIO 19839520 <GO>}

What sort of level are you talking about increasing team ratio?

## Q - Unidentified

No, not 2003. Very difficult.

## Q - Paul Lewis {BIO 19839520 <GO>}

No, I'm sorry. You're talking about increasing the level of output in '04, are you able to quantify that?

## Q - Unidentified

No, I'm not at this moment. I think we should not give that structure. We have a learning curve. This learning curve we have proved ourselves to the example was in the 145. We could prove that we were very fast in responding to market needs and this is going to be restricted here.

## Q - Paul Lewis {BIO 19839520 <GO>}

Thank you, very much.

## Q - Unidentified

Welcome Paul.

## Operator

Thank you. Our next question is coming from Paola Desora [ph] of the Paola Bank [ph].

## Q - Paul Desora

Hi. This is Paul [ph] from Nicole [ph]. My question is still regarding BNDES. I would like to clarify what accompanies you on the statement that BNDES would limit its funding for Embraer's clients \$1 billion this year? If it's seeing any phases who hamper your capacity to deliver aircraft this year and next year? And my second question is regarding inventories. We have seen further increase in inventories to more than \$1 billion. What should we expect in terms of inventories for the next quarters?

## Q - Unidentified

Okay Paul [ph]. Good to talk to you Paul [ph]. To the orders we will (inaudible) somewhere last year you're referring to. This week we had the or last Sunday we had reports in one of our newspaper with an interview with the Superintendent from BNDES. This gentleman [ph] had a bad moment that they -- because what he said is that BNDES would reduce the (inaudible) funds for our operations into level of \$1 billion for new business and but in fact, I think that it was really a bad moment for him because if it is \$1 billion for one new business, it's good news because this means that everything that it (inaudible) and first one billion for new deals.

The point is that there were a lot of incorrections in that (inaudible) matter in that report. What we can say is that the bank [ph] has difficulties. Yes, we have -- we are -- the company is establishing (inaudible) surplus of 4.2 to 5% and this represents (inaudible) problem for development. That's true we all know that. But the fact is that the government also has some very strong priorities. One of the priorities is export to bring hard currency to (inaudible) to decrease the international vulnerabilities that the company is submissive [ph].

Second is to generate the employment and if we look at both points, we will see that the contribution that Embraer provide for the trade balance of the country is highly representative. Second, if you talk about employment, you have to consider not only that (inaudible) 5,000 people who work at Embraer but also the people that we represent the company (inaudible) people who work for companies from which we acquire goods and services but not all. What does the Embraer operation represent in terms of the general economy of the country?

A research study grown in the subject to (inaudible) one of the most renowned in that (inaudible) institutions in Brazil considering that methodology developed by BNDES has (inaudible) the number of employees generated by Embraer's activities in the range of

150,000 employees. So, I'm very confident that our operation, our business target, we are very much in compliance with the policy defended by the new government. And we will have the support that is necessary from us -- for us. The other question ...

## **A - Anna Cecilia Bettencourt**

Inventories. So the inventories presented an increase mainly due to the development of the EMBRAER 170, which we have already thought [ph] its series production. Okay. Also we have -- we are beginning the development of the prototype for the EMBRAER 175 and secondly, the Legacy family is taking longer in compared to the ERJ 145 family to be finalized and completed with its interior. So, that's why you saw this increase this quarter in inventories. Okay. Remember that in August, (inaudible) EMBRAER 170 to Alitalia and, therefore, after that you'll see some stabilization in our inventories after that.

## **Operator**

Thank you. Our next question is coming from Lori Ranson of Aviation Daily.

## **Q - Lori Ranson**

My question's been answered. Thank you.

## **Q - Unidentified**

Hello.

## **Operator**

Thank you. Our next question is coming from Ashish Pant [ph] of Farallon [ph].

## **Q - Ashish Pant** {BIO 4173042 <GO>}

Good morning, Mauricio and Anna. Just a question on -- are you can you sort of clarify about how are you seeing any changes as far as your airline customers go in their demands for any sort of price guarantees or residual values guarantees? Have they sort of backed off a bit? Are they seeing it easier to procure equity financing or leverage the equity leases [ph]? Any color you can provide on that would be useful.

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

Good morning, Ashish. How are you doing?

## **Q - Ashish Pant** {BIO 4173042 <GO>}

Okay.

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

(inaudible) the connection was not so good but I understood (inaudible) responding.

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### Q - Unidentified

We're continuously seeing a level of guarantees we had in the past. (inaudible) and the secondly what is (inaudible) in our information is (inaudible) in the last quarter and for this quarter too that is that the situation as today.

### A - Anna Cecilia Bettencourt

By the way we made a provision of \$11 million, around \$11 million this quarter exactly to cover the financial guarantees provided.

### Q - Ashish Pant {BIO 4173042 <GO>}

Thank you.

### Q - Unidentified

Thank you.

### Operator

Thank you. Our next question is coming from Emerson Leite of Credit Suisse First Boston.

### Q - Emerson Leite {BIO 4003528 <GO>}

Hi, hello. Good morning, everyone. Good morning, Mauricio.

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

Good morning, Emerson.

### Q - Emerson Leite {BIO 4003528 <GO>}

I have a question regarding your current marketing campaign (inaudible) order behind, what are the most (inaudible) marketing campaign that you're currently undergoing and if you could comment on any expectations simplifying for those eventual new orders materialize. And the second question is (inaudible) and I guess you told that on 2004 delivery number 84% is firm -- relates to firm orders. If you could provide that figure for this year 2003, could be helpful? Thanks.

### Q - Unidentified

Okay. In terms of the campaigns that we are working with that are several. Not only one or two. But several and some (inaudible) sooner than the others. Some will be this year, others will be transferred to next year. But I do expect that we may have some definition very soon.

### A - Anna Cecilia Bettencourt

Regarding the delivery of the scheduled for 2003, its higher than 2004 and they saw most 90% of (inaudible) firm.

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**Q - Emerson Leite** {BIO 4003528 <GO>}

And these already (inaudible) to the US Airways order, right?

**A - Anna Cecilia Bettencourt**

Remember that a portion of the US Airways is being financed (inaudible) in our backlog through GECAS.

**Q - Unidentified**

Certain points to make rather comment here. When we have a forecast, it is not everything solid and clear. We (inaudible) our forecast and (inaudible) we have in our firm order backlog and also in perspectives that we have on the market. Brazil for instance, we have postponements on firm orders. So, that is un-expectable. That is something that is you cannot plan for that and at the same time new things come up.

So, we have to have -- we must look at those forecasts that something that are not solid and clean but it is very good approach based on (inaudible) you have under control and based on expectations that you have on the marketplace. So, for instance, of course, we could not predict that we would rein US Airways as well as we could not predict that SWISS would cancel four out of six orders that they have to receive and accept the second half of this year. So, yes. But this forecast that has given you today its already considered US Airways deliveries the second half of this year. No matter if they come directly from us or if they come financed by GECAS.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Mauricio, one last question. We haven't heard much about your defense business. Could you comment on what's going on and if you would still have the target of achieving 20% of sales by 2007 from the defense business?

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

Yes, we keep moving, keep looking at that other perspectives. We see that the main programs that we have to consider this year in our figures, in our operational figures they are in place. In spite of the budgetary constraints that the Air Force is submitted to. I think that we are in good shape in that (inaudible). The forecast that we have for five years ahead which would be 2007 in having our revenues split in 20% from (inaudible) not from the commercial airline market and this is still a firm view that we have in our future operation. We are working in that direction and moving ahead on that.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Okay. Thank you.

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

Thank you.

## Operator

Thank you. Our next question is coming from Robert Fay of Canaccord Capital.

### Q - Robert Fay {BIO 1556300 <GO>}

Thank you. Mauricio, just two questions. Number one, there is a large number of your 145 options -- 145 aircraft on option to US Airways, what -- was there any thought that they would be part of the firm order backlog?

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

Hello Robert. Good to talk to you. Let me explain this. We thought (inaudible) to have the whole group and I think that we had some issues in (inaudible) is that we could not have solid financial equations to support the whole year. As a consequence, (inaudible) but the point is that we would not have the ability to deliver all the aircrafts at the speed required by USA then some of the 70-seat aircraft and even if the customer definitely preferred the EMBRAER 170, they came to our comparison. But, still there are 140 options on the ERJ 145 in our country and we will be working in means and ways to make that become effective.

### Q - Robert Fay {BIO 1556300 <GO>}

Okay. Thank you. One other question. And I don't -- I'm not sure if it applies to your orders or both companies but there was this the clause in one of the statements I read about the ability for US Airways to reassign the orders to some of the carriers that they co-chairs with? Could you outline sort of the conditions under which that would happen?

### Q - Unidentified

Honestly Robert, I don't know. I'm not aware of that. Maybe that is in our contract but I'm not aware on this. We can look for this and give you an answer on that. But for today at this point, I just don't know.

### Q - Robert Fay {BIO 1556300 <GO>}

Thank you.

### Q - Unidentified

Thank you, very much Robert.

## Operator

Thank you. Our next question is coming from Alan Karp [ph] of ATI [ph].

### Q - Alan Karp {BIO 3700725 <GO>}

Yes, could you go through the delivery schedule for the US Airways aircraft? How many will be delivered this year and next year and has the financing been completed on the firm ordered aircraft?

## Q - Unidentified

(inaudible) can tell you that out of the 85, 30 are supported by GECAS which is in place, the others we have already manifestation from our Federal Bank or Development Bank BNDES to support the due. But it's, of course, not finalized at this moment. But that is being sent and supportive. With respect to your first question Anna is answering.

## A - Anna Cecilia Bettencourt

Regarding the deliveries for 2003 to US Airways it represents six deliveries, of course, some will be from GECAS, which were already in our backlog. We're now [ph] disclosing after 2000 and '04 and on.

## Q - Alan Karp {BIO 3700725 <GO>}

So, that's six for the remainder of this year?

## Q - Unidentified

Yes.

## A - Anna Cecilia Bettencourt

Yes.

## Q - Alan Karp {BIO 3700725 <GO>}

Thank you.

## Operator

Again ladies and gentlemen. as a final reminder, if you do have any final questions or comments, please press one followed by four on your touch-tone phone. We do have a follow up question coming from Robert Spingarn of Salomon Smith Barney.

## Q - Robert Spingarn {BIO 5996882 <GO>}

Yes, I just had a couple of follow up questions. This is follow up on Ashish's point. Mauricio are there any guarantees of any kind in the US air deal either on the GECAS aircraft or on the new aircraft?

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

Nothing different from what we have (inaudible).

## Q - Robert Spingarn {BIO 5996882 <GO>}

Okay. And then Anna a couple of questions for you. We all know the receivables are up, I think you explained that it has to do with BNDES.

## Q - Unidentified

Yes.

**Q - Robert Spingarn {BIO 5996882 <GO>}**

Is it an issue specifically with them and the changing government or possibly could there be an issue with one of the carriers, I notice that most of the aircrafts delivered in the First Quarter went either to ExpressJet, American Eagle or to Chautauqua?

**Q - Unidentified**

The point is that BNDES is a very good partner of Embraer. BNDES has a history of cooperation with us in different ways. But for sure this is something very good but something that is not very good is the speech in which they react and which they provide us support. And at the beginning of this year, we have to make things somewhat more difficult. We have a change in management of the bank affecting the President, the Directors, the Superintendent and the Head of the Partner. Four levels of management were changed. So, this is a tremendous difficult year for the new team to understand operations then to react according. So, that is what we're spending out of that. It's not especially aggressive to any operation. It's not aggressive to any customer. It's an aggression to them, to the volumes that we're talking about and what is required from them an additional time to respond.

**Q - Robert Spingarn {BIO 5996882 <GO>}**

Okay. Just my assumption would have been they have financial contracts that their obligated to whether or not it's new people and that they would have to time their payments with the delivery the aircraft?

**Q - Unidentified**

Yes, that's right. You're right but the point is that even for them, they have to go further and then differ [ph] because they don't know the (inaudible).

**Q - Robert Spingarn {BIO 5996882 <GO>}**

Okay. Just a couple of others small accounting type questions for Anna and before that I just want to go back you said 11%, 170 family aircraft this year. So, that implies 15 -- 14, 15, 170s in November and December?

**Q - Unidentified**

Yes.

**Q - Robert Spingarn {BIO 5996882 <GO>}**

Okay.

**Q - Unidentified**

That's from August not from November-December.



**Q - Robert Spingarn** {BIO 5996882 <GO>}

Oh, from August, starting with the Alitalia?

**Q - Unidentified**

Yes.

**Q - Robert Spingarn** {BIO 5996882 <GO>}

Okay. So, November is the first US air delivery?

**Q - Unidentified**

Yes.

**Q - Robert Spingarn** {BIO 5996882 <GO>}

Okay. And then the other questions would be if you could comment on the lower tax rate and on the big decline in profit sharing?

**A - Anna Cecilia Bettencourt**

Well, the profit sharing policy (inaudible) to the distribution of dividends to our shareholders. So, every time that we pay either dividend or interest on shareholders' and equity, we make a provision for the profit sharing as this year, I mean this First Quarter (inaudible) distribution of interest on shareholders' equity. So, we didn't make a provision at Embraer. The \$100,000 provisions that we made were related to one of our subsidiaries that paid interest on shareholders' equity to Embraer. That was it.

**Q - Robert Spingarn** {BIO 5996882 <GO>}

Does this mean Anna that we'll see a provision in the Second Quarter?

**A - Anna Cecilia Bettencourt**

If we pay dividends during the Second Quarter, yes that will be a provision.

**Q - Unidentified**

It is relevant to say that this profit sharing policy that we have established in the company. It is dependent on the series of factors. First, of course, it must have a profit. Second, shareholders must take the dividend and third they must have achieved their personal, their individual targets to deserve the share. Of course, when we're talking about distributional profit, which is dependent on shareholders' decision. So, far what we can say that it's likely that this may happen but it's not true that it will happen.

**Q - Robert Spingarn** {BIO 5996882 <GO>}

Okay, then the tax rate?

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### **A - Anna Cecilia Bettencourt**

The tax rate, it's not simple calculate but let me explain. First, the tax rate is based on the profit that we have in Brazilian GAAP. Okay. So. And the second portion of our tax rate is based on we have some credits asset (inaudible) so, what's happening was that this quarter, the local currency went up compared to the US dollars. Therefore, we recognized this exchange rate gain based on these assets in this line so which makes our effective tax rate to reach 22%.

### **Q - Robert Spingarn {BIO 5996882 <GO>}**

What is your guidance for tax rate for 2003?

### **A - Anna Cecilia Bettencourt**

It depends on the exchange rate (inaudible) for the period. Then the exchange rate maintains this average of I mean, it doesn't present the huge volatility -- will be presented something about 30, 30 plus % in effective tax rate in US GAAP. But if the exchange rate present a huge volatility, we cannot give you a guidance.

### **Q - Robert Spingarn {BIO 5996882 <GO>}**

Okay. Thank you, Anna.

### **A - Anna Cecilia Bettencourt**

Welcome.

### **Q - Unidentified**

Thank you.

### **Operator**

Thank you. Our next question is coming from Paul Lewis of Flight International.

### **Q - Paul Lewis {BIO 19839520 <GO>}**

Hi.

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

Hi Paul.

### **Q - Paul Lewis {BIO 19839520 <GO>}**

Hi Mauricio. I want to just following up from the question earlier about talking to the partners about increasing the rate on the 170, 175, what is the critical path in terms of (inaudible) subsystems, structures, what is the critical items that really determine, how much of a ramp up you can achieve?

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

No one of the items are easy, Paul because really its just starting up of overproduction scheme. So, it's (inaudible), it will be difficult but we are moving in that direction. We're already talking about the estimate based on the forecast of the (inaudible).

**Q - Paul Lewis** {BIO 19839520 <GO>}

And have the partner supplier has been responsive of the GE, the Honeywell [ph], the Laticos [ph] I mean I imagine that these are the people you're talking to. Have they given you indications that they can meet you're increased expectations?

**Q - Unidentified**

Presently, they're studying the situation.

**Q - Paul Lewis** {BIO 19839520 <GO>}

Right.

**Q - Unidentified**

I don't answer for that. But of course, if this is music for the ears [ph].

**Q - Paul Lewis** {BIO 19839520 <GO>}

Yes. Good stuff. All right. Thanks again and look forward to catching up with you maybe at RIA [ph] next week.

**Q - Unidentified**

That's good. Don't just forget it, Paul.

**Q - Paul Lewis** {BIO 19839520 <GO>}

All right. Take care.

**Q - Unidentified**

Bye-bye. Take care.

**Operator**

Thank you. We do have another follow-up question coming from Ashish Pant of Farallon [ph].

**Q - Ashish Pant** {BIO 4173042 <GO>}

Just one question Mauricio. Could you comment on the business check market in your campaigns to break into that market? What's the response been this environment seems pretty bad but any comments would be helpful?

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

Very good rushes [ph], this is something that is very, very relevant, yes. The market is very tight, very tight, very much tightened than we had assumed and today this is based with uncertainty that we still have in our forecast for the -- we have had last week an exhibit in Switzerland (inaudible) on business jet issue. Very slow, very slow. We have very significant visits. Lots of interest raised on the product. But very slow in real action. So, this is a concern that I have. I can't give you any further data rather than this because we're still fighting to have opportunities that our people several people in Europe, in US, in Brazil, in Asia, interested in the aircraft, if we will be able to close it down, I don't know.

**Q - Ashish Pant** {BIO 4173042 <GO>}

Thanks a lot.

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

Thank you.

**Operator**

Thank you, ladies and gentlemen. We do have one last question coming from Ron Eckstein [ph] of Merrill Lynch.

**Q - Ron Eckstein**

Hi Mauricio. Just a follow up on Ashish's question ...

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

Yes.

**Q - Ron Eckstein**

On the business jet market. Have you guys seen any deferrals or I mean like net deferrals?

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

Oh! Yes. Oh! Yes. We have people that we're discussing results very close they've took to (inaudible) so, that's the situation but nothing good in our backlog. Well, I'm talking about the sale process today. We see that there is interest in the product, genuinely interest in the product (inaudible) again, we've made a correct approach to the market in defining relevant products for that. So, the point is that a reliability of resource to pull the view from the customers, interested customers is not showing up.

**Q - Ron Eckstein**

But no firm orders have been ...

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

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No, not firm orders.

### Q - Ron Eckstein

Okay. No firm order. And then just one really quick question for Anna. I noticed the last two quarters that the net interest expense is actually a lot higher than it was historically? And what's the reason for that?

### A - Anna Cecilia Bettencourt

One was that this quarter instead of having, I mean net cash we started to have a net debt. So, this was against the (inaudible), I mean just (inaudible) instead of have presenting a net income we're presenting a net expense, financial expense. That probably is a portion as related to the hedges that we have with the increase of the local currencies (inaudible) and expense in our financial statement.

### Q - Ron Eckstein

Okay. Thank you.

### Q - Unidentified

Thank you, Ron [ph].

### Operator

Mr. Botelho, there appear to be no further questions at this time. So, I would like to turn the floor back to you for any closing comments.

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

Thank you, very much. I would like just to comment on this USA deal and what this thus represents. I think that (inaudible) disclosing in 1999, June 1999, I think that the environment was definitely different from the environment that we're living today. When we roll about the 170, the toe is on October '99, 2001, about one month and a half after very terrible September 11 event and just one month after we laid off 1800 people. This may show, may give you an idea of the motion that was for all of us that moment representing.

But we would not agree to it and at that moment because we thought very strongly that we had the correct project for a new era, a new era in the industry. What we're seeing in this US Airways order is that we were right in our perception. I think that the feeling that US Airways has manifested about the product (inaudible) show that we were able to understand and to define the correct market requirements.

At the end, we are presuming is that I think that this (inaudible) they are going to fulfill at very cooperative rule in the market fulfilling a gap that today exists and which is causing a lot of damage, not only to the airlines themselves but for consumers at the very end. We're seeing the reaction from the market. And we are also in consequence talking with our partners in a way to expand our rate of deliveries as soon as we can because we

strongly believe that these will be the best to be the default. I use (inaudible) here an expression to (inaudible) people which is lets move forward and this is what we're doing today and I think very happy that we are following on the right path. Thank you, very much for all of you. Thank you for your attention.

### **Q - Unidentified**

Thank you, very much.

### **A - Anna Cecilia Bettencourt**

Thank you.

### **Operator**

Ladies and gentlemen. thank you very much for your participation. This does conclude today's Embraer conference call. You may disconnect your line at this time and have a wonderful day.

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