

Q3 2004 Earnings Call

Company Participants

- Anna Cecilia Bettencourt, Head of Capital markets & IR
- Antonio Luiz Manso, CFO

Other Participants

- Daniela Bretthauer, Analyst
- Graham Warwick, Analyst
- Heidi Wood, Analyst
- Jo Nadol, Analyst
- Richard Haydon, Analyst
- Rodrigo Gomez, Analyst
- Ron Epstein, Analyst
- Steve Trent, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. And welcome to the audio-conference call that will review Embraer's Third Quarter 2004 results in the US GAAP. (Operator Instructions) As a reminder, this conference is being recorded and webcasted at www.embraer.com. This conference call includes forward-looking statements or statements about events or circumstance 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 'believe', 'may', 'will', 'estimate', 'continues', 'anticipates', 'intends', 'expects' and similar words are intended to identify forward-looking statements. Embraer undertakes no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties the forward-looking statements and circumstances discussed in this conference call may not occur. The Company's actual results could differ substantially from those anticipated in the forward-looking statement.

Participants on today's conference call are Mr. Antonio Luiz Manso, Chief Financial Officer, Mr. Marcelo Rodriguez [ph], Controller, and Mrs. Anna Cecilia Bettencourt, Head of Capital Markets and IR. I would now like to turn the conference over to Mr. Manso. Please sir, go ahead.

Antonio Luiz Manso {BIO 1845027 <GO>}

Good morning, everyone. It's a pleasure talking again to you. And unfortunately we don't have Mauricio together with us because he has personal problems and he called to direct to the presentation today information about the Third Quarter. Anna Cecilia will explain (inaudible) each part, starting by the highlights, and after finish that we will go to open the questions. Anna Cecilia please go ahead.

Anna Cecilia Bettencourt

Thank you. Hello everyone. So we can start talking about our financial achievements during the quarter. With net revenues reaching, for the second consecutive quarter, an historical high of \$936.5m, representing 113% growth over the same period last year. \$2.5 billion net revenue accumulated this year, already beats the 2003 total revenue of \$2.1b. This quarter, due to the niche improvements on the Embraer 170 to the production (landing court), our work and net margin increased to 33.2% and 12.1%, from 32.6% and 8.7% last quarter's. Also, we were able to maintain a very solid financial position, and we ended the quarter with \$220 million net cash. The net cash decreased from the previous quarter's; quarter as we experienced higher inventories and account receivables.

This quarter we revised our delivery target for 2004 and 2005 from 160 and 170 aircraft to 145 each year. This revision was caused by the US Airways Chapter 11 file, and the cancellation of the last 18 ERJ 145 delivery to American Eagle. We had delivered 22 Embraer 170s to US Airways, 15 of which have been financed by GECAS. The sale financing arrangements were under structuring process for the remaining 7, and we -- and were accounted as a short term account receivables. Due to the; their Chapter 11 filing, the negotiations with financing agents were halted, and now the 7 aircraft are accounted in our balance sheet as long term account receivables. Actually 90% are accounted as long term account receivables and 10% as short term account receivables.

US Airways at the end of last week, they've reached an agreement with their financing; aircraft financing agent, which we believe was a positive news.

Inventories were also affected by the US Airways Chapter 11, and we had to reprogram our deliveries as we had an additional 14 aircraft to be delivered to them and we ended the quarter with 4 aircraft painted with their colors.

During the quarter we announced 54 new orders. Air Canada signed a contract for 45 Embraer 190. Republic converted 7 of its options; its Embraer 170 options into firm orders. Today Republic have an order for 23 Embraer 170 from which a regional order of 13. Also we signed a contract with Luxair for 2 additional ERJ 145s. Also last Friday we announced

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an order for 15 Embraer 175s to Air Canada, and an additional 15 options which deliveries will start July next year.

So year-to-date, we have there the 2000 backlog, 126 firm orders including 15 from Air Canada that we announced last Friday, being 31 in the ERJ 145 jet family. And 95 in the Embraer 170/190 program.

In the Defense segment, on August 2 the ERJ 145 platform was announced; was elected as part of the winning bid for the U.S. Army Aerial Common Sensor, the ACS program. It is expected that this program should reach 38 aircraft from the Army, and be worth more than \$7 billion to the team. The U.S. Navy has already indicated its commitment to the ACS system, which would add 19 aircraft to the program.

Finally, in the Corporate market we are now at the beginning of the flight -- final flight-test phase of the certification process that will raise the service ceiling of the Legacy business jet to 41,000 feet (12,500 meters).

Certification for the new flight level is expected in the First Quarter 2005, and deliveries are expected to begin soon after. And our service bulletin will be made available upon request to current Legacy owners to upgrade their aircraft for the same capability. We are now at the final flight-test phase.

Now I will present the Third Quarter results, and we delivered during Third Quarter 2004 40 aircraft compared to 20 in the Third Quarter 2003, and for 43 deliveries last quarter. During the first nine months, we delivered 106 jets compared to 71 delivered during the same period last year.

Net revenue reaches \$937m, 113% higher than Third Quarter 2003, and \$13 million higher than last quarter. With 106 deliveries and a different product mix, this year our net revenues of \$2.5 billion already surpassed 2003 total revenues of \$2.1b. Due to the niche improvement on the Embraer 170 production (lining corp), the gross margin slightly increased when compared to last quarter.

Commercial airline revenues represented 81% of our total net sales and reached \$760.4 million this quarter. In Third Quarter 2004, Commercial airline revenues increased 165% compared to the same period last year, while sales to Defense and Customer Services increased 42 and 33% respectively. Sales to the Corporate market decreased 26% as there were less Corporate sales deliveries.

This quarter, operating expenses reached \$184m. Total operating expenses as a percentage of our net sales decreased from 26% in Third Quarter 2003 to 19% in the last 2 quarters. Therefore, income from operations reached \$127m, which represents 159% higher than the same period last year, and relatively stable when compared to the previous quarter.

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Net income reached \$114m, 16 times higher than last year, and 42.5% than last quarter. Net income reached \$297 million in the first nine months of this year, which is higher than 2003 net income of \$136m.

During the quarter, accounts receivables increased by \$232m, reaching 100 -- \$703 million at the end of the quarter. Of this total amount, approximately 72% is related to aircraft delivered for which sales financing arrangements are under structuring process. As already explained we ended the quarter with 85% of the value of 7 US Airways aircraft in our long term accounts receivables.

Inventories are another factor that impact our working capital needs. Inventories increased by \$142 million this quarter, including 4 aircraft painted in the colors of US Airways. However, considering the flexibility of existing contracts negotiations -- negotiated with our suppliers, we expect that excess of raw-material, work in progress and finished aircraft will be consumed within the coming months.

Due to the needs of; for temporary funding to support the high inventories in the trade accounts receivables, our total loans increased \$139m. On the other hand, our debt exposure to here declined from 10% last quarter to 7% this quarter. Despite the increase in our loans, our U.S. debt costs remained at 3.9% and the held costs portion decreased from 13 to 12.4% this quarter.

Despite the need for all temporary funding, we maintained our debt profile and 63% of our debt were long term debt. The long term credit lines are due to mature between 2005 and 2011, with an average life of almost three years.

Finally, due to the higher inventories and account receivables, our net cash position decreased during the quarter by \$84m. Also, for the same reason, our free cash generation during the quarter was negative, \$69m. But considering the first nine months of the year we generated free cash around \$158m.

We ended the quarter with 148 firm orders in backlog from the ERJ 145 family to be delivered in 774 options in backlog. During the first nine months of this year we added to our ERJ 145 family order book 31 new orders.

After the end of the quarter, American Eagle reached a preliminary agreement with us to cancel its last 18 ERJ 145 regional jets deliveries, which were planned to be delivered between July 2005 and February 2006. As the agreement has not been finalized by September, the order -- the debt calculated is not reflected in our September backlog.

For the Embraer 170/190 family backlog, we had -- we ended the quarter with 325 firm orders and 289 aircraft to be delivered, an additional 383 options. And this backlog is not included the 15 firm orders from Air Canada that we announced last quarter. The quarter was marked by the execution the other portion of the Air Canada of the purchase agreement for 45 firm orders and 45 options for the Embraer 190. And also during the quarter Republic Airways converted 7 Embraer 170 options to firm orders. And now last

Friday we announced the firm order for 15 Embraer 175, which they are (the last person) for this type of aircraft. And it's not reflected in our September 2004 backlog.

So our total firm backlog, including the sales in Corporate jet air market, was \$11b, almost 4 times up over the last 12 month sales. Firm backlog does not include the ACS program yet.

In terms of projections we revise our projections, and now we are projecting 145 aircraft to be delivered in 2004 and 2005. Our delivery is essentially full for 2004 and not including the Air Canada, is more or less in around 85% owed for 2005.

So now we can open the conference call for questions and answers. Thank you.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Our first question comes from Jo Nadol of JP Morgan.

Q - Jo Nadol

Thanks. Good morning. My first question is just to get a little more granular on the cash flow impacts of the US Airways Chapter 11 filing. How much operating cash outflow directly came about as a result of that filing? And would there have been cash --? Would some of that have been in cash (investing) activities if not for the filing?

A - Anna Cecilia Bettencourt

Well Jo, actually what happened was that the inventories they increased. Okay?

Q - Jo Nadol

Yes.

A - Anna Cecilia Bettencourt

(Due) -- I mean we were programming --. From September 12 to the end of the year, we were programming 14 deliveries to US Airways. These deliveries were halted. We ended the quarter, Third Quarter, with 4 aircraft ready painted in the colors of US Airways. But also we had other aircraft that were being manufactured for US Airways which were (not) halted. What we had, what we did was that our aircraft that were going to be ready were (off) already being at our production, being adjusted for other customers. Okay? But so far we have these 4 aircraft ready and the decision will be made by the end of this month, maybe next month, depending on the US Airways situation in terms of delivering these aircraft or not.

Q - Jo Nadol

(inaudible). Okay I guess in terms of the aircraft that they already have, but that you have temporarily financed? What would the perspective changes to your cash flow taken as localized should you get those off your books? And secondly, what are the prospects for getting those off your books? Are you working on something or are you just waiting to see how the bankruptcy proceeds? The 7 aircraft.

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

We believe that the best thing (we got to wait and see) the final process of the US Airways. And certainly it's not before the middle of the next year. And we go to hold in our account receivables that 7 aircraft, (certainly) after the finish of the US Airways. It's -- well come back to try to (work) in the market. If you (know our key certainly that), and by the situation (needed to) learn that process and go to start a -- the configuration and the -- not speak a problem, but is certainly (the go process) to the next year.

A - Anna Cecilia Bettencourt

What we see is that our -- US Airways with these 7 aircraft, they are paying the lease on time. Okay? I mean they passed through this renegotiation last week with the financing; aircraft financing agent. They've reached their agreement, which is a positive news. Okay? They are not in a (they vote), so there's no reason to recollect these aircraft that they are flying or they are operating.

Q - Jo Nadol

Okay. Okay. My second question is on the Defense segments. The revenues have been -- because moving around a little bit, it's tough to predict; for us to predict where those are going to move in a given quarter. Can you roughly give us a sense of what the -- where you are on some of your major Defense programs and what the outlook is for revenue growth in 2005?

A - Anna Cecilia Bettencourt

I'm sorry, Jo. Revenue in the Defense segments is not simple to predict because it's not tied to each -- to the deliveries. Okay? It's based on a (complacement), a percentage of our complement which, as long as the program moves on, we recognize the revenues. For this year we are forecasting something about \$400 million in sales for the Defense segment.

Q - Jo Nadol

Okay. It's too early to give us a sense of how you think you'll be progressing on your contracts in 2005? So we --.

A - Anna Cecilia Bettencourt

Well 2005, let's keep it for -- you are coming to our Analysts' meeting, so we'll be --.

Q - Jo Nadol

Okay.

A - Anna Cecilia Bettencourt

Talking about deliveries for; jet deliveries for '06, and we'll be discussing the prospects of the Defense market as well.

Q - Jo Nadol

That's fine, thank you.

A - Anna Cecilia Bettencourt

Welcome.

Operator

The next question is from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Good morning.

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

Morning Ron.

Q - Ron Epstein {BIO 1868102 <GO>}

Let's talk about those 7 jets some more. I thought Embraer was not in the business of financing aircraft.

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

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

So I; can you explain more; how temporary is temporary? I mean this is kind of on the back of Jo's question. So is Embraer financing these aircraft? Can you give us some more color on those aircraft?

A - Anna Cecilia Bettencourt

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

Why aren't they (de-cast) planes? Or -- that's -- why aren't they (BNDS) planes? Why are they Embraer planes?

A - Anna Cecilia Bettencourt

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Yes, what happened was that -- remember when we announced the order for US Airways back in May last year? They placed an order for 85 aircraft, of which 30 were already in our backlog from (GECAP). Okay, so GECAP is financing 30 of US Air; was financing 30 of US Airways deliveries. The remaining were on the -- I mean we were facing -- we were discussing the finance, different financing agents to finance the remaining deliveries. The contract; what happened was that our -- we were having the discussions with financing agents. Okay? 1 of the financing agents was BNDS for instance, which with the US Airways -- I mean with their Chapter 11 file, these negotiations were, let's say, halted. And the financing agents are waiting to see what would be the outcome from this Chapter 11. And I mean why will we need to carry this financing in our books.

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

We made the (deputation to BNDS Finance); that the insurance Brazilian export agent support this some months ago. And that ferocity is governed well. But the -- little bit before the Chapter 11, when appeared the first news about this situation of the US Airways, they postponed the decision that they imparted when arrived that (air was out to the) Chapter 11 file. And today, we need to wait to watch (what will) happen with them today. Only to the Chapter 11. And after this we both come back and take this situation for the 7, maybe for more. It depends on the situation after. Okay?

Q - Ron Epstein {BIO 1868102 <GO>}

Yes, what's the structure --? I mean are they making lease payments to Embraer in --? What is the rate --?

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

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

On those payments? How --? Is it a market rate? I mean what --?

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

(As we've been) saying to you, we consider the same finances possible to transfer direct to the market, because they're to continue to receive it the monthly or semester payment.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay now in the accounts receivable there's other aircraft that are pending financing packages? Is that --?

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

(inaudible)

Q - Ron Epstein {BIO 1868102 <GO>}

How pending is pending? Are they forever pending or is this just --?

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

No.

Q - Ron Epstein {BIO 1868102 <GO>}

Truly temporary?

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

Truly temporary, and the -- we continue to go to the market, transfer (party) and maybe (assume) a new aircraft. But what our target is not to go to more than 15% off our revenues and that's the area. That is the target. That means almost \$450 million in our accounts receivable. And -- but certainly it's temporary. What's the impact? We need to prepare the finance to Continental as an example. And it's not possible to work aircraft by aircraft. We work by blocks, and we finished a block in last June, and (at the) September deliveries. And now we prepare a deal; that is we go to the beginning of the year go to; from September at the middle of the next year. That is very difficult to go to (them) what you see the different sides of the value. We have an order (is) in the process. We prepare to deliver aircraft to another client, but (a) temporary base is certain with that.

Q - Ron Epstein {BIO 1868102 <GO>}

So what --? Where do you expect account receivables to be by the end of the year?

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

That is a -- depends on the situation of the US Airways. If you go to; you stay in that level, certainly we go around at the same as we have today. It's not a big difference we have today.

Q - Ron Epstein {BIO 1868102 <GO>}

So it won't keep -- increase again next quarter? So it'll be flat to down? Is that --?

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

Yes, more or less flat. Maybe a difference but not a significant.

Q - Ron Epstein {BIO 1868102 <GO>}

Then another question. What's the cycle time currently on the 170? I think last quarter you guys said it was 7.5 months. What is it now?

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

Well we started seven months and then believed it had to be bigger for the next year than maybe in the First Quarter, like around the 4 or 5 a month.

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Q - Ron Epstein {BIO 1868102 <GO>}

Okay so at seven months now?

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

Yes, seven months. Around seven months. Depends -- the (target is being backed) off that to try to arrange the new region of production because we prepare the production to arriving (160 muse here), and the -- it's stop in the, again to change the number of aircraft that affect a little bit the term of the production.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, and then just 1 final question. If the currency stays relatively well-behaved, do you expect gross margins in the Fourth Quarter to be in line with the 33% we saw this quarter --?

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

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

Or do you expect them to go down or up? What are you forecasting for next quarter for gross margins?

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

Yes. How did you say we -- is around between 2 -- 233, a little bit more, a little bit less. That's how long it is certainly. We both come back better certainly when the (last) quarter comes (12).

Q - Ron Epstein {BIO 1868102 <GO>}

Okay.

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

Thank you.

Q - Ron Epstein {BIO 1868102 <GO>}

Thank you.

Operator

The next question comes from Steve Trent of Smith -- I'm sorry, Smith Barney.

Q - Steve Trent {BIO 5581382 <GO>}

Yes. Good morning Anna Cecilia and Antonio Luiz. Steve Trent from Smith Barney.

A - Anna Cecilia Bettencourt

Hi Steve.

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

How are you?

Q - Steve Trent {BIO 5581382 <GO>}

Good thanks. Can you hear me okay?

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

Yes, very well.

Q - Steve Trent {BIO 5581382 <GO>}

Oh great. First of all, my regards to Mauricio. Whatever he's going through, I wish him the best.

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

Yes. (inaudible)

Q - Steve Trent {BIO 5581382 <GO>}

A couple of questions. In terms of the deliveries in the Third Quarter, I remember in 2Q, did actually counted 3 ERJ 145 deliveries not as regular revenue, but as operating leases. And in your 2Q conference call you'd implied that you'd count 2 such jets as operating leases in 3Q, and it looks like that didn't happen and I was wondering what happened there and what may have changed? My second question is any update at all as to what might be happening with Brazil's jet-fighter program?

A - Anna Cecilia Bettencourt

Well, talking about the 3 aircraft that were not -- we could not recognize revenue in US jets. Okay? We did not believe the (EMR) aircraft with the same concept that are in the Second Quarter. But there will be 2 additional aircraft in the Fourth Quarter. So 3 in the Third Quarter and 2 in the Fourth Quarter, and that's it. In terms of the ALX program, we -- I thought it was better to; (pointed) to talk about.

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

Yes we, all the time wait to the final decision. Today, again, we; maybe 3 weeks ago, the people (standing out, that's close to the finally buyback) postponed. And it's very difficult to make a provision today. I don't know exactly what's going to happen, and the -- we want to continue to follow, but I don't know the --.

A - Anna Cecilia Bettencourt

Outcome.

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

The final definition from them, when and what type. Okay?

Q - Steve Trent {BIO 5581382 <GO>}

Okay.

A - Anna Cecilia Bettencourt

It's important to highlight that recently the sales and (many sales were changes).

Q - Steve Trent {BIO 5581382 <GO>}

Yes.

A - Anna Cecilia Bettencourt

Which also -- I mean there will be charges again to be analyzed, so --.

Q - Steve Trent {BIO 5581382 <GO>}

Yes.

A - Anna Cecilia Bettencourt

That's why 1 of the reasons that it's difficult to predict the final decision on timing.

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

Yes certainly. Anna is correct. The change of the Defense ministers, certainly going to affect that process.

Q - Steve Trent {BIO 5581382 <GO>}

Okay great. And just 1 other quick question. With respect to the certification process on the ERJ 175 --. Congrats for landing the (launch) customer incidentally. Are you still on track to have that aircraft certified by the end of this year?

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

Exactly, we don't see any kind of problems in the planning to deliver the first aircraft is for July next year. Certainly it's not have any kind of affect the process.

Q - Steve Trent {BIO 5581382 <GO>}

Okay thanks very much.

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

Thank you.

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Operator

The next question comes from Richard Haydon of Omega Advisors.

Q - Richard Haydon {BIO 1879783 <GO>}

Good morning, I guess. Are you going to webcast this Analysts' presentation?

A - Anna Cecilia Bettencourt

We are checking the technology, but the point is that as we have Brazilian and U.S. Speakers, we'll have online translation and that the year that we had provided the webcast, nobody could understand, either the Portuguese or the English. So we are trying -- we are discussing with the company; with a company to see if they already (improved) the service.

Q - Richard Haydon {BIO 1879783 <GO>}

Okay. Maybe --.

A - Anna Cecilia Bettencourt

What we will have available is the presentation available on our Internet. This is for sure. Also we will release the; all the information to the market on Friday, because most of the presentations are on Friday.

Q - Richard Haydon {BIO 1879783 <GO>}

Okay. A more (substant) I think. Could you characterize the degree of the activity in terms of potential orders that are occurring right now? Is it heightened? Are there more people looking aggressively at ordering, etc. etc.?

A - Anna Cecilia Bettencourt

Well certainly we see a great demand for our products. Certainly on the 70 to 110, since we see our products as important too for the airlines, we are participating in a sales campaign. So far this year the numbers already speak for themselves. We announced a good number of new orders. And recently there's addition to 15 aircraft being added to Air Canada. It's a very, very positive news and we are very happy with this. But we cannot disclose the campaigns that we are participating.

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

I believe we, in this moment, are very optimistic in relation to the aircraft. Certainly these aircraft is making a big difference for certain airlines. Then they we continue to participate in different campaigns in different levels obviously. And certainly we wait more for the news, and how that comes from Air Canada, the 15 175s. We believe strongly in the aircraft. And the -- another point to maybe; to (comply) to the information about the 155 family, we will (last Saturday), we received the China Republic President in Brazil, and he -- we signed, not the agreement, but he had very good intentions to complete the contract which more 10 aircraft go to delivery from our (subit) area in China. And we have been

Embraer 10 aircraft to -- from China (saltinet) -- China Eastern. China Eastern, not 10 aircraft go to delivered from that (stability) area. That's important for the 145 family.

Q - Richard Haydon {BIO 1879783 <GO>}

Thank you, very much. Have a good conference.

A - Anna Cecilia Bettencourt

Thank you.

Operator

The next question comes from Heidi Wood (and others) with Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Yes hi. Good morning. Just a couple of questions. I just a point of clarification. You talk about higher average selling price now with this new product mix, and then this; the selling expenses were up considerably. So am I correct to believe that the launch customer discounts were -- you used a gross number on the revenue line, and then put the discounts on the SG&I line? Did that -- ? Is that what happened?

A - Anna Cecilia Bettencourt

No price is (the due) that we sent to the customer already with or without the discount. What happened with the selling expenses is that we are providing to the customers training, first inventories, and this type of thing, which increases the dollar amount of our selling expenses. But it's in the range of 10, 11% of our net sales, which is similar to last year.

Q - Heidi Wood {BIO 3095506 <GO>}

But (I guess) I'm a little puzzled, Anna, purely because often when you deliver a new aircraft that provisioning's there at this typically high margin business to the manufacture. I guess I don't understand why that doesn't seem to flow to the P&L here.

A - Anna Cecilia Bettencourt

Well our benefit to customers is not only on price you know. I mean you add up things to the customer, as I said, which these things are in terms of some benefits are that they (to our) on net selling expenses.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay, and then so what should we think of as an SG&A as a percentage of sales in '05? Is that going to be appreciably like what we see now here in the Third Quarter?

A - Anna Cecilia Bettencourt

Yes, would be around 10, 11%; selling expenses.

Q - Heidi Wood {BIO 3095506 <GO>}

Actually SG&A?

A - Anna Cecilia Bettencourt

SG&A the -- because we segregate them as selling expenses a percentage of sales, okay, is relatively a percentage of our deliveries. Our (deliveries) expense we expect to see something about, for this year, total year, something about \$120m. And this is what we see for this year.

Q - Heidi Wood {BIO 3095506 <GO>}

Alright great. And last question for Antonio Luiz. Can you discuss what you're seeing out there in the market with respect to aircraft pricing, particularly both Boeing and Airbus (seem) to be battling again with significant new low single-aisle prices, and I wonder how you're seeing that upset pricing for the 170/190, if at all?

Operator

Are you ready for the next question?

Q - Unidentified Participant

Yes.

A - Anna Cecilia Bettencourt

Hi.

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

Hi how are you?

Q - Unidentified Participant

Fine.

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

Hello. Hello.

A - Anna Cecilia Bettencourt

Hello?

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

Hello.

Operator

Few moments please.

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

Hello?

Operator

Our next question comes --.

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

No, no I need to answer before 1. Hello? (inaudible)

Operator

Go ahead (then).

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

(inaudible) Hi. Hi. Around the pricing, our delivery is not the big important. You understand the consumers to compete with them. Certainly that is a (process), but the most important point is -- continues to the help (of) our client. And that means what the situation of finance. That is the more impact we have today in the campaigns. The pricing is affect, but is not a strong problem. The strong problem is about the sales finance for them. Hello?

Q - Unidentified Participant

(inaudible).

Operator

Excuse me?

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

Excuse me.

Operator

Our next question comes from Daniela Bretthauer with Banco Santander.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hi and good morning. A question on the BNDS (bro) for financing for this year. Basically there's been lots of rumors that the BNDS President may be replaced (in) this year, and I was wondering how has their role of financing the Embraer planes being this year -- do

you think has been affected by these rumors that BNDS has been more delayed or it has basically in line with the historical average for financing for Embraer aircraft?

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

We, in report of rumors is not our problem in this case. But let me explain the BNDS support. They've given us very strong support. We have today just some understanding and it continues to work well, prepare the support there with some delays in the process, but it's not (be) affect today our deliveries (certain). When you have a (gave RCUS a race there to be there), it is a problem for us. Any kind of finance institution and (really) to review we analyze (and you go). The people from the support in the export you have in BNDS is very well support for us today. And it continues to work. I don't know about the rumors in BNDS. That's not our job today.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay thank you.

Operator

The next question is from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Hi you guys, just a follow-up question. The tax rate during the quarter (which in your calc) was I think lower than what I was forecasting and what most people were. What trend do you see for the tax rate in Q4 in US GAAP? Do you expect it to be in line with this quarter? Do you expect it to go up, down? And again in a backdrop with the currencies relatively constant.

A - Anna Cecilia Bettencourt

Yes considering our currency is relatively constant again the tax rate is affected by the volatility of the currency. But forgetting any volatility, our affected tax rate is 34% which we pay when we pay interest rate; interest to the shareholders. This (inaudible) our remuneration to the shareholders. There is benefit our tax rate and can reach something about 23, 24; between 23 and 25%. Okay? Which is what we presented in the last 2 quarters.

Q - Ron Epstein {BIO 1868102 <GO>}

Are you expecting that in Q4 the 23 to 25%?

A - Anna Cecilia Bettencourt

It can be achieved depending on the currency.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay so if they currency's flat, if I were to model it that way that would be okay?

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

Yes. I don't go to make the same Mauricio's speech, but it's very complicated for just the process of the Brazilian tax rate applying in the (rest again). Certainly.

Q - Ron Epstein {BIO 1868102 <GO>}

Yes. No I understand it's one of the hardest lines to forecast. Thank you.

A - Anna Cecilia Bettencourt

You're welcome.

Operator

(Operator Instructions) We do have a question from Rodrigo Gomez [ph] of UBS.

Q - Rodrigo Gomez {BIO 19849926 <GO>}

Hi guys, it's Rodrigo Gomez. Just 1 quick question. Apologize if this has been asked already. I just (inaudible) called in now. With regards to the accounts receivables, what will it take for accounts receivables to start coming off (on) the perspective of US Air alone (inaudible)? Will there be BNDS be able to --? Or can you make some comment as to the BNDS intent to structure this agreement and effectively shift the risk back to (the) BNDS come from the BNDS balance sheet? Or will the US be able to start paying down these receivables before exiting Chapter 11?

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

I believe that the most important point is the (decision of the) final Chapter 11. They leave the Chapter 11, it's possible to come back in and to try to make that arrangement with BNDS or another financial institution. Certainly we had the application from the BNDS in the (first assembly, through aches) it's possible to come back if they leave Chapter 11. If they do not leave the Chapter 11, certainly we go to assume that the aircraft is not to continue operating in that airline, and maybe we could change for another and we try to (inaudible) find a new finance situation for them. And again that's continuously (work to where we cast). That is the important point. But when you have that kind of situation with Chapter 11, changes the process, the analysis is very different from (that to date).

Q - Rodrigo Gomez {BIO 19849926 <GO>}

Okay thank you.

Operator

(Operator Instructions) Our next question comes from Graham Warwick of Wyatt International.

Q - Graham Warwick

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Hi, Flight International. Could I just ask you to repeat the backlog situation to (families) please?

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

Yes.

A - Anna Cecilia Bettencourt

Yes sure. We, in terms of orders, the ERJ 145 has 900 -- I mean 922 firm aircraft of which 774 were already delivered, which we ended the quarter with 148 aircraft to be delivered in firm backlog. For the Embraer 170/190 family, total firm orders reaches 325 aircraft, 36 already delivered and 289 aircraft to be delivered. Without costs include -- without the air -- 15 Embraer 175 for Air Canada that we announced last Friday.

Q - Graham Warwick

Are the 175s factored into your 2005 delivery total?

A - Anna Cecilia Bettencourt

They will be delivered in '05. The delivery to Air Canada will start in July '05.

Q - Graham Warwick

But are they included in your 145 airplanes for --?

A - Anna Cecilia Bettencourt

We have -- yes, we have some (floats) already for seizing, (the escaping) that we were involved. So it doesn't change our '05 outlook.

Q - Graham Warwick

And what is your --? What does that 1; the ERJ family backlog; is that a decrease from year-on-year and quarter-on-quarter? Or what is it standing at?

A - Anna Cecilia Bettencourt

It is a slight decrease as we are delivering more aircraft. But again, it doesn't include the order that (economy) we've made for our China joint venture for 10 aircraft. And -- but we see the 145 as a more major market.

Q - Graham Warwick

Thank you, very much.

A - Anna Cecilia Bettencourt

You're welcome.

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Operator

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

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

Thank you, again (inaudible) everyone, and it's certainly (with you) absence of Mauricio. I know that it makes a difference to the guide, and he comes from the next timing. And he will (wait) to you in the next meeting is November 19. And he certainly, if he (necessary kind of) explanation (inaudible), (I'll wait for them). Okay. Thank you very much. Until the next time.

A - Anna Cecilia Bettencourt

Thank you, very much and we'll see you next at the end of this week. Thank you. Bye bye.

Operator

That does conclude Embraer's Third Quarter 2004 results in US GAAP audio-conference for today.

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