

Q3 2005 Earnings Call

Company Participants

- Anna Cecilia Bettencourt, Head of Capital Markets and IR
- Antonio Luiz Manso, CFO
- Marcelo Rodrigues, Controller
- Mauricio Botelho, CEO

Other Participants

- Carl Weaver, Analyst
- Daniela Bretthauer, Analyst
- Heidi Wood, Analyst
- Jander Medeiros, Analyst
- Joe Nadol, Analyst
- Ray Neidl, Analyst
- Richard Hayden, Analyst
- Rodrigo Goes, Analyst
- Ron Epstein, Analyst
- Steve Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the audio conference call that will review Embraer's Third Quarter 2005 results in U.S. GAAP. Thank you for standing by. At this time all participants are in a listen only mode. Later we will conduct a question and answer session and instructions to participate will be given at that time. (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 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, 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 statement 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 substantially differ 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, Mr. Marcelo Rodrigues, Controller and Miss Anna Cecilia Bettencourt, Head of Capital Markets and Investor Relations.

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

Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much. Good morning. It is a pleasure being again here with all of you. And I thank you for joining our conference call to discuss our Third Quarter 2005 results in U.S. GAAP, which we released Friday, Gino tells me, with a financial statement in Brazilian GAAP.

Antonio Luiz, Marcelo and Anna Cecilia are here with. And we are also webcasting this conference call with a slide presentation on our website at www.embraer.com which I invite you to follow it if you wish.

If we come to the highlights in this quarter, I think that the strongest issue that we can present is the positive cash generation, \$379m, as a result of the decrease of inventory and account receivable levels. This comes in accordance which we were foreseeing and been focused on as an issue that would be happening along the two last quarters of the year.

As a result of this cash generation we ended the quarter with a net cash position of \$97m, compared with the net debt position in the Second Quarter of \$228.6m. Income from operations reached \$170 million with margins of 16% compared to \$126.9 million and 13.6% in the Third Quarter of 2004.

We have also to mention that we accomplish a significant milestones in respect to this new family of aircraft, the Embraer 170/190, which -- the 170 and the Embraer 175 received certification from Transport Canada Civil Aviation allowing us to have the first deliveries of the Embraer 175 to our launch customer Air Canada.

At the same time the Embraer 190 100 seat aircraft was certified by CTA and FAA paving the way for deliveries to begin to launch customer JetBlue in North America. By the way, last week JetBlue started its commercial operation from JFK to Logan in Boston.

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Regional, a fully honored subsidiary of Air France placed a firm order for six Embraer 190 long range aircraft with six additional options of the same model. While this order is not that big, it is not -- it has a very big relevance, because it is a strong move. Regional today is the largest operator we have in Europe, about 50 aircraft in the different models and after years of evaluation, discussions and negotiation they finally decided to move ahead with the Embraer 190 as -- which could become the backbone of their fleet, if you look at the different models that they have. And their expansion plan.

So, this is a very relevant contract for us. However, it was still replacing an existing order for seven ERJ145, which makes the order much more strategic rather than with an economic value by itself.

Embraer delivered three specially configured Legacy Executive aircraft to the government of India, which ordered five airplanes and another two options.

The Legacy, the remark that I make in respect of the Legacy Executive aircraft is that it's doing quite well, improving its acceptance by the market. The product today is a much, much better aircraft than at the very beginning. We are producing it at a rate of two per month. Next option -- next open position is on July next year. So, the program is developing quite well, which is very relevant for us, as far as we can keep a lot of our process in place.

And we have received the amount of \$180 million from IFC, International Finance Corporation, which is a private sector arm of the World Bank Group, related to the structured loan with final maturity from eight to 12 years. This allowed us also to change the profile of our debt and making it in a large extent for a long term rather than short term. So, I think that this help us to strengthen the financial structure of the Company.

To look for and to explain the financial results and performance of the Company, I would like Anna Cecilia to make this presentation. And I'll be together with you for questions and answers. Thank you.

Anna Cecilia Bettencourt

Thank you, Mauricio. Good morning, everyone. During Third Quarter 2005 we delivered 41 aircraft, one more than in the Second Quarter 2004. And 11 more than the number of deliveries in the Second Quarter 2005. We delivered 101 jets in the first nine months of this year and we maintain our forecast of 145 units by the end of it.

As previously announced the Embraer 175 and the Embraer 190 was certified and launch customers Air Canada and JetBlue started taking deliveries of the aircraft, which are already in revenue service.

We also had other clients who took delivery of their first Embraer 170 this quarter, Finnair from Finland, Hong Kong Express and Paramount Airways from India. That last one accounted as an operating lease with no revenue recognition. After the ending of Third

Quarter we delivered one -- we delivered on October 21 100 units of the Embraer 170/190 family.

Net sales this quarter reached \$1.064b, a 13.7% increase over the same period last year and 31% higher than the previous quarter. This increase is mainly because of the product mix that carries a bigger aggregate value.

Our gross margin was 28.1% compared to 31.4% achieved in the Second Quarter 2005. Three main factors can explain that decrease. The strengthening of the Brazilian currency, the learning curve of the first Embraer 175 and the Embraer 190 deliveries. And the reassessment of future sales and costs related to certain defense contracts.

Commercial airline net sales reached \$796.8 million and represented 74.9% of our total net revenues in the Third Quarter. Defense represented 10.5% of our net revenues reaching \$111.7m, an increase over the \$80.6 million recorded in the Third Quarter 2004. Most of this increase can be attributed to the delivery of three Legacy business configured for authority transportation to the government of India. Net revenues for the Business Air segment responded for 5.8% of the net sales and reached \$61.9m, a 58.7% increase over the \$39 million recorded in the Third Quarter of 2004.

Customer service and other segment also presented an increase in revenues reaching \$93.9 million compared to \$56.5 million in Third Quarter of 2004 and representing 8.9% of total revenues.

Income from operation reached \$167 million in Third Quarter 2005, compared to \$99 million recorded last quarter, a 69% increase. This increase is primarily related to a reduction in selling expenses, which resulted from the recovery of the conclusion of spending finance restructure for certain delivered aircraft of amount related to guaranteed assumptions on French aircraft. Selling expenses in Third Quarter 2005 represented 5% of our net revenues compared to 8.7% in the Second Quarter 2005.

In addition, the certification of the Embraer 190 and the fulfillment of certain contractual milestones enabled us to offset \$35.6 million previously received as contribution from risk sharing partners. Therefore, research and development was \$5.6 million this quarter compared to \$26 million in the previous quarter.

Finally, it's important to see that we reversed the down trend shown by our income from operation and operational margin in the last quarter. And it started to recover to the same levels of last year.

And in spite of the volatility of the Brazilian currency, interest expense in foreign exchange loss improved the Third Quarter, bottom line results were positive and net income and net margin reached \$110.2 million and 10.4% respectively, higher than the \$83 million and 10.2% reported in the previous quarter.

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Regarding the strong cash generation stated in the beginning of this presentation, we'll highlight the decrease of our trade account receivable of \$140.6 million this quarter, mainly because of the conclusion of certain sales financing structures. It dropped from \$900 million in the Second Quarter to \$790 million in the -- at the end of September.

The portion related to aircraft delivered for these financing transactions are under consideration it's \$488m. This decrease reaffirmed our commitment to reduce our participation in temporary sales finance restructure, as we know it is to continue recovery of the airline industry.

Still in the subject of cash generation, our inventory levels also dropped this quarter by \$135.3m, reaching \$1.6 billion as we anticipated three months ago. The main reason for that was the beginning of the deliveries of the Embraer 175 in July and the Embraer 190 in September.

The somewhat positive result of paying with the redemption of the inventories and accounts receivables changed our net debt position of \$228.6 million to a net cash position of \$97 million at the end of this quarter.

Of the total short and long term debt, our total short and long term debt increased by \$296 million to \$1.7 billion at the end of the quarter. And this -- of this amount 66% is long term and 34% is short term, keeping the same balance of the Second Quarter. Despite the increase in our loan, our debt cost remains stable. The U.S. dollar cost is at 5.5% and the held cost portion at 12.3% this quarter.

The long term credit line that are due to mature between 2006 and 2011 and have an average lifetime of three years and three months.

Reflecting the strong cash generation we distributed this year \$139 million to our shareholders representing 47% of our net income.

By the end of this quarter we had a total of 894 aircraft of the ERJ145 family sold and 843 units already delivered since 1996. It is important to mention that our Business Jet and Legacy is produced at the same line that the ERJ145 family. Furthermore, the ISR and the defense (inaudible) are based on -- in the same platform.

Our successful family Embraer 170/190 records a total of 427 firm orders and 92 delivered to a very diverse client portfolio. We also delivered, which I already mentioned, our hundredth aircraft of that family.

At the end of the quarter our firm order backlog was \$10.4b, a comfortable number flow to the average of the last quarters. And we maintain our forecast for deliveries of 145 commercial, corporate and defense aircraft including only Executive transport aircraft in 2005 and 2006.

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Now, we may open this conference call for questions. First we'll start answering questions from investors and analysts and then we will be answering questions from journalists. Thank you.

Questions And Answers

Operator

Ladies and gentlemen we will now begin the question and answer session. (Operator Instructions) Your first question is from Ray Neidl from Calyon Securities.

Q - Ray Neidl {BIO 14015874 <GO>}

Good morning, everyone.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning, how are you doing?

Q - Ray Neidl {BIO 14015874 <GO>}

Good, good. Just a couple of quick general questions, I want to clarify something that you said that you're delivering two aircrafts per month. And the next open slot is July 2006, is that for the 170, the 190?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, no. That -- I was referring -- in this comment I was referring to the Legacy Executive aircraft. The Legacy which is -- well, it's a program which was launched on year 2000, first delivery 2002. It is progressing and being put forward. And every time it becomes a better product and a better accepting program.

So, I was just giving the insight that we are today producing two aircraft per month and the next open position is on July next year on the Legacy Executive.

Q - Ray Neidl {BIO 14015874 <GO>}

Okay, good, I understand now. Basically, it looks like you're opening a lot of new markets for your product with the 170 and 190, namely Europe and Asia. And I was just wondering - that's what I was really wondering is when is the next delivery position available for the 170 and 190? And if demand does pick up the way I think it will are you capable of increasing production?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. We started with the delivery of this kind of aircraft on March last year, March 2004. We are growing our deliveries per month. Today we are on a base of six to seven aircraft per month. And we'll be preparing to get to 10 aircraft per month by the second half of next year.

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The program's showing to be very successful and a lot of interest in every area of the world, United States for sure, Europe definitely. And Asia little by little. First aircraft were delivered to -- at Hong Kong, Hong Kong Express and also in India, Paramount Airline.

So, we see a lot of interest and we will be prepared to satisfy these needs as far as they come. It is difficult to say open position, because we never close all of the positions in the manufacturing process. And we have to allow for new customers. But we can get rid of the task for sure. Thank you.

Q - Ray Neidl {BIO 14015874 <GO>}

And finally, what do you see the future of the 50 seat product is that pretty much petered out as far as new orders go? Is -- going forward is that just going to be replacement aircraft?

A - Mauricio Botelho {BIO 13386065 <GO>}

The 50 seater aircraft it is today in a situation where we don't see new orders -- big orders. It is a program, which has fulfilled a lot of the demand in the market. Today there are about 2,000 of those aircraft flying.

We see just orders from this aircraft from markets such as China where we are there with our -- it's our joint venture producing an assembly of these aircraft. But we don't see today orders in the Western world let us say. There could not -- that can be of any enthusiasm at all.

I see that there will come further orders, not in a short term period. I see that this -- there will be replacement orders. There will be follow on orders. But not at the pace or at the size of orders we received in the past 10 years. I think that this is a mature product that is going to -- still to have some relevance in special -- in some specific niche.

But what is clear for us today is that the crisis in which the aviation industry enter the -- and after September 11, 2001 event, at the very end promoted a re-evaluation from airlines and pilots. And a way to expand the ability of operate bigger aircraft in the regional network.

So, today we see regional airlines going into 70 seater and even above. We see major airlines right sizing their fleets. And we see low cost carriers also penetrating a new market with this -- the sort of aircraft, 100 seat from us, JetBlue 190, 150 seats, Embraer 195 from the U.K. airline. And this is the plan today. I don't see this is deliveries coming on in a far -- in a long term future. Actually, I think that what the backlog that we have today will be the last one delivery -- the last delivery will happen by July -- around July next year.

But what is relevant also to say is that when you talk about the asset investment in terms of production line, the process, the methods that you have established for that, they'll be kept in place, because for us the Legacy aircraft is the same platform of the ERJ145. So, it can be kept in place and working at the same productivity that we have shown with the 145.

Q - Ray Neidl {BIO 14015874 <GO>}

Okay, good, thank you very much and I'll see you Friday.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much. You'll be welcome.

Operator

Thank you. Your next question is from Daniela Bretthauer of Santander.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hello. Good morning to all. A couple of questions, first if Mauricio you could comment on the article that came out today on the Wall Street Journal and the ATS program. Meaning when can we have a final decision of this ATS program, whether Embraer is going to stay in or if it's going to be pushed off. When can that happen? That's my first question.

A - Mauricio Botelho {BIO 13386065 <GO>}

The ATS program has a development and a very, (let us see,) special situation. On August last year the Embraer 145 platform which was chosen and announced as the winning platform, it was absolutely adequate to the systems as imagined at that time.

The point is that as far as the system was developed they increased weight, power demands, cooling requirements and all of a sudden the Embraer 145 aircraft was not that possible to deliver the weight and the other characteristics. As you know, aircraft is always a compromise between weight and performance. If you increase the weight then the performance will be impacted. And this is what happened.

But it is also important to say that as far as the problem, not our problem, the problem on the system designer which is (AMAT) who reacted fast, effectively and in a very professional way presenting another solution, the Embraer 190. And the Embraer 190 with the full capability to support and -- the brand new weight requirement, new power demands and new cooling capabilities that were demanded.

So -- and then another point came up. Well -- but the Embraer 145 was the chosen aircraft. If we put the 190 on board it wouldn't have been possible politically and in accordance with the existing regulations to change the program. But that's the answer to a question that I can answer.

And then what I know is that today the Wall Street Journal article mentioned that Bombardier Global Express would be one of the possible alternatives to be considered. But I have heard about a fourth alternative.

But all of this, I think that I'm just assistant to, because what we can do is to provide information in respect to our program, what the customer are looking for, or the final

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customer, the army, is going to do, I do not have access to this information because it is classified. I don't even know what is there in the aircraft.

So, I guess I cannot answer your question in respect to when and if the Embraer aircraft will be accepted or not. But this is the situation.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

And Mauricio would you agree that if Embraer is kicked out of the program that is a pretty big set back for the Company and negative news for the stock?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, it is aiming to have -- of course, every time that you fight for something and you do not accomplish what you need, well, that is a step back.

But what I can tell you is that because of that -- because of the way that we dealt with the problem. Problems are everywhere. What makes the change from one to the other supplier is the way that you handle the problems. And I can tell you that we handled it in a very effective attitude. And I don't believe at all that this may impede, or impair, or jeopardize our future possibilities with other programs in the United States.

As a matter of fact, I think that all of this -- these issues prove that we have the correct aircraft as far as the first demand was issued. And we reacted well to demand changes. And we are ready to present proper solutions. I think that on the contrary our image with customers, the military and the Armed Forces of the United States, I believe, has improved.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Great. Let me switch to a more positive comment here, on the working capital you showed an improvement of roughly \$220 million on a sequential quarter, in terms of accounts receivables and inventory. And based on your value is it possible that we have another \$250 million improvement in the Fourth Quarter, or can it be more than that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Anna Cecilia will answer this question.

A - Anna Cecilia Bettencourt

Of course, Daniela. We are working to -- we will be delivering more aircraft in the second half -- the last quarter of the year compared to the Third Quarter of this year. We delivered 41. We still maintain to deliver 145 aircraft to be delivered this year. And this will help us to present a better number in terms of working capital, meaning that there are improvements in our free cash flow generation.

Antonio will be talking also on this.

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

Daniela, we believe the strongly supports also a rise in the end of the year around \$300 million in the cash -- in net cash. Okay?

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Next with regards to your outstanding, you basically had a one off impact of \$30m, because of this conclusion of the many financial structure, which is explained in your press release.

Can you give us a level of operating margin that excludes this one time effect? In other words, is 13% a reasonable guidance for operating margin for the Company? Or, also given the impact that you showed in this quarter in the gross margin, we could be more than that at the gross margin. And as a result operating margin between 14 and 15% is also achievable.

A - Anna Cecilia Bettencourt

Daniela, there are two things that impact our results this year. One was the reassessment of certain (inaudible) contracts in which impacted the gross margin 1.9%, also the selling excess benefited the operating margin \$30m. I would say that these are extraordinary events. And looking forward, you can just exclude this (4% or 5%) you will see some tendency, depending on the exchange rate also.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay, thank you.

Operator

Thank you. Your next question is from Rodrigo Goes of UBS.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Good morning.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning.

Q - Rodrigo Goes {BIO 6232382 <GO>}

How are you Mauricio? Just a couple of questions, the first one with regards to going back to the 50 seater market per share your remarks, I was wondering if you, at this point, see any kind of further downside to your, let's say, your next ten years or 20 years projection for this specific market. And looking a little bit at shorter term, in, I guess this year, in '05, you're probably going to be delivering around a little over 50 units or so and according to guidance by going down to a little bit less than half in '06?

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Given that you're probably going to be delivering the last unit in your backlog as you mentioned some time during July of next year, should we be looking at a steep decline for '07 relative to '06? Is that a fair assessment?

A - Mauricio Botelho {BIO 13386065 <GO>}

In respect to the 50 seater family of aircraft, I think no. I think that is what's going to happen. What we see, as I said before, is that new orders may eventually come but I don't see it happening in the short future, short-term future, because if you look at the introduction of 70 seater in the airlines that we represent in that. And you look at the bankruptcy and Chapter 11 protection from several of those U.S. airlines there, putting available a lot of 50 seater aircraft in the market.

This 50 seater, they're going to be addressed to 13 clear airlines and that will satisfy the needs from this market for a while. So what I would say is that I don't have -- this doesn't mean that it may not happen. But nothing that significantly. I don't see them coming, the world and these aircraft in the medium to long-term future. And if so, with some modernization and something like that.

Q - Rodrigo Goes {BIO 6232382 <GO>}

So is it fair to assume that the numbers, the 20 year projection that was revised down last year could be further revised down again this time round, when we meet in about a week?

A - Anna Cecilia Bettencourt

Rodrigo, we are announcing our next 20 years market outlook in our analysts' meeting in November, Thursday and Friday this week. So we will have all the trends and all this information.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay, perfect. And --

A - Anna Cecilia Bettencourt

Go.

Q - Rodrigo Goes {BIO 6232382 <GO>}

And just one more question --

A - Mauricio Botelho {BIO 13386065 <GO>}

Sure.

Q - Rodrigo Goes {BIO 6232382 <GO>}

With regards to the reassessment of future sales and costs of specific Defense contracts, can you elaborate on that a bit? I'm not exactly sure what that refers to.

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A - Mauricio Botelho {BIO 13386065 <GO>}

Marcelo will answer that.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay, thanks.

A - Marcelo Rodrigues {BIO 22132956 <GO>}

Okay, with the delay of some deliveries, actually some processions from customers, we have the impact on the cost of the total program so we had to reassess the total margin of that progress. And we make the adjustment in this quarter. So it's not a sequential (relapse).

Q - Rodrigo Goes {BIO 6232382 <GO>}

Meaning it's not; it's just a one-off?

A - Marcelo Rodrigues {BIO 22132956 <GO>}

Yes.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. Okay, thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

You're welcome, bye.

Operator

Thank you. Your next question is from Heidi Wood of Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Good morning, guys.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, Heidi, how are you doing?

Q - Heidi Wood {BIO 3095506 <GO>}

Very good, Mauricio, looking forward to seeing you at the end of this week at (inaudible) --

A - Mauricio Botelho {BIO 13386065 <GO>}

And you're very welcome.

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Q - Heidi Wood {BIO 3095506 <GO>}

I came in a little late so I apologize. But just to be clear, that the Defense charge that you took in the quarter, was that all ACS or was that other things?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, nothing to do with ACS. They were in respect to existing contracts which, as you know, they are appropriated in the terms of cost incurred to costs financed. And we have to reassess this ratio. And this caused us to correct some recognized revenues that we have not done in the past. So that is the reason of that. That has nothing to do with this year's.

Q - Heidi Wood {BIO 3095506 <GO>}

Can you tell us how you're presently accounting for ACS, given these issues?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes.

A - Marcelo Rodrigues {BIO 22132956 <GO>}

The ACS, it's costs reimbursement that we account -- register the cost and the reimbursement that we have agreed with (Long Heath) and the rest of that --

A - Mauricio Botelho {BIO 13386065 <GO>}

It will have to be confirmed in firm price in the future. But to point out, I don't know. Did you ask us about what is the situation with ACS or what will be the compensation for ACS?

Q - Heidi Wood {BIO 3095506 <GO>}

Well, I wanted to understand the accounting system for ACS.

A - Mauricio Botelho {BIO 13386065 <GO>}

Okay, right. So --

Q - Heidi Wood {BIO 3095506 <GO>}

So that we could understand how to think of it going forward. Can you discuss for us the profitability of customer services? You saw a pretty big bump in that, year-over-year and I'm just interested in knowing whether that's as profitable as other portions of your business?

A - Mauricio Botelho {BIO 13386065 <GO>}

Services has different aspects. If you consider service in the range of providing and (inaudible) a label, it is very low margin. If you take services as refurbishing, we compare it to completion and things like that, you then have very satisfactory margins. So it is a mix.

It will depend on what is the balance of the second time. But service has an importance, not only because of the revenue or the contribution for the bottom-line. But also it has a very strong relevance to assure of (dozens) and your capability to keep serving your customers and assuring the reliability on the fleet. And this is something that is very clear. And for us, there are two results coming from our activity. One is a financial and economical result. And the other is an operational result in keeping the customer close to you.

Q - Heidi Wood {BIO 3095506 <GO>}

The last question, Mauricio, you've done a pretty good job lately strengthening the balance sheet and investing in future innovation with now with the launch of the Phenom 100 and 300. I'm wondering about another area of use of cash which is the deal pipeline. I wonder if you could discuss your thoughts on a) how does the pipeline look. And b) what are the areas that are of most interest for you in terms of acquisitions?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, it will give me the opportunity as I was here just stretching myself to see when am I going to talk about the Phenom?

Well, one area of, I think, of interest for all of us. And where we will be dedicating and addressing a lot of attention is the Executive Aviation sector. As I mentioned, we last week, at the NBAA in Orlando, Florida, we introduced the full size mock-up of the Phenom 100, at the Very Light Jet segment and the Phenom 300 at the Light Jet segment. And it was really a success.

The projects, just making sure I'm not advertising here, the projects are superb. The ambience make it to feel not as a small cabin but a very comfortable cabin. I think it was a fantastic result achieved by BMW design works in designing the cabin and the cockpit. But this area, we are going to proceed with this development works and are going to have these aircraft entering the market in mid 2008 and mid 2009. But in this area, we are seeing further developments.

We see as far as this program develops that we will very shortly, we will have to look at least to two new products, in between the Phenom 300 and the Legacy 600. But this will be done in the short-term in the future. But in a very firm and steady way. We look at the public of aircraft, Embraer 170 and 190 is really being very well accepted.

We see it's again, Heidi, we see improvements. We see the man from airlines to discuss the issue. We see negotiations coming in. We see willingness to acquire the aircraft. So we are very motivated and very enthusiastic about such perspectives. But we are not seeing exactly the (inaudible) to speak that we'll be liking to.

However, I feel that very soon we will have good news to spread. But nowadays, what I can tell you is that the interest is hot. And not only in the United States but in Europe as well, Asia, a little bit less.

Q - Heidi Wood {BIO 3095506 <GO>}

So from that, Mauricio, it sounds like your use of cash going forward is probably going to be continued to dedicate on internal investment as opposed to expecting you're going to be more active on the M&A front, would that be a fair takeaway?

A - Mauricio Botelho {BIO 13386065 <GO>}

It is absolutely a good approach to the issue. We don't see us acquiring a large number of companies. It will be much more in an opportunity basis to see if there are any opportunities to fix with our brands in assisting our customers and so on. But I don't see it as a move, let's say, a firm move, in terms of merger and acquisitions.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay, good. Thanks very much. I'll let somebody else ask questions.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you. Thank you, Heidi.

Operator

Thank you. Your next question is from Joe Nadol of JP Morgan.

Q - Joe Nadol {BIO 3056499 <GO>}

Good morning.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello Joe.

Q - Joe Nadol {BIO 3056499 <GO>}

A couple of questions, I'd like to start just on the 170 and 190 market environment. Do you have a specific bookings target? Q2 was pretty good this year. Q3 was a little bit less activity. Do you have a specific target for Q4 or for 2006 in terms of the number of aircraft you're going to sell?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, we do have. But the point is that we do not control when these opportunities are going to be finalized. Discussions come and take; for some people, Joe, believe that deals are closed during exhibits and air shows. They do not. They take mostly two years, or above that to have a deal closed. So it is a long process.

We have, of course, targets and this Third Quarter, it is, you are right, that the number of the volume of sales decreased a little bit. But overall, I think that we'll be keeping our plans. And our plans are to keep at least a two and a half years in our backlog. This is what

we are -- two and a half production years in our backlog. This is what we are fighting for. And I think we should be reaching this for sure.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. On -- just on the gross margin, if we take your gross margin in the quarter and add back the Defense charge, you're at the mid-30s. Is it fair -- or about 30%. Is it fair to say that future quarters will be higher? You are confident in the learning curve, or are you still concerned about the currency and about the mix shift away from the 1.45?

A - Mauricio Botelho {BIO 13386065 <GO>}

The currency, for us, it is something that we can't even explain. Last Friday the Reais was filtered at the rate of 2.15 to the dollar. It is incredible, incredible and we don't see any sign of exchanging the delivery, the rate. But what we see is that for us, it's not a matter of the reais will go down or it will go up. If it will go up, it will be beneficial for us. But it's nothing clear.

The point is, it will stabilize, because as far as it stabilizes then, we have goods coming in and aircraft coming out at the same rate. And it is what makes the margin -- gross margin, very accurate. When you have changes in the variation, in the exchange rate, this will affect in a way or the other. But this is what we are looking for. Is it going to stabilize or be about the same level? Because if you have in a quarter the variations of 15%, 10%, this is an impact. And that's the point.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Okay, on the receivable side, you took in quite a bit from the two transactions with Continental and U.S. Air in the quarter. But it looks like there are some other receivables that are growing. Is that true. And do you; are you working on other deals, other AATC deals? Is there anything else you can tell us about the receivables?

A - Mauricio Botelho {BIO 13386065 <GO>}

We are -- all of those receivables, we are not there because we want to. It is in a form of bridge finance while we have the operation, the finance structure, for the finance operation structure. And so it is permanently a fight from our side to get rid of these receivables. And I think that there are factors that make it not to happen at every time. So we will need a lot of things, discussions with banks.

It may take a long time. But always considering a significant risk and number of aircraft. So it is likely that these receivables will go down, for sure. We intend to have a bigger level of free cash by year-end, in the level of \$300 million mainly. So receivables overall.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. All right, thanks, see you later in the week.

A - Mauricio Botelho {BIO 13386065 <GO>}

Later, we will be there. We're very glad to meet you there.

Operator

Thank you. Your next question is from Steve Trent of Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, all.

A - Mauricio Botelho {BIO 13386065 <GO>}

Steve, I was missing you.

Q - Steve Trent {BIO 5581382 <GO>}

Oh thank you very much Mauricio. Nice to hear from you. I just wondered, two quick questions, first one actually, to some extent, is a follow-up from my friend Heidi Wood. I am wondering about the Light and Very Light Business Jets if you're offering at this point any figure in terms of what might be development cost. So if you could refresh my memory on that one?

And then if I may also ask you what is the strategy looking like in terms of a possible Russian JV? Are you looking to that market to possibly offset the maturity you're seeing in the 50 seat jet market in the U.S. and Western Europe?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, in respect of the development costs of the Phenom 100 and Phenom 300, it's forecast to reach the \$235m. In respect to the Russian JV, yes, we're looking at that market in a way to extend the life of the 50 seat aircraft. We are really discussing with the airlines, discuss with government, to see if we can make it; see if it does make sense for them or not.

But these are our only discussion. And no real fact to comment about that. We think that -- what I can tell you is that for sure, there three routes and long routes that would just try to use over 50 seater aircraft more so than the XR type.

Q - Steve Trent {BIO 5581382 <GO>}

Terrific, well, thanks very much for that, Mauricio. And I will see you on Friday.

A - Mauricio Botelho {BIO 13386065 <GO>}

That would be very good, Steve, thank you.

Q - Steve Trent {BIO 5581382 <GO>}

Thank you.

FINAL

Bloomberg Transcript

Operator

Thank you. Your next question is from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Good morning, Mauricio, how are you?

A - Mauricio Botelho {BIO 13386065 <GO>}

Hey Ron, how are you doing?

Q - Ron Epstein {BIO 1868102 <GO>}

I'm doing well, thank you. I look forward to seeing you later this week.

A - Mauricio Botelho {BIO 13386065 <GO>}

That will be a great week for us, I can see.

Q - Ron Epstein {BIO 1868102 <GO>}

A lot of folks coming down.

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, it's all full.

Q - Ron Epstein {BIO 1868102 <GO>}

A question regarding the Phenom 100 and 300, I was fortunate enough to see the full-scale mock-ups at NBAA and my sense was they generated quite a buzz. Can you talk about how orders are going for those aircraft and how that looks? Did you guys pick up any orders at NBAA and how does the backlog of orders and maybe Letters of Intent for orders look for those two new planes?

A - Mauricio Botelho {BIO 13386065 <GO>}

Of course, with pleasure. I have real joy. I think that there was a lot of enthusiasm about the two projects. And basically, because they represented a differentiate comfort compared with the competition. And we have orders. I don't have the final picture.

By the end of this week, for sure, I will have them. But there are still a lot of discussions, when I left this late this week. But something around 50% of them were not a Letter of Intent with refundable deposits. But 50% of them contracts signed with non-refundable deposits. So we were very glad of that. The order of magnitude would be something around 30 orders. But I can't tell you exactly what they were. By the end of this week, for sure, we have a better picture.

Q - Ron Epstein {BIO 1868102 <GO>}

And what kind of clients did you find interested in the aircraft? Is it your typical corporate customer? Is it air taxi, is it? What kind of mix of customer base are looking at the airplanes and ordering them?

A - Mauricio Botelho {BIO 13386065 <GO>}

We saw interest from a lot of them, individuals like flight departments from corporations, operations, (flexible) ownership operations, charters, it's all hitters from all the leagues of the market. And that was very good because even the Phenom 100 which is the smaller one, had the Very Light Jet segment, it received a lot of interest from corporations, not only from individuals. So it was very good.

Q - Ron Epstein {BIO 1868102 <GO>}

Great, great. And then one last final question for you, I know there are campaigns going on globally for the 170 and 190. I was wondering if you are able to give us any more color on some of those campaigns? And I think some other analysts tried to dig down on this. But how is the outlook of the current campaign going. And what might we expect to see, say, in the next six to nine months?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I hope so, if not we're dying of anxiety because there are a number of campaigns for some time now. And we really expect that the position may come in a shorter time than what you are saying. But of course, I cannot comment on this -- on those campaigns. But there are a number of them.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, that's great. Thank you, very much. And look forward to seeing you Thursday.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, Ron, it's a real pleasure to see you here. Thank you.

Operator

Thank you. Your next question is from Richard Hayden of Omega Advisors.

Q - Richard Hayden {BIO 18674856 <GO>}

Good morning, I won't see you Thursday and I regret that.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning.

Q - Richard Hayden {BIO 18674856 <GO>}

I'm sure you've covered this in the call but perhaps you could repeat, if you take the three items that impacted the gross profit margin for the quarter, what specific numbers would

you attach to each item?

A - Anna Cecilia Bettencourt

I'm sorry, can you repeat?

Q - Richard Hayden {BIO 18674856 <GO>}

Of the three items that were cited as impacting the gross profit margin in the Third Quarter, could you attach specific numbers to each of those items?

A - Anna Cecilia Bettencourt

The Defense I just mentioned represented 1.9% in our margin, okay, then currencies, it is not simple to measure it? It depends not only on product mix but also on the (inaudible) cycle, on labor. You have to take into consideration that a portion of our cost of goods sold are denominated in local currency. And the (inaudible) curve, it depends on product mix. This quarter we saw deliveries are there in the 175 and in the 190, which also impacted the margin.

Q - Richard Hayden {BIO 18674856 <GO>}

But you can't put a number on the third item though?

A - Anna Cecilia Bettencourt

Third item? No, because everything depends on lead time, on production, on -- there are several factors that you must take into consideration before you number it.

Operator

Does that answer all of your questions, sir?

Q - Richard Hayden {BIO 18674856 <GO>}

Well, it's started on the trail, yes. Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Thank you. Your next question is from (Jander Medeiros) of Pactual.

Q - Jander Medeiros {BIO 7255199 <GO>}

Hi everyone, just two questions. My first question is regard the Defense segment. Taking into account the adjustment that you made for Defense contracts, I just would like to know what's your guidance, maybe your updated guidance for the participation of Defense revenues over total end of '05? You mentioned 14% before. But year to date

you are now at only 11.3% so I just would like to have an update on this guidance for Defense revenues in '05?

A - Anna Cecilia Bettencourt

Jander, you have to remember that we will still deliver some Legacies to the Indian government which will be accounted as Defense. And also, there are still contracts -- we have contracts with the (President) Air Force, for the (inaudible), which also will benefit the revenues, Defense revenues in the Fourth Quarter of this year.

Q - Jander Medeiros {BIO 7255199 <GO>}

Okay. So you are maintaining the guidance of 14% for the year?

A - Anna Cecilia Bettencourt

Around 14%, yes.

Q - Jander Medeiros {BIO 7255199 <GO>}

Okay. My second question, now regarding the business segment, I noted the average price for the Legacy was approximately \$20.5m, I would expect, more or less. Could we conclude that this is a new price level for the next deliveries of the Legacy?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. The price that you are considering there was a price from the past. Actually, today, the average price is bigger than that. And it should be kept as it is nowadays. So we'd like a bigger price than what you mentioned.

Q - Jander Medeiros {BIO 7255199 <GO>}

Great, thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question is from Carl Weaver of Bear Stearns.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello?

Operator

Mr. Weaver, your line is live. Please proceed with your question.

Q - Carl Weaver {BIO 3448134 <GO>}

Yes, hello. Good morning to all.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning, Carl.

Q - Carl Weaver {BIO 3448134 <GO>}

I have a question about how much still has to be received and recognized from the risk sharing partners. And then do you have a certain quarterly breakdown of when that; those monies would be coming in?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I'm asking Anne Cecilia and Marcelo to answer this question for you.

A - Anna Cecilia Bettencourt

In the First Quarter and Second Quarter we recognized around \$12 million each quarter, okay? This Third Quarter we recognized \$37m, \$35m. There will be some amount in the Fourth Quarter of this year. And then after that, you must expect something with this figure around 195.

Q - Carl Weaver {BIO 3448134 <GO>}

Yes. But how much of that -- do you know how much the value would be?

A - Anna Cecilia Bettencourt

We'll be presenting in our analyst meeting all the details about this contribution from suppliers. Also, we'll be disclosing (inaudible) related to the Very Light and Light Jet. We'll be presented Phenom 100 and 600 --

A - Mauricio Botelho {BIO 13386065 <GO>}

No, 300.

A - Anna Cecilia Bettencourt

300, I'm sorry. And the market outlook also.

Q - Carl Weaver {BIO 3448134 <GO>}

Okay, great, thank you very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, Carl.

Operator

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

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I have to thank all of you for your attention, even more so considering so early time it started, very (inaudible) it started. Sorry for making you get out early from home. And I expect to have all of you here in Sao Jose by the end of this week. It is a pleasure for me to host you. And to present our views on our business and how we are dealing with this very challenging market which is the aviation market. Thank you, very much. And see you there.

A - Anna Cecilia Bettencourt

Thank you, to all.

A - Marcelo Rodrigues {BIO 22132956 <GO>}

Thank you, very much.

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

Thank you, all.

Operator

That does conclude Embraer's Third Quarter 2005 results and U.S. GAAP audio conference for today. Thank you, very much for all your participation. Have a good day.

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