

## Q4 2003 Earnings Call

### Company Participants

- Anna Cecilia, Head of Investor Relations
- Antonio Luiz Manso, CFO
- Marcelo Dreges, Controller
- Mauricio Botelho, CEO

### Other Participants

- Carl Weaver, Analyst
- Joe Nadol, Analyst
- Ricardo Fernandez, Analyst
- Ronald Epstein, Analyst
- Stephen Trent, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and welcome to the audio conference call to review Embraer's year end 2003 results in US GAAP.

(Operator Instructions)

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred.

Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends, affecting the business and its future financial performance.

These forward-looking statements are subject to risks, uncertainties and assumptions including among other things, general economic, political and business conditions in Brazil and in other markets where the company is present.

The words believe, may, will, estimate, continues, anticipate, intense, expect and similar words are intended to identify forward-looking statements. Embraer undertakes no obligations towards publicly or revised any forward-looking statements because of new information, future-events or other factors. In light of these risks and uncertainties, the

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forward-looking events and circumstances discussed on this conference call may not occur.

The company's actual results 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, Mr. Marcelo Dreges [ph], Controller and Ms. Anna Cecilia, Head of Investor Relations of Embraer.

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

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

Ladies and gentlemen. good morning. It's a pleasure to have you here and I thank you for your time and attention to what we are presenting. We are here to present our Fourth Quarter and full year of 2003 results in US GAAP, which we have released yesterday, simultaneously with the financial statements in Brazil and GAAP.

We are Web casting this conference call with a slide presentation on our Web site at [www.embraer.com](http://www.embraer.com) on the Investor Relations section. I would like you all to follow up if you want.

I have here, with me, as I said Antonio Luiz Manso, CFO, Marcelo Dreges, Controller and Mrs. Anacys Celio, Head of Investor Relationship and Nelvi Kudsins [ph], Investor Relation Manager.

I start the presentation with some highlights of over the year and I hand over to Anacys Celio, who will make a brief presentation and then we will start the question and answer session.

The scenario in which we have developed with our operations in 2003 was very aggressive and is still reflecting the impacts that the sector has been living with since September 2001. This year, the situation was overwhelmed by the SARS issue that affected mostly the Asian airlines, but also the other western airlines that were connected with the far east.

As a consequence, we could assist still great level of losses and the permanent crisis on the major airlines segment. However, what we could also identify is that this situation is not a general one, there is a segment to segments, regarding the regional airlines systems and the regional; the low fair, low cost airlines, which as a standard rule, with (inaudible).

On the other side is a consequence of this situation. We could see that the financial market is still reactive and diverse to their amount of risks and this is making it very difficult to provide a financial; structured finance for the sales.

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What we see however, is that in this scenario and may be because of this crisis, there is a movement within the airlines to re-think their operations. In doing that, they are concentrating on cost reduction and as a consequence, they are looking for the proper aircrafts to serve the different groups.

And this opens very significant opportunity for Embraer to respect of the family of aircrafts that we are addressing to this market. Indeed the progress that we are offering the market from 50 seaters up to 110 seats, they represents a good to for the airlines to overcome their situation.

We will see that's in our logic stands, we the interest that has been aggressive by major airlines, low fare, low cost airlines and the regional airlines, our traditional customer will; these two families of aircraft that we are offering the market, the ERJ 145 and the Embraer 170 and Embraer 190 family. They are very much in alignment with what I'm saying.

If we can talk about significant highlights in this and this during this fiscal year, I would mention that we succeeded in putting back our firm backlog in the level of \$10.6 billion coming from \$9 billion at the end of 2002.

At the same time, we succeeded with net income of \$136 million from \$2.144 billion as sales. Net cash and this is a significant result, liquidity.

Our net cash doubled reaching to \$122 million and our accounts receivable decreased 48% reaching \$356 millions. These results regarding liquidity, there were a fundamental importance for us.

We could then assure our strength and progress with our plans with a consistence avail and back it by significant cash.

Looking at commercial relation, we can identify during this year, some significant achievement. A sales for the Mexican airline, Aerolitoral with five promoters and 35 options for ERJ 145 with first delivery projected for this year, first semester of this year. Firm orders of 85 Embraer 170, 50 options plus 140 options on the ERJ 145 with US service was a very significant break through. 100 Embraer 190 firm orders with 100 options by Jet Blue just confirming and rectifying our beliefs that we are addressing the market with the total product in this segment.

The agreements with LOT [ph], contract signed with LOT for these airlines and German series and also with a non disclosure customer involving a total of 17 firm orders and 22 options for the Embraer 170, 190 family. A gather sent a proposal for the purchase of 45 Embraer 190 aircraft and options for addition of 45 units was send in December and we are still in the negotiation process regarding this contract.

If we see what will happen in the beginning of the year, postpone of ERJ 145 Exide deliveries to Express Jet that decreased from 48 units to 36 units. Swiss deferring the first

delivery was on the Embraer 174 one year and reduced in their number, total number of aircraft ordered to 34 from 60 from orders and coming to 20 options from 100 options was a strong hit in our operation.

At the same time, the difficulties in achieving the Embraer 170 types of certification was also promoted the transference of leverage for the, from 2003 to 2004. And if you look at this scenario, we see however that we are just maintaining our position with a strong market share and segment of 30 to 60 seats, we are responsible for 45% of the market, 61 to 90 seats, 33% and 91 to 120 seats, 23% on the market.

Looking at the corporate aircraft market, on the contrary of what was expected by us and by the other aircraft operators after September 11, we didn't see still great attention from the market in spite of this aircraft.

On the contrary, all of us saw our forecast going down because the market is not react which was also enhanced by the corporate standards that existed making the life of those who would be asking for approval such aircraft acquisition on there boards more difficult. But we have some good issues also to point out which is; which has to do with the legacies certification for its million, also the expansion of its ranks to 3,250 nautic miles.

We delivered the first aircraft to a Swiss company and the first sales for the fractional ownership company right options. At the same time, we have the cancellation from -, in respect of 23 formols [ph] and 50 options of the legacy shuttle.

Looking at the first, we saw the first EMB 145 AEW&C aircraft ordered by the Mexican Government, introduced it to the Mexican authorities and perform its first flight. We saw the delivery of the first EMB 145 AEW&C to the Greek air force, where piece of contractors who have been then installing the proper equipment's for the Atlantic Air Force.

Delivery of three remaining C1 aircraft, AEW&C in remote sensing and at the same time a very important strategic move, as whole of United States market when we announce our decision to implement and industry plant in jets of New Florida for the assembly of aircraft over to serve the US, the France and Homeland security markets.

Just immediately after, we joined a rocket marking team for a proposal to supply the US market jointly linked by the US navy with the new generation of surveillance aircraft called AER-Common Sensory ECS. Proposal was presented and we expect definition from the US army by; not by April next month.

Also we have a contract signed for five legacy aircraft with special features for the Indian government, which was important not only for the contract itself but also to open up a new client and to the relative relations with them. We signed on December, a contract which to supply two ERJ145, which would join another similar aircraft already in operation.

Looking to our industry and in this, we have the 2 Embraer 175 flying by mid 2003. This program, this aircraft is in its certification constraint phase and the forecast we have its certification achieved by December this year.

The first Embraer 190 completed its fuselage assembly in October; it was rolled out in February this year and the first flight happened six days ago with full success. It is flying so far and started the flight test compliance looking for a certification to be achieved in the Third Quarter of 2005.

The first ERJ145 aircraft produced by Embraer aircraft industry company, HEI our joint venture with Aviation in China was rolled out on December and made its maiden flight, at the same day at the same date, we signed the first of, our first contract with China Southern Airlines to provide 6 aircraft's which is already in course.

We started also the serious possession of aircraft ordered by Brazilian air force at our new facility (inaudible). At the same time, let me present the first F5 overhaul by Embraer and which will be flying to the Brazilian air force, a total of 48 of such aircraft would be modernized by us.

The Alitalia Express received 700 air crafts ERJ145 and Embraer 170 received provision of that certificate constitute and their pay, which was called permanent this February this year with the final (inaudible) issued by Brazilian, American and European authorities. ERJ135 was certified also to operate at the (inaudible) city airport in England, which is a very restrictive airport and this for sure will be a good issue for customers who wants to operate the 135

Last year, there was a very positive event, which showed us that definitely the financial market is starting to reconsider the Aviation industry with interest for having its report.

We concluded a double-digit transaction regarding continental aircraft's in US capital market, involve receivables guaranteed by the ERJ145 aircraft. This operation comprising over \$400 million have and this is more important received 4 times over subscription, which is a very positive sign on the coming back from the market to this industry.

We also achieved a loan of 200 million 7-year terms solicited loan with commercial political risks guaranteed by the Japanese export credit agents, Nexi [ph]. Accounts receivable decreased 52% from 736 million in 2002 to 356 million in 2003. This result was mainly due to the BNPS of Federal bank support in financial significant part of Embraer's export.

To talk to; about our financial results and performance, I would now turn to Anna Cecilia and we will be here to listen later on your questions and to be able to answer that. Thank you.

**Anna Cecilia** {BIO 17955675 <GO>}

Thank you. Mauricio.

Good morning, everyone.

During the Fourth Quarter 2003, we delivered 30 aircraft and finalized the; with a 101 deliveries. We revised our 2003 just a little guidance and as a result, we delivered a 101 jet of the total of 148 aircraft in the Chile plant.

Our current guidance is a 160 aircraft for this year and a 170 aircraft for 2005, in 2004, 95% already in from backlog.

Our net sales in 2003 showed a drop of 15% mainly due to the reception in commercial aircraft and deliveries which was partly offset by increased revenues in our other 3 business with a 18.2% (inaudible) appreciation within the year, our gross margin decreased only 1.7% percentage points as compared to last year showing that even with our flexibility in our investments and other 50 have been achieved.

In 2003, we experienced increased sales in corporate, defense and customer service segment. Combined these 3 segments, we are almost 60% partly offsetting the reduction in commercial aircraft deliveries.

Sales of the defense segment only increased more than a 100%. Our sales have been 85% in US, 10% in Europe and 5% in Brazil, with the same rates down as historical trend.

As we are developing our new family of jets enhancing our legacy aircraft, our R&D for the year increased almost 10%.

On the other hand, our SG&A remained relatively stable in 2003. These two factors combined with lower sales caused our income from operations decreased 41% and its margins to be 12.8%.

Our net income in 2003 was mainly impacted by the reduction income from operations as well as high interest expenses.

With the increase of following bad debts due to lower average cash, I have this net cash available during 2003, interest expense increased to \$140 million, part of this amount was related to the impact of the (inaudible) appreciation on our swap which represented that unrealized loss of \$99 million.

Despite the increase on our total debt of \$491 million, our average debt costs decreased. Our foreign currency debt cost decreased from 5.2% in 2002 to 4.6% in 2003 and the cost of our Hall portion decreased from 17.2% to 16.7%, which represent 76% of this CGI, the local interest data. We ended 2003 with a very comfortable debt profile and 2.2 years maturity.

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Our net cash positions increased during Fourth Quarter, as it was influenced by the resource working capital needs as we will see in the next slide. Most important, we generated pre-cash flow of more than \$400 million during the Fourth Quarter of 2003.

As already mentioned by Maurice, we ended the year with the total account receivables of \$356 million. Of this amount, around \$190 million were related to aircraft delivered. We expect to have an average of; an average between \$350 and \$450 million in 2004, as account receivables in our balance sheet.

On the other hand, as we are starting to Embraer 170 zero production, and we are carrying our certifications of the other family members, using several; our inventories increased \$293 million from 2002 to 2003.

Also, we expect to see our EBIT is decreased in to around \$900 million in the Third Quarter 2004.

Customers and bank losses. Our -- we ended 2003, if our total was a book for the year, J125 family of 181 firm aircraft and 1293 plus total sales, plus 710 aircraft already delivered.

The Embraer 170, 190 family has attracted 245 firm models and 305 options from Arkera [ph], (inaudible), Jet Blue, Large, Suisse and US Airways. Recently, we and Air Canada, we have signed a commercial proposal for the sale of 25 Embraer 190, with the possibility of 45 additional options. We cannot include the dinges [ph] order book.

The first member of this family, the Embraer 170 was awarded flight certification from the Brazilian, US, and there will be an authorities like February paving the way for the first delivery which, they started in March this year.

We have rebuilt our firm backlog as Maurice from Athens, to \$10.6 billion, when added to the \$70.5 billion, we ended the year with \$28.1 billion backlog. Most important is that our firm backlog represents almost five times our 2003 net sales.

CAPEX and productivity. Here, we see investments in PPE and R&D expenses. PPE includes investments in Gaziop and (inaudible), where we are already performing flight with the new facility. R&D expenses have shown a 10% growth already mentioned, as we are developing the new family of just; and we are enhancing our lightest aircraft.

Our productivity has been increasing, with the investment in productivity and stop productiveness of reduction cycle decreased from 3.7 months to 3.4 months at the end of 2003.

Plan and investment, we use to make around \$280 million in total investment for 2004 and the \$250 million in 2005. We used to make R&D close to total, to be resumed from \$174 million in 2004 to a \$190 million in 2005, as we will be reaching the final development stage of the new family.

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And we are forecasting in a 160 deliveries in 2004 and 170 delivers in 2005. Of this sort of delivery, 53% for 2004 delivered 53% are the ERJ145 family, 35% the Embraer 170 family and 12% the legacy family. On 2005, expected delivers the breakdown are 48% of the ERJ145, 37% the Embraer 170 and 16%, the corporate legacy family.

Thank you. Now we will go for question and answers.

## Questions And Answers

### Operator

Ladies and gentlemen. we will now begin the question and answer session.

(Operator Instructions)

Our first question from Mr. Joe Nadol from JP Morgan.

#### Q - Joe Nadol {BIO 3056499 <GO>}

Good morning. I have a couple of questions, I guess my first is what is the status currently of BNDES financing for 2004 deliveries and how confident are you that you will be able to keep receivable at the current level?

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

In respect to the NDS, I think that, we got from them a very strong support last year and we see this year moving in the same direction. We will have their support and backing our exports.

#### Q - Joe Nadol {BIO 3056499 <GO>}

OK, do you have a contract finalized or you making progress towards that?

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

The situation is not as simple as that as you know --

#### Q - Joe Nadol {BIO 3056499 <GO>}

OK

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

Every contract has; every sale contract that we have is supported by a specific financial equation. That financial equation is dealt separately from the orders. What you have from the bank is the view that we can work in that direction that we are working and we will have a set of level support from them, which is comfortable for us.



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**Q - Joe Nadol** {BIO 3056499 <GO>}

OK, my other question is, can you update us on the FX competition in what you see the award coming over the next couple of months or what you think there might be some more delays.

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

Today we see that there is a decision in process and is very likely to have a firm decision from our president. This would be a decision from the president of republic to take place by the end; up to the end of this month.

So we may be; we are very close to it and I say maybe because of course this is not in what we can control or be sure about. But the forecast is that we; its likely to have a decision up to the end of this month. So we are talking about a week ahead of us.

And we see that today there are 3 proposals with significant support. One from Britain, which is the British Swedish aircraft, another one from (inaudible) and the third one from us, which is when 2000 beyond.

**Q - Joe Nadol** {BIO 3056499 <GO>}

OK, I have two quick financial questions also. The first is on the SG&A line, it was a little higher in the Fourth Quarter than it had been in prior quarters even though your sales were up and that was up as a percentage. Were there any unusual items in there?

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

Ana, please.

**A - Anna Cecilia** {BIO 17955675 <GO>}

Well, there was as we mentioned on the press release, there was a net operating expense in the total amount of; then, our non cash charge related to aircraft adjusted to amount of \$10 million and this is the only thing that is out of our ordinary cost of business.

**Q - Joe Nadol** {BIO 3056499 <GO>}

OK, and then finally, you know the cash flow was very good, it was a little lower then we had expected and I noticed that your other kind assets increased by closed to 300 million, could you explain what is in that line?

**A - Anna Cecilia** {BIO 17955675 <GO>}

Well. Marcelo, please.

**A - Marcelo Dreges**

Yes, actually those increase on the asset was on aircraft that a company bought was in some customers on the lease transaction. So we bought during the year, I think it was 8-AJ-145 family including 6 aircraft on the legacy version.

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**Q - Joe Nadol** {BIO 3056499 <GO>}

And that was in the Fourth Quarter?

**A - Marcelo Dreges**

Yes, those includes the two, no not only the Fourth Quarter.

**Q - Joe Nadol** {BIO 3056499 <GO>}

I am just looking at the September 30th versus December 31st balance sheet. As the other current assets going from 88 million to 349, so was that the use of cash of over 250 million. Just specifically wondering what that was really upto?

**A - Marcelo Dreges**

Yes, those are investments to conclude some sales finance structure and then we have some temporary commitments of the gas on those structures.

**Q - Joe Nadol** {BIO 3056499 <GO>}

OK, do you expect that to be freed up on 2004 so that return to a normalized level in the first half of the year may be?

**A - Marcelo Dreges**

May be 2005, more probably.

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

I believe it's probably in 2005.

**Q - Joe Nadol** {BIO 3056499 <GO>}

OK, thank you.

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

OK, you are welcome.

**Operator**

Our next question, Mr. Stephen Trent from Smith Barney.

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

Good morning, all, Steve Trent from Smith Barney. First of all, thank you for the very clear guidance on 2004-2005.

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

Nice to talk to you.

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

The same here, Mauricio. Just a couple of quick questions here, I noticed on a sequential basis an important reduction and current accounts receivable, that was very impressive, 624 million. At the same time, accounts receivables in non current assets rose by almost 400 million and I was wondering if there was some move to reclassify any of the current accounts receivable?

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

Marcelo is going to answer you.

### **A - Marcelo Dreges**

OK, part of; during 2002, we have some aircrafts sold were recaps on our accounts receivable. During 2004, we were able to implement some safe financing structure, where we kept part of the interest on the structure, temporary interest on those structure where we intend to finalize that during the year of 2004 and '05. It's also related to this years finance structure.

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

Super and I would also curious about the tax line. I noticed there was a credit of \$10 million even though you had profit before tax of \$58 million and the press release mentioned, translation adjustments as income with apparently or income taxes apparently computed into Brazilian GAAP and I was a bit confused by that because the reality is pretty stable over the Fourth Quarter. I was wondering if you could explain the calculation.

### **A - Anna Cecilia** {BIO 17955675 <GO>}

Well, first of all, we will do some better detail on this tax are now 20 up, which will be our five with the SEC in May, between May and June but just to help you to understand, see as we have some large difference between the US GAAP and the Brazilian GAAP. There are some taxable income that we create, we needed to create some tax outset, which the officiation of the real represents a benefit in our taxable income in US GAAP. So I know that it is not a simple line but we will present a very detailed table in our 20-F, but this is what I can explain now.

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

Great and just one last question. The orders that you are booking from Chinese JNV, are you going to count those fully toward your '04, '05 guidance or are you going to split them according to economics you have in at joint venture with Harbin?

### **A - Anna Cecilia** {BIO 17955675 <GO>}

Well, as we have 51% participation on this joint venture, the joint venture must be consolidated in our balance. Therefore, there the leverage are consolidated and as normally, the 49% that has a specific line that leads our balance sheet, but a 100% will be consolidated in our delivered items.

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

Very clear. Thank you, very much.

**A - Anna Cecilia** {BIO 17955675 <GO>}

Welcome.

**Operator**

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

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

Good morning, everyone.

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

Hello Ron, how are you doing?

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

Good, very good. I was concerned about the operating margin during the quarter. You know you came in definitely below what I was looking for, I mean how should I feel the operating margin in 2004 and 2005, especially given the potential huge ramp up we got from 101 deliveries to 106, may be more in 2004. How can I feel comfortable about operating margin?

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

Anna is going to answer you.

**A - Anna Cecilia** {BIO 17955675 <GO>}

Well, explaining it. First gross margin, gross margin as will be in the learning classes, with the development of the new family. So we won't be in our full capacity, there will be a learning call for this new family.

We expect to see a decrease in our gross margin to allow 36% smallest. On the other hand, what you will see is that the stabilized as restrictive expenses. OK, but the selling expense is the best under EBIT but you will see decline in our R&D expenses.

So you will see some increase in our operating level are margin and this year we were; this was impacted because we recognize the higher R&D to the development of the Embraer 170, and we flow the sales of course with the 101 deliveries.

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

Now, how is that, I mean is the 15% level operating margin a reasonable level, think about the 80% of the historical, your operating margins have been, especially your staff really

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high. I mean the 18%, 19%, kind of what levels should I be thinking about?

**A - Anna Cecilia** {BIO 17955675 <GO>}

Higher than this but definitely not as high as we experienced in 2002 because 2002 was a very, 2001 and 2002 were very specifically used for the evaluation of their currency.

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

OK, and then just one more quick question, probably wouldn't say so.

**A - Anna Cecilia** {BIO 17955675 <GO>}

I wouldn't say that, can be something around 17%, OK, but we will just for you to have an idea.

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

OK. That's great, thank you. And just one more quick question for Maurício, if you can give us a feel for what you are seeing now with regard to kind of the broad acceptance in the commercial aerospace markets regarding 100 feet debt.

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

Well, what we see is positive signs. What I am seeing is that airlines are getting very interested in this new aircraft, not only the 100 seats but the 70 seats as well, different airlines.

We are seeing major airlines interested in the 100 seats, we are seeing regional airlines interested in the 70 seats and what all I see are positive signs, positive, very positive signs and I think that, airlines are more and more concerned with the effectiveness of their operation. They are looking to the course, they are very much cautious on the performance of all aircraft when they are operating in news that cannot justify bigger aircraft and this is what the big change that we have been seeing in the market is that we were operating with a lot of inefficiency using larger aircraft to justify operating during peak hours and keeping the same aircraft off peak hours.

So what happened is that the money that they earned in the peak hours, they would throw away in the off peak hours and this is not allowable any more for any airline. So they cannot have this liberalization of in respect of their revenues in their cost. So this aircraft is a definitely, it is a two to overcome this situation. Very positive signs from--

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

Very good, thank you.

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

Welcome.

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## Operator

Our next question comes from Mr. Carl Weaver [ph] from Bear Stearns.

### Q - Carl Weaver {BIO 3448134 <GO>}

Yes. Good afternoon every one. I just have a question about the ERJ 170, initially the guidance for March was delivery of a 11 year J178, now we are close to the; well, we are at the middle of the month, I mean so far, you delivered 4, are you still confident with that number of 11?

### A - Anna Cecilia {BIO 17955675 <GO>}

I am sorry, just a jest you are going to clarify, you received four press releases, because they were related to their first and it was for each customer, doesn't mean that so far, we have delivered only four aircraft, OK?

### A - Marcelo Dreges

I had a percentage, 1 for Large, 2 for US Airways and 1 for Alitalia.

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

Alitalia launch, yes, but Carl, let us see. When we look at our forecast for this year, you cannot take it as an average for a month or for a quarter.

You have to focus that specifically talking about an induced operation, the aircraft was sent to fly at the end of February, very end of February, we got certification from ERJ, EAE -- whatever is the name of the new authority in Europe, so there were over immediately after one into the other and so at the end of February.

So the aircraft even though we had more than 10 aircraft practically finalized at the; (inaudible) because of the postpone on the specification. However those aircraft were not ready for the lift, they have to be finalized, that is unfortunately there was practically, but this practically takes time.

Because you have to introduce the issue after the certification, so after very end we are growing up our production and our delivery schedule, so even though, if we do not deliver, whatever the figure you have, we assure you that we are formerly committed and we understand the market that; and we firmly convince on our capability to deliver, doing under 6 aircraft this year and in this range of 50 plus, Embraer 170 aircraft. So; by the way-

### Q - Carl Weaver {BIO 3448134 <GO>}

That's very clear, I have a just a follow up question, we know that you have generated externally taking up consolidating Piedmont and Allegheny, and I frankly, a pyramid of decision is suppose to come out at the end of this month, do we have any sort of update on how that's going?

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

Yes, we are keeping a very close contact with our good friend at US service and we are absolutely together with them and following the plan. That's how the directions that we have being received from them and from also from the finances.

**Q - Carl Weaver** {BIO 3448134 <GO>}

OK. And just lastly, I'm sorry here-

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

You are welcome.

**Q - Carl Weaver** {BIO 3448134 <GO>}

We touched a little bit on this, on the operating side. I would just slightly, if you could elaborate a little bit on the EBITDA margin that seems come a little lower then expected. I know my system depended the Br GAAP reunion and I was just wondering since the overwhelming amount of just delivered this quarter, whether ERJ's 145, when we divide of course the commercial revenue by the number of jets, we come up with some thing around \$60 million and; are there been some sort of price discounts during the quarter?

**A - Anna Cecilia** {BIO 17955675 <GO>}

No there wasn't, if excluded one, ERJ 135 delivers, it will be reaching more or less the same price that you will experience in the whole year; in the total we excessed and achieved.

**Q - Carl Weaver** {BIO 3448134 <GO>}

OK, thank you very much.

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

Thank you, Carl.

**Operator**

(OPERATORS INSTRUCTION).

Our next question comes from Mr. Ricardo Fernandez with Banco ING.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

Hello, wanted to get back to the -- that other accounts problem under the Brazilian GAAP its called the deposit of the guarantees what ever. Is that anyway can be related to the deposits that airlines provide you when they are making order? In other words is that basically going to turn into cash, I mean, can you give a better explanation as to what that is?

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

OK. You are talking about the deposit guarantee, which is summation of 9. Its related to some guarantees, actually, some cash that we pledge to guarantee some; to counter guarantees, some guarantees that are provided by third parties through financiers.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

So then you are beginning to finance the purchase of your own airplanes?

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

No, no. Its not related to the finance, its support on the sales financing structure.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

So I mean, if I look at this basically, its 746 million reals was zero off the Third Quarter, that is primarily supporting the sale of x-amount of units. Is that right?

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

Now actually, this is, actually this is a money that is temporarily, lets say, supporting sales financing structure where we were capting on our accounts receivables after implementing partially the sales financing structure. We are still providing, guarantees for cash guarantees to support the interim; for intruding the structures.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

OK, so then basically, once that gets wrapped up, that should become cash?

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

Yes.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

OK, so then its basically, is a sort of financing instead of calling accounts receivable or leasing or what ever, its something else.

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

Yes, it's a cash guarantee.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

OK, I understand perfectly. Then the other question, really more long term strategic planning falls back on this 70, 100 seater. You know Air Canada and your studies show that 60, some odd percent of flights are lead with a 100 people on and what not. Is that already factored in to your long-term projections, in terms of demand for 70 or 100 seater aircraft? Or is there room for an increase based on those numbers?



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

No actually not. When we develop our market forecast to sustain our business trend to approve this program. We identified some delay in 2500 aircraft in this niche between 70 and 110 seats.

So when we did, was the markets, the dimension markets and we have perception that we would have some thing around 700 aircraft that we could wrap out of this market, in different market shares. It will go to the 70 seats, we would see a market share in the range of 35% to 40% for seater flights that we have today in the 50 seats segment, a market share of 45%, probably we are going to increase it to something like 46, 47. But in the 70 seats, we would see as from 35% to 40%.

On the 90 seats segment, we would see ourselves around 25% and we foresee our presence in the 100, 110 seats segment around 15% and this segment 15, really it got a small increase in our more recent perceptions.

We see it coming from 15 to something like 17, 18%. But that's not going to change the perception on the total market. There is; please consider that when we develop a market survey like that, we look in the horizon of 10 years.

So there are; when we develop it, we look at it in two ways, one a top down based on economic forecasts and parameters and bottom up, coming from customers. The customer side and where we think is the strongest position that comes.

So we are comfortable with this position that we have in a ten-year based; something around 700 aircraft from this, round this market.

**Q - Ricardo Fernandez** {BIO 5573550 <GO>}

OK, that's it. Thanks a lot.

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

Thank you, very much.

**Operator**

(Operator Instructions)

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>}

Thank you, very much. I think, I appreciate very much the time that you dedicated to us in all this session and look forward to see you in a few months, perhaps showing more in

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New York, next week in New York and in Canada, next week, So to be awaited to see you all personally. Thank you, very much.

**A - Anna Cecilia** {BIO 17955675 <GO>}

To remind you that we'll hold a suggestion our US analyst meeting at New York callers, it will start at 12.30 on the 23rd of March. Thank you. And we'll see you there.

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

Thank you, very much. Thank you.

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