

Q2 2002 Earnings Call

Company Participants

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

Other Participants

- Brendan Sobi
- Emerson Leite
- Gordon Lee
- Paul Lewis
- Raji Faming
- Rob Spingarn
- Ron Epstein
- Rusty Johnson
- Steve Trent
- Unidentified Participant

Presentation

Operator

Excuse me everyone. We now have Mr. Mauricio Botelho, Chief Executive Officer of Embraer, along with Chief Financial Officer, Mr. Antonio Louis [ph] Manso, Miss Anna Cecilia Bettencourt, Head of Investor Relations. And Mr. Gustavo Pave [ph], Investor Relations Manager, in conference. Please be aware that each of your lines is in a listen-only mode. At the conclusion of the presentation, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow if you would like to ask a question. At that time, instructions will be given as to the procedure to follow if you would like to ask a question.

This conference call includes forward-looking statements, or statements about events or circumstances which have not occurred. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. And our future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions including, among other things, general economic, political and business conditions, both in Brazil and in our market. The words 'believe', 'may', 'will', 'estimates', 'continues', 'anticipates', 'intends', 'expects' and similar words are intended to identify forward-looking statements. We undertake 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 events and circumstances discussed on this conference call may not occur. Our actual results could differ substantially from these anticipated in our forward-looking statements.

I would now like to turn the conference over to Mr. Botelho. Mr. Botelho, you may begin.

Mauricio Botelho {BIO 13386065 <GO>}

Good afternoon, everyone. It's a pleasure to be here, this is Mauricio Botelho. And it is with great pleasure that we are presenting our Second Quarter conference call. And in this conference call our results in the Second Quarter. And on U.S. GAAP. And I am passing [ph] to Anna Cecilia [ph] who will present the figures and the first initial comments. Thank you, very much.

Anna Cecilia Bettencourt

Thank you, Mauricio. Good afternoon, everyone. We are Web casting this conference call. And there is also available in our web page a slide presentation for this conference. GAAP deliveries [ph]: During this quarter we delivered 30 aircraft, the same as we did during the First Quarter of this year, a total of 28 regional aircraft were sold, including 18 ERJ 145s 10 ERJ 140. We also delivered two (inaudible) to the Corporate Aviation business. We maintained our forecast for this year of 135 aircraft and we expect to increase the rate of deliveries at the end of the year.

The Embraer 170-190 family reached a total of 340 orders comprising 112 firm orders and 202 options. During this years (inaudible) air show, Embraer 170 performed a daily flight demonstration and remained in Europe for some additional days for demonstrations to potential customers. We were very pleased with the response from customers and journalists that flew onboard [ph] of the new aircraft. They expressed great satisfaction with what they experienced. During the air show, we also won acceptance [ph] of our proposal by Jet Airway [ph], an important engine carrier that has newest fleets in the world. This is very important to us for two reasons. One, it was the first proposal for the Embraer 175 that included 10 firm orders and 10 options, totaling \$520 million. It also represented a significant step towards our expansion in Asia, a market which has received special attention [ph] from our commercial areas [ph].

Total backlog. During the quarter, we received 23 new orders and we ended the quarter with a total backlog of \$23.8 billion, including \$10.1 billion as firm orders.

Net sales and gross margin. Our net revenue reached \$520 million, a 6% growth in comparison to the First Quarter 2002. This growth is mainly due to the first two (inaudible) version of the Legacy, which has the highest selling price. Customer service presented a growth of more than 30% in revenues. This performance is a consequence of acquisition of (inaudible) in Nashville [ph], Tennessee, now it's called Embraer Aircraft (inaudible) Service which will enable us to better service our expanding fleet in U.S. Our sales were more diversified this quarter as compared to the last one due to the growth in customer service and corporate aviation, as already explained.

Geographically, 78% of our sales were in U.S., 19% in Europe and the remaining 2% in Brazil. With our operations in Asia, we plan to diversify geographically our sales in the future.

Our EBIT presented a growth of 22% in comparison with the First Quarter 2002 in a margin expansion of 300 basis points. This was due to the increase in gross profit, the reduction in SG&A expenses, as well as R&D expenses this quarter.

EBITDA and EBITDA margin. Our EBITDA, therefore, increased by 22%, reaching a margin of 22.7%. This growth is explained by the same factors that caused our EBIT to increase.

Net income and net margin. Despite the better operational performance during this quarter, our net income was reduced. This is explained by two factors, financial transaction losses and income taxes. The increase in financial transaction loss, which refers to the management of our monetary assets and liabilities then nominated in-house [ph] debts are adjusted to U.S. dollars during this quarter, caused by the (inaudible) devaluation of 22.4% and represented an expense of 58.8 million this quarter, compared to an expense of \$1.3 million last quarter. The provision of income tax increased this quarter. Income taxes this quarter were \$41.0 million which represented an ineffective tax rate of 52%. Most of the increase is related to gain, to losses arising from re-management of the monetary assets and liability.

They must think that in local currency, we cannot deduct both for (inaudible) tax proposals and they will not represent a cash disbursement in the future. Our total accounts receivables, substantially decreased this quarter as we can see on the graph. Most of the amounts referring to the delivery span and complications of financial arrangements were received in the short term, accounts receivable, fell from \$700 and \$6.5 million on March 31st, 2002. To \$133.3 million on June 30th, 2002.

Income dollars recorded a decrease of \$3.7 million between March 31st and June 30 of 2002. This decrease was related to the 145 (inaudible) inventory reduction. Particularly offsetted by the development of the (inaudible)-170 which currently has five prototypes carrying out (inaudible) certification campaign. And we expect the first delivery on the First Quarter of 2003.

Net cash; our net cash position increased again this quarter as we collected most of the accounts receivable. Of the total cash and cash equivalents, balance of \$892.3 million. 75.3% comprised of investments in hand and the remaining the 24.7% primarily in U.S. dollars. The (inaudible) cash investment strategy is based on the prospects of future investments which are mostly denominated in (inaudible). This comfortable position enables us to go through well doing this volatile period when Brazil risk reaches rapid levels and credit lines are scarce.

In our case, we have been rolling out all our lines without no difficult. And we have a comfortable amortization schedule for all long term debt. Last year we extended our (inaudible) file and as of June 30, 40.4% of our total indebtedness was related to long term financing. We've 2.8 years average maturity. Our gross indebtedness is less than one

time our analyzed First Quarter; Second Quarter 2002 EBITA which is very comfortable position.

We've (inaudible) our Japanese Yen in U.S. dollars denominations to help related (inaudible) banking interest rate, the CDI [ph]. And we now have 27% of the total debt (inaudible) as wagered average cost of 14.7 per annual. Which is equivalent to 82.9% of the CDI. Of the total debt; the debt in U.S. dollars has a cost of 4.1% per annum. I thank you all and I would like to invite you for the question and answer session now. Thank you.

Questions And Answers

Operator

At this time, we will open the floor for questions. If you'd like to ask a question, please press the star key followed by the one key on your touch tone phone now. Questions will be taken in the order in which they are received. If at anytime you would like to remove yourself from the questioning queue, press star Q. Please limit your questions to one at a time. Again, to ask a question, press star one now.

Our first question comes from Gordon Lee with Goldman Sachs.

Q - Gordon Lee {BIO 1551117 <GO>}

Hi. Good afternoon.

Just two quick questions. The first on the balance sheet. And then just on the financing of the backlog. On the balance sheet, the other current assets account increased from about \$60 million to \$180 million during the quarter. I was wondering if you could explain to us what that is all about. And the second question is just -- looking at your backlog and your deliveries for 2003, how much of those are expected to be financed by the BNDS [ph]? And, does the availability of BNDS [ph] financing worry you in the context of the current financial volatility in Brazil.

Q - Unidentified Participant

Hello, Gordon. (inaudible). How are you?

That's easy. A provision made by BNDS [ph], the process is to find a live implementation [ph]. We have certain problems in relation to some other areas in the government to also rise [ph] (inaudible) to take the liberation of total amount [ph]. Indeed [ph] we have a retention that they amount to almost \$107 million. (inaudible) (audio-gap) I believe during this quarter [ph], also.

Q - Gordon Lee {BIO 1551117 <GO>}

Perfect. And in terms of the clientcy [ph] -- what share of backlog and of your deliveries for '03 are expected to be financed by the BNDS [ph]. And does that worry you in the context of Brazil right now?

FINAL

Q - Unidentified Participant

As far as is here [ph], we don't see any kind of problem at the end of the year. And certainly for the next year, if comes in new order, we will adjust it [ph] to be in there. For the old orders, we have adjusted the profits in there [ph], or marketing -- if you want to ask why the market (inaudible) be in there [ph].

Q - Gordon Lee {BIO 1551117 <GO>}

Perfect. Thank you.

Operator

Thank you. Our next question comes from Leslie Johnson [ph] with H.L.N. [ph] and Company.

Q - Rusty Johnson {BIO 3426780 <GO>}

Hi.

I believe you touched on the subject regarding your cash holdings in both the press release and your comments. But what I'd like to understand a little bit better is, as the dollar seems to be your functional currency, why you held so much of it in real, here. And created this, I guess, created this non-cash loss? And, if your liabilities are largely in real, I guess that's Okay. But it seems to be disproportionately large, given your operation (inaudible). Could you explain the thinking and the workings around that, please?

Q - Unidentified Participant

(inaudible). The point is that for U.S. capital, we needed to concede to the U.S. dollars as our functional currency. But if you look at our balance sheet, we have assets and liabilities denominated in reals, such as our shareholders' equities is in reals. We cannot deal with a different way. We are located here in Brazil. So, we represent -- at the end, we need to address the sum [ph] line items -- I mean, balance sheet, liabilities and assets -- from reals to U.S. dollars. And therefore we presented this loss in foreign currency loss that you are seeing now in our income statement, which is a non-cash item.

Q - Rusty Johnson {BIO 3426780 <GO>}

Yes. I understand that. The question is, is why did you hold of gross cash 75% of real, rather than the other way around, in dollars.

Q - Unidentified Participant

Because, if you look at our future investments, we are making -- we make our investments also in local currency, which means the allotment [ph] of the Embraer 17219 -- the recessions [ph] of allotment [ph]. We pay our engineers in local currency. So we need to always forecast and envision our investments in local currency.

We have the--more or less 50 [ph] % of our sales in [ph] the cost [ph] is in reals [ph]. The debt [ph] is covered by the cash in reals [ph]. In the other hand, the investments, 80% more or less these days, the most important part is the engineer. And there's a lot in engineers [ph]. And that is--we're going to use that reals/hay-ais [ph] cash, okay?

I'm sorry, what % did you say were in engineers [ph]?

A - Anna Cecilia Bettencourt

Eighty %.

Q - Unidentified Participant

Eight oh.

Okay. So it's matching cash balances and liabilities, okay.

A - Anna Cecilia Bettencourt

What we are trying to do, as investment policy, is that we receive the U.S. dollars from our sales. And we pay our suppliers with the same dollars that we received from our sales. So we are not disbursing cash--paying or using reals [ph] to buy dollars and to pay our suppliers. So this is on a cash-flow basis, on a daily basis, we're doing it in this way.

Q - Unidentified Participant

Okay, thank you.

A - Anna Cecilia Bettencourt

You're welcome.

Operator

Thank you. Our next question comes from Paul Lewis [ph] with Vialite [ph] International.

Q - Paul Lewis {BIO 19839520 <GO>}

Hi. Good afternoon. I'm wondering if you can tell me, you had mentioned that output could have increased at the end of this year. What are you projecting for in terms of deliveries in '03. And secondly, do you see any impact from the reorganization of American. And the Chapter 11 at US Air [ph] on ERJ 140, 145 deliveries. And prospective orders?

A - Mauricio Botelho {BIO 13386065 <GO>}

Oh, thank you. The point--this is Mauricio speaking ...

Q - Paul Lewis {BIO 19839520 <GO>}

Hi, Mauricio.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, how are you doing?

Q - Paul Lewis {BIO 19839520 <GO>}

Good, thanks.

A - Mauricio Botelho {BIO 13386065 <GO>}

The point is that we see, that when September 11th happened, that was a shock. A shock, that when we talked to our clients and customers. And re-evaluated with them what would be the impact in their own operations. And then we came to analyze what then, would be the result in our forecast. At the end of September last year, we announced our new prospectus [ph] for the year. That year, the year 2001. And this year, 2002. Last year, 160, we actually delivered 161 aircraft, this year 135, one hundred thirty-five. And we keep our forecast as being one hundred thirty-five. At the beginning of this year, we saw the develop [ph] for next year. And we picked ourselves in [ph] one hundred forty-five aircraft, which we maintain. I would say that this is a conservative and pragmatic approach. Today, we don't see that the problem is of the demand of aircraft. The problem today keeps being the financing of those aircraft. We see that in respect to American, what they are doing is a rationalization in cost, they are planning to ground Falker [ph] 100s. And what we see is that the regional aircraft, 140, ERJ 140, ERJ 145. And the future aircraft, EMBRAER 170, EMBRAER 190, they will fit exactly in the concern that American is today living with. I don't see that the problem with America will impact our business. On the contrary, it will strengthen our business, because the cost rationalization from every airline in the world will call for grounding inefficient aircraft and readdressing their attention to the most modern, the new generation of aircraft which will provide them the good service at the lower cost in another efficiency terms of environmental condition.

So, what I see is that our forecasts are very much valid. They are pragmatic. If something is to happen, it is really to improve the forecast. (inaudible) issue. And today the (inaudible) was above the situation in United. It just makes that issue of financing new aircraft, I think, is the key. But we are confident that our forecasts are pragmatic and very much realistic in the (inaudible) of our contract signed. I don't expect this to be reduced and I think that if things change, they may very well improve.

Q - Unidentified Participant

I was just wondering as airlines move away from (inaudible) spoke, what that does to the profile of regional jets they operate, whether that suggests longer range point-to-point ERJ's rather than the smaller servicing (inaudible) spoke airplanes.

This is maybe the case and we are seeing today our ERJ 145 operating in America, for instance, using probably not the very reasonable range over 1000 (inaudible) miles and, most of all, it's been inserted in an operations structure where, at the rush times, you have bigger aircraft and then, in the meantime, you have our aircraft operating. I don't see this to be changed.

Okay, thanks.

Thank you.

Operator

Thank you. Our next question comes from Raji Faming [ph] with Oppenheimer [ph] Funds.

Q - Raji Faming

I just want to follow-up on a couple of things. The first is on the issue of increased deliveries towards the year-end given that typically you have a slower year-end than normal (inaudible) this year, do you think it's actually achievable? And the second was to another point that was made earlier on the issue of functional currency and the use of the real [ph] for most of your holdings of cash. Given that that amount of money would have been over \$250 million and that your investment plans require significantly lower amounts than that, were you essentially taking a view on the real [ph] versus the dollar and that's why this reduction in cost of financing occurred?

Q - Unidentified Participant

Raji [ph], how are you doing?

Q - Raji Faming

Great, thank you.

Q - Unidentified Participant

In respect to the (inaudible) in the second half of the year, what I say is that on the (inaudible) that there's difficult period as [ph] ever been in the beginning. Last year, it was reduced not because of the normal practice. But because of September 11th. But actually what has always happened is that second half is more -- there is more production than in the first half of the year. We keep all our forecasts of 135 and we are very much confident that we'll be at that level.

Q - Raji Faming

Perfect.

Q - Unidentified Participant

In respect of the cash, I will ask Antonio and Anna [ph] to answer you.

The cash, the 75% of our cash in local currency, it's -- again, it was on a strategy. But remember that we have -- normally, we have more cash outside Brazil in -- sorry, in U.S. dollars.

Yes.

But what happened that we collected all this cash from the NDS [ph] and our net position increased. Normally, it is a bit higher -- a bit lower. But this time we presented 75%. On the other hand, what we did -- which thwarted [ph] part of our debt into some U.S. dollars to Al [ph] to match exactly this difference that happened.

Okay. So your net position, then, was not significantly different.

No.

Okay. Just one last question on the issues of financing. The 4.1% U.S. weighted average cost of capital, of debt, is that a resultant of a floating rate, or is that a fixed 4.1%?

They are mixing. We have two quants [ph] at long-term. And the rest in the short-term. In this case, you have a fixed and a floating. The mix is the situation we have at the end of the quarter.

I guess what I'm trying to ask is, is that 4.1% likely to remain 4.1%, or could change substantially?

It is not change substantially. It's definitely what we are working that level.

Okay, terrific, thank you.

Sure.

Operator

Thank you. Our next question comes from Ron Epstein [ph] with Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Hi, I just have two questions for you guys. One, if you could provide some color on the Brazilian FX [ph] program, there's been a lot of rumors, I guess, floating around the Brazilian market about the Grip-in [ph] as a possible choice, the Russian solution. If you guys have any color on when that decision is going to be made. And how that program's going. And my second question is, again, some more color on how the sales campaign in Europe are going for the ERJ170 [ph] and the 175.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, thank you for your questions. On the FX book [ph], that is really a lot of gossip, not now. But for a time now in respect of the four [ph]. The fact is that sometimes you see in the press and someone [ph] saying that the preferred aircraft is the Russian. And now recently, on Monday, there was a new report in that the air force had made their decision in respect to the British aircraft, the Griffin [ph]. But the facts are that no decision has been taken. We have been working with the air force since we were born as a company. This relationship is a very close relationship. It is a relationship of confidence, it is a relationship

FINAL

of integrity. And always, we have dealt in several deals that we intended to -- in which they intended to acquire equipment with a very professional and competent approach.

What we have today in this program is a very well established request for proposal where the decisions or the procedures to evaluate and to define the choice are very clearly established. And in this RFD [ph] they mentioned issues regarding protecting current operational aspects of the program. The -- the offset in compensation, to be provided by this -- the bidders. And the aspects regarding price and finance.

At the same time that Monday a report was published that indicated (inaudible). On Tuesday, yesterday, there was a report with a lot of the days [ph], saying that our position was right in first. I do not have the details -- the knowledge of the details that were published yesterday. So I don't know what was the source. But, I was very happy with that source -- with that report. But, the real fact is that no decision has been taken. And, we expect -- we see that the Air Force is anxious for in having a final position. And the position [ph] has been postponed now for a while. And the movement that is behind all these discussions would suggest that a decision can be taken very soon. 'Very soon' may mean next week. But I don't know if the financial situation -- the economical situation -- on the country would allow the government to make a decision in that aspect. But, I see that today there are all the elements to sustain a decision. I expect this to happen soon. But, however, in the present environment, I don't know if the government will do that.

In respect to the 170 program -- I have been in the (inaudible). And we took one of our 170 -- one of the (inaudible) -- the number five to Fombru [ph] today. We have the six (inaudible) flying in the test (inaudible). And the program is moving ahead very well. This 170, that number five you took to Fombru [ph] -- it was equipped with (inadible).

So, we had the chance to have the Zachrab [ph] evaluated by not only the Fombru [ph] (inaudible). But in a demo 2 that we provided in 14 different customers in Europe just after the show. And, the reception was fantastically good. First, people realized that it was not a regional jet -- it was a really [ph], an airline. When they look at the gear [ph] in the cabin, they were extremely well surprised. And this means the cockpit of the cabin is outstanding. 'Who made this height from floor to ceiling?' The wide cabin, which provides a better comfort than in Airbus 8319 [ph]. The seats are larger. The corridors is larger than the ones that they're back from [ph].

So, the reaction was outstanding. And this made us very happy, because we are seeing that the interest in this segment of the market -- the 76 to 96 seat aircraft -- practically [ph] 110 seat aircraft -- is getting hotter.

We are with a lot of activity in this campaign -- in campaigns regarding aircraft for those (inaudible). And we are very much optimists with the outcome.

Q - Unidentified Participant

Thank you.

Thank you.

Operator

Thank you. Our next question comes from Emerson Leite with Credit Suisse First Boston.

Q - Emerson Leite {BIO 4003528 <GO>}

Hi. (inaudible). Thank you, very much for your presentation.

Just some quick questions. First, if you could share with us your views regarding the Proax [ph] dependence of the Company sales? I mean, again, it's a quite reasonable amount of your sales in 2001 were still dependent on the Proax [ph] program by the D and the S, or whatever they done to [ph] Brazil. I would like to know, how do you see these evolving with time. And especially considering the budget constraints that we will certainly have in the next government in Brazil.

A - Mauricio Botelho {BIO 13386065 <GO>}

Raul [ph], how are you doing?

Q - Unidentified Participant

Thanks, fine.

A - Mauricio Botelho {BIO 13386065 <GO>}

It is an issue, the Proax [ph] issue is something to consider. The fact is that we have contracts with Proax [ph], still with Proax [ph]. The relevance of the Proax [ph] in every sale from some years ago to now is decreasing, constantly decreasing. From the first years to now, there is a significant change in that participation of the Proax [ph] in the deal. But it is there. It is there. And it is submitted to the same constraints--budgetary constraints that it has ever been. What we see is that it is something that has to be managed, as it has been managed in the past. So it is always an issue. But an issue that we have been able always to resolve. So, it's something that we live with. It is not an easy issue. But it is a manageable issue. There are budgetary constraints, as it has always been. And we are always handling with the possibility to have to cope with this situation. The EMBRAER 170 and 190 programs, no say [ph] about that has received the Proax [ph]. The Legacy has no Proax [ph]. The military aircraft has no Proax [ph]. So we are living with the problem, which in magnitude, is decreasing along the time.

Q - Unidentified Participant

Okay. And just two further questions. I know it may seem a little tricky. But in the hypothetical scenario that EMBRAER doesn't win the FX [ph] bid with the Brazilian Air force, how would you see the prospects of your military business?

A - Mauricio Botelho {BIO 13386065 <GO>}

FINAL

Well, this hypothesis, I do not consider. I think we are going to win it. And if we do not win, then we have to re-analyze it. But this hypothesis, I don't consider. I consider that we have the best offer in that respect, comprising the three of the elements that were there. As I mentioned, there was a report; I don't know if that report is valid. But I see that our evaluation of our proposal, compared with what the other bidders can present, or could present, is--makes me be very much confident that we may be the winners. So I don't consider that hypothesis now.

Q - Unidentified Participant

Okay, just one final question. Could you share with us your views on the political developments in Brazil. And I don't know if you had any time to take a look at the government candidates for the Presidential race. But I mean, if you had, did you see any specific economic program that would be beneficial to Embraer?

A - Mauricio Botelho {BIO 13386065 <GO>}

What we have is what is in the press and in the polls. And that's the only thing that I can say. Who ranks first, second and third. And fourth and there are others. But the point is that we see that; what we see is things that are read in the press. What are the economic programs for every one of the candidates in respect of the Nation, but in respect of ourselves. I don't see any problem with any of the candidates that are running from one to four. On the contrary, I think that all of them makes a strong point in their programs in respect to exports. All of them makes a strong point in their programs on technology development and we are, today up to last year, at least we are the largest exporter in Brazil and we are one of the most developed technological company in Brazil and we provide the best positions in the labor market in Brazil and we practice the most advanced labor practice in the Country. So, I think that is any of the candidates there is successful, we will not be in any circumstance jeopardized or damaged. On the contrary, I see that they will have a lot of attention to our activity.

Q - Unidentified Participant

Okay, great. Thank you, very much.

Thank you.

Operator

Thank you. Our next question comes from Rusty Johnson with HLM [ph] and Company.

Q - Rusty Johnson {BIO 3426780 <GO>}

Thanks to the second one [ph]. I just wanted to ascertain on the non-recourse debt that you mentioned in your press release, it's been there, that you don't pay interest on that and whether you have any excess liability regarding that or is it totally immunized according to this special purpose entity? How safe are you from that exposure?

Q - Unidentified Participant

Bloomberg Transcript

Yes, it really doesn't affect our cash flow. We do not pay any interest, we are not involved on the (inaudible) with the (inaudible) so it's just a simple (inaudible) that we need to consolidate as an asset and as a liability in our balance sheet. But really doesn't affect our income statement, neither our cash flow.

Q - Rusty Johnson {BIO 3426780 <GO>}

Okay, that's pretty clear. Thank you.

Q - Unidentified Participant

I also would like to mention that we revised our earnings per ADS [ph] basic and diluted. The total net income didn't change for the quarter. But the three months-ended in March 31st, 2001, the earnings for ADS [ph] basic changed -- 2002, sorry -- changed to basic 0.4294 and earnings for ADS [ph] diluted March 31st, 2002, changed to .4284 and the three months-ended June 30, 2002, earnings per ADS [ph] basic changed to 0.2142 and earnings per ADS [ph] diluted changed to 0.2137. You'll be receiving the corrections in your e-mails. And also I would like to mention that the six months-ended on June 30, 2002, the total earnings for ADS [ph] basic and diluted didn't change.

Operator

Thank you. Our next question comes from Steve Trent [ph] with Salomon Smith Barney.

Q - Steve Trent {BIO 5581382 <GO>}

Hey guys, Steve Trent [ph] from Salomon Smith Barney.

Q - Unidentified Participant

Welcome. We were missing you.

Q - Steve Trent {BIO 5581382 <GO>}

Thank you. Just a couple of quick questions. The first one, on defense contracts, the -- specifically the Brazilian fighter program. Could you tell us basically what the potential value attributable to Embraer. And over what period of time you execute that contract? Two, whether or not you win that contract, you previously guided to defense as 12 some-odd % of top line this year. And it looks like it's only running at six or seven % so far. And three, as we're about halfway through the Third Quarter, how are your deliveries looking?

Q - Unidentified Participant

Okay, thank you very much. Really, we're very missing you. But the fact is that -- the first question with respect to the FX [ph], I would ask you please to understand that we are in a bidding process and I cannot open details on that aspect.

Q - Steve Trent {BIO 5581382 <GO>}

Okay.

FINAL

Q - Unidentified Participant

But on respect of the second, you are right. There was some frustration in terms of the revenues in the defense market, the defense operations in the first half of the year. We expect some recovery in the second half of the year. This is because of some of the programs, because of the budgetary constraints, they were somewhat delayed in their performance. But we expect some recovery in the second half of the year.

Q - Steve Trent {BIO 5581382 <GO>}

Wait. And could you also comment on the third piece about basically how deliveries are shaping up vis-a-vis your target of 135 RJs [ph] for 2002?

Q - Unidentified Participant

They are growing. But the largest share of this balance will happen in the Fourth Quarter.

Q - Rob Spingarn {BIO 5996882 <GO>}

Mauricio, it's Rob Spingarn [ph] here, how are you?

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, how are you doing, Robert [ph].

Q - Rob Spingarn {BIO 5996882 <GO>}

Well, thanks. So, is it possible for you to comment on the quantity of deliveries through the first six weeks of the Third Quarter?

A - Mauricio Botelho {BIO 13386065 <GO>}

(inaudible) It is growing. But I think it's not -- it's not wise to comment right now because it's going to -- there is a lot of things to come up in this quarter.

Q - Rob Spingarn {BIO 5996882 <GO>}

Let me ask the question a different way. Should we look at the Third Quarter as being consistent with the first two quarters, at about 30 aircraft? And then 45 aircraft in the final quarter?

A - Mauricio Botelho {BIO 13386065 <GO>}

I prefer not to comment on it now. It's just too early in the quarter to ...

Q - Rob Spingarn {BIO 5996882 <GO>}

Okay. Just a couple other small points. Your profit sharing numbers were below our forecast. And it seems that you've got some kind of a calculation that you do here. What - what -- maybe this is a question for Antonio or Anna. But what is the expected profit-sharing for the full year?

Bloomberg Transcript

Q - Unidentified Participant

We have -- this profit sharing is a policy that we have in the company. This policy is very clear. It establishes that the profit sharing is dependent on the profit, it is dependent on the dividends that shareholders will see. Of course, we don't have this figure. But with the provisions we are making so far, they are based on the ...

Interest ...

Interest shareholders. On equity, which is something that really was dispersal [ph]. Because this happens by quarter. And this is something that we know it has happened. So, that is why you are maybe making calculations [ph] correctly, that is below the real and actual cost [ph] per share in the past.

However, this, as I say, is something that we cannot anticipate, because it puts the plan [ph] on our shareholders' definition. 'What will be the dividends that you are going to take [ph]?' I don't know. I have suggestions for them. But I don't know.

And also, it's based on the individual goals that must be achieved.

This is something in the (inaudible) what each individual is going to receive. But in terms of the policy, in terms of the figures, the forecast -- it is very difficult to do a forecast, because it puts the plan [ph] on the shareholders' will [ph].

I see. And then, just a final question. Anna, perhaps you can reconcile for me. I'm guessing that maybe this is a typo, or I'm just interpreting it wrong. But in the text of the Second Quarter release, you say that the interest income on a net basis is U.S. 13 million, against 24 million last year. And that is not what I see on the actual financial statement later in the release -- 18 million versus 19 million last year. Is that just a typo, or am I not making some kind of reconciliation?

A - Anna Cecilia Bettencourt

The amount is ended June 31, 2002, of financial -- you are asking about financial transaction laws, or collective ...

Q - Unidentified Participant

Net interest income.

A - Anna Cecilia Bettencourt

Net interest income. Three months ended June, 2002, were \$18.1 million, as compared with three months ended June 30; \$19.2 million.

Q - Unidentified Participant

What you're saying is the 13 million in the written portion of the release is not the number I should consider.

A - Anna Cecilia Bettencourt

Yes.

Q - Unidentified Participant

Okay. Thank you.

You're welcome.

Operator

Again, if you'd like to ask a question, press star one now.

Our next question comes from Gordon Lee with Goldman Sachs.

Q - Gordon Lee {BIO 1551117 <GO>}

Hi.

A couple of quick follow-ups. Maurice [ph], I wonder if you could update us just on the certification process for the 170 and the Legacy. And also, with what happened at U.S. Air. And concerns that something similar might happen at United, what's your view on scope [ph] clauses? I mean, do you think the pilots may be a little more flexible now?

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you for your question. That's good. That's one of my preferred issues.

Well, in terms of certification, it is moving on as planned. On the respect of the Embraer 170, we forecast to receive the F.A.A. certification -- I'm sorry -- the J.A.A. certification on March next year. And the F.A.A. certification falling on in April next year.

On the Legacy program, we already received the Brazilian certification C.T.A. [ph]. We received the J.A.A. certification, I think, in June or July. I think July. And, the forecast for the F.A.A. certification is the end of this month. So, we are moving well and as planned.

In respect to the scope [ph] clause -- I was somewhat amazed with the situation. When, just after September 11th, the airlines did not ask for or argue for (inaudible) to renegotiate the contract. Because in fact, that event was a very, very strong event that changed the fundamentals of air transport. Lots of routes could not be operated any more with the larger aircraft, narrow bodies or wide bodies. And economically, they required a regional jet. And at that point, nothing happened. I understood the reason why, because of political reasons, the support provided by the government. And at the same time, it would represent a fall-off of something like in the major airlines. But this is a political issue again. U.S. Airways, in their fight to recover and to turn around the company, they started to make very important moves in their labor relations. And they succeeded in getting to new agreements with their pilots, that allowed them to move ahead in increasing very

FINAL

much the proportion of regional jets, inclusively [ph] of the new family in respect of the larger aircraft fleet. And this was a very significant point. U.S. Airways asked--filed for Chapter 11 and I'm sure, if things move on as their plans are, that they are going out of this crisis in a much, much stronger base [ph]. And this will represent that they will have--among their strengths will be the ability to serve markets in--with regional jets that are much in excess of what their competition can do. And this will for sure represent a challenge for them in their agreements in respect to the scope [ph] clause.

I see scope [ph] clause as an abnormal market restriction. If you look at the market, you see that there are aircraft up to 50 seats. And there is a big gap, a vacuum up to the next stage, 110 seats. And this means that somebody's paying the bill. And this is the consumer, because they are being transported in routes with the wrong aircraft. And this is the point. Who's paying the bill is the consumer. And so I think that this is something that will not live forever. And this will have flexibilization [ph] or, on a very optimistic basis, they will be released for all. But I see that there is a must for the airlines to survive, to comply and to cope with the new market requirements, to expand their operations in aircraft with 50 to 110 seats. And this, I think, is going to happen.

Long answer, sorry.

Q - Gordon Lee {BIO 1551117 <GO>}

Oh, thank you very much.

Operator

Thank you, our next question comes from Brendan Sobi [ph] with ATI [ph].

sobi|Brendan|Sobi||ATI|m?: Yes, hi Mauricio.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello.

Q - Brendan Sobi {BIO 17740866 <GO>}

When do you expect U.S. Airways to make their RJ selection at this point? And does your statement regarding possibly increasing production at the end of the year factor that in?

A - Mauricio Botelho {BIO 13386065 <GO>}

I don't see any possibility to progress with that when they are still in the shop or the lab [ph]. So this will happen, beginning of next year. After the quarter [ph].

Q - Brendan Sobi {BIO 17740866 <GO>}

Okay, because they say that Chapter 11 shouldn't affect the selection or their financing of potential regional jets. Do you think that it could have an issue?

Bloomberg Transcript

FINAL

A - Mauricio Botelho {BIO 13386065 <GO>}

The selection, maybe is not affected. But the financing for sure. I don't see anyone that could finance them before they have their Chapter 11 issue resolved. So I don't see real, real--a deal made and agreed and formalized with the proper financial structure before February--January or February of next year.

Q - Brendan Sobi {BIO 17740866 <GO>}

Mm-hmm. And I also have a question on the American connection side, you guys originally were going to help American re-market some of their 145's because of their scope issues and now TransStates [ph] has taken those aircraft. Does that mean you're not taking back any 145's at this point?

Q - Unidentified Participant

I think that is a very, very, very solid idea and a very appropriate idea. I think it's moving on.

Do you see a lot of the growth on the American side occurring through a connection because of downsizing the main line in St. Louis plus the scope issues at Eagle?

I think so. Think so. I think it is a relevant move.

Okay. Okay, thanks a lot.

Thank you.

Operator

Thank you. And if you would like to ask a question, press star 1 now. Thank you. Mr. Botelho, there are no questions at this time.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much. I have to -- thanks for all the audience for the questions and for the interest and if you feel the necessity of any further information, we'll be very glad to provide them through our e-mails and I just want to thank you all for your interest. Thank you. Thank you, very much.

Q - Unidentified Participant

Thank you, bye-bye.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall

Bloomberg Transcript

have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript