

Q4 2004 Earnings Call

Company Participants

- Anna Cecilia Bettencourt, Head of Capital Markets and Investor Relations
- Antonio Luiz Manso, CFO
- Marcelo Rodriguez, Controller
- Mauricio Botelho, Chief Executive Officer

Other Participants

- Harry Breach, Analyst
- Heidi Wood, Analyst
- James Girallamo, Analyst
- Joe Nadol, Analyst
- Partice Apervalle, Analyst
- Ricardo Fernandez, 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 Fourth Quarter 2004 results in U.S. GAAP. Thank you for standing by.

(Operator Instructions) As a reminder this conference is being recorded and webcasted www.embraer.com.

This conference call includes forward-looking statements or statements about events or circumstance which have not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions including among other things, general economic, political and business conditions in Brazil and in other markets where the Company is present.

The words 'believe', 'may', 'will', 'estimates', 'continues', 'anticipates', 'intends', 'expects' and similar words are intended to identify forward-looking statements. Embraer undertakes no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors.

In light of these risks and certainties the forward-looking events and circumstances discussed on this conference call might not occur. The Company's actual results could differ substantially from those anticipated in the forward-looking statements.

Participants on today's call are Mr. Mauricio Botelho, Chief Executive Officer, Mr. Antonio Luiz Manso, Chief Financial Officer, Mr. Marcelo Rodriguez, Controller. And Mrs. 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>}

Good morning. It's a pleasure being here again, talking with you. We thank all of you for joining us on the Fourth Quarter 2004 end of year conference call. All results are in U.S. GAAP. We will lead you today through the terms of the financial statements in Brazilian GAAP.

As already explained I have here in Antonio Luiz, Marcelo and Anna Cecilia. And this conference is being webcasted and slide presentation on our web site at www.embraer.com.

Let's go the 2004 highlights. It is very important to position ourselves in the scenario in which we developed quite clearly through the year 2004. That was another aggressive scenario with some difficulties that we had been (meeting) since 2001, have been overwhelmed. And some of our customers are (even with) with very strong difficulties and fighting for their survival.

At the same time we see some of the confirmation of some opportunities that are brought to this environment due to the relaxation of (inaudible) when we have regional airlines expanding their activities and requiring larger aircraft. Which was in the (region of) 76 and above. While we see low cost carriers (inaudible) with interest after they just made a decision on 2003 of acquiring 160 (from our side).

We saw also (inaudible), which is in this family of aircraft, new family of aircraft which we are introducing, as a way to reduce costs and also improve their efficiency.

In terms of Commercial Aviation Highlights, I'll say that very important for us, Finnair, which is a traditional Finnish airline, 1 of the oldest airlines in the world, acquiring 12 Embraer 170s with 8 options convertible into Embraer 175s and 190s.

Republic Airways, which is the third largest operator of our aircraft, actually they do operate some 125, 140, 145 and 170, applying to 23 Embraer 170s and 26 options, which are being operated in United Express system.

Air Canada confirmed the deal that they announced in December 2003. Signed the contract for 45 Embraer 190s. And later on (inaudible) 15 Embraer 175s, with additional options for 60 aircraft.

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Hong Kong Express acquired through GECAS -- (inaudible) through GECAS -- 4 Embraer 170s. This order has a special relevance for us because it represents reproduction of this new family of aircraft in the Chinese (environment).

We saw a range of opportunities coming up at Latin America as well. Copa Airlines from Panama confirmed a firm order of 10 Embraer 190s plus options for 20 aircraft of the same model. In the same sense, as regard (inaudible) equities, which we have in place, (inaudible) would start with just (inaudible).

US Airways (inaudible) in Chapter 11 caused very strong disruption I would say into the planning of our opportunities in the Second Quarter of 2004.

Luxair have confirmed 2 orders of ERJ 145, taking advantage of the situation of U.S. aircraft to operate in London city airport.

Harbin Embraer Aircraft Industry delivers the first 5 aircraft for (inaudible).

In terms of Corporate Aviation, (inaudible) the Legacy Executive, has seen some significant improvements. Increased operating ceiling to 41,000 feet flying above the commercial airline sales. Additional configuration was made. It was authorized to operate at London City airport. And the expansion of its landing and take off envelope at airports located at up to 8,500 feet above sea level. Our revised maintenance plan has provided our customers with 5% cost reduction in their services.

We've also, we provided additional flexibility to incorporate wireless technology in the aircraft. But it is also important to say that the role that that we intended to leverage the (reduction) to play (inaudible) value aircraft in the market place was that we should, we better to understand the market and learn about it in the future, for the future. We are learning. We absorbed the tricks to run in this business and we are studying our base. This sector has really -- a sector for growth of our activities in the future.

In Defense we had significant results to report. The deal with the U.S. Army and the Navy as part of the team led by Lockheed Martin in terms of and I'm referring to the Aerial Common Sensor, the new (inaudible) supervision aircraft -- (inaudible) the value of the contract by itself (inaudible) the opportunities that took place due to the fact that Embraer was accepted as a valued supplier to the U.S. armed forces. We are sure that this will open some more opportunities, not only in the United States but (inaudible) the United States to provide the same sort of aircraft to other countries.

As a consequence of these contracts, we are building up another facility at this time in the United States, in Jacksonville where we plan to have (a direct focus).

Furthermore, we delivered in the second half of '04 AEW&C aircraft operated by the Greek Air force under the NATO conditions.

Besides that, we finished out contract with the Mexican Air Force. We supplied them 2 EMB 145 maritime control, 1 EMB 145 AEW&C and also we have delivered the on ground flight control to the Mexican Air Force.

We signed also a Memorandum of Understanding with TAME Linea Aerea from Ecuador for 2 Embraer 170s, 1 Embraer 190 and 4 options.

In respect of Customer Services, we are expanding our activities, not only to provide the service, the relevant services that allow our customers to have the aircraft (strong) with the maximum reliability and dispatchability. And I will feel that for us it is true to say that the average dispatchability index of our aircraft are well placed. We surveyed above 90.4%, which is (inaudible).

We are also expanding our activities throughout the -- where we are providing all of maintenance, repair and overhaul, maintenance repair and overhaul services in different locations. As a consequence we are expanding our facilities in Brazil. We are expanding our facilities in Nashville, Tennessee, to handle our MRO incentives in the Americas with new aircraft.

And also we were very happy to say that by December 31 we signed a contract at alumina consortium with EADS to acquire (inaudible) industry, which is a very well known name in Europe for repair, maintenance and overhaul.

If we talk about Industrial activities, the year 2004 was an extremely relevant year. Besides the 148 aircraft -- the commercial jets and executive jets that we delivered, we have a number of military aircraft being prepared and delivered, even though some it is still under test. But the fact is that (inaudible) the most excellent year we have ever had.

Embraer received CTA -- Brazilian Authority, FAA and EASA -- which is European Authority - certification. And first deliveries were made (for March 1). Test flight of the Embraer 190 and Embraer 195.

The Embraer 175 was certified by the Brazilian Authority on December and had European Authority certification achieved also in March. At this time we are continuing with the certification process with the Canadian Authorities.

To comment on Results and Performance I will transfer this presentation to Anna Cecilia and at the end we'll be ready for the questions that you may have. Thank you, very much. Anna Cecilia please take (over).

Anna Cecilia Bettencourt

Thank you, Mauricio. Good morning, everyone. During the Fourth Quarter 2004 we delivered 42 aircraft and finalized the year with 128, which was 47% higher than the previous year.

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As we have mentioned in our second and Third Quarter conference calls, 6 of these aircraft did "were" accounted at operating (lease). Also we were adversely affected by the (inaudible), which caused us to revise our EBITDA in the year 2004.

During the first -- The reason why the first deliveries of the Embraer 170s was, a large volume of aircraft delivered and a good performance of this affair caused us in (customer service) segment, our net revenues in 2004 reached \$3.4b, 50.5% higher than 2003.

In the Fourth Quarter 2004 we reported net revenues of \$953m, a 16.9% increase over the same period last year. Due to the (inaudible) of the new Embraer 170 aircraft, our gross margin decreased from 37.7% in 2003 to 34.1% this year.

Due to the better class of mix, combined with higher corporate jet deliveries and improvement of the Embraer 170 production line, gross margin in the Fourth Quarter 2004 reached an exceptional 37.6%, which was higher than the 33.2% recorded in the Third Quarter of 2004.

For 2005 we expect our gross margin to range between 32% and 34% due to the benefit of the launch of the Embraer 190, as well as the 94 (inaudible) of this new aircraft.

Net revenue by segment was commercial airlines net sales reached \$2.5b, an increase of 69% over 2003 and represented 75% of our total net revenues. With the beginning of the serial production of the ALX, advances made in the air F-5 for the Brazilian Air Force, net revenues for the defense market increased 39.4% in 2004 and represented 10.6% of our total net revenues.

Considering that in 2003 2 licenses delivered to the corporate market work out (inaudible) in 2004 we delivered more effective versions of our licenses than in 2003. Net sales of our corporate segment increased 40% year-over-year.

Finally, Customer Service segment represented 7% of our net revenues and increased 39% year-over-year.

Income from operations reached \$544m, more than 2 times higher than the previous year. It is important to notice that during 2004 we recognized an operating income of \$108.6 million in payments received from our risk-sharing partners, related to the certification of the Embraer 170 and the Embraer 175 and the fulfillment of certain contractor milestones. Therefore, net research and development expense in 2004 was \$44.5 million compared to \$173.2 million in the previous year.

The remaining \$140 million in cash advance already received from the risk-sharing partners is expected to be recognized as operating income over the coming year.

The reason why higher net sales, net income increased from \$136 million in 2003 to \$380.2 million equivalent of 2.17 cent per value per ADS. In the quarter, our net income

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increased 22.2% over the same period last year and reached \$83 million equivalent to 0.7 per value of ADS.

Due to the landing costs associated with the production of the Embraer 170 we negotiated with our suppliers to extend the payment terms for the first unit produced. As a result accounts payable to suppliers increased \$287.5 million in the first nine months of 2004.

As the first Embraer 170s were delivered these obligations were met during the Fourth Quarter 2004, which resulted in \$242.2 million in payments to suppliers in the last quarter. The accounts payable to suppliers returned to its normal level in December, reaching \$556m. Therefore from December 2004 and to the end of the year, our working capital increased by \$416m, which is mainly due to this payment that we made to our partners.

In terms of other factors that impact on working capital. Although (inaudible) remains relatively stable, they are in a highest level that's \$1.4 billion as it was adversely affected by the production adjustments. And it's also included 4 aircraft painted in the colors of U.S. Airways and 5 further (ties) that we have in (inaudible).

Trade accounts receivable also. Trade accounts receivable in the quarter. Our account receivable remains relatively stable at \$686m. Of this amount, \$529 million related to aircraft delivered for which we are signing arrangements other (inaudible) and includes 7 aircraft delivered to U.S. Airways with accounted as trade accounts receivable.

Due to increasing working capital needs in the quarter, total short-term and long-term loans increased by \$169 million in the Fourth Quarter 2004, reaching \$1.3 billion at the end of the year. 62% of this is long-term loans. On the top of that, \$376 million is denominated in Reais, impacted to CDI, the local interest rate at a weighted average interest rate of 12.4%. The remaining 75% is denominated in U.S. dollars and other currency, which are weighted at an average interest rate of 5.4%.

As we mentioned at the end of December, 62% of our debt was long-term. The long-term credit line is to mature between 2005 and beyond 2009. And we have an average life-time of three years and four months.

The combination of payments made to suppliers and higher inventory levels result in a decrease of our net cash position, as we ended the year, with a total of \$22 million compared to \$220 million in September. Also, for the same reason, our free cash generation 2004 was negative in \$24.7m.

We ended 2004 with 103 firm orders in backlog for the ERJ 145 family to be delivered and 336 options. The ERJ 145 family backlog stands at 901 firm orders. I'm sorry. In 2004 we added to our ERJ 145 family order book 31 new orders.

Then the Embraer 170/190 backlog stands at 343 firm orders, with 297 aircraft to be delivered and an additional 427 options. In 2004 we have started another 102 new firm

orders into our Embraer 170/190 family back log.

Our cost of firm orders back log at the end of the year was at \$10.1b, almost 3 times our 2004 net revenues. And in terms of forecasts, we are maintaining our forecast for this year, for 145 aircraft and another 145 aircraft to be delivered in 2006. We thank you and we open this for question and answers that you may have.

Questions And Answers

Operator

(Operator Instructions) Our first question comes Heidi Wood of Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Good morning. Thank you. Actually I have several questions. I'll ask some of them now and get back in the queue. You know, 1 of the first questions I'd like to ask you Mauricio is that, can you give us your perspective of the likelihood that Air Canada, who ordered 45 190s and 15 175s and 60 options, comes under pressure to cancel their Embraer order, to be a launch customer for Embraer's C series, especially given the Canadian government is putting in so much governmental financing. Can you talk to us about your perspective on that. And maybe any lessons learned or things are gleaming from the 717 closure?

A - Mauricio Botelho {BIO 13386065 <GO>}

Heidi. It is a pleasure to talk to Heidi. Well, I have, I understood your question. And I definitely I don't believe this is something likely to happen. I think that when we competed with, for this deal in Air Canada, we were competing, really, with aircraft that were 7 solid aircraft in the market place. We're talking about Boeing and with Airbus. And it's not, I do not trust that any competition coming from our competitors with this new aircraft, could be able to represent a better, a better economics for them, rather than ours.

I also recall that the 175 was also, the 175 was also contractor based in a comparison with our competitor 76 or with the other immediately more 86 or something like that that they just put together. So, I don't think that there is any chance that this deal be moved.

Pressure, they think that they have received pressure by the time that they contracted us. At that time there was a strong pressure from the government and from political entities in Canada to have their local industry prevailing in the dispute. But that did not happen because of the value of our aircraft. Furthermore, our deliveries for both aircrafts will start in 2005. Our competitors will start to deliver at least if have aircraft and if they can prove to deliver what they are promising in their preliminary presentations, they have will have at least five years to put these aircrafts in the market.

Q - Heidi Wood {BIO 3095506 <GO>}

Thank you, Mauricio. And a second question on, is that, can you discuss with us what you're seeing in terms of pricing trends?

Because some of us are hearing that Boeing has been rolling back pricing on the 737s. And that's especially on the 600, which would be narrowing the gap between say the small mainline Boeing and Airbus planes and then Embraer's largest aircraft, the 190, 195.

Can you talk to us about your thoughts about how long you can hold out on pricing on the 190s? Or is there possible reason influencing the slow orders we're seeing on the 190 family, despite very good reports on it technically?

A - Mauricio Botelho {BIO 13386065 <GO>}

Of course, Heidi. I'd say that every time any (inaudible) in the world, in his nights' prayers, he asks God for a monopoly.

We consumers, we consumers thank God for not believing and listening for those prayers. And this is always a question on price. Always. Never. So, of course, we are looking at what is happening. And of course we're looking on ways of keeping market position and keeping our products the best products in the market place.

Q - Heidi Wood {BIO 3095506 <GO>}

But would you say that is having an effect on the slowdown in orders?

A - Mauricio Botelho {BIO 13386065 <GO>}

No. I don't believe that because what we have, what we are really saying is that we are in competition at the lower end of those aircraft.

We have at that lower end better, not the best solution for that (reach). We are (inaudible) and because of that they have higher cost consumption. So, what we see is that they are varying the pressure on price. So, that I keep thinking. And confident, that we have the best solution for those who ask for 100, 176 aircraft.

And the other aircraft which have been offered, no one that needs to address our market have 100-seat will buy a 100 many seat aircraft.

That is, that is, that will not happen. Economics, is more and more the basic decision for, for, for (inaudible). And I think that of course there are markets that (inaudible) aircraft. And there are markets, which will accept of this sort of aircraft.

We are confident in our product. And the niche that they are addressed to.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. Great, Mauricio. Thank you. And my last, my last question is on Aerial Common Sensor. Even though the program is started, is under way. And it's a little early, there's already starting to be Mauricio some, some reports that the 145 as an aircraft platform is proving to be a little bit small and are encountering some challenges with the aircraft, not so much with the electronics.

a) Is that happening and what are you doing about it. And b) is it possible that they could move to the 170 platform if, if they need to put more electronics on?

A - Mauricio Botelho {BIO 13386065 <GO>}

What you see is that any product has a maturity curve. And for every product also has a number of series that make the decision and (inaudible). What we saw in the 145 is that we designed an aircraft for 400 aircraft series, to be reached along 10 years.

But today we are maybe eight years from the first launch. And we have already delivered 900 aircraft. And definitely what we have seen is that with the prices (inaudible) allow their lines to come and to ask for a bigger airplane. And this is happening with the 76 already. What is causing this is that the interest, present interest in the 50 seaters decreased. You must also see that the number of 50 seats and the market is already a significant number.

So, what I think is that the number of orders for the 145, in next few years, will come in a smaller number than in the past. But, in the same way, likewise the airplane such as the 727 which are maybe 35 years old today, 30 years old. We are, we continually improve in some tiny intrinsic things what keeps the aircraft alive and new versions come on board in the next years.

I believe that this is the same thing that will happen with 145. There will be a requirement for replacement of the oldest units in some years ahead of us. Why? In the meantime, the number of orders will decrease.

Q - Heidi Wood {BIO 3095506 <GO>}

Thank you, Mauricio. Except that I think that it was due to the connection. But I was actually asking about Aerial Common Sensor. ACS. (inaudible) on the 145 platform. That we were hearing that they're experiencing difficulties with putting all the electronics on the plane the day 1.

And a) I was trying to find out if that's been the case? And b) is it possible technically or structurally for Aerial Common Sensor to be put on the 170 aircraft instead?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, Heidi. What I say is that this has been something that has been prepared, working and looked at during the course of this. I think that there is no doubt from either the customer or our associates that the 145 can handle the mission. Of course, you cannot always think about expanding the mission. And we are looking at that, with the possibility of new wings and things like that. But I think that the 170 will not be the growth solution for this, at this time, for this aircraft, for this mission. I think the 145 is very capable in such kind of mission.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. Great. Thank you. I'll let somebody else have a question. Thank you.

Operator

Next question comes from Joe Nadol of JP Morgan.

Q - Joe Nadol {BIO 3056499 <GO>}

Good afternoon. My first question is on working capital. I was hoping that we could speak a little bit more in detail about the expectations for inventories and receivables. I guess part of that would be when do you expect to consummate the structured finance deal that you're looking at, to lower receivables?

And also just on inventories, we talked about how that should scale down next year. What's the timing on that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Before I transfer this answer to 1 of my colleagues, I'd like to explain something that is relevant I think in terms of what (inaudible). (inaudible) this was a disruption in the process. As really we all know (inaudible) very representative in our production this year. And as far as (inaudible) we froze the deliveries. At the same time, what was in the pipeline in terms of supply chain that has gone and the deliveries did not happen. So, we have a momentary imbalance in terms of supply chain and deliveries.

We have also to see that there will be a very big increase in deliveries in the second half of this year. So, much that we have to be prepared and this is what we are doing to go ahead in manufacturing parts of aircraft which will not be completed during this first half.

This is an industrial decision, because we cannot have all of our suppliers maybe in terms of providing those sort of parts and components in a steady and planned way. We are having (inaudible) to also to face, because of (inaudible). We will have our inventories at a high level for a number of months. But this will be decreased substantially with the deliveries in the second half.

But just to explain a further, a little bit more about that, when we saw (inventories) in about 1.8 this was with last year, it is important to realize that when we talk about inventories we are talking about everything necessary. This includes our aircraft that are ready on the tarmac. This includes aircraft that are partially manufactured. This includes components that were in the (inaudible) to be put together and to be transformed into aircraft.

So, the impact that we have in terms of aircraft ready and manufactured that were on the tarmac and were not delivered and partially manufactured in the same condition it was significant.

If you talk about our let's say our materials that was used to manufacture aircraft, we reached this year a plan of 8 times of other years. This means an extremely well managed manufacturing process, with a significant turnover, in terms of inventories. We were on the other side damaged by commercial issues.

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I think it was necessary to talk -- to give this presentation to really explain that what was this inventory made of. And what are the differences that we see (inaudible) and what is happening in the industrial process. And Marcelo Rodriguez will go ahead.

A - Marcelo Rodriguez {BIO 19540231 <GO>}

I believe the (inaudible). But if our positive total account receivables (inaudible) with between 16% and 20% of the total revenues and that means the commercial areas. (inaudible). In respect of the inventory we during this year are going to work to reverse from 1.4 to about 1.2. That is our strategy for adopting the new conditions during the 1.5 aircraft in this year.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. So, 1.2 by the end of the year?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. Around this.

Q - Joe Nadol {BIO 3056499 <GO>}

For inventories. And then you're waiting on, you've done these AATCs in the past where you've had a release of cash once the deal is constructed--

A - Marcelo Rodriguez {BIO 19540231 <GO>}

We indicated we go again for 1 AATC in this year. It is during the Second Quarter.

Q - Joe Nadol {BIO 3056499 <GO>}

The Second Quarter?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. I believe it's the Second Quarter.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. So, then we should expect the First Quarter working capital to be a use of cash again in Q1. And then maybe to be a source of cash in Q2?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. Except we have not been in the same level we have today (inaudible) respect for another situation (inaudible) we consider. We are also (work) in the middle of the year for the next quarter.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. My other question is for Mauricio. Just looking out at the landscape in terms of demand for the 170 and 190. Can you say with confidence that you think that you will

receive more orders this year than deliveries for the aircraft -- for the family. And where are you seeing stronger demand, where are you seeing weaker demand in terms of the European and U.S. markets. And then elsewhere in the world?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I am confident that new orders will come. I see that in the United States and I see them in Europe. It is difficult to say what is there going to happen. We are likely to have a significant number of orders. But it is difficult to say at this time, because some of them, we have airlines in a very bad financial shape. And on the other side we have others which are showing to be very cautious about restructuring their fleet.

But I think that things will start to happen. And that we will have significant orders along the year.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay, just one final quick 1. And then I'll turn it over. You have outlined in the past, you have said that 145 aircraft in '05, in '06, each year. And you've given a breakdown by family. And I'm wondering if there is any change to that breakdown?

A - Anna Cecilia Bettencourt

No, no we are still projecting for this year 60% of our (inaudible) 170. And for next year we expect 73% of our (inaudible).

Q - Joe Nadol {BIO 3056499 <GO>}

Okay, well thank you Anna.

A - Mauricio Botelho {BIO 13386065 <GO>}

Joe, may I add something please? Hello.

Q - Joe Nadol {BIO 3056499 <GO>}

Yes, of course.

A - Mauricio Botelho {BIO 13386065 <GO>}

Just to -- of course, we are not in a stable scenario. But if this is not different to the scenario we had last year (I think it's about the same thing). Last year we were able to put together 123 new orders. So that's the same. I think that we are in the same situation this year.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay, thanks Mauricio. Thank you.

Operator

The next question comes from (James Girallamo) from Sao Paulo IMI.

Q - James Girallamo

Can you give me an estimate of what the debt levels will be in 2005, between non recourse and recourse debt?

A - Anna Cecilia Bettencourt

In the, well the non recourse and the recourse are flat in 2005. It's more or less the same as we reported at the end of 2004, no change.

Q - James Girallamo

Thank you.

Operator

The next question comes from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Good morning.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning, Ron, how are you doing?

Q - Ron Epstein {BIO 1868102 <GO>}

Good, how are you? Mauricio, in your introduction you spoke about low cost carriers. I think you eluded to the fact that you're potentially seeing demand from low cost carriers. Do you care to speak a little bit more about that?

A - Mauricio Botelho {BIO 13386065 <GO>}

What we are actually seeing Ron is that the interest is there. And lots of them talking about. And trying to understand what is the product, what is the demand mix and the product, how they will be there in their fleet. But what we see is definitely that there is an interest. Unfortunately I cannot be more positive -- be more specific about this.

I think that (the result) will be (soon) they get a lot of other companies to come to examine why they did go in that way.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. And I have 2 more, just, quick questions for you. With regard to growing the business model and looking at areas for organic growth at Embraer, there has been some talk. And the Company has mentioned in the press, about moving forward more in the

business jet market. Can you talk about that some more. And your thoughts on the corporate jet market and Embraer?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes. We have -- when we decided to launch the Legacy, it was the year 2000. We had, of course, the chance of providing the market with some new products which would provide us with (inaudible). But we had (inaudible) with that 1. We endeavored to learn this new business; to learn the constraints, to learn how to co-operate, to learn where and how to find opportunity (inaudible). How to get the relations with your customers, how to serve them.

And I suppose, practically five years from the launch of the Legacy, we have learned a lot. We have improved our model. And improved our perception and our views on this market. And, we consider that the business jet area is a natural growth area for us. We think that we have the capabilities. We have the ability to design and to serve good aircraft, competitive aircraft. We have qualified a structure to handle this challenge. And we plan to move ahead on that situation.

At this time we are developing studies in this respect. And I hope I can have distributions quite soon about that.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, very good. And just a quick question I think either for Anna or Antonio. What is the cycle time currently on the 170s? I know that's, given the learning curve. Where is the cycle time now on the 170?

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

Yes. It is around six months now. But it is coming down.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay.

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

-- (this year), (inaudible) and went on production of 6 aircraft per month. That's when we took (inaudible) with the 145. You see we got it in 10 months, plus deliver in March. By year end we were reaching 6 aircraft per month. The same rate was achievable with the 145 in 18 months after the first deliveries. It's all going down very fast.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, great thank you.

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

Thank you.

Operator

The next question comes from Harry Breach of Banc of America Securities.

Q - Harry Breach {BIO 3990118 <GO>}

Gentlemen and Anna. Good morning. I just have a very quick question. Is it right to think for your 2005 deliveries, that you are 90%, nine zero %, sold out?

And secondly, for your 2006 deliveries, can you tell me what percentage of those are sold out please?

A - Anna Cecilia Bettencourt

Yes for '05 we are around 90%. And for '06 we are around 70 to 75%.

Q - Harry Breach {BIO 3990118 <GO>}

Was that 77% for '06?

A - Anna Cecilia Bettencourt

About 70 to 75% in '06, yes.

Q - Harry Breach {BIO 3990118 <GO>}

70 to 75%, that's great guys. Thank you, very much. All my other questions have been answered.

A - Anna Cecilia Bettencourt

Okay thank you. Thank you, Harry.

Operator

The next question comes from Steve Trent of Smith Barney.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, all. I apologize if I'm repeating things that were already said. But I had some technical trouble getting in. Just 2 quick questions. I'm sorry. Just 2 quick questions. The first is with respect to selling expense. It seems that there was a very decent sequential decline, even though the Real strengthened almost 8%. And I definitely know you guys have a fairly hefty sales force in Florida. But it seems that some of this expense is Real denominated. Did we see, for example, to an extent, a lower selling expense on the Legacy as the 4Q deliveries were sort of slanted in that direction?

And my other quick question is with respect to India. Jet Airways did look at a preliminary order back in 2002 on the 175. And now there seems there is some movement by Indian authorities to let some of these new carriers operate more international routes. If you

could perhaps give us 10 seconds on what might be the prospects for the 170, 190 on the sub-continent?

A - Mauricio Botelho {BIO 13386065 <GO>}

Sorry, we have (inaudible) before. But for sure. And I will start from the last question, talk about Indian market.

Q - Steve Trent {BIO 5581382 <GO>}

Oh great.

A - Mauricio Botelho {BIO 13386065 <GO>}

The Indian market is potentially very big. I think that there are enormous opportunities to develop, to introduce every sort of aircraft in that market. However, they have a big problem for. And which has to do with (plannings) and routes. It is a highly subsidized environment where you have very poor incomes in the largest portions of the country. But there is a growing activity in terms of air transport.

(Jet Clo) "we have an excellent relationship with them. We had reached about 3, four years ago, maybe two years ago, quite clean contracts, which means outside the commercial portfolio and we were at the discussion for a long term, a contract with them, to supply over 10 plus 10 -- sorry the Embraer 175.

Because of the difficulties (pattern) they started to face at that time, the contract was not signed. But there is a strong interest in that line. However, we are seeing also the interest in other start up companies in other small companies that tried rolling their operations. With the Indian market for us, it presents an area of interest in an area where we see that we can produce our aircraft in a good shape.

Our problems in India will be increased and I think highly visible (inaudible) to start to deliver the aircraft, the executive aircraft for (inaudible). We will deliver 5 of them this year. And with very large visibility, which also includes our attempts to penetrate in the market. But, in fact, there is nothing more to say other than that. (inaudible).

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

About the selling expenses, it's decreased in the Fourth Quarter. (BREAK IN AUDIO).

Operator

Mr. Botelho, are you ready for your next question? Mr. Botelho.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, yes.

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Operator

Yes, I'm sorry. You got cut off there, we weren't sure if you were done with your question. We have another question from Heidi Wood, Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Oh, okay. Thanks. May I ask what Antonio Luiz was saying though. Antonio, we got cut off. Do you mind finishing up what you said. And I'm happy to ask my question after that?

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

We were talking about the decrease on the Fourth Quarter. It was related to the expiration of some product warranties, that we referred the decision on the last quarter.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay great. And actually, can you give us -- the backlog dropped from the Third Quarter, the fourth, presumably because de-booked the U.S. Airways. So it went from \$11 billion to \$10.1b. How much of that was U.S. Airways?

A - Anna Cecilia Bettencourt

We have U.S. Airways 63 aircraft from the U.S. that was in our backlog. And the decline in our backlog was mainly due to the recommission of revenues. Also there was asset (inaudible) of (inaudible) liabilities, which was announced in December.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay.

A - Anna Cecilia Bettencourt

American also cancelled from the Third Quarter to the Fourth Quarter, 18 aircraft, which affected our backlog.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. Great. And then a question about the 145 family, Mauricio. You know, when you look at orders for the 145 family in '04, in kind of round numbers, 70, 80 deliveries '04, '05, possibly '06. You know, at this rate of deliveries versus orders it looks like you are going to run on the backlog pretty quickly. So a couple of questions related to that. One, are there any meaningful campaigns in '05 for the 145 family?

Two, do you think that '05 orders will be about in line, or could they be better than what we saw in '04? And could you give us a sense as to what's break even in production for the 145, for example, how low can you go there?

A - Mauricio Botelho {BIO 13386065 <GO>}

Sorry, just a minute please. Sorry, I was -- the connection is not that good. And I had difficulty to understand the question.

Q - Heidi Wood {BIO 3095506 <GO>}

I'm sorry.

A - Mauricio Botelho {BIO 13386065 <GO>}

That's okay now. The point is that we have -- we keep manufacturing the 145 aircrafts, as you say, not the original (inaudible), to our executive airline, the executive aircrafts products. And for the transport focus. We are keeping the line we have reached. To have an idea, we started (to evolve) this operation. The first year of operation in 1997, we have produced (40) aircraft that year. And that was (our own) product. And in '98 we had a very sound profit.

So you see that the margin, the break even in production for this product is very low. Furthermore, the methods and the systems are all of them (inaudible) very easy. You see that still with world production we are still decreasing the production cycle. So it is a very efficient line. And I think that there is no visible problem in that respect.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. And then can you talk about whether you have visibility for a meaningful campaign for that family in '05, or give us, say a rough sense of whether you think the order book for that family would be better than, or about the same as, '04?

A - Mauricio Botelho {BIO 13386065 <GO>}

What I see is that there are a reduction in terms of new campaigns. And today, we are practically concentrated in China and other Asian countries.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. And for my final question Mauricio. Can you talk to us about any trends that you are seeing with respect to airlines exercising options? Years ago, you were running at about 100% of exercise of options. And obviously that's changed in a post 9/11 environment. But are you seeing any change in terms of an inflection point from here, where airlines are looking a little more inclined to exercise options?

A - Mauricio Botelho {BIO 13386065 <GO>}

You see, the 1 rule that has been exercised in options, to a large extent, is Republic Airlines in Chautauqua. But today it is a big question mark. It is very difficult to see anything happening as an even steady form. As you said, before 2001, that we were 100% of (inaudible) was exercised. Today, very (inaudible). But we have customers such as Chautauqua and Republic. But very few inventories in that (field).

A - Anna Cecilia Bettencourt

Heidi, let's open the room for other people to ask the questions.

Q - Heidi Wood {BIO 3095506 <GO>}

Oh yes, no I'm done. Thank you.

Operator

Our next question comes from Ricardo Fernandez with Banco ING.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Yes good morning, afternoon, depends on where we are at. The question I have is regarding the, obviously Bombardier and its C series. I was wondering if you could highlight any reason why an airline would prefer, five years from now that is, the C series versus your 190, 195. What are your key advantages over that product that you see at the moment?

A - Mauricio Botelho {BIO 13386065 <GO>}

Well, I think that we are talking about different products in a separate sense. One of the products that Bombardier is thinking about launching is 135 seat aircraft. In that circumstance, in that case, we will be competing straightly, directly with Boeing aircrafts.

In the long term, the lower end of this (inaudible). I think there are factors which impact the competitiveness of a certain product. But they can influence it in a wide range. First, in terms of the position price. Second, operational costs. Third, finance. And fourth, how much this aircraft is adequate into the airlines network. So a competition between aircrafts, it is not an easy thing to define, where the reason for success is located.

It's something you do not have 1 only answer. You have to analyze the situation based on the airlines' operational network and that operational project. So what I see is that, I don't know what will be the final characterizations of this eventual development, or we could possibly develop 130 seats from our competitor. But what I see is that there are (hard rules) to overcome in their side to provide what we are talking. We are saying that the aircraft will provide something like 15 to 20% reduction in operational costs. However, we do not see, we do not perceive whether it's the technology that will allow a significant reduction in costs "operational costs.

So there are hard rules to be overcome. And I think it is very difficult at this moment, because the product is not (inaudible). Our product is (inaudible). We know (its rate). We know how much it costs to operate. We know (inaudible). We do not know those parameters for (inaudible), from our competitors. So it is difficult to define a point of competitiveness between the 2.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Okay, how about this then. In the past, not recently, in the past, you have mentioned that perhaps your 190, 195 family could achieve a market share, obviously depending on whose study you take. But in the neighborhood of 25 to 27% longer term. I assume that you are already factoring in Bombardier entrants. But were you factoring in a 717 being

cancelled, or are there other products down the road from Russia, China, that's always been popped up as something that could compete with you in the medium term?

A - Mauricio Botelho {BIO 13386065 <GO>}

(Inaudible " fault on audio). And when I talk about market share (inaudible), I'm talking about (inaudible) was aircraft on firm orders.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

I can't hear you, I'm sorry.

A - Mauricio Botelho {BIO 13386065 <GO>}

(Inaudible " fault on audio). And when I talk about market share (inaudible), I'm talking about (inaudible) was aircraft on firm orders. So I think that we in that perspective better conditions than we had when we launched the program we had forecast.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Okay. Thanks, I appreciate your comments.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much.

A - Anna Cecilia Bettencourt

We will have just 1 more question. And then we will close this conference call.

Operator

Okay thank you. I do have 1 more question. And that is (Partice Apervalle) of ASA Capital Partners.

Q - Partice Apervalle

Yes, hi good morning Mauricio. If there is --

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning, how are you?

Q - Partice Apervalle

Pretty good, thank you. If there is a further consolidation, let's say in the European airline market, how would it affect Embraer, in your view, in terms of either the potential for new orders, or the timing for conclusion of your existing sales campaigns or future sales campaigns in Europe? Thank you.

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A - Mauricio Botelho {BIO 13386065 <GO>}

(inaudible). What we are seeing is that the number of players is reducing. But we are not concentrating too much in few products. Even more so, if you look at the low cost carriers, you see for instance, Easyjet, which has a (inaudible). So, again I come to the point that (inaudible), because if you are concentrating, we are not -- the market is not shrinking. The market is there (not concerned). And they need to expand their fleet to face that market. And what will prevail in certain circumstances, in certain networks, is the fact that (inaudible) an aircraft which will be more sound to serve that network than another 1.

So I think that the consolidation of the system can have an effect. But that will not be a tremendous effect, or something that will make the competition on the supply side to be eliminated or, because someone operates one (factor) than another factor. I think that we'll have to let time to tell us what is going to be the development.

So, at this point, I want to thank you all for your attention. Thank you, very much. And I hope to see you soon on the -- ninth in New York. I will be very pleased to be there and (give you questioning).

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

Thank you, very much from my side too.

A - Anna Cecilia Bettencourt

Thank you. And I hope our U.S. analysts make New York on March 29. And it was (The Meridian). Please if you (like) an invitation, call us and we will be obliged to send you. Thank you. Bye bye.

Operator

This concludes today's question and "I'm sorry this does conclude Embraer's Fourth Quarter 2004 results in U.S. GAAP audio conference for today. Thank you, very much for your participation. Have a good day. And thank you for using Conference Call de Brazil and Corus Call.

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