

Q4 2005 Earnings Call

Company Participants

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

Other Participants

- Neil Rosenberg, Analyst
- Ray Neidl, Analyst
- Robert Nickles, Analyst
- Robert Wall, Media
- Rodrigo Goes, Analyst
- Ron Epstein, Analyst
- Sandra Arnold, 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 2005 results in U.S. GAAP. (Operator Instructions) As a reminder this conference is being recorded and webcasted at www.Embraer.com.

This conference call includes forward-looking statements or statements about events or 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 other markets where the Company is present.

The words believes, 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 uncertainties the forward-looking events and circumstances discussed on the 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 conference call are Mr. Mauricio Botelho, Chief Executive Officer; Mr. Antonio Luiz Manso, Chief Financial Officer; Mr. Marcelo Rodrigues, Controller; and Ms. Anna Bettencourt, head of Capital Markets and IR. I would now like to turn the conference over to Mr. Botelho. Please go ahead, sir.

Mauricio Botelho {BIO 13386065 <GO>}

Good morning, ladies and gentlemen good morning. Thank you for your attention. We're talking here about the Fourth Quarter results and the 2005 highlights. And I want to emphasize that this year I think it was a very important year for us. I think that from the very end of 2005 and beginning 2006 I think that the Company changed its profile and in a very strong way. I think that all the actions that we're taken along (the years) were at the very end of this 2005 fiscal year -- were absolutely highlighted by the award of Investment Grade from Moody's. And the beginning of this year by Standard & Poor's. I think that this was a very relevant issue for all of us as far as it will represent for the Company the ability to address the financial market worldwide in better shape than we have done so far.

Last Friday we had in a general shareholder meeting the approval from our shareholders in terms of total capital approval of 63.5% in present votes that were represented at the meeting. 99 -- over 99.9% of approval of our shareholder restructure. From Friday on Embraer is a fully (inaudible) capital Company with one only class of shares, voting shares. And I think that this is a very significant step towards our continuity and perpetuity.

I think that in doing that we will not be restricted anymore to the ability of any shareholder to invest in the Company to back up its growth. On the contrary, we will be dependent only on good projects that we can present to the world market and have it supported by our investors and shareholders.

I think that this picture is extremely relevant for the Company and we see with great enthusiasm that future ahead of us. In saying that, I said that in 2005 we had a very relevant results achieved. But at the same time, we have to recognize that we had to face some very hard points in our operation.

We got record net revenues of US\$3.8 billion, with a record net income of US\$446 million. Of high importance it is the net cash that we have achieved. We had a significant change from 2004 of a net cash of US\$22 million to a new level of US\$360 million. This was represented by a significant decrease also in our accounts receivables and in sales that we have achieved.

Our order backlog -- firm order backlog at the same level of that when we have been achieving along the last three years, US\$10.4 billion, which sums up with options to take us to US\$24 billion. This is a relevant issue when we look for the potential of growth ahead of us because of this order backlog.

Coming back to this new capital restructuring, new shareholder restructuring, just to finalize -- to make clear the terms in which it was finalized, we have at this point full capital

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-- (full privatization) capital with voting shares and shareholder protection mechanism. We have our first mechanism which represents a 5% voting limit for any shareholders or group of shareholders, which will maintain of course the economic rights on those shares. But at any general assembly to be limited to 5% of total capital.

There will be a mandatory (deletion) and tender offer if any shareholder will reach 35% or more of the total shares. We will be forced to issue this deletion offer for 100% of the capital. And for doing that, however, it will be required to obtain a permit from the government. If so agreed, you have to fulfill the price that is established in our bylaws represented by the highest between four different evaluation process, added by a 50% premium. Doing that, I think we can preserve our (privatization) and the free float of the shares.

Because of requirements since the privatization of the Company in the year 1994, there is a limit for foreign votes. Foreign shareholders will have a maximum of two-thirds of the votes of the Brazilian votes in any shareholder -- in any shareholder meeting representing in fact a limit of 40% of votes at that particular general assembly -- shareholder general assembly.

There will be controlling mechanisms in the Company in terms of share ownership. Those limits will be strictly followed by our Investor Relations department in a way to assure the proper volume of shares in the hands of any shareholder.

The new capital structure represents 738,611,820 common shares. Those shares are split in 39% roughly at the New York Stock Exchange, something like 12% at the Sao Paulo Stock Exchange, Companhia Bozano with about 11%; Previ, 16%; Sistel, 7%; BNDESPAR, 6%; European Group of Companies, 7.5%; and the Brazilian government, while they still will keep a golden -- one golden share -- one special class share called golden share -- it still has .32% of the total shares.

The golden share's rights were preserved and are enforced and in (newer) respect to what it had before, unless there is some change in the bylaws which represent the protection mechanism were also included in their veto power.

Talking about the business. I think we had a significant year. In terms of expansion of our new productline, Embraer won (inaudible) achieved 94 new orders, added by five ERJ-145.

If we pick up the highlights of this operation, the delivery of the first Embraer 175 and Embraer 190 to Canada and the first Embraer 190 to Jet Blue, it really represents landmarks in our operation. If we look at the commercial division market share, if we understand market share as the delivery of aircraft and firm order backlog, we will have from 30 to (66), 46%; 61 to 96, 36%; 91 to 126, 57%. In total, in this segment from 30 to 126 we retained 46% market share.

Embraer 190 from the order book today on December 2005 comprised a total of 440 firm orders, which added to 362 options, makes a total of 802 total orders for this family.

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We delivered 118 aircraft so far, making a firm order backlog of 322 aircraft of this new family of jets.

The ERJ-145 accounts for 894 firm orders, with options 179, making a total of 1,073 aircraft which were to represent a firm order backlog of 45 aircraft. Undoubtedly this family of aircraft, the ERJ-145 family, it is in a material situation today. And very few aircraft would be expected to be delivered from this point on. We believe that to come in terms of substitution of old aircraft. But it will not represent a significant addition of deliveries.

If we look at the business jet market, there is active jet aircraft that we are addressing the market today. The Legacy 600 the Phenom 300. And the Phenom 100 are being very well received. The Phenom 100, which is an aircraft which represents six passenger -- maximum six passenger aircraft flying at 41,000 feet flight level, with taking off from runways up to 1,000 meter -- 3,000 feet. And with a speed up to 150 knots has been very well received in the market. Today the we are in a point to -- we are already studying and to be implemented the duplication of our production facility for this aircraft type -- very well received in the market.

If you compare the Phenom 100 with similar aircraft, we will see it competing in terms of comfort and performance with the CJ-1, which is at the entry-level jet. We see this aircraft, which is a target price of -- a list price of US\$2.8 million competing with aircraft with a price list of around 5, \$6 million.

The Phenom 300, what is forecast to be delivered -- have the first unit delivered by mid 2009 represents high-speed aircraft, 450 knots, with a range of 1,800 nautic miles flying at 45,000 feet. It is also -- it is receiving very good acceptance from the market. And if you compare it with similar or same level of product, we are with seven seats comparing with aircraft of the level CJ-3 and (Encore). Much at the price of US\$6.8 million it compares with aircraft ranging from 8 to the US\$9 million.

The Legacy 600 is again being very well received. And we are expanding our production line. We are producing two per month. And first open position will be in February next year. So it is going on absolutely well.

Defense market in the 2005 represented for us two significant frustrations. First, on January 2005 the cancellation of the (FX) program. And by officially this year 2006 January the cancellation of the ACS program. While the first one we had the FX program, we had a great interest in it because of the technology that would be involved in it and our abilities to have it first. We have the second one, it would be penetration in the U.S. market in a high level. I believe that the FX program is not canceled. The program is not canceled; it is postponed. And we will be searching our -- to have a good position in this program in the future.

Regarding the ACS, while I fully regret the outcome, I can say that the visibility and the perception, the way that we have reacted, the professionalism and diverse and the way that we aggressively responded to the challenges represent for us a much better perception from the market today for the Company rather than when we entered what

this deal two, three years ago. However, we will be pursuing other opportunities, because we think we have a value to add in this market as a part of the U.S. (system house).

In this market we have to celebrate the options exercised by the Brazilian Air Force for 23 Super Tucano. And the sale for 25 Super Tucano for the Government of Colombia. Embraer also delivered five Legacy 600, which is a special configuration for the government of India.

In terms of service, we expanded our facilities. In Brazil at Gavião Peixoto we expanded our service center in that facility. We expanded also our facility in Nashville, Tennessee at Embraer Aircraft Maintenance Services. And in March last year we took the control of OGMA, one of the largest maintenance repair and overhaul facilities in Europe.

In terms of our industrial operations, I think it was a hard time for us. We delivered in 2005 -- we manufactured and delivered 77 E-jets, 43 ERJ-145s, 17 Legacy 600s, 36 Super Tucanos, 7 F-5BRs, 27 (inaudible) ethanol driven.

With this performance we delivered the (main handler) jet of the ERJ-145 family, as well as doing 100 E-jets 19 months after the first delivery. And here is something to notice. That in the ERJ-145, a much simpler aircraft, we take two years to deliver the first 100.

We're going to comment now on the results, financial and economic results and performance on the Company. And I will pass the word to the Anna Cecilia to proceed.

Anna Cecilia Bettencourt

Good morning, everyone. The fiscal year 2005 commercial airline market net sales reached \$2.7 billion, an increase of 5% over fiscal year 2004. With the beginning of the serial production of the Super Tucano. And the percentage of the completion achieved in the (F5) and (AMX) programs for the Brazilian Air Force, net revenue for the government and defense marketing increase 15.8% in 2005, representing 11.1% of total net sales. While customer net sales increased by 69.1%, reaching \$422.3 million, mostly due to the \$125 million in net sales recorded by OGMA, the MRO facility acquired by Embraer in March 2005.

Net revenues reached US\$1.2 billion in the Fourth Quarter of 2005, a 24.8% increase over revenue for the same period in 2004, mainly due to the increase in deliveries of the jet with higher aggregate value. Despite the increase in net revenues in Fourth Quarter 2005, gross margin was 28.2% compared to 37.6% in the Fourth Quarter 2004, as it was impacted by the learning curve associated with Embraer 170 and the Embraer 190 first delivery.

Gross margin was also impacted by the 16.8% appreciation of the Brazilian real against the U.S. dollar over the period, as approximately 50% of our contract sales and service is denominated in (reals). For the same reason gross margins in fiscal year 2005 was 30.2%, lower than the 34.1% recorded in 2004.

As a result of lower gross margin, income from operations reached US\$114.4 million in Fourth Quarter 2005, US\$27.1 million lower than the same period in 2004. Total operating expenses as a percentage of net sales increased from 22.7% in the Fourth Quarter 2004 to 18.5% in the Fourth Quarter 2005. The Company's operating margin in the Fourth Quarter 2005 reached 9.6% compared to 14.9% in the same period last year.

Driven by higher net sales, net income for the year increased by 17.2% to US\$445.7 million, equivalent to US\$2.53 of earnings per diluted ADS. Net income in the Fourth Quarter of 2005 increased 88.1% over the same period in 2004 and reached \$156 million, equivalent to US\$0.88 earnings per diluted ADS.

During Fourth Quarter 2005 trade accounts receivables decreased by 42% to US\$450 million. Of this total amount approximately US\$99.5 million is related to aircraft deliveries for which sale financing arrangements are under restructuring process.

Embraer (regards five) total accounts receivable items as customer and commercial financing. These items include seven aircraft delivered to U.S. Airways, which were acquired by Republic Airways in a process of having their financing arrangements concluded.

Over the quarter inventories decreased US\$89.7 million, reaching US\$1.5 billion as more than EMBRAER 190 aircraft started to be delivered.

Total stock and long-term loans decreased by \$127.2 million during the quarter, reaching US\$1.5 billion at the end of 2005. Of the total debt, 14.4% is denominated in reals and to the local CDR at weighted average interest rate of 12.3% per annum. The remaining US\$1.3 billion is denominated in other currencies, primarily U.S. dollars, with a weighted average interest rate of 6.2% per annum.

At the end of December 69% of our debt was long-term. The long-term credit lines are due to mature between 2006. And have between 2006 -- and 2009 -- and have an average lifetime of -- a weighted average lifetime of two years and five months. We ended 2005 with a net cash position of US\$360 million. With (inaudible) in the beginning (inaudible) in the Third Quarter 2005, working cabin requirements became normalized in the Fourth Quarter, resulting in a high cash availability and lower debt levels.

Our total firm backlog at the end of the year was US\$10.4 billion, almost three times our fiscal year 2005 net revenues. We expect to deliver 145 jets in 2006 and 160 aircraft in 2007.

We distributed during 2005 \$186 million to our shareholders as interest on shareholders equity, equivalent to US\$0.84 per ADS, which corresponds to a dividend payout ratio of 63%, significantly higher than the 25% minimum required by the Brazilian corporate law.

Now we will open the floor for the Q&A -- question and answers.

Questions And Answers

Operator

(Operator Instructions) Ray Neidl with Calyon Securities.

Q - Ray Neidl {BIO 14015874 <GO>}

A couple of quick things I just wanted to clarify. The additional cost that you talked about for the learning curve for the 170 and 190, I know that that great product has been introduced. I have been getting positive feedback from many of the airlines. But I'm just wondering the learning curve, how longer will it continue into 2006? And the selling expenses, they were at a high level due to the new productline, well that continue through 2006?

A - Mauricio Botelho {BIO 13386065 <GO>}

This learning curve, it is progressing in the good mood. I mean, we are with our cost decreasing as we reported in this process. We are achieving today a production cycle 4.4 months. And I just recall that we in the ERJ-145 we reached a production cycle of 3.2 months. This has a significant impact in terms of the production costs and working capital requirements.

I just also to remember that we have four aircraft in this game. The learning curve is a process that will follow on for a little while. The first EMBRAER 195 will be delivered by July this year. We would expect that there will be still some learning -- to have learning and to lubricate the supply chain along this year for sure.

You commented some reports on airlines that are operating the aircraft. This is also a problem on the learning curve. It is not only production costs. But it has to impact also in the services and how to provide spare parts to the different customers. It is something that involves all the supply chain.

What I would like to take this opportunity to comment is that today the ERJ-145 has an average fleet dispatchability of 99.90 -- 99.75%. If we compare this situation with the situation we had just when we launched the aircraft, it is a huge difference. If we compare the situation that we have today with Embraer 170/190 with the situation we had by the time we launched the ERJ-145, we are in a much, much, much better situation today.

The point is that when you introduce an aircraft -- a new aircraft in a certain airline, you know to solve a lot of problems; problems of training, problems of spare parts availability, problems of adequation of the structure to operate that product. When introduced a new aircraft in that same network, the situation is also worse. You have to -- again beyond the level of problems in the airline, you have to solve the problems in the performance of the aircraft itself.

What I say is that I'm very confident that the actions that we are taking today, they will be solving the majority -- by far the majority of the problems very soon that we see in the

fleet in operation very soon. And we are also taking action that for having our productivity levels to improve and the learning curve to develop in a better shape.

Q - Ray Neidl {BIO 14015874 <GO>}

Great. There has been -- there was a Dow Jones article that talked about your R&D investment in 2005. And it looks like it is going up a little bit in 2006, 2007, up to about US\$272 million in 2007. I was just wondering if you could comment on that. What is the R&D development going for?

A - Anna Cecilia Bettencourt

The R&D development is the one that we already disclosed, which includes the investments related to business debt market. And includes also the sales impact. And we're talking about US\$290 million, not only R&D but also investment in PP&E and productivity; and for '07 US\$272 million. If you look only R&D that goes through our income statement, it is US\$200 million forecasted for this year and \$189 million forecasted for '07.

Q - Ray Neidl {BIO 14015874 <GO>}

What does the increasing in productivity and capacity include? You're adding capacities to your facilities. And you're going to make it more productive, is that what that is? So it is basically CapEx?

A - Anna Cecilia Bettencourt

Actually the investments that we are forcing some are related to productivity, yes. But you see that that is not that much higher so we're not including any new facility or new plant. We're not forcing this type of investment.

A - Mauricio Botelho {BIO 13386065 <GO>}

However, what we're doing is to adapt the present plan to face a higher production level of the different aircraft. I just mentioned in my presentation, for instance, that not only the Embraer 170/190 family is developing very well. And today date we are delivering those aircraft at a rate of eight per month. And we are preparing ourselves to go up to 10 per month very soon. If we look at future perspective it is not now. But we are preparing ourselves to go ahead in that direction. The Phenom 100 and Phenom 300 they were very well received in the market. We are preparing us to have our production duplicated in relation to what we intend to have by the business plan approval time.

Q - Ray Neidl {BIO 14015874 <GO>}

Okay. Great. And just finally did you comment on going forward your currency hedge position?

A - Anna Cecilia Bettencourt

Normally what we have --.

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A - Mauricio Botelho {BIO 13386065 <GO>}

We don't have the time for those to put a hedge.

A - Anna Cecilia Bettencourt

Yes, what we do is we use the balances -- we try to keep assets and liabilities -- the proportion between assets and liabilities -- and currencies more or less matches. And we have been doing that for a while.

A - Mauricio Botelho {BIO 13386065 <GO>}

The point is that we do not have a time limit to have a formal hedge in operation in place.

Operator

Ron Epstein with Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Mauricio, a question for you. There's a lot of cash on the balance sheet now, right, nearly \$2 billion. What is your plan to do with that cash?

A - Mauricio Botelho {BIO 13386065 <GO>}

We have to take care of the (inaudible) that are tying our hands nowadays. I think that we are operating the development of a new family of aircraft, the Phenom 100, Phenom 300, as we told. We are prepared to duly fund it for that. We still have -- are in the development process for the 170/190. And post certification improvement which are always there. And this is the view that we have today for the cash. Nothing special. Nothing really to drive us in terms of acquisition or other issues.

We have to look also. And we're doing, as I said, in the executive jet segment business to further development. And this is an area that will require cash. This is an area where we will be taking a lot of attention in terms of new products first between the Phenom 300 and the Legacy 600. And also in areas beyond the Legacy 600.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Again if 2006 plays out to be another good cash flow year, would you think about increasing the dividend? Is that a potential thing or not?

A - Mauricio Botelho {BIO 13386065 <GO>}

Absolutely. The policies that we have in place -- this is a firm policy -- which is to distribute 50% of the monetized profit. This means profit that is transformed in cash. And you see that this year we had a better dividend ratio than years before because the cash would sustain that. This is a possibility that is always in place.

Q - Ron Epstein {BIO 1868102 <GO>}

Just one more question for Anna. When we think about modeling the Company for this year and possibly 2007, what should we think about as a more normalized gross margin and operating margin run rate? Because it appears that this quarter there might have been some onetime events that pushed it lower.

A - Anna Cecilia Bettencourt

As Mauricio mentioned, in terms of gross margin this year there is still a learning curve as we introduce the Embraer 195 to the market. I would say that something around 30% would be feasible for the year. Regarding the EBIT and the other it is just a matter of using more or less the same percentage that you already used.

Operator

Steve Trent with Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

It is Steve Trent from Citigroup. Thank you, very much for offering the market share figures on 61 to 90 seats, 91 to 120 seats I think you said for 3,120 overall you're talking about a 46% market share. I assume that is on jets that are still in production. If you're actually -- do you have a figure counting your approximate market share for all jets in the system now, including older ones in the secondary market?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, we're talking about the aircraft that we delivered and the firm order backlog. This implies also products that we provide in the commercial airline and airline business. This means since the ERJ-145, which are still in production. And still being delivered. And up to the Embraer 195. This is just concerned of course the commercial aircraft business from 36 up to 126.

A - Anna Cecilia Bettencourt

And includes only aircraft in production. We don't have the other data that you want. But if you call us later, we might be able to give you this information.

Q - Steve Trent {BIO 5581382 <GO>}

Sounds good to me. Thanks a lot guys.

Operator

(Operator Instructions) Rodrigo Goes with UBS.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Just to follow up on Ron's question, you mentioned a margin -- a gross margin level of about 30% as a more or less normalized number. The operating margin again, Anna, if

you could, you said something around what we're using now? Remind us of what that number really is.

A - Anna Cecilia Bettencourt

What I said is that our gross margin around 30%. And more or less the same % as we presented in terms of around 15%, 16% operating margin.

Q - Rodrigo Goes {BIO 6232382 <GO>}

15, okay, perfect. That's all. Thank you, very much.

Operator

Sandra Arnold with Air Transport World.

Q - Sandra Arnold {BIO 1870487 <GO>}

I just wanted to ask you I know that the 145, the smaller regional jets are kind of passing away while the larger ones take over. What do you anticipate as the cutoff date for your production line for the 145 product? Is there an end in sight for that?

A - Mauricio Botelho {BIO 13386065 <GO>}

What we see is that we keep manufacturing this aircraft, at a lower-priced. But they are still being manufactured. Furthermore, if you consider in the term of production lines, the production line, the tooling, all the sets is already -- is still in place and productive. Because as a machine the Legacy 600, it is (inaudible) ERJ-145. We are, as I said, delivering two per month -- two aircrafts per month of the Legacy 600. The production line is fully working and in very good shape. We do not have any perspective of closing the line for this sort of aircraft.

Operator

Ron Epstein with Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Just a quick follow-up question. Mauricio, would you care to talk about I guess what is going on what the current campaign. And what you're currently seeing in the market for the Embraer 170 and 190 family of aircraft?

A - Mauricio Botelho {BIO 13386065 <GO>}

It is -- this question is always a challenging one, because it is very difficult to talk about campaigns. What I can tell you is that -- and I keep seeing that -- this product line is very well received everywhere. There is a lot of activity in different parts of the world for this aircraft.

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What we see. And still see it like that, is that the biggest problem -- the biggest hurdle is how to get that airline financing. And this is a point that has been sort of a struggle to have this campaign become -- becoming reality. But little by little they come up. (inaudible) was one of the very latest one. We were dealing with them for over one year. And then finalized it. We had this deal finalized about one month ago. This is what I see. I see that there is the interest. There is activity in looking forward for studies of the introduction in different sort of networks. But there are some hurdles that are little by little being overcome.

Q - Ron Epstein {BIO 1868102 <GO>}

Very good. And then one last question. With the Phenom 100, you mentioned that it has been very well accepted to the market, when will Embraer feel comfortable telling the market may be in terms of numbers how well accepted by the market?

A - Mauricio Botelho {BIO 13386065 <GO>}

Soon. All I can say today that is soon. I think we are by probably very much -- very likely by middle of the year we will be disclosing backlogs and what we have in our orderbook.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Great. Thank you, very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

I can say it is getting better than some of other aircraft manufacturers, who launched the aircraft earlier than us.

Operator

(Operator Instructions) Neil Rosenberg with JP Morgan.

Q - Neil Rosenberg

I just wanted to go back to the gross margin for one more second. If you look out into 2007 which is going to be the first year that you're going to producing all of four E-jets models, what sort of gross margin improvement are you expecting to see?

A - Mauricio Botelho {BIO 13386065 <GO>}

I think that we have to consider a situation that it is in place. The point that we're talking here of learning curve, that is a true statement. This exists. But there also other issues that are there. There it is a very fierce competition. There is a problem of currency. The currency -- the real over-valuation has impacts in about 2% in the gross margin as well. 2% is a little fee, yes. But it is representative. It is about 8% of the total margin. There are issues that are in place that must be looked at very carefully.

We think that 30% is a target to be pursued. And there are conditions for doing that. We do not think that it is something that will be surpassed. I think that this is a good approach

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for this issue. I don't see that the other factors altogether are beyond the learning curve. The learning curve will improve positively. It may get worse. But I think that 30%, it is a target to be pursued. But this is not an easy task.

Q - Neil Rosenberg

I guess I'm right in understanding that 30%, assuming that nothing else changes, is kind of your long-term target run rate?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, that's right. Today when you talk about learning curve, it is not only in respect of the production side or the supply chain side, it has to do with services. We mentioned just some minutes ago about difficulties in the operation of the aircraft, which are normal issues. But those normal issues, they demand a huge amount of effort, time and money to get them solved. And we are there. We're committed. And we're working and this has impact as well in the gross margin. This will decrease along the time for sure. But that is what I can show you that there are not only one aspect to be considered. There are several issues that are in place when we take care of this point. 30%, I think it is a good approach and target to be pursued.

Operator

Robert Wall with Aviation Week.

Q - Robert Wall {BIO 14003032 <GO>}

I had a question regarding your comment earlier on the production cycles on the E-jets' 4.4 month production cycle. Do you have any schedule and target production cycle you can share with us that you are trying to get to here in the next two, three years?

A - Mauricio Botelho {BIO 13386065 <GO>}

I think that for sure. And I can -- very pleased to say that our target, our (immediate) target is to reach a similar production cycle of the ERJ-145. And we're working in that direction. So we're talking about cutting down one-fourth of the present production cycle. It is relevant.

Q - Robert Wall {BIO 14003032 <GO>}

The other question I wanted to just touch back on the Phenom 100 that you had talked about now, in terms of the doubling the output early on to what your initial business plan called for, what is the level of additional investment that will mean that you will have to make? Can you give us some sort of a sense of that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Very marginal. Very marginal because I don't have the clear figure to tell you. But it is very marginal. We are -- it is not a matter of new facility, it is a matter of just some tooling to be duplicated. It is not a relevant -- a very relevant issue in terms of investment.

Operator

Robert Nickles with (Manning & Mayfair).

Q - Robert Nickles {BIO 20972912 <GO>}

I have two questions. The first question on the export deal to Columbia, just what is the status of that deal. And is it included in the backlogs that you reported today? The second question is really another question on the learning curve. It is -- you mentioned the 195 will be delivered. And that that is going to result in some learning curve issues. Could you talk about -- my understanding is the 195 is a very close derivative of the 190 -- and can you just talk about what some of the differences are that would make that learning curve different from the 197 to 195? And maybe compare that to the jump that you take from the 170 to the 190 to give us a perspective on the difficulties?

A - Mauricio Botelho {BIO 13386065 <GO>}

In terms of Columbia, yes, it is in our backlog. The contract was signed in December last year. So it is included in the backlog figure. In terms of the learning curve, no aircraft is equal one to the other. If you increase the size of the aircraft, there will be change in the system, there will be change in some hardware. There will be change that will have to be taken into consideration still considering that the aircraft is quite similar to the other. But they are similar, not equal. This is what makes a certain difference in terms of that adequacy of the supply chain.

Furthermore, please consider that at this very first stage of the program, we have four different aircrafts at four different production rates. And this is also a complication in this situation. Because the aircraft is not only there at the assembly line, you have hundreds of people working with different parts and portions to -- which are not equal. But they are similar. The learning curve will adjust these different factors into a stable situation. This is what it does in fact represent.

Q - Robert Nickles {BIO 20972912 <GO>}

But is the jump from the 195 -- to the 195 from the 190 a more difficult -- sorry, an easier jump than say a jump from the 170 to the 190?

A - Mauricio Botelho {BIO 13386065 <GO>}

Of course, very much. Jump 170 into 190, they have a commonality one to the other in the range of 90%. The commonality between the 190 to 195 is in the range of over 95%. It is very different. You're right in your perception.

Q - Robert Nickles {BIO 20972912 <GO>}

Thank you. We're looking forward to a year or so from now when you have them all moving smoothly. Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

We will be working hard in that direction there.

Operator

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>}

Ladies and gentlemen, friends, I thank you very much for your attention, for your continued support to Embraer. What I can say is that I'm very happy, very pleased with the development of the Company since its privatization. I think that we were able to build a very competent organization with a brand of products that express customer needs and customer requirements in a very deep way.

We prepared this Company with the financial health to sustain the challenges that it will face ahead. And as far as we get more competitive and we get in more sophisticated arenas, this health and this competence are mandatory to sustain the success that we're pursuing.

In this situation that we're living today, I think represents a new level of the Company. And I think that if it will add value for everyone, shareholders, our employees, our industrial partners. And I think that for the aeronautical industry as a whole.

Thank you, very much. This would not be possible without the support of our industrial partners and our investors and shareholders. Thank you, very much. I look forward for working constantly and effectively in adding value to your investment.

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

Thank you, very much for me too.

A - Anna Cecilia Bettencourt

And we hope to see you in April in our investors and analysts meeting in New York, April 13. Thank you. And we will see there.

Operator

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

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