

Q1 2004 Earnings Call

Company Participants

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

Other Participants

- Bayne Kaolin, Analyst
- Brett Johnson, Analyst
- Dan Mcgoey, Analyst
- Joe Nadol, Analyst
- Paolo Di Sora, Analyst
- Paul Vitsoda, Analyst
- Ricardo Fernandez, Analyst
- Sara Delfim, Analyst
- Stephen Trent, Analyst
- Unidentified Speaker

Presentation

Operator

Good morning, Ladies and Gentlemen and welcome to the audio conference call with the review Embraer's First Quarter 2004 results in US GAAP. Thank you for standing by.

(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 circumstance which are not accurate.

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The company's actual results could differ substantially from those anticipated in any 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 and Mr. Marcelo Dreges, Controller, Mrs. Anna Cecilia Head of Investor Relations and Daniel Beekhood [ph] Investor Relations Manager of Embraer. I would now like to turn the conference over to Mr. Botelho please go ahead sir.

Mauricio Botelho {BIO 13386065 <GO>}

Ladies and gentleman good morning it's a pleasure to be talking here with you to present all First Quarter 2004 financial results. We are all here very pleased in doing that and our U.S. GAAP results have been released yesterday since then with the statements in Brazilian GAAP on Friday sorry. Talking about the First Quarter achievements and then I will turn the word to Anna Cecilia for the comment on the financial results.

The most relevant issue in the First Quarter of this year was indeed without any doubt the certification at the Embraer 170 granted in the Brazilian, U.S. and European authorities late February. There was a very strong event and was sensed with all those to start the deliveries of this new family of aircraft and in the first month of March we did an 8/8 deliveries in our total trajectory Jets in that period.

The 145, not only of course we would 145 and another our significant event was the roll out of the Embraer 190, which took place in February, begin of February and had the first flight by the month of March. By the way the second prototype of the Embraer 190 flow last April.

On February also we had our Chinese subsidiary, have been Embraer announcing its first sale of 6-ERJ 145 models to China Southern Airlines. In March Embraer announced two relevant views, the conversion of 16 aircraft's of 50 options and took from orders of ERJ-145 regional Jet by Republic Airways through holdings and again the same customer in March also ordered 50 Embraer 170 aircraft's of which 13 as a firm orders and 37 as options. It is also relevant to say that we recognize in this quarter \$88.6 million US cash contribution from risk sharing partners for the Embraer 170 development, which was recognized as operating income.

I just recall that this 88.6 million US dollars is part of the 240 million US dollars total contribution, which had already \$14.2 million recognize in last year, sorry in 2002 and this, the rest of it, the balance of it will be recognized in the next two years. So this is also had a very positive impact in our figures in this quarter. I will turn now to Anna Cecilia who will present the financial data.

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Anna Cecilia {BIO 17955675 <GO>}

Thank you, Mauricio. Good morning everyone. We believe we are doing, in First Quarter 2004, 23 aircraft's the same number as we believe it in First Quarter 2003 and 7 aircraft's as been in Fourth Quarter 2003, normally a period of greater delivery volume. With the each of the delivery of the Embraer 170 this quarter we also, we are also presenting a better profit.

Our net sales for First Quarter 2004 were \$626 million below Fourth Quarter 2003 net sales. This decrease is a result of few aircraft's delivery, partially offset by a better product meet. Our growth margin this quarter decreased to 32.3% due to the learning course of the Embraer 170, which the first delivered are demanding more man power. In addition total growth margin was negatively impacted by 1.2percentage points due to the re-access of our future sales and cost related to certain defense contracts.

Sales in defense and customer service market combined, represented 29% of our sales, it is important to mention that we have no legacy deliveries this quarter. Income from operations was \$154 million higher than the Fourth Quarter 2003. It is important to notice as Mauricio already mentioned that we recognize \$88 million cash contribution from our risk-sharing partner as an operating income this quarter.

The remaining \$149.5 million in cash advances already received from our four, the Embraer 170, 190 risk sharing partners, is expected to be converted to operating income in the next two years. In addition as part of the company's effort to better serve the Embraer 170, our model operation, family expenses as a percentage of net sales increased from 9.2% in First Quarter 2003 to 10.7 in First Quarter 2004. Therefore net income this quarter was \$103 million compared to \$68 million in the Fourth Quarter 2003. Net margin this quarter was 16.6% and higher than 10.4%, net margin of same the last quarter.

We ended First Quarter 2004 with a total trade account receivables of \$565 million, an increase of \$108 million from last quarter. Of this total amount \$274 million is related to pending aircraft sale financing arrangement. We are jointly assessing WETC [ph] transaction with one of our customers, using to fund our aircraft delivers in 2004. We expect this transaction to be concluded between June and July and it will involve the financing of aircraft delivered during the first half of the year, as well as aircraft schedule for deliver in the second half of this year.

Also another factor that impacted our working capital this quarter was the \$100 million increase in our inventory. This increase was due to the Embraer 170 certification postponement, as well as its claimed production rate increase. In addition to the family, in addition to this family of two Embraer 190, 195 aircraft pre-series are in progress.

Despite the increase in working capital needs, our total loss decreased \$124 million and we ended March with a total debt of \$919.8 million. Our US dollars denominated debt has an average cost of 4.25% and they have denominated debt with an average cost of 14%, which corresponds up more or less 69% of the local CDI [ph].

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As of March 31st 2004 of the total loss 59.4% was related to long-term financing compared to 50.5% that we had in December 31st of 2003. This increase reflects our policy of expanding our debt profile and reducing the needs for temporary funding of our accounts receivable. The long-term credit lines are due more to between 2005 and 2015.

So we ended the First Quarter 2004, with our net cash available of a \$178 million, as a result of net addition to inventories and trade accounts receivable. This position is still a very liquid position. In terms of clients and backlog, as of March 31st the ERJ 145 Jet family had a total firm model of 189 aircraft to be delivered and 724 options. The Embraer 170,190 family backlog reached 250 per models to be delivered in additional 600 options. Furthermore, last year Air-Canada signed a commercial proposal of 45 Embraer 180 Jets with option, on another, on additional 45, which are not included in our 2004 backlog, March 2004 backlog. Taking to consideration, commercial corporate and defense contract, we ended the quarter with \$10.9 billion as per backlog, an additional \$17.7 billion in option.

We maintain our delivery forecast of 150 aircraft this year and 170 aircraft next year respectively. In addition of the total deliveries we expect for 2004 and 2005 99% and 88% respectively are represented by firm aircraft, firm orders that we have already in backlog. Thank you for joining us. Now I will open this conference call for question and answers.

Questions And Answers

Operator

(Operator Instructions)

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

Q - Joe Nadol {BIO 3056499 <GO>}

Thanks. Good morning. My first question is on the gross margin. Just wondering if in line with your expectations for the First Quarter, I thought that you expected gross margin more in the 35% to 37% range this year due to the learning curve in the 170. And also if you could give us a little bit feeling at how are your gross margins tracking on your 50 seater?

A - Anna Cecilia {BIO 17955675 <GO>}

Well, ask me the total company's gross margin was impacted by the defense contract. OK. So which represented more or less 1.2% of the total gross margin. OK. So If you adjust it, which we believe that is our fact that of course this quarter, OK, next quarter we expect this won't be; we won't be suffering these adjustments in the defense margin, OK. Also this quarter this aircraft will produce the aircraft that we delivered in First Quarter will produce to be delivered in November last year, if demanded more man power, more labour related to this, we were more affected than normally. OK.

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A - Mauricio Botelho {BIO 13386065 <GO>}

I like to add something about the learning curve. As we all know this is a brand new program. And in fact, or in terms of manpower used in the first units and first units is not the first five it is the first batch. It is a very hard task you will have to adjust all the process, you have to make it short, you really spend much more manpower than when the production is stabilized.

We have been experiencing some delays in base in the delivery date, which we are very proud to say that since I think 1997 we are very sharp on our delivery dates.

And but this is something that we will get in alignment next; we expect next July to have stabilized in terms of delivery dates. But even though, the gains in productivity will just happen along the year. This is not something that will happen at the first moment. So this we still have some impact in our gross margin.

Q - Joe Nadol {BIO 3056499 <GO>}

So do you expect your GM to increase progressively throughout this year.

A - Mauricio Botelho {BIO 13386065 <GO>}

Progressively, Yes.

Q - Joe Nadol {BIO 3056499 <GO>}

OK, my second question is on your airways; Mauricio could you comment on the current status of your 170 delivers to US Airways. You know, given the downgrade and the debt downgrade, natural problem for US Airways is having.

A - Mauricio Botelho {BIO 13386065 <GO>}

US Airways, is of course live in difficult time. We are following it up very close, not only we are, but mainly Gcas [ph] we are following it up with the customer, we are following up with Gcas and seeing what is the perception in this from the customer front is very strong financial partner of the customer and what we are discussing today with the Airline is the way to understand the private situation keep the delivers as planed as far as they can achieve ceratin results and goals and we are following those growth very, very closely. This is what I can say, we are at this moment; we are exactly at the same point that we were at the end of the last year, we are keeping our program, we are manufacturing what we have planned, we are going to deliver what we have planned to deliver. This requires a very close following up with the customer, which we are doing and of course, this also has to; we have to be prepared to evaluate a rental change that may happen in the way to the good effect to this plan. But today we are keeping it as planned. We are delivering the Aircraft.

Q - Joe Nadol {BIO 3056499 <GO>}

OK. Then finally, could you just comment on the defense side you had that, as you mentioned 1.2% on impact of, I guess, cumulative just lower adjustment of defense

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contracts and do you believe that the issues are contained and that should we do this as a sort of non recovering item.

A - Anna Cecilia {BIO 17955675 <GO>}

It's a type of non-recurring advance, remember that our defense contracts are in competition our methodology and we sometimes require to revise our expense and our revenue.

Q - Joe Nadol {BIO 3056499 <GO>}

OK is it on the air borne (inaudible) in control products and is it several contracts or just one?

A - Anna Cecilia {BIO 17955675 <GO>}

It was mainly one. What is the contract that we have with the Brazilian Air force is the ELX.

Q - Joe Nadol {BIO 3056499 <GO>}

I see, OK.

A - Mauricio Botelho {BIO 13386065 <GO>}

That's was a development with several contracts. Set contract for development, contract for logistics, contract for series and the overall all of them are in terms of cost incur and to cost and sometime we have to adjust it, see how things are going on, but it is self contain and its there, once for all.

Q - Joe Nadol {BIO 3056499 <GO>}

Thanks, I'll turn it over to someone else.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much.

Operator

Our next question comes from Mr Paolo di Sora with Itau.

Q - Paolo Di Sora {BIO 3285292 <GO>}

Hi everyone, I have basically two questions. My first question is regarding the U.S. Army program that you are together with (inaudible) if you comment on the status of the order or program and also if you could give us a guidance of revenues on your defense segment. It has been increasing quarter after quarter, so if you could us a sense what would be size of revenues on your defense segment this year. Thanks a lot.

A - Mauricio Botelho {BIO 13386065 <GO>}

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Very pleased to answer this. There is a problem, that you submit general in place to date it is in the welfare. There was a postponement for the decision to next June, already it was in June forecast the decision for June and this was much a great for additional requires from the U.S. army, which is; which are being contemplated and I think that things are moving on.

We are very confident on the solutions that you are presenting. We are very much sure that in our side, the Aircraft side, we are offering the best solution in terms of performance and cost, which make us confident on the program. However you just now; we just know that after the decision we were to; we can say that higher than five very strong values in our proposal.

And very proud and very effective relations, when the relationship we have blocked market, so this is what I can say. Then the first operation for us is an area growth, we are perusing this gross since 1999. And I think that this is an area with several opportunities which are however contained in each, we do not have the ability to compete in a very large extend in this market. But in certain weeks, we understand that it is a very effective operation and those needs, which are intelligence, surveillance, and (inaudible) aircraft, light attack and some specific dues, which comprise wage assistance and their training or whatever.

But, it is at; there is a permanent growth is decided and we are perusing to keep it growing on. I mentioned before in some previous conference that we are intending to have in a medium term basis about 30% of our total revenues. The split between the defense with some delight 20% and corporate and services. But this we have already reached this at this time, but we don't want to reach it with the decrease in our revenues, we want achieve that which growths in total revenues, growth in every segment of our operation. But this is sometime that were pursuing and this is sometime that we would like to see every time.

Q - Paolo Di Sora {BIO 3285292 <GO>}

And completing my -- my question is, you had a \$131 million revenue on defense segment, there was something non-equivalent there or this is sustainable moving forward.

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

But this is actually it's not there, and now requiring what there really happened is that the; as you know we reconnect the revenues as part of the costing here is and we had the very (inaudible) equipment installed on some of our contracts, defense contracts so as the result of that we have a increase of revenues concentrated in their product. OK?

Q - Paolo Di Sora {BIO 3285292 <GO>}

OK thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

The next question comes from Mr. Stephen Trent with Smith Barney.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, all. Just three quick questions for you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Welcome Steve.

Q - Stephen Trent {BIO 5581382 <GO>}

Maurice it's good to hear from you. Just three quick questions if I may. The first I was wondering if you could give us some color on how the sales campaign for the 175 is progressing as well as certification? Two if you could also may be give us an update as to what's happening with the preliminary Air Canada order? And finally any guidance you might be able to offer as to how you plan to book the R&D contribution going forward if we can except a lump recognition as it was in the First Quarter or if you plan to kind of smooth that out? Thanks very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

OK Steve with pleasure. The Embraer 175 development is moving on as planned. We hope to have it certified by the December this year. However so far we have not got any for more than 175. We see that some customers are interested in converting options at that's an Embraer 170 into 175. But we don't see it happening as a matter of days or what ever but there is that expectation and we think we really think that it will happen. To understand the 175. The 175, is margin of investment that we made to change performance by payload. So necessarily it is exactly the same machine is that to over 98% about 98 % prototonic.

So what you have is that some customers, which do not require at least the full fleet with that model 170 what performance may be they will require some thing they will take the advantage of having the same aircraft with additional payload. So we think that was a strategic, move that we took in a way to offer the customer another range of operational possibilities. But to answer very objectively we do not have at this time any prompter for this aircraft.

Air Canada, Air Canada is another customer, which is facing difficulties. They are fighting hard in over coming the situation it is also a matter of permanent following up with them and we are receiving from management of Air Canada news that gives confidence that they are moving forward and firmly for recovery. Today there is an assumption that in the second half of this year from the closer to the end of the year than to the mid of the year that they may have the situation totally sold and coming out of chapter 11. So this is a prospect that we are looking carefully, but I see that they are moving in the correct direction. In terms of R&D I'll ask Anna to answer you, chance (inaudible). Thank you, Steve.

A - Anna Cecilia {BIO 17955675 <GO>}

Yes it's a.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you, very much.

A - Anna Cecilia {BIO 17955675 <GO>}

And in our (inaudible) 15, we always maintain that there are (inaudible) equal to cash contribution that we received from our risk share importance would be treated as an income in our operations. OK? Answering your question for the above, \$40 million will be recognized next year and another \$30 million will be recognized in '06 and the remaining three years.

Q - Stephen Trent {BIO 5581382 <GO>}

OK, thanks very much guys.

A - Anna Cecilia {BIO 17955675 <GO>}

Thank you.

Operator

Next question comes from Mr. Bayne Kaolin with Merrill Lynch.

Q - Bayne Kaolin

Yes good morning I am just.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hi.

Q - Bayne Kaolin

Hi, filling for while up stand. Some of the question are already been asked. But just a technical question the dividend for the quarter's is going to be calculated off the number including the rest sharing number in other words the 59 cents per ADS this isn't viewed as kind of a one time item or something extraordinary just part of a normal corrosive business? Correct.

A - Anna Cecilia {BIO 17955675 <GO>}

Yes let me explain you Bayne. The dividend is always calculated based on Brazilian GAAP numbers. And on the Brazilian GAAP as we do capitalize the research and development this R&G treatment is negative like we capitalize all research and development and then we exclude this cash contribution from the total research and development. The up for it has an impact it didn't impact our Brazilian GAAP numbers. OK?

Q - Bayne Kaolin

OK.

A - Anna Cecilia {BIO 17955675 <GO>}

So for you calculate the dividend you should exclude this as one extraordinary item.

Q - Bayne Kaolin

OK and then just I think Steve asked about the 175. But just kind of the overall tone of campaigns right now there are a lot cost currents with fuel prices mentioned some of the airlines are having difficulties but generally what is the tone of business in your sales campaigns both for the smaller jets and the larger jets?

A - Anna Cecilia {BIO 17955675 <GO>}

(inaudible).

Q - Bayne Kaolin

Is it strong?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes what we feel is a very strong interest in the 170 and 190 family, and very moderate and modest interest in the 145 aircraft. This is the general mood today we have it resemble 145, however not so strong. On the contrary we are seeing that not only Regional airlines but the, very strongly on the 170 and we have recently Republic Airways with an order for the 170 to operate under United Airlines leverage. And this was a very good move and most because United operates the computer Air craft and they will have the chance to compare both air crafts in their operations and feel the performance and the response from passengers, which will definitely I believe and I strongly believe much more in our favor.

We are seeing in Europe interest from certain airlines. Not regionals but Legacy airlines major air lines in this family of air craft not only they 100 seats but also the 70 seat's and so I think that this every thing that's as happening is part of the movement to adequate the fleet for the real operation. And in this sense by, there is an issue that's really impacts me every time that I look at the scenario, is some statistics from the DOT, which shows that about 60% of flight departures in the United States, they are comparable, with 72 and 126 aircraft. This is a very impressive data as far as you can ask what's happening though if the those aircraft's are not available in the market. They are just starting to get into the market.

Therefore the answer is just one, airlines are operating with aircraft that they are bigger than what is required. This means they are spending more money, they are spending more fuel to transport just hard work and this is the big point and when you mention the fuel, the fuel price constraints, which are been, I think that this is another strain to our programs because we are allowing or offering the chance of the airlines to really use the

proper aircraft in the proper routes. But been again objective, there are campaigns in course in Europe and in United States. I don't see something very, very too much close to happen unless some very few ones but there are interest, permanent interest, various interest manifested by different airlines in Europe and in United States.

Operator

Our next question comes from Ms. Sara Delfim of Bear Stearns.

Q - Sara Delfim {BIO 1759641 <GO>}

Oh yes, already answered. Thank you.

Operator

The next question comes from Mr. Dan McGoey with Deutsch Bank.

Q - Dan Mcgoey {BIO 1539496 <GO>}

Morning. A few quick questions, one firstly on the equipment thrashed on the securitized financing, I am not sure if you mentioned the estimated total size of that financing and which customer you are pursuing that with. Then secondly, I did hear the answer on the USA with expectations on that and clear, I am just wondering though that behind that whether Embraer Air's is going to play there or has an efficient position on whether you are going to use the loan balance sheet in facilitating the completion of those deliveries if necessary? Thanks.

A - Mauricio Botelho {BIO 13386065 <GO>}

Hello, let me answer your question from the end, USA. We are delivering those aircraft's based in two approaches. The first approach refers to G-CAS [ph] support. G-CAS is financing lot of aircraft's and so there is and they are an important source for that. Another approach is financed that we are providing, not us, ourselves, but in terms of having this been restructured using the normal support, the finance, sales finance support to use through BMDS [ph]. Today these are the two approaches that we are looking at.

As far as we do not have the BMDS finance finalized, we are temporarily supporting it with our own resources. However this is not our intent, this is not what is going to happen. We are doing that meanwhile B&S and US service are in discussions to finalize the financial structure. So we will not support this in our balance sheet in a distinct or disconnected with the ability of B&S to move forward. And the most answer is very correctly given the comments that in this year most of the deliveries, you know two thirds I think of the deliveries are going to be financed by G-CAS.

Q - Dan Mcgoey {BIO 1539496 <GO>}

Two thirds of this year financed by G-CAS?

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, two thirds.

Q - Dan Mcgoey {BIO 1539496 <GO>}

OK, great thanks. I mean sorry this to follow up on the B&S not having finalized their financing. Is that more than administrative issue on the BMBM [ph] side or a lot more of a credit either analysis or concerned out for the B and customer of that BMBM financing

A - Mauricio Botelho {BIO 13386065 <GO>}

I have seen more as part of the normal process, the administrative process. At this point nothing has changed in the first assumptions. please tell.

Q - Dan Mcgoey {BIO 1539496 <GO>}

I feel I am just going say on the structured financing on that causes of the B&S yourselves to participating it had an impact. Can you estimate that is for US Airways specifically or your particular that customer aimed on that?

A - Mauricio Botelho {BIO 13386065 <GO>}

Mr. Dan I didn't get your --your last stated question is specifically to your service?

Q - Dan Mcgoey {BIO 1539496 <GO>}

I was wondering if you enhanced the equipment trust typically was specifically related to US Airways point?

A - Mauricio Botelho {BIO 13386065 <GO>}

No, no, sorry I understood. No it is not, it is not. It is connective with 145.

A - Anna Cecilia {BIO 17955675 <GO>}

It's related to 145 deliveries SG and last year. At the end of last year we concluded a very good deal with one of our customers, which we believe that the margin is still open for this recalls last year the belief to see we trade that four times and the demand was up four times that over subscribed the deals. So a very large demand, a very good result and we are willing to do the same transaction for the same customer this year for the deliveries that this customer has on first half and second half of this year.

Q - Dan Mcgoey {BIO 1539496 <GO>}

Great, thanks very much.

A - Mauricio Botelho {BIO 13386065 <GO>}

In terms of your first question.

A - Anna Cecilia {BIO 17955675 <GO>}

That was again in the First Quarter.

Q - Dan Mcgoey {BIO 1539496 <GO>}

OK, all right sorry. Thank you.

Operator

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

Q - Ricardo Fernandez {BIO 5573550 <GO>}

Hello, couple of questions, first on getting back to the U.S. Air situation. If U.S. Air does a second chapter 11 what would have been this obviously have a couple of -- what would happen to your delivery number this year would have basically; I mean you won't deliver even GE financed airplanes and then the other question is looking forward to 2005 continental or rather the express a jet company now. I should start up again with there taking the order. Is there any profitability of those whatever is being upgraded to a 117 just from my experience in playing around continental Express in the last couple of months, I noticed I have been going on rather long legs on a 145, so discouraged about that.

A - Mauricio Botelho {BIO 13386065 <GO>}

Yes, you are right, you are right. So we have seen our 50-seats jets flying for very long routes, which is good, which is good from one side. But I can't understand your question. Even more if you have long legs.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

That I don't but.

A - Mauricio Botelho {BIO 13386065 <GO>}

But yes, next project is planning to move ahead with long operation. But it is too premature even to comment anything on that. But they are very dear customers. Today we have flying in Express jets, something like 250 air crafts, 145 and this means that they are very valuable customers and that we will be ready to assist them and to build with them any further idea that they may have. In respect to yourself, in this speculative approach of a further chapter 11, these are disruptive situations. It is very difficult to anticipate what to be the actions, what to happen in what terms, what conditions. But this is a very, very strong and significant event. And it is, I think is a very, very few, very small contribution to comment what could happen. Could be dramatically fit or should have something into that to support the continuation of the operation. So very difficult to comment.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

But what are the airplanes that you are sending basically to GE, G-CAS were based there. They are really separate contracts. That will still continue?

A - Mauricio Botelho {BIO 13386065 <GO>}

If G-CAS is financing them because that we have a contract with G-CAS yes, for sure. G-CAS is allocating some of these aircrafts to US Service, and there is what we, those aircrafts are going to US Service. If G-CAS decides not to keep financing US Air then we will have to re-discuss what to do.

Q - Ricardo Fernandez {BIO 5573550 <GO>}

OK. Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you.

Operator

Our next question comes from Mr. Emerson (inaudible) with CSSP.

Q - Unidentified Speaker

Hi. Good morning, Mauricio. Good morning.

A - Mauricio Botelho {BIO 13386065 <GO>}

Good morning. How are you?

Q - Unidentified Speaker

I'm OK. Thanks. Mauricio, two questions. One is give him this learning 170 and of this IMZ for reversals or extraordinary items. Could you guide us on our what would be a sustainable long term, gross margin and operating margins for ERJ once you have reached the appropriate cost structure for the new jet family. And the second question would be related to the Brazilian Air Force FX Program, you know as you are aware probably, we are seeing lots of conflicting interests. The Brazilian Presses are raising the issue that further delays on the decision could happen. We are also seeing some comments from the military that people could be looking for a solution of compromise that in the case of ERJ or Embraer is not involved in the weaning consortium they could try to accommodate participation for Embraer in the package. So I remember the last presentation that you made in Sao Paulo you were very enthusiastic about the chances of Embraer so that the subject seems to be dying a little bit now. So I would like to your thoughts on that issue as well if possible.

A - Mauricio Botelho {BIO 13386065 <GO>}

I keep preened enthusiastic about it. I keep doing because I do believe that the common sense or the good sense always prevail. And I don't have any doubt about which proposal is the best and it is ours. And just because the whole set of issues that I constantly and permanently comment on the technology, the reliability, the commitment that we, ourselves have with the Brazilian Air Force. It is a very strong relationship because before we got an agreement with our strategic alliance of French Aerospace Group, we have pride, the order, participants and we know that they cannot transfer what we are doing.

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So I think that those are the strongest points under discussion. We are not talking about FX in fact because any of the aircraft would comply with the requirements of an FX. What we are talking about is the real sound industrial element and technological element of this deal. So and this we have an unbeatable proposal aircraft any one of the five, which will comply with the requirement. But industrial and technologically there is just one that can fit the best interest of the nation and of course the Air Force and this is why I am very enthusiastic about it and of course you will read lot of things. You read issues that we are going to be tied with any one that would eventually win this deal, which is not true because business is not like that it is just not have if we are a secondary contractor for that we will receive only what the main contractor wants to give us.

And we are not here to be to have just last of technologies some of the proposals involves tremendous risk for the government tremendous risk is all having in a very, very period short of time all the fleets grounded because of lack of support and we are not going to tie ourselves to a failure. So you will read lots of things but one thing I will tell you there is a strong feeling that our proposal is the best proposal and that's why I give so much enthusiasm. There are news in the press saying that there will be a decision this week that's just an another news because we have been also hearing this for several times in the past so may be perhaps some thing happening soon. The government has every element to make a decision. They know in depth everything about and everyone of the proposals and they are in conditions to make the decisions immediately if they want.

So let's look forward and they could be in about our proposals. In terms of the margins that you questioned, I just mentioned this; we are with a new program, which is demanding lot of our patience, in course to get in a smooth place to reach a smooth production circulation. Mean while, we see that the environment is not something that is friendly, environment is stuff. So we are getting involved in terms of support to customers that we did not practice before. So the gross margin I believe it to grow but I think that at a lower pace than in than in the past.

Q - Unidentified Speaker

OK, Mauricio Thanks for the enthusiastic answer.

A - Mauricio Botelho {BIO 13386065 <GO>}

Thank you, very much.

Q - Unidentified Speaker

Thank you.

A - Mauricio Botelho {BIO 13386065 <GO>}

(inaudible) to have good news.

Q - Unidentified Speaker

OK.

A - Mauricio Botelho {BIO 13386065 <GO>}

That we have soon.

Q - Unidentified Speaker

OK, good luck.

A - Mauricio Botelho {BIO 13386065 <GO>}

Bye

Q - Unidentified Speaker

Thanks Bye, Bye.

Operator

Our next question comes from Mr. Brett Johnson from (inaudible).

Q - Brett Johnson {BIO 16931010 <GO>}

Guys good morning, I think my question actually was answered previously, thank you.

Operator

(Operator Instructions)

Our next question comes from Paul Vitsoda (inaudible).

Q - Paul Vitsoda

Hey, I have a follow-up question on tax exposure, balance sheet exposure. If you could update us what instruments are using to protect your balance sheet against any tax variation. And if you could give us a guidance of your swap positions at this point? Thank you.

A - Anna Cecilia {BIO 17955675 <GO>}

Well, when we talked about our total debt, the 50% (inaudible) into consideration that swap that the total amount of swap that we have. So more or less 52% of our total indebtedness was related to U.S. dollars. OK, as you can notice that there was some decline from our Fourth Quarter 2001 results.

Q - Paul Vitsoda

So you are exposed to 52% of your total indebtedness?

A - Anna Cecilia {BIO 17955675 <GO>}

It is U.S. dollars.

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Q - Paul Vitsoda

OK, just after this what?

A - Anna Cecilia {BIO 17955675 <GO>}

Taking to consideration that's all.

Q - Paul Vitsoda

OK, Thanks.

Operator

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

A - Mauricio Botelho {BIO 13386065 <GO>}

I'd like to thank you all for your attention and your care in following us up and we will be at your disposal for any further questions that you may have.

Anna and the others will be very pleased in doing that.

On my side, I wish you a good day and let's move forward. Thank you.

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