

EMBRAER: WHAT ARE THE WAYS FOR GROWTH?

By Maurício Botelho, President and CEO

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Ladies and gentlemen

Something like more than 4 years ago I was presenting here, at an Aero Club lunch, my views on this very challenging business, which is the Aeronautical Industry.

At that time, we were still heavily impacted by the recent crisis consequent to the September 11 events.

We, at Embraer, while we shared all the concerns of the Industry, we had just rolled-out the EMBRAER 170, which had its maiden flight in February 2002.

What a challenge for us!

As four years have gone by, what has changed in our perceptions towards the business and what are the ways for growth?

First, it is important to say that the strengths of our basic strategies, which are the driving elements for building our successful business, were able to make us to cross the difficult years of 2002 and 2003, with a strong reduction in aircraft deliveries, maintaining our focus on the different programs being developed and assuring a profitable operation, in spite of all negative scenarios, both internally and externally.

Such driving elements are, in first place, with emphasis, focusing our operations to achieve customer satisfaction, which we consider to be the source for our results, followed by the use of the latest and most modern technologies and practices, looking for the best qualified people, to maintain a global presence, to build a strong cash position and to be flexible.

Our entrepreneurial actions have been developed based on this very solid ground and we have been able to add value to our customers and to our shareholders.

Regarding the Airline Market, some highlights should be of interest to position us in such market.

In only a few months, during the second half of 2006, Embraer will be delivering its 1,000th successful ERJ 145 regional jet, and this platform keeps being in production because of the Legacy 600 program and the ERJ 145 assembling in China.

The EMBRAER 170/190 family of aircraft has reached worldwide acceptance with the entry into service of the EMBRAER 170s, EMBRAER 175s and EMBRAER 190s for airlines in North, Central and South America, as well as in Europe, Far and Middle East and South Asia. The EMBRAER 195, with up to 118 seats, will receive Brazilian certification next June 30th. This June, just 24 months after delivery of the first E-Jet, Embraer will have reached the milestone of 160 units delivered, evidencing the wide acceptance of this program, with 13 operators in four continents, having accumulated approximately 230,000 flight hours.

In the U.S. market, network carriers continue to undergo a deep restructuring process, some through Chapter 11 protection and others through direct negotiations, aiming at significantly reducing costs and increasing operational efficiency. On the other hand, the scope clauses relaxation made it possible and, for sure, it will keep being fundamental for airlines to increase the number of higher capacity jet aircraft operated by affiliated regional airlines, allowing better balanced fleets and more adequate alignment of capacity and demand. And our product line has a significant role to play in this respect.

Aiming to better meet customers' increasing demand for support and maintenance services Embraer acquired and expanded MRO facilities in Nashville, Tennessee, in Alverca, Portugal, and at our new plant in Gavião Peixoto, Brasil.

Concerning the Executive Aviation Market, six years after launching of the Legacy Executive jet, we are gratified to see that this product, now incorporating several new features and renamed as Legacy 600, has found a very positive acceptance by the market, with consistent increases in both deliveries and sales. Today more than 70 Legacys fly worldwide.

In May 2005 Embraer announced the introduction of two new jets for the Very Light and Light categories, later designated as the Phenom 100 and Phenom 300. Again, superior comfort, exceptional performance, and low operating cost for their categories are key differentiators of these jets from others in the marketplace, which are responsible for the market excellent acceptance for these products.

We believe that Very Light jets will play an important role in the air transportation system, as they will allow greater flexibility for a small but important segment in our traveling market. These aircraft, which can take off and land on relatively short runways, will divert traffic from some of the most congested airports in the country.

In a parallel move, in May 2006, we have announced during the EBACE, in Geneva, the Lineage 1000, an ultra large executive jet based on the successful EMBRAER 190 platform. The response by the customers and the specialized media has been quite enthusiastic and very supportive.

The Executive Aviation market continues to show consistent signs of recovery and upturn, having reached delivery figures close to the records of the beginning of the decade. Per our estimates, in absolute figures, we see the market to sum up to the total of US\$ 145 billion and 9,700 aircraft to be delivered from 2006 to 2015.

Likewise, the global market dedicated to aeronautical services and maintenance for the executive aviation totaled US\$ 6 billion in 2005 and is expected to reach US\$ 9 billion by 2015. Embraer is committed to expand its existing structure and to implement a solid service network to assist its customers worldwide.

Embraer defined the strategic objective, announced in 2005, of becoming a major player in the Executive Aviation market in the next ten years. In this direction, new products will be announced in the coming years, gradually fulfilling the entire product range in this market.

Embraer has shown that its Defense and Government products and capabilities are strongly oriented to niche opportunities compatible with today's threats, which are related to terrorism, combat, drug enforcement and weapons smuggling. The Company's ISR (Intelligence, Surveillance and Reconnaissance) jets and the Super Tucano deserve highlighting for offering efficient operational solutions.

Today Embraer occupies a very firm position in the market with differentiated product portfolio, having penetrated in the ebullient Executive Aviation business and keeps an effective niche-oriented product line for the Defense and Government market. At the same time it is implementing a solid services organization.

We maintain our guidance regarding aircraft deliveries to be 145 A/C in 2006 and 150 A/C for 2007.

Economically, its firm order backlog stands at an over US\$ 10 billion level, at the same time that we keep a firm net cash position which surpasses the US\$ 350 million level.

Late 2005 and at the beginning of this year, Embraer received, from Moody's and Standard & Poor, the Investment Grade credit risk evaluation.

In March this year, Embraer implemented a shareholding restructuring, transforming all its shares in voting shares, eliminating any shareholders controlling group and dispersing shares ownership, turning it into the first major Brazilian corporation with totally dispersed.

This restructuring will allow free access to the international capital markets as well as made the use of our shares possible for acquisition purposes.

It is clear that with this new shareholding structure we have built a strong element to support our expansion and growth.

All Embraer's strategies are based on its business growth vision, as well as on the continuous practice and improvement of a set of beliefs, values, and attitudes that are the core of its Corporate Culture.

Our activities are based on rigorous corporate governance practices and compliance with legal regulations in the countries in which we operate. Embraer's relations with the employees, community, suppliers, customers, media representatives and shareholders are based on respect and transparent communication. Embraer's social responsibilities comprise measures to preserve the environment and the health and quality of life of its employees and their families, as well as the development of neighboring communities.

All these initiatives combine in the Company's permanent search for customer satisfaction, as the source of our continuous results.

Today, Embraer is a solid company with the ability, talent, and competence to overcome the challenges that may lie ahead. I truly believe that we have created the basis and the ways for growth on which we will build a successful future.

Thank you!