DANAHER CORP /DE/
Form SC 13G/A
February 04, 2019

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No: 2)

DANAHER CORPORATION

(Name of Issuer)

Common Stock

(Title of Class of Securities)

235851102

(CUSIP Number)

December 31, 2018

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 235851102

(1)Names of reporting persons. BlackRock, Inc.

(2) Check the appropriate box if a member of a group

(a) [ ]
(b) [X]

(3) SEC use only

(4) Citizenship or place of organization

Delaware

Number of shares beneficially owned by each reporting person with:

(5) Sole voting power

37317996

(6) Shared voting power

0

(7) Sole dispositive power

43634997

(8) Shared dispositive power

0

(9) Aggregate amount beneficially owned by each reporting person

43634997

(10) Check if the aggregate amount in Row (9) excludes certain shares

(11) Percent of class represented by amount in Row 9

6.2%

(12) Type of reporting person

HC

Item 1.

Item 1(a) Name of issuer:

DANAHER CORPORATION

Item 1(b) Address of issuer's principal executive offices:

2200 PENNSYLVANIA AVE. N.W., SUITE 800W
WASHINGTON DC 20037-1701

Item 2.

2(a) Name of person filing:

BlackRock, Inc.

2(b) Address or principal business office or, if none, residence:

BlackRock, Inc.
55 East 52nd Street
New York, NY 10055

2(c) Citizenship:

See Item 4 of Cover Page

2(d) Title of class of securities:

Common Stock

2(e) CUSIP No.:
See Cover Page

Item 3.

If this statement is filed pursuant to Rules 13d-1(b), or 13d-2(b) or (c), check whether the person filing is a:
[ ] Broker or dealer registered under Section 15 of the Act;
[ ] Bank as defined in Section 3(a)(6) of the Act;
[ ] Insurance company as defined in Section 3(a)(19) of the Act;
[ ] Investment company registered under Section 8 of the Investment Company Act of 1940;
[ ] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E);
[ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F);
[X] A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
[ ] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
[ ] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940;
[ ] A non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J);
[ ] Group, in accordance with Rule 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with Rule 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

Amount beneficially owned:

43634997

Percent of class

6.2%

Number of shares as to which such person has:

Sole power to vote or to direct the vote

37317996

Shared power to vote or to direct the vote

0

Sole power to dispose or to direct the disposition of

43634997

Shared power to dispose or to direct the disposition of

0

Item 5.

Ownership of 5 Percent or Less of a Class. If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following [ ].

Item 6. Ownership of More than 5 Percent on Behalf of Another Person

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than 5 percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

Various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the common stock of
DANAHER CORPORATION.
No one person's interest in the common stock of
DANAHER CORPORATION
is more than five percent of the total outstanding common shares.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

See Exhibit A

Item 8. Identification and Classification of Members of the Group

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(J), so indicate under Item 3(j) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c) or Rule 13d-1(d), attach an exhibit stating the identity of each member of the group.

Item 9. Notice of Dissolution of Group

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity.

See Item 5.

Item 10. Certifications
By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Signature.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: February 4, 2019
BlackRock, Inc.

Signature: Spencer Fleming

Name/Title Attorney-In-Fact

The original statement shall be signed by each person on whose behalf the statement is filed or his authorized representative. If the statement is signed on behalf of a person by his authorized representative other than an executive officer or general partner of the filing person, evidence of the representative's authority to

sign on behalf of such person shall be filed with the statement, provided, however, that a power of attorney for this purpose which is already on file with the Commission may be incorporated by reference. The name and any title of each person who signs the statement shall be typed or printed beneath his signature.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (see 18 U.S.C. 1001).

Exhibit A

Subsidiary

BlackRock Life Limited
BlackRock International Limited
BlackRock Advisors, LLC
BlackRock (Netherlands) B.V.
BlackRock Institutional Trust Company, National Association
BlackRock Asset Management Ireland Limited
BlackRock Financial Management, Inc.
BlackRock Japan Co., Ltd.
BlackRock Asset Management Schweiz AG
BlackRock Investment Management, LLC
BlackRock Investment Management (UK) Limited
BlackRock Asset Management Canada Limited
BlackRock (Luxembourg) S.A.
BlackRock Investment Management (Australia) Limited
BlackRock Advisors (UK) Limited
BlackRock Fund Advisors
BlackRock Asset Management North Asia Limited
BlackRock (Singapore) Limited
BlackRock Fund Managers Ltd

*Entity beneficially owns 5% or greater of the outstanding shares of the security class being reported on this Schedule 13G.

Exhibit B

POWER OF ATTORNEY

The undersigned, BLACKROCK, INC., a corporation duly organized under the laws of the State of Delaware, United States (the "Company"), does hereby make, constitute and appoint each of Christopher Meade, Daniel Waltcher, Una Neary, Richard Cundiff, Charles Park, Enda McMahon, Arlene Klein, Con Tzatzakis, Karen Clark, David Maryles, Daniel Ronnen, John Stelley, Daniel Riemer, Elizabeth Kogut, Maureen Gleeson, Daniel Kalish and Spencer Fleming acting severally, as its true and lawful attorneys-in-fact, for the purpose of, from time to time, executing in its name and on its behalf, whether the Company individually or as representative of others, any and all documents, is acting certificates, instruments, statements, other filings and amendments to the foregoing (collectively, "documents") determined by such person to be necessary or appropriate to comply with ownership or control-person

reporting requirements imposed by any United States or non-United States governmental or regulatory authority, Including without limitation Forms 3, 4, 5, 13D, 13F, 13G and 13H and any amendments to any of the Foregoing as may be required to be filed with the Securities and Exchange Commission, and delivering, furnishing or filing any such documents with the appropriate governmental, regulatory authority or other person, and giving and granting to each such attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. Any such determination by an attorney-in-fact named herein shall be conclusively evidenced by such person's execution, delivery, furnishing or filing of the applicable document.

This power of attorney shall expressly revoke the power of attorney dated 8th day of December, 2015 in respect of the subject matter hereof, shall be valid from the date hereof and shall remain in full force and effect until either revoked in writing by the Company, or, in respect of any attorney-in-fact named herein, until such person ceases to be an employee of the Company or one of its affiliates.

IN WITNESS WHEREOF, the undersigned has caused this power of attorney to be executed as of this 2nd day of January, 2019.

BLACKROCK, INC.

By:_ /s/ Daniel Waltcher
Name: Daniel Waltcher
Title: Deputy General Counsel

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INTRODUCTION

In this annual report, Embraer, we, us or our refer to Embraer-Empresa Brasileira de Aeronáutica S.A. and its consolidated subsidiaries (unless the context otherwise requires). All references herein to the *real*, *reais* or R$ are to the Brazilian *real*, the official currency of Brazil. All references to US$, dollars or U.S. dollars are to United States dollars.

Presentation of Financial and Other Data

Financial Data

Our audited financial statements at and for the years ended December 31, 2001, 2002 and 2003 are included in this annual report and have been audited by Deloitte Touche Tohmatsu.

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Because we export more than 90% of our production and operate in an industry that uses the U.S. dollar as its currency of reference, our management believes that the U.S. dollar is our functional currency and the most appropriate currency in which to present our financial statements. Accordingly, we decided to present our primary U.S. GAAP financial statements in U.S. dollars. As a result, amounts for all periods presented have been remeasured or translated into U.S. dollars in accordance with the methodology set forth in Statement of Financial Accounting Standards No. 52, or SFAS 52.

Prior to 2001, we presented our financial statements in accordance with accounting principles generally accepted in Brazil, or Brazilian GAAP, stated in Brazilian *reais* and adjusted for the effects of inflation. Previously, amounts of net income and shareholders equity under Brazilian GAAP were reconciled to those that would have been reported under U.S. GAAP. Our financial statements and financial data presented herein and prepared in accordance with U.S. GAAP do not reflect the effects of inflation.

Pursuant to SFAS 52 as it applies to us, non-monetary assets and liabilities, including inventories, property, plant and equipment, accumulated depreciation and shareholders equity, are remeasured at historical rates of exchange, while monetary assets and liabilities denominated in currencies other than U.S. dollars are remeasured at period-end rates. Export sales invoiced in currencies other than the U.S. dollar are remeasured at the respective exchange rate on the date of sale. Cost of sales and services, depreciation and other expenses relating to assets remeasured at historical exchange rates are calculated based on the U.S. dollar values of such assets, and other non-U.S. dollar statement of income accounts are remeasured at the rate prevailing on the date of the charge or credit to income.

In our 2001, 2002 and 2003 financial statements, gains or losses resulting from the remeasurement of the financial statements and from foreign currency transactions have been reported in the consolidated statement of income as single line items. See Note 2 to our consolidated financial statements.

Effective January 1, 2002, we decided to reclassify certain costs related to information technology, support, training and education as general and administrative expenses, instead of as cost of sales and services. All amounts for prior periods presented in this annual report have been restated to give effect to this reclassification. These reclassified costs equaled US$11.4 million in 1999, US$21.3 million in 2000, US$30.5 million in 2001 and US$32.2 million in 2002. Effective January 1, 2002, we also began netting research and development related contributions that we receive from certain of our suppliers against our research and development expense, instead of recording these contributions as other operating income. All amounts for prior periods presented in this annual report have been restated to give effect to this reclassification. These reclassified amounts equaled US$14.1 million in 2001 and US$1.0 million in 2002.

Subsequent to the issuance of our consolidated financial statements for the years ended December 31, 2001 and 2002, we determined that certain cash flows had been misclassified in the consolidated statements of cash flows for the years ended December 31, 2001 and 2002. Cash flows from operating activities, investing activities and

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financing activities have been restated to reflect the adjustments in our consolidated statements of cash flows. These changes did not impact the total amount of cash and cash equivalents reported in 2001 and 2002.

The principal misclassifications relate to (i) the effect of exchange rate changes on cash, which had been classified in cash flows from operating activities, and (ii) the payment of interest, which had been reflected in cash flows from financing activities. Other minor reclassifications have been made in order to better conform our presentation to typical cash flow item characteristics.

The effects on the consolidated statements of cash flows of all adjustments are detailed as follows:

	2001		2002	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(in millions of dollars)			
Net cash provided by (used in) operating activities	US$(263.2)	US$(207.4)	US$ 507.7	US$ 575.6
Net cash used in investing activities	(275.2)	(162.7)	(200.8)	(104.2)
Net cash provided by (used in) financing activities	98.4	134.4	(399.4)	(352.4)
Effect of exchange rate changes on cash		(204.2)		(211.5)

For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the Comissão de Valores Mobiliários, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with Law No. 6,404 of December 15, 1976, as amended, or the Brazilian Corporate Law. Our financial statements prepared in accordance with the Brazilian Corporate Law are not adjusted to account for the effects of inflation.

As a result of the remeasurement of amounts to the functional currency and other adjustments related to the differences in accounting principles between U.S. GAAP and Brazilian GAAP, the amounts of net income and shareholders equity as reported in our consolidated financial statements presented herein differ from those included in our statutory accounting records.

Other Data

Some of the financial data contained in this annual report reflects the effect of rounding. Aircraft ranges are indicated in nautical miles. One nautical mile is equal to approximately 1.15 ordinary or statute miles, or approximately 1.85 kilometers. Aircraft speeds are indicated in nautical miles per hour, or knots, or in Mach, which is a measure of the speed of sound. The term regional jets refers to narrow body jet aircraft with 30-60 passenger seats. The term mid-capacity jets refers to jet aircraft with 70-120 passenger seats. All of our regional and mid-capacity jet aircraft are sold in the commercial airline segment. As used in this annual report, the term commercial aircraft, as it applies to Embraer, refers to our regional jets and mid-capacity jets.

We calculate the value of our backlog by considering all firm orders that have not yet been delivered. A firm order is a firm commitment from a customer, represented by a signed contract, customarily accompanied by a down payment, where we have reserved a place on one of our production lines. Every time we refer to our backlog in this

annual report, we only make reference to firm orders, and not to options. When we refer in this annual report to the number or value of regional aircraft, we exclude one EMB 145 and two EMB 135s delivered to the Belgian government in 2001, one EMB 145 delivered to the Belgian government in 2002, one EMB 135 aircraft delivered to the Greek government in 2000, and one EMB 145 delivered to Satena Airline, a state-owned Colombian airline, in 2003. These aircraft have been included in our defense data.

Special Note Regarding Forward-Looking Statements

This annual report includes forward-looking statements, within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of

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1934, as amended, or the Exchange Act, principally in Items 3 through 5 and Item 11 of this annual report. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

general economic, political and business conditions, both in Brazil and in our markets;

changes in competitive conditions and in the general level of demand for our products;

management s expectations and estimates concerning our future financial performance, financing plans and programs, and the effects of competition;

continued successful development and marketing of the EMBRAER 170/190 jet family, our line of corporate jets and our defense aircraft;

our level of debt;

anticipated trends in our industry and our short- and long-term outlook for the 30-120 seat commercial aircraft market;

our expenditure plans;

inflation and fluctuations in exchange rates;

our ability to develop and deliver our products on a timely basis;

availability of sales financing for our existing and potential customers;

existing and future governmental regulation; and

other risk factors as set forth under Item 3D. Risk Factors.

The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are int identify forward-looking statements. We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The following table presents our selected financial and other data at and for each of the periods indicated. The selected financial data at December 31, 2002 and 2003 and for the three years ended December 31, 2003 are derived from our consolidated U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, included elsewhere in this annual report. The selected financial data presented for all other periods have been derived from our U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu.

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	At and for the year ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share /ADS data)				
Income Statement Data					
Net sales	US$ 1,837,277	US$ 2,762,162	US$ 2,926,995	US$ 2,525,800	US$ 2,143,460
Cost of sales and services	(1,248,675)	(1,879,318)	(1,769,234)	(1,531,720)	(1,335,032)
Gross profit	US$ 588,602	US$ 882,844	US$ 1,157,761	US$ 994,080	US$ 808,428
Operating expenses					
Selling expenses	US$ (119,234)	US$ (193,420)	US$ (212,057)	US$ (211,015)	US$ (206,246)
Research and development	(18,808)	(69,593)	(99,566)	(158,499)	(173,216)
General and administrative	(55,948)	(96,645)	(120,787)	(109,673)	(114,743)
Employee profit sharing	(20,437)	(41,770)	(43,746)	(25,222)	(20,399)
Other operating expense, net	(6,065)	(20,028)	(30,537)	(20,498)	(29,060)
Equity on income (loss) from affiliates	(142)	753	310	389	51
Total operating expenses	US$ (220,634)	US$ (420,703)	US$ (506,383)	US$ (524,518)	US$ (543,613)
Income from operations	*US$ 367,968*	*US$ 462,141*	*US$ 651,378*	*US$ 469,562*	*US$ 264,815*
Non-operating income (expense)					
Interest income (expense)	US$ 14,779	US$ (6,874)	US$ 47,502	US$ 80,456	US$ (140,755)
Foreign exchange loss, net	(65,226)	(24,637)	(148,637)	(135,647)	(16,500)
Other non-operating income (expense), net	(13,361)	5,955	(8,426)	(1,394)	711
Total non-operating income (expense)	US$ (63,808)	US$ (25,556)	US$ (109,561)	US$ (56,585)	US$ (156,544)
Income before income taxes	*US$ 304,160*	*US$ 436,585*	*US$ 541,817*	*US$ 412,977*	*US$ 108,271*
	(69,620)	(117,379)	(218,394)	(188,502)	27,990

Income tax benefit (expense)					
Income before minority interest	US$ 234,540	US$ 319,206	US$ 323,423	US$ 224,475	US$ 136,261
Minority interest		1,522	(423)	(1,883)	(217)
Income before cumulative effect of accounting change	US$ 234,540	US$ 320,728	US$ 323,000	US$ 222,592	US$ 136,044
Cumulative effect of accounting change, net of tax			5,440		
Net income	US$ 234,540	US$ 320,728	US$ 328,440	US$ 222,592	US$ 136,044
Earnings per share					
Common share basic (1) (3) (6)	US$ 0.43	US$ 0.55	US$ 0.48	US$ 0.30	US$ 0.18
Preferred share basic (1) (3) (6)	0.48	0.61	0.53	0.33	0.20
ADS basic (1) (3) (6)	1.90	2.43	2.11	1.32	0.79
Common share diluted (2) (3) (6)	0.38	0.48	0.46	0.30	0.18
Preferred share diluted (2) (3) (6)	0.42	0.53	0.50	0.33	0.20
ADS diluted (2) (3) (6)	1.66	2.10	2.01	1.31	0.78
Dividends per share					
Common share (3) (4) (5)	US$ 0.033589	US$ 0.220623	US$ 0.235248	US$ 0.173256	US$ 0.088174
Preferred share (3) (4) (5)	0.036812	0.242686	0.258763	0.190578	0.096991
ADS (3) (4) (5)	0.147248	0.970744	1.035052	0.762312	0.387964
Weighted averaged number of shares outstanding					
Common share basic (3)	242,544	242,544	242,544	242,544	242,544
Preferred share basic (3)	272,590	308,401	402,035	454,414	471,228
Common share diluted (3)	242,544	242,544	242,544	242,544	242,544
Preferred share diluted (3)	347,064	392,954	433,386	459,415	474,840
Balance Sheet Data					
Cash and cash equivalents	US$ 304,085	US$ 1,189,231	US$ 749,302	US$ 656,822	US$ 1,265,820
Other current assets	986,961	920,278	1,816,046	1,856,301	2,068,184
Property, plant and	162,429	254,965	366,481	436,715	402,663

equipment, net					
Other long-term assets	757,463	528,942	628,958	1,335,626	2,219,331
Total assets	US$ 2,210,938	US$ 2,893,416	US$ 3,560,787	US$ 4,285,464	US$ 5,955,998
Short-term loans	556,272	365,043	526,550	244,526	517,014
Other current liabilities	561,897	967,283	1,161,313	1,397,407	1,916,649
Long-term loans	80,597	90,969	245,186	308,110	526,728
Other long-term liabilities	647,271	677,013	599,212	1,237,015	1,813,771
Minority interest		7,748	8,170	8,226	12,611
Shareholders equity	364,901	785,360	1,020,356	1,090,180	1,169,225
Total liabilities and shareholders equity	US$ 2,210,938	US$ 2,893,416	US$ 3,560,787	US$ 4,285,464	US$ 5,955,998

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	At and for the year ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share /ADS data)				
Other Financial Data (7)					
Net cash provided by (used in) operating activities (restated)	US$158,614	US$1,103,674	US$(207,388)	US$ 575,653	US$239,634
Net cash used in investing activities (restated)	(54,621)	(90,996)	(162,760)	(104,216)	(72,667)
Net cash provided by (used in) financing activities (restated)	(2,930)	(85,250)	134,379	(352,435)	403,791
Depreciation and amortization	25,076	30,596	46,417	55,602	58,877

(1) Based on weighted average number of shares outstanding. See Note 24 to our consolidated financial statements.

(2) Based on weighted average number of shares outstanding and the effects of potentially dilutive securities. See Note 24 to our consolidated financial statements.

(3) Restated to give effect to the reverse stock split, on April 30, 1999, of one newly issued common or preferred share for 100 outstanding preferred shares or 100 outstanding common shares, respectively. Also restated to give effect to the issuance on March 1, 2002, in the form of a preferred share dividend, of 0.142106 new preferred share for each existing preferred or common share.

(4) Includes interest on shareholders equity.

(5) Translated from nominal *reais* into U.S. dollars at the commercial selling rates in effect on the dates that distributions were approved during the period. The dividends to the ADSs were adjusted from the total amount paid to the preferred shares multiplied by four.

(6) In 2001, we adopted SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended. As a result, we recognized a gain of US$5.4 million, net of related taxes, as a cumulative effect of a change in accounting. The following summarizes the earnings per share impact related to the adoption of SFAS No. 133.

	2001
Effect of tax adjustments	
Effect of cumulative effect of change in accounting	5,440
Total	5,440

Basic earnings per common share	0.01
Basic earnings per preferred share	0.01
Basic earnings per ADS	0.04
Diluted earnings per common share	0.01
Diluted earnings per preferred share.	0.01
Diluted earnings per ADS	0.04

(7) For a discussion of the restatement of our consolidated cash flows for the years 2001 and 2002, see Introduction Presentation of Financial and Other Data Financial Data. Cash flows for the years 1999 and 2000 have been restated for comparison purposes only.

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	At and for the year ended December 31,				
	1999	2000	2001	2002	2003
Other Data:					
Aircraft delivered during period:					
To the Commercial Airline Market					
EMB 120 Brasília	7		2		
ERJ 145	80	112	104	82	57
ERJ 135	16	45	27	3	14
ERJ 140			22	36	16
To the Defense Market					
EMB 120 Brasília Legacy				1	
EMB 135		1	2		
EMB 145			1	1	1
EMB 145 AEW&C/RS/MP				5	3
EMB 312 Tucano AM-X	3	1			
To the Corporate Market(1)					
Legacy				8	11
EMB 135		2	5		2
To the General Aviation Market					
Light Aircraft	17	17	11	25	46
Total delivered	123	178	174	161	150
Aircraft in backlog at the end of period:					
In the Commercial Airline Market(2)					
EMB 120 Brasília		2			
ERJ 145	176	261	159	109	144
ERJ 135	124	85	53	31	17
ERJ 140		133	152	116	20
EMBRAER 170	40	90	82	88	120
EMBRAER 190					110
EMBRAER 195	30	30	30	30	15
In the Defense Market					
EMB 145 AEW&C/RS/MP	12	12	15	10	7
EMB 312 Tucano/EMB 314 Super Tucano			86	86	76
AM-X	1				
EMB 145		2	1		1
EMB 135	1	2	1		

Legacy					5
In the Corporate Market					
Legacy/EMB 135		29	66	58	27
In the General Aviation Market					
Light aircraft	2				11
Total backlog (in aircraft)	386	646	645	528	542
Total backlog (in millions)	US$6,365	US$11,421	US$10,693	US$9,034	US$10,591

(1) Of the 13 total deliveries to the Corporate Market in 2003, two were delivered under operating leases.

(2) Since December 31, 2003, we received 22 additional firm orders for our ERJ 145 regional jet family and 28 additional firm orders for our EMBRAER 170/190 jet family.

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Exchange Rates

There are two foreign exchange markets in Brazil that are subject to regulation by the Brazilian Central Bank, or the Central Bank, both of which operate at free-floating rates:

- the free rate foreign exchange market, also known as the commercial market, and
- the floating rate foreign exchange market.

In 1999, the Central Bank unified the operational limits applicable to both markets. However, each market continues to have a specific regulation. Most trade and financial foreign exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends with respect to preferred shares or ADSs, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the *real* against the U.S. dollar pursuant to an exchange rate policy that established a band within which the *real*/U.S. dollar exchange rate could fluctuate.

Responding to pressure on the *real*, on January 13, 1999, the Central Bank widened the foreign exchange band. Because the pressure did not ease, on January 15, 1999, the Central Bank allowed the *real* to float freely. Since that date, the *real* reached a low of R$1.4659 per US$1.00 on January 15, 1999 and a high of R$3.9552 per US$1.00 on October 22, 2002. In 2002, the *real* depreciated 52.3% against the U.S. dollar. In 2003, the *real* appreciated by 18.2% against the U.S. dollar. At June 24, 2004, the commercial market rate for purchasing U.S. dollars was R$3.1030 to US$1.00. We cannot assure you that the *real* will not appreciate or devalue substantially in the near future.

The following table shows the commercial selling rate for U.S. dollars for the periods and dates indicated.

	Exchange Rate of Reais to US$1.00			
	Low	**High**	**Average (1)**	**Period-end**
Year ended December 31,				
1999	1.2078	2.1647	1.8158	1.7890
2000	1.7234	1.9847	1.8295	1.9554
2001	1.9357	2.8500	2.3532	2.3204
2002	2.2709	3.9552	2.9309	3.5333
2003	2.8219	3.6623	3.0715	2.8892

	Exchange Rate of Reais to US$1.00	
	Low	**High**
Month ended		
December 31, 2003	2.8883	2.9434
January 31, 2004	2.8022	2.9409
February 29, 2004	2.9042	2.9878

March 31, 2004	2.8752	2.9410
April 30, 2004	2.8743	2.9522
May 31, 2004	2.9569	3.1291
June 30, 2004 (through June 24)	3.1030	3.1651

Source: Central Bank.

(1) Represents the daily average exchange rate during each of the relevant periods.

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We will pay any cash dividends and make any other cash distributions with respect to the preferred shares in Brazilian currency. Accordingly, exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of ADSs on conversion by the depositary of such distributions into U.S. dollars for payment to holders of ADSs. Fluctuations in the exchange rate between the *real* and the U.S. dollar may also affect the U.S. dollar equivalent of the *real* price of the preferred shares on the São Paulo Stock Exchange.

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

Risks Relating to Embraer

A downturn in the commercial airline market may reduce our sales and revenue, and consequently our profitability, in any given year.

We expect that a substantial portion of our sales in the near future will be derived from sales of commercial aircraft, particularly the ERJ 145 regional jet family and the EMBRAER 170/190 jet family. Historically, the market for commercial aircraft has been cyclical due to a variety of factors that are both external and internal to the air travel industry, including general economic conditions.

The commercial aviation industry has been negatively impacted by a number of factors beginning in 2001. First, the U.S. and world economies experienced an economic downturn that began in 2001 and was characterized by rapid declines in securities markets, a decline in productivity and an increase in unemployment. Second, the terrorist attacks of September 11, 2001 caused an immediate decline in airline travel and a high level of financial uncertainty among the worldwide airline industry. In addition, airline travel decreased significantly in 2003 as a result of both the commencement of military action by the United States and other countries in Iraq and the concerns over outbreaks of severe acute respiratory syndrome (SARS) in Asia and Canada. In response to these events, beginning in the fourth quarter of 2001 many airlines, including our largest customers, reduced their flight schedules for the long-term and announced significant lay-offs. As a result, we agreed to modify certain delivery schedules to adjust to the changes in our customers businesses and reduced scheduled commercial airline, corporate and government transportation aircraft deliveries. In 2002, we reduced our delivery schedule to 131 aircraft as compared to planned 2002 deliveries of 205 at August 31, 2001. We also reduced our 2003 scheduled deliveries from 148 aircraft originally planned to 101 actual deliveries. We have also re-evaluated our risk exposure related to aircraft valuations and customer credit risk, which resulted in charges to income. Although the U.S. and world economies appear to be recovering in 2004, many airlines continue to face weak demand, escalating insurance costs, increased security costs, credit downgrades, liquidity concerns and bankruptcy, and, more recently, sharply higher fuel costs. A further downturn in general economic conditions could result in further reduction in the passenger aircraft market and decreased orders for our commercial aircraft.

We cannot, at this time, predict the magnitude or duration of the impact that the above events will have on the airline industry as a whole and on our business in particular. If one of our customers experiences a business downturn, cannot obtain financing or otherwise seeks to limit its capital expenditures, that customer could defer or cancel its purchase of our commercial aircraft or change its operating requirements. Because our commercial aircraft represent

the majority of our net sales, sales of our other products would not be able to offset a reduction in sales of our commercial aircraft. Future delays or decreases in the number of commercial aircraft delivered in any year would likely reduce our sales and revenue, and consequently our profitability, for that year.

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We depend on a small number of key customers and key suppliers, the loss of any of which could harm our business.

Civil aircraft. As of March 31, 2004, 58.2% of our firm orders in backlog for the ERJ 145 regional jet family were attributable to ExpressJet and American Eagle. In addition, at the same date, 72.4% of our firm orders in backlog for the EMBRAER 170/190 jet family were attributable to US Airways, which is currently facing financial difficulty, and JetBlue Airways and 63.0% of our firm orders in backlog for the Legacy were from Swift Aviation Services. We believe that we will continue to depend on a limited number of large customers, the loss of any one of which could reduce our sales and reduce our market share. Fewer sales could reduce our profitability.

Increasingly, the commercial airline industry is experiencing consolidation and alliances through mergers and acquisitions and code-sharing arrangements. Although it is expected that such consolidations and alliances may result in the creation of more stable and competitive airlines, they may also have the effect of reducing the number of our customers and, possibly, the number of purchases of our aircraft through cost reduction programs or otherwise.

Defense aircraft. The Brazilian Air Force is our largest customer of defense aircraft products. Sales to the Brazilian government accounted for 39.3% of our defense sales for the year ended December 31, 2003. A decrease in defense spending by the Brazilian government due to defense spending cuts, general budgetary constraints or other factors that are out of our control could decrease our defense sales and defense research and development funding. Given past statements by the Brazilian government of its intent to reduce its overall level of spending, we cannot assure you that the Brazilian government will continue to purchase aircraft or services from us in the future at the same rate or at all.

Key suppliers. Our risk-sharing partners develop and manufacture significant portions of our aircraft, including the engines, hydraulic components, avionics, wings, interior and parts of the fuselage and tail. Once risk-sharing partners have been selected and program development and aircraft production have begun, it is difficult to substitute these partners. In some cases, the aircraft are designed specifically to accommodate a particular component, such as the engines, which cannot be substituted by another manufacturer without significant delays and expense. This dependence makes us susceptible to the risks of performance, product quality and financial condition of these risk-sharing partners.

We cannot assure you that we will not experience significant delays in obtaining key equipment in our manufacturing process in the future. Although we work closely with and monitor the production process of our risk-sharing partners and suppliers, the failure of our risk-sharing partners and other major suppliers to meet our performance specifications, quality standards or delivery schedules could affect our ability to deliver new aircraft to customers in a timely manner.

Our aircraft sales are subject to cancellation provisions, repurchase, trade-in and trade-up options and financial and residual value guarantees that may reduce our cash flow or require us to make significant cash disbursements in the future.

A portion of our aircraft firm orders is subject to significant contingencies, both before and after delivery. Prior to delivery, some of our purchase contracts may be terminated, or all or a portion of a particular firm order may be canceled, for different reasons, including:

extended delays in delivering aircraft or failure to obtain certification of the aircraft or otherwise meet performance milestones and other requirements;

failure of a customer to receive financing, when required, with respect to any aircraft at the scheduled delivery date, in which case the customer can cancel the order for the particular aircraft to be delivered or terminate the

contract with respect to all undelivered aircraft; or

production rate shortfalls.

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Our customers may also reschedule deliveries, particularly during an economic downturn. A substantial number of cancellations or extensions of delivery schedules could reduce our sales and revenue for a given year, which in turn would reduce our cash flow.

We may have to repurchase a number of our aircraft. Under the relevant purchase contracts, the price per aircraft of any required repurchase is less than the original purchase price of the aircraft and less than our estimate at that time of the market value of the relevant aircraft type in future years (based on third party appraisals of aircraft valuations). If we are required to repurchase all of the relevant aircraft under our repurchase obligation, which covers the period from 2004 to 2006, we could be required to pay up to approximately US$500 million for these aircraft.

In connection with the signing of a purchase contract for new aircraft, we may provide trade in and or trade up options to our customers. These options provide a customer with the right to trade in or trade up existing aircraft upon the purchase of a new aircraft. At December 31, 2003, six commercial aircraft were subject to trade-in options, and additional aircraft may become subject to trade-in options upon delivery. The trade-in price is determined in the manner discussed above for commercial jets. In addition, one corporate jet customer has trade-up options relating to 11 aircraft, which provide that if and when we launch a new corporate jet model, this customer has the right to trade up to the new model. The trade-up price is determined as a percentage of the original purchase price of our corporate jets. We may be required to accept trade-ins or trade-ups at prices that are above the then-market price of the aircraft, which would result in financial loss for us when we resell the aircraft.

We have guaranteed the financial performance of a portion of the financing for, and the residual value of, some of our aircraft that have already been delivered. Financial guarantees are provided to financing parties to support a portion of the payment obligations of purchasers of our aircraft under their financing arrangements to mitigate default-related losses. These guarantees are collateralized by the financed aircraft.

Our residual value guarantees typically ensure that in the 15th year after delivery, the relevant aircraft will have a residual market value of 10% to 27% of the original sale price. In the event of a decrease in the market value of the underlying aircraft and an exercise by the purchaser of the residual value guarantee, we will bear the difference between the guaranteed residual value and the market value of the aircraft at the time of exercise.

Assuming all customers supported by off-balance sheet financial guarantees defaulted on their aircraft financing arrangements, and also assuming we were required to pay the full aggregate amount of outstanding residual value guarantees and we were not able to remarket any of the aircraft to offset our obligations, our maximum exposure under these guarantees (less provisions and liabilities) would have been US$1.4 billion as of December 31, 2003. For further discussion of these off-balance sheet arrangements, see Note 34 of our consolidated financial statements. We have deposited US$192.7 million in escrow accounts to secure a portion of our financial guarantees. Based on current estimates, we believe that the proceeds from the sale or lease of the covered aircraft (based on resale value as of December 31, 2003) and from other offsetting collections, such as cash deposits, would exceed our exposure by US$253.1 million. Although we believe that the estimated value of the covered aircraft, on an aggregate basis, is currently sufficient to cover our exposure, we may be obligated to make substantial payments that are not recoverable through proceeds from aircraft sales or leases, particularly if the future value of the relevant aircraft is significantly lower than the guaranteed amount or financing defaults occur with respect to a significant portion of our aircraft. The value of the underlying aircraft is more likely to decrease and third parties are more likely to default during economic downturns.

We recorded a charge against income in an amount of US$40.6 million in 2003, based on our risk assessment, on an individual aircraft basis, for the issued guarantees. We continually re-evaluate our risk for the guarantees and repurchase and trade-in and trade-up obligations based on a number of factors, including the estimated future market value of our aircraft based on third party appraisals, including information developed from similar aircraft remarket in the secondary market, and the credit rating for the customers. Any future decrease in the market value of the aircraft

covered by repurchase obligations, trade-in or trade-up rights or guarantees would decrease our ability to recoup the amounts payable to satisfy our obligations and cause us to incur additional charges to income. If we are required to pay amounts related to such guarantees or repurchase obligations, we may not have sufficient cash or other financial resources available to do so and may need to seek financing to fund these payments. We cannot assure you that then-prevailing market conditions would allow us to resell or lease the

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underlying aircraft at its anticipated fair value or in a timely manner. Consequently, honoring our repurchase, trade-in, trade-up or guarantee obligations could require us to make significant cash disbursements in a given year, which, in turn, would reduce our cash flow in that year.

Any decrease in Brazilian government-sponsored customer financing, or increase in government-sponsored financing that benefits our competitors, may decrease the cost-competitiveness of our aircraft.

Historically, when purchasing our aircraft, our customers have benefited from export financing incentives provided by Brazilian government-sponsored export programs. The most important of these government programs is a system of interest rate adjustments called the Programa de Financiamento às Exportações, or Export Financing Program, known as the ProEx program.

In July 1998, the Canadian government initiated a proceeding at the World Trade Organization, or WTO, accusing the Brazilian government of granting prohibited export subsidies relating to sales of aircraft to foreign purchasers under the ProEx program. The Brazilian government countered, accusing the Canadian government of granting prohibited export subsidies to the Canadian aircraft industry. On April 14, 1999, the WTO declared the portions of the ProEx program relating to Brazilian aircraft financing, and some aspects of the Canadian aircraft financing programs, to be prohibited export subsidies. Following appeals, the WTO formally decided on August 20, 1999 to give Brazil until November 18, 1999 to withdraw the prohibited export subsidies or make any necessary adjustments to bring the program into compliance with WTO rules. On April 28, 2000, the WTO concluded that Brazil had failed to comply with the earlier ruling to remove prohibited subsidies by November 18, 1999. In particular, the WTO concluded that the issuance of ProEx benefits after November 18, 1999 pursuant to letters of commitment issued by the Brazilian government to our customers prior to November 18, 1999 were prohibited export subsidies. The WTO also concluded that the amended version of the ProEx program, adopted in response to the WTO s August 1999 ruling, still decreased effective interest rates for regional aircraft to below commercial market levels and thus continued to provide a prohibited export subsidy. In July 2000, the WTO confirmed this decision after an appeal by the Brazilian government. The Brazilian government publicly announced that it would honor its contractual commitments to our customers. As a result of Brazil s continuing to provide ProEx benefits under its contractual commitments, the WTO dispute settlement body granted Canada the authority to impose up to US$1.4 billion in trade sanctions over five to six years against Brazil. Canada has not yet imposed sanctions. We cannot predict what form, if any, these sanctions will take and whether such sanctions will adversely affect our business. The Brazilian government subsequently amended the ProEx program so that any ProEx payments would not decrease the effective interest rate below the interest rate permitted by the WTO. On August 23, 2001, the dispute settlement body of the WTO determined the revised ProEx program was in full compliance with WTO rules.

Although this ruling confirms ProEx s compliance with WTO rules, other export financing programs available to our customers may be subject to challenge in the future. If the ProEx program or another similar program is not available in the future, or if its terms are substantially reduced, our customers financing costs could be higher and our cost-competitiveness in the regional jet market could decrease.

In 2001, the Canadian government agreed to provide up to US$1.1 billion of low-interest financing to Air Wisconsin, an affiliate of United Airlines, to fund its purchase of Bombardier regional jets. The Brazilian government challenged these subsidies and, in January 2002, a WTO panel declared that such subsidies were illegal and required Canada to withdraw the funds. The panel also found that, since 1996, two airlines in addition to Air Wisconsin had been recipients of illegal subsidies. As a result, the dispute settlement body of the WTO authorized Brazil to apply retaliatory measures against Canada in the amount of US$248 million. Officials of the Canadian government have indicated that they intend to continue providing support to Bombardier. Any future subsidies supporting Bombardier or any of our other major competitors may cause the cost-competitiveness of our aircraft to suffer and our sales to decline.

The Brazilian and Canadian governments have entered into negotiations regarding government support for aircraft exports. We cannot assure you that any agreement will be reached.

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Brazilian government budgetary constraints could reduce amounts available to our customers under government-sponsored financing programs.

In addition to the ProEx program, we rely on the BNDES-*exim* program, also a government-sponsored financing program, to assist customers with financing. This program provides our customers with direct financing for Brazilian exports of goods and services. From 1996 through 2003, approximately 48% of the total value of our export sales was subject to financing by the BNDES-*exim* program. As government-sponsored programs, the ProEx program and the BNDES-*exim* program rely on funds allocated from the Brazilian national budget. Therefore, the funds available to our customers under these programs will be affected by currency fluctuations and other political and economic developments in Brazil and the international capital markets. See Risks Relating to Brazil. For example, a recent decrease in the amounts available under the ProEx program caused us to make other financing arrangements for affected customers. In addition, from time to time, government-sponsored financing programs such as BNDES-*exim* can be subject to challenge. We cannot assure you that the Brazilian government will continue to sponsor and/or fund these programs or that funds under these or other similar programs will be available to our customers. The loss or significant reduction of funds available under one or either of these programs, without an adequate substitute, could lead to fewer sales and has caused and may continue to cause us to compensate our customers for their additional financing costs, resulting in lower profitability for Embraer.

We may face a number of challenges resulting from the development of new products and the possible pursuit of strategic growth opportunities.

As we continue to develop the EMBRAER 170/190 jet family, we will have to continue reallocating existing resources and coordinating with new suppliers and risk-sharing partners. From time to time, there is significant competition within the aviation industry for skilled personnel in general and engineers in particular. To the extent such competition reoccurs, we may be unable to recruit the necessary number of highly skilled engineers and other personnel we require. Failure to coordinate our resources in a timely manner or to attract and retain skilled personnel could impede our development efforts and cause delays in production and deliveries of our aircraft, which would delay recognition of revenue.

We may pursue strategic growth opportunities, including joint ventures, acquisitions or other transactions, to expand our business or enhance our products and technology. We may face a number of challenges, including difficulties in identifying appropriate candidates, assimilating their operations and personnel and maintaining internal standards and controls, as well as the diversion of our management s focus from our ongoing business. We cannot assure you that we will be able to meet these challenges or that our business will not face disruptions.

We may have to refund cash contributions after the development of the EMBRAER 170/190 jet family if certification for each of these aircraft is not obtained.

Our risk-sharing partners have contributed to us a total of US$244.3 million for the development of the EMBRAER 170/190 jet family as of December 31, 2003. Cash contributions become non-refundable upon the achievement of certain developmental milestones. As of December 31, 2003, US$14.2 million of these cash contributions had become non-refundable, and with the conclusion of the certification of the EMBRAER 170 in February 2004 by the Brazilian, U.S. and European authorities, an additional US$88.7 million of these cash contributions became non-refundable. If we cancel the development and production of any of the remaining aircraft in the EMBRAER 170/190 jet family because we are unable to obtain certification or for other non-market related reasons, we may be obligated to refund US$141.4 million of these cash contributions. If we require additional financing and we are unable to obtain it, we will not be able to continue to develop and market the remaining aircraft in our EMBRAER 170/190 jet family.

We face significant international competition, which may adversely affect our market share.

The worldwide commercial aircraft manufacturing industry is highly competitive. We are one of the leading manufacturers of commercial aircraft in the world, along with The Boeing Company, Airbus Industrie and Bombardier Inc., all of which are large international companies. These and other of our competitors have greater financial, marketing and other resources than we do. Although we have achieved a significant share of the market for our commercial aircraft products, we cannot assure you that we will be able to maintain this market share. Our

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ability to maintain market share and remain competitive in the commercial aircraft market over the long term requires continued technological and performance enhancements to our products. Our primary competitor in the regional and mid-capacity jet markets is Bombardier Inc., a Canadian company, which has significant technological capabilities, financial and marketing resources and benefits from government-sponsored export subsidies. In addition, other international aircraft manufacturers, including The Boeing Company and Airbus Industrie, produce or are developing aircraft at the high end of the 70-120 seat segment, in which our EMBRAER 170/190 jet family will compete, thereby increasing the competitive pressures in that segment. These companies also have significant technological capabilities and greater financial and marketing resources.

Some of our competitors may also reach the market before we do, allowing them to establish a customer base and making our efforts to gain greater market share more difficult. For example, in 2001, Bombardier commenced delivery of its 70-seat regional jet, prior to the initial deliveries of the EMBRAER 170. As a relatively new entrant to the corporate jet market, we also face significant competition from companies with longer operating histories and established reputations in this industry. We cannot assure you that we will be able to compete successfully in our markets in the future.

We may have to make significant payments as a result of unfavorable outcomes of pending challenges to various taxes and social charges.

We have challenged the constitutionality of the nature of and modifications in rates and the increase in the calculation base of certain Brazilian taxes and social charges. Interest on the total amount of these unpaid taxes and social charges accrues monthly based on the Selic rate, the key lending rate of the Central Bank, and we make an accrual as part of the interest income (expense) item of our statements of income. As of December 31, 2003, we had obtained preliminary injunctions for not paying or recovering past payments in the total amount, including interest, of US$302.6 million, which is included as a liability on our balance sheet. We cannot assure you that we will prevail in these proceedings or that we will not have to pay significant amounts, including interest, to the Brazilian government in the future as payment for these liabilities. For an additional discussion of these liabilities, see Note 16 to our consolidated financial statements.

Risks Relating to the Commercial Aircraft Industry

Scope clause restrictions in airline pilot contracts may limit demand for regional and mid-capacity jets in the U.S. market.

A key limiting factor in demand for regional and mid-capacity jets is the existence of scope clauses contained in airline pilot contracts. These scope clauses are union-negotiated restrictions on the number and/or size of regional and mid-capacity jets that a particular carrier may operate. Current scope clause restrictions, which are more prevalent in the United States, include restrictions on the number of seats, weight of aircraft and number of 50-70 seat commercial aircraft in an airline s fleet. As a result, our opportunities for near-term growth in the U.S. regional jet market in the 40-59 and 60-80 seat segments are limited. The continuation or further tightening of scope clauses could also lead some of our customers who have purchased options to acquire our regional and mid-capacity jets not to exercise those options. We cannot assure you that current restrictions will be lessened, or will not be expanded, including by amending these scope clauses to cover larger-sized commercial aircraft. Furthermore, although scope clauses are less prevalent outside the United States, we cannot assure you that scope clauses will not become more prevalent or restrictive, or that some other form of restriction will not take effect, in Europe or in other markets.

We are subject to stringent certification requirements and regulation, which may prevent or delay our obtaining certification in a timely manner.

Our products are subject to regulation in Brazil and in each jurisdiction where our customers are located. The aviation authorities in Brazil and in other countries in which our customers are located, including the Brazilian aviation authority, the U.S Federal Aviation Authority, or FAA, the Joint Aviation Authority of Europe, or JAA, and the European Aviation Safety Agency, or EASA, must certify our aircraft before we can deliver them. We cannot assure you that we will be able to obtain certification of our aircraft on a timely basis or at all. If we fail to obtain a required certification from an aviation authority for any of our aircraft, that aviation authority would prohibit the use

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of that aircraft within its jurisdiction until certification has been obtained. In addition, complying with the requirements of the certification authorities can be both expensive and time-consuming.

Changes in government regulations and certification procedures could also delay our start of production as well as entry into the market. We cannot predict how future laws or changes in the interpretation, administration or enforcement of laws will affect us. We may be required to spend significantly more money to comply with these laws or to respond to these changes.

Any catastrophic events involving our aircraft could adversely affect our reputation and future sales of our aircraft, as well as the market price of the preferred shares and the ADSs.

We believe that our reputation and the safety record of our aircraft are important selling points for our aircraft. We design our aircraft with backup systems for major functions and appropriate safety margins for structural components. However, the safe operation of our aircraft depends to a significant degree on a number of factors largely outside our control, including our customers proper maintenance and repair of our aircraft and pilot skill. Due to our relative position in the aircraft market and because we have focused on products in the regional and mid-capacity jet segments, the occurrence of one or more catastrophic events involving one of our aircraft could adversely affect our entire commercial jet family as well as our reputation and future sales.

Risks Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of our preferred shares and the ADSs.

The Brazilian economy has been characterized by frequent, and occasionally drastic, intervention by the Brazilian government and by volatile economic cycles. The Brazilian government s actions to control inflation and affect other policies have involved price controls, currency devaluations, capital controls and limits on imports, among other things. Our business, financial condition, results of operations and the market price of the preferred shares and the ADSs may be adversely affected by changes in policy involving tariffs, exchange controls and other matters, as well as other factors outside of our control such as:

fluctuations in exchange rates;

base interest rate fluctuations;

inflation and price instability;

liquidity of domestic capital and lending markets;

tax policy;

structural and investment deficiencies in the energy sector; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Rapid changes in Brazilian political and economic conditions that have already occurred and that might continue will require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy. Future developments in Brazilian government policies, including changes in the current policy and incentives adopted for financing the export of Brazilian goods, or in the Brazilian economy, over which we have no control, may materially adversely affect our business, financial condition and results of operations.

Our business could be significantly affected by political instability in Brazil. In the elections in October 2002, Brazilian voters elected a new president from the Workers Party, Luís Inácio Lula da Silva. In the period leading up to and following his election, there was substantial uncertainty relating to the policies that the new

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government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in a loss of confidence in the Brazilian capital markets and a 52.3% devaluation of the *real* in 2002. Although the new government has not yet departed in any material way from previous policies, we cannot predict whether the government will continue its current policies or will pursue different policies, or whether such new policies, if implemented, will be effective. Uncertainty over whether current policies will be continued or whether the Brazilian government will adopt different policies in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad that are supported by Brazilian issuers.

These and other future uncertainties regarding the Brazilian economy and government could adversely affect our business, operations and the market price of our preferred shares and ADSs.

Inflation and certain governmental measures to combat inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of the preferred shares and the ADSs.

Brazil has experienced extremely high rates of inflation in the past. More recently, Brazil s annual rate of inflation was 20.1% in 1999, 9.9% in 2000, 10.4% in 2001, 25.3% in 2002 and 8.7% in 2003 (as measured by *Índice Geral de Preços Mercado* or the IGP-M). Inflation, and certain governmental measures to combat inflation, as well as public speculation about possible future measures, have in the past had significant negative effects on the Brazilian economy, contributing to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Since the *real* s introduction in July 1994 under the *Real* Plan, Brazil s inflation rate has been substantially lower than in previous periods. If Brazil experiences substantial inflation again in the future, our operating expenses and borrowing costs may increase, our operating and net margins may decrease and, if investor confidence decreases, the price of the preferred shares and ADSs may fall.

Exchange rate instability may result in uncertainty in the Brazilian economy and the Brazilian securities markets and could lower the market value of the preferred shares and the ADSs.

Although most of our net sales and debt are U.S. dollar-denominated, the relationship of the *real* to the value of the U.S. dollar, and the rate of depreciation of the *real* relative to the prevailing rate of inflation, may adversely affect us.

As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 9.3% in 2000 and 18.7% in 2001. During 2002, the *real* depreciated 52.3%, due in part to continued economic and political uncertainties in emerging markets and the global economic slowdown. From January through December 31, 2003, the *real* appreciated 18.2% against the U.S. dollar. During the first five months of 2004, the *real* depreciated 8.3% against the U.S. dollar. We cannot predict the extent to which the *real* will depreciate or appreciate against the U.S. dollar.

Depreciations create additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of

the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations of the *real* relative to the U.S. dollar would also reduce the U.S. dollar value of distributions and dividends on the

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ADSs and may also reduce the market value of the preferred shares and the ADSs. The potential impact of the floating exchange rate and of measures of the Brazilian government aimed at stabilizing the *real* is uncertain.

Developments in other countries, particularly other emerging market countries, may adversely affect the Brazilian economy, may make it more difficult or expensive for us to obtain additional debt financing and, therefore, may affect the market price of the preferred shares and the ADSs.

Securities of Brazilian issuers have been, to varying degrees, influenced by economic and market conditions in other countries, particularly emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in another country, including Brazil, to destabilize. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and have resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

For example, since the fourth quarter of 1997, the international financial markets have experienced significant volatility, and a large number of market indices, including those in Brazil, have declined significantly. The recent political crisis in Venezuela and recession in Argentina, the terrorist attacks in 2001, the war in Iraq, and the related deterioration of worldwide market conditions, as well as the Russian economic crisis in 1998 and the Asian economic crisis in 1997, triggered market volatility in the securities markets of Brazil and other emerging market countries. See Item 5A. Operating Results Brazilian Economic Environment. As a result, investors have viewed investments in emerging markets with heightened caution. These events have also discouraged investment worldwide, including international investment in Brazil, and, more directly, have caused a decline in the market for our preferred shares and ADSs.

Further negative developments in the international financial markets, especially in other emerging markets, may adversely affect our financial condition and our ability to obtain debt financing on acceptable terms or at all.

Risks Relating to the Preferred Shares and the ADSs

Exchange controls and restrictions on remittances abroad may adversely affect the holders of our ADSs.

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil. The Brazilian government imposed remittance restrictions for a number of months in 1989 and early 1990. These restrictions would hinder or prevent the conversion of dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, from *reais* into U.S. dollars and the remittance of the U.S. dollars abroad. We cannot assure you that the Brazilian government will not take similar measures in the future. Holders of our ADSs could be adversely affected by delays in, or refusals to grant, any required governmental approval for conversion of *real* payments and remittances abroad in respect of the preferred shares underlying the ADSs. In such a case, the depositary for the ADSs will hold the *reais* it cannot convert for the account of the ADR holders who have not been paid. The depositary will not invest the *reais* and will not be liable for interest on those amounts.

If holders of ADSs exchange the ADSs for preferred shares, they risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the preferred shares has obtained an electronic certificate of registration from the Central Bank permitting it to remit foreign currency abroad for payments of dividends and other distributions relating to the preferred shares or upon the disposition of the preferred shares. If holders of ADSs decide to exchange their ADSs for the underlying preferred shares, they will be entitled to continue to rely on the custodian s electronic

certificate of registration for five business days from the date of exchange. Thereafter, such holders of ADSs may not be able to obtain and remit foreign currency abroad upon the disposition of, or distributions relating to, the preferred shares unless they obtain their own electronic certificate of registration or register their investment in the preferred shares pursuant to Resolution No. 2,689, which entitles certain foreign investors to buy and sell securities on the São Paulo Stock Exchange. Holders who do not qualify under Resolution No. 2,689 will generally be subject to less favorable tax treatment on gains with respect to the preferred shares. If holders of ADSs attempt

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to obtain their own electronic certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the preferred shares or the return of their capital in a timely manner. In addition, we cannot assure you that the custodian s electronic certificate of registration or any certificate of foreign capital registration obtained by a holder of ADSs will not be affected by future legislative or other regulatory changes, or that additional restrictions applicable to such holder, to the disposition of the underlying preferred shares or to the repatriation of the proceeds from such disposition will not be imposed in the future.

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit the ability of holders of our preferred shares or ADSs to sell the preferred shares underlying the ADSs at the price and time they desire.

Investing in securities, such as the preferred shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit the ability of holders of our preferred shares or ADSs to sell the preferred shares underlying the ADSs at the price and time desired.

There is also significantly greater concentration in the Brazilian securities markets than in major securities markets in the United States. See Item 9C. Markets Trading on the São Paulo Stock Exchange.

Because we are subject to different corporate rules and regulations as a Brazilian company, holders of our ADSs have fewer and less well-defined shareholders rights.

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as Delaware or New York, or in other jurisdictions outside Brazil. As a result, the holders of the ADSs or the holders of our preferred shares may have fewer and less well-defined rights under Brazilian Corporate Law with which to protect their interests against actions by our board of directors and our principal shareholders than under the laws of those jurisdictions outside Brazil.

Although Brazilian Corporate Law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in other jurisdictions. In addition, rules and policies against self-dealing and regarding the preservation of minority shareholder interests may be less well-defined and enforced in Brazil than in the United States, putting holders of the preferred shares and ADSs at a potential disadvantage. Corporate disclosures may be less complete or informative than what may be expected of a U.S. public company. Specifically, among other differences when compared to, for example, Delaware general corporation law, Brazilian Corporate Law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties and sale-of-business transactions. In addition, Brazilian Corporate Law provides that shareholders must hold 5% of the outstanding share capital of a corporation to have standing to bring shareholders derivative suits, and shareholders ordinarily do not have standing to bring a class action.

Also, in accordance with Brazilian Corporate Law, holders of our preferred shares, and therefore our ADSs, are not entitled to vote at meetings of our shareholders except in limited circumstances. See Item 10B. Memorandum and Articles of Incorporation Description of Capital Stock Voting Rights of the Preferred Shares.

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The Brazilian government has veto power over major corporate actions, and our controlling shareholders act in concert to control Embraer; their interests could conflict with the interests of the holders of ADSs.

The Brazilian government holds one special class of our common stock, called a golden share, which carries veto power over, among other things, change of control, change of corporate purpose and creation and alteration of defense programs (whether or not the Brazilian government participates in such programs). In addition, under the terms of a shareholders agreement, our controlling shareholders Cia. Bozano, Caixa de Previdência dos Funcionários do Banco do Brasil PREVI, also known as PREVI, and Fundação SISTEL de Seguridade Social, also known as SISTEL act in concert to vote 60% of the outstanding shares of our common stock, allowing them to elect a majority of the members of our board of directors and to determine the outcome of any actions requiring shareholder approval, including corporate reorganizations and the timing and payment of future dividends. The Brazilian government may have an interest in vetoing transactions that may be in the interests of the holders of the ADSs. Our controlling shareholders may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with the interests of the holders of the ADSs.

The sale of a substantial number of preferred shares, or the belief that this may occur, could decrease the trading price of the preferred shares and the ADSs; holders of our preferred shares and/or ADSs may not be able to sell their securities at or above the price they paid for them.

Sales of a substantial number of preferred shares, or the belief that this may occur, could decrease the trading price of our preferred shares and our ADSs. As of December 31, 2003, we had 473,501,135 preferred shares outstanding. Of this amount, holders of exchangeable notes that were issued in June 2001 by Banco Nacional de Desenvolvimento Econômico e Social BNDES, the Brazilian National and Social Development Bank, also known as BNDES, have the right to acquire, at any time prior to the maturity of the notes, an aggregate of 7,279,200 ADSs, representing 29,116,800 preferred shares currently owned by BNDES Participações S.A. BNDESPAR, also known as BNDESPAR, a wholly owned subsidiary of BNDES, subject to adjustment. As a consequence of the issuance of preferred shares or sales by existing shareholders, the market price of the preferred shares and, by extension, the ADSs may decrease significantly. As a result, the holders of our ADSs and/or preferred shares may not be able to sell their securities at or above the price they paid for them.

Our share price may be affected by potential dilution of our preferred shares and the ADSs.

The issuance of preferred shares pursuant to our stock option plan could substantially dilute the preferred shares. Under the terms of our stock plan, we were authorized to grant options to purchase up to 25,000,000 preferred shares over the five-year period from the date of the first grant of options pursuant to the plan. As of the end of this five-year period in May 2003, we had granted options for an aggregate of 20,237,894 preferred shares, including 662,894 options granted in connection with our preferred stock dividend in 2002. No additional options may be granted pursuant to the plan. The options granted to each employee generally vest as follows: 30% after three years from the date granted, an additional 30% after four years and the remaining 40% after five years. Employees may exercise their options for up to seven years from the date they are granted. As of December 31, 2003, options representing 10,252,541 preferred shares have already been exercised and options representing 6,257,758 preferred shares are exercisable in 2004.

Holders of our ADSs might be unable to exercise preemptive rights with respect to the preferred shares.

Holders of our ADSs may not be able to exercise the preemptive rights relating to the preferred shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares or other securities relating to these preemptive rights and we cannot

assure holders of our ADSs that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our ADSs may receive only the net proceeds from the sale of their preemptive rights by the depositary or, if the preemptive rights cannot be sold, the rights will be allowed to lapse.

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ITEM 4. INFORMATION ON THE COMPANY

4A. History and Development of the Company

General

Embraer-Empresa Brasileira de Aeronáutica S.A. is a joint stock company duly incorporated under the laws of Brazil with an indefinite term of duration. Originally formed in 1969 by the Brazilian government, we were privatized in 1994. In connection with our privatization, we were transformed into a publicly held corporation and we operate under the Brazilian Corporate Law. Our principal executive offices are located at Avenida Brigadeiro Faria Lima, 2170, 12227-901 São José dos Campos, São Paulo, Brazil. Our telephone number is 55-12-3927-1216. Our agent for service of process in the United States is our subsidiary, Embraer Aircraft Holding, Inc., with offices at 276 S.W. 34th Street, Ft. Lauderdale, Florida 33315.

We have grown from a government-controlled company established to develop and produce aircraft for the Brazilian Air Force into a public company that produces aircraft for commercial, corporate and defense purposes. Through our evolution, we have obtained, developed and enhanced our engineering and technological capabilities through our own development of products for the Brazilian Air Force and through joint product development with foreign companies on specific projects. We have applied these capabilities that we gained from our defense business to develop our commercial aircraft business.

Our first regional aircraft was the Bandeirante, a 19-passenger twin engine non-pressurized turboprop aircraft initially designed to service the transport needs of the Brazilian Air Force. This aircraft was certified in 1973. The Bandeirante was followed by the development of the EMB 120 Brasília, which was certified in 1985 and is a high performance, pressurized turboprop commercial aircraft seating up to 30 passengers that was designed to serve the longer routes and higher passenger traffic of the growing regional aircraft market. Drawing upon the design of the EMB 120 Brasília and the jet technology acquired in our development of the AM-X, a jet strike bomber for the Brazilian Air Force, we developed the ERJ 145 regional jet family, our first jet product for commercial use. This family is comprised of three aircraft, which seat up to 37, 44 and 50 passengers. The first member of the ERJ 145 family, the ERJ 145, was certified in 1996. We have expanded our jet product line with the development of the EMBRAER 170/190 jet family, which has the capacity to seat between 70 and 118 passengers and was designed to serve the aircraft market s trend towards larger, higher volume and longer range jets. The first member of this family, the EMBRAER 170, was certified in February 2004. We are also marketing and selling the Legacy, a line of corporate jets based on our ERJ 135 regional jet, but with several differences including longer range. The Legacy has one of the highest-volume cabins in its category. For the defense market, we also offer a line of intelligence, surveillance and reconnaissance aircraft based on the ERJ 145 regional jet.

Strategic Alliance and Growth Opportunities

Strategic Alliance with European Aerospace and Defense Group

On November 5, 1999, a group consisting of Aerospatiale Matra, currently known as European Aeronautic, Defense and Space Company N.V., or EADS, Dassault Aviation, Thomson-CSF, currently referred to by its trade name ThalesTM, and Société Nationale d Étude et de Construction de Moteurs d Aviation, or SNECMA, which we refer to collectively as the European Aerospace and Defense Group, purchased as a group 20% of the outstanding common stock of Embraer from our existing common shareholders, a majority of which was from our controlling shareholders. We believe that this alliance will continue to assist us in the development of solutions for the defense market and enable us to expand our defense activities. For example, we integrated ThalesTM mission systems and electronic equipment in some of our EMB 145 AEW&C aircraft.

Joint Ventures and Acquisitions

In 2000, we entered into a joint venture with Liebherr International AG to develop and manufacture landing gear and high precision hydraulic equipment and provide related services for Embraer and other clients around the

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world. In connection with this joint venture, we formed a new subsidiary, ELEB Embraer Liebherr Equipamentos do Brasil S.A.

In March 2002, we acquired the operating assets of Celsius Aerotech Inc. in Nashville, Tennessee from Reliance Aerotech Inc. in order to provide full service maintenance and repair services for our commercial and corporate aircraft in the United States.

In December 2002, we entered into a joint venture with Harbin Aircraft Industry (Group) Co., Ltd. and Hafai Aviation Industry Co., Ltd., subsidiaries of China Aviation Industry Corp. II, or AVIC II, to provide for the assembly, sale and after-sale support of the ERJ 145 regional jet family in China. We own 51% of the equity of the joint venture company, Harbin Embraer Aircraft Industry Company Ltd.

Research and Development Costs and Capital Expenditures

Research and development costs, including the development of the EMBRAER 170/190 jet family, were US$99.6 million in 2001, US$158.5 million in 2002 and US$173.2 million in 2003. Research and development costs as a percentage of our net sales were 3.4% in 2001, 6.3% in 2002 and 8.1% in 2003. The increases in research and development costs as a percentage of our net sales in 2002 and 2003 reflect principally the costs related to the EMBRAER 170/190 jet family.

Our investments in property, plant and equipment totaled US$143.8 million in 2001, US$111.0 million in 2002 and US$64.7 million in 2003. The investments in 2002 and 2003 related mainly to construction of facilities, improvements to our plant and production facilities and modifications for the production of new aircraft models.

We expect our future research and development costs to remain at current levels as a result of the continued development of the EMBRAER 170/190 jet family. In 2004, we expect research and development costs to total approximately US$174.0 million and we expect investments in property, plant and equipment to total approximately US$64.0 million, which will primarily be related to construction of facilities, improvements to our plant and production facilities, in particular for the production of the EMBRAER 170/190 jet family, as well as our defense aircraft and corporate jets.

4B. Business Overview

We are one of the leading manufacturers of commercial aircraft in the world, based on 2003 net sales of commercial aircraft, with a global customer base. We focus primarily on manufacturing commercial aircraft, which accounted for 71.2% of our net sales in 2003. We are the leading supplier of defense aircraft for the Brazilian Air Force based on number of aircraft sold, and we have also sold aircraft to military forces in Europe and Latin America. In addition, we have developed a line of corporate jets based on one of our regional jets. For the year ended December 31, 2003, we generated net sales of US$2,143.5 million, of which more than 90% was U.S. dollar-denominated. At March 31, 2004, we had a total firm backlog in orders of US$10.9 billion, including 439 commercial jets.

Our Strengths

We believe that our primary strengths are:

Leading Commercial Aircraft Manufacturer with a Global Customer Base. We are a leading manufacturer of regional and mid-capacity jets with a strong global customer base. We have sold our regional and mid-capacity jets to 40 customers in 22 countries. Our customers include some of the largest regional and low-cost airlines in the world.

Aircraft Design; Cost and Operating Efficiency. We conceive, develop and manufacture aircraft to provide our customers with reduced operating, maintenance and training costs due to the similarity and efficiency in design and the commonality of parts among jets within a family. These similarities enable us to significantly reduce our

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design, development and production costs and pass these savings along to our customers in our sales price. These similarities also reduce the development time of our aircraft.

Strategic Risk-Sharing Partners. With our regional and mid-capacity jet families, we developed strategic relationships with key risk-sharing partners. These risk-sharing partners develop and manufacture significant portions of the systems and components of our aircraft and contributed their own funds to research and develop these systems and components, thereby reducing our development costs. These risk-sharing partners also funded a portion of our development costs through direct contributions of cash or materials. We believe that these strategic relationships enable us to lower our development costs and risks, improve our operating efficiency, enhance the quality of our products and reduce the number of our suppliers.

Benefits of Funded Development of Defense Technology. Research and development costs related to defense aircraft historically have been funded in large part by Brazilian government contracts. We are able to apply the technological developments we acquire from our defense technology to applications in our commercial aircraft business. For example, we developed our regional jet family using technology from the AM-X program developed for the Brazilian Air Force. In addition, we sell proven defense products developed for the Brazilian Air Force to other military forces.

Flexibility of Production to Meet Market Demands. We believe the flexibility of our production processes and our operating structure, including our risk-sharing partnerships that are designed to minimize costs, allow us to increase or decrease our production in response to market demand without significantly impacting our margins.

Experienced and Highly Skilled Workforce. Our employees are experienced and highly skilled. Approximately 25% of our workforce is comprised of engineers. Due to the high level of knowledge and skill possessed by our employees, we are able to efficiently pursue new programs and provide our customers with additional technical expertise and guidance.

Business Strategies

Continuing to Aggressively Market our ERJ 145 Regional Jet Family. We are fully committed to continuing to aggressively market our ERJ 145 regional jet family. The ERJ 145 regional jet family is the backbone of our operations, with almost 800 units in operation and a history of good service. We believe that airlines can continue to benefit from this regional jet family, which we believe has assisted our customers over the last eight years in pursuing their goal of achieving profitable operations. We believe a significant market opportunity exists for the ERJ 145 regional jet family with airlines that are seeking to expand hub and spoke and point-to-point operations, increase flight frequencies, explore new market opportunities, stimulate demand, develop secondary hubs and replace turboprop operations.

Aggressively Marketing Our Mid-capacity Jet Family. We are aggressively marketing our mid-capacity platform, the EMBRAER 170/190 jet family. We believe a significant market opportunity exists for the EMBRAER 170/190 jet family with regional airlines that are expanding their fleet, increasing their penetration into higher density markets and adding longer routes, and also with other airlines that are optimizing their fleet in order to adjust capacity to meet demand in less dense routes. Additionally, we believe that our new mid-capacity jet family will provide us with significant opportunities to increase our competitiveness by offering our customers a full range of commercial aircraft.

Developing Our Strategic Alliance with European Aerospace and Defense Group. We believe our strategic alliance with the European Aerospace and Defense Group will enhance our defense business. We intend to enhance our technological capabilities and increase our production and marketing of innovative defense products. We also intend to increase our international marketing presence for our defense products through joint marketing efforts with

members of the European Aerospace and Defense Group.

Increasing Focus on Customer Support. Providing high quality customer support is critical to our ability to maintain long-term relationships with our customers. As the number of our aircraft in operation continues to grow, we have increased our commitment to providing our customers with an appropriate level of after-sale support, including technical assistance, pilot and maintenance training and spare parts, as demonstrated by our 2002 acquisition of a Nashville, Tennessee aircraft service center. We intend to continue to focus on providing our customers with high quality customer support.

Expanding Risk-Sharing Arrangements. We intend to maintain or expand the role of risk-sharing partners in the production process for our aircraft in order to reduce production costs and streamline the management of our suppliers. Having fewer suppliers enables us to minimize our production costs while allocating additional risk for the production of integrated systems to our risk-sharing partners and increasing our flexibility.

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Diversifying Revenues. We intend to diversify our revenues through our defense segment and our corporate segment.

Increasing Penetration into the Defense Market. We plan to develop and market additional defense products and thereby increase sales in this segment of our business. We intend to increase our participation in the international defense market by actively marketing our existing products initially developed for the Brazilian Air Force, including the EMB 145 AEW&C, the EMB 145 RS, the EMB 145 MP and the Super Tucano (ALX).

Cost-Effectively Developing a Line of Corporate Jets. We have developed the Legacy, a line of corporate jets based on the ERJ 135 regional jet, to provide to businesses, including fractional ownership companies, a cost-effective alternative to commercial airline travel. In developing the Legacy, we used the same design and risk-sharing arrangements of our ERJ 135 regional jet. As a result, we were able to develop the Legacy without the substantial financial investment normally associated with a new product launch.

Pursuing Strategic Growth Opportunities. We intend to pursue strategic growth opportunities, which may include joint ventures, acquisitions and other strategic transactions. For example, we intend to expand our presence in China through our joint venture with AVIC II. We believe that the market for regional aircraft in China is strong and currently underserved. We believe this market will create incremental growth for our future revenues.

Commercial Airline Business

We design, develop and manufacture a variety of commercial aircraft. Our commercial airline business is our primary business, accounting for 71.2% of our net sales for the year ended December 31, 2003.

Products

We developed the ERJ 145, a 50-passenger twin turbofan-powered regional jet, introduced in 1996, to address the growing demand among regional airlines for medium-range jet-powered aircraft. After less than two years of development, the ERJ 135, a 37-passenger regional jet based on the ERJ 145, was introduced in July 1999. In addition, we developed the 44-seat ERJ 140 as part of the ERJ 145 regional jet family, which we began delivering in the second half of 2001. We believe that the ERJ 145 regional jet family provides the comfort, range and speed of a jet at costs comparable to turboprop aircraft. We are continuing to develop our 70-108 seat platform, the EMBRAER 170/190 jet family, to serve the trend in the commercial airline market toward larger, faster and longer range jets and to further diversify our strength in the jet market. We continue to analyze new aircraft demand in the jet market to determine potentially successful modifications to aircraft we already produce.

ERJ 145 Regional Jet Family

The ERJ 145 is a twin turbofan-powered regional jet accommodating up to 50 passengers. This jet was developed in response to the increasing demand from the regional airline industry for an aircraft that offered more speed, comfort and capacity than a turboprop. The ERJ 145 was certified by the Brazilian aviation authority in November 1996, the FAA in December 1996, the European aviation authority in May 1997 and the Australian aviation authority in June 1998. We began delivering the ERJ 145 in December 1996.

The development of the ERJ 145 aircraft was partially based on the EMB 120 Brasília and has approximately 30% commonality in terms of parts and components with that aircraft, including the nose section and cabin. The ERJ 145 has a maximum cruising speed of Mach .78, or 450 knots, and a maximum fully loaded range of 1,060 nautical miles in its standard version. The ERJ 145 is equipped with engines built by Rolls-Royce Allison. These engines are designed to operate 10,000 flight hours between major overhauls and operate at a low fuel cost. In addition, the ERJ 145 is equipped with sophisticated flight instruments, such as engine-indication instruments, crew-alert systems and

digital flight control systems, produced by Honeywell.

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The ERJ 145 is also available in a long-range, or LR, version, and, in response to customer requests, we have developed an extra-long-range, or XR, version of the aircraft. The ERJ 145 LR features a larger fuel tank, more powerful engines and greater range than the standard version. The ERJ 145 LR, which was certified by the Brazilian aviation authority, the FAA and the European aviation authority in 1998, and by the Chinese aviation authority in November 2000, uses engines that deliver 15% more thrust, allowing the fully loaded aircraft to operate on routes of up to 1,550 nautical miles. The ERJ 145 XR features a new and updated turbofan engine, increased capacity fuel tanks and winglets. The ERJ 145 XR, which was certified by the Brazilian aviation authority in August 2002 and by the FAA in October 2002, offers reduced fuel consumption, a maximum fully loaded range of 2,000 nautical miles and enhanced operational capabilities for hot weather and at high altitudes. Deliveries of the ERJ 145 LR began in February 1998, and deliveries of the ERJ 145 XR began in October 2002.

The ERJ 135 is a 37-seat regional jet based on the same design as the ERJ 145 and is manufactured on the same production line. The ERJ 135 has approximately 96% commonality in terms of parts and components with the ERJ 145, resulting in reduced spare parts requirements and permitting the utilization of the same ground support equipment for customers that use both aircraft. The ERJ 135 was certified by the Brazilian aviation authority in June 1999, by the FAA in July 1999 and by the European aviation authority in October 1999. Deliveries of the ERJ 135 began in July 1999.

The ERJ 135 has a maximum operating speed of Mach .78, or 450 knots, and a maximum fully loaded range of 1,330 nautical miles in its standard version. The ERJ 135 uses the same engines, sophisticated flight instruments, digital flight control systems and body design as the ERJ 145. The ERJ 135 s fuselage is 11.6 feet shorter than the ERJ 145 s. The ERJ 135 is also available in a long-range, or LR, version, which features a larger fuel tank, more powerful engines and significantly greater maximum fully loaded range (l,700 nautical miles) than the standard version. The LR version received certification simultaneously with the standard version and began deliveries in August 1999.

We developed the ERJ 140 in response to customer requests. The ERJ 140 is a 44-seat regional jet based on the same design as the ERJ 135 and is manufactured on the same production line as the ERJ 145 and ERJ 135. The ERJ 140 has approximately 96% commonality with the ERJ 145 and ERJ 135, providing our customers with significant maintenance and operational benefits. The ERJ 140 was certified by the Brazilian aviation authority in June 2001 and by the FAA in July 2001. The ERJ 140 has a maximum fully loaded range of 1,230 nautical miles in its standard version. The ERJ 140 is available in a long-range, or LR, version, which features a larger fuel tank, more powerful engines and significantly greater maximum fully loaded range (1,630 nautical miles) than the standard version. We began delivering the ERJ 140 in July 2001.

The ERJ 145 regional jet family allows for standardized pilot certification and maintenance procedures.

EMBRAER 170/190 Jet Family

The EMBRAER 170/190 jet family provides our customers with a choice of four aircraft in the mid-capacity passenger range. The EMBRAER 170 is a 70-78 seat jet, and the EMBRAER 175 will be a 78-86 seat jet, while the EMBRAER 190 series will include the 98-106 seat EMBRAER 190 and the 108-118 seat EMBRAER 195.

The EMBRAER 170 was certified by the Brazilian aviation authority, the FAA, the JAA, EASA and the authority of Poland in February 2004, and deliveries of the EMBRAER 170 began in March 2004. We expect to receive certification of the EMBRAER 175 by the end of 2004, the EMBRAER 190 in 2005 and the EMBRAER 195 in 2006. We have completed the joint design definition phase and have produced the first prototypes of the EMBRAER 175 and EMBRAER 190. The EMBRAER 175 made its maiden flight on June 14, 2003 and the EMBRAER 190 made its maiden flight on March 12, 2004.

We designed the EMBRAER 170/190 jet family to maximize the benefits of commonality, with aircraft in the family sharing approximately 89% of the same components. The high level of commonality in this new jet family lowered our development costs and shortened our development period. We anticipate that this commonality will lead to significant savings to our customers in the form of easier training, less expensive parts and maintenance and lower operational costs. Due to differences in size and weight, the EMBRAER 170/190 jet family will not share

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the same wing design. This new mid-capacity jet family has engines fixed under its main wings a design intended to enhance power, improve fuel economy and minimize turnaround times. All of the aircraft models of this family are powered by engines manufactured by General Electric and contain state-of-the-art avionics manufactured by Honeywell.

The EMBRAER 170/190 jet family s principal features are:

Performance. All four jets in the EMBRAER 170/190 jet family have a maximum cruising speed of Mach .8, or 470 knots. The EMBRAER 170 and the EMBRAER 175 have maximum fully loaded ranges of 1,800 and 1,600 nautical miles, respectively, and the EMBRAER 170 is, and the EMBRAER 175 will be, also available in long-range, or LR, versions, with maximum fully loaded ranges of 2,100 and 1,900 nautical miles, respectively. The EMBRAER 190 and EMBRAER 195 have maximum fully loaded ranges of 1,800 and 1,400 nautical miles, respectively, and will be available in LR versions with maximum fully loaded ranges of 2,300 and 1,800 nautical miles, respectively. The LR versions of all four jets in the EMBRAER 170/190 jet family will feature larger fuel tanks and more powerful engines than the standard versions of these aircraft.

Ground servicing. The under-wing engine design and the existence of four doors, two in the front and two in the back, provide for enhanced accessibility and efficiency of ground services.

Cabin and cargo space. We have enhanced passenger safety and comfort in the EMBRAER 170/190 jet family. The aircraft s double-bubble design enables a four-abreast cabin, a wide aisle, greater interior space and headroom and a larger baggage compartment than the existing mid-capacity jets of our competitors, including those mid-capacity jets that are in the development stage.

EMB 120 Brasília

The EMB 120 Brasília is a pressurized twin wing-mounted turboprop aircraft that accommodates up to 30 passengers. The EMB 120 Brasília was developed in response to the regional aircraft industry s demand for a high-speed and fuel-efficient 30-seat regional aircraft. The EMB 120 Brasília was certified by the FAA in May 1985 and by the Brazilian aviation authority in July 1985. Since its introduction in 1985 and through December 31, 2003, we have delivered 352 EMB 120 Brasílias for the regional market and five EMB 120 Brasílias for the defense market. We currently manufacture the EMB 120 Brasília only upon customer request.

Customers

While we have focused our efforts on the U.S. and European markets to date, we have achieved a diverse, global customer base for our aircraft, principally in the commercial airline market. Our major customers of commercial aircraft include some of the largest regional and low-cost airlines in the world. As of March 31, 2004, our largest customers are ExpressJet, American Eagle, Republic Airways, JetBlue Airways and US Airways. For a discussion of these significant customer relationships, see Item 3D. Risk Factors Risks Relating to Embraer We depend on a small number of key customers and key suppliers, the loss of any of which could harm our business. Since 2002, we have also intensified our marketing efforts on potential customers in China and other Asian markets.

We generally sell our commercial aircraft pursuant to contracts with our customers on a fixed-price basis, adjusted by an escalation formula that reflects, in part, inflation in the United States. These contracts generally include an option for our customers to purchase additional aircraft for a fixed option price, subject to adjustment based on the same escalation formula. In addition, our contracts provide for after-sales spare parts and services, as well as warranties of our aircraft and spare parts. Other provisions for specific aircraft performance and design requirements are negotiated with our customers. Finally, some of our contracts contain cancellation provisions, repurchase, trade-in and trade-up options and financial and residual value guarantees. See Item 3D. Risk Factors Risks Relating to

Embraer Our aircraft sales are subject to cancellation provisions, repurchase, trade-in and trade-up options and financial and residual value guarantees that may reduce our cash flow or require us to make significant cash disbursements in the future for a more detailed discussion of these provisions.

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Sales and Marketing

Our current marketing strategy is based upon our assessment of the worldwide commercial airline market and our assessment of the current and future needs of our customers. We actively market our aircraft to airlines and regional affiliates of major airlines through our regional offices in the United States, Europe and Asia. Our success depends to a significant extent on our ability to discern our customers needs, including needs for customer service and product support, and to fill those needs in a timely and efficient manner while maintaining the high quality of our products. Our market and airline analysts focus on the long-term trends of the market, competitive analysis, product enhancement planning and airline analysis. In terms of direct marketing to our customers, we rely heavily on addressing the media, as well as participating in air shows and other cost-effective events that enhance customer awareness and brand recognition. We have regional sales offices in Le Bourget, France, Melbourne, Australia, Ft. Lauderdale, Florida, Beijing, China, and Singapore. We sell our ERJ 145 regional jet family in the Chinese market exclusively though our joint venture in China, which secured its first order from a Chinese airline in February 2004.

Production, New Orders and Options

Prior to starting production or development of a new project, we secure letters of intent representing future orders for a significant number of aircraft. We typically begin taking orders and building backlog two years before we begin producing a new aircraft model, aiming to receive a significant number of orders before we deliver the initial aircraft. Once an order is taken, we reserve a place for that order on the production line, ensuring that we will maintain production sufficient to meet demand. Once a place is reserved on the production line, we are able to give customers delivery dates for their orders.

We include an order in backlog once we have received a firm commitment, represented by a signed contract. Our backlog excludes options and letters of intent for which definitive contracts have not been executed. For the sales of our commercial aircraft, we customarily receive a deposit upon signing of the purchase agreement and progress payments in the amount of 5% of the sales price of the aircraft 18 months before scheduled delivery, another 5% twelve months before scheduled delivery and another 5% six months before scheduled delivery. For the EMBRAER 170/190 jet family, we receive an additional 5% progress payment 24 months before scheduled delivery. We typically receive the remaining amount of the sales price upon delivery of the aircraft. The deposits and the progress payments are generally non-refundable if orders are cancelled.

Our options generally provide our customers the right to purchase an aircraft in the future at a fixed price and on a specified delivery date, subject to escalation provisions, under a purchase contract. Once a customer decides to exercise an option, we account for it as a firm order. On occasion, we have extended the exercise date for our options and renegotiated the delivery schedule of firm orders. On occasion, we have allowed customers to convert their firm orders or options for one aircraft into firm orders or options for another aircraft within the same commercial jet family.

Competition

We generally face competition from major manufacturers in the international aircraft market. Each category of our products faces competition of a different nature and generally from different companies. Some of our competitors have greater financial, marketing and other resources than we do. In the 30-60 seat category, the main competitor of the ERJ 135 and the EMB 120 Brasília aircraft is the De Havilland DHC-8-200, a turboprop aircraft. The main competitors of the ERJ 145 regional jet family are:

the CRJ-100/200/440, manufactured by Bombardier;

the 328Jet, previously developed and manufactured by Fairchild Dornier and now manufactured to order by Avcraft Aviation LLC;

the ATR-42, manufactured by ATR G.I.E., a joint project of Italy s Alenia Aerospaziale and EADS; and

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the DHC-8-300, manufactured by De Havilland.

Only Bombardier s CRJ-100/200/440 aircraft are jets. Fairchild Dornier filed for bankruptcy protection in April 2002, and the 328Jet is currently marketed and manufactured to order by Avcraft Aviation LLC. Given the success of our regional jet family and the significant barriers to entry into the market, due principally to the high development costs of a new model and the extensive and time-consuming development cycle of a new jet, we believe that we are well positioned to increase our market share for the ERJ 145 regional jet family.

We face our strongest competition in the 61-90 and 91-120 seat categories. Currently, there are three aircraft in the segment: De Havilland s DHC-8-400, a 72-seat turboprop, ATR s ATR72, a 72-seat turboprop, and Bombardier s CRJ-700, a 70-seat regional jet, which was first delivered in January 2001. Bombardier has also launched the larger CRJ-900 aircraft, which seats 85 passengers and began deliveries in January 2003, before the expected delivery of our EMBRAER 175. In the higher end of the 91-120 seat category, Boeing has launched the 717-200, a 106-112 seat jet. Furthermore, Airbus developed a 100-plus seat jet, the A318, which was certified by the JAA in May 2003.

The key competitive factors in the markets in which we participate include design and technological strength, aircraft operational costs, price of aircraft, including financing costs, customer service and manufacturing efficiency. We believe that we will be able to compete favorably with our competitors on the basis of our aircraft performance, low operating costs, product development experience, global customer base, market acceptance, cabin design and aircraft price.

Defense Business

We design, develop, integrate and manufacture a wide range of defense products, principally transport, training, light attack and surveillance aircraft. We are the leading supplier of defense aircraft to the Brazilian Air Force based on the total number of aircraft in its current fleet. We also have sold defense aircraft to military forces of 16 other countries in Europe and Latin America, including the United Kingdom, France, Greece and Mexico. At December 31, 2003, we had sold 522 defense aircraft to the Brazilian government and 526 defense aircraft to other military forces. Our defense business accounted for 12.2% of our net sales for the year ended December 31, 2003.

Products

Tucano Family; AL-X

The Tucano is a single engine turboprop aircraft used for pilot training and armed reconnaissance missions. Although no longer manufactured, over 650 EMB 312 Tucanos are in operation in 15 air forces worldwide, including those of Brazil, the United Kingdom, France, Argentina, Egypt, Colombia, Paraguay, Peru and Venezuela.

We have also developed the Super Tucano, which has a light attack version, known as the AL-X (*Aeronave Leve de Ataque*, or Light Attack Aircraft). The Super Tucano and the AL-X offer an engine with twice the power of the Tucano s standard engine, fighter standard avionics, ejection seats, an on-board oxygen-generating system and enhanced range and external loads capability. The AL-X was developed under a contract with the Brazilian Air Force, with FINEP providing US$21.7 million in research and development debt financing, of which US$3.5 million was outstanding as of December 31, 2003. The AL-X has sophisticated navigation and attack systems, night operations capability and the ability to operate under severe weather conditions. We have received firm orders for 76 AL-X aircraft and an additional 23 options from the Brazilian Air Force. The first delivery of the AL-X was made to the Brazilian Air Force in December 2003. These aircraft are expected to be used for advanced pilot training and for defense operations in the Amazon region of Brazil in connection with the Brazilian government s SIVAM (*Sistema de Vigilância da Amazônia*, or System for the Surveillance of the Amazon) program.

EMB 145 AEW&C; EMB 145 RS; EMB 145 MP

We have configured a special version of the ERJ 145 with an advanced early warning and control system to create the EMB 145 AEW&C, with ground remote sensing capability to create the EMB 145 RS, and with marine

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remote sensing capability to create the EMB 145 MP. The EMB 145 AEW&C s advanced phased-array radar and mission system, developed by Ericsson, is capable of conducting surveillance and providing air traffic control in support of aviation authorities. The EMB 145 RS is designed to carry out ground surveillance and environmental protection activities using advanced synthetic aperture radar, capable of providing day/night and all weather images of the ground over large areas, with multi-spectral sensors developed by subcontractors in the United States. The EMB 145 MP is designed to carry out maritime patrol and anti-submarine warfare missions, using maritime and ground surveillance radar, electro-optical sensors, and communications and other surveillance equipment developed by Ericsson and Thales™. We, Ericsson and Thales™ are jointly marketing these aircraft worldwide. At December 31, 2003, the Brazilian government had ordered a total of eight EMB 145 AEW&C/RS aircraft to conduct surveillance and monitor ground activities in the Amazon region, all of which were delivered as of such date. In October 1999, the Greek government, through the Hellenic Air Force, ordered four EMB 145 AEW&C aircraft that will be used in the Greek government s aerospace early warning and control system, two of which were delivered in the first quarter of 2004. In February 2001, the Mexican government ordered one EMB 145 AEW&C aircraft and two EMB 145 MP aircraft.

AM-X; AMX-T

The AM-X is a subsonic ground attack and close air support aircraft developed under an international cooperation agreement with Alenia Un Azienda Finmecanica S.p.A. and Aermacchi Aeronautica Macchi S.p.A. and sponsored by the Brazilian and Italian governments. Under the agreement, each of the parties is responsible for key systems of the aircraft. The AM-X is assembled in both Brazil and Italy. Embraer and the Italian partners supply each other with different key components and systems of the aircraft. In addition, Embraer and the Italian partners are each free to market the aircraft independently and each receives 100% of the proceeds of its sales. Approximately 170 AM-X aircraft are currently in operation in the air forces of Brazil and Italy, 55 of which were sold by us.

We have also developed, with the participation of Alenia and Aermacchi, the AMX-T, an enhanced version of the AM-X, currently being offered internationally. The AMX-T program operates under the same principles as the AM-X program, with the exception that Alenia s role is greater than Aermacchi s, which participates only as a subcontractor. In September 1999, we won the bid for a US$70.0 million contract for the sale of AMX-Ts to the Venezuelan government.

Authority Transport Aircraft

We are marketing our Legacy line of corporate jets, modified to meet added security needs, to the Brazilian and other governments. We entered into a contract with the Belgian Air Force for two EMB 135s and two EMB 145s modified to transport government officials, of which two EMB 135s and one EMB 145 were delivered in 2001 and one EMB 145 was delivered in 2002. In 1999, we entered into a contract with the Greek government through the Hellenic Air Force for one EMB 135 aircraft for special transportation and support needs, which was delivered in 2000, and one Legacy, which was delivered in 2002. In addition, in 2003, Satena Airline, the state-owned Colombian airline, ordered two EMB 145s, which were delivered in December 2003 and January 2004. We also have a contract with the Indian government for the sale of five Legacy aircraft in a special configuration.

Other Projects and Activities

In December 2000, we were selected by the Brazilian government to perform a structural and electronics upgrade of the Brazilian Air Force s F-5 fighter jets. As the prime contractor, we are integrating multi-mode radar, advanced navigation and attack systems and enhanced self-protection systems into the existing aircraft under a program known as F-5BR. The first upgraded aircraft was presented to the Brazilian Air Force in 2003.

In March 2002, we formed a consortium with Dassault, ThalesTM and SNECMA to bid on the development and manufacture of up to 24 fighter jets for the Brazilian Air Force. The planned jet, the Mirage 2000 BR, is modeled on the Dassault Mirage 2000-5 supersonic jet. As leaders of the consortium, we would have coordination and management responsibilities in the program. As a result of this consortium and as part of our strategic alliance

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agreement, Dassault would transfer to us the technology for the Mirage, enabling us to have full control over the project technology as well.

In July 2003, we joined a team organized by Lockheed Martin in a proposal to supply the U.S. Army with a next-generation battlefield surveillance system known as Aerial Common Sensor (ACS). If this bid is successful, we would supply the airborne platform based on the ERJ/EMB 145 regional jet. The platform would be produced at a facility in Jacksonville, Florida, the establishment of which is dependent on the success of this bid. If established, the Jacksonville facility would be exclusively for the assembly of aircraft intended for the U.S. defense and national securities markets and would qualify us as a supplier for U.S. government programs.

Competition

Our defense products face competition from various manufacturers, many of which have greater financial, marketing and other resources than we do. The Super Tucano and the AL-X compete with the Pilatus PC-9M and the Raytheon T-6A Texan II. The EMB 145 AEW&C competes against the Northrop-Grumman E-2C II Hawkeye 2000 and the Lockheed-Martin C-130J AEW&C. In addition, Boeing has announced that it will develop the B737 AEW&C aircraft, with advanced warning and remote sensor capabilities, which is expected to enter the market in 2005. The AM-X/AMX-T competes with the British Aerospace Hawk-100, the Aermacchi MB-339FD and the Aero Vodochody L-159.

Corporate Jet Business

We have developed a line of corporate jets, the Legacy, based on our ERJ 135 regional jet. We are marketing the new line of corporate jets to businesses, including fractional ownership companies. Our corporate jet business accounted for 8.2% of our net sales for the year ended December 31, 2003, resulting from the delivery of 13 Legacy jets, two of which were delivered under operating leases.

The Legacy was designed to provide customers with a cost-effective alternative to commercial airline travel. We offer our line of corporate jets in two versions: executive and corporate shuttle. The executive version features a highly customized interior based on the customer s specific requirements. The corporate shuttle version is partially customized and is generally intended to have business class type seating and in-flight office design features. Both versions of our line of corporate jets have a maximum cruising speed of Mach .8, or 470 knots.

We developed our line of corporate jets by building upon our regional jet design and manufacturing experience. For example, with the exception of the interior of the aircraft, the fuel tank, controller and indication system and the winglets, the Legacy has the same components as the ERJ 135 and is capable of being manufactured on the same production line. Furthermore, the corporate shuttle version of the Legacy does not require separate FAA, European aviation authority or Brazilian aviation authority approval. The executive version of the Legacy was certified by the Brazilian aviation authority in December 2001, by the JAA in July 2002 and by the FAA in August 2002.

We face significant competition from companies with longer operating histories and established reputations in the corporate jet industry. Many of these manufacturers have greater financial, marketing and other resources than we do. These competitors include Dassault Aviation, Cessna Aircraft Co., Bombardier Inc., Israel Aircraft Industries, General Dynamics and Raytheon.

We take orders and build backlog for our line of corporate jets in the same manner as for our commercial aircraft. We include an order in backlog once we have received a firm commitment, represented by a signed contract. We customarily receive a deposit at the time of order, three 5% progress payments and full payment of the balance due upon delivery, in the same manner as for our commercial aircraft. We generally receive US$100,000 for each option

to purchase a corporate jet, with the terms of the options being substantially the same as those for our commercial aircraft.

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Other Related Businesses

We also provide after-sales customer support services and manufacture and market spare parts for the aircraft we produce. Activities in this segment include the sale of spare parts, maintenance and repair, training and other product support services, as well as revenues related to aircraft leased to customers primarily through our leasing subsidiary. In addition, we provide structural parts and mechanical and hydraulic systems to Sikorsky Corporation for its production of helicopters. We also manufacture, on a limited basis and upon customer request, general aviation propeller aircraft, such as executive aircraft and crop dusters, also known as light aircraft. Our other related businesses accounted for 8.4% of our net sales for the year ended December 31, 2003.

After-Sales Customer Support; Spare Parts Business

We also provide after-sales customer support services and manufacture and market spare parts for the fleets of our commercial, corporate and defense customers. Our after-sales customer support and spare parts business falls into several categories:

field support;

material support, which includes spare parts sales and distribution;

product warranty and repair administration;

technical support, which includes engineering support, maintenance engineering and technical publications; and

training.

This business is expected to continue to grow as the number of our aircraft in service grows. Our customers require aircraft manufacturers and their suppliers to maintain adequate spare parts and ground support equipment inventories for a period of 10 years after the production of the last aircraft of the same type, or until fewer than five aircraft are operated in scheduled commercial air transport service. We recently established a pooling program that allows customers to exchange used parts for new or refurbished parts.

Subcontracting

We provide subcontracting services to Sikorsky Corporation in connection with the development and manufacture of the landing gear, fuel system and fuel tanks for the S-92 Helibus helicopter. We also act as a risk-sharing partner to Sikorsky. The contracts expire in 2015.

General Aviation Aircraft

We build general aviation propeller aircraft, also known as light aircraft. These six-passenger aircraft are produced only on demand and are used by corporations as executive aircraft and by air-taxi companies. At December 31, 2003, we had delivered a total of 2,326 of these aircraft. We also developed a crop duster aircraft pursuant to specifications of the Brazilian Ministry of Agriculture. These aircraft are produced only on demand. At December 31, 2003, we had delivered a total of 908 of these aircraft, including 46 in 2003, and had 11 crop duster aircraft in backlog.

Aircraft Operating Lease Activities

We established a subsidiary in 2002, ECC Leasing Co. Ltd., or ECC, responsible for managing and remarketing certain aircraft, such as pre-series aircraft that are not otherwise sold after the completion of the certification process

for such aircraft type, aircraft that we may accept as a result of the exercise by customers of repurchase, trade-in or trade-up options, and aircraft that we may reacquire in connection with our financial

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guarantees. As of December 31, 2003, ECC and two other subsidiaries had a total portfolio of 23 aircraft, 11 of which were under operating leases.

Markets

The following table sets forth our net sales by line of business and geographic region of the end users of our aircraft for the periods indicated.

	Year ended December 31,		
	2001	**2002**	**2003**
	(in millions of dollars)		
Commercial Airline:			
Americas (excluding Brazil)	US$1,800.7	US$1,772.2	US$1,457.8
Europe	644.5	290.5	68.6
Brazil	18.1		
Other	89.2	47.6	
Total	US$2,552.5	US$2,110.3	US$1,526.4
Corporate			
Americas (excluding Brazil)	72.6	86.6	139.2
Europe		58.3	36.2
Total	US$ 72.6	US$ 144.9	US$ 175.4
Defense			
Americas (excluding Brazil)	6.9	13.3	106.6
Europe	74.0	73.5	52.6
Brazil	43.1	40.5	102.5
Other			0.7
Total	US$ 124.0	US$ 127.3	US$ 262.4
Other Related Business	US$ 177.9	US$ 143.3	US$ 179.3

Joint Ventures

We entered into a joint venture with Liebherr International AG to develop and manufacture landing gear and high precision hydraulic equipment and provide related services for Embraer and other clients around the world. In connection with this joint venture, we formed a new subsidiary, ELEB, to which we transferred all of our landing gear manufacturing activities, the employees and some liabilities related to those activities. On May 22, 2000, Liebherr International AG, acting in coordination with its subsidiary, Liebherr Aerospace Lindenberg GmbH, and through its Brazilian affiliate, purchased 40% of the capital stock of ELEB. Liebherr-Aerospace SAS is our risk-sharing partner responsible for designing, developing and manufacturing the landing gear assemblies for the new EMBRAER 170/190 jet family.

In addition, we entered into a joint venture in December 2002 with Harbin Aircraft Industry (Group) Co., Ltd. and Hafai Aviation Industry Co., Ltd., subsidiaries of China Aviation Industry Corp. II, or AVIC II, to provide for the manufacture, sale and after-sale support of the ERJ 145 regional jet family. We own 51% of the equity of the joint venture company, Harbin Embraer Aircraft Industry Company Ltd. We have licensed to the joint venture the exclusive rights to produce, sell and provide support for the ERJ 145 regional jet family in the Chinese markets, and we contributed US$12.4 million in cash, tooling and inventory to the joint venture in 2003. Our joint venture partners have contributed the land use rights in Harbin, China and contributed US$10.8 million in cash and facilities to the joint venture in 2003. The roll-out for the first ERJ 145 manufactured by the joint venture occurred in December 2003 and the joint venture entered into its first sales contract for sales to China Southern Airlines in February 2004.

Suppliers and Components; Risk-Sharing Arrangements

We do not manufacture all of the parts and components used in the production of our aircraft. More than 80% of the production costs of our ERJ 145 regional jet family and our Legacy corporate aircraft, depending on aircraft model, consist of materials and equipment purchased from our risk-sharing partners and other major

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suppliers. We expect to purchase approximately the same percentage of materials and equipment for the EMBRAER 170/190 jet family from our risk-sharing partners and other major suppliers. Risk-sharing arrangements with suppliers of key components enable us to focus on our core business: design and production of commercial aircraft. Risk-sharing arrangements are those in which suppliers are responsible for the design, development and manufacture of major components or systems of our aircraft, such as wings, tail or fuselage. Our risk-sharing partners, therefore, must invest their own money in research and development and share the risk and success of our products with us.

In our commercial and corporate aircraft business, we rely on risk-sharing partners to supply vital components of our aircraft, such as the engines, hydraulic components, avionics, wings, sections of the fuselage and portions of the tail. Once we select our risk-sharing partners and program development and aircraft production begins, it is difficult to substitute these partners. In some cases, our aircraft are designed specifically to accommodate a particular component, such as the engines, which cannot be substituted by another manufacturer without significant delay and expense. This dependence makes us susceptible to the performance, quality and financial condition of these risk-sharing partners.

ERJ 145 Regional Jet Family

Risk-sharing partners. We entered into risk-sharing arrangements with the following four suppliers in connection with the development and production of the ERJ 145 regional jet family:

Grupo Auxiliar Metalúrgico S.A., or Gamesa, a Spanish company owned by Iberdrola S.A., a European power utility, and Banco Bilbao Vizcaya, a large Spanish financial institution, supplies the wings, engine nacelles and main landing-gear doors;

Sonaca S.A. Société Nationale de Constructions Aerospatiales, a Belgian company, supplies portions of the central and rear fuselages, the service, main and baggage doors and engine pylons;

ENAER Empresa Nacional de Aeronáutica, a Chilean company, supplies the vertical fin, horizontal stabilizers and elevators; and

C&D Aerospace, Inc., a U.S. company, supplies the cabin and cargo compartment interiors.

Our risk-sharing partners generally receive payment for supplied components within three to five months after delivery of the components to us. The partnering relationship with these suppliers results in lower production costs and higher product quality for the ERJ 145 regional jet family. In addition, our line of corporate jets benefits from the risk-sharing arrangements with Gamesa, Sonaca and ENAER. The interior of the executive version of the Legacy is provided by The Nordam Group, Inc. and Duncan Aviation, Inc.

Other major suppliers. We have also entered into other agreements with numerous European, American, Canadian and Brazilian suppliers to provide key components for a number of our products, including the ERJ 145 regional jet family. These supply arrangements cover systems and components such as engines, avionics, landing gear and flight control systems. Our major suppliers include, among other companies, Rolls-Royce Allison, Parker Hannifin Corp., BF Goodrich Co., United Technologies Corp. Hamilton Sundstrand Division, Honeywell, Rosemount Aerospace and Alcoa Inc.

We select suppliers on the basis of, among other factors, technical performance and quality of their products, production capacity, prior relationship and financial condition. We have had continuing relationships with most of our major suppliers since production of the Bandeirante aircraft began in 1975. We have entered into purchase agreements with our major suppliers, which cover our requirements for five to ten years of production. We are not obligated to purchase a minimum amount of materials annually under any of these supply contracts. Our ongoing supplier relationships depend on cooperation, performance and the maintenance of competitive pricing.

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EMBRAER 170/190 Jet Family

We are continuing to develop the EMBRAER 170/190 jet family together with risk-sharing partners that supply key systems for the aircraft. Our supplier arrangements for the EMBRAER 170/190 jet family differ from the ERJ 145 regional jet family in that we use fewer suppliers. In the EMBRAER 170/190 jet family, each risk-sharing partner is responsible for the development and production of aircraft systems, such as the landing gear, the hydraulic system and the flight control system, rather than individual components, and fewer components are supplied by companies that are not risk-sharing partners. The assumption of responsibility for systems by our risk-sharing partners lowers our capital expenditures, which thereby decreases our development risks and increases our operating efficiency by reducing the number of suppliers per product and cutting production costs. It also shortens development and production time. The primary risk-sharing partners for the EMBRAER 170/190 jet family are the following:

General Electric supplies CF34-8E/l0E turbofan engines and designs, develops and manufactures the engine nacelles;

Honeywell supplies the avionics systems;

Liebherr is responsible for designing, developing and manufacturing the landing gear assemblies;

Kawasaki, a Japanese company, develops and manufactures the aircraft wing stub, engine pylon, fixed landing and trailing edge assemblies, flaps, spoilers and the wing s flight control surfaces;

Hamilton Sundstrand, a U.S. company and a wholly owned subsidiary of United Technologies Corp., develops and produces the aircraft s tail core, auxiliary power unit, electrical systems and the air management system;

Sonaca is responsible for the aircraft s wing slats;

Gamesa is responsible for the rear fuselage and the vertical and horizontal tail surfaces;

Latecoere, a French company, manufactures two of the three fuselage sections;

C&D Aerospace designs, develops and manufactures the aircraft interior; and

Grimes Aerospace Company, a U.S. company and a wholly owned subsidiary of AlliedSignal Inc., develops and manufactures the exterior and cockpit lighting.

Our risk-sharing partners have contributed to us a total of US$244.3 million for the development of the EMBRAER 170/190 jet family as of December 31, 2003. Cash contributions become non-refundable upon the achievement of certain developmental milestones. As of December 31, 2003, US$14.2 million of these cash contributions had become non-refundable, and with the conclusion of the certification of the EMBRAER 170 in February 2004 by the Brazilian, U.S. and European authorities, an additional US$88.7 million of these cash contributions became non-refundable. If we cancel the development and production of any of the remaining aircraft in the EMBRAER 170/190 jet family because we are unable to obtain certification or for other non-market related reasons, we may be obligated to refund US$141.4 million of these cash contributions. We generally do not need to refund these contributions as a result of insufficient market demand. We believe that these financial commitments are a strong endorsement of our aircraft design and our ability to execute our business plan.

Furthermore, some of the risk-sharing partners for the EMBRAER 170/190 jet family have assumed a broader role in other aspects of the program by providing sales financing and residual guarantees, rather than simply supplying us with aircraft components.

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Customer Service and Product Support

Customer satisfaction and service is critical to our success. Through our customer focus, we aim to enhance customer loyalty and, ultimately, increase sales. We will continue to focus on the development of closer, long-term relationships with our customers by meeting their aircraft requirements, providing after-sale support and spare parts and meeting maintenance requirements. We identify at the time of purchase the appropriate level of after-sale regional or on-site customer support and coordinate regional inventory levels to address expected spare parts and maintenance requirements. To maintain and increase our responsiveness, we have established five support centers worldwide. We provide technical assistance, support and distribution to our Brazilian and other Latin American customers through our facility in São José dos Campos. In March 2002, we established a distribution center in Beijing, China, together with China Aviation Supplies Import and Export Corporation (CASC). We also intend to provide support services through our joint venture in China for aircraft sold by the joint venture. In addition, we operate a maintenance, repair and overhaul facility, Embraer Aircraft Maintenance Services, in Nashville, Tennessee. We provide full service maintenance and repair services for our commercial and corporate aircraft at this service center, enhancing our level of service to our customers in the United States.

We have dedicated teams in the United States, Europe and Brazil to focus exclusively on enhancing customer support. In addition, for each of our key customers, we have assigned senior relationship managers that are responsible for enhancing our relationships with these customers. We also provide direct field support with on-site technical representatives at several of our major customers facilities. These on-site representatives are assigned to major customers prior to the first delivery of their aircraft and provide advice on maintenance and operation. They also monitor our customers spare parts needs and maintain customers inventories.

We operate support centers that are available 24 hours a day, seven days per week, in our São José dos Campos facility, as well as in Ft. Lauderdale, Florida, Le Bourget, France, and Melbourne, Australia. We train pilots, co-pilots, flight attendants and mechanics at these locations. We operate advanced flight simulators for our ERJ 145 regional jet family and for the Legacy at our Florida facility under an agreement with FlightSafety International, Inc., a business specializing in flight simulation. We have entered into an agreement with GE Capital Aviation Training Limited, or GECAT, a joint venture between General Electric Company and Thales , whereby GECAT provides training for the EMBRAER 170/190 jet family on a non-exclusive basis. We also provide field service and on-the-job training for airline personnel. For example, we routinely dispatch one of our pilots to fly with an operator s crew during the introduction of an aircraft into a customer s regular routes. We also provide technical publications with up-to-date technical information on our aircraft.

Aircraft Financing Arrangements

We generally do not provide long-term financing directly to our customers. We assist our customers in obtaining financing arrangements through different sources such as leasing arrangements and the BNDES-*exim* program. In addition, we help our customers qualify for the ProEx program. On a case-by-case basis, we have provided interim financing, at market rates, to customers who have completed or are negotiating other financing arrangements and have not received funding in time for delivery. We have also provided guarantees for a portion of the financing of aircraft for certain of our customers. See Notes 7, 8 and 34 to our consolidated financial statements.

The BNDES-*exim* program, a Brazilian government-sponsored program, provides our customers with direct financing for Brazilian exports of goods and services. From 1996 through 2003, approximately 48% of the total value of our export sales was financed by the BNDES-*exim* program.

In addition to the BNDES-*exim* program, we also assist customers in their aircraft financing through other arrangements, including leasing arrangements, principally through leasing companies, U.S. leveraged leases, U.K. tax

leases and French tax leases. These arrangements accounted for approximately 52% of the total value of our export sales from 1996 through 2003. Leasing arrangements through leasing companies generally involve the purchase by a leasing company of our aircraft under a customer s purchase contract and the lease of that aircraft to that customer. In leveraged leasing transactions, an investor will borrow a portion of the aircraft purchase price from a third party lender, which can also be BNDES-*exim*, purchase our aircraft and lease it to our customer. See Note 8 to our consolidated financial statements.

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Our customers also benefit from the ProEx program, a Brazilian government-sponsored program of interest rate adjustments. Under the ProEx program, which is intended to offset Brazil s country risk, foreign customers that buy selected products made in Brazil, such as our aircraft, receive the benefits of interest rate discounts. A substantial percentage of our customers benefit from the ProEx program. See Item 3D. Risk Factors Risks Relating to Embraer Any decrease in Brazilian government-sponsored customer financing, or increase in government-sponsored financing that benefits our competitors, may decrease the cost-competitiveness of our aircraft for a discussion of challenges to and pending negotiations regarding the ProEx program.

Intellectual Property

Our intellectual property, which includes designs, trade secrets, know-how and trademarks, is important to our business. We hold trademarks over our name and symbol, and the names of our aircraft, some of which are registered and some of which are in the process of registration in a number of countries, including Brazil, the United States, Canada, Singapore, Hong Kong, China and in the European Union. At December 31, 2003, we had approximately 44 trademarks. Our registered trademarks are generally renewed at the end of their validity period, which usually runs from 10 years from the date of application for registration. Brazil provides mechanisms to protect trademarks that are similar to the federal registration systems available in the United States.

Government Regulation and Aircraft Certification

We are subject to regulation by regulatory aviation agencies, both in Brazil and abroad. These agencies principally regulate the certification of aircraft and aircraft manufacturers. Besides certification in Brazil, we must obtain certification in each jurisdiction in which our aircraft operate commercially. The competent authority for the certification of our aircraft in Brazil is the *Departamento de Aviação Civil*, or DAC (Civil Aviation Department), through the Centro Técnico Aeroespacial, or CTA (Aerospace Technical Center) under the Ministry of Defense. The Brazilian Congress is considering a proposed law to create a regulatory agency, *Agência Nacional de Aviação Civil*, or ANAC (National Civil Aviation Agency), which, if approved, will become the principal Brazilian authority for the regulation, supervision and certification of aircraft, aircraft parts, manufacturers and operations. The aviation authorities in other countries include the FAA in the United States, the recently created EASA for European Union, or EU, countries and the JAA for the other European countries. Some countries simply validate and complement the Brazilian aviation authority s original certification, in accordance with their own rules. The Brazilian aviation authority has a bilateral certification agreement with the FAA under which the FAA certification requirements are covered by the Brazilian certification process. This cooperation among regulatory authorities leads to faster certification.

The ERJ 145 was certified to operate in the United States and Brazil in the last quarter of 1996, in Europe in the second quarter of 1997, in Australia in June 1998 and, for the LR version, in China in November 2000. The ERJ 145 XR version was certified by the Brazilian aviation authority in August 2002 and by the FAA in October 2002. The ERJ 135 was certified by the Brazilian aviation authority in June 1999, by the FAA in July 1999 and by the European aviation authority in October 1999. The ERJ 140 was certified by the Brazilian aviation authority in June 2001 and by the FAA in July 2001. The executive version of the Legacy was certified by the Brazilian aviation authority in December 2001, by the JAA in July 2002 and by the FAA in August 2002. The EMBRAER 170 was certified by the Brazilian aviation authority, the FAA, EASA, the JAA and the authority of Poland in February 2004.

Once an aircraft is certified by the CTA and FAA, some authorities, such as those in Australia and Mexico, ratify the certification. Other countries, such as Canada, require compliance with their own specific national requirements before certification. In Europe, since September 2003, EASA has become the regulatory authority for EU countries, including Germany, Italy, France, the United Kingdom, Spain and The Netherlands. Most of the remaining non-EU countries, such as Switzerland, still operate under the rules of the JAA. The JAA is not a certification authority, but rather is an advisory organization that makes recommendations to the non-EU national authorities. A recommendation

by the JAA is a requirement for certification of an aircraft by most of these authorities. Before the creation of EASA, 27 national authorities were JAA members. As EASA is a new organization, it is currently using the JAA technical structure and following the JAA s recommendations for issuance of EASA type certificates for aircraft.

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Aircraft certification is an ongoing process. Any change in the design of any of our aircraft must be approved by the Brazilian authority. Significant changes may require a separate certification by other authorities. Changes in the aircraft certification requirements do not require recertification of an aircraft already certified, but significant safety improvements may be imposed by the authorities through operational rules or airworthiness directives.

4C. Organizational Structure

Our operations are conducted by Embraer-Empresa Brasileira de Aeronáutica S.A. as the controlling and principal operating company. We have a number of direct and indirect subsidiaries, none of which are considered significant. A complete list of our subsidiaries has been filed as Exhibit 8.1 to this annual report.

4D. Property, Plants and Equipment

We own our headquarters and plant, located in São José dos Campos. Significant portions of our facilities in São José dos Campos are subject to mortgages held by BNDES. We lease, own or have the right to use the following properties:

Location	Purpose	Approximate square footage	Owned/ Leased	Lease Expiration
São José dos Campos, SP, Brazil	Headquarters, principal manufacturing facility and support center	5,902,102	Owned	
São José dos Campos, SP, Brazil (Eugênio de Mello)	Manufacturing facility	3,658,884	Owned	
Botucatu, SP, Brazil	Manufacturing facility	222,000	Owned	
Harbin, China	Manufacturing facility	258,067	Owned*	
Gavião Peixoto, SP, Brazil	Testing and manufacturing facilities	191,648,512	**	
São Paulo, SP, Brazil	Administrative offices	5,245	Leased	2007
Ft. Lauderdale, Florida, U.S.A.	Support center	91,500	Leased	2020
West Palm Beach, Florida, U.S.A.	Engineering offices	16,800	Leased	2005
Nashville, Tennessee, U.S.A.	Aircraft maintenanceand support center	125,260	Leased	2018
Le Bourget, France	Support center	33,500	Leased	2008
Melbourne, Australia	Support center	12,126	Leased	2004
Beijing, China	Representative offices	1,709	Leased	2004
Singapore	Representative offices	2,239	Leased	2004

* Land owned pursuant to a land use rights certificate.

** We currently have a temporary authorization from the State of São Paulo to use the land and expect to receive a concession for the land as soon as legal formalities are satisfied. The facilities are owned by Embraer.

Production

The actual manufacture of an aircraft consists of three principal stages: fabrication of primary parts, assembly of major components and final assembly. Primary parts include metal sheets and plates (produced from die-cast molds,

stretch forming or various chemical treatments), parts produced using computerized and non-computerized machines, and pre-fabricated parts. The primary parts are then joined, or mated, with one another to produce the aircraft s major components, which are in turn joined to create the aircraft s basic structure. In the final assembly stage, the aircraft s various operating systems (such as wiring and electronics) are installed into the structure and tested.

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Production facilities for our commercial, corporate and defense aircraft are located in São José dos Campos in the State of São Paulo, Brazil. We reduced the aircraft production time of our regional jet aircraft from eight months in 1996 to 3.4 months in 2003. From December 31, 1999 to December 31, 2000, we increased our production rate from 12 to 16 aircraft per month. At March 31, 2001, our production rate was 16 aircraft per month. In response to decreased market demand after the September 11, 2001 terrorist attacks and the related global economic slowdown, we decreased our production to 11 aircraft per month and, in 2003, decreased it further to nine aircraft per month. We have the flexibility to increase production in the future in response to increased demand. We build the EMB 120 Brasília according to market demand and adjust production accordingly. To accommodate our production of the ERJ 145 regional jet family and our EMBRAER 170/190 jet family, as well as any production of the line of corporate jets, we have expanded our production facilities and acquired new facilities and will continue to coordinate with our risk-sharing partners to accommodate any future production needs.

We built a new facility in Gavião Peixoto, in the State of São Paulo, Brazil, to enhance our flight testing capabilities and provide a final assembly line for our defense and corporate aircraft. As of December 31, 2003, we had invested US$43.9 million in the construction of this new facility. This facility has been operational since November 2002 and consists of a runway and other features to handle our development of supersonic aircraft technology. We are also conducting our flight tests for the EMBRAER 170/190 jet family at this facility. In addition, we are constructing a corporate jet furniture factory in Gavião Peixoto for the production of the interior of our Legacy corporate jet. We expect this facility to be fully operational by July 2004.

In September 2000, we purchased a new facility in São José dos Campos in the State of São Paulo, Brazil, where we currently manufacture small parts and components for our aircraft. Our China joint venture has constructed a production facility for the ERJ 145 jet family in Harbin, China.

Environmental Matters

Most environmental regulation in Brazil is established at the state rather than at the federal or municipal level, with environmental authorities in most states granting operating permits to individual facilities rather that through general regulations. We have all material permits required to operate our business. The terms of these operating permits are reviewed every year and we are in compliance with our permits. In addition, we adhere internally to international ISO 14000 environmental standards. In 2001, 2002 and 2003, we invested US$1.1 million, US$1.0 million and US$1.7 million, respectively, in environmental matters and we expect to spend approximately US$2.1 million on environmental matters in 2004 for expenditures relating to the portion of construction of new facilities and modification of existing facilities relating to environmental compliance and improvements.

Insurance

We insure all of our plants and equipment for loss and replacement. We also carry insurance to cover all potential damages to our own fleet of aircraft, including those occurring during commercial and demonstration flights. In addition, we maintain a comprehensive aviation products liability policy, which covers damages arising out of the manufacture, distribution, sale and servicing of our aircraft and parts. We have been increasing our coverage for aviation products liability as our fleet has grown. We also carry natural disaster and business interruption insurance covering property damage and the related loss of gross income, as defined in the policy, and additional expenses, such as those incurred by us to offset the loss of production and delivery of aircraft due to partial or total interruption of our business because of material losses caused by an accident. We consider the amounts of our insurance coverage to be typical for a company of our size and adequate to meet all foreseeable risks associated with our operations.

We also maintain officers and directors liability insurance in the total amount of US$50.0 million. This insurance covers our officers and directors for liabilities resulting from wrongful acts, including any act or omission committed

or attempted by any officer or director acting in his or her capacity as officer or director or any matter claimed against an officer or director solely by reason of his or her serving in such capacity.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

This discussion should be read in conjunction with our consolidated financial statements and notes thereto and other financial information included elsewhere in this annual report. This annual report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in Item 3D. Risk Factors and the matters set forth in this annual report generally.

Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with U.S. GAAP and presented in U.S. dollars. For certain purposes, such as providing reports to our shareholders located in Brazil, filing financial statements with the Comissão de Valores Mobiliários, or CVM, the Brazilian securities commission, and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements in accordance with the Brazilian Corporate Law.

5A. Operating Results

Current Conditions and Future Trends in the Airline Industry

The commercial aviation industry has been negatively impacted by a number of factors beginning in 2001. First, the U.S. and world economies experienced an economic downturn that began in 2001 and was characterized by rapid declines in securities markets, a decline in productivity and an increase in unemployment. Second, the terrorist attacks of September 11, 2001 caused an immediate decline in airline travel and a high level of financial uncertainty among the worldwide airline industry. In addition, airline travel decreased significantly in 2003 as a result of both the commencement of military action by the United States and other countries in Iraq and the concerns over outbreaks of severe acute respiratory syndrome (SARS) in Asia and Canada. In response to these events, beginning in the fourth quarter of 2001 many airlines, including our largest customers, reduced their flight schedules for the long term and announced significant lay-offs. As a result, we agreed to modify certain delivery schedules to adjust to the changes in our customers businesses and reduced scheduled commercial airline, corporate jet and government transportation aircraft deliveries. In 2002, we reduced our delivery schedule to 131 aircraft as compared to planned 2002 deliveries of 205 at August 31, 2001. We also reduced our 2003 scheduled deliveries from 148 aircraft originally planned to 101 actual deliveries. We have also re-evaluated our risk exposure related to aircraft valuations and customer credit risk, which resulted in charges to income. Although the U.S. and world economies have begun to recover in 2004, many airlines continue to face weak demand, escalating insurance costs, increased security costs, credit downgrades, liquidity concerns and bankruptcy, and, more recently, sharply higher fuel costs. A further downturn in general economic conditions could result in further reduction in the passenger aircraft market and decreased orders for our commercial aircraft. See Item 3D. Risk Factors Risks Relating to Embraer A downturn in the commercial airline market may reduce our sales and revenue, and consequently our profitability, in any given year.

We believe that the recent volatility in demand for air travel has demonstrated the demand to match aircraft capacity to market demand more accurately. Similarly, we believe there is the need for aircraft that can be deployed strategically across a full range of seat capacities. As airlines act to right-size their fleets to serve these needs, equipment distribution in fleets around the world will change. We expect this equipment distribution to take advantage of new and existing products in the 30-120 seat category. We believe that the 30-60, 61-90 and 91-120 seat segments will play important but different roles. We currently believe:

- airlines will continue to deploy 30-60 seat aircraft to expand hub areas, increase frequencies, explore new market opportunities, stimulate demand, develop secondary hubs, replace turboprops and fly non-stop, point-to-point routes;

the 61-90 seat segment will allow airlines to add capacity in markets where the natural growth of regional jet routes requires larger jets. Aircraft in this seat segment will also help airlines to right-size their mainline fleets by diminishing the need to operate larger jets on routes with an excess of passenger demand; and

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the 91-120 seat segment will benefit those markets currently being served by old, over-sized or inefficient jet fleets and will relieve higher-capacity aircraft to serve large-market, high-volume city pairs over longer routes.

We also believe that aircraft retirement will impact future fleet composition. We estimate that during the next 20 years, nearly 2,000 aircraft in the 30-120 seat segment are scheduled to be retired. Among existing aircraft in the 61-90 seat segment, we estimate that 63% will be out of service by 2023. Similarly, we estimate that 85% of the aircraft in the 91-120 seat segment will be retired during the same period.

We expect that in the near future deliveries will be evenly distributed among the three seat categories with North America maintaining the greatest share of total deliveries, followed by Europe.

We also believe that Latin America, which has the oldest jet fleet, represents a potential replacement opportunity for our products.

We expect low-fare airlines, which traditionally have focused on short- and medium-haul routes and which have been relatively successful during the recent industry downturn, to continue to expand their market penetration in the low-density and low-capacity markets independently of alliances. We believe that the mid-capacity jets will be an important tool for these low-fare airlines in their expansion efforts.

Brazilian Economic Environment

The recent events negatively affecting the commercial aviation industry and the ensuing negative effects on the U.S. economy have also adversely affected the global and Brazilian economies and securities markets, and have resulted in:

increased volatility in the market price of securities;

significant decline in corporate earnings estimates;

substantial losses in important industries, including the air transport and insurance industries; and

significant erosion of consumer confidence.

As discussed below, the uncertainty surrounding the U.S., Brazilian and global economies could in turn lead to the Brazilian government changing existing laws or regulations or imposing new ones, and/or the Central Bank changing base interest rates, which could adversely affect our operations.

The Brazilian economy has been characterized by frequent and occasionally drastic intervention by the Brazilian government and by volatile economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil s economy. For example, the Brazilian government has the authority, when a serious imbalance in Brazil s balance of payments occurs, to impose restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and on the conversion of Brazilian currency into foreign currencies. Changes in monetary, taxation, credit, tariff and other policies could adversely affect our business, as could inflation, currency and interest rate fluctuations, social instability and other political, economic or diplomatic developments, as well as the Brazilian government s response to such developments. See Item 3D. Risk Factors Risks Relating to Brazil.

Rapid changes in Brazilian political and economic conditions that have occurred and may occur in the future will require continued emphasis on assessing the risks associated with our activities and adjusting our business and operating strategy accordingly. Future developments in Brazilian government policies, including changes in the current policy and incentives adopted for financing the export of Brazilian goods, or in the Brazilian economy, over

which we have no control, may materially adversely affect our business. See Item 3D. Risk Factors Risks Relating to Brazil.

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Brazilian economic conditions may also be negatively affected by economic and political conditions elsewhere, particularly in other South American and emerging market countries. Although economic conditions are different in each country, the reaction of investors in one country may cause the capital markets in other countries to fluctuate. Developments or conditions on other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil.

For example, since 1999, the Argentine economy has been in a recession marked by reduced levels of consumption and investment, increasing unemployment and declining gross domestic product. During late 2001, Argentine depositors withdrew their money from banks and sought to remit such funds abroad. In early December 2001, the government restricted the rights of such depositors to withdraw their funds. The economic crisis gave rise to increasing political instability and eventually led to the announcement by Argentina that it would impose a moratorium on the payment of its foreign debt. On January 3, 2002, Argentina formally defaulted on debt held by certain foreign creditors. On January 7, 2002, Argentina announced that it was devaluing its peso by 29%, ending the peso s decade-old one-to-one peg with the U.S. dollar. In 2002, the Argentine peso experienced a devaluation of over 200% against the U.S. dollar. Although the Argentinean economic scenario has improved during 2003, the political and economic crises in Argentina have negatively affected investors perceptions of risks in Brazil.

The recent political crisis in Venezuela has also influenced investors perception of risk in Brazil. Although market concerns that similar crises would ensue in Brazil have not become a reality to date, the volatility in market prices for Brazilian securities increased in 2001 and 2002. Instability in the Brazilian financial markets caused by the Argentine and Venezuelan crises and other developments in the international financial markets, including the deterioration of worldwide market conditions caused by the war in Iraq, may adversely affect our financial condition and, specifically, our ability to raise capital when needed and the market price of the preferred shares and ADSs.

The Brazilian government has also proposed a broad tax reform in Brazil, mainly designed to reduce the public deficit through the increase in tax collection. It is anticipated that the reform will include the creation of a value-added tax on goods and services that would replace six existing taxes (including contribution for social purposes, the federal tax on industrial products and the state tax on circulation of goods and services). In addition, the *Contribuição Provisória sobre Movimentação Financeira-CPMF*, a provisional levy on checking account transactions, would be replaced by a permanent federal tax on financial transfers. We may have a higher tax burden if the tax reform bill is approved and implemented.

Effects of Inflation and Currency Exchange Fluctuations

Until July 1994, Brazil had for many years experienced high, and generally unpredictable, rates of inflation and steady devaluation of its currency relative to the U.S. dollar. The following table sets forth, for the periods shown, Brazilian inflation as measured by the General Market Index and published annually by Fundação Getúlio Vargas and the devaluation of the *real* against the U.S. dollar as measured by comparing the daily exchange rates published by the Central Bank on the last day of each year:

	1999	2000	2001	2002	2003
Inflation (General Market Price Index)	20.1%	9.9%	10.4%	25.3%	8.7%
Devaluation (appreciation) (R$ vs. US$)	48.0%	9.3%	18.7%	52.3%	(18.2)%

Inflation and exchange rate variations have had, and may continue to have, substantial effects on our financial condition and results of operations.

Inflation and exchange rate variations affect our monetary assets and liabilities denominated in *reais*. The value of such assets and liabilities as expressed in U.S. dollars declines when the *real* devalues against the U.S. dollar and increases when the *real* appreciates. In periods of devaluation of the *real*, we report (a) a remeasurement loss on *real*-denominated monetary assets and (b) a remeasurement gain on *real*-denominated monetary liabilities.

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Finally, because revenues in our defense business were historically denominated principally in *reais*, while our costs for materials for this segment were principally denominated in U.S. dollars, devaluation of the *real* adversely affected margins in our defense business. However, because our defense business has become more international, revenues have principally been denominated in U.S. dollars over the last three years. As a consequence, our exposure to exchange rate variations has been reduced to only 20% of our total defense sales in 2002, compared to 30% in 2001 and 2002. In addition, some of our *real*-denominated defense contracts have been adjusted to reflect the effects of both Brazilian inflation and R$/US$ exchange rate variations, which has the effect of further decreasing the exposure of our defense business to devaluation of the *real*.

Critical Accounting Estimates

In connection with the preparation of the financial statements included in this annual report, we have relied on variables and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Although we review these estimates and assumptions in the ordinary course of business, the portrayal of our financial condition and results of operation often requires our management to make judgments regarding the effects of matters that are inherently uncertain. Actual results may differ from those estimated under different variables, assumptions or conditions. Note 3 to our consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of these financial statements. In order to provide an understanding about how management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included below a brief discussion of our more significant accounting policies.

Sales and Other Operating Revenues

We generally recognize sales of our commercial and corporate aircraft as deliveries are made. In our defense aircraft segment, we perform work under long-term development contracts for the Brazilian government and other governments, and we recognize revenue in accordance with the percentage of completion method. Revenue recognized under this method is based on actual costs incurred and an estimate of the total remaining costs to be incurred prior to completion of the contract. Certain contracts contain provisions for the redetermination of price based upon future economic conditions. Anticipated losses, if any, under these contracts are accrued when known and are recorded based on management s estimate of such losses.

Product Warranties

Generally, aircraft sales are accompanied by a standard warranty for systems, accessories, equipment, parts and software manufactured by us. We recognize warranty expense, as a component of selling expenses, at the time of sale based on the estimated amounts of warranty costs expected to be incurred, which are typically expressed as a percentage of the sales price of the aircraft. These estimates are based on a number of factors, including our historical warranty claim and cost experience, the type and duration of the warranty coverage, volume and mix of aircraft sold and in service and warranty coverage available from the related suppliers. The warranty period ranges from two years for spare parts to five years for components that are a part of the aircraft when sold.

We have provided guarantees of specified minimum levels of aircraft performance based on pre-determined operational targets. Costs resulting from a failure to meet these targets cannot be established until after delivery of the aircraft. In the event that these target levels are not met, we may be obligated to pay amounts to the affected customers as reimbursement for their incremental operating or service costs. Losses related to such performance guarantees are recorded at the time they are known, or when circumstances indicate that the aircraft is not expected to meet the minimum performance requirements, based on management s estimate of our ultimate obligation under the guarantee. In some cases, we may also be obligated to make modifications after aircraft delivery due to improvement or

performance of aircraft. The costs related to these modifications are accrued when known.

Guarantees, Repurchase Commitments and Trade-In and Trade-Up Rights

We have provided sales incentives in the form of financial and residual value guarantees, repurchase commitments and trade-in and trade-up rights related to our aircraft. We review the value of these commitments relative to the aircraft s anticipated future fair value and, in the case of financial guarantees, the creditworthiness of

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the obligor. Provisions and losses are recorded when and if payments become probable and are reasonably estimable. We estimate future fair value using third party appraisals of aircraft valuations, including information developed from the sale or lease of similar aircraft in the secondary market. We evaluate the creditworthiness of obligors for which we have provided credit guarantees by analyzing a number of factors, including third party credit ratings and estimated obligors borrowing costs.

In accordance with FASB of Interpretation No. 45, or FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others, we record third-party guarantees on our balance sheet at their fair value. FIN 45 has the general effect of delaying the recognition of the portion of our revenue sales that are accompanied by certain third-party guarantees. These estimates of fair value are based on certain assumptions, including the probability of default by the ultimate obligor and the market value of the mortgaged assets. As a result, actual losses under financial guarantees may differ from the amounts recognized on our balance sheet, and, consequently, could negatively affect future operating results. During 2003, we do not believe that the fair value of the guarantees we recorded was material.

Overview

Basis of Presentation

The consolidated financial statements have been prepared in accordance with U.S. GAAP. See Introduction Presentation of Financial and Other Data Financial Data for a discussion of factors affecting our financial data.

Operating Data

The following chart sets forth statistical data concerning our deliveries and backlog for our aircraft at the end of the respective periods. Deliveries consist of aircraft that have been delivered to customers and for which the corresponding revenue has been recognized. Our backlog consists of all firm orders that have not yet been delivered. A firm order is a contractual commitment from a customer, customarily accompanied by a down payment, for which we have reserved a place on one of our production lines. See Item 5D. Trend Information for certain information on our firm orders and options.

	At December 31,		
	2001	**2002**	**2003**
Commercial Airline			
Deliveries			
ERJ 145	104	82	57
ERJ 135	27	3	14
ERJ 140	22	36	16
EMB 120 Brasília	2		
Defense			
Deliveries	3	7	4
Corporate			
Deliveries (1)	5	8	13
Other Operating Information			
Total backlog (in millions)(2)	US$10,693	US$9,034	US$10,591

(1) Of the 13 corporate deliveries in 2003, two were delivered under operating leases.

(2) Since December 31, 2003, we received 22 additional firm orders for our ERJ 145 regional jet family and 28 additional firm orders for our EMBRAER 170/190 jet family.

Net Sales

We generate revenue primarily from sales of commercial aircraft. We also generate revenue from the sale of defense aircraft, and from the sale of our Legacy corporate jets. Net sales of commercial and corporate aircraft are denominated in U.S. dollars. Of defense net sales, sales to the Brazilian government are partially indexed to the U.S. dollar and accounted for 39.3% in 2003. Finally, we generate revenue from our other related businesses, which

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include after-sales support (including the sale of spare parts, maintenance and repair, training and other product support services), operating leases and single-source supply of structural parts and mechanical and hydraulic systems to other aircraft manufacturers.

We generally recognize revenue for the sale of our commercial and corporate aircraft when the aircraft is delivered to the customer. We customarily receive a deposit upon signing of the purchase agreement for the sale of our commercial and corporate aircraft and progress payments in the amount of 5% of the sales price of the aircraft 18 months, 12 months and six months before scheduled delivery. For the EMBRAER 170/190 jet family, we receive an additional 5% progress payment 24 months before scheduled delivery. We typically receive the remaining amount of the sales price upon delivery. Payments in advance of delivery are recorded under customer advances as a liability on our balance sheet and, when we deliver the aircraft, these payments are recorded as net sales.

As a result of a decrease in the amounts available under the ProEx program in 1999, we assisted some of our affected customers in restructuring their financing arrangements. In cases in which we were not able to restructure these arrangements, we provided special price adjustments to these customers to maintain the effective interest rates in their original financing arrangements.

Our sales contracts with our customers typically include adjustments to the purchase price of the aircraft based on an escalation formula which reflects, in part, inflation in the United States. The deposits, progress payments and option payments are generally non-refundable. Once a customer decides to exercise an option, we account for it as a firm order and we begin to receive progress payments and recognize revenue upon delivery as discussed above.

We recognize revenue from the sale of our defense aircraft, including the funding of the research and development for specific programs, in accordance with the percentage of completion method. Certain contracts contain provisions for the redetermination of price based upon future economic conditions. Our defense customers continue to provide customer advances, which are converted into revenue as we achieve pre-determined stages of completion of the project, such as conception, development and design, and engineering, systems integration and customization. These installments are generally non-refundable.

Cost of Sales and Services

Our cost of sales and services consists primarily of:

Material These costs are primarily U.S. dollar-denominated. Substantially all of our materials costs are covered by contracts with our suppliers. Prices under these contracts are generally adjusted based on an escalation formula which reflects, in part, inflation in the United States.

Labor These costs are primarily *real*-denominated.

Depreciation We depreciate our property, plant and equipment over their useful lives, ranging from five to 48 years, on a straight line basis. On average, our property, plant and equipment is depreciated over 13 years.

Recent Developments

On May 14, 2004, we announced our unaudited financial results for the first quarter of 2004. We delivered 23 aircraft, including the first eight EMBRAER 170 aircraft, during this period, the same total number of aircraft as were delivered in the first quarter of 2003.

Our net sales for the quarter were US$626.2 million, an increase of 28.1% compared to the same period in 2003. Commercial airline net sales increased 13.8%, from US$389.3 million in the first quarter of 2003 to US$443.2 million

in the first quarter of 2004, due to the first deliveries of the EMBRAER 170, which has a higher average sales price than the aircraft in the ERJ 145 jet family. Defense segment net sales increased 136.8%, from

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US$55.2 million in the first quarter of 2003 to US$130.7 in the first quarter of 2004, due the recognition of revenues related to the Mexican and Greek government programs as well as Brazilian government programs for the EMB AEW&C and the F-5. Other related business segment net sales increased 80.3% from US$29.0 million in the first quarter of 2003 to US$52.3 million in the first quarter of 2004. We did not recognize any sales in our corporate segment during the quarter.

Costs of sales and services for the quarter totaled US$424.2 million, compared to US$294.7 million in the first quarter of 2003, resulting in a gross margin of 32.3%, compared to 39.7% in the first quarter of 2003. Gross margin decreased as a result of the costs associated with the commencement of the production of the EMBRAER 170, eight of which were delivered in the first quarter of 2004, and the 1.2% negative impact of the reassessment of future costs related to certain defense contracts, for which costs are recognized under the percentage of completion method.

Operating expenses for the first quarter of 2004 were US$49.0 million, a decrease of 55.9% compared to the first quarter of 2003. This decrease was mainly due to the recognition as operating income of US$88.7 million in payments received from our risk-sharing partners as a result of the achievement of certain EMBRAER 170/190 jet family development contractual milestones.

As a result, our net income for the first quarter of 2004 was US$103.3 million, compared to US$44.0 million in the first quarter of 2003. Net income as a percentage of net sales was 16.5%, compared to 9.0% in the first quarter of 2003.

Results of Operations

The following table presents income statement data by business segment.

Summary Financial Data by Business

	Operating income		
	Year ended December 31,		
	2001	**2002**	**2003**
	(in millions of dollars)		
Net sales:			
Commercial Airline	US$ 2,552.5	US$ 2,110.3	US$ 1,526.4
Defense	124.0	127.3	262.4
Corporate	72.6	144.9	175.4
Other related businesses	177.9	143.3	179.3
	2,927.0	2,525.8	2,143.5
Cost of sales and services:			
Commercial Airline	(1,536.8)	(1,243.9)	(924.9)
Defense	(105.2)	(79.5)	(205.8)
Corporate	(47.0)	(104.6)	(124.4)
Other related businesses	(80.2)	(103.7)	(79.9)

	(1,769.2)	(1,531.7)	(1,335.0)
Gross profit:			
Commercial Airline	1,015.7	866.4	601.5
Defense	18.8	47.8	56.6
Corporate	25.6	40.3	51.0
Other related businesses	97.7	39.6	99.4
	1,157.8	994.1	808.5
Operating expenses:			
Commercial Airline	(258.6)	(335.6)	(345.7)
Defense	(23.4)	(15.7)	(15.7)
Corporate	(9.3)	(28.4)	(38.6)
Other related businesses	(61.4)	(31.2)	(34.1)
Unallocated corporate expenses	(153.7)	(113.6)	(109.6)
	(506.4)	(524.5)	(543.7)
Income from operations	US$ 651.4	US$ 469.6	US$ 264.8

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The following table sets forth income statement information, and such information as a percentage of our net sales, for the periods indicated.

	Year ended December 31,					
	2001		2002		2003	
	(in millions of dollars, except percentages)					
Net sales	US$ 2,927.0	100.0%	US$ 2,525.8	100.0%	US$ 2,143.4	100.0%
Cost of sales and services	(1,769.2)	60.4	(1,531.7)	60.6	(1,335.0)	62.3
Gross profit	1,157.8	39.6	994.1	39.4	808.4	37.7
Operating expense						
Selling expenses	(212.1)	7.2	(211.0)	8.4	(206.2)	9.6
Research and development	(99.6)	3.4	(158.5)	6.3	(173.2)	8.1
General and administrative	(120.8)	4.1	(109.7)	4.3	(114.7)	5.3
Employee profit sharing	(43.7)	1.5	(25.2)	1.0	(20.4)	1.0
Other operating expenses, net	(30.5)	1.1	(20.5)	0.8	(29.1)	1.4
Equity on income (loss) from affiliates	0.3		0.4			