EMBRAER

Annual Report 2001

President and CEO Maurício Novis Botelho's
Presentation of the Annual Report

DVD

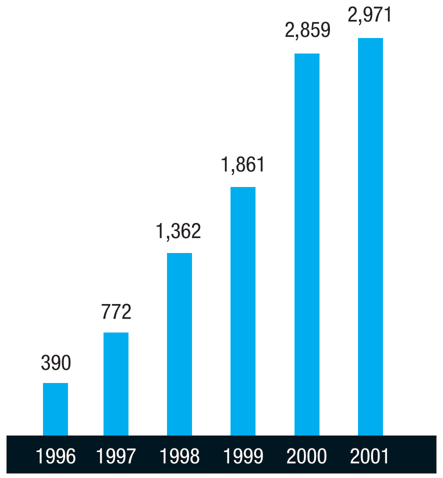
EMBRAER

Contents

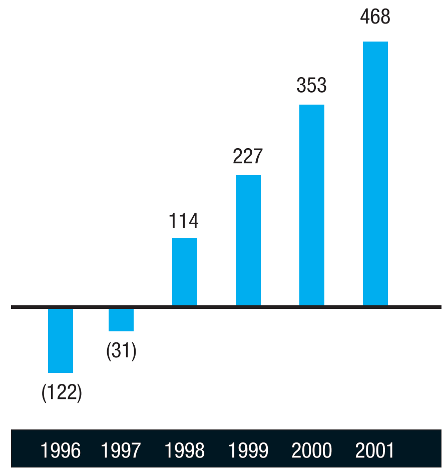
Embraer is the world's fourth largest commercial aircraft manufacturer, achieving growth through state-of-the-art technology and product and service excellence.
The Company maintains a significant market share thanks to a global customer base and strategic international partners.
Based on 32 years of experience in design, manufacturing, sales and after-sales service, Embraer delivered approximately 5,500 aircraft to markets throughout the world. Since 1999, the Company has been the largest single Brazilian exporter, with overseas sales of US$ 2.89 billion in 2001. Embraer established a strategic alliance with leading names in the European aerospace industry – Dassault Aviation, EADS, Snecma and Thales, which in 1999 acquired a 20% stake in Embraer's voting stock.
This strategic alliance gives the Company access to new technologies, specially in the defense area, an essential factor in developing new markets.
Embraer is structured around three industrial units and two subsidiaries in Brazil (ELEB and NEIVA), with several subsidiaries, branches and offices overseas – in the United States, United Kingdom, France, Australia, China and Singapore. Embraer's headquarters are located in São José dos Campos, state of São Paulo, 90 kilometers from the city of São Paulo. This facility is responsible for design and manufacture and provides after-sales support to the commercial, corporate and defense aviation markets.
The Eugênio de Melo plant, also in São José dos Campos, is responsible for the development and manufacture of tools and conduit systems, as well as the electric wiring plant. The Eugênio de Melo unit also houses most Embraer training facilities, including those dedicated to the Engineering Specialization Program *(PEE)*. Once concluded, the new Gavião Peixoto, state of São Paulo, plant will be responsible for the final assembly of corporate jets and military aircraft. The facility incorporates a runway, which is already being used for flight testing.
ELEB (Embraer Liebherr Equipamentos do Brasil S.A.) is a joint venture between Embraer and the German corporation Liebherr. The company designs and manufactures landing gear, hydraulic components and precision equipment.

ELEB is located in São José dos Campos and also has laboratories for engineering and quality control testing.
NEIVA is an Embraer subsidiary – based in Botucatu, state of São Paulo, responsible for the manufacture of the EMB 120 Brasília aircraft on a made-to-order basis, as well as light aircraft such as the Ipanema crop duster and components and sub-assemblies for the ERJ 145/140/135 family of commercial aircraft.

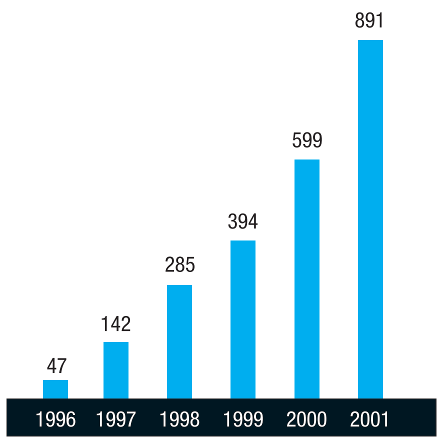
Financial Highlights



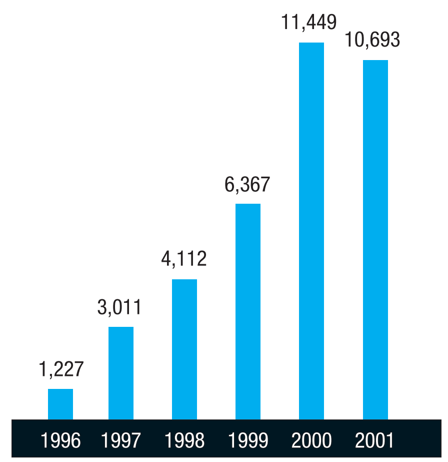
Gross revenue
US$ millions



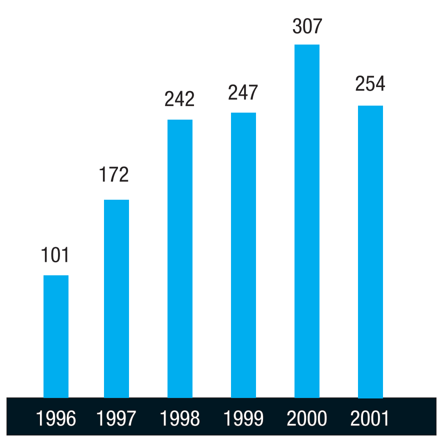
Net income
US$ millions



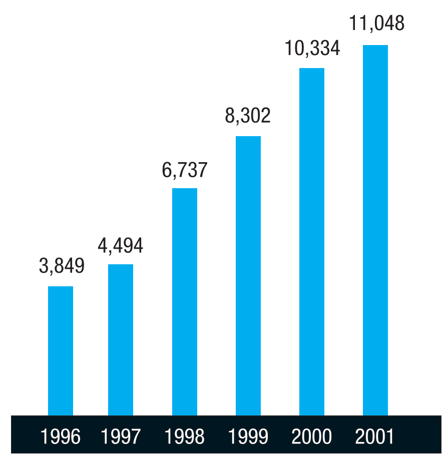
EBITDA
US$ millions



Order backlog
US$ millions



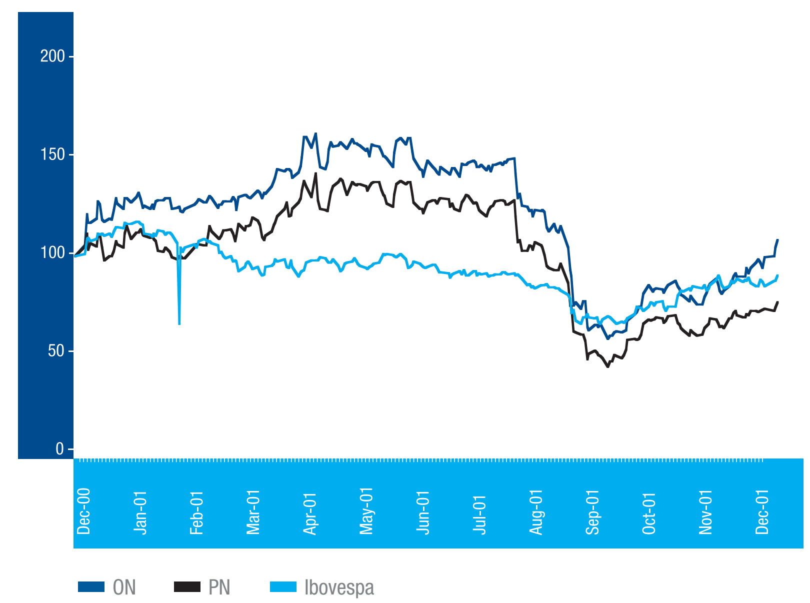
Revenue per employee
US$ thousands



Number of employees

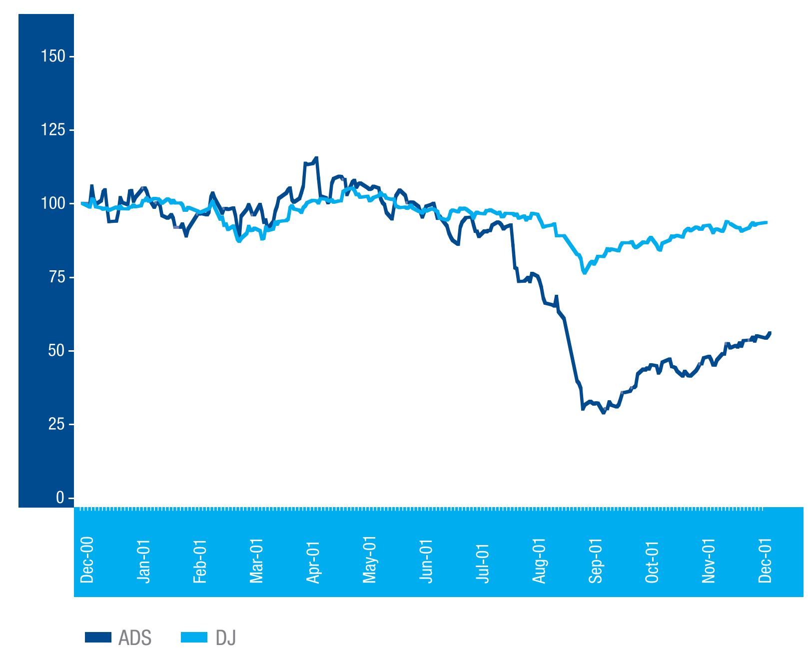
Share and ADS performance

Embraer versus Ibovespa



Embraer's preferred shares dropped 27.5% during the year, closing at R$13.20 on December 28, 2001. The average daily trading volume on the São Paulo Stock Exchange (Bolsa de Valores de São Paulo) was R$6.6 million. The Company's common shares appreciated 1.3%, closing the year at R$12.51 per share with an average daily trading volume of R$4.5 million. The Bovespa Index (Ibovespa) reported a decline of 11.0% over the same period.

Embraer versus Dow Jones



The Company's American Depositary Shares (ADSs), which are traded on the New York Stock Exchange (NYSE), fell 44.3%, closing at US$22.13 at year-end. The average daily volume traded was 379,000 ADSs, or approximately US$10.7 million. Over the same period, the Dow Jones industrial Average declined 7.1%. The ADS share price appreciated 19.6% since trading began on the NYSE on July 21, 2000 at US$18.50. The negative performance of locally listed shares and ADSs, was strongly impacted by the terrorist attacks of September 11 and the subsequent re-scheduling of aircraft deliveries by the Company.

The strong growth and excellent financial results achieved over the last few years are a clear vindication of Embraer's strategy of investing in the commercial aviation segment. The Company now ranks as the world's fourth largest commercial jet manufacturer and for three consecutive years has been the largest Brazilian exporter. During 2001, Embraer's exports totaled US$ 2,897 million, accounting for 98% of the Company's revenues.

With a strategy based on achieving results through a commitment to customer satisfaction, the Company diversified its product lines and strengthened its commercial relationships. As a result, Embraer was much better prepared to face the extraordinary challenges presented in 2001. In spite of the adverse circumstances – deceleration in the major world economies, particularly aggravated in the case of the aircraft industry by the impact of the September terrorist attacks in the United States – Embraer once again reported solid earnings in 2001. Such performance was, in large part, due to the continued delivery of the highly successful family of ERJ 145/140/135 regional jets, productivity gains, as well as the effects of the depreciation of the Real against the U.S. dollar.

Net earnings of R$1,100.9 million (US$468 million) were 70.6% higher compared to 2000 on a 33.6% higher gross revenue of R$6,989.2 million (US$2,971.2 million). EBITDA increased 91.3% to R$2,096.8 million (US$891.4 million), with an EBITDA margin of 30.0%.The consequences of the terrorist attacks in the United States had a major impact on the airline industry. With the sudden decline in passenger demand, airline companies announced layoffs running into the tens of thousands, with a subsequent domino effect on the aircraft and aircraft component industries due to the rescheduling of aircraft deliveries.

The outcome was the elimination of nearly 200,000 jobs in these two sectors worldwide.

Embraer reacted promptly and pragmatically to adapt to the more adverse business climate. Acting in partnership with our customers and suppliers, we reviewed our production and procurement plans and adopted a series of measures to cut costs and adjust to the slowdown in the industry. At the same time, however, we sought to protect capital expenditure plans involving product development for the commercial, corporate and defense segments. We also endeavored to preserve investments aimed at customer satisfaction and at expanding the range of services provided by the Company, as well as those related to improving productivity and industrial capacity, particularly the new Gavião Peixoto facility. These initiatives also included an adjustment to headcount, which unfortunately meant laying off 1,800 employees, or 14% of our direct labor force. Nevertheless, Embraer was still able to report a net gain in employment with the creation of more than 700 direct jobs during the year. We successfully met the majority of targets we had set for 2001. We delivered 161 regional jets (one more than in 2000), achieving our revised post-September 11 goal of 160 aircraft as compared with our original objective for the year, of 205 aircraft. After conducting a careful analysis in conjunction with our customers and reviewing the impacts of the events on their businesses, we rescheduled forecasted deliveries for 2001, 2002 and 2003 to respectively 160, 135 and 145 aircraft, without any cancellation of firm orders.

Our potential for realizing future revenues thus remained intact as reflected in Embraer's portfolio of firm orders amounting to approximately US$10.7 billion (US$23.4 billion including purchase options). The new runway at the Gavião Peixoto facility was inaugurated in October and first flight tests were conducted with our aircraft. This plant will become fully operational during the next few years and will comprise the final assembly lines for military and corporate aircraft, together with a maintenance center and a manufacturing facility for aircraft components and sub-assemblies. With the climate of uncertainty still prevailing following the terrorist attacks in the United States, Embraer once again demonstrated its commitment to the future of the airline industry on October 29, 2001 with the roll-out ceremony for the EMBRAER 170, the first member of the new family of commercial jets comprising the EMBRAER 170/175/190/195 models. This important initiative is an indication of our confidence in the ability of the market to recover and the potential we see for the 70 to 110 seat segment, in line with the growing demand for medium-sized commercial airliners. We also achieved significant success in the Defense Market, with the signing of a contract with the Mexican government for one EMB 145 AEW&C aircraft for aerial reconnaissance and two EMB 145 MP aircraft for maritime patrolling. Embraer also began work on a Brazilian Air Force (FAB) order for 76 ALX

aircraft (there are purchase options for additional 23 units). The ALX is a version of the Super Tucano, specially designed for advanced training and light attack missions.
In 2001, the Company also began the modernization of FAB's fleet of F-5 supersonic fighter aircraft.
In the corporate aviation segment, Embraer finalized important sales contracts for the Legacy in both its Executive and Shuttle versions. Once again, this is testimony to the success of the Company's strategy in diversifying its product line to meet the needs of the corporate market segment, by offering an aircraft which has compelling cost/benefit advantages over competing models. In June, Embraer's controlling shareholders concluded a secondary offering of shares in Brazil and the United States equivalent to US$ 750 million and increased the market float of preferred shares. At about the same time, BNDES (the Brazilian Development Bank) had exercised US$ 300 million in subscription warrants for debentures convertible to Embraer ADSs. Following these transactions, the free float for preferred shares rose from 37.5% to 58.5%, with 13.1% traded on the São Paulo Stock Exchange – (Bovespa) and 45.4 % on the New York Stock Exchange – (NYSE).
On the community activity side of our business, we continue our commitment to recruiting and professional training programs, which have placed Embraer at the technological cutting edge of the aircraft industry. Highlights in 2001 were: the Specialization Program in Engineering to train recently graduated engineers in specialized aeronautical engineering; the MBA course, with a focus on foreign trade, offered in partnership with the Getúlio Vargas Foundation, and the launch of the Embraer Institute for Education and Research, with its first initiative directed to high school students from the public school system in communities the Company operates in – initially in the São José dos Campos region.
In 2001, Embraer stood out for its support of other community programs and cultural activities. In spite of the current difficulties of the Industry, we are projecting a new scenario for global commercial aviation which foresees a potential migration of significant numbers of passengers from larger to smaller aircraft – thus bringing new opportunities for Embraer. This new reality will in part be a reflection of route and cost rationalization by the airlines, as well as the desire to minimize delays and inconvenience resulting from more stringent security procedures at hub airports.
At the same time, we will intensify our efforts to expand into new markets, notably

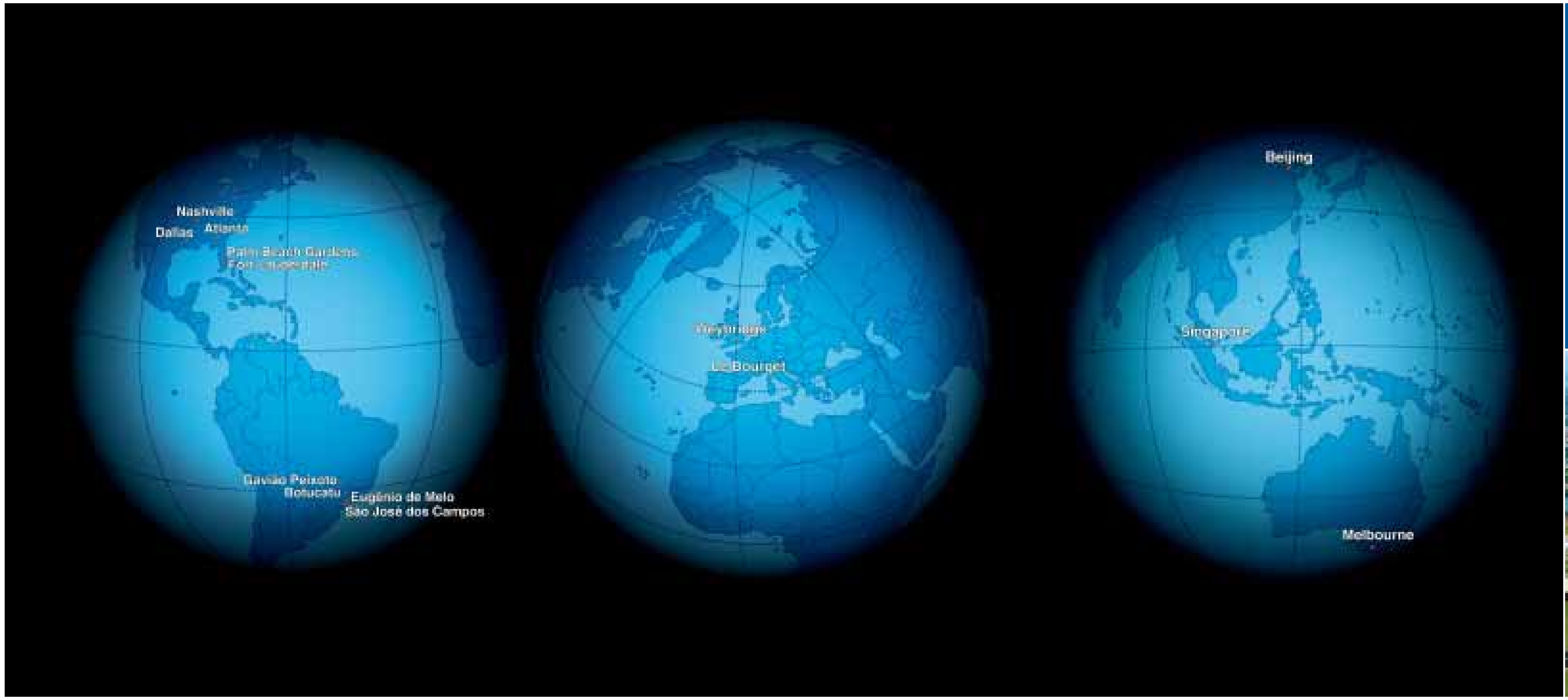
Asia and particularly China. In the same way, we will increase our presence in the Defense segment with our offering of products and systems, mainly in the areas of military intelligence, training and light attack, which bring real added value to military forces. Finally, it is important to emphasize that the World Trade Organization – (WTO) ruled that the Brazilian Export Finance Program (PROEX) is in compliance with the Organization's rules, while at the same time having condemned illegal Canadian government subsidies for various sales by that country's aircraft industry since 1996. We believe these decisions certainly establish the ethical grounds for an open discussion on the issue of export subsidies, which is expected to result in a lasting agreement on the matter. Furthermore, we would like to extend our gratitude to our customers, suppliers and industrial partners, financial institutions and government bodies, which have been working together with Embraer to consolidate the Company's position in the world market.

We would also like to recognize the support, integration and determination of our employees and shareholders, who have made Embraer the world class company it is today – competitive, innovative, diversified and agile - all characteristics that have enabled the Company to respond successfully to the significant challenges of 2001 and which undoubtedly will guarantee its continued growth in the future.

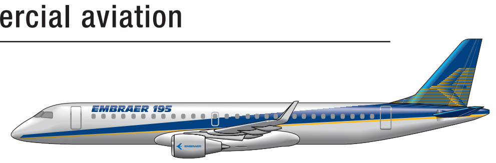
Maurício Novis Botelho
President and CEO

The year 2001 will permanently be registered in our memory. Many events during this year influenced the aeronautical industry in particular. However, a quick, flexible and determined action by Embraer, to a great extent contributed to revert this scenario of adversities.

Maurício Novis Botelho
President and Chief Executive Officer



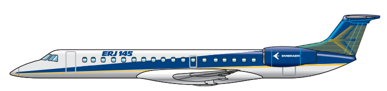
Commercial aviation

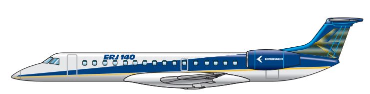

EMBRAER 195

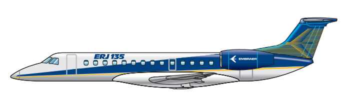

EMBRAER 190


EMBRAER 175

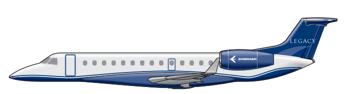

EMBRAER 170


ERJ 145

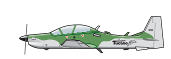

ERJ 140

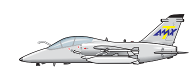

ERJ 135

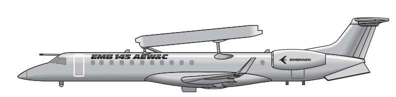
Corporate aviation

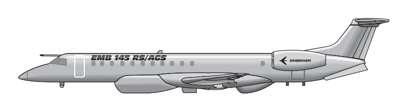

Legacy

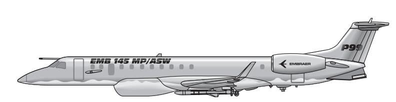
Defense aviation


Super Tucano/ALX


AMX-T


EMB 145 AEW&C


EMB 145 RS/AGS


EMB 145 MP/ASW (P 99)

JANUARY

• EMBRAER's shares ranked among the "Top 25 for 2001" by the *CNN (Cable News Network)* financial site

• American Eagle announces the conversion of six ERJ 135 regional jet purchase options to ERJ 140 purchase options

• Maiden flight of a *SIVAM* - Integrated Surveillance System of the Amazon - aircraft, to be delivered to the Brazilian Air Force. The first air-to-surface test transmission using the ERIEYE aerial reconnaissance radar was effected

• Promotional road show held in Switzerland marking the launch of the European sales campaign for the Legacy corporate jet

FEBRUARY

• Contract signed with Mexico, to supply an EMB 145 AEW&C aircraft for aerial reconnaissance plus two EMB 145 MP aircraft for maritime patrol and anti-submarine surveillance, as well as a latest generation surface command and control center

• Embraer receives the first two F-5 fighter planes from the Brazilian Air Force as part of the modernization program of the Brazilian fighter aircraft fleet

• A U.S. customer signs a purchase contract for the first Legacy corporate jet - *Shuttle* version

MARCH

• Delivery of an ERJ 145 regional jet, the 400th in this family of aircraft, to Crossair of Switzerland

• One additional ERJ 145 regional jet sold to Brazilian airline Rio-Sul

• Legacy corporate jet makes its Maiden flight

• First Tucano Operators Conference held in the city of Natal, state of Rio Grande do Norte, Brazil

• The Specialization Program in Engineering begins, for the training of engineers in aeronautical engineering

• The World Trade Organization (WTO) opens panels against Brazil and Canada to verify the compliance of their respective export finance programs with WTO rules

APRIL

• Sale of one ERJ 145 regional jet to British Midland of the United Kingdom, following the conversion of one more purchase option

• Sale of a Legacy corporate jet – Executive version, to the first Brazilian client

• Assembly of the passenger cabin mock-up of the new EMBRAER 195 commercial jet concluded

• The 5th Airline Advisory Board and the 1st Man – Machine Interface group meetings held

MAY

• Formal signing of the sale of two ERJ 135 regional jets to Occitania of France (one firm order and one purchase option)

• Delivery of the first aircraft (ERJ 135) to Airlink, South Africa, at a ceremony held in Johannesburg

• Delivery of an ERJ 135, the second of four jets ordered by the Belgian Air Force (2 ERJ 145 and 2 ERJ 135).

JUNE

• Embraer participates in the 44th Paris Air Show at Le Bourget, France, where the following transactions are announced:

- Letter of intent signed by Brazilian airline TAM, for the sale of up to 100 commercial jets, to be selected from the new EMBRAER 170/175/190/195 family (25 firm orders and 75 purchase options)
- Sale of seven Legacy corporate jets (four firm orders and three purchase options) signed with a Brazilian client
- The creation of AEROChain® announced, an electronic business portal developed in partnership with ATR, Oracle and KPMG Consulting

• Sale of two ERJ 135 regional jets to Pan Européenne, France, formalized (one firm order and one purchase option)

• Maiden flight of the ERJ 145 XR regional jet, with a range of 2,000 nautical miles (3,700 km)

• Final assembly of the first EMBRAER 170 commercial jet begins

• New website launched (www.embraer.com)

• Embraer's controlling shareholders (Companhia Bozano, Previ and Sistel) and BNDES Participações conduct a secondary offering of preferred shares in Brazil and overseas, in the amount of US$750 million

• The World Trade Organization (WTO) announces its positive findings in the investigation into the compliance of the Brazilian Export Finance Program (Proex) with the Organization's rules

JULY

- Sale of four new EMBRAER 170 jets to Air Caraïbes, Guadalupe (two firm orders and two purchase options)
- Rheintalflug of Austria, formalizes the conversion of one more purchase option on an ERJ 145 regional jet
- Delivery of the first ERJ 140 regional jet to U.S. airline American Eagle

AUGUST

- Sale of 40 ERJ 140 regional jets to Midwest Express of the United States concluded (20 firm orders and 20 purchase options)
- Delivery of the 100th regional jet purchased by U.S. airline American Eagle, an ERJ 140, named *Spirit of Eagle*
- Contract signed with the Brazilian Air Force for the sale of 99 Super Tucano (ALX) aircraft (76 firm orders and 23 purchase options)
- Signing of a contract with the Dominican Republic for the supply of ten Super Tucano aircraft and five EMB 202 (Ipanema) crop dusters announced
- Announcement of the sale of 20 Legacy corporate jets – Executive version, to International Equipment Leasing – IEL of the U.S. (ten firm orders and ten purchase options)
- Sale concluded of two Legacy corporate jets – Executive version, to the Greek government (one firm order and one purchase option), in addition to an EMB 135 already in operation, making Greece the first government customer to buy the Legacy – Executive version
- First sale of a Legacy corporate jet - Executive version to a private European customer announced
- Delivery of Embraer's 500th regional jet, purchased by Chautauqua Airlines in the United States
- Maiden flight of an aircraft under the EMB 145 AEW&C Program for the Hellenic Air Force - HAF

SEPTEMBER

- Terrorist attacks in the United States practically paralyze commercial aviation activities worldwide
- Review of regional jet delivery program for 2001 and 2002 to, respectively, 160 and 135 aircraft and lay-off of 14% of Embraer's employees (1,800 people) announced

OCTOBER

- Public roll-out of the first EMBRAER 170 at a ceremony attended by representatives of the international commercial aviation industry and the introduction of the 78-seater EMBRAER 175, the new model in the EMBRAER 170/190/195 family, which has, respectively, 70, 98 and 108 seats, previously denominated ERJ 170, ERJ190-100 and ERJ 190-200
- The runway at the Gavião Peixoto plant is opened for landings and take-offs
- The construction of the *Eng. Juarez de Siqueira Britto Wanderley* High School announced, an initiative of the Embraer Institute for Education and Research
- Brazil wins an important victory in the World Trade Organization (WTO) in the trade dispute with Canada, with respect to export credits. Export subsidies provided to Embraer's Canadian competitor involving various sale contracts going back to 1996 considered illegal by the WTO
- Embraer delivers a proposal, as the leader of a consortium with European strategic partners (Dassault Aviation, Thales and Snecma), for the supply of Mirage 2000 BR fighter aircraft to the Brazilian Air Force under the F-X program

NOVEMBER

- Participation in the 1st Business Aviation Brazil – BAB 2001, an International corporate aircraft exhibition and conference held in São Paulo, Brazil

DECEMBER

- The Legacy corporate jet - Executive version, certified by the Aeronautical Technological Center - CTA, the official Brazilian aircraft certification agency
- Notable participation in the annual meeting of the National Business Aviation Association (NBAA) held in New Orleans (USA), with the announcement of the largest sale to date of Legacy corporate jets. The U.S. corporation Indigo confirmed an order of 75 Legacy aircraft - Shuttle version (25 firm orders and 50 purchase options)
- Contract with the Brazilian Air Force for the acquisition of 76 ALX (Super Tucano) aircraft and purchase options on another 23 effective, thus launching the serial production of Embraer's newest defense product
- Delivery of an ERJ 135, the third of four jets ordered by the Belgian Air Force (2 ERJ 145 and 2 ERJ 135)

The terrorist attacks of September 11 in the United States shocked the world and had a significant impact on the commercial aviation segment, affecting airlines, manufacturers, airport regulatory bodies, air traffic control systems and principally the passengers themselves.

In spite of this, at year-end, Embraer had 476 aircraft in its order book scheduled for delivery over the next few years, which reflects the solid demand for both current production models, as well as aircraft still under development. On December 31, 2001 firm orders for commercial jets totaled 978 units, with 563 additional purchase options, thus representing a grand total of 1,541 aircraft. The performance of the industry in the first half of the year was already indicative of the deceleration in the U.S. and European economies, which have historically accounted for approximately 95% of Embraer's commercial aircraft sales. Other market areas also exhibited a similar softening of economic activity, thus intensifying competition for the few new aircraft bids placed. In the first half of 2001, Embraer bid for two important contracts involving Air Wisconsin and Northwest Airlines in the U.S.. Despite the Company's extremely competitive commercial and financial packages, we failed to win this business largely due to the financing conditions offered by our Canadian competitor, strongly supported by its government. The World Trade Organization subsequently declared the financing offered to Air Wisconsin illegal, as well as other sales contracts signed since 1996. In the second half of the year, sales performance was dramatically impacted by the events of September 11. Although none of the Company's orders was cancelled, in response to customer requests Embraer agreed to reschedule several deliveries which had previously been forecasted for 2001 and 2002. By adopting a strategy of pragmatism and negotiation, Embraer was able to weather the difficulties of the period without any litigation or damage to relationships, adopting a posture consistent with its commitment to customer service and satisfaction. Since the launch of the ERJ 145 in December 1996, Embraer delivered 502 aircraft of the ERJ 145/140/135 family through the end of 2001. The Company sees this as extremely significant considering that the initial production run for this family of aircraft was planned for only 400 units. Another landmark event during the year was the certification and delivery of the first commercial version of the 44-passenger ERJ 140 to American Eagle.

Tanara Caletti
Commercial Aviation Flight Test Engineer

I have been working for 5 years at a company that makes a name for Brazil around the world. I'm proud to contribute each day to the progress of Brazilian aeronautical engineering.

This model was tailor-made for the requirements of North American customers due to limitations imposed by scope clauses, which limit seat capacity on regional jets. Similarly, the outlook is for a possible change in the fleet profile among leading North American and European airlines, with the substitution of higher capacity aircraft by smaller planes, to offer a greater number of flights – a trend which will tend to favor the aircraft class manufactured by Embraer. The most outstanding event in Brazilian commercial aviation for Embraer occurred at the Paris Air Show with the signature of a letter of intent by Brazilian airline TAM, to purchase up to 100 aircraft of the new EMBRAER 170/190 family. In light of the crisis in the aviation industry, the necessary negotiations for this sale are expected to be concluded in 2002. In 2001, Embraer continued its efforts of recent years to consolidate its position in new regions, particularly China and other countries in Asia and the Pacific Rim. Two contracts, amounting to 30 firm orders for ERJ 145 aircraft and additional 10 purchase options were signed and now await Chinese government approval. There were further important advances in the development of new products during the year, notably the introduction of the fourth member of the EMBRAER 170/190 family, the EMBRAER 175, with a capacity for 78 passengers in its basic configuration. However, the most important event of the year was the roll-out of the EMBRAER 170. The ceremony was held at Company headquarters on October 29, 2001 with some 1,500 guests present, including customers, partners, suppliers, financial institutions and government authorities.The EMBRAER 170 program is the most complex and sophisticated yet developed by Embraer. It is unique in various aspects, involving more complex risk partnerships, the application of state-of-the art technology, new development and production methods, tooling and project management systems. With the cooperation of strategic partners and suppliers, the aircraft was developed and manufactured in a record time of 28 months. The aircraft offers exceptional quality and performance, low acquisition and operating costs and provides extraordinary passenger comfort. Its admirable technical and operating characteristics are expected to become benchmarks against which all other aircraft in this category will be measured.

EMBRAER 170/175/190/195 – A new family of jets

Embraer drew the attention of the aeronautical community with the most important product launch in the industry in 2001: the prototype of the EMBRAER 170, the first of four new models in a family of aircraft under development by the Company. The roll-out ceremony was held on October 29, 2001 in São José dos Campos, and brought together customers, partners, suppliers, financial institutions and the world press, in addition to government officials and Embraer's employees. This roll-out was also particularly significant since it occurred at a time when the industry's confidence had been shaken by the September 11 attacks. Representing the largest project ever undertaken by the Company, the roll-out was the climax of 28 months of endeavor by a team of professionals, which included Embraer's employees, strategic partners and suppliers.

The project to build the EMBRAER 170/190 family of jets was born out of a perception that the market for commercial aviation was tending towards the use of aircraft with a capacity of between 70 and 110 passengers. Based on this perception, Embraer introduced its new family of aircraft comprising the EMBRAER 170 for 70 passengers, the EMBRAER 175 for 78 passengers, the EMBRAER 190 for 98 passengers, and the EMBRAER 195 for 108 passengers. Following preliminary studies, in June 1999, Embraer officially announced the project at the Paris Air Show. Originally called ERJ 170/190, the project contemplated three models: ERJ 170 (70 seats), ERJ 190-100 (98 seats) and ERJ 190-200 (108 seats), subsequently to be renamed, respectively, EMBRAER 170, 190 and 195.The EMBRAER 170/190 family is being developed in partnership with some of the leading international manufacturers of aeronautical equipment. Apart from its 22 principal suppliers, there are 16 risk partners in the project, for which total investments are estimated at US$ 850 million. General Electric is to supply the turbines, while the avionics and other aircraft systems will be the responsibility of Hamilton Sundstrand, Honeywell and Parker, all U.S.-based corporations, as well as Liebherr of Germany. Kawasaki Heavy Industries of Japan, Sonaca of Belgium, Latécoère of France and Gamesa of Spain will supply the structural part of the new aircraft. The internal components are to be supplied by U.S. corporation C&D Aerospace, which, as in the case of Liebherr, has set up a production facility in Brazil. Embraer is responsible for the overall management of the project, its design, the development and the manufacture of the front section of the fuselage, the central fuselage II, wing-to-fuselage fairing, as well as the assembly and final integration of all aircraft systems and sub-assemblies. World market demand over the next ten years for aircraft in the 70 to 110-seat range is estimated at about 2,850 units. Embraer plans to sell a minimum of 650 units in this category and at the end of 2001, had already booked 112 firm orders and 202 purchase options – indicative of the market's confidence in the success of the project. The potential for overseas sales could be as high as US$15 billion over ten years, creating 3,000 direct jobs at Embraer and a similar number at its industrial partners. The EMBRAER 170/190 family of regional jets was tailor-designed for its specific market segment. These new aircraft are being developed to provide operators with performance and efficiency levels never before achieved in the 70 to 100-seat aircraft class. In addition, these aircraft are designed to provide exceptional passenger comfort and safety.

This reflects in the "double bubble" fuselage format, which optimizes space at shoulder and floor levels, while maximizing the volume of easily accessed overhead baggage compartments. The seating and aisle space is the largest of any small and mid-sized commercial jet aircraft currently available on the market. The aircraft operate at low noise levels and are not considered environmentally aggressive. Another important feature is the high level of commonality of components among all four models, thus allowing substantial savings in operating and crew training costs, as well as lower inventory levels, thereby increasing operating flexibility and profitability. The jets were designed for quick turnaround, minimizing the time on the ground between flights. The fuselage has front and rear exits on both sides. With an internal layout of four-seat rows, two on either side of the central aisle (without the

unpopular middle seat), this concept allows passengers to embark and disembark quickly, while the galley is restocked and the aircraft cleaned simultaneously. Refueling through a single pressure nozzle takes only ten minutes. Easy access to the baggage compartment and inspection/maintenance hatches, as well as the location of the turbines beneath the wings, allow necessary servicing between flights to be carried out without the need for step ladders or inspection platforms.

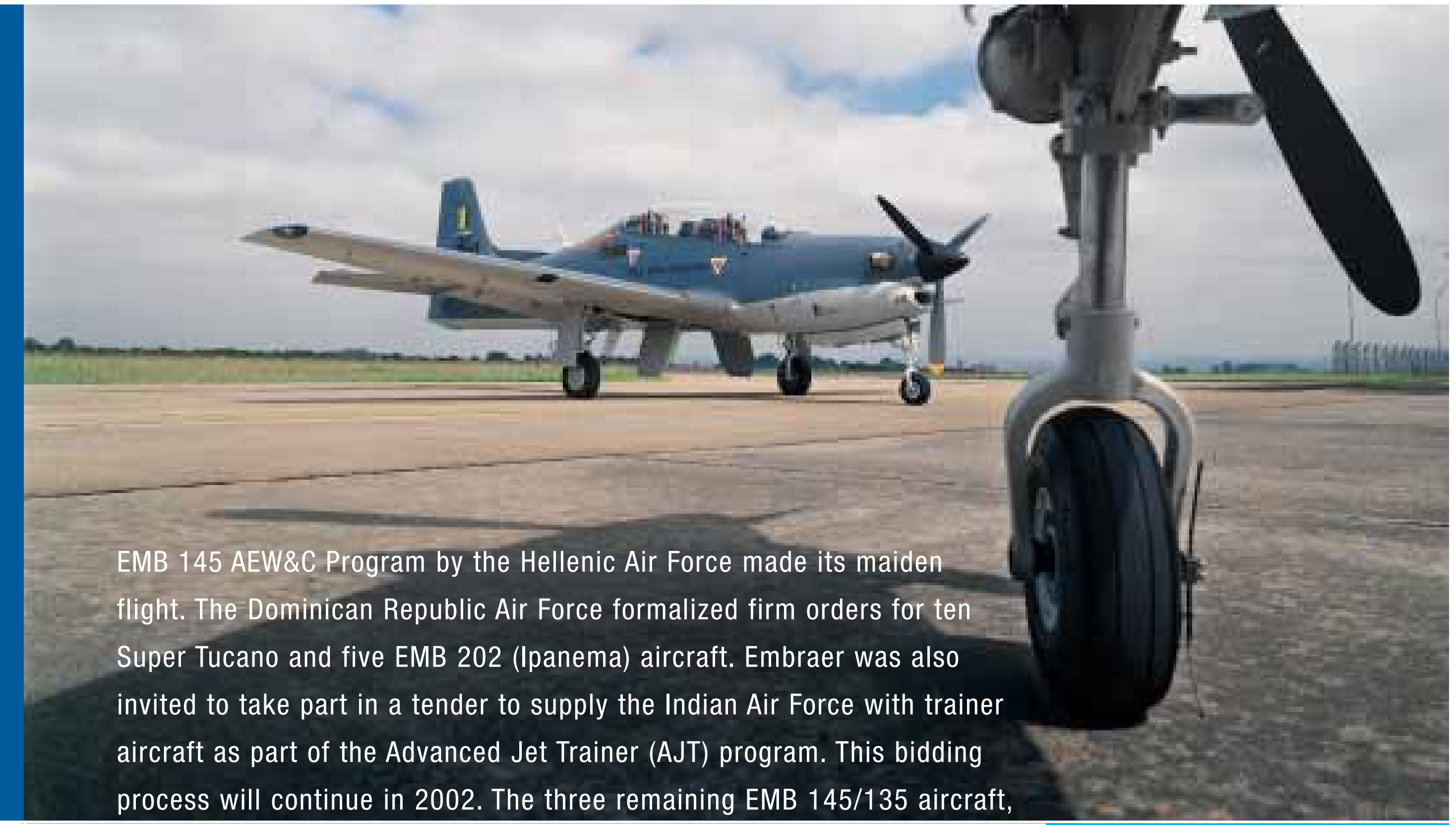
The EMBRAER 170's maiden flight took place on February 19, 2002 and the delivery of the first commercial version of the aircraft to SWISS (successor company of Crossair from Switzerland and the launch customer for the new family of jets) is forecasted for the beginning of 2003. The schedule for the first deliveries of the other models is respectively: July 2004 for the EMBRAER 175, December 2004 for the EMBRAER 195 and December 2005 for the EMBRAER 190.

Embraer has sought and taken advantage of new opportunities throughout the world in the defense segment, working actively and determinedly with its strategic European partners – Dassault Aviation, EADS, Snecma and Thales. Through greater diversification of products and customers, the objective is to take advantage of the potential to increase the Company's presence in the global training and combat aviation market, as well as the sophisticated segment for aircraft used in Intelligence, Reconnaissance and Surveillance missions. The largest contract Embraer won to date was for the sale of 99 ALX single and two-seater aircraft (a light attack version of the Super Tucano) to the Brazilian Air Force (FAB), of which 76 were firm orders and 23 purchase options. The ALX aircraft are used in pilot training and counter-insurgency and border patrol missions in the Amazon Region. FAB's decision to buy the ALX provides the validation required to assist Embraer in developing the international market for this new product line. This contract, of crucial importance for Brazil and the Company in expanding its business worldwide, once again underlines Embraer's key role in Brazil's National Defense System. There are two reasons for this: 1) Embraer supplied more than half the aircraft currently in use by the Brazilian Air Force; 2) the very origins of Embraer were founded on the decision to create a domestic high technology aeronautical industry as an integral and strategic part of the National Defense System and as a result, transform the Company into an important exporter of military and civil aircraft. For this reason, the Company has tirelessly and aggressively been participating in the Brazilian

Otávio Vaz Kovacs
Pilot

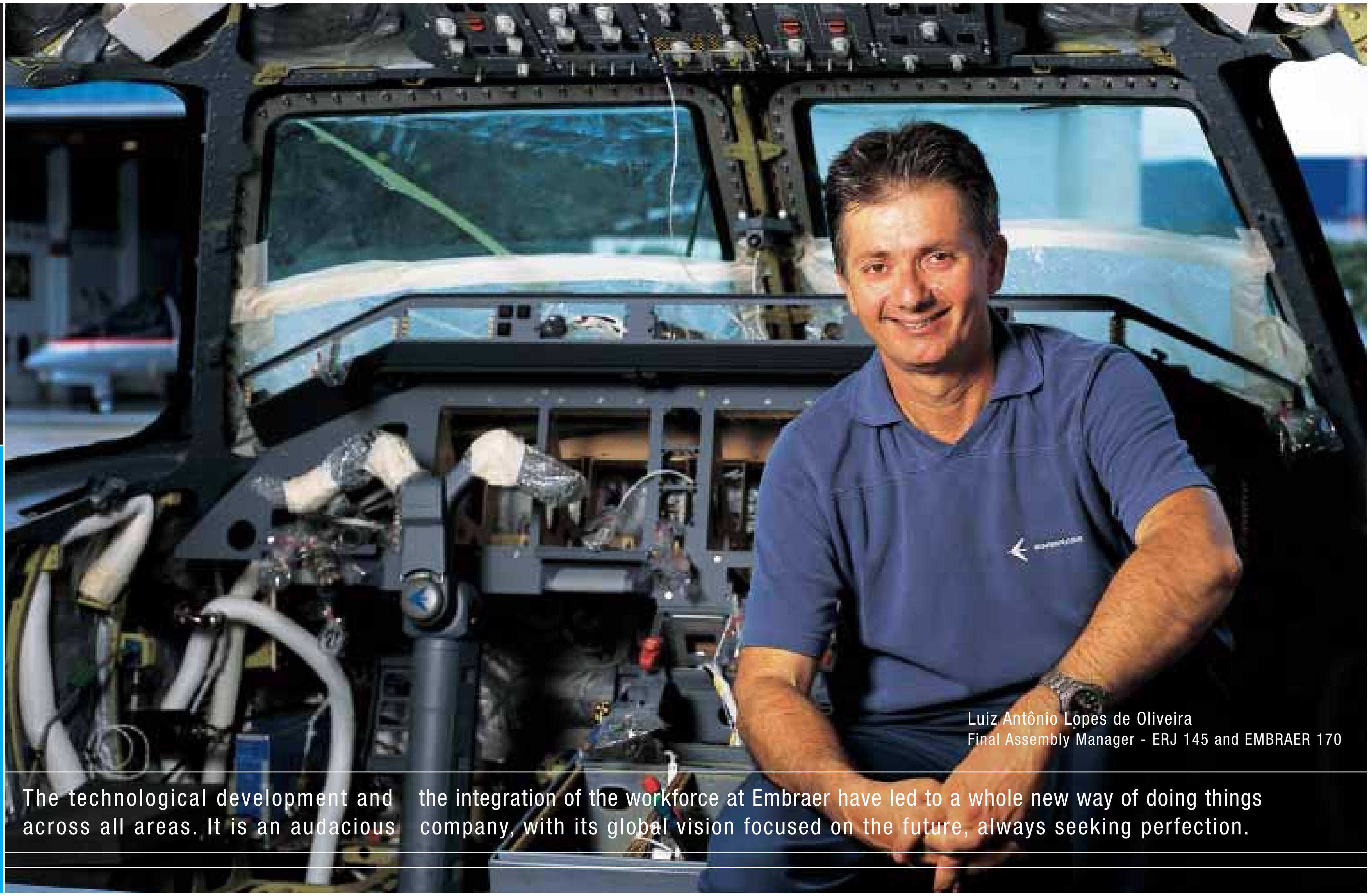
Embraer has developed right along with the advancement of the aircraft industry. Today it is a cutting-edge company, where one can learn a great deal and seek-out opportunities. We fly high here.

government's international tender to replace the current fleet of Mirage III BR fighter aircraft. The so called F-X program has been at the center of Embraer's efforts. The Company, together with its strategic partners, has put forth a solution – known as Mirage 2000 BR –, in response to FAB's requirements. The Mirage 2000 BR, which will also be marketed internationally – with assembly and final integration in Brazil – incorporates the most modern elements in terms of mission systems. It also represents Embraer's commitment and determination to guarantee technological control and flexibility to modify and develop systems throughout the useful life of the aircraft. In this way, those air forces that purchase the aircraft will be assured the crucial elements of operating independence and autonomy. In 2001, the Company made progress in the SIVAM - Amazon Integrated Surveillance Program, for which it is supplying Airborne Early Warning and Remote Control aircraft, based on the ERJ 145 regional jet platform. These aircraft are expected to begin operations in 2002. During the year, Embraer expanded its presence internationally in new markets, thus confirming the attractiveness of its defense product portfolio. During the course of the year, we built up an excellent order book backlog, notably for special-purpose aircraft (based on the ERJ 145 platform), for Intelligence, Reconnaissance and Surveillance missions (IRS systems). The Company successfully concluded the sale of a Legacy corporate jet - Executive version, to the Greek government, as well as further equipment for an ERJ 135 jet supplied to Greece on a previous occasion. In addition, an aircraft ordered under the



EMB 145 AEW&C Program by the Hellenic Air Force made its maiden flight. The Dominican Republic Air Force formalized firm orders for ten Super Tucano and five EMB 202 (Ipanema) aircraft. Embraer was also invited to take part in a tender to supply the Indian Air Force with trainer aircraft as part of the Advanced Jet Trainer (AJT) program. This bidding process will continue in 2002. The three remaining EMB 145/135 aircraft, out of a total of four, were delivered to the Belgian Air Force in strict accordance with contractual terms of sale, all four aircraft being of the Authorities Transport version. In April, LAD 2001 (Latin America DefenseTech), a specialized trade fair for defense products was held in the city of Rio de Janeiro, during which delegations from 20 air forces from several countries were invited to the Company's headquarters. We see this as a particularly significant initiative for disseminating information on Embraer and its products and we believe this will certainly pave the way for future commercial opportunities in the defense area.

Embraer's market diversification, its quickness to identify new opportunities and its focus on meeting the needs of customers enabled the Company to establish a foothold in the corporate aviation segment. The year 2001 marked the consolidation of Embraer's presence in this market. The Legacy, launched by Embraer in 2000, is based on the 37-seat ERJ 135 regional jet. The aircraft is available in three versions – Executive, Shuttle and Transportation of Authorities (EMB 135) – providing operators with significant cost-benefit advantages, which have enabled Embraer to rapidly build up its order book. Among the aircraft in its class, the Legacy provides the best combination of performance, comfort, passenger cabin and baggage compartment capacity, operating costs, reliability and price. To date, Embraer's sales efforts for the corporate market have focused largely on the North American, European and Latin American markets. In line with its expectations as to future market trends, in December 2001, Embraer signed its largest corporate jet contract to date, with Indigo, a U.S. customer, for 75 Legacy aircraft – Shuttle version (25 firm orders and 50 purchase options). Embraer surpassed its annual sales target and at the close of 2001 had booked orders for 167 Legacy corporate jets (73 firm orders and 94 purchase options).

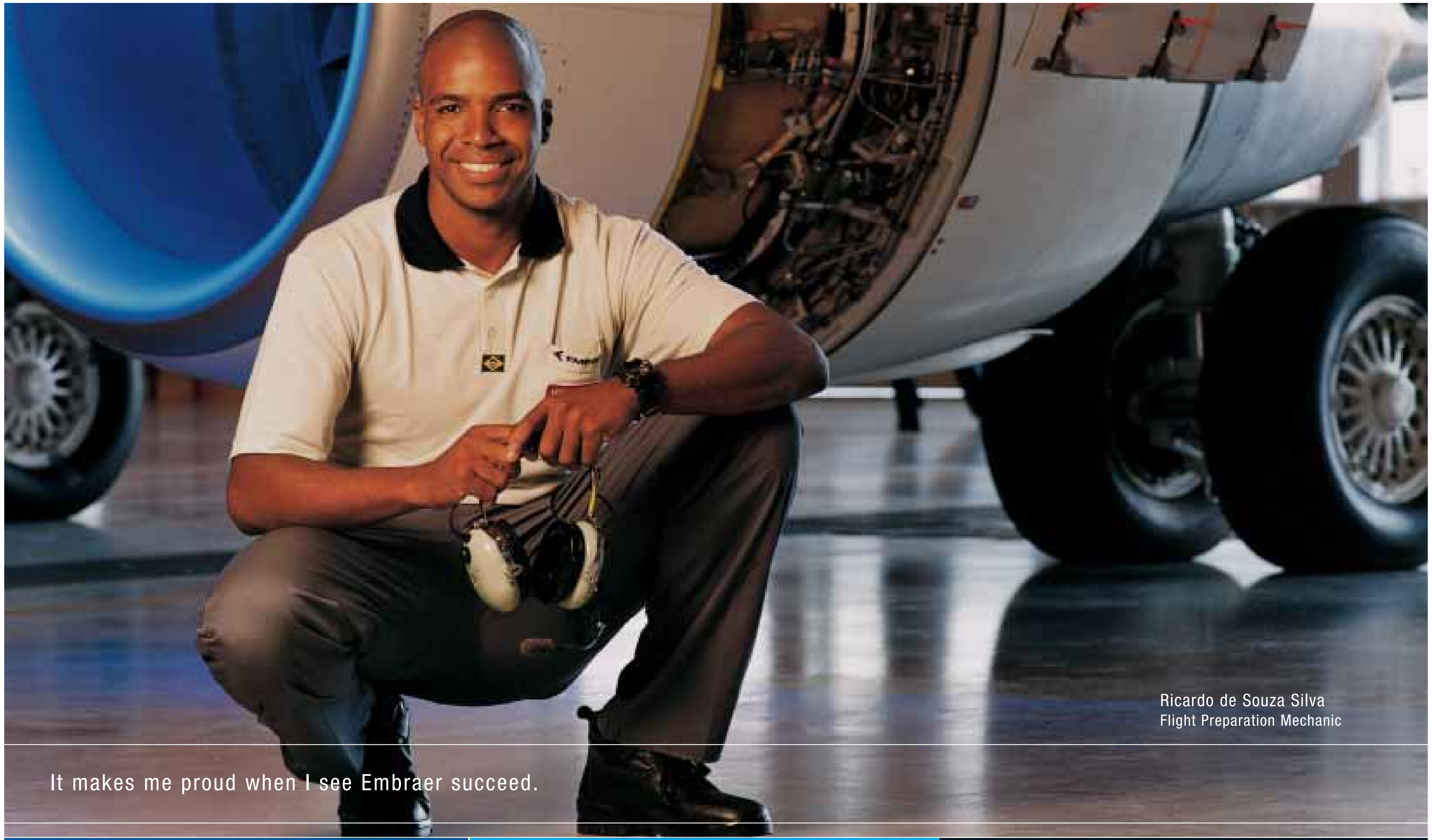


Luiz Antônio Lopes de Oliveira
Final Assembly Manager - ERJ 145 and EMBRAER 170

The technological development and the integration of the workforce at Embraer have led to a whole new way of doing things across all areas. It is an audacious company, with its global vision focused on the future, always seeking perfection.

During the year, 5 regional jets were delivered to corporate clients. Growth in the corporate aviation segment, which is closely tied to economic development, was adversely impacted by the deceleration in business activity during 2001. However, the growth trend continues and was in fact fostered by the reaction to the terrorist attacks in the United States in September. Forecasts for the segment indicate an increase in the demand for privately owned aircraft through time-sharing, a market which has shown significant growth in the United States and is expected to show a similar trend in other parts of the world, notably in Europe and Brazil. This tendency is likely to be influenced by the advantages offered by corporate jet travel (punctuality, safety, airport waiting time, etc.) to passengers who wish to arrive quickly at their destinations and avoid airport delays which have increased since the events of September 11.

During the year, Embraer signed a contract with the U.S. company International Equipment Leasing (IEL) for 10 firm orders and 10 purchase options of the Legacy - Executive version. As an integral part of this contract, IEL was designated as the exclusive Legacy distributor for the Middle East (not including the commercial airline, official government and defense markets). Embraer's highly successful sales campaign for the corporate jet included the building of a life-size mock-up of the passenger cabin of the Legacy-Executive version, which allowed potential customers to experience one of the main advantages of this aircraft - passenger comfort. The mock-up was exhibited at the world's largest corporate aviation trade fair (NBAA) held in New Orleans, USA, in December 2001.



Ricardo de Souza Silva
Flight Preparation Mechanic

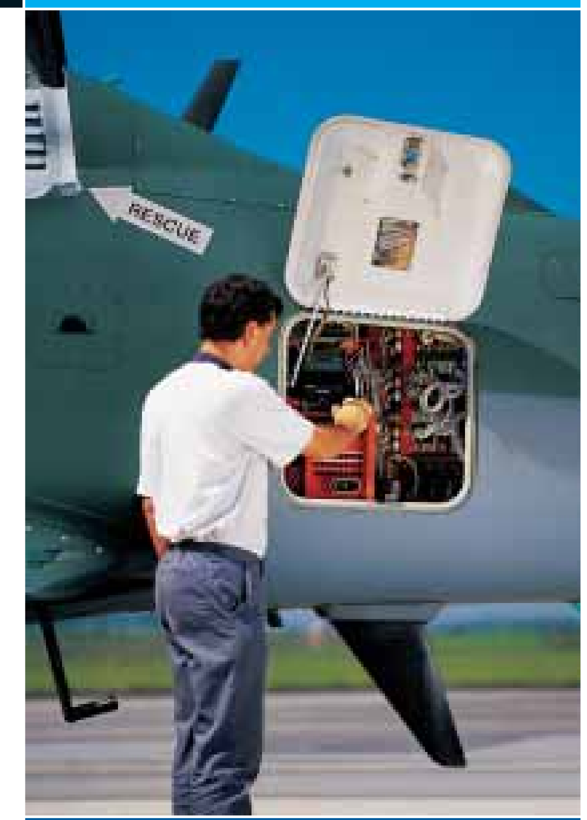
One of Embraer's basic corporate strategies is to provide high quality service to customers. The Company recognizes that customer satisfaction is not only an earnings driver and a factor in the continued growth of its business, but also a means of creating shareholder value. Acting in partnership with its clients, Embraer seeks to constantly perfect the service it provides and develop a close relationship with customers, irrespective of where they are located or the size of their fleet. According to the bi-annual survey conducted by the British institute Meridian International Research, Embraer was recognized for the second consecutive time as the regional aviation manufacturer with the best customer service, testimony to the Company's success in this field. As an integral part of this policy of customer partnership, Embraer expanded its parts distribution network with the creation of two additional distribution centers, one in Dallas, close to American Eagle and Continental Express, and the other in Beijing to provide support for the emerging Chinese market. These new centers are in addition to those already in existence in Brazil, France, the United Kingdom, Australia and the United States, totaling seven customer service facilities for the supply of spare parts. The efficiency of the parts distribution is enhanced by a 24-hour, seven-days-a-week Customer Support Center and by an integrated information system linking all the distribution centers on-line to provide immediate response to customers' needs. This is one of the measures that contributed to improving the reliability of Embraer aircraft worldwide, which exhibited a steady increase in the percentage of flights completed without delay over the past four years. In December 2001, this level reached 99.7% and is a direct result of programs focused on optimizing the availability of parts and aircraft reliability, thus reducing aircraft maintenance and operating costs.

In August, the 1st Workshop on Maintenance Costs was held in Brazil with 180 participants, among which were Embraer aircraft operators, suppliers, partners and representatives of various areas of the Company. For the benefit of its defense customers, Embraer sponsored the 1st Tucano Operators Conference for users of this military trainer aircraft. More than 100 representatives from 13 countries attended the event held in March in the state of Rio Grande do Norte, Brazil. The conference served as a forum for exchanging operating experiences and also for presenting the Super Tucano, the Tucano's successor.

Major modernization contracts for the Tucano model were signed in 2001, in particular the wing replacement program for 28 Brazilian Air Force Tucanos, which are reaching their limit for projected flying hours. The wing replacement work will extend the useful life of these aircraft. Embraer also signed a technical and materials support program for the Super Tucano with the Brazilian government. At the Paris Air Show in June, Embraer announced the

creation of AEROChain®, an integrated, far-reaching initiative in the e-business area with commercial potential for expanding customer support services. Managed by Embraer in partnership with French ATR and U.S. companies Oracle and KPMG Consulting, the Company provides an electronic and virtual link between Embraer, parts and services suppliers and customers. The system is a vehicle for on-line commercial transactions and information exchange, as well as a tool for optimizing the use of spare parts inventories. AEROChain® began its activities in September and has already reported positive results, by offering customers a series of services in the technical support and materials areas. The Company provides training programs for the ERJ 145/140/135 jet family through Flight Safety International, on 17 flight simulators located in various parts of the world with another five units scheduled to go into operation in 2002. Embraer also runs training courses for mechanics who work on the same family of regional jets.

In 2001, the Company set up a Customer Services Hot Line to facilitate the dialogue between its customers' managerial personnel and Embraer's Vice President of Customer Services. Embraer also created a dedicated support structure for Legacy corporate jet operators and implemented the Total Legacy Care (TLC) Program. This initiative is designed to provide technical support, materials and maintenance services. Since the Legacy does not fly fixed routes, its logistical support network requires a high degree of flexibility to guarantee immediate service at any point around the world. For this purpose, Embraer has designated strategically located authorized maintenance facilities to provide a rapid response to any customer need. In this way the authorized technical assistance representatives collaborate to ensure a high degree of availability and punctuality for this new line of products. The Legacy customer support network operated 18 service centers in various countries by the end of 2001. At year-end, Embraer's wholly-owned U.S. subsidiary signed an agreement to acquire the assets of Celsius Aerotec, a maintenance facility in Nashville, Tennessee. The agreement was finalized at the end of February 2002 and Embraer Aircraft Maintenance Services took over operational control of the new unit.



Embraer has been successful in achieving excellence and a competitive edge in aircraft production thanks to its solid technological base, which is a benchmark for the world aviation industry. The Company's ability to rapidly develop new products is based on advanced design, engineering and manufacturing systems. An example of this is the EMBRAER 170, whose prototype flew only 28 months after the project's inception, as compared to an average development period of more than three years for the world market. A team of over 3,000 professionals (engineers, aircraft designers and technicians among others – of whom more than 95% are Brazilians) come together in the product development process. These professionals operate within the organization on a matrix basis, working on a mix of aircraft/product programs, as well as research projects, in some cases together with researchers from academic and research institutes. Embraer has signed technological agreements with leading research and development centers worldwide. These include TsAGI (Russia),

Luanna Mecatti
Aircraft Controller/
Configuration Engineering Department

Working at a company with a global impact is extremely gratifying. We have the opportunity to show the world state-of-the-art technology through our work here.

Cranfield University and Empire Test Pilot School/ETPS (United Kingdom), École du Personnel Navigant d'Essais et du Reception/EPNER (France), as well as some of the best Brazilian universities and research institutes such as the Aeronautical Technological Center (CTA), the Aeronautical Technological Institute (ITA), the São Carlos Engineering School of the University of São Paulo/USP, the State University of Campinas/Unicamp, the Federal University of Minas Gerais/UFMG, the Federal University of Santa Catarina/UFSC and the Federal University of Rio de Janeiro/UFRJ.

• In the case of TsAGI, for example, the Company uses several wind tunnels to monitor the configurations of aircraft under development as a means to cross-check simulation results. Embraer also began work jointly with CTA, ITA and USP at São Carlos, to improve the testing capabilities of the wind tunnel at CTA. This project is sponsored by FAPESP, an organ controlled by the government of the state of São Paulo, to foster scientific and technological research activity.

• Embraer's agreement with ETPS and EPNER involves the training of test pilots and engineers as a means to continuously improve methods and techniques. Embraer is currently a world benchmark for the duration of test procedures for flight certification.

• Finally, the Company is involved in projects with UFSC for acoustic simulation and analysis of sound quality tests.

Embraer's Virtual Reality Center (CRV) is a key element in the product development process. The center is equipped with advanced graphics computers which provide engineers a three-dimensional view of an aircraft structure during the project design stage. The images are viewed on either a: 1) semi-immersion basis, in which special eyeglasses are used in conjunction with a large projection screen, or

2) through total immersion, with the use of a virtual reality helmet, special handling gloves and movement sensors connected to the user's body. The CRV, inaugurated at Embraer in 2000, has already yielded significant quality and productivity gains through interaction with customers, production engineering and maintenance, from the very beginning of the development process. By the end of 2001, 17 product programs were at different stages of development: several projects for technological development, improvement in methods and processes, as well as a new initiative on the customer service front (the AEROChain, electronic portal). One of Embraer's key strategic projects involves the mapping of product development processes. In 2001, the first phase of identifying and characterizing processes was concluded. The next phase will be dedicated to making information available in a user-friendly format to ensure that proprietary intelligence is effectively shared and applied throughout the organization. Part of this project also encompasses the development of engineering applications based on Knowledge Based Engineering – KBE, used for tracking work processes and increasing automation. In this way, Embraer seeks to free up man-hours for more creative and innovative activities. In 2001, the Company was in the process of developing various applications, as well as a strategic digital manufacturing project, which enables simulation and analysis of manufacturing and assembly functions, not only for smaller structures but also in the final assembly process. In this way, the project seeks to obtain innovative and more efficient solutions in industrial layout and tooling. The Company also began a multi-program integrated planning project for product development. The principal purpose is to guarantee that the necessary resources for the development of each program are compatible with all the other ongoing programs and prioritized to reflect production changes. This project supplements previous ones which focused on the integrated planning of development programs and their various sub-activities performed internally. Several activities were transferred from the Company's main plant to the new Eugênio de Melo facility, also located in São José dos Campos, including project work, tooling manufacture, wiring and conduit assembly, as well as the structural test equipment for the EMBRAER 170 prototype, for which testing will be performed during 2002. These changes have ensured an improvement in productivity through modifications in processes and the installation of more modern equipment, which had been previously restricted due to space limitations.The conclusion of the runway and of the initial installations at the Gavião Peixoto facility enabled the Company to begin test flights for the ERJ 145 XR and ALX (Super Tucano) programs. Embraer's runway at Gavião Peixoto is 5 km long and is one of the most modern in the Americas (3 km of actual runway for landing and take-off and a further 2 km-long stop way), with a width varying between 45m and 95m.

Embraer employs a highly qualified team of professionals and manages the development of its human resources by continuously attracting and retaining talent. Out of a total of 11,000 employees, all have at least high school level education, while 32% are university graduates. In addition, 142 employees hold Master or PhD qualifications. To maintain this profile, the Company offers a continued education program in which over 900 employees participated in 2001. Given that Embraer is a company which operates on a global basis, its employees include people of various nationalities. Approximately 600 non-Brazilians are employed in areas such as sales, research, development and customer support. Over the past six years, the number of overseas employees has grown nearly 500%. To keep pace with its growing global presence and the consequent increase in employee mobility around the world, Embraer formed a specific functional area for providing enhanced support and control of expatriate employee movements, through the implementation of adequate procedures. Between January and September, the Company hired 2,242 employees, including 195 engineers under the Specialization Program in Engineering, an innovation in the industry, which is administered by the Embraer Institute for Education and Research. However, with the deceleration in the world's aeronautical industry following the September 11 attacks, Embraer adjusted its headcount by laying off 1,800 people in the final quarter of 2001. It is important to note that this process was conducted by the Company in a climate of mutual understanding and respect, and employees affected by the layoff will receive preference in any future hiring by the Company.

Wilma Okamura
Staff Nurse

As a long-time employee of the Company, I have witnessed many stages of its development. All of them have been significant, mainly for someone who works so closely with well-being of its people, one of Embraer's most important assets.

Leadership development

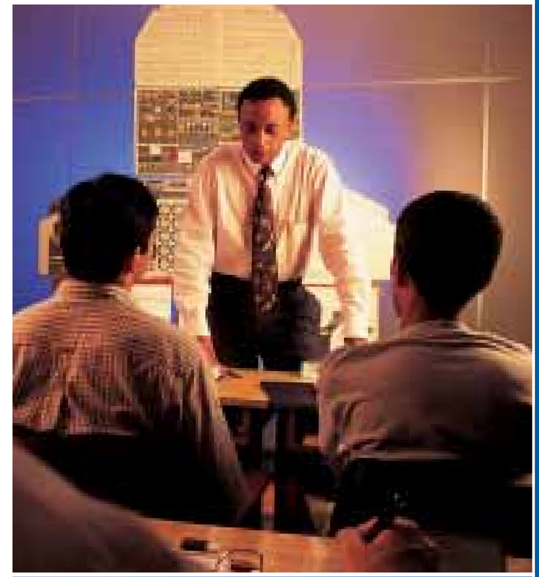
Embraer adopts a 360° Evaluation Method as one of the means to identify and retain talent. This system involves the evaluation of all Company personnel, not only by the immediate superior but also by direct subordinates. In 2001, this instrument was used to build up a profile of those professionals with leadership skills, based upon the behavior and attitude parameters established for the development of leaders. The Embraer Master of Business

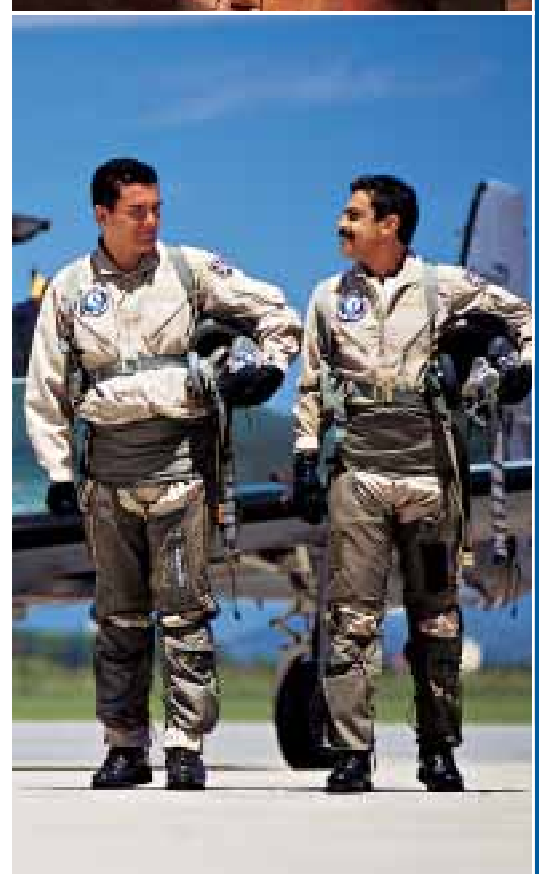
Administration - MBA program began in 2001, specifically designed for the Company, in partnership with the Getúlio Vargas Foundation. This program develops future members of senior management, offering top-level preparation to participants based on the Company's succession plan. In 2001 the Company's succession program promoted 55 new leaders from the specialist group to supervisory positions.

Education, Training and Personnel Development

The Human Resource area increasingly focuses on supporting the growth and perpetuation of Embraer, implementing initiatives to ensure the development of talent and new skills. A significant part of this activity relates to an improvement in the rendering of services to the Company's in-house public, in conducting specific programs or company-wide initiatives based on the future vision for the business and on customer demands and new skills required for the future. Examples of such initiatives are:

- The Leadership Development Program (PDL) – designed to train new corporate leaders. The planning phase and initial implementation were concluded in 2001 and will continue in 2002;
- Group Development Program (PDG) – a methodology that is now being applied throughout Embraer, which brings together professional and technical development to maximize investments in training and development;
- Individual Development Program (PDI) – a program designed for the tailor-made development of managers and accelerating career path progression;
- Program for Specialization in Project Management (PEGP) – the Embraer management model requires every specialist or manager to be prepared to work within a matrix structure. This choice of organizational structure requires the absorption and dissemination of product development concepts on an integrated basis, as well as the optimization of management functions throughout the entire project cycle;





- On The Job Training (OJT) – consists of workplace training and updating of employees to latest production methods and resources through a computerized system that monitors individual qualifications and development;
- Trainee Program - now in its second year, this program received 7,143 candidates, of which 15 were selected to join the Company in 2001. The objective is to identify, attract and develop young professional talents within the corporate organization, providing hands-on experience in day-to-day activities of the Company and enable them to fully meet the program's requirements, which are to prepare and present a project at the conclusion of the one-year program.

Embraer invested US$ 25 million in direct training activities, representing 560.000 direct man/hours. In 2001, Embraer placed considerable priority on the internal organization of human resources and the review of processes in the personnel area. One of the focal points in this endeavor was the intensification of the Action Plan as a model for personnel management, integrating the chain of activities beginning with project formulation, through to monitoring end results.

In 2001, the Board of Directors approved the following distribution of interest on capital and dividends:

Dividends and Interest on Capital (IOC) 2001	Date Distribution	Total R$ thousands	Amount per share in R$ Common	Amount per share in R$ Preferred
IOC – 1st Quarter	4/23/01	33,853	0.059030	0.064930
IOC – 2nd Quarter	7/10/01	41,403	0.063230	0.069550
Dividends – 1st Half	9/27/01	123,124	0.186780	0.205460
IOC – 3rd Quarter	10/15/01	48,354	0.073353	0.080690
IOC – 4th Quarter	1/16/02	57,109	0.086490	0.095150
Dividends – 2nd Half	4/5/02	100,010	0.151470	0.166620
Total	-	**403,853**	**0.620353**	**0.682400**

An ADS is equivalent to four preferred shares.

In 2001, Embraer distributed R$403.9 million to shareholders as dividends and interest on capital, representing 36% of net income for the year (R$1,118.5 million), 40% greater than the total distributed in 2000 (R$287.7 million, or 43.1% of net income for the period).

Secondary Share Offering

In June 2001, Embraer's controlling shareholders (Companhia Bozano, Bozano Holdings Ltd., Fundação Sistel de Seguridade Social, Caixa de Previdência dos Funcionários do Banco do Brasil (Previ)) and BNDES Participações S.A. - BNDESPar conducted a secondary offering of preferred shares in the domestic and international markets totaling 77.1 million shares, equivalent to US$750.0 million. Of this total, 7.7 million shares were sold in the Brazilian market at a unit price of R$23.25. A further 69.4 million shares were issued in the international market in the form of 17,352 thousand ADSs, at the unit price of US$38.90 per ADS (each ADS represents four preferred shares). Following the secondary offering, Embraer's free float in preferred shares increased from 37.5% to 58.5% – 13.1% of which negotiated on the São Paulo Stock Exchange and 45.4% on the New York Stock Exchange (NYSE).

In parallel with the secondary share offering, the BNDES (Brazilian Development Bank) converted its Embraer debentures into ADSs amounting to US$300 million. Both operations were considered a success and expanded Embraer's global investor base. The issues were considered "The Equity Deal of the Year" for a Latin American company by the publications *Latin Finance Magazine* and *Emerging Markets Investors Magazine.*

Dow Jones Sustainability Group Index

On September 19, 2001, Embraer was selected as one of the names to comprise the Dow Jones Sustainability Group Index (DJSGI) after its annual review, effective October 2001. As a result, the Company is now part of a select group of companies from 62 sectors, representing a market capitalization of more than US$ 5 trillion in 26 countries and considered outstanding in terms of economic, social and ecological sustainability. Only the companies with exceptional ranking based on the evaluation criteria are selected and must be among the ten largest in their industry. Besides Embraer, only three other Brazilian companies comprise this group. To become a component of the index, a company must have excellent ratings in various criteria such as corporate governance, code of ethics, money laundering prevention, internal control systems, risk and credit policies and social, economic and investment procedures, among others. DJSGI is a benchmark for an increasingly broad range of conscientious investors concerned with corporate social responsibility, who exercise their rights as shareholders.

During the course of 2001, Embraer received numerous awards which bear witness to the market's recognition of the Company's outstanding achievements.

- *MELHOR EMPRESA DO BRASIL* (Best Brazilian Company), awarded by *Forbes Brasil* magazine (May);
- *MELHOR EMPRESA DO SETOR AUTOMOTIVO* (Best Company in the Automotive Sector) in 2000, awarded in Brazil by the Exame Group, a part of publishing company *Editora Abril* (July);
- *EMPRESAS MAIS ADMIRADAS NO BRASIL 2001* (Most Admired Companies in Brazil in 2001), 3rd place among the ten most admired companies, following a survey conducted by the Brazilian magazine *Carta Capital*, in association with InterScience (September);
- *TROFÉU TRANSPARÊNCIA* (Transparency Trophy) awarded in Brazil by the National Association of Financial, Administrative and Accounting Executives *(Anefac)*, in recognition of the precision and content of the Company's 2000 Annual Balance Sheet (September);
- *PRÊMIO SAE BRASIL 2001*, (SAE BRAZIL Prize 2001) awarded by *SAE BRASIL* (Society of Automotive Engineers) – (October);

- *DESTAQUE DE COMÉRCIO EXTERIOR – 2001* (Distinction in Foreign Trade), in the Merit Award Category, awarded by the Foreign Trade Secretariat (Secex), of the Ministry for Development, Industry and Foreign Trade and by the Brazilian Association of Foreign Trade (AEB), at the 21st National Foreign Trade Meeting (November);
- *DESEMPENHO IMC 2001* (IMC Performance in 2001) as the best company in Brazil in the "Auto-parts and Transport Material" segment, awarded by the Miguel Calmon Institute for Social and Economic Studies (November);
- *AS MAIORES DO TRANSPORTE 2001* (The Biggest in Transport 2001 – automotive segment) and *A MELHOR ENTRE AS MELHORES DO SETOR INDÚSTRIA* (The Best among the Best in the Industrial Sector), the two awards granted simultaneously by Brazilian magazine Transporte Moderno (November);
- *TOP DE MARKETING DE EXPORTAÇÃO 2001*, (Top in Export Marketing) awarded by the Association of Sales and Marketing Executives of Brazil - *ADVB* (December).

Board of Directors

Carlyle Wilson, Chairman of the Board of Directors
Nélio Henriques Lima, Vice President of the Board of Directors
Lacy Dias da Silva, Vice President of the Board of Directors (*)
Andrea Sandro Calabi
Claudemir Marques de Almeida (*)
Dietrich Russel
Brig.-do-Ar Fernando Antonio Fernandes Cima (*)
Fernando Antonio Pimentel de Melo
Maj.-Brig.-do-Ar Frederico de Queiroz Veiga (*)
Juarez Martinho Quadro do Nascimento
Leandro Martins Alves (*)
Luiz Felipe Pereira Lampreia
Mario Hipólito Silva
Maurício Novis Botelho
Paulo Cesar de Souza Lucas
Pierre Chouzenoux
Ten.-Brig.-do-Ar Reginaldo dos Santos
Vitor Sarquis Hallack

(*) until April 2001

Executive Officers

Maurício Novis Botelho, President and CEO
Antonio Luiz Pizarro Manso, Executive Vice President, CFO and Investor Relations
Artur Aparecido Valério Coutinho, Executive Vice President, Customer Services
Carlos Rocha Villela, Executive Vice President, General Counsel
Frederico Pinheiro Fleury Curado, Executive Vice President, Airline Market
Henrique Costa Rzezinski, Executive Vice President, External Relations
Horacio Aragonés Forjaz, Executive Vice President, Corporate Communication
Luiz Claudio Sigaud Ferraz, Executive Vice President, Corporate Quality and Administration
Romualdo Monteiro de Barros, Executive Vice President, Defense Market
Samuel Dwight Hill, Executive Vice President, Corporate Aircraft Market
Satoshi Yokota, Executive Vice President, Industrial

Directors of Subsidiary Companies

Gary John Spulak, President, EAH – Embraer Aircraft Holding
Irajá Buch Ribas, Director, EAE – Embraer Aviation Europe
Antonio Pires Monteiro, President, ELEB – Embraer Liebherr Equipamentos do Brasil S.A.
Paulo Urbanavicius, Director, Indústria Aeronáutica Neiva S.A.

Directors

Adelino Gomes Cardoso, Domestic Business – Defense Market
Almir Miguel Borges, Manufacturing
Anderson Markiewicz, Latin American Sales and Marketing and Pre-Owned Aircraft – Airline Market
Claudio Augusto Joaquim Moreira, Strategic Relations – Defense Market
Cynthia Marcondes F. Benedetto, Finance
David Scott Kalister, Support – Corporate Aircraft Market
Edson Carlos Mallaco, Regional Services – North America - Airline Market
Eduardo Munhós de Campos, International Business – Defense Market

Emílio Kazunoli Matsuo, Programs
Ernest Salvatore Fino, External Relations – North America
Flávio Rímoli, Contracts – Airline Market
Francisco Horácio Bento de Mello, Institutional Relations - Brazil
Graciliano Campos, Marketing
Guan Dong Yuang, Marketing and Sales – China – Airline Market
Hermann Ponte e Silva, Corporate Planning
Ian Fraser Montgomerie, Programs – Corporate Aircraft Market
James Allen Cable, Support Systems – Corporate Airline Market
John R. Doyle, Marketing and Sales – Belgium, Ireland, United Kingdom, Turkey And Switzerland – Airline Market
José Eduardo Campos, Corporate Security
José Luis D`Avila Molina, Contracts – Corporate Aircraft Market
José Renato Oliveira Melo, Engineering
Ladislau Cid, Controller
Luis Antonio Hernandez Gonzalez, Programs – Defense Market
Luís Carlos Affonso, Programs - EMBRAER 170/190
Luiz Fernando Fuchs, Marketing and Sales– Asia and Pacific Rim– Airline Market
Luiz Sérgio Cardoso de Oliveira, Social Development
Marcelo Botelho Rodrigues, Asset Management
Mark Paul Hale, Marketing and Sales - U.S., Canada and The Caribbean – Airline Market
Michael Edward Gearhart, Sales – North America – Airline Market
Nelson Luiz Costa Silva, Marketing and Sales - Europe, Africa and The Middle East– Airline Market
Orlando Jose Ferreira Neto, Market Intelligence – Airline Market
Paulo César de Souza e Silva, Sales Financing
Ricardo Marcelo Bester, Regional Services – South America, Australia and Asia
Robert Adair Davis, Maintenance Services
Roberto Ribeiro Santos, Infrastructure
Rogério Magalhães Marques, Marketing and Sales – Latin America – Corporate Aircraft Market
Rogério Teperman, Procurement and Materiel
Ronald John Dwyer, Finance - EAH
Ulrico Barini Filho, Human Resources Development
Wagner Lapa Pinheiro, Information Technology

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Economic-Financial Performance

Financial Highlights for Fiscal Years Ended December 31, 2001 and 2000

(In millions of Reais, except where otherwise indicated)

	Corporate Law	
	2001	2000
Financial Results		
Gross sales	6,989.2	5,230.7
Income from operations before financial income (EBIT)	2,029.0	1,026.7
Net income	1,100.9	645.2
Earnings per share (R$)	1.7974	1.2282
Dividend per share (R$)	0.6126	0.5134
Balance Sheet Data		
Cash & Cash Equivalent	1,739.1	2,325.6
Loans & Debentures	1,792.0	1,073.7
Total assets	7,726.3	5,150.1
Shareholders' equity	2,456.9	1,538.7
Indicators		
Net cash (debt)	(52.9)	1,431.4
Net cash provided by (used in) operating Activities	(126.4)	2,064.8
EBITDA *	2,096.8	1,096.3
EBITDA margin	30%	21%
Net margin	16%	12%
Return on assets	17%	15%
Return on equity	55%	58%
Current ratio	1.5	1.5
Inventory turnover	2.1	2.9
Others		
Firm order backlog - US$ billion	10.7	11.4
Total market capitalization at year-end (US$ billions)	3.5	5.1
Total shares outstanding	622,282.9	543,409.9
Common share price at year-end (R$) **	12.51	12.35
Preferred share price at year-end (R$) **	13.20	18.20
PADS price at year-end (US$) ***	22.13	39.75

** EBITDA means Net income + Financial Expense/Revenue + Income taxes + Non-operating Expense + Depreciation + Amortization*

*** Market Capitalization considering the share closing price at year-end*

**** Each ADS represents four preferred shares*

Aircraft Deliveries

Deliveries (Aircraft Units)	2001	2000	1999
Commercial Market	155	157	103
EMB120 (Brasília)	2		7
ERJ 135	27	45	16
ERJ 140	22		
ERJ 145	104	112	80
Corporate Market	8	3	
EMB 135	7	3	
EMB 145	1		
Light Aircraft	11	17	17
Total Geral	174	177	120

Order Book as of December 31, 2001 per Client and Product

Commercial Market

ERJ 135

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
American Eagle	USA	40		40	
British Midland	UK	4		2	2
City Air	Sweden	2	1	2	
Continental Express	USA	50		30	20
Pan Européenne	France	1	1	1	
Proteus	France	6		6	
Regional Airlines	France	3		3	
Regional Air Lines	Morocco	5	5		5
SA Airlink	South Africa	30	40	4	26
		141	47	88	53

ERJ 140

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
American Eagle	USA	139	25	15	124
Midwest Express	USA	20	20		20
Wexford	USA	15		7	8
		174	45	22	152

Order Book as of December 31, 2001 per Client and Product

ERJ 145

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
Air Caraïbes	Guadalupe	2		2	
Air Moldova	Moldavia	2	2		2
Alitalia	Italy	8	13	8	
American Eagle	USA	56	17	56	
Axon Airlines	Greece	4	2	3	1
British Midland	UK	11	5	9	2
British Regional	UK	23	3	21	2
Brymon	UK	7	14	7	
Cirrus	Germany	1		1	
Continental Express	USA	225	100	108	117
ERA	Spain	2		2	
KLM Excel	Netherlands	2	2	2	
LOT	Poland	16		13	3
Luxair	Luxembourg	9	2	9	
Mesa	USA	36	45	23	13
Portugália	Portugal	8		8	
Proteus	France	18	14	11	7
Regional Airlines	France	17		13	4
Rheintalflug	Austria	4	4	3	1
Rio-Sul	Brazil	16		16	
Sichuan Airlines	China	5		5	
Skyways AB	Sweden	4	11	4	
SWISS	Switzerland	25	15	18	7
Trans States	USA	12		12	
Wexford	USA	38	20	38	
		551	269	392	159

EMBRAER 170

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
Air Caraïbes	Guadalupe	2	2		2
Gecas	USA	50	78		50
SWISS	Switzerland	30	50		30
		82	130		82

EMBRAER 195

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
Gecas	USA		22		
SWISS	Switzerland	30	50		30
		30	72		30

Corporate Market

Legacy Executive

Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
"Undisclosed"	USA	17	13		17
SWIFT	USA	24	25		24
		41	38		41

EMB 135 – Corporate Market

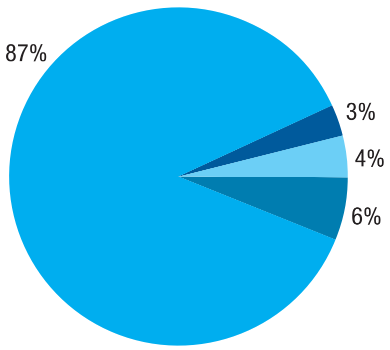
Customer	Country	Firm Orders	Options	Deliveries	Firm Order Backlog
Conoco	USA	1		1	
Indigo	USA	25	50		25
"Undisclosed"	USA	6	6	6	
		32	56	7	25

Management Analysis of the Financial Situation and Operating Results as of December 31, 2001 Compared with December 31, 2000

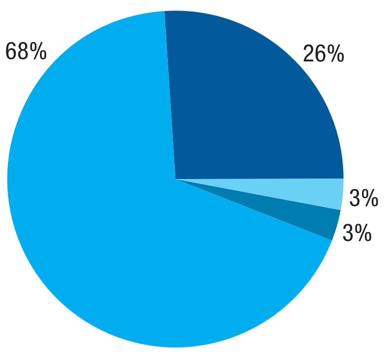
In 2001, the Company delivered a total of 174 aircraft, of which 161 were regional jets of the ERJ family, two turboprop EMB 120 Brasília and 11 light aircraft for agricultural use.

In addition to the aircraft, gross sales also includes the sale of spare parts and services by the Parent Company and its subsidiaries located in Brazil and overseas. In 2001, the commercial aviation segment represented 87% of total revenue. The North American and European markets were responsible for 94% of all revenue.

Revenue per Segment



Revenue per Region



The economic and financial situation of the Company reflects the good performance of all areas, from sales to production and customer services.

Gross sales in 2001 totaled R$ 6,989.2 million, 33.6% higher than the R$ 5,230.7 million in 2000. The cost of goods sold, of R$ 4,025.9, was 14.4% higher year-over-year, having increased less than revenue growth. As a result, the Company posted a gross margin of 41% - above the 30% registered in 2000 - influenced principally by the depreciation of the Real against the US Dollar in the period.

In 2000, operating expenses totaled R$ 937.0 million, (including employee profit sharing) representing 13.4% of gross sales, proportionally higher than the R$ 634.1 million (equivalent to 12.1% of gross sales) reported in 2000. This increase is due to investments made to expand the corporate aviation and defense markets, as well as investments in marketing and in the promotion of products and services.

The end result was that Embraer's operating income before interest and taxes (EBIT) in 2001, net of employee profit sharing, totaled R$ 1,927.8 million, more than double the R$ 946.1 million reported in 2000.

Operating cash generation as measured by EBITDA posted the impressive record figure of R$ 2,096.8 million, a growth of 91.3% in relation to the R$ 1,096.3 million reported in 2000.

This performance translated into net income of R$ 1,100.9 million, corresponding to 16% of gross revenue and a 70.6% improvement over the R$ 645.2 million recorded in 2000. Earnings per share were R$ 1.77.

Financial Indicators

At the end of December 2001, cash and cash equivalents totaled R$ 1,739.1 million, while outstanding debt obligations totaled R$ 1,792 million, thus producing a negative net cash balance of R$ 52.9 million.

This cash position is a direct reflection of the post-September 11 scenario, when deliveries and down-payments were rescheduled. There was also an increase in the accounts receivable, which increased due to the less favorable market for financing aircraft sales. In spite of this adverse environment, the current liquidity ratio remained unchanged at 1.5 compared with the preceding year.

The lower production rate following September 2001 resulted in an increase in inventory levels, from R$ 1,121.6 million at the end of 2000, to R$ 2,371.1 million on December 31, 2001 and in a reduction in turnover, from 2.9 in 2000, to 2.1 in 2001. Nevertheless, inventory is expected to return to previous levels during the first half of 2002, as the flexibility and the partnership nature of the original contracts have been an important aspect of recent negotiations with suppliers.

The return on assets ratio (ROA) was 17%, slightly higher than in 2000 when this ratio was 15%, while the return on shareholders' equity (ROE) was 55% in 2001, as compared with 58% in 2000.

Added Value Statement for Fiscal Years Ending December 31, 2001 and 2000

(Additional Information)

The Economic Added Value in 2001 posted a significant increase of 78.9% over 2000.

In millions of Reais	2001	2000
Total Assets	7,726.2	5,150.0
Liabilities with Operational Financing	5,114.5	3,386.6
Remunerated Liabilities	2,611.7	1,763.4
Debt (Permanent Assets Financing and Debentures)	154.8	224.7
Equity	2,456.9	1,538.7
Invested Capital	2,611.7	1,763.4
Net Sales	6,890.7	5,099.3
Costs and Operational Expenses	(5,288.9)	(4,157.2)
Earnings Before Income Tax	1,601.8	942.2
Income Tax and Social Contribution	(491.9)	(283.6)
Debt Cost	(15.8)	(26.3)
Fiscal Benefit	5.4	8.9
Net income	1,099.5	641.3
Cost of Equity	(393.1)	(246.2)
Added Value	706.4	395.1
Added Value/Invested Capital	27%	22%

The criteria used to calculate the AV includes the effect of the exchange variation on third-party capital in the weighted average cost of capital.

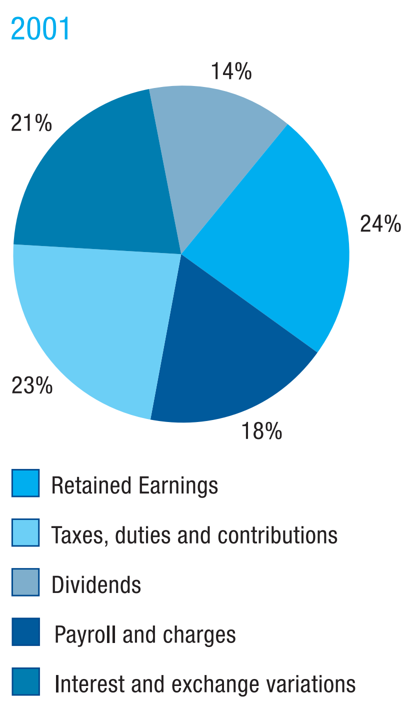
Added Value Statement – (AVS) for the Financial Years Ended December 31 2001 and 2000

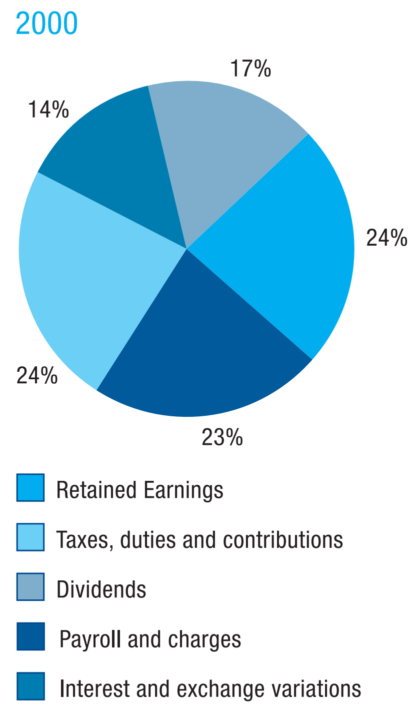
(Additional Information)

The social function of the Company can be analyzed according to the AVS, which breaks down the values distributed to different segments of society represented by shareholders, employees, financial institutions and government (municipal, state and federal).

The added value has consistently grown as can be seen from the results of R$1,743.8 million and R$ 2,910.6 million, corresponding to 33.5 % and 41.6 % of revenue generated in 2000 and 2001, respectively.

Parent Company - R$ million	2001	2000
Revenue	6.991,5	5.208,8
Purchased Materials	4.213,7	3.496,0
Gross Added Value	2.777,8	1.712,8
Retentions	133,8	129,3
Net Added Value Produced	2.644,0	1.583,5
Net Added Value Received in Transfers	266,6	160,3
Total Added Value for Distribution	2.910,6	1.743,8
Distribution of Added Value	2.910,6	1.743,8
Payroll and charges	520,4	410,9
Taxes, duties and contributions	666,6	429,6
Interest and exchange variations	605,1	235,9
Dividends	403,9	287,7
Retained Earnings	714,6	379,7





Consolidated Balance Sheets December 31, 2001 and 2000

(In thousands of Brazilian Reais)

ASSETS

	Notes	2001	2000
Current Assets:			
Cash and cash equivalents	(4)	1,739,118	2,325,579
Trade accounts receivable	(5)	1,441,320	342,473
Allowance for doubtful accounts	(5)	(55,131)	(28,449)
Recoverable taxes	(6)	35,979	8,744
Deferred income tax	(30)	246,910	227,495
Other receivables	(7)	135,584	40,217
Inventories	(8)	2,371,095	1,121,562
Prepaid expenses	(9)	55,986	16,808
Total current assets		5,970,861	4,054,429
Noncurrent Assets:			
Trade accounts receivable	(5)	117,106	44,461
Recoverable taxes	(6)	5,967	4,505
Compulsory loans, guarantee and other deposits		17,324	11,243
Other receivables	(7)	300,519	66,743
Deferred income tax	(30)	104,651	161,184
Prepaid expenses	(9)	16,558	-
Total noncurrent assets		562,125	288,136
Permanent Assets:			
Investments	(10)	10,109	7,912
Property, plant and equipment	(11)	718,572	523,415
Deferred charges	(12)	464,571	276,159
Total permanent assets		1,193,252	807,486
Total assets		7,726,238	5,150,051

The accompanying notes are an integral part of these balance sheets.

Consolidated Balance Sheets December 31, 2001 and 2000

(In thousands of Brazilian Reais)

Liabilities and Shareholders' Equity

	Notes	2001	2000
Current Liabilities:			
Loans	(13)	1,223,081	716,744
Suppliers	(14)	615,716	521,175
Accounts payable	(15)	144,257	124,340
Customers' advances	(16)	881,760	567,037
Taxes and social charges payable	(17)	303,117	149,681
Accrued taxes on income		112,292	78,047
Dealers and sales agents		1,321	1,261
Accrued liabilities	(18)	512,025	358,794
Dividends	(19)	102,133	116,127
Interest on capital	(19)	51,475	33,780
Accrued interest on debentures		-	1,797
Deferred income tax	(30)	4,743	1,341
Total current liabilities		3,951,920	2,670,124
Long-Term Liabilities:			
Loans	(13)	568,930	177,505
Accounts payable	(15)	372,081	280,580
Customers' advances	(16)	247,340	158,771
Long-term portion of refinanced taxes	(17)	49,610	52,531
Accrued liabilities	(18)	24,985	28,082
Debentures		-	177,677
Deferred income tax	(30)	34,853	49,657
Total long-term liabilities		1,297,799	924,803
Deferred Income		-	409
Minority Interest		19,652	15,989
Shareholders' Equity:	(21)		
Capital		941,338	808,984
Capital reserves		118,723	29,974
Income reserves		1,396,806	699,768
Total shareholders' equity		2,456,867	1,538,726
Total liabilities and shareholders' equity		7,726,238	5,150,051

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Income for the Years Ended December 31, 2001 and 2000

(In thousands of Brazilian Reais)

	Notes	2001	2000
Sales:			
Gross sales			
Domestic market		156,092	107,202
Foreign market		6,833,129	5,123,541
Sales taxes		(11,442)	(10,360)
Sales deductions		(87,118)	(121,034)
Net Sales		6,890,661	5,099,349
Cost of Sales		(4,025,903)	(3,519,123)
Gross Profit		2,864,758	1,580,226
Operating Expenses:			
Administrative		(211,791)	(144,033)
Selling		(518,700)	(358,086)
Other expenses, net	(25)	(106,020)	(52,928)
Equity in unconsolidated subsidiary	(10)	721	1,472
Income from operations before financial income (Expenses)		2,028,968	1,026,651
Financial Income (Expenses):			
Interest on capital		(180,720)	(100,698)
Interest expense	(26)	(165,968)	(174,538)
Interest income	(26)	362,653	163,692
Monetary and exchange variations, net	(27)	(494,982)	(96,647)
Income from Operations After Financial Income (Expenses)		1,549,951	818,460
Nonoperating Income (Expense), Net	(28)	(37,331)	19,232
Income Before Tax and Profit Sharing		1,512,620	837,692
Provision for income tax	(30)	(460,794)	(274,647)
Deferred income and social contribution taxes	(30)	(25,720)	67,275
Income After Taxes		1,026,106	630,320
Profit Sharing		(101,181)	(80,540)
Reversal of Interest on Capital		180,720	100,698
Minority Interest		(4,754)	(5,299)
Net Income		1,100,891	645,179

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2001 and 2000
(In thousands of Brazilian Reais)

	2001	2000
Beginning Balance	1,538,726	697,106
Capital increase:		
In cash	4,161	439,824
Debentures converted into capital	183,133	20,773
Tax incentive reserve	33,809	23,583
Proposed dividends	(223,133)	(187,041)
Interest on capital	(180,720)	(100,698)
Net income	1,100,891	645,179
Ending Balance	2,456,867	1,538,726

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position for the Years Ended December 31, 2001 and 2000
(In thousands of Brazilian Reais)

	2001	2000
Sources of Funds:		
Provided by operations-		
Net income	1,100,891	645,179
Items not affecting working capital-		
Equity in unconsolidated subsidiary	(721)	(1,472)
Translation gain on foreign investments	(30,446)	(9,061)
Minority interest	4,754	5,299
Depreciation and amortization	168,985	150,156
Write-off of deferred charges	19,340	1,182
Net book value of permanent asset disposals	1,474	3,626
Write-off of investments	-	46
Interest on long-term items added to principal, net	(3,398)	1,759
Net monetary and exchange variations on long-term items	86,201	49,415
Provision for losses	37,529	14,058
Reversal of deferred income	(485)	(12)
Long-term deferred income and social contribution taxes	8,786	9,751
Provision for contingencies	411	15,471
Funds provided by operations	1,393,321	885,397
From shareholders-		
Capital increase	4,161	439,824
From third parties-		
Increase in long-term liabilities-		
Customers' advances	405,991	156,284
Loans	495,969	57,961
Suppliers and other liabilities	40,836	225,242
Tax incentives	12,111	5,504
Transfer to current assets-		
Accounts receivable	46,458	-
Deferred income and social contribution taxes	32,081	48,285
Other	8,633	3,909
Increase (Decrease) in minority interest	(1,091)	10,690
Funds provided by third parties	1,040,988	507,875
Total sources	2,438,470	1,833,096
Applications of Funds:		
Increase in noncurrent assets	363,919	17,903
Investments	3,146	837
Property, plant and equipment	249,519	195,953
Deferred charges	301,063	105,008
Transfer to current liabilities-		
Loans	95,478	33,124
Customers' advances	371,396	203,003
Other	15,460	72,481
Dividends	223,133	187,042
Interest on capital	180,720	100,698
Total applications	1,803,834	916,049
Increase in Working Capital	634,636	917,047
Working Capital - End of Year:		
Current assets	5,970,861	4,054,429
Current liabilities	3,951,920	2,670,124
	2,018,941	1,384,305
Working Capital - Beginning of Year	1,384,305	467,258
Increase in Working Capital	634,636	917,047

The accompanying notes are an integral part of these statements.

(Amounts in thousands of Brazilian Reais, unless otherwise indicated)

1. OPERATIONS

Embraer - Empresa Brasileira de Aeronáutica S.A. (the “Company”) is engaged in the design, development, production and marketing of a range of jet and turboprop aircraft for regional airline and defense use, of light reciprocating and turboprop aircraft for general aviation, corporate and agricultural uses and of aviation-related structural parts and mechanical and hydraulic systems. In addition, the Company is developing a new line of corporate jets based on one of its regional jets.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

a. Presentation of Financial Statements
The financial statements were prepared in accordance with accounting practices emanating from Brazilian corporate law and additional regulations of the “Comissão de Valores Mobiliários”, the Brazilian Securities Commission (the "CVM"), and are an English language adaptation of the financial statements published in Brazil, for the convenience of users outside Brazil.

Certain accounting practices applied by the Company and its subsidiaries that conform with accounting practices emanating from corporate law in Brazil may not conform with generally accepted accounting principles in the countries where these financial statements may be used.

The financial statements include the accounts of the Company and the following wholly-owned subsidiaries: Embraer Aircraft Corporation - EAC, Embraer Finance Ltd. - EFL, Embraer Service Inc. - ESI, Trumpeter Inc., Indústria Aeronáutica Neiva S.A. - NEIVA, ELEB - Embraer Liebherr Equipamentos do Brasil S.A., Embraer Aviation Europe SAS - EAE, Embraer Europe SARL - EES, Embraer Australia PTY Ltd. - EAL and Embraer Credit Ltd. - ECL.

b. Operating Activities of Subsidiaries

Embraer Aircraft Corporation - EAC
This wholly-owned subsidiary located in Ft. Lauderdale, Florida, USA, represents the Company commercially in the United States, Canada, the Caribbean and the United Kingdom, including sales, product support, and customer training.

Embraer Finance Ltd. - EFL
This wholly-owned subsidiary located in the Cayman Islands, B.W.I., provides support in the purchasing and sales activities of the Company, as well as assisting customers in obtaining financing from third parties.

Embraer Service Inc. - ESI
This wholly-owned subsidiary located in Dallas, Texas, USA, provides support in the United States for the development activities for the EMB 145 special configurations contracted under the SIVAM Program (Integrated Surveillance System for the Amazon Region) to carry out remote vigilance and air patrol missions, as well as engineering services for Embraer programs.

Trumpeter Inc.
This wholly-owned subsidiary located in Wilmington, Delaware, USA, has a 25% interest in Expressprop LLC, which provides support for the sale of used EMB 120 Brasilia aircraft.

Indústria Aeronáutica Neiva S.A. - NEIVA
This wholly-owned subsidiary located in Botucatu, São Paulo, Brazil, is involved in the production and sale of agricultural aircraft, as well as the production and assembly of parts for the EMB 120 Brasília, ERJ 145, ERJ 140 and ERJ 135 aircraft.

ELEB - Embraer Liebherr Equipamentos do Brasil S.A.
On November 1, 2000, Embraer Liebherr Equipamentos do Brasil S.A., based in São José dos Campos - SP, was merged into Órbita Sistemas Aeroespaciais S.A. Its principal business of producing and selling precision hydraulic and mechanical equipment for the aviation industry remained unchanged. The company name was changed to ELEB - Embraer Liebherr Equipamentos do Brasil S.A.

Embraer Aviation Europe SAS - EAE
In 2001, this wholly-owned subsidiary located at Le Bourget, near Paris, France, became the holding company of Embraer Aviation International SAS - EAI, which represents the Company in the Europe, Africa and the Middle East by providing after-sales support.

Embraer Europe SARL - EES
This wholly-owned subsidiary located at Villepinte, near Paris, France, provides sales representation for the Company in Europe, Africa and the Middle East.

Embraer Australia PTY Ltd. - EAL
This wholly-owned subsidiary located at Melbourne, Australia, provides services and after-sales support to customers in Oceania, Asia and that region.

Embraer Credit Ltd. - ECL
This wholly-owned subsidiary located at Wilmington, Delaware, USA, supports sales operations.

The financial statements of subsidiaries based abroad are prepared according to accounting practices compatible with those used by the Company, and are converted into reais at the exchange rates in effect at the balance sheet date.

Intercompany balances, transactions and unrealized profits, net of income tax effects, are eliminated in consolidation.

Investments in affiliates in which the Company does not have control are accounted for under the equity method.

The reconciliation between the amounts reported by the Company in its individual financial statements, not presented herein, and the consolidated amounts is as follows:

	Net income for the year ended December 31,		Shareholders' equity at December 31,	
	2001	2000	2001	2000
Company	1,118,491	667,393	2,541,333	1,605.592
Unrealized profit (*)	(17,600)	(22,214)	(84,466)	(66,866)
Consolidated	1,100,891	645,179	2,456,867	1,538,726

(*) Unrealized profit arises from sales by the Company to its subsidiaries, and also among the subsidiaries, of spare parts, aircraft and marketing rights, eliminated in consolidation.

c. Consolidated Financial Statements Expressed in Constant Purchasing Power Currency
Optionally, as permitted by CVM Instruction No. 248/96, supplemental financial statements are presented in constant purchasing power currency, in the attached Exhibit.

The financial statements in constant currency were prepared in accordance with standards of the CVM for publicly-traded companies.

The principal practices adopted in the preparation of the consolidated financial statements in constant currency are as follows:

c.1. Inflation Effects
All nonmonetary assets and liabilities, shareholders' equity accounts, and all components of the statements of income are updated to reflect the changes in the inflation index to December 31, 2001.

c.2. Inflation Indices
The indices adopted to update the financial statements to reflect inflation adjustments were based on the official inflation restatement indices, selected by CVM for use in financial statements in constant purchasing power currency, until December 31, 1995, and based on the “Índice Geral de Preços de Mercado” (General Price Index - Market or the "IGP-M"), starting January 1, 1996, except in 1998, when because of the low level of inflation as measured by the IGP-M, the Company did not update its financial statements.

The inflation rates for the years ended December 31, 2001 and 2000 were 10.37% and 9.9%, respectively.

c.3. Statements of Income for 2001 and 2000
Components of the statements of income are adjusted by:

- Allocating inflationary gains and losses on interest - bearing monetary assets and liabilities to the corresponding interest income and expense line items.

- Allocating inflationary gains and losses from other monetary items to the corresponding income or expense line items. Amounts without corresponding line items were allocated to “Other expenses, net”.

c.4. Deferred Income Tax Effects on Inflation Adjustments
A deferred tax liability arises from the excess of net assets shown for constant currency purposes over the tax basis of these net assets. The additional deferred tax liability of R$116,801 and R$108,300 as of December 31, 2001 and 2000, respectively, was recognized as a reduction of deferred tax assets arising from tax loss carryforwards and temporary differences.

3. SUMMARY OF ACCOUNTING PRACTICES

a. Cash and Cash Equivalents
Temporary cash investments are reported at cost, plus income earned to the balance sheet date.

b. Allowance for Doubtful Accounts
Recognized based on an individual analysis of receivables, in an amount considered sufficient to cover possible losses on receivables.

c. Foreign Currency Transactions
Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences are recognized in income as they occur.

d. Foreign Currency Translation Gains (Losses)
Translation gains and losses arising from the effects of devaluation (or appreciation) of the Brazilian real in relation to the U.S. dollar, French franc, Euro or Australian dollar, when translating the financial statements of foreign subsidiaries for consolidation, are allocated to financial expenses.

e. Assets and Liabilities Subject to Monetary Restatement
Accounts subject to monetary restatement are updated based on the indexes defined legally or by contract.

f. Inventories
Stated at the lower of average production or acquisition cost and market value. Market value is replacement cost for raw materials and net realizable value for work-in-process and finished products. Spare parts are stated at average cost not in excess of realizable value.

g. Other Current and Noncurrent Assets
All other current and noncurrent assets are stated at cost or realizable value, including income earned, when applicable.

h. Permanent Assets
Investments are stated at cost, monetarily restated to December 31, 1995, and reduced by reserves to adjust to market value.

Property, plant and equipment are stated at cost, plus revaluations, and monetarily restated to December 31, 1995. Depreciation is provided on the straight-line method based on the estimated useful lives of the assets. Improvements to existing property are capitalized while maintenance and repair costs are charged to expense as incurred. Materials allocated to specific projects are added to construction-in-progress.

Deferred charges are stated at cost, monetarily restated to December 31, 1995, composed mainly of research and development costs, comprising design, project engineering, prototypes and tooling, for subsequent amortization based on the number of aircraft expected to be sold.

i. Loans
Updated based on monetary and exchange variations, and include the respective charges incurred to the balance sheet date.

j. Customers' Advances
Restated from the date received for monetary and exchange variations, when applicable.

k. Taxes on Income
Comprise Federal income and social contribution taxes. Deferred taxes are provided on temporary differences to the extent realization is probable.

l. Product Warranties
Warranty expense is recognized based on estimated amounts to be incurred as a percentage of the sales price of the aircraft. The warranty period ranges from two to three years, depending on the components of the aircraft.

m. Reserves for Contingencies
Reserves for contingencies related to labor, tax, civil and commercial litigation, at the administrative and judicial levels, are recognized based on the opinions of legal counsel and management's best estimate as to the likely outcome of the matters outstanding at the balance sheet date.

n. Pension and Post-retirement Benefits
The Company sponsors a defined contribution pension plan that provides pension and other post-retirement benefits for its employees, except for Embraer Aircraft Corporation - EAC, where the plan is a defined benefit plan for employees hired until September 30, 2001. Current costs are determined as the amount of required contributions for the period and are recorded on the accrual basis.

o. Other Current and Long-term Liabilities
The remaining current and long-term liabilities are stated at known or estimated amounts, plus the related charges and exchange variations, when applicable.

p. Employees' Profit Sharing
Accruals are made for employees' profit sharing. The amount recorded is the profit sharing attributable to those employees of the Company and its subsidiaries, based on the variable compensation policy approved by the Board of Directors in April 1996.

q. Sales and Other Operating Revenues
Sales under fixed-price contracts are generally recognized as deliveries are made or upon completion of contractually defined events. Regional aircraft sales are recorded as deliveries are made. In the defense aircraft segment, operations consist principally of long-term development contracts, for the Brazilian, Mexican and Greek government; the revenue is recognized under the percentage of completion method. Anticipated losses on sales contracts are accrued, when applicable, at the estimated amounts. Actual losses are recognized upon delivery of the related aircraft and the estimated accruals are proportionally reversed.

r. Earnings per Share
Calculated based on the number of shares outstanding at the balance sheet dates.

s. Stock Options
Stock options granted do not result in any expense being recorded. When the options are exercised, the purchase of stock by employees will be recorded as an increase in capital stock at the amount of the purchase price.

t. Prior Year Financial Statements
The financial statements as of and for the year ended December 31, 2000 were reclassified, when applicable, for comparability purposes.

4. CASH AND CASH EQUIVALENTS

	2001	2000
Cash and banks	62,493	21,340
Short-term investments:		
In Brazilian Reais-		
Investment funds	1,339,088	1,852,011
In U.S. dollars-		
Time deposits	241,380	443,331
Overnight	96,157	8,897
	1,739,118	2,325,579

The average annualized interest rates related to the investments made in Brazilian reais and in U.S. dollars for the year ended December 31, 2001 were 17.52% and 2.50% (17.71% and 5.60% in 2000), respectively. These investments are stated at cost, increased by income to the balance sheet date.

5. TRADE ACCOUNTS RECEIVABLE

	2001	2000
Brazilian Air Force	42,914	60,348
Domestic customers	16,454	11,437
Foreign customers	1,413,812	282,456
Export financing program - PROEX (*)	85,246	32,693
	1,558,426	386,934
Less- Current portion	1,441,320	342,473
Noncurrent portion	117,106	44,461

(*) Refers to receivables acquired by the Company from customers, related to the equalization of interest rates to be paid by PROEX between the 11th and 15th year after the sale of the related aircraft, recorded at present value. The interest earned is added to the balance and recorded as interest income.

Accounts receivable from foreign customers include R$1,187,496 related to aircraft sales for which the customer financing structuring process, amount of R$1,155,636, was concluded subsequent to December 31, 2001. Management expects that the liquidation of this operation will occur during the first four months of 2002. The remaining amount of R$31,860 is in process of financing structuring.

As of December 31, 2001 and 2000, accounts receivable from the Brazilian Air Force include amounts not currently billable of R$35,043 and R$42,032, respectively, which relate primarily to sales recorded under the percentage of completion method; the remaining balance refers to amounts billed for aircraft and spare-part sales.

Changes in the allowance for doubtful accounts are as follows:

	2001	2000
Beginning balance	28,449	20,041
Exchange variation	4,719	1,699
Provision	30,793	9,406
Reversal	(7,913)	(2,697)
Write-offs	(917)	-
Ending balance	55,131	28,449

6. RECOVERABLE TAXES

	2001	2000
Recoverable State and Federal VAT	52,201	37,067
Reserve for losses	(18,223)	(24,348)
Net	33,978	12,719
Withheld or prepaid income taxes	3,835	43
PIS and COFINS (taxes on revenue) withheld	1,855	-
Other	2,278	487
	41,946	13,249
Less- Current portion	35,979	8,744
Noncurrent portion	5,967	4,505

7. OTHER RECEIVABLES

	2001	2000
Credits with suppliers (a)	67,029	20,719
Guarantee deposits (b)	288,319	59,713
Advances to employees	16,607	10,586
Payroll tax refundable - INSS	339	394
Escrow deposits	11,737	3,556
Commission advances	11,919	-
Other	40,153	11,992
	436,103	106,960
Less- Current portion	135,584	40,217
Noncurrent portion	300,519	66,743

(a) Represent aircraft parts free of charge and price discounts to be received from suppliers.

(b) Guarantee deposits represent U.S. dollar amounts deposited in escrow as collateral for financing of certain aircraft sold. If the guarantor of the debt (an unrelated third party) is required to pay the creditors under such financing arrangement, the guarantor has the right to the escrow funds. The amounts deposited will be released when the financing contracts mature (from 2013 to 2017), if no default by the buyers of the aircraft occurs. The interest earned on the escrow funds is added to the balance in escrow and is recorded as interest income by the Company.

8. INVENTORIES

	2001	2000
Finished goods	158,957	58,554
Work-in-process	820,371	381,930
Raw materials	1,090,104	545,445
Used aircraft for resale	5,991	845
Supplies	2,669	2,070
Inventory in transit	212,562	106,429
Advances to suppliers	80,441	26,289
	2,371,095	1,121,562

Inventories, when applicable, were reduced to replacement cost (raw materials) and net realizable value (work-in-process and finished goods), as follows:

• Allowance for reduction to market value - Inventories of work-in-process and finished goods were reduced to net realizable value after deduction for costs, taxes and selling expenses. Inventories of raw materials were reduced to market value based on average cost compared with the average cost of replacement.

• Allowance for obsolescence - For items without activity for more than two years, provisions were made for possible losses on excess and obsolete supplies and work-in-process inventories, based on management's estimate of net realizable values.

The allowances are as follows:

	2001	2000
Allowance for obsolescence:		
Beginning balance	74,113	39,037
Provision	35,796	37,941
Usage	(13,420)	(4,504)
Effect of exchange rate changes	4,324	1,639
Ending balance	100,813	74,113
Allowance for reduction to market value:		
Beginning balance	-	-
Provision	46,162	-
Ending balance	46,162	-

9. PREPAID EXPENSES

	2001	2000
Insurance	11.580	5.310
Credit insurance (a)	20.877	-
Spare parts concession (b)	17.228	5.640
Customer training (c)	20.595	3.270
Other	2.264	2.588
	72.544	16.808
Less- Current portion	55.986	16.808
Noncurrent portion	16.558	-

(a) Premium on credit insurance related to a foreign line of financing. The premium will be amortized over the financing term from 2001 to 2006.

(b) Spare parts credits granted to the customers, amortized as aircraft deliveries are made.

(c) Training costs for pilots, mechanics and fight attendants. The costs are amortized as aircraft deliveries are made.

10. INVESTMENTS

a. Balances

	2001	2000
Affiliated company:		
Expressprop LLC (*)	10.109	7.912
	10.109	7.912

(*) Embraer owns 25% of the capital stock of this company.

b. Relevant Information on Consolidated Subsidiaries

	2001			2000	
	Ownership %	Shareholders' equity	Net income (loss)	Shareholders' equity	Net income (loss)
Embraer Aircraft Corporation - EAC	100,00	101,290	(530)	85,454	5,680
Embraer Finance Ltd. - EFL	100,00	21,810	(12,552)	28,956	26,194
Embraer Service Inc. - ESI	100,00	17,410	(489)	15,084	3,891
Trumpeter Inc.	100,00	9,691	648	7,620	1,370
Indústria Aeronáutica Neiva S.A. NEIVA	100,00	11,510	128	11,965	1,265
ELEB - Embraer Liebherr					
Equipamentos do Brasil S.A.	60,00	44,525	4,705	38,343	13,588
Embraer Aviation Europe SAS - EAE	100,00	25,861	(31,337)	37	-
Embraer Europe SARL - EES	100,00	555	538	15	-
Embraer Australia PTY Ltd. - EAL	100,00	4,409	(748)	3,699	(13)
Embraer Credit Ltd. - ECL	100,00	(5,078)	(3,826)	(1,055)	(1,055)
Embraer Aviation International - EAI	-	-	-	5,673	(3,032)

c. Transactions with Unconsolidated Related Parties

	2001	2000
Brazilian Air Force:		
Current-		
Accounts receivable	35,913	45,440
Customers' advances	121,770	34,989
Accounts payable	5,003	6,181
Income-		
Sales	88,691	65,764
BNDES - Banco Nacional de Desenvolvimento		
Econômico e Social:		
Current-		
Loans	34,290	32,274
Noncurrent-		
Loans	88,788	114,420
Interest expenses-		
Financial expenses	25,205	25,496

The Brazilian Government, principally through the Brazilian Air Force, has participated in the development of the Company and plays a key role as fund provider for funded research and development through technology development institutions such as FINEP (Financiadora de Estudos e Projetos, a Brazilian Government financing agency) and the BNDES (National Economic and Social Development Bank).

The Company does not engage in transactions or arrangements with any of its affiliates on a basis or terms less favorable to the Company than would be obtained at the time from an unaffiliated third party.

The Company maintains credit facilities with the BNDES and FINEP of which principal of R$106,678 and R$20,756, respectively, was outstanding at December 31, 2001. In addition, as described in Note 13, the Company renegotiated reductions in the interest rates on loans from the BNDES.

11. PROPERTY, PLANT AND EQUIPMENT

		2001			2000
	Annual depreciation rate (%)	Restated and revalued cost	Accumulated depreciation	Net	Net
Land -		17,063	-	17,063	17,012
Buildings and land improvements	2.08 to 10.00	334,845	(109,945)	224,900	158,237
Installations	3.23 to 10.00	174,923	(119,952)	54,971	26,029
Machinery and equipment	5.88 to 20.00	295,254	(185,173)	110,081	90,399
Furniture and fixtures	10.00 to 20.00	28,476	(15,376)	13,100	7,070
Vehicles	9.09 to 20.00	8,971	(5,185)	3,786	2,616
Aircraft	11.11 to 20.00	141,562	(45,921)	95,641	92,219
Computers and peripherals	20.00	79,078	(42,046)	37,032	28,328
Software	20.00	67,433	(16,359)	51,074	23,075
Other	20.00	26,323	(3,154)	23,169	12,715
Advanced to suppliers	-	12,403	-	12,403	-
Construction in progress	-	75,352	-	75,352	65,715
		1,261,683	(543,111)	718,572	523,415

On December 30, 1988 and April 30, 1991, the Company recorded revaluations of its operating assets. The remaining balance of these revaluations at December 31, 2001 and 2000 amounted to R$119,928 and R$129,734, respectively. The corresponding revaluation reserves were used to increase capital and, except for the portion related to real estate, were included in the computation of taxable income for income tax purposes. The depreciation rates of the revalued assets were determined based on the revised estimated useful lives of these assets, in accordance with the appraisal reports.

12. DEFERRED CHARGES

	2001			2000
	Cost	Accumulated amortization	Net	Net
ERJ 135/140/145 (*)	551,026	(365,945)	185,081	193,532
EMBRAER 170/190	275,333	-	275,333	63,524
EMB 120 Brasília	199,157	(199,157)	-	1,277
S-92 - Sikorsky	-	-	-	17,286
Other	8,770	(4,613)	4,157	540
	1,034,286	(569,715)	464,571	276,159

(*) Includes research and development costs for the Legacy, the Company's line of corporate jets.

Deferred charges include the compensation of engineers assigned to the development of each new aircraft, support services, certain production overhead, tooling, and direct labor and materials to construct a prototype of the aircraft or relevant components. Also included are the costs of testing the prototype and subsequent design changes.

The amortization of deferred charges is computed based on the estimated number of aircraft to be produced, for each project, starting when benefits begin to be generated, and is allocated to production costs.

For suspended projects, or those for which full realization is considered unlikely, the deferred charges are written off or reduced to estimated net realizable value.

ERJ 135/140/145

Regional jet aircraft family composed of the ERJ 135, ERJ 140 and ERJ 145, certified to operate with 37, 44 and 50 seats, respectively. These aircraft share approximately 96% of common parts and components.

In July 2000, the Company introduced an executive jet: the Legacy. This aircraft is a derivative of the ERJ 135 and will be produced in two versions: executive and corporate shuttle. The Legacy received certification to operate commercially in Brazil on December 10, 2001.

As of December 31, 2001, the delivery and firm order position is as follows:

	Delivered	Firm orders
ERJ 135	98	53
ERJ 140	22	152
ERJ 145	393	160
Legacy	-	67

A modified platform of the ERJ 145 is in the development stage (EMB 145 AEW&C - Airborne Early Warning and Control aircraft, EMB 145 RS - Remote Sensing aircraft and EMB 145 MP - Marine Remote Sensing aircraft) for use by the Brazilian, Mexican and Greek governments. As of December 31, 2001, the Company had 15 firm orders for this aircraft.

EMBRAER 170 and EMBRAER 190

The Company is developing a new family of commercial jets composed of the EMBRAER 170 for 70 passengers, EMBRAER 175 for 78 passengers, EMBRAER 190 for 98 passengers and EMBRAER 195 for 108 passengers. As of December 31, 2001, the Company had 112 firm orders for this aircraft family.

The first model to reach full development is the EMBRAER 170; the prototype was officially introduced on October 29, 2001. On February 19, 2002, the EMBRAER 170 made its first flight, initiating the certification and test flight campaign.

EMB 120 Brasília

This 30-seat turboprop aircraft has been operating since 1985. As of December 31, 2001, 352 aircraft had been delivered.

S-92 - Sikorsky

Due to the lack of sales perspectives, the investments made by Embraer for the development and subsequent production of fuel tank structures, fuel systems and landing gear for the S-92 Helibus helicopter, which was to have been produced by United Technologies Corp. - USA, have been written off.

Research and development costs per aircraft, as of December 31, 2001, as well as the backlog, are presented below:

	In thousands of reais except for quantities in units		
	EMB 120	(*) ERJ 135/140/145	EMBRAER 170/190
Deferred costs	199.157	551.026	275.333
Accumulated amortization	(199.157)	(365.945)	-
Net	-	185.081	275.333
Quantity of aircraft projected for the program at December 31, 2001	352	960	650
Quantity of aircraft at December 31, 2001:			
Delivered	352	513	-
Firm orders	-	432	112
Options with exercisable date in (unaudited):			
2002	-	65	-
2003	-	76	-
2004	-	107	10
2005	-	69	12
Thereafter	-	139	180
Total options	-	456	202
Total	352	1.401	314

(*) The quantity of aircraft includes the Legacy backlog but does not include the EMB 145 AEW&C, EMB 145 RS and EMB 145 MP backlog.

13. LOANS

a. Composition

	Currency	Annual interest rate (%)	2001	2000
Foreign currency:				
Materials acquisition	US$	LIBOR + 0,85 to 4,20	405,160	313,674
	JPY	1,15 to 1,88	424,334	37,682
Export financing	US$	LIBOR + 1,50	24,218	-
Advances on export sales contracts	US$	4,75 to 7,68	510,564	231,525
Project development - FINEM	US$	LIBOR + 3,00	35,641	37,980
Working capital	US$/FF/Euro	1,90 to 11,50	225,933	131,824
Resolution No. 63 (Central Bank)	US$	1,42 to 4,90	47,047	-
Property and equipment additions	US$	10,15 to 11,80	22,990	24,871
			1,695,887	777,556
Local currency:				
Project development - FINEM		TJLP + 3,00 to 5,50	92,206	114,337
Property and equipment additions		TJLP + 3,30 to 4,40	3,918	2,356
			96,124	116,693
Total debt			1,792,011	894,249
Less- Current maturities			1,223,081	716,744
Long-term portion			568,930	177,505

b. Long-term Maturities

Year	2001	2000
2002	-	89,491
2003	201,913	34,074
2004	204,810	31,268
2005	95,384	21,613
2006	66,823	1,059
	568,930	177,505

c. Currency Analysis

Total debt is denominated in the following currencies:

	Exchange rate at December 31, 2001 (Brazilian reais per foreign currency unit)	2001	2000
Brazilian real	1.000	96,124	114,337
U.S. dollar	2.3204	1,253,668	662,742
French franc	0.314599	-	79,488
Euro	2.06363	17,885	-
Japanese yen	0.017707	424,334	37,682
		1,792,011	894,249

The exchange rate changes in relation to the Brazilian real were as follows:

	Year ended December 31 (%)	
	2001	2000
U.S. dollar	18.67	9.30
French franc	12.05	1.93
Japanese yen	3.66	0.98

Total debt denominated in Brazilian reais is subject to monetary restatement based on the Brazilian long-term interest rate (TJLP).

The annualized increase in this index was as follows:

	%	
	2001	2000
TJLP	10.00	10.75

The Company and its subsidiaries partially hedge their foreign currency liabilities. In the opinion of management, the Company's exposure to devaluation of the Brazilian real against other currencies is minimized by the substantial amount of sales revenues denominated in U.S. dollars.

d. Interest and Guarantees

The foreign currency financing outstanding at December 31, 2001 was subject to weighted average annual interest of 4.89% (7.76% at December 31, 2000) plus exchange variation; for local currency financing outstanding at December 31, 2001, the weighted average annual interest rate was 13.63% (13.46% at December 31, 2000).

The Company negotiated reductions in the spreads on loans from the BNDES from 4.5% for the FINEM line (a line of credit made available by BNDES to Brazilian corporations) and 6.5% for the import line, to 3% and 5.5% per year, respectively, and on the collateral, effective January 1, 1997. Because of these decreases, the Company pays fees to the BNDES of 0.35% on each ERJ 145 aircraft sold, limited to 420 aircraft sold between January 1, 1997 and December 31, 2005.

Collateral for part of these loans includes the pledge of property, machinery, equipment and inventories, in the amount of R$350,146. Of this amount, R$90,183 is related to a second mortgage on real estate.

14. SUPPLIERS

	2001	2000
Foreign suppliers:		
Risk-sharing partners (*)	143.420	189.327
Other	434.874	296.647
Local suppliers	37.422	35.201
	615.716	521.175

(*) Risk-sharing partners develop and manufacture significant portions of the Company's aircraft, including the engines, hydraulic components, avionics, wings, tail, interior and parts of the fuselage. The Company's contracts with risk-sharing partners are long term in nature and include the following principal terms:

• Deferred payments for components and systems for a negotiated period of time after delivery of such components and systems.

• Minimum delivery requirement for a certain number of the ERJ 145 aircraft family ranging from 250 to 400 aircraft depending on the contract. In the event the Company fails to deliver this minimum number of aircraft, the Company would have to proportionally reimburse the suppliers for their tooling and development cost. Considering the number of aircraft deliveries made, this requirement has been met.

Once risk-sharing partners have been selected and the program development and aircraft production have begun, it is difficult to substitute these partners. In some cases, such as engines, the aircraft are designed specifically to accommodate a particular component, which cannot be substituted by another manufacturer without significant delays and costs. This dependence makes the Company susceptible to the performance, quality and financial condition of these risk-sharing partners.

15. ACCOUNTS PAYABLE

	2001	2000
Brazilian Air Force (a)	5,003	6,181
Insurance	6,708	4,943
Commercial rebates (b)	47,859	68,691
Pension plan contributions	1,622	935
Contributions from suppliers (c)	366,041	277,022
Customer credits (d)	54,911	15,183
Other	34,194	31,965
	516,338	404,920
Less- Current portion	144,257	124,340
Long-term portion	372,081	280,580

(a) Represents materials related to the delivery of AM-X aircraft and investment refund for development of the EMB 120 Brasilia program.

(b) Refer to credits for spare parts to be given to customers.

(c) Funds received from suppliers in the development of the EMBRAER 170/190 programs, These liabilities are waived when certain requirements are met.

(d) Accruals to compensate customers for certain financing costs.

16. CUSTOMERS' ADVANCES

	2001	2000
Local currency	103,527	24,532
Foreign currency	1,025,573	701,276
	1,129,100	725,808
Less- Current portion	881,760	567,037
Long-term portion	247,340	158,771

The foreign currency advances are subject to exchange variation based on the U.S. dollar. Segregation between current and long-term portions is based on contractual terms to deliver the related aircraft.

17. TAXES AND SOCIAL CHARGES PAYABLE

a. Composition

	2001	2000
Refinanced taxes:		
INSS (social charges on payroll)	52,980	56,612
FNDE (education tax on payroll)	7,134	6,445
	60,114	63,057
Current taxes	292,613	139,155
	352,727	202,212
Less- Current portion	303,117	149,681
Long-term portion	49,610	52,531

As of December 31, 2001, the Company had obtained preliminary injunctions for the offset or recovery of past payments totaling R$222,672 (R$105,243 in 2000), monetarily restated. The monetary restatement is recorded as financial expenses. The outstanding balances of refinanced taxes as of December 31, 2001 are subject to monthly interest of 1%, added to the principal.

b. Maturities of Long-term Portion

Year	2001	2000
2002	-	4,535
2003	4,688	4,535
2004	4,688	4,535
2005	4,688	4,535
2006	4,688	4,535
2007 to 2013	30,858	29,856
	49,610	52,531

18. ACCRUED LIABILITIES

	2001	2000
Accrued vacations	96,496	58,714
Accrued pension plan costs	8,916	5,172
Employee profit sharing	53,168	51,943
Product warranties	119,550	90,360
Product improvement (a)	100,349	83,790
Deferred State VAT and taxes on sales	6,112	5,271
Reserve for losses and contractual obligations	20,875	22,861
Technical assistance/training (b)	44,470	26,732
Contingencies (c)	28,692	29,315
Reserve for losses on hedge transactions	41,667	4,463
Other	16,715	8,255
	537,010	386,876
Less- Current portion	512,025	358,794
Long-term portion	24,985	28,082

(a) Amounts accrued to implement improvements in aircraft sold to meet contractual performance indices.

(b) Costs in connection with the contractual obligation to provide technical assistance and training of mechanics and airplane crews of customers.

(c) The reserve for contingencies is recorded based on the opinion of legal counsel, with regard to the expected outcome of all pending litigation.

The composition of the reserve for contingencies is as follows:

	2001	2000
Labor contingencies (a)	10,329	15,353
CBA-123 program (b)	-	310
Import tax (c)	1,344	1,223
FUNDAF (d)	9,779	8,852
Tax contingencies (e)	7,240	3,577
	28,692	29,315

(a) The labor lawsuits are brought by unions on behalf of employees or by individuals, in which former employees are individually claiming overtime, productivity premiums, reinstatement, allowances, and retroactive salary increases and adjustments.

A lawsuit claiming a retroactive salary increase was brought by the union in June 1991 in the name of all employees of the Company in November 1990. The objective of the claim is to backdate to the months of November and December 1990 the salary increase granted by the Company in January and February 1991, through an agreement with the employees' union. As of December 31, 2001, 97% of current and former employees have agreed to settlements. The Company is currently attempting to settle this case with the employees who have not yet settled.

Litigation related to the difference in adjustment indices agreed with the São Paulo Federation of Industries (FIESP) and the Metalworkers' Union was adjudicated on August 22, 2001 by the Superior Labor Court, with a favorable decision for the Company.

The total of the labor litigation mentioned above is approximately R$17,983. The processes are in various stages awaiting judgment. Based on opinions of the Company's legal counsel and on the success of certain rulings and negotiations which are expected to occur, the amount accrued is considered sufficient by management.

(b) Related to contractual contingencies under the CBA-123 program, which was discontinued after the construction of prototypes. During 2001, the Company liquidated the last installment under an arrangement with the suppliers.

(c) Related to import duty and VAT (IPI) tax on imported materials for two flight simulators which must be exported to be exempt from such taxes. Due to default, by the customer, these products were exported after the previously established period. The tax authorities assessed the Company which is currently discussing the payment terms.

(d) Related to a tax entitled FUNDAF (Special Fund for Development and Improvement of Taxation), demanded by the Federal tax authorities on customs clearance of imported materials. In October 1999, the tax authorities assessed the Company which is currently challenging the legality of the tax.

(e) Deficiency notice from the Federal Revenue Department and social contributions which are being challenged due to their applicability, and nationalization taxes calculated based upon concessionary acts due in 2002.

In addition, the Company is involved in other legal proceedings, all of which arose in the ordinary course of business. In the opinion of management, none of these proceedings is expected to have a material adverse effect on the financial position or results of operations of the Company.

19. DIVIDENDS AND INTEREST ON CAPITAL

Under the terms of the Company's bylaws, shareholders of all types of shares are entitled to minimum dividends of 25% on net income for the year. The Company's preferred shares do not have voting rights but have priority in capital redemption and, in accordance with present corporate law, have the right to dividends in an amount 10% higher than that on the common shares.

The Company elected to pay interest on shareholders' capital, calculated according to article 9 of Law No. 9,249/95 based on the TJLP, for deductibility purposes in computing income and social contribution taxes, recorded as financial expenses, and, subsequently, for reporting purposes, in compliance with CVM Instruction No. 207/96, charged directly to shareholders' equity.

The amount of interest on capital per share, net of withholding income tax, is as follows:

	2001	2000
Common shares	0.23978	0.15601
Preferred shares	0.26377	0.15872

The dividends for 2001 and 2000 were calculated as follows:

	2001	2000
Net income	1,118,491	667,393
Legal reserve	(55,925)	(33,369)
Adjusted net income	1,062,566	634,024
Dividends proposed	223,133	187,042
Interest on capital	180,720	100,698
Withholding income tax on interest on capital	(27,108)	(15,105)
Total return to shareholders	376,745	272,635
Interim payments	(228,191)	(136,702)
Dividends payable	148,554	135,933
Dividends payable from prior years	2,819	11,821
Total dividends payable	151,373	147,754
Dividends per share:		
Common shares	0.3382	0.3421
Preferred shares	0.3715	0.3763

Interim payments in 2001 are composed as follows:

		Dividends per share	
Approval date	R$	Common	Preferred
March 16. 2001 - interest on capital	28,774	0.05018	0.05519
June 13. 2001 - interest on capital	35,193	0.05375	0.05912
September 14. 2001 - dividends	123,123	0.18678	0.20546
September 14. 2001 - interest on capital	41,101	0.06235	0.06859
	228,191		

Amounts proposed for the fourth quarter are as follows:

		Dividends per share	
Approval date	R$	Common	Preferred
December 15, 2001 - interest on capital	48,544	0.07352	0.08088
March 19, 2002 - dividends	100,010	0.15147	0.16662
	148,554		

Interest on capital is shown above net of withholding income tax at the official rate of 15%.

20. DEBENTURES

The Extraordinary Shareholders' Meeting on December 11, 1998 approved the 4th issue of debentures, with subscription warrants.

In February and March 1999, 83,330 4th issue debentures, together with 8,333,000 subscription warrants, were subscribed and paid. Each subscription warrant entitled the holder to purchase ten preferred shares, or in certain circumstances, ten common shares.

As stipulated in the debenture indenture agreement, the debenture holders exercised the subscription warrants in exchange for preferred shares.

On February 18, 2000, 833,500 subscription warrants were exercised, with the issuance of 8,335,000 preferred shares at a per share price of R$2.1998, totaling R$18,336. These shares were paid with 8,335 debentures.

On July 28, 2000, 105,700 subscription warrants were exercised, with the issuance of 1,057,000 preferred shares at a per share price of R$2.3056, totaling R$2,437. These shares were paid with 1,057 debentures.

On May 3, 2001, 7,393,800 subscription warrants were exercised with the issuance of 73,938,000 preferred shares at a per share price of R$2.47685, totaling R$183,133. These shares were paid with 73,938 debentures.

As stipulated in item 4.2.11 of the debenture indenture agreement for the 4th issue, 30% of the subscribed amount was allocated to capital reserves and the balance was allocated to capital.

The 83,330 4th issue debentures held in treasury were cancelled by action of the Board of Directors, at the meeting on September 14, 2001.

21. SHAREHOLDERS' EQUITY

a. Capital

At December 31, 2001, the Company's updated fully paid capital is represented by:

Classes of shares	Quantity	R$
Common shares	242,544,447	366,901
Special common share	1	-
Preferred shares	379,738,426	574,437
Total	622,282,874	941.338

a.1. Special Common Share - "Golden Share"

One special class share ("golden share") is held by the Brazilian Government. As holder of the golden share, the Brazilian Government is entitled to the same voting rights as the other holders of common shares. In addition, the golden share carries veto power over the following actions:

I - Change of the Company name and corporate purpose.

II - Change and use of Company logo.

III - Creation of or change in defense programs, which may or may not involve the Brazilian Government.

IV - Acceptance, for defense programs, of the technological qualifications of third parties.

V - Interruption of the supply of maintenance and spare parts for defense aircraft.

VI -Change in ownership control.

VII - Any change to the list of corporate actions over which the golden share carries veto power, to the structure and composition of the Board of Directors, and to the rights attributed to the golden share.

a.2. Composition of Shareholders

	Quantity				Total equity interest %	
	Common		Preferred			
Shareholders	2001	2000	2001	2000	2001	2000
Caixa de Previdência dos Funcionários do Banco do Brasil - Previ	57,594,480	59,243,379	46,131,934	59,356,935	16,67	21,83
Fundação SISTEL de Seguridade Social	48,508,890	48,508,890	10,438,104	14,639,674	9,47	11,62
Cia. Bozano	48,509,220	48,509,220	16,469,975	14,260,613	10,44	11,55
Bozano Holdings, Ltd.	-	-	20,923,556	44,429,611	3,36	8,18
BNDES Participações S.A. - BNDESPAR	1,054,400	-	52,641,317	-	8,63	-
Kol Fund. Inv. em Ações (*)	-	1,066,177	300,000	17,702,057	0,05	3,45
Dassault Aviation	13,744,186	13,744,186	-	-	2,21	2,53
Thales	13,744,186	13,744,186	-	-	2,21	2,53
EADS	13,744,186	13,744,186	-	-	2,21	2,53
Snecma	7,276,332	7,276,332	-	-	1,17	1,34
União Federal	3,514,388	3,514,388	-	-	0,56	0,65
Outros	34,854,180	33,193,504	232,833,540	150,476,536	43,02	33,79
	242,544,448	242,544,448	379,738,426	300,865,426	100,00	100,00

(*) This investment fund is controlled by Fundação SISTEL de Seguridade Social.

b. Stock Options

The Special Shareholders' Meeting on April 17, 1998 approved a stock option plan for management and employees, including those of the subsidiaries, subject to restrictions based on continuous employment with the Company for at least two years. The Administration Committee, which was appointed by the Board of Directors on the same date, is responsible for defining the rules and managing the plan.

Under the terms of the plan, options for 25,000,000 preferred shares are authorized to be granted. At the end of the third and fourth years subsequent to the grant, the employees will have the right to exercise 30% of the option, respectively, and the remaining 40% at the end of the fifth year, if still employed by the Company on each date.

As of December 31, 2001, the Administration Committee had made seven grants, equivalent to 400 lots of 50,000 shares each, totaling 19,750,000 preferred shares, net of 250,000 shares which were forfeited, as the grantees are no longer employees of the Company.

Of this total, 22.9% equivalent to 4,515,000 preferred shares could be exercised starting May 31, 2001, and 3.0%, equivalent to 600,000 preferred shares, starting November 30, 2001.

In June and November 2001, 4,935,000 preferred shares were subscribed and paid, in the total amount of R$4,161.

On December 15, 2001, the Board of Directors authorized this new capital.

Options are granted with an exercise price equal to the weighted average price of the Company's preferred shares traded on the BOVESPA (São Paulo Stock Exchange) in the 60 trading days prior to the grant date, increased or decreased by 30%, as defined by the Administration Committee. Such percentage is deemed to offset unusual fluctuations in the market price during this 60-day period.

The plan terminates five years after the first grant. No amounts have been charged to expense for the options. Information regarding options granted to management and employees is shown in the following table:

	Shares
Available for grant as of April 17, 1998	25.000.000
Granted:	
1998	7.250.000
1999	5.300.000
2000	5.250.000
2001	1.950.000
Less- Canceled grant	250.000
Available for grant as of December 31, 2001	5.000.000

Status of Options as of December 31, 2001:

Grant date	Exercise date	Maturity	Number of shares granted
May 1998	May 2001	May 2005	4,515,000
November 1998	November 2001	November 2005	600,000
May 1998 and 1999	May 2002	May 2005 and 2006	1,215,000
November 1998 and 1999	November 2002	November 2005 and 2006	1,625,000
May 1998, 1999 and 2000	May 2003	May 2005, 2006 and 2007	2,505,000
November 1998, 1999 and 2000	November 2003	November 2005, 2006 and 2007	1,715,000
May 1999 and 2000, 2001	May 2004	May 2006, 2007 and 2008	2,985,000
November 1999 and 2000	November 2004	November 2006 and 2007	1,090,000
May 2000, 2001	May 2005	May 2007 and 2008	2,180,000
November 2000	November 2005	November 2007	520,000
May 2001	May 2006	May 2008	800,000
		Total options granted	19,750,000

c. Capitalization of Reserves
The Extraordinary Shareholders' Meeting on March 1, 2002 approved the addition of R$362,205 to capital from the reserve for investments and working capital, without issuance of shares and attributable to all shareholders.

Also, the same Extraordinary Shareholders' Meeting approved the addition of R$342,294 to capital from the reserve for investments and working capital, with the issuance of 88,430,168 preferred shares, attributed to all shareholders of the Company's common and preferred shares, in proportion to their participation in capital at that date, at the rate of 0.142106 preferred share for each common and preferred share.

The amount of preferred shares issued from the capitalization of reserves was determined based on the net book value of the Company's shares as of September 30, 2001.

The preferred shares attributed to the share dividend have the same characteristics as the existing preferred shares. The new preferred shares issued by the Company do not have the rights to dividends for year ended December 31, 2001.

The result of the preferred share dividend is an increase in shares issued from 622,282,874 (242,544,448 common shares and 379,738,426 preferred shares) to 710,713,042 shares (242,544,448 common share and 468,168,594 preferred shares).

d. Legal reserve
Brazilian corporations are required to allocate 5% of annual net income to a legal reserve until that reserve equals 20% of paid-up share capital, or that reserve plus capital reserves equals 30% of paid-up share capital; thereafter, allocations to this reserve are not mandatory. This reserve can only be used to increase share capital or to offset accumulated losses.

e. Allocation of Net Income
Management will propose to the Annual Shareholders' Meeting the retention of net income for the year, after allocation to the legal reserve and the dividend distribution, amounting to R$658,713, as a reserve for investments and working capital for:

• Research and development - development of the EMBRAER 170/190 family and new versions and modifications for the ERJ 145 family, in the commercial aviation market and in the completion of the Legacy development, for the corporate aviation market.

• Acquisition and creation of new companies - acquisition of the assets of Celsius Aerotech Inc., a maintenance service, aircraft and components repair company, located in the United States, and in the development and purchase of software for the e-commerce company AEROChain, both of which are expected to start operations at the beginning of 2002.

• Expansion and productivity - infrastructure investments at the Gavião Peixoto unit to assist in the final assembly stage of the Defense and Legacy programs, flight tests for all programs at the Faria Lima and Eugênio de Melo units, installation of an electricity power plant, Rosa dos Ventos, by Embraer Institute and for the acquisition of machines, equipment and software for industrial expansion and performance improvement.

22. FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the estimated fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

As of December 31, 2001, the Company had the following financial instruments:

(a) Cash and Cash Equivalents, Trade Accounts Receivable, Other Current Assets, Accounts Payable and Accrued Expenses - The carrying values of cash and cash equivalents, trade accounts receivable, other current assets, accounts payable and accrued expenses approximate their fair value.

(b) Loans - Subject to interest at usual market rates, as set forth in Note 13. The estimated fair value was calculated based on the present value of future cash payments using interest rates that are currently available to the Company for issuance of debt with similar terms and maturities. The estimated fair value for the loans, including short-term installments, is as follows:

	At December 31,	
	2001	2000
Book value	1,792,011	894,249
Fair value	1,774,306	853,833

(c) Financed Taxes - The conditions are similar to the usual terms for financed taxes and there are no material differences related to interest rates applicable to loans. The estimated fair value was calculated based on the present value of future cash payments using interest rates that are currently available to the Company for issuance of debt with similar terms and maturities. The estimated fair value for the financed taxes, including short-term installments, is as follows:

	At December 31,	
	2001	2000
Book value	60,114	63,057
Fair value	32,188	20,876

(e) Derivatives - The derivative financial instruments held by the Company at December 31, 2001 consist of interest rates swaps and foreign currency forward contracts.
The debt swaps associated with Japanese yen denominated debt are designed to cover the future maturities of the Japanese yen denominated debt; consequently, the index contracted was the CDI (Interbank deposit rates). As of December 31, 2001, the principal amount of the debt swap was ¥3.2 billion. The swap was recorded at market value at the balance sheet date and unrealized losses of R$20,406 were recognized in income.

The debt swaps associated with U.S. dollar denominated debt are designed to cover the future maturities of the U.S. dollar denominated debt; consequently, the index contracted was the CDI. As of December 31, 2001, the principal amount of the debt swap was US$20.8 million. The swap was recorded at market value at the balance sheet date and unrealized losses of R$5,330 were recognized in income.

Foreign currency forward contracts and cross currency swaps were also entered into to cover the specific risk of import financing obtained in Japanese yen, converting the debt into U.S. dollars. As of December 31, 2001, the principal amount of this contract was ¥6.3 billion. The foreign currency forward contracts and cross currency swaps were recorded at market value at the balance sheet date and an unrealized loss of R$15,931 was recognized in income.

(e) Credit Risk - The Company may incur losses related to the sales of spare parts and services. To reduce this risk, customer credit analyses are made continuously.

In relation to accounts receivable from sales of aircraft, the Company may have credit risks while the financing structure has not been completed. To minimize this risk, the Company works with the financial institutions, to facilitate the financing structuring.

To these possible losses, the Company recognized an allowance for doubtful accounts, considered sufficient by management to cover losses on realization.

(f) Interest Rate Risk - This risk is related to interest rate fluctuations which may cause the Company to incur increased financial expenses on its loans.

Hedge contracts were entered into to cover this risk on some operations and, in addition, the Company continuously monitors the market interest rates for the purpose of evaluating the possible need to contract new derivate transactions to protect against the risk of volatility in these rates.

As of December 31, 2001, the Company had R$1,792,011 in loans and borrowings for which the rates are summarized as follows:

	At December 31,	
	2001	2000
Foreign currency:		
Fixed interest	1,138,132	539,224
Floating rates (a)	557,755	240,688
	-	-
	1,695,887	779,912
Local currency:		
Floating rates (b)	96,124	114,337

(a) LIBOR for US$ and Japanese yen.
(b) TJLP.

(g) Exchange Rate Risk - This risk is related to the possibility that the Company may incur losses due to fluctuations in exchange rates, leading to a reduction in amounts billed or an increase in loan amounts.

However, 97.7% of net sales for the year were denominated in U.S. dollars and this situation may continue for the next few years. The main strategy is to consider the sales in the foreign market as a natural hedge for the liabilities denominated in foreign currency.

An analysis of the amounts subject to exchange rate risk is based on a forecast of cash flows; eventual unmatched cases are managed individually and for funding in foreign currencies except U.S. dollars, derivative transactions were contracted, as described in item (d) above.

The following table shows the exposure by currency at year-end 2001 and 2000, based on the book value of loans, cash and cash equivalents, without the effects of derivative operations:

	At December 31,	
	2001	2000
Loans:		
Brazilian real	96,124	114,337
U.S. dollar	1,253,668	662,742
French franc	-	79,488
Euro	17,885	-
Japanese yen	424,334	37,682
Total (1)	1,792,011	894,249
Cash and cash equivalents:		
Brazilian real	1,357,965	1,858,070
U.S. dollar	348,712	454,282
French franc	65	12,458
Euro	29,577	73
Australian dollar	2,799	696
Total (2)	1,739,118	2,325,579
Net exposure (1 - 2):		
Brazilian real	(1,261,841)	(1,743,733)
U.S. dollar	904,956	208,460
French franc	(65)	67,030
Euro	(11,692)	(73)
Australian dollar	(2,799)	(696)
Japanese yen	424,334	37,682
	52,893	(1,431,330)

23. SUPPLEMENTARY RETIREMENT PLAN

a. Company
On June 26, 1998, the Board of Directors approved the implementation of the Embraer Supplementary Retirement Plan, with the Company initiating its contributions on July 1, 1998.
The plan is a private, defined-contribution plan where participation is optional; it is administered by a Brazilian pension fund administrator controlled by Banco do Brasil. Company contributions to the plan in 2001 and 2000 were R$9,216 and R$6,762, respectively.

b. Subsidiary
The Embraer Aircraft Corporation 401(k) Retirement Plan (the "401(k) Plan") was originally established by EAC as a profit sharing plan on January 1, 1981. On November 1, 1993, the 401(k) Plan was amended and restated to comply with the provisions of Section 401(k) of the U.S. Internal Revenue Code as a defined contribution, deferred compensation plan. Employees who have attained age 21 and provided 1,000 hours of service during a year are eligible for participation. The EAC profit sharing contributions to the 401(k) Plan are discretionary. EAC may also match a discretionary percentage of the amount contributed by the participant up to a specified dollar amount. Vesting in Company matching contributions is 20% after three years of service, 40% after four years, 60% after five years, 80% after six years and 100% after seven years. EAC did not make a profit sharing contribution or a matching contribution for the year ended December 31, 2001.

EAC also sponsors a defined benefit plan which includes a pension plan and a post-retirement medical plan. The plans cover substantially all employees, with retirement benefits based on compensation levels and the number of years of covered service. EAC makes contributions to the plans as required to meet U.S. Internal Revenue Service funding standards. To determine the periodic pension expense and contribution to the plan, the actuarial method used is the "projected unit credit method".

The expected costs of providing post-retirement medical benefits to an employee and the employee's beneficiaries and covered dependents are accrued during the years that the employee renders the service.

The pension plan of Embraer Aircraft Corporation - EAC is accounted for in accordance with standards of the U.S. Financial Accounting Standards Board (FASB). Management is of the opinion that the accounting principles used by the subsidiary do not have significant differences in relation to CVM Instruction No. 371, issued on December 13, 2000.

For employees hired starting October 1, 2001, the supplementary pension plan changed from defined benefit to defined contribution.

Changes in the benefit obligations for the years ended December 31, 2001 and 2000 are as follows:

	Defined pension benefits		Post-retirement medical benefits	
	2001	2000	2001	2000
Benefit obligation - beginning of year	18,464	15,375	7,582	6,136
Exchange variation	3,447	-	1,414	-
Service cost	3,295	2,133	977	587
Interest cost	1,518	997	648	447
Supplement to the plan	-	1,145	-	-
Actuarial loss (gain)	(2,066)	(731)	592	576
Benefits paid to participants	(606)	(455)	(150)	(164)
Benefit obligation - end of year	24,052	18,464	11,063	7,582

Changes in plan assets for the years ended December 31, 2001 and 2000 are as follows:

	Defined pension benefits		Post-retirement medical benefits	
	2001	2000	2001	2000
Fair value of plan assets - beginning of year	9,737	8,298	4,000	3,419
Exchange variation	1,818	-	746	-
Participant contributions	2,828	1,780	-	699
Actual return on plan assets	170	114	66	46
Benefits paid to participants	(606)	(455)	(150)	(164)
Fair value of plan assets - end of year	13,947	9,737	4,662	4,000

The components of accrued benefit costs at December 31, 2001 and 2000 are as follows:

	Defined pension benefits		Post-retirement medical benefits	
	2001	2000	2001	2000
Funded status - deficit	(10,105)	(8.727)	(6.401)	(3.582)
Unrecognized transition obligation	200	242	-	-
Unrecognized prior service cost	837	755	(71)	(74)
Unrecognized net loss	4.461	5.047	2.163	1.167
Accrued benefit cost	(4.607)	(2.683)	(4.309)	(2.489)

The actuarial weighted average assumptions at December 31, 2001 and 2000 are as follows:

	%			
	Defined pension benefits		Post-retirement medical benefits	
	2001	2000	2001	2000
Discount rate	7.50	6.50	7.75	6.75
Expected return on plan assets	7.75	7.75	7.75	7.75
Rate of compensation increase	5.50	6.00	5.50	6.00

The components of net periodic benefit cost for 2001 and 2000 are as follows:

	Defined pension benefits		Post-retirement medical benefits	
	2001	2000	2001	2000
Service cost	3,295	2,133	977	587
Interest cost	1,518	997	648	447
Expected return on plan assets	(951)	(666)	(363)	(263)
Amortization of transition obligation	87	73	-	-
Amortization of prior service cost	59	52	(17)	(14)
Amortization of loss	243	255	110	-
Net periodic benefit	4,251	2,844	1,355	757

The subsidiaries Indústria Aeronáutica Neiva S.A. - NEIVA, ELEB - Embraer Liebherr Equipamentos do Brasil S.A. and Embraer Aviation International - EAI have private supplementary retirement plans for their employees; the plans are the defined contribution type and participation by the employees is optional. During 2001, the subsidiaries contributed R$228, R$296 and R$687 to the plans, respectively (NEIVA - R$126, ELEB - R$51 and EAI - R$283 in 2000).

24. EMPLOYEE PROFIT SHARING

The Company has an employee profit sharing policy (PLR) linked to action plans and specific goals which are established and agreed at the beginning of each year. As of December 31, 2001, the Company recognized an accrual for profit sharing in the amount of R$53,168.

25. OTHER OPERATING EXPENSE, NET

	2001	2000
Provision for contingencies	(5.416)	(11.625)
Product modifications	(7.888)	(6.475)
Insurance recovery	3.059	7.018
Contractual fines	13.301	7.222
Reimbursement of expenses	2.366	1.014
Feasibility study costs	(80.896)	(28.652)
Provision for losses and contractual obligations (a)	-	(11.062)
Restructuring costs (b)	(12.067)	-
Costs from postponements in production schedules	(16.120)	(8.752)
Other	(2.359)	(1.616)
	(106.020)	(52.928)

(a) Cost overruns expected to be incurred in the manufacturing of a new aircraft prototype - AL-X, for the Brazilian Air Force.

(b) Cost of employee terminations, resulting from adapting the work force to production postponements.

26. INTEREST INCOME (EXPENSE)

	2001	2000
Interest expense:		
Interest and commissions on loans	(84,069)	(78,806)
Interest on taxes, social charges and contributions in litigation (Note 17)	(13,910)	(13,299)
Expenses for issuing ADRs	-	(17,726)
Interest and premium on debentures	(1,311)	(3,702)
CPMF (tax on bank account transactions)	(30,211)	(20,700)
Interest on refinanced taxes	(1,845)	(2,283)
Credit insurance	(4,323)	(3,329)
Royalties to BNDES on aircraft sold	(12,801)	(10,981)
Structuring finance costs	(5,329)	(2,216)
Other	(12,169)	(21,496)
	(165,968)	(174,538)
Interest income:		
Temporary cash investments	308,008	131,991
Interest	35,818	14,588
Other	18,827	17,113
	362,653	163,692

27. MONETARY AND EXCHANGE VARIATIONS, NET

	2001	2000
Exchange variations:		
Assets-		
Accounts receivable	135,981	121,818
Hedge transactions	13,683	701
Advances to suppliers	-	1,392
Translation gain on foreign investments	30,446	9,061
Other	-	3,705
	180,110	136,677
Liabilities-		
Advances from customers	(151,804)	(66,011)
Loans	(70,144)	(58,801)
Suppliers	(228,813)	(30,765)
Accounts payable	(100,942)	(33,906)
Hedge transactions	(50,595)	-
Other	(15,213)	(5,870)
	(617,511)	(195,353)
Exchange variations, net	(437,401)	(58,676)
Monetary variations:		
Assets-		
Accounts receivable	4	79
Other	-	375
	4	454
Liabilities-		
Contingencies	(665)	(692)
Loans	(3,370)	(5,692)
Advances from customers	(75)	(475)
Accounts payable	(12,215)	-
Taxes	(33,690)	(8,668)
Debentures	(5,457)	(17,946)
Other	(2,113)	(4,952)
	(57,585)	(38,425)
Monetary variations, net	(57,581)	(37,971)
Monetary and exchange variations, net	(494,982)	(96,647)

28. NONOPERATING INCOME (EXPENSE), NET

	2001	2000
Sale and rental of property items	949	1,859
Write-off of deferred charges	(19,340)	(1,182)
Provision for losses on tax incentive investments	(19,143)	(13,574)
Gain on equity investment	-	31,793
Other	203	336
	(37,331)	19,232

The gain on equity investment in 2000 resulted from the capital increase by third parties in ELEB - Embraer Liebherr Equipamentos do Brasil S.A., which was made at market value, exceeding the book value of the shares subscribed.

29. RESPONSIBILITIES AND COMMITMENTS

As a usual aviation industry practice in the worldwide market, the Company may eventually repurchase a number of aircraft.
The price per aircraft of any required repurchase is less than the original sale price of the aircraft and less than management's current estimate of the market value of the aircraft type in future years (based on current third-party appraisals of the same type of aircraft). If the Company is required to repurchase all of the related aircraft under repurchase obligations, which covers the period from 2003 to 2007, the Company may be required to pay up to approximately US$500 million for these aircraft. Based on the Company's current estimates and third-party appraisals, management believes that any repurchased aircraft could be sold in the market without loss.

The Company is also subject to trade-in options for approximately 5% of the firm orders for regional jets, including aircraft which have already been delivered. These options provide that the repurchase price can be applied to the price of an upgraded model or any of the Company's other aircraft. The repurchase price is determined in the manner discussed above for regional jets and as a percentage of original purchase price for corporate jets. The Company may be required to accept trade-in options at repurchase prices that are above the then market price of the aircraft. The Company is unable to determine the extent of its financial exposure under these trade-in options, which may result in substantial losses in the event that the repurchase prices are above the then market price of the related aircraft.

The Company may also be called upon to directly or indirectly guarantee the minimum residual value of its aircraft, including aircraft that have already been delivered. These guarantees are provided to certain customers or for customer financing.
In accordance with Company policy, this minimum residual value does not exceed the appraisal value of each aircraft delivered.
The value of the guarantee typically ranges from 18% to 25% of the sales price in the 15th year after delivery. The Company is unable to determine the terms nor the extent of its financial exposure under these guarantees, which may result in substantial payments in the event that actual residual values of the related aircraft decline below the guaranteed levels.

Embraer Aircraft Corporation - EAC is obligated under noncancellable operating leases for land and equipment.
Future minimum lease payments are as follows:

Year	Amount
2002	1,632
2003	1,300
2004	830
2005	724
2006	724
Thereafter	7,477
	12,687

The installations of Embraer Aircraft Corporation - EAC are located on land leased under a lease extending through the year 2020; the lease includes a clause which obligates EAC to make investments, totaling R$23,204. This obligation has been fully satisfied.

30. INCOME AND SOCIAL CONTRIBUTION TAX CREDITS

As of December 31, 2001, the Company and its subsidiaries had tax loss carryforwards, for which there is no time limit for utilization, composed as follows:

Year	Income tax	Social contribution tax
1992	113,913	-
1993	18,650	12,413
1994	7,951	1,969
1995	4,276	3,450
1996	2,667	1,848
1997	17,542	2,913
1998	13	13
1999	81	81
2000	19	19
2001	33,766	-
	198,878	22,706

The components of deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows:

	2001	2000
Deferred tax assets on:		
Income tax losses	49,720	175,994
Social contribution tax losses	2,043	17,113
Valuation allowance	(11,729)	(7,815)
Effect of tax loss carryforwards, net	40,034	185,292
Temporary differences-		
Reserve for contingencies	4,500	5,521
Reserve for inventories	30,693	49,343
Reserve for losses on deferred charges	547	547
Accrual for product warranties	40,459	26,111
Accrual for losses on investment	3,019	1,651
Accrual for realization of VAT credits	5,992	1,470
Accrual for losses on contracts	7,098	4,402
Accrual for selling expenses	15,120	9,089
Accrued taxes, other than taxes on income	93,349	47,415
Accrual for product improvement	34,118	22,097
Pension accrual	3,119	1,746
Allowance for doubtful accounts	1,295	1,412
Accrued vacations	7,099	3,241
Reserve for losses on hedge transactions	14,167	1,534
Deferred tax on unrealized profit	8,783	-
Reserve for reduction to market value	15,520	-
Other	26,649	27,808
	311,527	203,387
Total asset	351,561	388,679
Deferred tax liabilities on:		
Temporary differences-		
Property, plant and equipment revaluation	(13,298)	(20,503)
Special monetary restatement - IPC index	(15,794)	(9,950)
Unremitted profits from foreign subsidiaries	(4,424)	(13,079)
Exchange variation	(320)	(1,341)
Contracts with government	(2,549)	(1,899)
Accelerated depreciation	(2,956)	(1,600)
Other	(255)	(2,626)
Total liability	(39,596)	(50,998)
Net deferred tax asset	311,965	337,681

The Company follows the policy of recognizing deferred tax assets on tax loss carryforwards when realization is probable, based on internal studies and projections. These studies indicate that the present amounts should be realized within three years. The net deferred tax asset presented above is reflected in the financial statements as follows:

	2001	2000
Deferred income tax assets:		
Current	246,910	227,495
Noncurrent	104,651	161,184
	351,561	388,679
Deferred income tax liabilities:		
Current	(4,743)	(1,341)
Long-term	(34,853)	(49,657)
	(39,596)	(50,998)
	311,965	337,681

The composition of taxes on income included in the statements of income is as follows:

	2001	2000
Deferred tax asset:		
On loss carryforwards-		
Utilization for the year	(141,344)	(113,421)
Change in valuation allowance	(3,914)	48,602
	(145,258)	(64,819)
Temporary differences-		
Additions	108,140	132,094
Reversals	11,398	-
	119,538	132,094
Current taxes on income	(460,794)	(274,647)
Income tax expense	(486,514)	(207,372)

A reconciliation of income tax expense is as follows:

	2001	2000
Income before taxes as reported in the accompanying statements of income after deduction for profit sharing	1,411,439	757,152
Tax expense at combined statutory rates - 34%	479,889	257,432
Permanent additions:		
Translation gain on foreign investments	12,264	-
Nondeductible expenses	9,193	1,769
Other	5,299	4,489
	26,756	6,258
Permanent exclusions:		
Translation losses on foreign investments	(22,616)	(3,080)
Reversal of special monetary restatement/ IPC/BTNF	-	(2,519)
Gain on equity investment	-	(10,802)
Other	-	(63)
	(22,616)	(16,464)
Other items:		
Unrealized profit on inventories	-	7,552
Statutory tax rate increase	-	1,196
Interest on capital of subsidiaries eliminated in consolidation	(1,429)	-
	(1,429)	8,748
Subtotal	482,600	255,974
Change in valuation allowance on deferred tax assets	3,914	(48,602)
Income tax expense as reported in the accompanying statements of income	486,514	207,372

31. WORLD TRADE ORGANIZATION - WTO

In July 1998, the Canadian Government initiated a proceeding with the World Trade Organization - WTO, challenging the Brazilian Government's Export Financing Program - PROEX (the most relevant subsidy challenged being interest rate discounts up to 3.8% per year on export financing).
In December 2000, the Brazilian Government changed the PROEX export incentive legislation to comply with the WTO ruling on the aforementioned proceeding. In relation to export financing for regional aircraft, the Brazilian Government also established an interest rate discount for each case based on the Commercial Interest Reference Rate established on a monthly basis by the Organization for Economic Cooperation and Development - OECD. The Brazilian Government maintained the interest rate discount at a maximum of 2.5% per annum.

The Canadian Government declared that the modifications made by Brazil were unsatisfactory and fell short of compliance with the regulations established by the WTO. As a result, in February 2001, a new panel was appointed to determine whether the WTO rulings were in fact implemented by Brazil.

In July 2001, the panel issued a report, concluding that the modifications made by the Brazilian Government to the PROEX Program comply with WTO's ruling.

Based on declarations by the Brazilian Government that it will honor commitments assumed, management does not expect a significant impact on the backlog nor on the competitiveness of its products.

32. INSURANCE

As of December 31, 2001, insurance coverage was R$5,564,300 for property, plant and equipment, inventories, comprehensive general liability, products, business interruption and other. Management believes that the amount is sufficient to cover all risks involved.

33. CASH FLOWS

	2001	2000
Operating activities:		
Net income for the year	1,100,891	645,179
Adjustments to reconcile net income to net cash provided by operating activities-		
Equity in unconsolidated subsidiary	(721)	(1,472)
Translation gain on foreign investment	(30,446)	(9,061)
Minority interest	4,754	5,299
Depreciation and amortization	168,985	150,156
Write-off of deferred charges	19,340	1,182
Gain (Loss) on permanent asset disposals	755	1,767
Write-off of investment	-	46
Interest on loans, tax installments, debentures and other	82,679	80,760
Monetary and exchange variations, net	102,846	84,748
Provision for losses	37,529	14,058
Reversal of deferred income	(485)	(12)
Deferred income and social contribution taxes	25,716	(67,275)
Provision for contingencies	411	15,471
Provision for doubtful accounts	26,682	8,408
	1,538,936	929,254
Changes in current assets and liabilities-		
Accounts receivable	(1,098,847)	214,934
Inventories	(1,249,533)	159,496
Prepaid expenses	(39,178)	(8,193)
Deferred and recoverable taxes	(27,235)	21,306
Other receivables	(95,367)	(245)
Suppliers	94,541	162,948
Accrued taxes on income	157,121	51,877
Accrued liabilities	148,206	237,578
Customer advances	314,723	176,636
Taxes and social charges payable	34,245	112,799
Other	19,976	72,597
	(1,741,348)	1,201,733

	2001	2000
Changes in noncurrent assets and liabilities-		
Accounts receivable	(72,645)	(17,631)
Recoverable taxes	(1,462)	(1,083)
Other receivables	33,558	20,781
Prepaid expenses	(16,558)	-
Accounts payable	53,613	25,381
Customer advances	88,569	(42,743)
Deferred income	-	(1)
Accrued liabilities	(3,508)	(25,674)
Taxes payable	(4,428)	(35,920)
Minority interest	(1,092)	10,690
	76,047	(66,200)
Net cash provided by (used in) operating activities	(126,365)	2,064,787
Investing activities:		
Sale of property, plant and equipment	719	1,859
Compulsory loans and deposits	(6,084)	(4,134)
Additions to property, plant and equipment	(249,519)	(195,953)
Additions to deferred charges	(301,063)	(105,008)
Additions to investments	(3,146)	(837)
Tax incentives	12,111	5,504
Net cash used in investing activities	(546,982)	(298,569)
Financing activities:		
Loans repaid	(2,738,714)	(2,087,260)
New loans obtained	3,410,350	1,689,807
Payment of refinanced taxes	(4,520)	(5,698)
Guarantee deposits	(219,021)	(13,728)
Dividends paid	(237,127)	(123,931)
Interest on capital	(163,024)	(100,698)
Payment of charges on debentures	(3,108)	(3,730)
Grants for investment from risk-sharing suppliers	37,889	216,620
Increase in capital	4,161	439,824
Net cash provided by financing activities	86,886	11,206
Net increase (decrease) in cash and cash equivalents	(586,461)	1,777,424
Cash and cash equivalents, beginning of year	2,325,579	548,155
Cash and cash equivalents, end of year	1,739,118	2,325,579

Consolidated Balance Sheets-December 31, 2001 and 2000

(in thousands of constant Brazilian Reais as of december 31, 2001)

ASSETS	2001	2000
Current Assets:		
Cash and cash equivalents	1,739,118	2,566,742
Trade accounts receivable	1,441,320	377,987
Allowance for doubtful accounts	(55,131)	(31,399)
Recoverable taxes	35,979	9,651
Deferred income tax	244,192	251,086
Other receivables	135,584	44,387
Inventories	2,470,390	1,316,994
Prepaid expenses	58,204	19,229
Total current assets	6,069,656	4,554,677
Noncurrent Assets:		
Trade accounts receivable	117,107	49,071
Recoverable taxes	5,967	4,973
Compulsory loans, guarantee and other deposits	17,324	12,188
Other accounts receivable	300,519	73,665
Deferred income tax	119,112	186,501
Prepaid expenses	16,777	-
Total noncurrent assets	576,806	326,398
Permanent Assets:		
Investments	10,109	8,956
Property, plant and equipment	905,800	733,394
Deferred charges	541,127	399,397
Total permanent assets	1,457,036	1,141,747
Total assets	8,103,498	6,022,822

Consolidated Balance Sheets-December 31, 2001 and 2000

(In thousands of constant Brazilian Reais as of December 31, 2001)

LIABILITIES AND SHAREHOLDERS' EQUITY	2001	2000
Current Liabilities:		
Loans	1,223,081	791,070
Suppliers	615,716	575,222
Accounts payable	144,257	137,234
Customers' advances	897,024	632,874
Taxes and social charges payable	303,117	165,203
Accrued taxes on income	112,292	86,141
Dealers and sales agents	1,321	1,392
Accrued liabilities	512,025	396,000
Dividends	102,133	128,169
Interest on capital	51,475	37,282
Accrued interest on debentures	-	1,984
Deferred income tax	4,743	1,480
Total current liabilities	3,967,184	2,954,051
Long-term Liabilities:		
Loans	568,930	195,912
Accounts payable	372,082	309,676
Customers' advances	247,340	175,251
Long-term portion of refinanced taxes	49,610	57,979
Accrued liabilities	24,985	30,994
Debentures	-	196,102
Deferred income tax	151,654	163,072
Total long-term liabilities	1,414,601	1,128,986
Deferred Income	-	452
Minority Interest	26,372	22,201
Shareholders' Equity:		
Capital	1,453,970	1,311,437
Capital reserves	130,375	34,994
Income reserves	1,110,996	570,701
Total shareholders' equity	2,695,341	1,917,132
Total liabilities and shareholders' equity	8,103,498	6,022,822

Consolidated Statements of Income for the Years Ended December 31, 2001 and 2000

(In thousands of constant Brazilian Reais as of December 31, 2001)

	2001	2000
SALES:		
Gross sales-		
Domestic market	152,899	123,088
Foreign market	7,208,255	5,923,336
Sales taxes	(11,774)	(11,890)
Sales deductions	(94,820)	(138,985)
Net Sales	7,254,560	5,895,549
Cost of Sales	(4,437,031)	(4,261,507)
Gross Profit	2,817,529	1,634,042
Operating Expenses:		
Administrative	(222,046)	(166,947)
Selling	(531,115)	(401,938)
Other expenses, net	(66,628)	(60,284)
Equity in unconsolidated subsidiary	721	1,625
Income from Operations Before Financial Income (Expenses)	1,998,461	1,006,498
Financial Income (Expenses):		
Interest on capital	(192,641)	(115,547)
Interest expense	(173,999)	(202,693)
Interest income	194,469	113,363
Monetary and exchange variations, net	(350,095)	(3,158)
Income From Operations After Financial Income (Expenses)	1,476,195	798,463
Nonoperating Income (Expense), net	(49,074)	24,456
Income Before Tax and Profit Sharing	1,427,121	822,919
Provision for income tax	(484,690)	(312,559)
Deferred income and social contribution taxes	(10,761)	33,323
Income After Taxes	931,670	543,683
Profit Sharing	(104,634)	(88,892)
Reversal of Interest on Capital	192,641	115,547
Minority Interest	(4,886)	(12,432)
Net Income	1,014,791	557,906

Reconciliation of Net Income and Shareholders' Equity Between Corporate Law and Constant Currency Method

(In thousands of Brazilian Reais)

	Net income for the year		Shareholders' equity	
	2001	2000	2001	2000
Corporate law:				
Accompanying financial statements	1,100,891	645,179	2,456,867	1,538,726
Monetary restatement of beginning balances	-	66,905	-	159,565
Beginning balances monetarily restated	1,100,891	712,084	2,456,867	1,698,291
Monetary restatement of:				
Inventories	20,166	(54,577)	99,294	79,128
Prepaid expenses	1,760	(264)	2,438	678
Customers' advances	(8,212)	(2,479)	(15,264)	(7,052)
Shareholders' equity	(160,201)	(99,942)	-	-
Property, plant and equipment	30,573	38,803	187,228	156,655
Deferred charges	(17,091)	(20,049)	76,556	93,647
Investments	(3)	(22)	-	3
Other accounts payable	-	286	-	-
Other accounts receivable	-	(141)	-	-
Accrued liabilities	-	(8)	-	-
Minority interest	(2,166)	(4,554)	(6,720)	(4,554)
Effects on deferred income tax on monetary restatement	45,967	48,606	(116,801)	(108,300)
Additional deferred income tax on monetary restatement	3,107	(59,837)	11,743	8,636
Constant currency method	1,014,791	557,906	2,695,341	1,917,132

To the Management and Shareholders of Embraer - Empresa Brasileira de Aeronáutica S.A.:

(1) We have audited the accompanying consolidated balance sheets of EMBRAER - EMPRESA BRASILEIRA DE AERONÁUTICA S.A. (a Brazilian corporation) and subsidiaries as of December 31, 2001 and 2000, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

(2) We conducted our audits in accordance with auditing standards in Brazil. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

(3) In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Embraer - Empresa Brasileira de Aeronáutica S.A. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations, the changes in shareholders' equity, and the changes in their financial position for the years then ended in conformity with accounting practices emanating from corporate law in Brazil. The accompanying consolidated financial statements are a translation and adaptation of those originally issued in the Portuguese language and in conformity with accounting practices emanating from corporate law in Brazil. Certain accounting practices applied by the Company and its subsidiaries that conform with those accounting practices in Brazil may not conform with generally accepted accounting principles in countries of users of the financial statements other than Brazil.

(4) The accompanying consolidated balance sheets as of December 31, 2001 and 2000, expressed in constant purchasing power currency, and the respective statements of income for the years then ended, prepared in conformity with the criteria discussed in Note 2.c. and presented as supplemental financial information in the accompanying Exhibit, were subject to the auditing procedures applied to the basic financial statements and, in our opinion, are fairly presented in accordance with such criteria.

São Paulo, Brazil, March 4, 2002.

Class	Number of Shares	% of Stock Capital
Common	242,544,448	38.98%
Preferred	379,738,426	61.02%
Total	622,282,874	100.00%

Shares traded:

In the U.S.A

Embraer is listed on the New York Stock Exchange (NYSE) through an ADR Level Three Program, under the code ERJ. Each Embraer ADS is equivalent to four preferred shares.

In Brazil

Embraer shares are listed on the São Paulo Stock Exchange (Bovespa) under the code EMBR3 (common shares) and EMBR4 (preferred shares).

Depositary Banks:

JP Morgan	Banco Itaú S.A.
60 Wall Street, 36th floor	Rua Boa Vista, 185 - 2º andar
10260-0060 - New York, NY	01014-001 - São Paulo - SP
USA	Brazil

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EMBRAER

www.embraer.com

Social Report 2001

EMBRAER

Contents

In its 32 years, Embraer has grown, has faced and overcome crises, was privatized and is now the only aircraft industry in the Southern Hemisphere engaged in all stages of aircraft production (concept, development, manufacture and customer support) and the fourth largest commercial aircraft manufacturer in the world. Throughout its history, one principle has always been the basis for its development: Education, the cornerstone of its economic and social advancement. This premise existed even before Embraer was created, when in the 1940s, officers of the then recently created Brazilian Ministry of Aeronautics put forth a bold strategy to create a modern aeronautical industry. Investments were directed to building a high-level learning and research institution that would supply a flow of highly trained professionals and development programs and would serve as a bridge for the future establishment of such an aeronautical industry. It was in this context that the Aeronautical Technological Center - CTA was created in 1947 and subsequently the Institute of Aeronautical Technology - ITA in 1950, in São José dos Campos (state of São Paulo), with the help of professors and scientists from numerous countries, responsible for Brazil's successful endeavor to create an aeronautical industry. Only in 1969, 20 years after ITA was founded, was Embraer created and work started on its first product, the Bandeirante.

Focus on Education

Embraer's Social Report portrays the Company's initiatives in this field, both in-house and throughout the community, which are implemented through the Embraer Institute for Education and Research. Everywhere and in every way, directly or indirectly, emphasis on Education is a constant theme. In everything we do, we aim at teaching and learning. Our priority is Education, as defined in Article 205 of the Brazilian Constitution: "personal development, preparation for citizenship and professional qualification".

Professional Qualification - Establishing a New Culture.

The privatization of Embraer at the end of 1994 marked a turning point and the beginning of profound changes for the Company and its employees, impacting visions, attitudes, skills, practices and procedures. It meant the start of a new corporate culture that was aimed at turning the Company around quickly to become a player in the international aeronautical industry and a leader in Regional Aviation in just a few years. The incessant drive to improve the professional qualification of its employees has been at the basis of this process. Significant investments in Training and Professional Qualification have been – and continue to be – a part of Embraer's strategy since its privatization.

As a result of this policy and an intense basic schooling incentive program, since 1997 the Company has not had a single employee on its payroll who has not at least completed high school education. More than 4,500 plant workers and technicians were hired from 1997 to 2001, enabling Embraer to significantly boost its production rate, from an average of three aircraft per month in 1997, to approximately 18 aircraft per month in the first half of 2001. Upon being hired, all these employees underwent a three-month extensive training program in aeronautical manufacturing and projects, much of which is conducted in partnership with technical schools in the São José dos Campos region. The typical training a worker receives during the first four years with the Company is focused on production technology and aeronautical culture, product certification and quality, and human relations. With a new corporate culture strongly rooted in Training and Professional Qualification, Embraer's workforce underwent a profound change in both size and profile between 1998 and 2001, a period when Embraer increased output, while at the same time improving quality and productivity.

The tables and charts below demonstrate this extraordinary transformation.

Embraer Workforce - Number of Employees

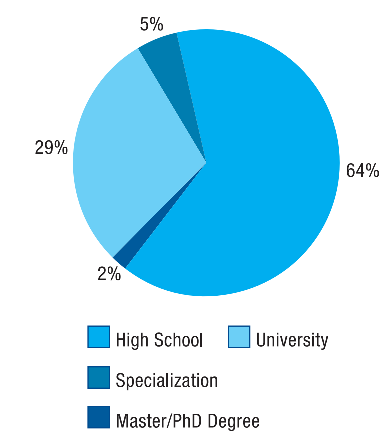
	SJC	Neiva	ELEB	FLL	LBG	Others	Total Embraer	Outsourced personnel	Overall Total
1998	6,214	309	-	143	71	-	6,737	2,200	8,937
1999	7,347	366	317	162	106	4	8,302	2,400	10,702
2000	8,574	994	378	190	170	28	10,334	2,450	12,784
2001	9,218	907	393	224	221	85	11,048	2,327	13,375

Note: SJC (São José dos Campos/SP), Neiva (Botucatu/SP), ELEB - Embraer Liebherr Equipamentos do Brasil (São José dos Campos/SP), FLL (Fort Lauderdale – USA), LBG (Le Bourget – France), Others (Dallas – USA, Beijing – China, Singapore and Melbourne – Australia).

Embraer Workforce - Averages

	Years of Age	Years of Service
1998	33.1	8.2
1999	32.4	7.6
2000	32.6	7.4
2001	32.8	7.7

Level of Education



Training and Professional Qualification

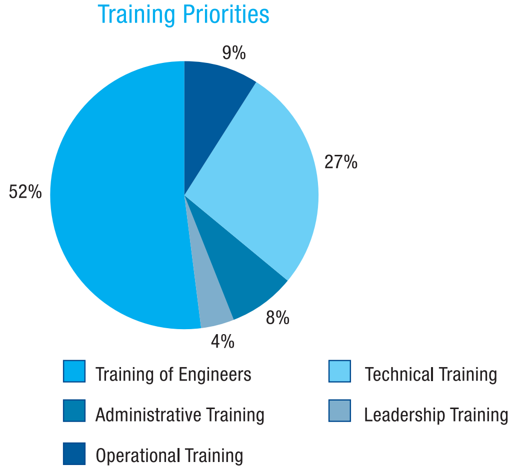
Training and Professional Qualification initiatives are intended to support and perpetuate Embraer's continuous growth, while at the same time building up the knowledge and skills of its employees for their own personal development. Part of the Company's human resources policy involves giving priority to internal talent at all levels to create a highly qualified "critical mass" in order to sustain growth of its operations. As such, Training and Professional Qualification is an integral part of Embraer's strategic planning, providing a platform for the ongoing development of applied technology, management practices and product and service quality. Embraer invested US$25 million in training programs, which represented more than 560,000 hours in 2001, averaging US$2,300 per employee. Programs included training in manufacturing (52% of investments) and technical product development, qualification courses for new aeronautical engineering specialists (27% of investments) and human aspects of leadership. These programs are supported by the 360º Evaluation

System, a Graduated Competency Review, as well as other tools used to continuously monitor training and professional qualification needs. The operational training infrastructure was successfully implemented at the Gavião Peixoto facility with the support of partnerships with renowned educational institutions. The first classes to graduate have completed their fundamental coursework and are participating as interns in São José dos Campos. The Embraer Trainee Program was established in order to recruit and develop talent based on a profile best suited to the future needs of the Company.

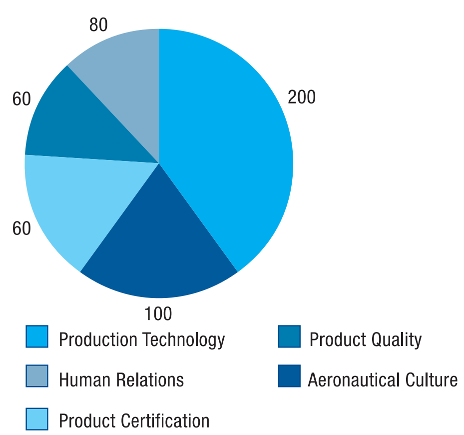
Investments in Training (US$ thousands)

	2000	2001
Labor	15,177	15,276
Courses, Travel and Lodging	4,043	4,929
Production Trainees	1,014	-
Others	593	1,354
PEE – Specialization Program in Engineering	-	3,189
Total	20,827	24,748

Training Priorities



Typical Training - First 4 years (in hours)



Specialization Program in Engineering

Another initiative which has significant impact in the area of training and professional qualification was the creation of the Specialization Program in Engineering (PEE) in 2001. The PEE is aimed at training recently graduated engineers, or those in the early stages of their careers, in the various areas of specialized skills that make up an aeronautical project. The intense training is customized and flexible in order to have an immediate application in aircraft projects.

The first group of engineers was selected and hired specifically for the program, dedicating their full schedule to the study of aeronautical design at the Eugênio de Melo facilities in São José dos Campos. The first group will complete the 18-month course in the first half of 2002.

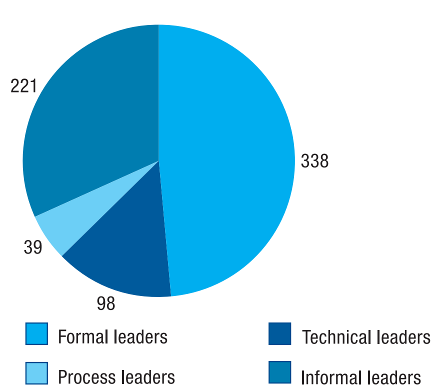
Special emphasis is placed on the selection process of new students, which takes place concurrently in 11 Brazilian cities. In 2001, a total of 2,500 candidates enrolled in the selection process. The program's teaching staff is made up of Brazilian instructors recruited from leading engineering schools and Embraer specialists, as well as specially hired instructors from training and research centers in Germany, the U.S., the United Kingdom and Russia. Starting in 2002, agreements will be signed in order to share the PEE experience with Brazilian educational institutions to make it available to non-Embraer professionals. In 2001, Embraer invested US$ 3.2 million in this program.

Leadership Development

Our Leadership Development Program (PDL), initiated in 2000, resulted from our conviction that motivated professionals and an entrepreneurial spirit provide the competitive edge that makes the difference in the markets the Company operates in. The objective of the Program is to select and develop managers, preparing them to run the business of a global high-tech product company, which competes against strong adversaries supported by the governments of their respective countries. The PDL consists of a series of programs designed to train and develop leaders, focusing on effective communication skills in program management in a project-oriented multicultural environment, as well as on team-oriented training. Another important initiative was the creation of an in-house Master of Business Administration - MBA course jointly with the Getúlio Vargas Foundation (FGV-SP), specially designed for Embraer. The Embraer MBA course prepares executives for the Company's international business environment and its export vocation. Aimed at developing the latent leadership ability within the Company, the MBA course is entirely funded by Embraer and currently has 36 participants.

The 18-month course includes a module offered towards the end of the period, for which a leading foreign business school is responsible. In 2001, 696 high-potential leaders participated in the PDL, with investments in Training and Professional Qualification totaling US$1.1 million.

PDL Leaders



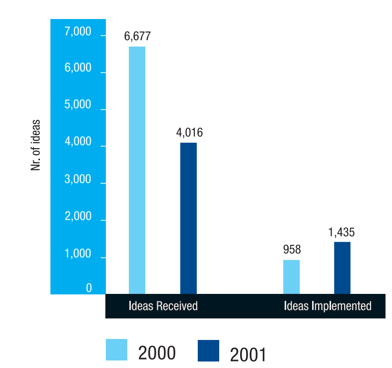
Remuneration

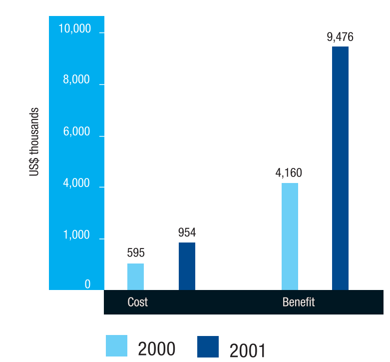
Embraer's Compensation Policy is customized and aimed at motivating employees, bringing them together to meet corporate objectives. The basis of this policy lies in: 1) a fixed compensation portion, which recognizes and values a wide range of professional abilities, in line with the reality of the market, plus 2) a variable compensation tied to the Company's performance (based on a pre-established ratio between the actual dividends paid to shareholders at the end of the fiscal year and the total amount to be paid to employees as variable compensation) and the extent to which individual targets are attained. Targets are established among the teams' leaders and members, using transparent and agreed upon criteria, which align the interests of shareholders, management and employees in a true partnership. Variable compensation is extended to all the Company's employees and is one of the driving forces behind its solid performance.

"Good Idea" Program

The link between individual contribution and recognition by the Company is part of the corporate culture and the "Good Idea" program is an example of how this concept is applied. The program is designed to foster creativity, while establishing practical and useful business initiatives focused on quality, cost savings, competitiveness and customer satisfaction.

"Good Idea" Program





Embraer Institute for Education and Research

Since 2001, Embraer's role in what is called the Third Sector – where private sector resources are invested for public benefit – has been the responsibility of the Embraer Institute for Education and Research. The Institute was set up in May 2001 and evidences Embraer's commitment to transforming Brazilian society through socially responsible corporate actions, focused on Education. The Company will transfer to the Institute (managed by professionals who have a representation and identity peculiar to the Third Sector) all of its capabilities in the areas of planning, developing and managing projects, coordinating partnerships and measuring results. In doing so, the Institute will not be responsible for the day-to-day operation of the projects, but will act as a promoter, financier and coordinator, working mainly through partnerships and alliances.

High School Activities

The overall improvement in basic education and the increase in the average age of the Brazilian population have led to an explosion in the enrollment numbers for high school education, which grew from 3.1 million in 1986 to 8.2 million in 2000, an average yearly growth of over 7%. The situation is the same in the state of São Paulo, where Embraer's facilities are located, and in particular, in the city of São José dos Campos. This fact, together with the decline in the quality of high school education, as reflected in the National High School Evaluation (ENEM), are the main reasons why the Embraer Institute has chosen high school education as the initial focus of its activities. The first project to be undertaken is building and operating the *Eng. Juarez de Siqueira Britto Wanderley* High School opened in February 2002. The school was built on a 13,000 square meter site at the *Eugênio de Melo* Embraer facility, in São José dos Campos.

Investments in the Community (R$ thousands)

	1999	2000	2001
Education	-	-	3,392
Culture	38	800	4,397
Others	1,000	1,450	1,118
Total	**1,038**	**2,250**	**8,907**

Juliana Laiate
a student at the *Eng. Juarez Wanderley* High School

To rank among 6,300 students was a great victory. The *Juarez Wanderley* High School is our second home. Apart from being heard in matters concerning school, we are heard when we have private problems. They believe and invest in us.

The school is planned to have 600 students, all of them from the public school network, and will encompass the 3 grades of senior high school education. There will be nine-hour all-day classes, Mondays to Fridays, that will make extensive use of multimedia resources. In addition to high quality education, students will receive meals, transport, study material and school uniforms, paid for in full by Embraer. The admission process will be handled every year by an independent institution to be selected by the Embraer Institute for Education and Research, thus ensuring fair and transparent admission criteria. Besides academic activities, seminars and visits will be conducted with the objective of developing the personalities of the students, instilling values and presenting them with role models for professional and social success. The day-to-day operation of the *Eng. Juarez Wanderley* High School will be managed by *Sistema Pitágoras de Ensino*, a Brazilian entity that has 30 years of educational experience and manages a network of over 300 schools with 120,000 students throughout Brazil. The project is based on the already successful "*Pitágoras* model", which incorporates elements of social anthropology, psychology and pedagogy. The ultimate objective is to achieve top academic performance – at the same level as the best public and private schools – and to contribute to the attainment of a high level of Ethics and critical assessment. The Institute aims at promoting values and principles that are in Embraer's corporate culture and at passing them on to the students.

Primary School Activities

The Embraer Institute's activities at the public elementary school level will be implemented primarily through partnerships, in which the broader education process will still be managed by each municipality. The Institute will continue to contribute funds directly to programs dedicated to improving elementary education. In addition, through the Municipal Council for Children and Adolescents, Embraer has been allocating 1% of its payable income tax to local projects considered to be particularly worthy of support. The Embraer Institute will help projects in those Brazilian cities in which Embraer has a direct presence: São José dos Campos, Botucatu and Gavião Peixoto, all in the state of São Paulo.

Characteristics of candidates enrolled at the *Eng. Juarez Wanderley* High School

Average family income	64.8% below 5 minimum wages.
Gender	52% of the candidates are male.
Prior Schooling	The public sector school network in the Paraiba river valley. About 50% of 8th grade students in the public sector school network in São José dos Campos competed for a place at the school.
Age	85% of the candidates are between 14 and 15 years of age.

By mid 2003, the Institute will have defined a "Basic Education Product", which will comply with the following conditions: (1) clear social content, (2) the participation of an entity with proven experience in education, (3) quality at least as good as that of similar products, (4) simple to implement with low operating costs and (5) possibility of evaluating and disseminating results. The "Basic Education Product" will not be a new educational technology, but it will involve specific initiatives for enhancing the teaching process and adding skills to the student curriculum, which may be of benefit to the students in the future. "The Basic Education Product" will be defined and tested taking into account the need to make it suitable to be replicated, so that it must maximize the cost/benefit ratio and minimize the risk of failure. Ultimately, it is aimed at disseminating and reproducing our experience, in the hope of contributing to an improvement in public policies. Thus, the Institute will rely on partners with proven experience in the educational field, who share the same beliefs as Embraer. These partners may be Brazilian-based or not, and the task of identifying candidates and presenting our project has already begun.

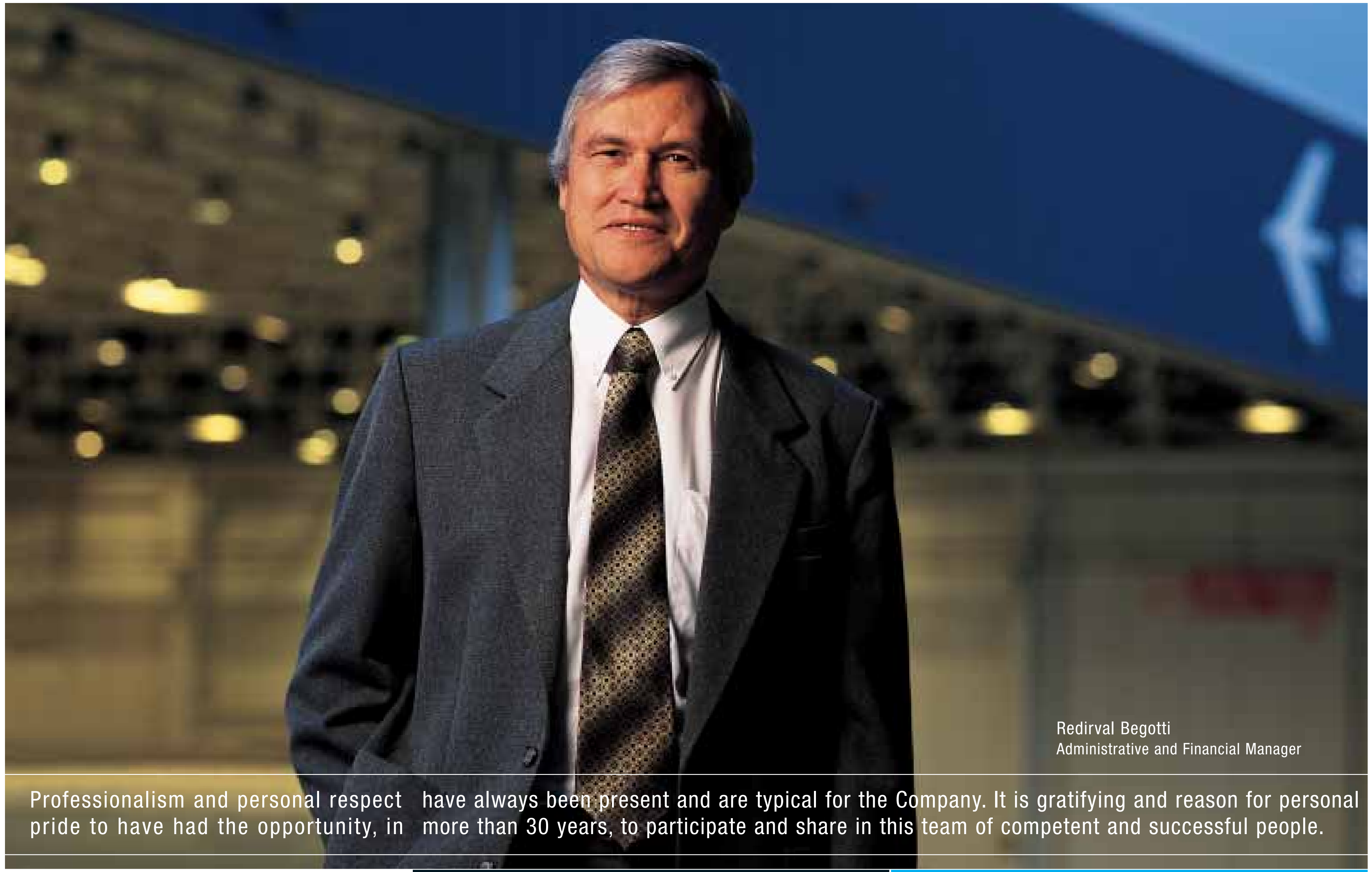
Other Activities

Embraer also contributes to vocational training in the communities in which it is active. As a way of demonstrating its concern with what is a nationwide problem, it supports the Solidarity Community Program, to which it contributed R$2 million. Two of Embraer's community programs are particularly noteworthy. One is the partnership with SENAI (the National Service for Industrial Training) in São José dos Campos, responsible for the professional training of 15 new workers in 2001, as well as of 173 adolescents, by way of the Young Apprentice program. The other program involves the *Hélio Augusto* Foundation for Children and Adolescents (FUNDHAS), an entity managed by the São José dos Campos Municipality. High school students are chosen by the Foundation to work at Embraer plants in São José dos Campos. By the end of 2001, 212 adolescents from FUNDHAS were holding paid jobs at Embraer.

Benefits paid to employees over the past three years increased by 128% (an average of 32% per year), with a positive impact on the social development of the communities in which Embraer is located, particularly São José dos Campos and the surrounding region.
The most substantial benefit Embraer offers its employees is in the form of payments that are foreseen in its Variable Compensation Policy. In addition, Embraer also offers a wide range of other benefits, such as reimbursement of medical expenses (81.3% reimbursed on average in 2001), of medicines (70% of any amount over R$28.80 per month is reimbursed), dental treatment (62% reimbursed in December), Pension Plan (the Company's contribution fully matches employee contributions, with a cap of 12% of the base wage), as well as transport, meals provided on site and life insurance. Of the many programs the Company sponsors and maintains for the benefit of its employees and families, two are specially worth mentioning:

Scholarship Program

In an effort to fulfill the aspirations of many employees who wish to continue their studies and demonstrate high academic merit, Embraer offers a Scholarship Program custom-designed for the Company's activities, in addition to the Training and Professional Qualification Program. The Program reimburses up to 45% of the monthly education costs of employees and this has proved to be a strong incentive for self-development. Scholarship Program payments in 2001 amounted to US$400,000 and benefited 581 employees with an average 40% contribution to cover their schooling costs. Furthermore, Embraer has negotiated preferential costs through agreements with a vast network of educational entities, the full benefits of these agreements being passed onto the employees.



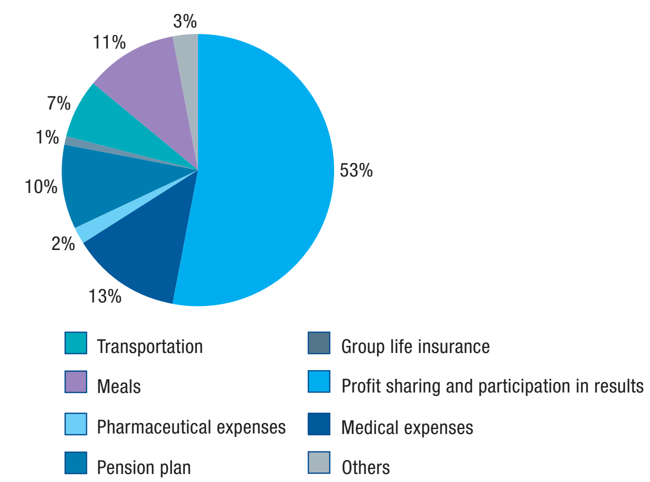
Redirval Begotti
Administrative and Financial Manager

Professionalism and personal respect have always been present and are typical for the Company. It is gratifying and reason for personal pride to have had the opportunity, in more than 30 years, to participate and share in this team of competent and successful people.

The Drug Dependence Control and Recovery Program

The Drug Dependence Control and Recovery Program, created in 1984, is a benchmark in Brazil and has been widely acclaimed abroad. Its objective is to provide confidential professional assistance to employees and family members with drug abuse problems. Testing for drug usage is regularly performed (all job candidates, employees on overseas assignments, and employees who are recovering from the effect of drug abuse are tested, while 30% of all employees are randomly tested annually). Having been a participant in the Program, an employee is subsequently in no way hindered in his/her professional advancement within the Company.

1999 – Benefits paid to employees: R$ 68.6 million



Other Activities

• Besides financially supporting its employees and their family members in cases of legitimate need, Embraer invests in campaigns to help minimize the chances of requiring such assistance.

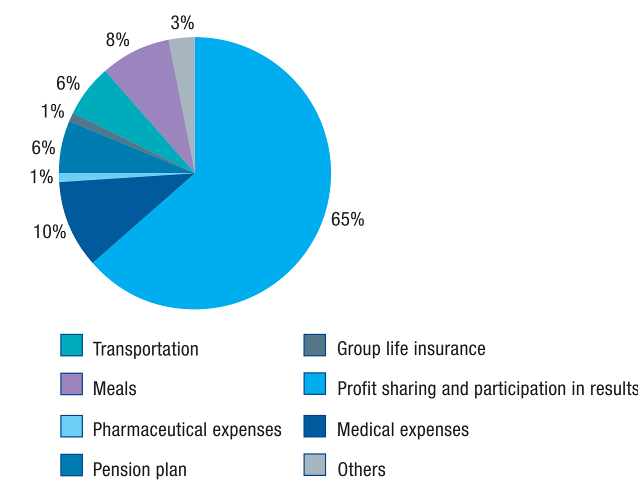
• Preventive health campaigns and stress control initiatives (639 participants) were held in 2001, as well as vocational guidance for family members of between 16 and 21 years of age (422 participants) and courses in personal finance (322 participants).

• Internal events were organized to help bring employees, families and the Company together. A great number of employees attend these big events, which include shows and special performances, tuned to the specific audience and occasion. Among such events one should mention the Christmas Party (20,000 participants) and the Open Gates event (a one-day visit to Embraer's headquarters, which attracted 25,000 participants in 2001). There is also a special one-day event held in recognition of long-time employees of the Company, which brings together employees, their families and Company management (1,500 people invited).

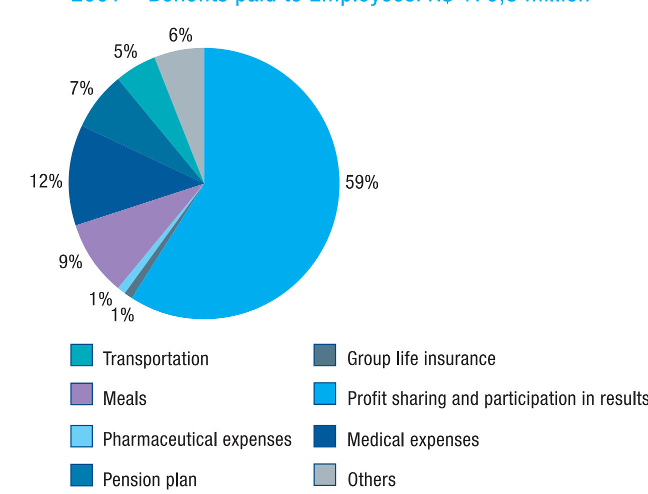
• In the area of sports and leisure, the Company has provided support to the Embraer Employees Sports Association (ADCE), which hosts sporting, cultural and social events on its premises in São José dos Campos.

• In 2001, Embraer won the Industry Games, competing against 13 other companies in the São José dos Campos region, and won the SESI (Industry's Social Service Entity) Industry Games as well. The ADCE promoted photography, poetry and art competitions, hosted the Easter party (6,000 participants), the Children's Festival (4,900 participants), and organized excursions and other sporting and social events.

2000 – Benefits paid to Employees: R$ 124.1 million



2001 – Benefits paid to Employees: R$ 170,3 million



Although the aeronautical industry is certainly not considered a heavy polluter, Embraer's sustainable growth policy is aligned with the Company's concern for the environment and as such has sought to continuously improve systems, standards and procedures to this end. This commitment extends to its products, which are designed to minimize environmental impact and to conform to the most demanding international standards. In line with its environmental commitment, Embraer has put up an integrated system for managing questions related to the Environment, Safety and Health on the Job, and Quality (SIG-MASSQ). We are the first aeronautical company in the world to have such a far-reaching integrated system. The Quality System, one of the three pillars of the SIG-MASSQ, has been certified since 1996 according to the ISO 9001 norm. By March 2002, the Safety and Health on the Job procedure, along with Environmental Systems, are expected to receive the OHSAS 18001 and ISO 14001 certifications, respectively covering process and environmental management.
The performance indicators that are used to measure the impact of environmental issues and accidents have been very favorable. Among the different procedures, the most significant are those that address health issues – Drug Dependence Risk Management, Anti-smoking and Ergonomics – and those that address environmental issues, such as reverse osmosis and recycling, which is how over half of Embraer's waste material is currently disposed of. Despite the success of these programs, the Company decided to set even more challenging targets:

- Rationalize the use of water and reduce the average per capita consumption by 5% at the Faria Lima, São José dos Campos, plant in 2002, compared to the 2001 average.
- Implement a new improvement program for work stations in industrial areas.
- Substitute CFC (freon gas) in the cold storage equipment for ozone layer friendly gas.
- Substitute fuel oil (with a low flash point) for natural gas.
- Reduce the level of organic material produced by the effluent treatment station by up to 10%.
- Rank suppliers of manufactured products according to their environmental management standards.
- Reduce average per capita power consumption in 2002 by 5% compared to the 2001 average.
- Re-utilize 20% of the Company's discarded effluents to feed the power generation system.
- Reduce the severity and frequency of work-related accidents by 20%.

Mário Gonçalves da Silva
Structural Assembly Monitor

Embraer's challenge does not cease with the production of aircraft. The Company relentlessly works to offer its employees and their families quality of life, providing opportunities for studies, travel, in short, disseminating knowledge.

Alberto Albuquerque
Student in the PEE Program

The biggest reward is to hear the sound of our aircraft in the sky and at the same time the comment of someone on the ground who looks up and says: “that is an Embraer”. One feels proud to see the admiration in the face of people watching the aircraft.

As part of its policy on corporate social responsibility, Embraer sponsors projects of a humanistic nature aimed at developing skills and promoting national culture. Principal activities in 2001 were:

- Use of R$3.6 million of Embraer’s tax incentives under Law 8685/93 (known as the Audio-Visual Law) to sponsor seven full-length feature films, as a means of contributing to the promotion of Brazilian culture.
- R$552,000 sponsorship grant to the Alfa Theater project, through an agreement with the Alfa Cultural Institute, which supports many theatrical and musical initiatives. As part of this project, the Tatuí Symphony Orchestra performed at the public launching of the EMBRAER 170 aircraft and the Petrópolis Girl Singers participated in Embraer’s Christmas party.
- Distribution of 64,000 books for children to sons and daughters of employees, as a means of encouraging reading, considered important in adolescent development.
- Support for the *Vôo Doce em Canto* young peoples’ choir, comprised of 70 children and adolescents aged 6 to 15, all children of Embraer employees.

Major results

Embraer's socially responsible investments should be examined from both qualitative and quantitative points of view to better understand guidelines and identify objectives, as well as their long term effects.

Embraer Institute for Education and Research

The creation of this Institute presented a major challenge for two reasons in particular:

1) Embraer's success and notoriety have raised very high internal and external expectations in relation to whatever projects the Company supports. Community actions have always been on Embraer's agenda, but the recent decision to grant priority to Education has given rise to a new situation. From now on, our results will be compared with those of other institutions that have been active in this area for much longer. Additionally, it will be a challenge to level Third Sector performance with that of the Company's business activities. Above all, the Institute's commitment is towards community activities, while not losing sight of operating competence and efficiency.

2) Due to the fact that Embraer is located in relatively small communities, the requests reaching us often translate into welfare demands.

Embraer has always resisted this kind of demand and has stated that community investment should be based on transparent, recurrent, broad-based and, whenever possible, quantifiable criteria.

On the other hand, the commitment of employees to the Institute's activities has exceeded expectations and, in fact, volunteer work is expected to play an important role in the Company's social agenda from 2002 onwards.

PEE – Specialization Program in Engineering

The importance of the PEE goes far beyond merely training specialized labor for Embraer. The decision to give priority to training Brazilians in the areas of Engineering and Development, instead of hiring specialized technical personnel and/or contracting services abroad, may indeed represent an additional investment in the short term.

The Company, however, has opted to look further ahead and reaffirmed its belief in the importance of Education rather than be guided by short term financial considerations.

The PEE also has another positive feature: it is the sharing of the Company's experience and accumulated technological intelligence with the academic world. This demonstrates Embraer's commitment to share its knowledge with Brazilian society as a whole.

Community Development

In 2002, Embraer will begin industrial operations in Gavião Peixoto, a municipality with 4,000 inhabitants, 340 km from São Paulo. The project will result in the creation of 3,500 direct and approximately 350 indirect jobs, not counting outsourced workers, provided market conditions remain unchanged from the time the project was conceived. Embraer will transfer the manufacturing of its defense products, including final assembly of the EMB-145 AEW&C and the EMB-145 MP aircraft, as well as the Corporate Aviation products, to the Gavião Peixoto plant.

To be able to carry out full flight testing of its aircraft in Brazil, using local labor, the Company has built and is already operating a 5 km long runway - including a 2 km stop-way (extra runway for stopping under emergency conditions) - one of the largest in Latin America.

We believe that within a few decades, the region surrounding Gavião Peixoto can become an economically important and technically sophisticated industrial region in the state of São Paulo.

Embraer-Empresa Brasileira de Aeronáutica S/A (Parent Company)
Annual Social Indicators - 2001 & 2000

	2001	2000
1) Calculation Basis	Amount (R$ Thousands)	Amount (R$ Thousands)
Net Income (NI)	6,735,144	4,962,000
Gross Payroll Total (GPT)	356,137	285,002

	2001			2000		
2) Internal Social Indicators	Amount R$ Thousands	% on GPT	% on NI	Amount R$ Thousands	% on GPT	% on NI
Meals	14,136	3.97	0.21	9,906	3.48	0.20
Social tax and mandatory contributions	119,276	33.49	1.77	104,823	36.78	2.11
Private Pension Plan	9,216	2.59	0.14	6,761	2.37	0.14
Health Program	20,303	5.70	0.30	13,425	4.71	0.27
Safety and on-site medical assistance	2,214	0.62	0.03	2,216	0.78	0.04
Education	1,086	0.30	0.02	1,009	0.35	0.02
Culture	714	0.20	0.01	356	0.12	0.01
Professional qualification and development	10,842	3.04	0.16	7,591	2.66	0.15
Day-care centers and related subsidies	-	- -	-	-	-	
Profit sharing and participation in results	83,676	23.50	1.24	73,879	25.92	1,49
Other	11,229	3.15	0.17	8,518	2.99	0,17
Total - Labor Indicators	272,692	76.57	4.05	228,484	80.17	4,60

	2001			2000		
3) External Social Indicators	Amount R$ Thousands	% on GPT	% on NI	Amount R$ Thousands	% on GPT	% on NI
Education	3,392	0.95	0.05	-	-	-
Culture	4,397	1.23	0.07	800	0.28	0.02
Health and Sanitation	-	-	-	-	-	-
Housing	-	-	-	-	-	-
Sports	-	-	-	-	-	-
Leisure and entertainment	-	-	-	-	-	-
Day-care centers	-	-	-	-	-	-
Meals	-	-	-	-	-	-
Other (Children and Adolescents/ Solidary Community)	1,450	0.41	0.02	1,118	0.39	0.02
Total Contributions to Society	**9,239**	**2.59**	**0.14**	**1,918**	**0.67**	**0.04**
Taxes (except social taxes)	390,054	109.52	5.79	256,858	90.12	5.18
Total – External Social Indicators	**399,293**	**112.12**	**5.93**	**258,776**	**90.80**	**5.22**

Social Indicators

4) Environmental Indicators	2001 Amount R$ Thousands	2001 % on GPT	2001 % on NI	2000 Amount R$ Thousands	2000 % on GPT	2000 % on NI
Related to company operations	3,049	0.86	0.05	1,477	0.52	0.03
Related to external programs and/or projects	-	-	-	-	-	-
Total Environmental Investments	3,049	0.86	0.05	1,477	0.52	0.03

5) Workforce Indicators – Parent Company	2001	2000
Nr. of employees at the end of the period	9,218	8,574
Nr. of admissions during the period	2,252	1,421
Nr. of third party employees	2,327	2,450
Nr. of employees older than 45 years	1,105	1,100
Nr. of women employed in the Company	1,056	906
% of supervisory positions held by women	5.25%	4.71%
Nr. of handicapped employees	452	759

6) Relevant Information concerning Corporate Citizenship	2001			2000		
Relationship between the highest and the lowest remuneration in the Company	58			50		
Total number of labor accidents	78			53		
The Company's social and environmental projects were defined by:	( ) top management	(X) top and middle management	( ) all employees	( ) top management	(X) top and middle management	( ) all employees
Safety and salubrity standards at work were defined by:	( ) top management	(X) top and middle management	( ) all employees	( ) top management	(X) top and middle management	( ) all employees
The private welfare program benefits:	( ) top management	( ) top and middle management	(X) all employees	( ) top management	( ) top and middle management	(X) all employees
Profit sharing and participation in results benefits:	( ) top management	( ) top and middle management	(X) all employees	( ) top management	( ) top and middle management	(X) all employees
In selecting suppliers, the same ethical, social responsibility and environmental standards are applied by the Company:	( ) not applied	(X) suggested	( ) required	( ) not applied	(X) suggested	( ) required
With respect to employee participation in voluntary work, the Company:	( ) does not consider the option	(X) suggested the option	( ) required the option	( ) does not consider the option	(X) suggested the option	( ) required the option

Added Value Statement – (AVS)

Parent Company	1999 Amount R$ million	2000 Amount R$ million	2001 Amount R$ million
Revenues	3,255.7	5,208.8	6,991.5
Raw materials purchased from third parties	2,231.8	3,496.0	4,213.7
Gross added value	1,023.9	1,712.8	2,777.8
Retentions	115.5	129.3	133.8
Net Added Value Produced	908.4	1,583.5	2,644.0
Added Value Received by Transfer	86.7	160.3	266.6
Total Added Value for Distribution	995.1	1,743.8	2,910.6
Added Value Distribution	995.1	1,743.8	2,910.6
Employees	297.6	410.9	520.4
Government (taxes)	(38.2)	429.6	666.6
Financial Institutions	303.2	235.9	605.1
Shareholders	123.5	287.7	403.9
Retained Earnings	309.0	379.7	714.6

Added Value Distribution – AVD 2001 – R$ 2.9 billion