



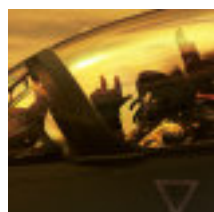

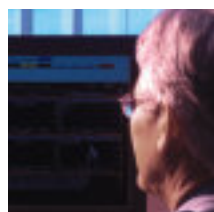







Annual Report 2003

Annual Report Embraer 2003



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Embraer in Perspective



Embraer, or Empresa Brasileira de Aeronáutica S.A., is one of the most successful results of a long-term strategic project designed by the Brazilian Federal Government in the 1940s.

At that time, the Brazilian Government took the decision to develop the country's aeronautical capability, starting with the establishment of a high-level aeronautical engineering school to produce new generations

of qualified professionals for research and development programs.

This is how the Aeronautical Technical Center (Centro Técnico de Aeronáutica – CTA), now known as Aerospace Technical Center (Centro Técnico Aeroespacial), was established in 1946, followed in 1950 by the Aeronautical Technology Institute (Instituto Tecnológico de Aeronáutica – ITA).

Beginning in the 1950s, CTA engineers developed a number of experimental aircraft programs. One of these projects, launched in 1965 as Program IPD 6504, led to the Bandeirante aircraft, and subsequently, in 1969, to the foundation of Embraer. Supported by the Brazilian Government, the new company would transform the science and technology pioneered by the CTA into engineering and industrial capacity.

Between 1969 and 1994, the year the company was privatized, Embraer developed and manufactured a number of aircraft that achieved international market success, including the EMB-110 Bandeirante and the EMB-120 Brasília, designed for the regional aviation market, and the EMB-312 Tucano, a basic trainer for military pilots.

In the 1980s, Embraer took part in a bi-national program for the development of the AMX fighter-bomber with Italian companies Aeritalia (today Alenia) and Aermacchi. This helped the Company obtain control over new and important technologies such as those related to simulation and integration of modern navigation and attack systems, including its management and control software.

The effect of these programs was to give the Company expertise over the entire aeronautical industrial cycle, from conception and development to sales and after-sales services, including the manufacturing, assembly and certification stages.

Since its privatization in late 1994, Embraer has exported US\$ 14 billion in products and services and contributed US\$ 5.3 billion to the country's trade balance. Embraer was Brazil's top exporter between 1999 and 2001 and today is one of the world's top commercial aircraft manufacturers with an impressive 40% of the global market share in the 30- to 120-seat category.

Beginning in 2004 on, a new Embraer commercial jet family will begin operations as part of a development program budgeted at approximately US\$ 1 billion. Designated the EMBRAER 170/190 family and seating 70, 78, 100, and 108 passengers, this new line of products is an entirely new category of its own, specifically designed for the

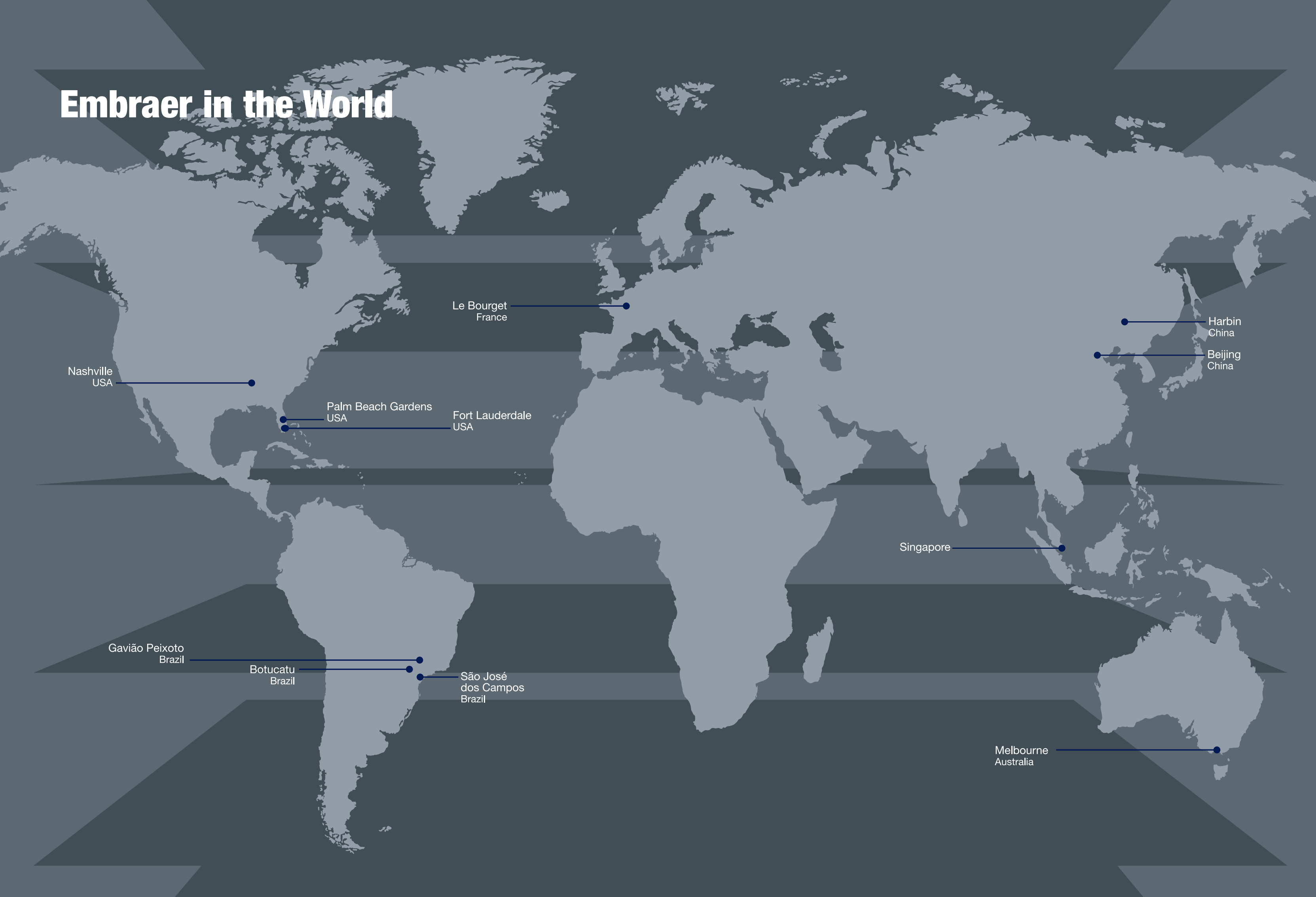
70- to 110-passenger segment. Until now, this market segment has been served by previous generation aircraft either bigger or smaller than ones more effectively required by the market.

Consistently with the requirements and characteristics of the sophisticated aeronautical business environment, Embraer's corporate actions are based on five pillars - high technology, qualified staff, global presence, capital intensity, and flexibility - always oriented to provide permanent and complete customer satisfaction. It resides in the full satisfaction of its customers the main reason for Embraer's results and for the achievement of its major purpose: to generate value for stockholders.

Headquartered in São José dos Campos, nearly 60 miles from the city of São Paulo, Embraer has five plants in Brazil, in three different locations of the State of São Paulo, employing approximately 12,000 people. Abroad, the Company has some 1,000 employees and provides services through subsidiaries, offices, technical assistance and supply parts distribution centers in Australia, China, Singapore, the United States and France.

Embraer aircraft fly the skies of the world, serving operators in 58 countries on five continents. The Company contributes to the world's integration through aviation, making distance among nations shorter and taking to all countries state of the art technology, versatility and comfort in aircraft.

Embraer in the World



Nashville
USA

Le Bourget
France

Harbin
China

Beijing
China

Palm Beach Gardens
USA

Fort Lauderdale
USA

Singapore

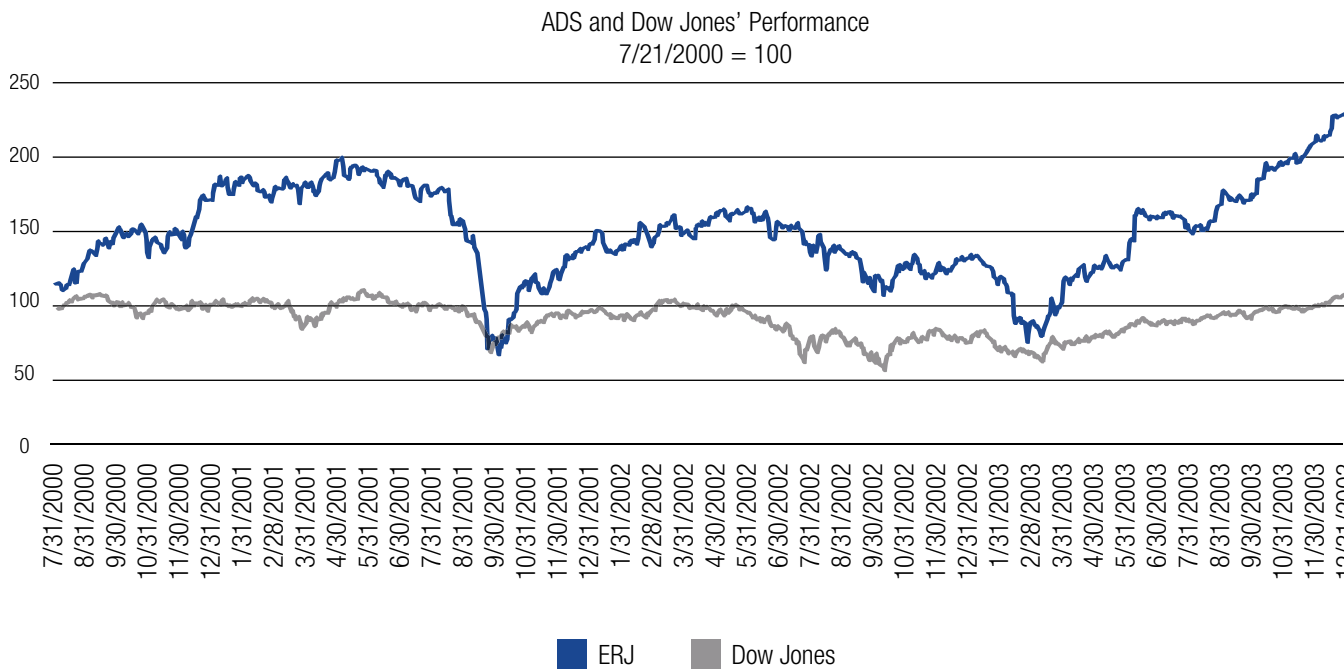
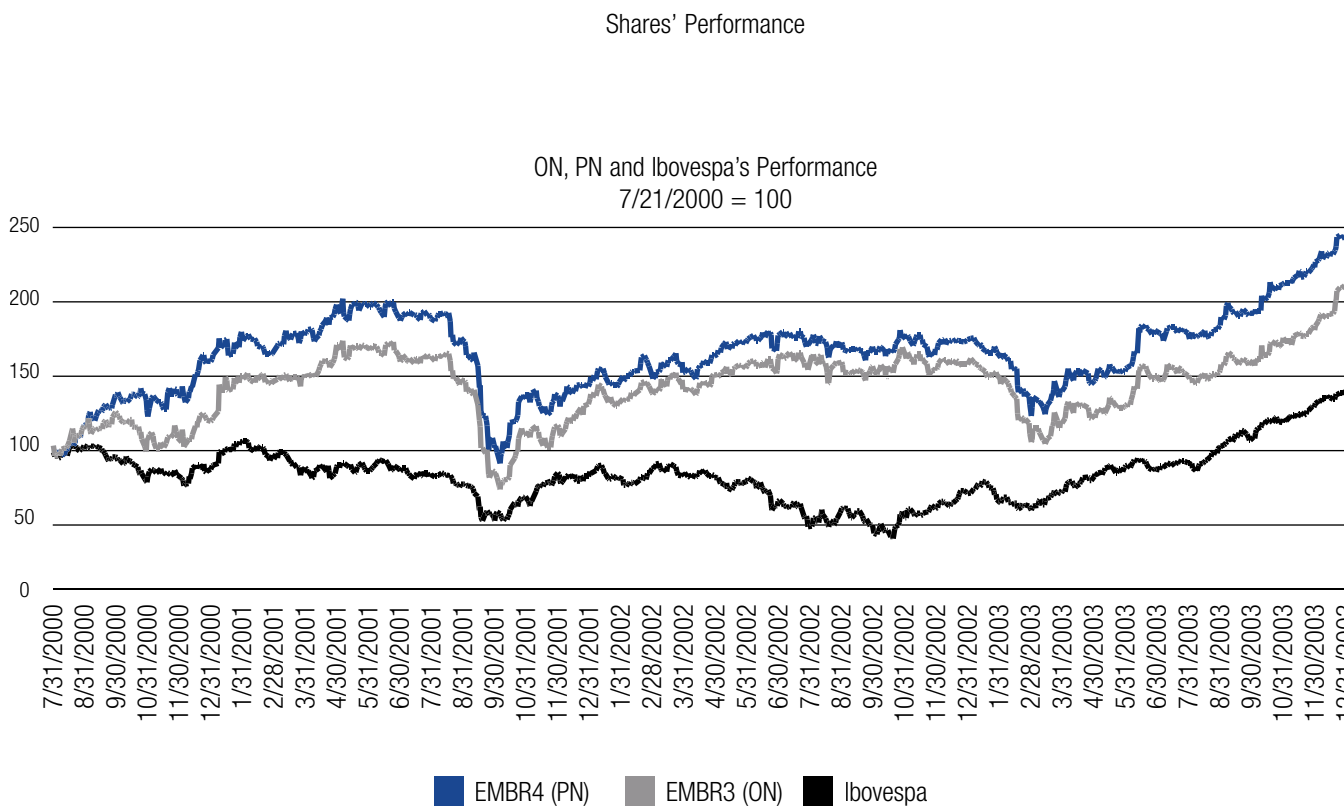
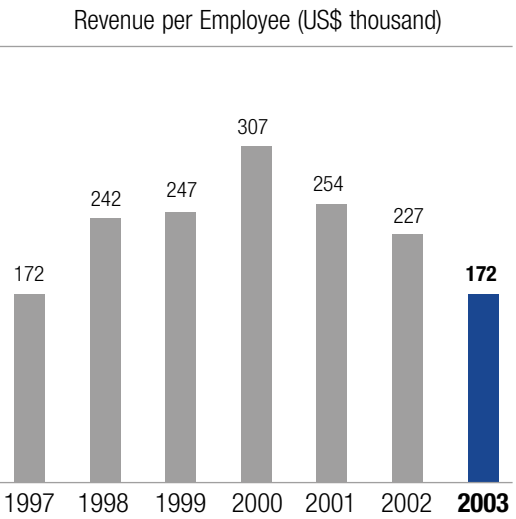
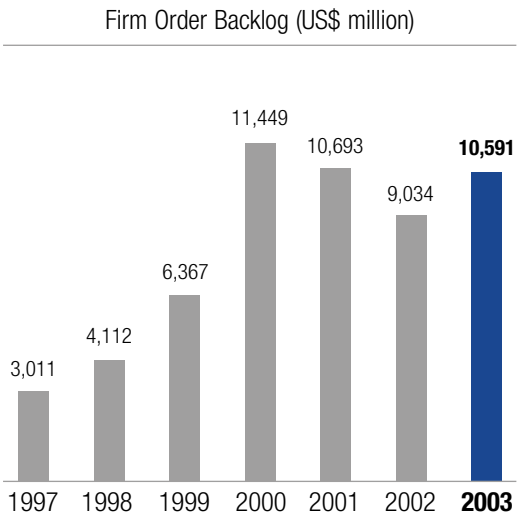
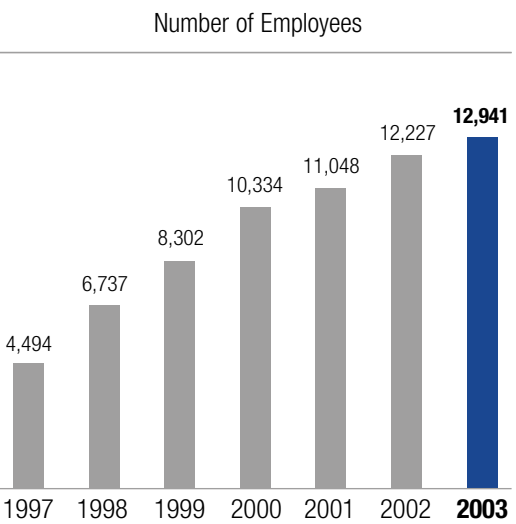
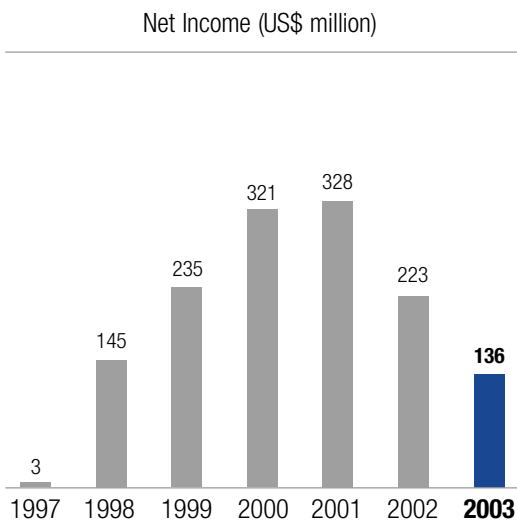
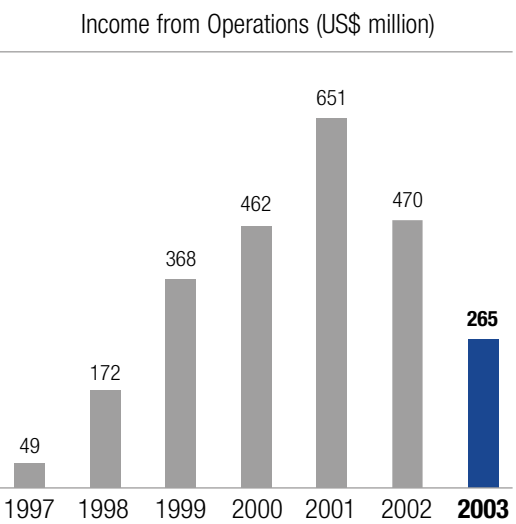
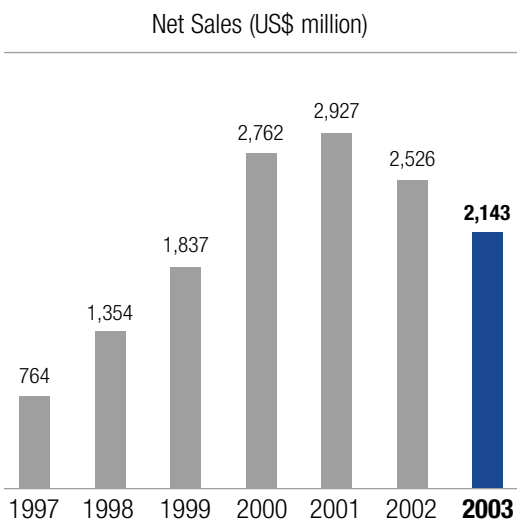
Melbourne
Australia

Gavião Peixoto
Brazil

Botucatu
Brazil

São José
dos Campos
Brazil

Financial Highlights





Message from the President

The year of 2003 began under dark clouds. At the international scene, we had lived for months expecting tensions to grow in the Middle East. This eventually turned into armed conflict by the end of first quarter of the year. Initially planned as a short term struggle, as it unfolds it is clear that the difficulties of implementing a new order in Iraq constitute a critical adjustment process that may bring political and economic impacts to the world, for a long time yet.

In Brazil, a new Federal Administration and a new Congress took office in January, as well as new State governments and legislatures, under the specter of a serious fiscal crisis and the distrust by the international finance community. Resolutely, the new Federal Government stabilized national accounts, controlled inflation, insuring a fiscal surplus, and regaining international credibility and credit lines so important for the development of Brazil.

As far as the aeronautical industry, despite the first signs of international economic recovery in the second half of the year, 2003 has seen minor improvements in a scenario of difficulties that has dominated commercial aviation since the beginning of the extended economic downturn in the first half of 2001, highly aggravated by the September 11 terrorist attacks.

Because of this scenario, Embraer had to review its commercial jet deliveries for 2003, closing the year with 101 delivered aircraft, instead of the 148 originally planned.

But it was also in 2003 that Embraer obtained new and important orders for the EMBRAER 170/190 family that are extremely relevant, not just because of their economic dimension and impact on the Company's operation in the coming years, but because of its meaning for the whole air transport industry as well.

The true meaning of these new sales resides in the fact that they signal to the market that one of the paths to survival and profitability for companies in this sector involves the introduction into their fleets of smaller aircraft that are more suitable for specific demands typical of thinner routes while providing the same level of comfort and safety passengers are used to in higher capacity aircraft.

Another notable achievement was the rollout of the first ERJ 145 assembled in China by Harbin Embraer Aircraft Industry (HEAI), followed by a flight display, in December, one year after the association agreements with AVIC II were signed. We are sure that this event, which emphasizes Embraer's commitment to the Chinese market, is the first of a series that will confirm the success of this enterprise.

In late 2003, provisional certifications for the EMBRAER 170 were granted by the Aerospace Technical Center (CTA) and by the Federal Aviation Administration (FAA), respectively the airworthiness authorities of Brazil and the United States. It was a promising result, but below expectations and implied postponing the first deliveries of the EMBRAER 170, whose entry into service requires final type certification, something to be attained in February 2004.

Despite the predominantly depressed market scenario for the corporate aviation segment throughout 2003, Embraer went on with an intensive commercial promotion and image consolidation program for the Legacy family.

Faithful to the policy of continuous development of our products along their entire life cycle, we announced last October new and important upgrades for the Legacy Executive: a range increase to 3,250 nautical miles (6,020 km), resulting from increased fuel capacity and aerodynamic enhancements, as well as whole range of new equipment, standard in the aircraft.

In the Defense Market, we completed delivery of eight aircraft in the Intelligence, Surveillance and Reconnaissance (ISR) family, destined for the Brazilian SIVAM (Amazon Region Surveillance System) program. Reports on their fine performance in operation were enthusiastically followed.

In September, we signed a contract with the Government of India to provide five Legacy aircraft in special Executive configuration. This operation is an important improvement on our governmental transport market and opens an excellent commercial relationship with this country, which shall translate in additional possibilities of broad bilateral cooperation.

In December we presented the first F-5BR, updated and upgraded by Embraer, which will serve the Brazilian Air Force for many years ahead.

The launch of Super Tucano/ALX production in August, and the first delivery of a series of 76 aircraft (which may be extended to 99, provided the 23 options in contract are converted) to the Brazilian Air Force in December allow us to foresee significant opportunities that may develop in the international market, eager for solutions that combine technological innovation, low cost and top mission efficiency.

These two programs precisely express the intensity of relationship between Embraer and the Brazilian Air Force, and our commitment to serve it in quality and efficiency.

In spite of the unfavorable environment in which our business developed in 2003, which translated, by year end, in net revenues reaching US\$ 2.1 billion and a net income of US\$ 136.0 million, 15.1% and 38.9% smaller than in 2002, respectively, we closed 2003 with an order backlog of US\$ 10.6 billion in firm contracts, which represents a considerable economic guarantee

It is relevant to point out that we ended the year with net cash (cash and cash equivalents less total loans) equivalent to US\$ 222.1 million, with trade account receivables of US\$ 356.4 million, 48.4% below the 2002 result. This extraordinary achievement, in a scenario of aversion to aeronautical risks by international finance institutions, was only achieved through the Brazilian Government support, mainly coming from the National Economic and Social Development Bank (BNDES), that, within the initiatives aimed at increasing Brazilian exports, has made possible the financing of a significant share of our exports.

Equally important, we exercised our planned investments regarding the development of civil and military products as well as improvements in industrial capacity, productivity, training, and personnel development. In this year of crisis, our total investments reached US\$ 238.0 million, which testifies to our commitment to the future.

We should also mention the fine development of our social projects in education, particularly our Eng. Juarez Wanderley High School, which became a reference at the secondary level. Starting this year, it will reach full capacity, serving 600 teenagers, divided into three grades comprising 200 students each. Additional initiatives at municipalities where we operate in Brazil, and our own projects aimed at the educational development of students coming from low income families, positively affected the lives of more than 38,000 children at the primary education level.



We look ahead with the same confidence, optimism and resolution that have guided our actions the last nine years, conscious that we have at our disposal high quality products for the markets we serve, a staff of highly motivated and integrated personnel, top value industrial and finance partners, and stockholders and investors who have provided total support for our actions. Additionally, we are moved by an unshakable commitment to our customers' satisfaction, which is the ultimate guiding purpose of our actions and the generating force of our results.

It is based on these relevant values that we say with full power: Let's move ahead!

A handwritten signature in blue ink, reading "Maurício Botelho".

Maurício Botelho
President and CEO

Commercial



ERJ 135



ERJ 140



ERJ 145



ERJ 145 XR



EMBRAER 170



EMBRAER 175



EMBRAER 190



EMBRAER 195

Corporate



LEGACY EXECUTIVE



LEGACY SHUTTLE



LEGACY SHUTTLE HC

Defense



SUPER TUCANO/ALX



AMX-T



EMB 145 AEW&C

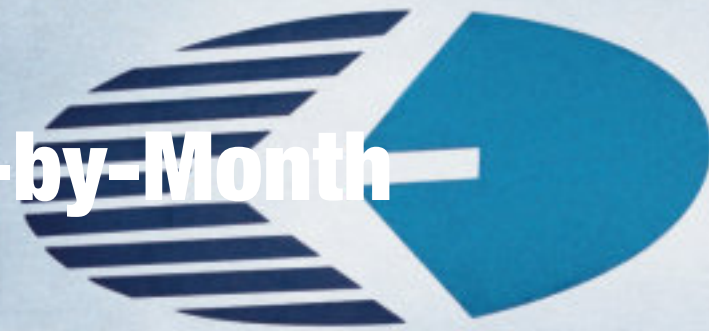


EMB 145 RS/AGS



EMB P99 MP/ASW

The Year Month-by-Month



哈尔滨安博威
Harbin Embraer



January

- The newly sworn-in President of Brazil, Luiz Inácio Lula da Silva, postpones decision regarding the selection of a new supersonic fighter for the Brazilian Air Force under the F-X BR program. Decision is to be delayed more than one year.
- The World Trade Organization (WTO) authorizes Brazil to impose a US\$ 248 million retaliation against Canada due to illegal export subsidies granted to Bombardier.

- EMBRAER 170's static structural testing campaign overcomes the most critical phase and proceeds to the final stage, which is successfully completed within the schedule.

February

- Embraer postpones deliveries of ERJ 145XR aircraft to ExpressJet Airlines, responding to this client's request. The Company delivers 36 aircraft to the airline in 2003, instead of 48 originally estimated.

- The Embraer Service Center located in São José dos Campos is certified by the Joint Aviation Authorities (JAA), the European aeronautical certification authority, for maintenance of EMB 120 Brasília aircraft and all ERJ 145 family aircraft.
- Embraer attends the Aero India 2003 air show at Air Force Station Yelahanka in Bangalore. The company displays the qualities and characteristics of its main products, the AMX-T, the Super Tucano/ALX, the Intelligence, Surveillance and Reconnaissance (ISR) aircraft family, the Legacy family, and the EMBRAER 170/190 family.
- A Legacy Executive aircraft performs a demonstration tour for potential clients in Europe and Asia, visiting Germany, India, Thailand, Singapore, Malaysia, Indonesia, Macao, China, Kazakhstan and Russia.
- An important phase of EMBRAER 170's certification process is completed when operational tests in winter conditions are successfully accomplished in Alaska between January 27 and February 10.
- The first class of engineer students at Embraer's Specialization Program in Engineering (SPE) graduates and joins the Company's product development teams.
- Embraer closes a US\$ 200 million, seven-year term syndicated financial operation, lead by Sumitomo Mitsui Banking Corporation. ABN Amro Bank, Crédit Lyonnais and Société Générale participate as co-arrangers. Nippon Export and Investment Insurance, the Japanese Government's export credit agency, participates as the political and commercial risk insurer.

March

- Swiss International Air Lines reduces its firm order to 30 from 60 EMBRAER 170 and EMBRAER 195 aircraft, split in 15 units of each model. Four EMBRAER 170 aircraft are to join the fleet in August 2004, followed by an additional eight in 2005. EMBRAER 195 deliveries will start in 2006. Total options for both models were reduced to 20 from 100.
- Embraer displays a Legacy Executive business jet at the Latin American Business Aviation Conference and Exhibition (LABACE), held in São Paulo. The aircraft is Embraer's highlight at the event and is open to public visitation at the Congonhas Airport.



- A Legacy Executive jet is displayed at the AeroExpo in Acapulco, Mexico, followed by appearances at the Centennial Show in Dallas and St. Louis in the United States, and at the NBAA Southern California Business Aviation Forum & Static Display in Long Beach, also in the United States.
- Embraer and strategic partners Dassault Aviation, Thales and Snecma Moteurs attend the Latin America Defentech (LAD) 2003, highlighting the Mirage 2000 BR. A complete simulator is displayed during the event.
- The first EMB 145 AEW&C aircraft ordered by the Government of Mexico is rolled-out for Mexican authorities and makes its first flight at a ceremony in São José dos Campos.

April

- LOT Polish Airlines signs a contract for six EMBRAER 170 firm orders and 11 options. At the same time, LOT cancels two ERJ 145 firm orders.
- Kawasaki Aeronáutica do Brasil, a subsidiary of Kawasaki Heavy Industries of Japan and one of Embraer's industrial partners on the EMBRAER 170/190 Program, opens its new industrial plant at Embraer's Gavião Peixoto industrial unit.
- ABS Quality Evaluations completes evaluation of Embraer's Integrated System of Quality and Environmental Management, Safety and Occupational Health (SIG-MASSQ). The evaluation confirms Embraer's ratings under ISO (International Organization for Standardization) 14001 - Environment and OHSAS (Occupational Health and Safety Assessment Series) 18801 for the Faria Lima and Eugênio de Melo industrial units throughout the year 2003.

May

- US Airways orders 85 EMBRAER 170s, with deliveries scheduled to begin in 2003. The airline also took options on 50 additional EMBRAER 170s and 140 ERJ 145s. The total value of the firm contract at list price is US\$ 2.1 billion, with a potential value of more than US\$ 6.2 billion, if options are converted.
- Embraer delivers its 700th ERJ 145 family aircraft to Alitalia Express.
- A Legacy business jet is displayed at the European Business Aviation Conference & Exhibition (EBACE) in Geneva. Parked at the static display area at Geneva airport, the Legacy highlights the Company's presence, being open to visitors, authorities and attendees during the event.

- Certification is granted to Legacy Executive's new interior, which provides customers with several configuration alternatives.
- Two Legacy Shuttle HC aircraft are delivered to a North American customer.
- Brazil's Aeronautical Technology Institute (Instituto Tecnológico de Aeronáutica – ITA) opens a new wind tunnel test facility, funded in equal parts by Embraer and the State of São Paulo Research Support Foundation (Fundação de Amparo à Pesquisa e Desenvolvimento do Estado de São Paulo – FAPESP). The wind tunnel test facility will be engaged in the development of new testing methodologies, employing advanced technologies and modern equipment.
- The FUNDHAS-Embraer unit is open. It is the first youth center jointly established by a private company and Fundação de Atendimento à Criança e ao Adolescente Prof. Hélio Augusto de Souza (FUNDHAS). This is a child and teenager social support foundation, managed by the municipality of São José dos Campos.
- Embraer celebrates 20 years of continuous presence in Europe since the opening of its Le Bourget unit in May 1983.

June

- JetBlue Airways orders 100 EMBRAER 190s, with deliveries starting in 2005. The airline also signs options for an additional 100 aircraft of the same type. Total firm order value is US\$ 3 billion at price list. This may rise to over US\$ 6 billion if all options are converted. The order makes JetBlue the launch customer for this EMBRAER 170/190 family model. The EMBRAER 190's certification is anticipated for the third quarter of 2005, followed by the EMBRAER 195's certification in the third quarter of 2006.
- The Legacy's new interior reaches complete development and is certified. The first aircraft equipped with this new interior is delivered.
- The Government of the Dominican Republic cancels a US\$ 85 million firm order for ten Super Tucano and five Ipanema aircraft.
- Embraer announces its intention to establish an industrial facility in Jacksonville, Florida. The new facility at the Cecil Commerce Center totally qualifies the Company as a compliant United States government supplier for defense and national security programs. Effective implementation of this plant is conditioned to the existence of contracts for this segment.
- Indústria Aeronáutica Neiva, a subsidiary of Embraer, unveils the order book for its EMB 202 Ipanema crop-duster, which counts 50 firm orders to be delivered through December 2003, as well as 12 options. The orders are valued



at US\$ 11 million, while the options, if converted, stand at US\$ 2.64 million. These figures exceed by more than 100% the Ipanema sales forecast for 2003.

- During the Paris Air Show, Embraer announces that its estimate of total jet deliveries for 2003 has been reduced to 110 from 132, while total deliveries for 2004 have been increased to 160 from 145. At the same time, Embraer announces November 2003 as the new date for the EMBRAER 170 certification.
- Also at the Paris Air Show, a firm order is announced for 10 EMBRAER 190s plus 20 options by an undisclosed customer.
- The first EMBRAER 175 aircraft, the second model of the new EMBRAER 170/190 family, performs its maiden flight.
- Embraer delivers the sixth ISR family aircraft for the SIVAM (Amazon Region Surveillance System) Program (EMB 145 RS/AGS - R-99B).

July

- Lockheed Martin announces a partnership with Embraer to compete for the development of the United States Army's next generation ISR system, known as Aerial Common Sensor – ACS.
- Embraer delivers the final aircraft of the ISR family for the SIVAM Program (EMB 145 RS/AGS - R-99B).
- An EMB 145 MP aircraft, one of two ordered by the Government of Mexico, rolls-out and makes its first flight.

August

- The EMBRAER 170 begins a world demonstration tour that will last five months, presenting the aircraft to 45 airlines in 25 countries on five continents.
- The contract is cancelled with the North American company Indigo. The Legacy Shuttle's backlog is reduced to 23 firm orders and 50 options.
- A Legacy business jet is sold to Swiss company Diamair, with delivery scheduled for October 2003.
- Embraer delivers the first Cabin Crew Trainer for the EMBRAER 170/190 family to Swiss Aviation Training, one of the training partners of the new family of Embraer jets.
- The second EMBRAER 175 aircraft makes its maiden flight.
- Serial manufacturing program of the ALX, the Super Tucano version ordered by the Brazilian Air Force, begins at the Gavião Peixoto unit.

September

- The second class of Embraer's Specialization Program in Engineering (SPE) graduates.
- Assembly of the first ERJ 145 produced in China by Harbin Embraer Aircraft Industry (HEAI), first Embraer's industrial unit outside Brazil, begins.
- Embraer is one of the main sponsors at the European Regions Airline Association (ERA) 2003 convention. The Company highlights its presence by displaying the EMBRAER 170 at the Dublin International Airport.
- Embraer is a major sponsor at the Australian Regional Aviation conference held in Coolumb, Queensland.
- Embraer is nominated for the third consecutive year for the Dow Jones Sustainability Index (DSJI) World. This is a survey among the 2,500 largest companies that comprise the Dow Jones Global Index. As a part of the DSJI, Embraer is one of 317 companies that best performed in social, economic and environmental aspects.
- Embraer and BNDES announce advanced studies for the structuring of a US\$ 1 billion financing package for the export of aircraft.
- The Government of India signs a contract for the acquisition of five Legacy aircraft to be delivered in a special Executive configuration.
- A contract is signed between Embraer, the Casimiro Montenegro Filho Foundation and the writer Fernando Morais, for the production of Air-Marshall Casimiro Montenegro Filho's biography. Montenegro Filho was a mentor and top architect of initiatives that raised Brazil to the world class role it plays today in the aeronautical industry field.
- SATENA announces the decision to purchase two additional ERJ 145 aircraft. The 50-seat regional jets will join a third ERJ 145 operating with the Colombian state airline since 2002.
- Embraer announces that flight tests related to the EMB 145 AEW&C (Airborne Early Warning and Control) aircraft Self Protection system, were successfully accomplished.

October

- Brazil's Aeronautical Command resumes the selection process for the supply of new supersonic fighters for the Brazilian Air Force (FAB) under the F-X BR Program.
- Embraer displays two models of its successful Legacy family aircraft at the National Business Aviation Association (NBAA) annual convention. The Company exhibits the Legacy Executive, highlighting its new interior configuration, and the Legacy Shuttle in a 16-seat configuration.
- At the NBAA convention, Embraer announces new performance figures for one of its most successful products - the Legacy Executive jet. Among improvements incorporated into the aircraft, the highlights are the extended range and a wealth of new standard features. The Legacy Executive now offers a range of 3,250 nm (8 pax, 0.74 Mach, NBAA IFR reserves) with a 13-seat configuration.
- Jetmagic orders an ERJ 135 with delivery scheduled for October 2003. The deal raises the number of Embraer regional jets operated by the Irish company to three. Delivery of the aircraft is to take place in October, 2003. In addition, the Irish carrier has taken an option to purchase another ERJ 135, with the possibility of conversion into an ERJ 140 or ERJ 145.
- The ERJ 135 aircraft was granted steep approach certification issued by both Brazilian and European regulatory authorities, respectively Centro Técnico Aeroespacial (CTA) and Joint Aviation Authorities (JAA) for operations at London City (LCY) airport in downtown London. London City is the favorite airport of business passengers for its strategic location.
- Kawasaki Aeronáutica do Brasil (KAB), a subsidiary of Kawasaki Heavy Industries of Japan, and one of Embraer's industrial partners at the EMBRAER 170/190 Program, delivers the first wing of the EMBRAER 190 aircraft.
- Embraer announces that the EMBRAER 170 flight simulator was granted Interim Level C operational qualification by both the U.S. Federal Aviation Administration (FAA), through the National Simulator Program, and by the European Joint Aviation Authorities (JAA), through the Joint Simulator Evaluation Team. The certification allows the beginning of flight crew training.

- The first Hellenic Air Force (HAF) EMB 145 AEW&C aircraft is ferried to Europe for the installation of specific mission equipment for both HAF and NATO operations. This aircraft is one of four EMB 145 AEW&C aircraft ordered by the Government of Greece in 1999.
- Embraer and Flight Options sign a Memorandum of Understanding for the sale of up to four Legacy Executive aircraft. The aircraft are to enter operation immediately after formal contract execution, expected to take place in 2003.

November

- Embraer and strategic partners Dassault Aviation, Thales and Snecma Moteurs deliver the Mirage 2000 BR Consortium revised proposal for the F-X BR Program to the Aeronautical Command of Brazil.
- Embraer is the main sponsor at the Asia-Pacific Regional Aviation Conference and Exhibition (ARA) 2003.
- The Legacy business jet, as well as all ERJ 145 family models, is granted type certification by the Interstate Aviation Committee, the Russian authority in charge of environmental regulation and airworthiness. The certification allows these aircraft to be registered in Russia or any of the twelve member countries that constitute the Commonwealth of Independent States.
- The EMBRAER 170, first model of the new EMBRAER 170/190 family, is granted provisional certification by the CTA, the Brazilian airworthiness authority. Definitive EMBRAER 170 certification by CTA, FAA and JAA are to be granted in February 2004.

December

- Embraer's subsidiary, Indústria Aeronáutica Neiva, delivers its 900th EMB 202 Ipanema crop duster aircraft, at the Botucatu facilities.
- The supersonic F-5BR fighter rolls-out. The F-5BR Program involves all F-5E/F aircraft commissioned with FAB in the beginning of the 1970s, which will be upgraded so as to secure at least another 15 years of service life.
- The EMBRAER 170, first model of the new EMBRAER 170/190 family, is granted provisional certification by the U.S. FAA.





- Embraer attends DUBAI 2003, the 8th International Aerospace Exhibit in the United Arab Emirates.
- Aerolitoral of Mexico signs a firm order for five ERJ 145 LR aircraft, and options for 25 aircraft.
- The first aircraft produced by Harbin Embraer Aircraft Industry (HEAI) rolls-out and executes a flight display. High ranking Chinese and Brazilian government authorities, executives from China's top airlines, as well as representatives of partner and supplier companies, attend the event.
- Embraer completes the delivery of four Legacy Executive aircraft to Flight Options. A contract for purchase of the business jets had been signed in October.
- Embraer rolls-out the first of 76 Super Tucano/ALX aircraft ordered by the Brazilian Air Force. The ceremony, which takes place at the Gavião Peixoto facility in the interior of the state of São Paulo, is attended by high-ranking military and civilian authorities,
- SATENA signs the sale contract for two ERJ 145s, following a purchase decision announced by the Colombian state airline in September. The first aircraft was delivered in December, with the second delivery scheduled for early 2004.
- Embraer and Air Canada sign a purchase agreement for the sale of 45 EMBRAER 190 aircraft, with the possibility of options for 45 additional EMBRAER 190s.
- Embraer delivers the last ISR family aircraft of the SIVAM Program (EMB 145 - R-99A).

Commercial Aviation Market



Market Overview

The year of 2003 saw a slight improvement on the picture of difficulties that has encircled commercial aviation since the extended economic recession began in 2001. The industry's accumulated losses are in the vicinity of US\$ 23 billion, while more than 200,000 jobs were lost between 2001 and 2003.

SARS – Severe Acute Respiratory Syndrome – and its impact added pressure to this difficult scenario. Though short lived and mainly centered in Asia, it caused a significant reduction in the region's air traffic demand which persisted until the second half of the year.

Financial vulnerability and the risk represented by the airlines caused international finance institutions to withdraw from the air transport market, which made new aircraft financing a difficult operation. This required Export Credit Agencies (ECA's) to play a fundamental role in supporting business activities in this market.

Facing a struggle for survival, airlines sought new levels of efficiency and competitiveness as well as new business models that would assure sustained profitability in a new scenario.

In the North American market, airlines that operate under the “low cost - low fare” concept were the least affected by the crisis, posting solid profits and increasing market share.

Regional airlines, in turn, also played an important role in this transitional period, as they profitably absorbed routes that had been inefficiently operated by larger jets, and thus providing a more efficient and fair balance between demand and capacity. This way, they contributed in a decisive manner to assure major carriers’ presence in vital markets needed for survival.

Top North American airlines began to review labor contracts, seeking to reach a more flexible relationship with unions and, as a result, achieve additional costs reductions. With a number of pilot unions, this process led to an initial relaxation of contractual clauses restricting the operation of smaller jetliners by airlines or their regional affiliates. Known as scope clauses, they constitute an artificial barrier that limited airlines’ competitive capability. Relaxing these limits have paved the way for a wider use of aircraft in this category.

Several airlines began to consider in their restructuring plans, the introduction of new 50- to 100-seat category jetliners, in their fleets, seeking a better balance between demand and capacity for routes until then operated by aircraft of a previous generation, larger and less efficient.

In the European market, a consolidation process started around its three top airlines and their respective global alliances. On the other hand, low cost - low fare airlines recorded solid expansion and growth, stirring significant impacts both on first level airlines and on their regional affiliates.

The current crisis affecting the air transport industry in a worldwide scale has caused the consolidation process in China, initiated by governmental guidance, to further accelerate, resulting in a market comprised by four major groups and three independent airlines. In the remaining parts of Asia and in Russia, there is still a long way to go until a commercial air transport deregulation situation is achieved.

All indications suggest that the commercial aviation business is not facing just one of its cyclical crises. It is plunged into a deep change, from which a much more agile system shall emerge, better financially structured and thus, safer and more profitable for investors.

Embraer

The adverse scenario that characterized commercial aviation in 2003 was also felt at Embraer. As the year began, deliveries of ERJ 145 XR aircraft to ExpressJet were rescheduled, which meant a reduction to 36 from 48 units for this airline in 2003. EMBRAER 170 deliveries to SWISS were also postponed by one year and shall begin in 2004. A reduction in the total number of aircraft by SWISS to 30 from 60 firm orders (15 EMBRAER 170 and 15 EMBRAER 195) was also announced, as well as a reduction in options, to 20 from 100 units.

Still in the first half of the year, two highly significant announcements took place, lifting Embraer to a highlighted position in the commercial aviation scenario. The first announcement was a firm order for 85 EMBRAER 170 aircraft plus 50 options of the same model, by US Airways, which had recently emerged from Chapter 11 reorganization. This order reflects the key role jets in this category are to play in the airline's recovery and restructuring strategies.



The second significant announcement was the sale of 100 firm plus 100 options of the EMBRAER 190 aircraft to JetBlue Airways, one of the most successful low-cost, low-fare airlines in North America. As a low-cost carrier, JetBlue does not operate a regional aircraft network and has never been subject to restrictive scope clauses. It was the first time an airline in this category stepped out of the traditional business model to order a smaller capacity airliner as part of its growth strategy. The wide interest raised by this order within the airline community suggests a promising potential market for the EMBRAER 190 and the EMBRAER 195.

Also in 2003, Embraer signed contracts with LOT Polish Airlines for six firm orders and 11 options of the EMBRAER 170 aircraft, and with Germany's Cirrus for one firm EMBRAER 170 order and one additional option.

Embraer is uniquely positioned as a manufacturer today to provide a complete line of products in the 70- to 110-seat market segment, optimizing comfort, cost and performance characteristics and thus responding to new business trends in the commercial air transport sector.

The Company has put strong emphasis on promotional actions concerning its new aircraft family. Besides a strong presence at major air shows held around the world, a global demo tour of the EMBRAER 170 began in the second half of 2003 and carried over into the beginning of 2004. The aircraft was demonstrated for operators in 25 countries throughout Latin America, North America, Europe and the Middle East, focusing on the positive characteristics of the new model in 45 demonstration flights.





The EMBRAER 170 certification campaign, begun in February 2002, continued through 2003. It, involved seven aircraft and culminated with a provisional certification granted by Brazilian and North American authorities in November. Final type certification is scheduled to February 2004.

EMBRAER 170/190 family's second member, the EMBRAER 175, performed its first flight in June, followed by the second unit's first flight in August. EMBRAER 175's certification campaign continues and type certification is expected in the fourth quarter of 2004.

The first EMBRAER 190 had its fuselage completed in October, the same month as the first wing was delivered. The wing was produced by Kawasaki Aeronáutica do Brasil at the Gavião Peixoto facilities. EMBRAER 190 is to perform its maiden flight in March 2004.

Embraer ended 2003 with a significant increase in market share in the 70- to 110-seat airliner segment, reaching 28%, from 16% in the previous year.

The commitment on the development and commercial promotion of the new EMBRAER 170/190 family did not happen at the expense of the ERJ 145 family. Actually, new and important improvements were successively introduced into ERJ 145 family aircraft to secure the continuous and increasing satisfaction of operators and to enhance the product's competitiveness.

Dispatch reliability rates and completion rates of the ERJ 145 family aircraft in operation worldwide maintained top levels of 98.85% and 99.73%, respectively.

In May, Embraer delivered its 700th ERJ 145 family aircraft to Alitalia Express. At the ceremony, held at Embraer's headquarters in São José dos Campos, top Alitalia, Alitalia Express and Embraer executives celebrated the event.



The ERJ 135 aircraft was granted certification for steep approach operation at the London City (LCY) airport, located in downtown London, England. London City is a favorite airport for business passengers, as it is located very close to the city's financial center.

ERJ 145 family aircraft were granted type certification by the Interstate Aviation Committee, the regulatory agency responsible for airworthiness and environmental requirements in Russia and all the twelve member countries of the Commonwealth of Independent States (CIS), opening mid and long term perspectives of insertion for Embraer's regional jet family in this fast changing market.

The first ERJ 145 produced by Harbin Embraer Aircraft Industry (HEAI) was rolled-out in December.

	Firm Orders	Options	Aircraft Delivered	Total Orders
ERJ 145 family	891	502	710	1393
EMBRAER 170/190 family	245	305	0	550
COMMERCIAL AVIATION	1136	807	710	1943



Corporate Aviation Market

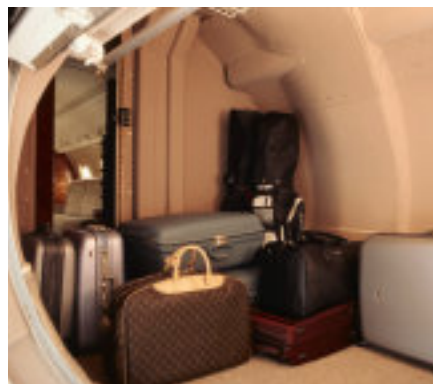


Market Overview

The slowdown seen in air transport worldwide was even more intense in corporate aviation. As a result of the widespread economic activity reduction and subsequent deterioration in corporate performance, the application of cost cutting measures becomes an inevitable trend and corporate aircraft are invariably among the first items to be reappraised.

Sales of new aircraft were also affected by the adverse impact resulting from the high availability of used aircraft in the marketplace, although this trend showed clear signs of reduction in the second half of the year.

The corporate aviation segment posted a worldwide reduction of 25% in the number of delivered aircraft.



Embraer

Despite the depressed scenario that predominated in the corporate aviation segment during 2003, Embraer delivered 13 aircraft, an increase of more than 60% in comparison to the year before.

An intensive Legacy family image consolidation and commercial promotional program was initiated, with a Legacy Executive demonstration tour for potential clients in Europe and Asia, visiting Germany, India, Thailand, Singapore, Malaysia, Indonesia, Macao, China, Kazakhstan and Russia.

Embraer displayed the Legacy Executive business jet at the Latin American Business Aviation Conference and Exhibition (LABACE) in São Paulo in March. In the same month, the Legacy Executive was present at the AeroExpo in Acapulco, Mexico, at the Centennial Show in Dallas and St. Louis in the United States, and at the NBAA Southern California Business Aviation Forum & Static Display in Long Beach, California.

A Legacy Executive was sent to the European Business Aviation Conference & Exhibition (EBACE) in Geneva, Switzerland in May. The aircraft was open for public visitation at the Geneva Airport during the event. Also in May, the development and certification process of an entirely new interior design for the Legacy Executive was completed, resulting in an interior finishing with a quality pattern superior to that of direct competitors.

In August, Embraer announced the contract with North American company Indigo was being cancelled, and the Legacy Shuttle's backlog was reduced by 23 firm orders. Despite the adverse impact, the market remained confident on the growth perspective of this specific segment.

In October, Embraer attended the National Business Aircraft Association (NBAA) annual convention in Orlando, Florida, displaying two Legacy family aircraft, the Executive and Shuttle models.

Keeping to its policy of continuous improvement of its products throughout their lifecycles, Embraer announced, at the NBAA event, new and important upgrades for the Legacy Executive. Most notably, range was extended to 3,250 nautical miles (6,020 kilometers), as a result of an expansion of fuel capacity and aerodynamic enhancements. In addition, a series of new equipment was introduced in the standard configuration.

Entering the fractional ownership market, the Company delivered four aircraft to Flight Options in the final quarter of the year. The aircraft entered operation immediately.



Defense Market



Market Overview

In 2003, facts confirmed a tendency seen in 2001 and 2002 that global expenditures on defense and national security programs have grown, mainly in the United States. This country alone devoted approximately US\$ 400 billion to this effort, of which US\$ 135 billion were targeted for the acquisition of products, and research and development programs. This is considered the main reason industrial recovery began to take shape in the United States in the second half of 2003.

The Iraq War, begun at the end of the first quarter in 2003, brought with it the first important political-strategic crisis among NATO countries, with medium and long term impacts on the relationship between the United States and major Western Europe countries yet to be evaluated.

Concern regarding national security and the implementation of efficient means to engage it (surveillance and intelligence systems, air space, territorial waters and unexplored territories monitoring) is no longer only the prerogative of developed countries, encompassing a vast number of nations in the five continents.

Embraer

In light of the growing demand for enhanced systems related to national security issues that simultaneously require the avoidance of prohibitive increases in defense budgets, Embraer sought to provide the market with aircraft that combine technological content and operational efficiency with competitive acquisition and operating costs. This new scenario opens perspectives for a significant expansion of the Company's presence and reputation in the world defense market, for which it has demonstrated the capacity to act and win.

Embraer's Intelligence, Surveillance & Reconnaissance (ISR) family of aircraft provide an important and strategic presence for the Company in this market segment by making available high technology products at affordable prices, a fundamental competitive differentiator for the implementation of national security policies and strategies by developing countries.

In March, the first EMB 145 AEW&C (Airborne Early Warning and Control) aircraft, one of the ISR family models ordered by the Government of Mexico, was rolled-out and performed its first flight at a ceremony in São José dos Campos.

In December, the first EMB 145 AEW&C aircraft produced for the Hellenic Air Force (HAF) was ferried to Europe for installation of specific equipment to meet HAF's and NATO's mission requirements. This aircraft is part of an order of four EMB 145 AEW&C units. It is worth noting that supplying complex systems for a NATO member country, with its demands for state of the art technology, no doubt certifies our product as one of the most advanced systems available at the marketplace.

Embraer delivered the last three ISR family aircraft for the Brazilian SIVAM Program: two Embraer EMB 145 RS – Remote Sensing (designated R-99B by the Brazilian Air Force) and one EMB 145 SA – Aerial Surveillance, AEW&C version for the SIVAM Program (designated R-99A by the Brazilian Air Force). The SIVAM Program, where Embraer plays an instrumental role, presented a considerable challenge and lifted the Company to a higher level in applied technology and provided a fundamental leap in prestige and credibility for the ISR family aircraft. Three versions aimed at distinct applications comprise this family, using the same ERJ 145 platform: the EMB 145 AEW&C, the EMB 145 RS/AGS (Remote Sensing/Air to Ground Surveillance) and the P-99 (Maritime Patrol/Anti Submarine Warfare).

The AEW&C version is one of the most advanced and affordable Airborne Early Warning and Control aircraft available today.

The second version, EMB 145 RS/AGS, carries a sophisticated sensor system allowing the aircraft to perform ground surveillance, monitor soil usage, and create both thermal charts and topographic maps, delivering precise mineral, vegetation and hydro reserve inventories.

The third version, the P-99, was developed out of the experience with SIVAM aircraft for Maritime Patrol/Anti-Submarine missions. One of its configurations for patrolling and protecting both Exclusive Economic Zones and territorial waters, designated the EMB 145 MP, was ordered by the Mexican Air Force and will be delivered in 2004.

In June, Embraer announced its intention to establish industrial facilities in Jacksonville, Florida, in the United States, for the production of aircraft suited for the North American defense and homeland security markets. This decision qualified the Company as a compliant United States government supplier for these programs. Effective implementation of this plant, however, is conditioned to the existence of contracts for this segment.



Soon after, in July, Lockheed Martin announced a partnership with Embraer to compete for the development of the United States Army next generation Intelligence, Surveillance and Reconnaissance system, designated Aerial Common Sensor (ACS).

These two moves resulted from a strategic option that has been the focus of a careful analysis by Embraer: the quest of a solid, expressive and long term participation in the important and increasing defense market in the United States.

During an encounter between Colombian President Álvaro Uribe and Brazilian President Luiz Inácio Lula da Silva, in September, the sale of two ERJ 145s to SATENA, Colombia's state-owned airline, was announced. The contract was signed in December, together with the delivery of the first aircraft, while the second delivery is scheduled for early 2004. The two 50-seat regional jets will join another aircraft of the same model operated by SATENA since 2002.





Also in September, Embraer signed a contract with the Government of India for five Legacy aircraft in an special Executive configuration. This operation constitutes a strong indication of a solid increase in our governmental customer base and opens an excellent commercial relationship with this country, which should translate to other possibilities of a broad bilateral cooperation.

The launch of the Super Tucano/ALX production, in August, and the rollout of the first of a series of 76 aircraft (a number that may grow to 99, provided 23 options in the contract are converted) for the Brazilian Air Force, in December, allow the possibility of relevant opportunities to be developed in the international market, eager for solutions able to combine technological innovation, low cost, and mission efficiency.

The ALX is a light ground attack aircraft derived from the Super Tucano, specifically designed to meet the requirements of the Brazilian Air Force. Working with the EMB-145 (R99-A and B), ALX is part of the SIVAM (Amazon Region Surveillance System) program, within the SIPAM (Amazon Protection System).

Besides the significant relevancy of this new product in protecting Brazil's boundaries and air space, the ALX represents an important technological achievement in the development and integration of sophisticated navigation and attack systems, insuring to the Brazilian Government full autonomy on its application and on modifications and upgrades that may be needed in the future. It also means new opportunities in the international market, contributing to the creation of jobs and international trade surplus for Brazil.

The AMX-T aircraft (an advanced training version and "Fighter Lead-In" for the ground attack fighter AMX) is an Embraer project that employs technological advancements attained through the Super Tucano/ALX program, significantly increasing information management and pilot decision-making capabilities, both features essential in training new generations of military pilots. It also offers extraordinary operational capability over the original AMX, improving the concept of multipurpose aircraft for a demanding market that copes with increasingly less generous budgets.



The promising AMX-T program for Venezuela is very likely to be accomplished in 2004.

Since 1974, the Brazilian Air Force has operated 46 F-5E/F Northrop aircraft. Although they served well the past 29 years, their analog based technology equipment and systems are totally outdated today. In a world drastically changed by the information technology, the F-5E/Fs could no longer accomplish their intended mission with the same efficiency as before. Planned for more than a decade, the F-5BR retrofit program was delayed in regard to its original schedule due to budget restrictions, but represents today Embraer's response to the challenging requirements set by the Brazilian Air Force for the upgrade of the aircraft with a state-of-the-art mission system.

A twin engine supersonic fighter characterized by superb maneuverability, easy maintenance and in-flight refueling capability, once equipped with new avionics, radar, displays, support equipment and weaponry, the F-5BR will be in the condition to adequately counter and even outperform more modern aircraft in the same category.



Customer Services

A close-up photograph of a male technician in a white shirt working on the complex machinery of an aircraft engine. He is holding a bright flashlight that illuminates the engine components. The background is dark and filled with various pipes, wires, and mechanical parts of the engine.

Embraer implemented in 2003 a broad organizational restructuring, with a special focus on activities related to after sales support to Embraer aircraft operators around the world.

The new organizational structure delegates a higher level of responsibility to its units abroad. Through this new structure customers will experience a closer, more flexible, agile and enhanced support.

Simultaneously, in São José dos Campos, a brand new engineering team, both dedicated to address technical difficulties faced by Embraer's customers fleet as well to support Embraer aircraft assembly lines during aircraft production, has joined the already existing material logistics, flight operational support, and aircraft maintenance teams. This new team is comprised of highly experienced and skilled engineers and technicians coming from Product Development Engineering areas. The new Product Support Vice-Presidency has also taken responsibility for

Technical Publications and Spare Parts Engineering. The integration of all these activities into a single organization has allowed significant improvements in meeting deadlines previously agreed with customers, providing better quality technical solutions and service bulletins, thus minimizing errors and associated revisions.

The new Product Support Engineering Directorship accomplished a broad working agenda in 2003, both by developing its own organization and providing operational support to Embraer ERJ 145 family worldwide fleet of regional jets and the phased-out EMB 120 turboprops.

In parallel, the team has worked in close coordination with the New Product Development Engineering on the entry-into-service of the new EMBRAER 170/190 family, taking responsibility for producing technical publications and for all the activities related to customers' fleet needs.

The EMBRAER 170 entry-into-service required special attention in 2003. Two new flight simulators have been developed and delivered. The entire pilot and mechanic Computer Based Training (CBT) program has been developed and delivered, following certification by aeronautical authorities in Brazil, in the United States and in Europe (CTA, FAA and JAA, respectively) and the whole process has taken place even before the type certification of the new aircraft model. The aircraft Maintenance Plan has been developed and approved likewise, and all operational Technical Publications have been issued according to pre-established schedule deadlines, and following top quality standards in aviation industry.

Product support conferences have been held on a regular basis with Embraer ERJ 145 operators, aiming to improve customers' fleet performance. Meetings have been held in Lisbon for European operators, in Marco Island for North American operators, and in Beijing for Chinese operators. Similar conferences related to the turboprop fleet have been held in Brazil, in the United States and in Australia.

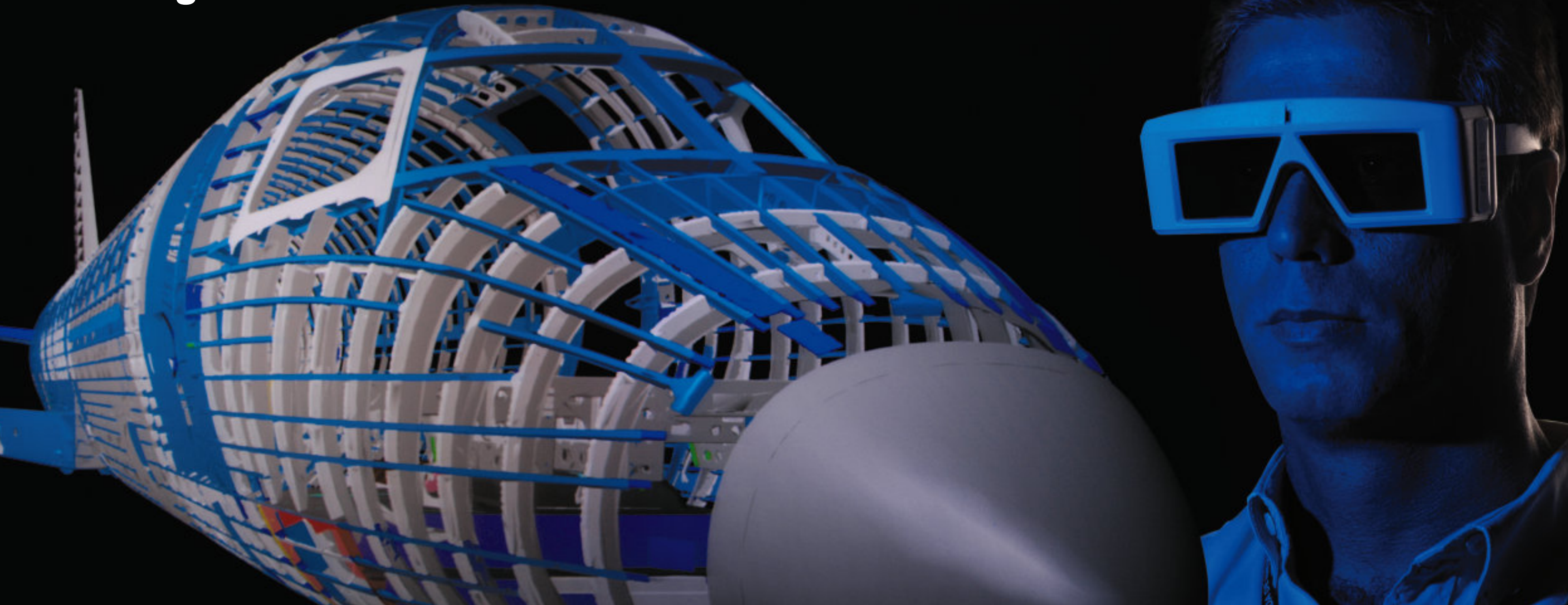
The Logistics Support Directorship has completely restructured the planning process for spare parts inventories. Nowadays the activities for the planning process are developed based on a cell concept, having each cell responsible for the programming, the purchasing, and the price evaluation of each specific material family.

Support solutions provided to customers, such as the Fleet Hour Program (POOL) for repairable parts, the Rental Program for tools and ground support equipment, the Parts Exchange Program (EPEP) for parts replacement and other support solutions have been improved and are available to customers. Particularly, a Total Support Program (TSP) for a North American EMBRAER 170 customer has been developed and may prove to be a benchmarking. Additionally, the Total Legacy Care (TLC) program, already in operation since 2002, has been improved and made available to several corporate customers. The Support Solutions team has proactively supported aircraft sales campaign, by tailoring programs to meet customer's needs, providing a clear competitive differential.

The spare parts and equipment support to aircraft under AOG (Aircraft on the Ground) situations is efficiently provided by teams available 24 hours a day, 365 days a year through the "Customer Order Desk" based in São José dos Campos.

Management of the AEROChain portal has been transferred to the Logistics Support Directorship in 2003. AEROChain's portfolio has been entirely reviewed and improved, including new and important product developments already available to customers. AEROChain is also being offered as a host site to other companies, in order to make it more self-sustainable and profitable.

Technological and Industrial Management



2003 was a very fruitful year for technological and industrial progress in both the product development and supply chains.

Product Development

The main product development focus was on the conclusion of the EMBRAER 170 project, the first member of the new EMBRAER 170/190 family. Great efforts were made towards supporting product certification, the beginning of

serial production and entry into service with a high level of product maturity. This aircraft family as it arrives to market is at the state-of-the-art as exemplified by the fly-by-wire concept, that is, computer driven flight controls.

Flight and ground test development campaigns were successfully completed during the year.

The EMBRAER 170 was granted provisional type certification by the Aerospace Technical Center (CTA), the Brazilian airworthiness authority, in November. An equivalent certification was issued by the U.S. airworthiness authority, the Federal Aviation Administration (FAA), in December, attesting to the internationally recognized safety level reached by the airplane, thus paving the way for crew training and route testing.

During 2003, the flights of the two first aircraft of the EMBRAER 175 model, the second member of the EMBRAER 170/190 family, were recorded. Type certification is scheduled for the fourth quarter of 2004.

In September, the final assembly was started of the first prototype of the EMBRAER 190, another model of the family.

Development and Technological-Industrial Management

Investments in this area have been directed towards the introduction and implementation of advanced engineering and manufacturing technologies, as well as into products. The assimilation of these new technologies produces benefits that clearly extend to our Brazilian suppliers, as well as academic and research institutions.

One of these fronts focuses efforts on the intensive use of Embraer's Virtual Reality Center. This has allowed improvements of methodologies for fast lay out of three-dimensional arrangements of parts and components, as well as the fast execution of drawings and definition of manufacturing and assembly dimensions. Simulation of performance under stress also benefited. In parallel to these activities, the Company pursued improvements into the previously defined product development process model.

Other capability development projects are organized into groups of activities, such as strategic positioning, competitiveness and operational efficiency, covering areas such as materials, production processes, etc.



One of the most important programs currently under way at Embraer addresses Computational Fluid Dynamics, aiming at the development of faster and more accurate methodology and tools for the analysis of fluid flow, either internally or externally to the aircraft. Ten institutions are involved in this program, including foundations, universities and research institutions.

Another relevant initiative relates to the expansion of wind tunnel based research and testing capabilities in Brazil. The program includes upgrading the main wind tunnel test facility at the Aerospace Technical Center, as well as building a wind tunnel at the Aeronautical Technology Institute, and adapting a third wind-tunnel facility located at the São Carlos Engineering School of the University of São Paulo (Escola de Engenharia de São Carlos – EESC/USP).

These projects are in part financially backed by the State of São Paulo Research Support Foundation (Fundação de Amparo à Pesquisa do Estado de São Paulo – FAPESP), as the result of a partnership agreement signed with the State of São Paulo, during the development of Embraer's Gavião Peixoto unit.

The construction of buildings, facilities and installations went on during 2003, following activities designed for each unit, according to Embraer's industrial architecture plan.

In the third quarter, the construction of defense aircraft production facilities and the further expansion of the flight test hangar began at the Gavião Peixoto unit. The transfer of aircraft ground and flight test activities to the Eugênio de Melo and Gavião Peixoto units proceeded as planned.

Production

For the supply chain, the main goal in 2003 was to consolidate the development of partners and suppliers for the EMBRAER 170/190 Program. Simultaneously, preparations for the beginning of serial production of the EMBRAER 170 took place.

A crucial milestone in these efforts was achieved in November, when the first aircraft configured for serial production, EMBRAER 170 S/N 0008, performed its production flight. Other aircraft followed, performing the initial steps of an aggressive production ramp-up that will take place in the first half of 2004.

From April to December, Harbin Embraer Aircraft Industry's ERJ 145 assembly line was implemented in China. This is the first Embraer industrial unit abroad. Brazilian teams worked intensively on training and guiding the Chinese teams.

Serial production of the Super Tucano/ALX, a light ground attack aircraft derived from the Super Tucano and specifically designed to meet the requirements of the Brazilian Air Force, started in August. The first aircraft model produced at the Gavião Peixoto unit, S/N ALX-001, made its first flight in November and was delivered in December.

The continuous quest for productivity increases and cost reduction initiatives, supported by several specific projects and by employee suggestions, brought remarkable results. These results have proven critical in reducing production material consumption, simplifying logistics, and in recycling chemical products.

Suppliers' Delivery Cycle Reduction

Special attention also was given to inventory levels through the year, as new aircraft models entered manufacturing.

A striking result in this field is the consistent reduction of partner and supplier delivery cycles.

The progressive transfer to Brazil of industrial partner activities is an important measure, contributing to reducing cycles and costs, while increasing the Brazilian content of our products. Important steps have been taken in this direction, specifically concerning the EMBRAER 190's wing, which is being produced by Kawasaki Aeronáutica do Brasil at the Gavião Peixoto unit.



Advanced Projects

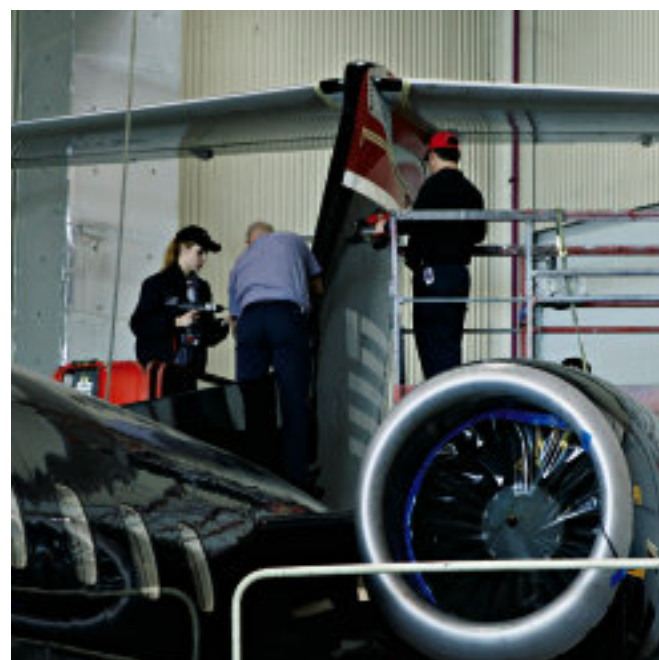
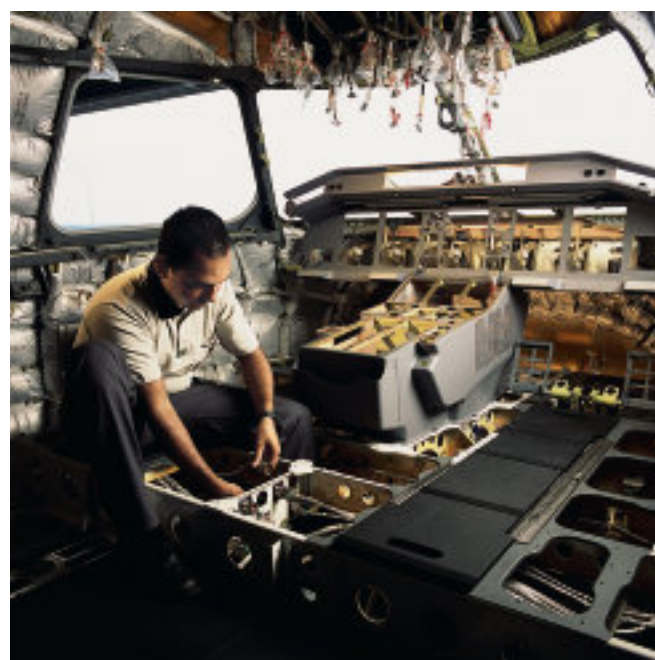
The continuous monitoring of the air transport industry, and the drivers from global certification authorities, indicate a growing concern on costs, environment and security related issues.

Movements and tendencies are permanently and carefully monitored by Embraer, as well as advancements in technologies required by development projects, materials, systems and manufacturing processes applicable to future aircraft.

As a result of this monitoring process, the Company has defined projects it will develop in the next few years. It has also outlined projects that are being developed as well as projects that may evolve into future developments.

Product Quality

As far as quality systems, efforts were concentrated in 2003 on the consolidation of engineering and manufacturing processes, both internally and at our partner/supplier processes. The driving goals were the processes used for the EMBRAER 170's type certification and serial production, as well as the processes that will ensure extended airworthiness and flight safety. Special emphasis has been given to the long-term stability of these processes.



Social Responsibility



Embraer's social responsibility actions are conceived and structured according to criteria defined and implemented in compliance with the management standards enforced by the Company.

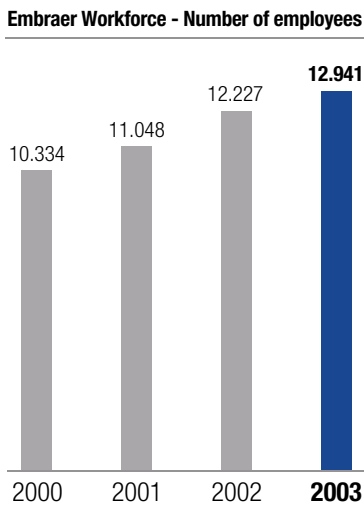
The formation of social capital, understood as the deepening of each of its aspects - degree of interaction, civic consciousness,

ethic values and degree of interpersonal trust - is the final product of Embraer's social responsibility actions, developed along three vectors. At the organizational level (the first of these vectors), social responsibility activities are managed by the Human Resources and the Environment areas. As for activities directed to the community and in support of public policies (second and third vectors), they are predominantly a responsibility of Embraer's Institute for Education and Research (EIER).

People

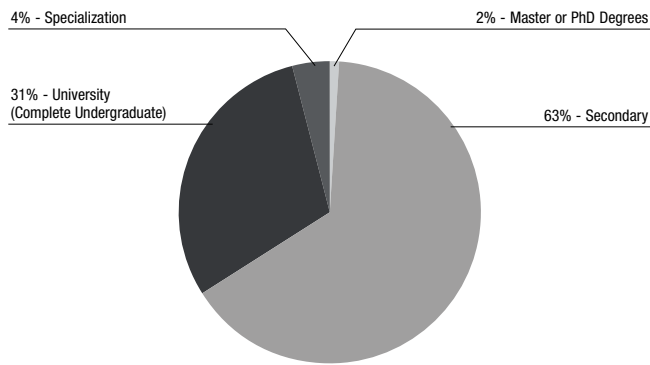
The Company’s main strategy regarding employees emphasizes professional qualification and the strengthening of a results oriented management system. Concern for employees and their families’ quality of life is an additional priority.

Between 2000 and 2003, Embraer’s workforce increased 25% (yearly average of 7.8%), growing from 10,334 to 12,941 employees.

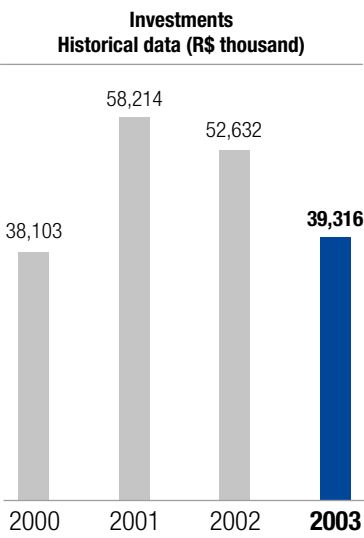


Professional Qualification, Training and Personal Development

The complexity of the industrial process and the need to improve productivity requires a high degree of professional qualification. This is reflected in the educational level of the employees, as well as in the fact all Embraer employees have completed at least senior high school.



As a consequence of its professional qualification policy and taking in account the aeronautical industry’s peculiarities, Embraer has invested heavily on personnel’s qualification, training and development. (1)



Note: (1) Monetary figures in this chapter are presented in reals, according to the Brazilian GAAP

Specialization Program in Engineering (SPE)

Embraer launched the Specialization Program in Engineering (SPE) in early 2001 to qualify engineers in order to match the requirements of the company’s technical areas.

SPE participants are newly graduated engineers, chosen through a selection process carried out in a number of Brazilian cities.

Three classes have graduated so far with a total 380 professionals. If classes to graduate in August 2004 and August 2005 are considered, the number of engineers graduated would rise to 562.

SPE has proved to be a successful initiative insofar as to supply the company, quality and quantity wise, with the engineers required for the development of new products.

Embraer's initiative to organize SPE has also generated an invaluable technological data base. The potential use of this data base by Brazilian universities and technological institutes inspired the Company to extend the SPE's reach beyond its walls.

As Embraer decided to open up SPE's data base, agreement with some universities were duly signed.

Also, starting with the second class, the Company agreed with the Aeronautical Technological Institute (Instituto Tecnológico de Aeronáutica – ITA), the graduates from SPE are entitled to the Professional Master's Degree in Aeronautical Engineering, subject only to academic performance criteria

Up to the end of 2003, total investments on the SPE Program reached R\$ 35 million, herein included participants' remuneration costs, teaching costs, etc.

Leadership Development

In addition to intensive investments in training, Embraer carries out a Leaders Development Program, conceived to improve personal and interpersonal skills based on certain performance indicators and to align employees' career expectations to the growth and perpetuation of the Company.

Those programs are complemented by actions taking place outside the class rooms, establishing references for participants professional progress. These actions comprise the practice of the Action Plan methodology, plus lectures, suggested readings, MBA (Master's in Business Administration) and on-the-job training programs.

In 2003 these programs have taken approximately 4,200 hours.

Remuneration Policy

Embraer's policy is based on two grounds:

- Fixed Remuneration, associated to the specific skills required by the different professional careers, assessing individual development through qualifications, skills and competence indicators
- Variable Remuneration, linked to the Company's results, benefiting all employees. It reflects the percentage accomplishment of goals agreed upon through individual Action Programs (Programas de Ação – PA's) or through Sector Target Programs (Programas de Metas Setoriais – PMS's) encompassing groups of employees. The relationship between dividends paid to the shareholders and the values to be paid to the employees, as Variable Remuneration, is an example of the Shareholder – Management – Employee Partnership application as a result evaluation and wealth sharing system

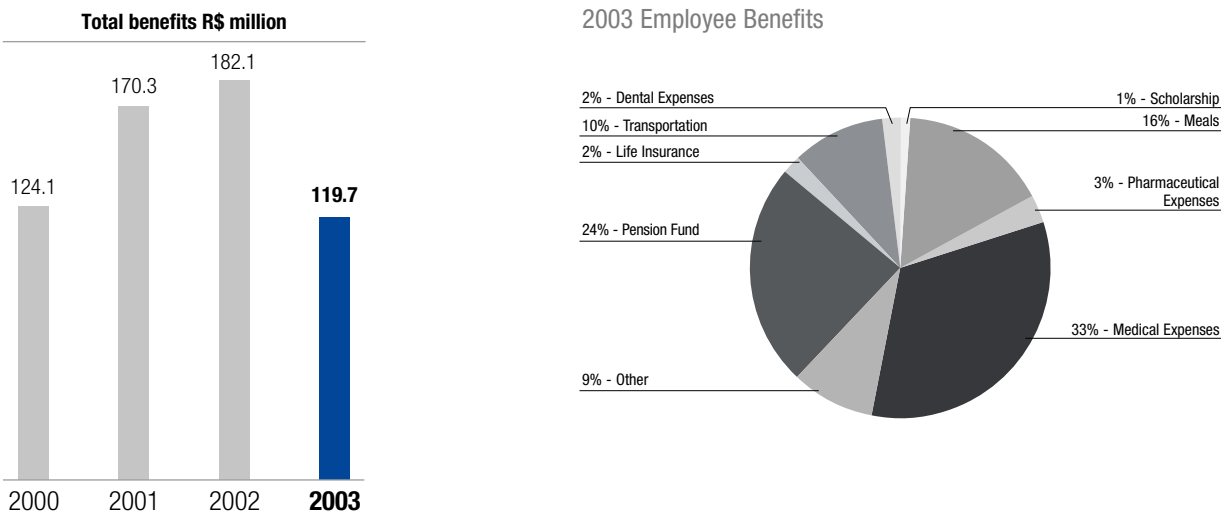
Variable Remuneration represented some 18% of employees' total remuneration in the last four years.

Good Idea Program

The Company encourages employees' creativity, by rewarding some of their business oriented ideas which are useful, applicable and focused on quality, costs reduction, competitiveness and customer's satisfaction. The Good Idea Program, established with this purpose in mind, makes use of formula that provides financial recognition for those who make a difference to the Company's results. Embraer rewarded 2,243 employees in 2003, who submitted 2,183 ideas that brought forth savings estimated at R\$ 20 million.

Benefits

The amount and nature of the benefits paid to employees, in the last four years, are demonstrated below:



Highly prized by the employees, Embraer's Health Plan, customized and managed in house, pays for some 82% of employees' and their families' health costs. The health plan is complemented by an Odontological and Pharmaceutical Plan.

For those who wish to improve their Education and have a good academic record, Embraer offers a Scholarship Program. In 2003, this Program served 475 employees who had 40% of their school expenses covered.

Disease Prevention Campaigns and Programs

The Company develops the following prevention programs: Control and Recovery from Drug Addiction, Anti-smoking, Nutrition, Vaccination, Physical Fitness, Stress Management and Employees Reinsertion into the labor market.

Cultural Activities

The Company continued to support the Rio de Janeiro Aerospace Museum (Museu Aeroespacial do Rio de Janeiro – MUSAL), a R\$ 1.3 million project, started in 2002 and to be finished in 2004.

In the same line of the MUSAL project - recovering the history of aviation and disseminating Brazilian aeronautical deeds -, Embraer sponsored, through a cultural incentive law, the translation into English of “Santos Dumont: I Sailed the Wind,” a book to be distributed at international events and to international visitors.

Embraer sponsored the exhibit in India of Museu Casa do Pontal's collection, which was opened by President Luiz Inácio Lula da Silva's during his visit to that country.

Leisure and Sports Activities

Activities that promote associativism are particularly important for undertaking social goals. With this in mind, a number of activities were developed by the Embraer Sports Association Club (Associação Desportiva Classista Embraer – ADCE), the Embraer Pioneers and Veterans Association (Associação dos Pioneiros e Veteranos da Embraer – APVE), the Embraer Employees Credit Cooperative (Cooperativa de Crédito dos Empregados da Embraer – COOPEREMB) and by the Embraer Employees Investment Club (Clube de Investimento dos Empregados da Embraer – CIEMB).

• Embraer Sports Association Club (Associação Desportiva Classista Embraer – ADCE)

This organization increased its activities after the inauguration of a sports center, adjacent to the Faria Lima unit, in 2002.

Dedicated in October 2003, the Physical Fitness Center has exceeded instructors' and students' expectations in relation to the equipments and overall installations.

With the financial support of Embraer, ADCE promotes projects aimed at developing creativity and artistic skills. They are means of expression and integration of members and their families, offering a promotional window for new talents and their works and for appraising the diversity of knowledge brought forth.

• **Embraer Pioneers and Veterans Association (Associação dos Pioneiros e Veteranos da Embraer – APVE)**

This is a unique institution in Brazil, oriented to uniting and promoting intellectual and social togetherness as well as the cooperation between Embraer's employees and former employees who worked for the Company for more than 10 years. Membership is approximately 2,500. Top priority is to promote and support activities aimed at preserving the historical heritage and memory of the Brazilian aerospace industry and upholding Embraer's contribution and good name.

• **Embraer Employees Credit Cooperative (Cooperativa de Crédito dos Empregados da Embraer – COOPEREMB)**

A nonprofit finance institution established in 1974, COOPEREMB provides economic, social and educational activities at a rather competitive cost for its member. The main product is a line of credit at lower-than-market rates.

Membership is 9,727, some 75% of Embraer's employees. Net worth is R\$ 35.5 million.

COOPEREMB sponsors a Children's Choir, the participants being Embraer's employees' offspring. It also supplies members, with children between 2 and 3 years, with free school kits

Through its Finance Advice Service, COOPEREMB organized in August 2003 supplied free consultancy to 223 members, up to the end of the year.

• **Embraer Employees Investment Club (CIEMB)**

This organization was established during Embraer's privatization process and the reasons were twofold: to acquire stock shares to be made available to employees and to nominate the employees' representative at Embraer's Board of Directors.

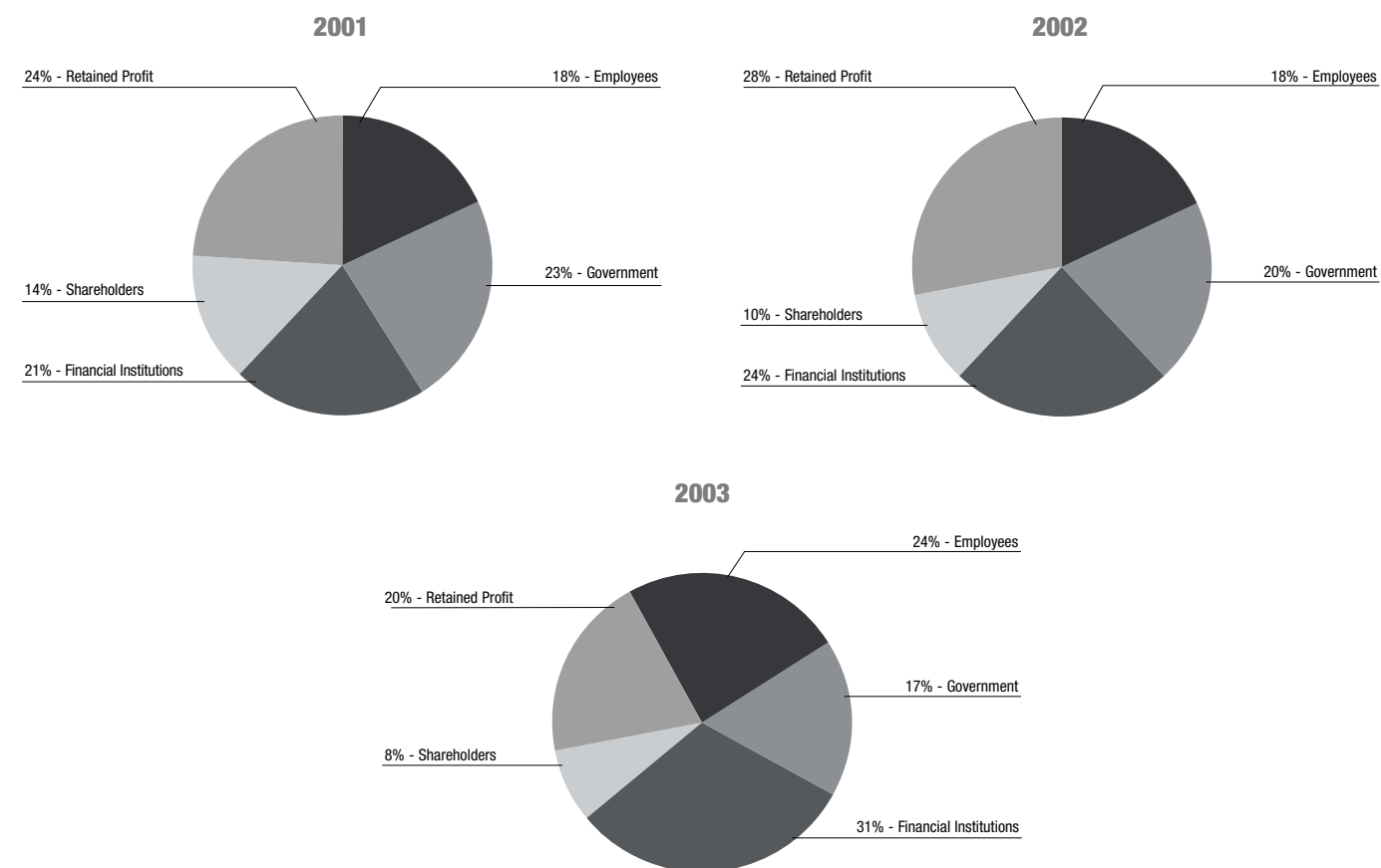
By the end of 2003 CIEMB membership was around 3,300, of which 47% consisted of former employees. Net worth is R\$ 35.2 million.

Value Added Statement (VAS)

The Value Added Statement demonstrates how Embraer's distributes the wealth generated in the year between shareholders, employees, finance institutions and the government (at local, state and federal levels).

The added value, after growing continuously in the last few years, posted a 27.2% decrease in 2003, reaching R\$ 2,298.1 million (34.6% of revenues).

Parent Company - R\$ million	2001	2002	2003
Revenues	6,991.5	7,668.3	6,635.5
Inputs Acquired from Third Parties	4,213.6	4,519.8	4,508.3
Value Added	2,777.9	3,148.5	2,127.2
Retentions	133.8	141.8	134.1
Net Value Added Produced	2,644.1	3,006.7	1,993.1
Value Added Received in Transfer	266.6	151.9	305.0
Total Value Added for Distribution	2,910.7	3,158.6	2,298.1
Value Added Distribution	2,910.7	3,158.6	2,298.1
Employees	520.4	560.2	549.6
Governmet (taxes, charges, etc.)	666.6	624.2	396.5
Financial Institutions (interest and rent)	605.1	772.2	705.1
Shareholders	403.9	327.1	195.2
Retained Profit	714.6	874.9	451.7



Environmental, Occupational Health and Safety

The Company's Corporate Quality strategic and operating actions are defined by a set of policies, recommendations, rules and procedures which are the framework of Embraer's Quality System Manual.

Actually, Embraer has invested heavily on the development of its Environmental, Occupational Health and Safety and Quality Integrated Management System, internally designated as SIG-MASSQ.

This is a comprehensive set of corporate activities and procedures to ensure that Embraer fully complies with clients' and society's requirements in an articulated manner, certified by an independent entity of international standing, the ABS Quality Evaluations.

As early as 1996 Embraer was granted the ISO 9001. In 2003, the Company was indicated for certification under AS-9100, equivalent to ISO 9001, but covering extra aerospace industry specific requirements.



Embraer is certified since 2002 by ISO 14001 and OHSAS 18001 and was the first aircraft manufacturer to achieve such a status but the environmental performance and employee’s safety goals are still a challenging issue.

In 2003 the 60% level of waste recycling was achieved, as well as the significant quantity of 450 tons of recycled paper. As an appreciation for the Company’s effort on preserving the environment, Embraer was distinguished with an environmental prize by the State of São Paulo Industries Federation (Federação das Indústrias do Estado de São Paulo – FIESP).

Concerning the energy field, it is worth mentioning the startup of the 9 MW natural gas powered Energy Generating Power Station and the adoption of natural gas on the fleet of industrial vehicles.

Water and electricity consumption levels have decreased systematically, as well as labor accidents and environmental incidents.

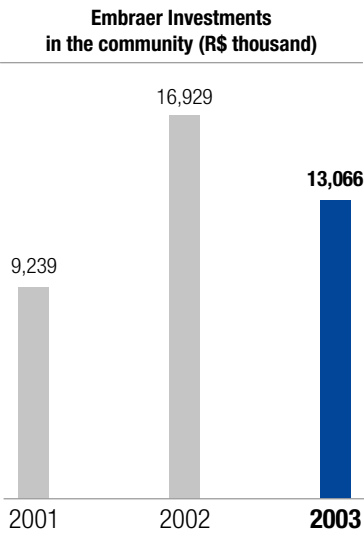
At the Gavião Peixoto unit, Embraer started an important reforestation project, according to an agreement signed with the Government of São Paulo Environmental Secretariat. The total estimated area is 345.8 hectares out of which 48% have already been worked. In this process, 262,173 trees have been planted so far with 130 native species.

In view of the accelerated reforestation pace, the completion of the project was put forward to 2006 from the original date of 2010.

Embraer’s Social Action

Embraer Institute for Education and Research (EIER) is in charge of the Company’s social responsibility actions directed to the communities since its inauguration in May 2001.

Having the construction of social capital at the background of its activities, Embraer Institute for Education and Research’s main strategy has been to promote quality education. In this regard, communities are invited to contribute with suggestions and criticism, on the grounds this is what legitimates and improves social work.



Eng. Juarez Wanderley High School – (Colégio Eng. Juarez Wanderley – CEJW)

Up to now, Engineer Juarez Wanderley High School (CEJW) has been the main receptor of Embraer Institute for Education and Research’s investments. CEJW is a full time secondary school, founded in February 2002, with 200 students per grade. Students have free tuition, meals, transportation, uniforms, books and other learning materials. At the last quarter of 2003, the third class was selected in an entrance examination opened for candidates from public schools in São José dos Campos and the neighboring municipalities of Taubaté, Jacareí and Caçapava. In 2004, CEJW will reach full capacity with 600 students.

CEJW aims at academic prowess, a fully encompassing cultural background and a high degree of social awareness.

The full time schooling regime allows for the development of educational activities not directly linked to the academic curriculum. In this context, several workshops have been organized where activities are developed to contribute to the achievement of the three goals previously mentioned. The workshops diversity reflects the constructivist nature of the pedagogical project as well as the intention to help bringing about well educated leaders.

CEJW has been in practice a think tank where a large proportion of Embraer Institute's initiatives in the educational sector are identified and thought over. It has contributed in emulating public schools as the admission of a greater number of their students at the competitive admission exam to CEJW turned into an index to evaluate their own efficiency. The public school network in São José dos Campos and adjacent municipalities has definitely improved its quality after CEJW was started.

Integrated Management System (Sistema de Gestão Integrada – SGI)

The Integrated Management System is a project directed to the improvement of public education. It is being carried out at the São José dos Campos municipal school's and results from a partnership between the Embraer Institute for Education and Research, the Municipal Education Secretariat and the Pitágoras Foundation.

The ultimate goal is to make the learning process more efficient, intervening in a systemic and planned way through the setting of goals and their regular follow up, instead of emphasizing singled out interventions such as, for example, teachers' qualification.

SGI's implementation is to be completed in October 2004. By then, the 38 municipal schools of São José dos Campos, with 1,400 teachers and 38,000 students, will have incorporated into their processes the SGI methodology.

The first consequence has been teachers' support to the project. Within the flexible framework that the methodology allows, a solid experience exchanging mechanism has been created. São José dos Campos' municipal network teachers are now aware of the Municipal Secretariat's goals, and committed and united in seeking results.

Espaço do Saber

Inaugurated in November 2002 in Gavião Peixoto, Espaço do Saber aims at supporting and complementing the work of the local school, contributing to improve learning at the primary and secondary levels. The project is a partnership between the local government, through the Child and Adolescents' Rights Municipal Council (Conselho Municipal dos Direitos da Criança e do Adolescente – CMDCA) and the Embraer Institute for Education and Research.

The project was thought to help the nearly one thousand students of Gavião Peixoto. It makes use of modern information technology resources, encouraging the use of computers as supporting tools in problem solving, researching and school work development. It wakes an interest for learning, stimulating the pleasure for reading, making students alert to ethical, ecological and environmental issues, and promoting activities related to school work.

At the time the partnership was established, the Institute was made in charge of supervising the regular evaluation of students, according to their school performance ranking, their progress in learning and developing written and spoken skills. The impact in the community is gauged according to the number of spontaneous access to the Internet and to the library.

Implementation and operational costs are relatively low, which qualify the project to be replicated. Throughout 2004, The Embraer Institute for Education and Research will check this possibility after certifying the project's goals are reached, the project is fully documented and potential investors have been identified.

FUNDHAS - Embraer Unit

The Hélio Augusto de Souza Foundation (Fundação Hélio Augusto de Souza – FUNDHAS) was created in April 1987 and is maintained by the São José dos Campos municipality. It is the third largest child and adolescent support institution in Brazil and the first one to be granted ISO 9002.

Embraer Institute for Education and Research foresaw on FUNDHAS' desire to expand its network of youth centers a real opportunity to contribute towards the education of underprivileged children.

The Institute paid up the construction costs of the new center amounting to R\$ 600,000, arising from fiscal incentives. The constructed area is 760 square feet, on 43,000 square feet land. This is the 18th youth center managed by FUNDHAS.

As of June 2003, 240 children are attending the project in two daily four-hour shifts, five days a week. FUNDHAS proposal calls for supporting and complementing the education of primary level students from the public school network, brought up by families with per capita monthly income below US\$ 100.

Other Projects

Embraer Institute for Education and Research has other projects similar to the four projects described herein above. This is the case of the Mini Corporation Project - partnership with the São José dos Campos municipality and Junior Achievement, a Non Governmental Organization (NGO), - driven to arise the entrepreneurial attitude among youngsters. Investments were also made to qualify visually impaired people, a project in a partnership with Provisão, a non profit institution headquartered in São José dos Campos, and in partnership with the Committee for the Democratization of Information Technology (Comitê para a Democratização da Informática – CDI), a NGO founded in 1995, active in 10 Brazilian States and five other countries beyond Brazil. These actions show Embraer Institute's concern to help young people enter into the labor market.



Economics and Financial Analysis



Management Discussion & Analysis

Basis of Presentation

The consolidated financial statements have been prepared in accordance with USGAAP. The Company has filed with the Securities and Exchange Commission an Annual Report on Form 20F in accordance with the Securities and Exchange Act of 1934. Please refer to this document for additional information.

A total of 101 jets, including 87 commercial jet aircraft, 13 Legacy corporate jets and one EMB 145 were delivered in 2003.

Aircraft Deliveries

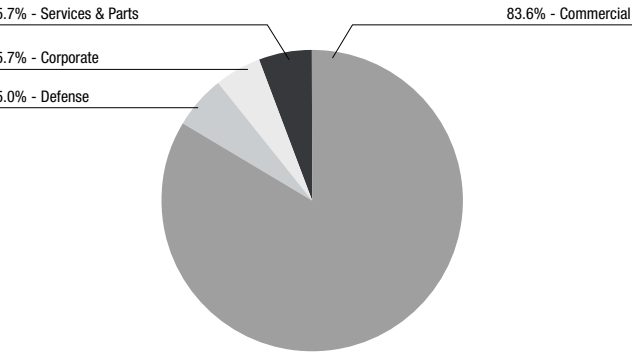
	2001	2002	2003
Commercial Airline	153	121	87
ERJ 135	27	3	14
ERJ 140	22	36	16
ERJ 145	104	64	21
ERJ 145 XR	-	18	36
Corporate	8	10	14
EMB 135	7	1	-
EMB 145	1	1	1
Legacy Executive (*)	-	7	10
Legacy Shuttle	-	1	3
TOTAL JET DELIVERIES	161	131	101

(*) Of the 10 corporate deliveries 2003, two were delivered under operating leases.

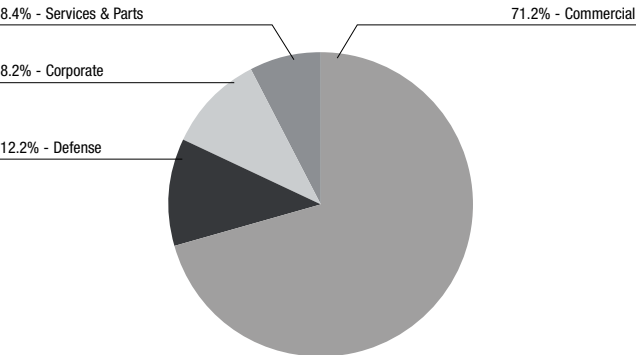
In addition to deliveries of jets, the composition of net sales consolidates sales of spare parts and services and sales to the defense market. In 2003 the commercial aviation segment represented 71.2%, corporate aviation 8.2%, defense 12.2% and customer services and other related business 8.4% of total net sales.

Net sales in 2003 totaled US\$ 2,143.5 million, 15.1% lower than the US\$ 2,525.8 million recorded in 2002. The decrease in Embraer's net sales during the period is primarily a consequence of fewer aircraft delivered to the commercial airline market. However, the 106.1% growth in defense revenues, higher deliveries to the corporate aviation segment and increased revenues in customer services segments helped partially offset the down turn in commercial aviation market.

Revenue Breakdown – By Segment - 2002



Revenue Breakdown – By Segment 2003



Results of Operations

The following table presents the Company's financial and other data at and for the each periods indicated.

Selected Financial Data – In US\$ million, except % and per ADS data

	2001	2002	2003
Net Sales	2,927.0	2,525.8	2,143.5
Cost of Sales and Services	1,769.2	1,531.7	1,335.0
Gross Profit	1,157.8	994.1	808.4
Gross Margin	39.6%	39.4%	37.7%
Operating Expenses & Profit Sharing	406.8	366.0	370.4
Research & Development	99,6	158,5	173.2
Income from Operations	651.4	469.6	264.8
Operating Margin	22.3%	18.6%	12.4%
Net Income	328.4	222.6	136.0
Net Income Margin	11.2%	8.8%	6.3%
Earnings per ADS - Basic	2.11	1.32	0.79
Earnings per ADS – Diluted	2.01	1.31	0.78

2003 Compared with 2002

Net sales.

Net sales decreased 15.1% to US\$ 2,143.4 million in 2003 from US\$ 2,525.8 million in 2002. Net sales in the commercial airline segment decreased 27.7% to US\$ 1,526.4 in 2003 from US\$ 2,110.3 million in 2002. Defense net sales increased 106.1% to US\$ 262.4 million in 2003 from US\$ 127.3 million in 2002. Corporate net sales increased 21.0% to US\$ 175.4 million in 2003 from US\$ 144.9 million in 2002. Net sales from other customer services and other related businesses increased 25.1% to US\$ 179.3 million in 2003 from US\$ 143.3 million in 2002.

The decrease in commercial aviation sales is primarily due to fewer aircraft deliveries to the airline market in 2003 as a consequence of the continuing worldwide airline crisis. The increase in corporate aviation net sales resulted from increased deliveries of Legacy aircraft in 2003. The increase in net sales from other related businesses is mainly due to an increase in sales of spare parts, as a result of an increase in aircraft in service, partially offset by our customers' continued cost cutting measures, as well as an increase in sales revenues related to operating leases. The increase in defense net sales is primarily due to the recognition of sales under the Mexican and Greek government programs for the EMB 145 AEW&C, and under the Brazilian government's programs for the EMB 145 AEW&C, ALX and F-5BR.

Cost of sales and services.

Cost of sales and services decreased 12.8% to US\$ 1,335.0 million in 2003 from US\$ 1,531.7 million in 2002, due to the reduction in number of aircraft delivered to the commercial airline market during 2003, partially offset by an increase in costs in the defense and corporate segments. Cost of sales and services as a percentage of net sales increased slightly to 62.3% in 2003, compared to 60.6% in 2002.

Gross profit.

Embraer's gross profit decreased 18.7% to US\$ 808.4 million in 2003 from US\$ 994.1 million in 2002, primarily as a result of the reduction in deliveries in the commercial airline market. As a result of the decline in cost of sales and services, our gross margin decreased to 37.7% in 2003 from 39.4% in 2002.

Operating expenses.

Operating expenses increased by 3.6% to US\$ 543.6 million in 2003 from US\$ 524.5 million in 2002. This increase was attributable primarily to an increase of 9.2% in research and development to US\$ 173.2 million in 2003 from US\$ 158.5 million in 2002, principally related to higher development costs for the EMBRAER 170/190, which is approaching the later stages of development, and to improvements to our corporate jets. Research and development is presented net of contributions from suppliers, which are earned based on meeting specified milestones.

In 2003, selling expenses were relatively stable as compared to 2002. As a percentage of net sales, selling expenses increased to 9.6% in 2003 from 8.4% in 2002 despite lower deliveries, due to an increase in the non-cash charge related to financial guarantees of US\$ 26.2 million and an increase of US\$ 12.6 million related to salaries and benefits attributable to the new commercial aircraft sales force structure created to support the EMBRAER 170/190, offset by a decrease of US\$ 23.9 million in our provision for product warranties, as well as a US\$ 31.2 million decrease in customer training and technical assistance expenses. The increase of US\$ 26.2 million in our non-cash charge was caused by the effect of the economic downturn in the airline industry on our risk analysis of financial guarantees.

General and administrative expenses increased 4.6% to US\$ 114.7 million in 2003 from US\$ 109.7 million in 2002, due to the effects on the Brazilian real-denominated portion of this item resulting from the 18.2% appreciation of the Brazilian real during 2003, offset by a 19.1% decrease in profit sharing related to the reduction in net income and dividends. Other operating expense, net, increased US\$ 8.6 million, due to an expense of US\$ 10.1 million primarily related to an expense associated with a repossession of certain aircraft intended for Indigo, which had its contract cancelled in August 2003.

Operating expenses as a percentage of net sales increased to 25.4% in 2003 from 20.8% in 2002, primarily as a result the decrease in net sales combined with the increases in research and development expenses as well as the non-cash charge for guarantees and the expenses associated with the repossession.

Interest income (expense).

Interest income (expense), net, decreased to an expense of US\$ 140.8 million in 2003 from US\$ 80.5 million in 2002, despite higher average cash balances available in 2003, primarily related to an expense of US\$ 99.5 million on derivative financial transactions and a US\$ 25.9 million expense related to net monetary and exchange variations due to the effects of the appreciation of the Brazilian real on net liabilities in foreign currency, primarily taxes and social charges in dispute. See Notes 16 and 20 to our consolidated financial statements.

Foreign exchange (loss), net.

Foreign exchange loss, net, decreased to US\$ 16.5 million in 2003. These amounts reflect the remeasurement of non-U.S. dollar-denominated assets and liabilities into U.S. dollars and the decrease in net assets denominated in reals, partially offset by a higher rate of appreciation of the Brazilian real in 2003.

Income tax benefit (expense).

Income tax decreased to a benefit of US\$ 28.0 million in 2003 from a provision of US\$ 188.5 million in 2002 as a result of a US\$ 22.9 million benefit from payments of interest attributed to shareholders' equity and a US\$ 49.7 million benefit related to foreign exchange gain/loss on translation to U.S. dollars, which, in accordance with USGAAP, is our functional currency. Our statutory tax rate in 2002 and 2003 was 34%.

Net income.

As a result of the foregoing factors, our net income decreased 38.9% to US\$ 136.0 million in 2003 from US\$ 222.6 million in 2002. Net income decreased as a percentage of net sales. In 2003, net income was 6.3% of net sales as compared to 8.8% in 2002.

2002 Compared with 2001

Net sales.

Net sales decreased 13.7% to US\$ 2,525.8 million in 2002 from US\$ 2,927.0 million in 2001. Commercial aviation net sales decreased 17.3% to US\$ 2,110.3 million in 2002 from US\$ 2,552.5 million in 2001. Defense net sales increased 2.7% to US\$ 127.3 million in 2002 from US\$ 124.0 million in 2001. Corporate net sales increased 99.6% to US\$ 144.9 million in 2002 from US\$ 72.6 million in 2001. Net sales from other related businesses decreased 19.4% to US\$ 143.4 million in 2002 from US\$ 177.9 million in 2001.

The decrease in commercial airline sales is primarily due to the rescheduling of customer deliveries from 2002 to 2003 and thereafter, partially offset by a better product mix and a higher average unit price. The increase in corporate net sales resulted from the start of deliveries of the Legacy at the end of 2001. The decrease in net sales from other related businesses is mainly due to a decrease in sales of spare parts, despite an increase in aircraft in service, due to the economic downturn and our customers' cost cutting measures.

Cost of sales and services.

Cost of sales and services decreased 13.4% to US\$ 1,531.7 million in 2002 from US\$ 1,769.2 million in 2001, principally due to the reduction in number of aircraft delivered during 2002. Cost of sales and services as a percentage of net sales was relatively stable at 60.6% in 2002, in comparison to 60.4% in 2001.

Gross profit.

Embraer's gross profit decreased 14.1% to US\$ 994.1 million in 2002 from US\$ 1,157.8 million in 2001, primarily as a result of the reduction in deliveries in the commercial airline market. As a result of the decline in cost of sales and services, our gross margin remained relatively stable at 39.6% in 2001 compared to 39.4% in 2002.

Operating expenses.

Operating expenses increased 3.6% to US\$ 524.5 million in 2002 from US\$ 506.4 million in 2001. This increase was attributable primarily to an increase of 37.2% in research and development to US\$ 158.5 million in 2002 from US\$ 99.6 million in 2001, principally related to higher development costs for the EMBRAER 170/190 and the new versions of our regional and corporate jets as we approach the later stages of development. Research and development is presented net of contributions from suppliers, which are earned based on meeting specified milestones. In 2002, selling expenses remained relatively stable, despite lower deliveries, due to both a non-cash charge of US\$ 14.5 million related to financial guarantees and a US\$ 11.6 million increase in our provision for warranties relating to extended warranty terms for new aircraft deliveries. The US\$ 14.5 million non-cash charge was caused by the effect of the economic downturn in the airline industry on our risk analysis of financial guarantees.

This increase in operating expenses was partially offset by a 9.2% decrease in general and administrative expenses, from US\$ 120.8 million in 2001 to US\$ 109.7 million in 2002 from US\$ 120.8 million in 2001, a 42.3% decrease in profit sharing, to US\$ 25.2 million in 2002 from US\$ 43.7 million in 2001 and a 32.8% reduction in other operating expenses, net, to US\$ 20.5 million in 2002 from US\$ 30.5 million in 2001.

The decrease in general and administrative expenses is primarily due to the effects on the Brazilian real-denominated portion of this item resulting from the 52.3% devaluation of the Brazilian real during 2002. The decrease in profit sharing is related to the reduction in net income and dividends. Operating expenses as a percentage of net sales increased to 20.8% in 2002 from 17.3% in 2001, primarily as a result of the increases in research and development expenses as well as the non-cash charge for guarantees and the increase in our provision for warranties.

Interest income (expense).

Interest income increased to US\$ 80.5 million in 2002 from US\$ 47.5 million in 2001, despite lower average cash balances primarily due to an increase of US\$ 65.3 million in unearned gains on derivative financial transactions and an increase in net monetary and exchange variations due to the effects of the devaluation of the Brazilian real on increased indexed net liabilities in foreign currency, primarily taxes and social charges in dispute. See Notes 16 and 20 to our consolidated financial statements.

Foreign exchange gain (loss), net.

Foreign exchange loss, net, decreased to US\$ 135.6 million in 2002 from US\$ 148.6 million in 2001. These amounts reflect the restatement of non-U.S. dollar-denominated assets and liabilities into U.S. dollars and the decrease in net assets denominated in reals, partially offset by a higher rate of devaluation of the reals in 2002.

Other non-operating income (expense), net.

Other non-operating expense, net, decreased to US\$ 1.4 million in 2002 from US\$ 8.4 million in 2001. The decrease in 2002 was primarily due to a decrease in provisions for losses on tax incentive investments to US\$ 0.7 million in 2002 from US\$ 8.6 million in 2001.

Income tax benefit (expense).

The provision for income taxes decreased to US\$ 188.5 million in 2002 from US\$ 218.4 million in 2001 mainly due to lower taxable profits under the Brazilian Corporate Law financial statements. Our statutory tax rate in each year was 34%.

Net income.

As a result of the foregoing factors, Embraer’s net income decreased 32.2% to US\$ 222.6 million in 2002 from US\$ 328.4 million in 2001. Net income decreased as a percentage of net sales. In 2001, net income was 11.2% of net sales as compared to 8.8% in 2002.

Selected Balance Sheet & Cash Flow – In US\$ million

Selected Balance Sheet & Cash Flow – In US\$ million	2001	2002	2003
Cash & Cash Equivalent	749.3	656.8	1,265.8
Trade Accounts Receivables	596.8	735.9	356.4
Inventories	1,015.1	864.8	1,158.0
Other Current Assets	204.2	255.6	553.7
Property, Plant & Equipment, net	366.5	436.7	402.7
Other Long Term Assets	629.0	1,335.6	2,219.3
Short-term Loans	526.6	244.5	517.0
Other Current Liabilities	1,161.3	1,397.4	1,916.6
Long-term Loans	245.2	308.1	526.7
Other Long Term Liabilities	599.2	1,237.0	1,813.8
Shareholders' Equity	1,020.4	1,090.2	1,169.2
Net Cash Provided by (used in) Operating Activities	(207.4)	575.7	239.6
Net Cash used in Investing Activities	(162.8)	(104.2)	(72.7)
Net Cash Provided by (used in) Financing Activities	134.4	(352.4)	403.8
Effect of Exchange Rate Changes on Cash	(204.2)	(211.5)	(38.2)

Working Capital and Net Cash Provided by Operating Activities

Embraer had a working capital surplus of US\$ 871.2 million on December 31, 2002 and US\$ 900.3 million on December 31, 2003. Working capital slightly increased. Embraer had increased inventories of US\$ 292.5 million as a result of increased inventories for the EMBRAER 170/190 jet family due to the postponement of the certification of the EMBRAER 170 and the production of the pre-series aircraft for the EMBRAER 170/190 jet family, partially offset by reduced production of the ERJ 145 regional jet family. Total inventories of EMBRAER 170/190 pre-series aircraft increased to US\$ 112.6 million in 2003 from US\$ 56.6 million in 2002 and included, as of December 31, 2003, six EMBRAER 170 and two EMBRAER 175 pre-series aircraft. As of December 31, 2003, we had also commenced production of the first EMBRAER 190 pre-series aircraft. In addition, Embraer had a US\$ 379.5 million decrease in accounts receivable due to the receipt of proceeds from financing provided by BNDES to our customers.

Embraer generated net cash provided by operating activities of US\$ 239.6 million in 2003, as compared to net cash provided by operating activities of US\$ 575.7 million in 2002 and net cash used in operating activities of US\$ 207.4 million in 2001. Net cash provided by operating activities decreased in 2003 as a result of the decrease of US\$ 300.8 million in our accounts receivable, an increase of US\$ 234.4 million in our inventories and a decrease in our operating income. On December 31, 2003, advances from customers totaled US\$ 559.2 million, 80.2% of which represented current liabilities.

Net Cash Used in Investing Activities

The net cash Embraer used in investing activities was US\$ 72.7 million in 2003 compared to US\$ 104.2 million in 2002 and US\$ 162.8 million in 2001. The decrease in 2003 was mainly due a decrease in investments in property, plant and equipment.

Capital Expenditures

Embraer recorded additions to property, plant and equipment of US\$ 64.8 million in 2003, US\$ 111.0 million in 2002 and US\$ 143.8 million in 2001. These expenditures related to construction of facilities, improvements to our plant and production facilities and modifications for the production of new aircraft models.

Embraer currently expects investments in property, plant and equipment to total approximately US\$ 64.0 million in 2004 and an additional US\$ 81.0 million in 2005, primarily related to the production of the EMBRAER 170/190 jet family, as well as our defense aircraft and corporate jets.

Cash Provided by (Used in) Financing Activities and Total Debt

The net cash provided by (used in) financing activities increased from net cash used in financing activities of US\$ 352.4 million in 2002 to net cash provided by financing activities of US\$ 403.8 million in 2003. The increase was primarily due to a decrease in repayments of loans and a decrease in payments of dividends and interest on shareholders' equity. The net cash provided by (used in) financing activities decreased from net cash provided by financing activities of US\$ 134.4 million in 2001 to net cash used in financing activities of US\$ 352.4 million in 2002.

On December 31, 2003, Embraer had total debt of US\$ 1,043.7 million under our financing arrangements described below, 50.4% of which consisted of long-term debt and 49.6% of which consisted of short-term debt. In comparison, Embraer had total debt of US\$ 552.6 million on December 31, 2002 and US\$ 771.7 million on December 31, 2001, consisting of 55.8% and 31.8% of long-term debt, respectively. The total debt increased from 2002 to 2003 largely due to new borrowings.

Credit Facilities and Lines of Credit

Long-term facilities

Embraer maintains credit facilities with BNDES in a total amount of US\$ 61.4 million outstanding on December 31, 2003, of which US\$ 19.9 million is related to the development of the ERJ 145, and with FINEP in a total amount of US\$ 5.0 million outstanding at December 31, 2003, primarily to fund development costs of the AL-X. The interest rates on these facilities are either fixed at 5.5% per annum or range from TJLP plus 3.0% to TJLP plus 5.5% per annum.

Embraer has a credit facility with the Tokyo Branch of The Chase Manhattan Bank under which it borrowed the Japanese yen equivalent of US\$ 150.0 million, principally to fund its purchase of aircraft component parts, of which US\$ 104.1 million remains outstanding, interest rate under this facility is equal to the twelve-month Japanese interbank deposit rate, or JIBOR, plus 1.1% per annum.

On September 20, 2002, Embraer secured a US\$ 100.0 million credit facility with Mitsui & Co., Ltd. and borrowed the full amount available thereunder, of which US\$ 100.9 million remains outstanding as of December 31, 2003.

This loan matures in 2009 and bears interest at an interest rate of LIBOR plus 2.2%. The facility is guaranteed by Unibanco – União de Bancos Brasileiros SA.

Embraer also has a US\$ 100.0 million credit facility with Santander Central Hispano Benelux S.A. to fund our purchases of wings and other equipment from Gamesa. As of December 31, 2003, US\$ 96.1 million was outstanding under this facility and Embraer has additional availability of US\$ 4.8 million through March 2004. Amounts outstanding under this facility bear interest at a fixed rate of 4.49% per annum.

In July 2003, Embraer signed a credit agreement with Sumitomo Mitsui Banking Corp. and other lenders providing for a term loan of US\$ 200.0 million, at a rate of LIBOR plus 2.97% per annum, to purchase materials for the manufacture of the EMBRAER 170/190 jet family. Embraer borrowed the full amount under this facility in July 2003, of which US\$ 200.7 million remains outstanding as of December 31, 2003. Embraer has various other loans and credit agreements with aggregate outstanding borrowings of US\$ 109.6 million on December 31, 2003.

Each of Embraer long-term financing arrangements includes customary covenants and restrictions, including those that requires it to maintain defined debt liquidity and interest expense coverage ratios, with which the company was in compliance on December 31, 2003 and none of which are expected to have a material effect on Embraer's business. See Note 18 to the consolidated financial statements for further information on these financing arrangements.

Short-term facilities

Embraer obtains short-term financing primarily from Brazilian banks in the form of advances against exchange contracts that it enters into with those banks relating to payments it is entitled to receive within a period of not more than 360 days prior to delivery of aircraft. On December 31, 2003, it had US\$ 180.3 million outstanding under these arrangements.

In addition, Embraer maintains short-term import financing lines of credit in Brazil. As of December 31, 2003, US\$ 133.8 million was outstanding under these lines of credit. Embraer maintains subsidiary lines of credit from time to time to finance working capital requirements for these subsidiaries. On December 31, 2003, Embraer had US\$ 51.8 million of outstanding debt under these lines of credit.

Risk Management

Operating Risks

Embraer transfers its operating risks to the insurance market by contracting specific policies with suitable limits. In this way, it is able to withstand events harmful to the company, its profit making capacity, or its employees and assets. In the same way, the obligations assumed in aircraft sales contracts are guaranteed.

In 2002, Embraer began evaluating the risks related to its internal controls, prioritizing processes involved in the contracting and sub-contracting of services, as well as in risk partnerships. In addition, Embraer also completely evaluated each of the different functions performed by Enterprise Resource Program (ERP) business management systems. This evaluation was performed using widely recognized advanced risk management techniques, in compliance with the requirements of the U.S. Sarbanes-Oxley Act of 2002 Law, which applies to Brazilian companies that have reporting obligations under the U.S. Securities Exchange Act of 1934, including companies with securities listed on U.S stock exchanges.

The SOX project, aimed at coordinating improvement actions and monitoring internal processes, should result in improved management and control processes.

In addition, the SOX Project and the Information Management System (Sistema de Informações Gerenciais – SIG) have assumed responsibility for adoption of the excellence criteria, as defined in the National Quality Award (Prêmio Nacional da Qualidade – PNQ), by Embraer’s Management System, through General Risk Analysis (Análise Geral de Riscos – AGR) and the systematic monitoring of performance indicators.

Financial Risks

The management of financial risks seeks to identify and deal with any effects on the company from currency mismatches and interest rate fluctuations in the Company’s cash flow. To mitigate these risks, Embraer uses

derivatives markets, both domestic and international. In accordance with this managerial policy, all transactions with assets and liabilities are monitored and measured using value at risk and stress test models.

In order to offer better financial support for sales and to reduce some of the financial risks related to the sale of aircraft, Embraer created the subsidiary ECC Leasing Co. Ltd. in 2002. The subsidiary’s mission is to manage the aircraft portfolio that, due to contractual obligations, may be acquired by Embraer in trade-in, trade-up and repurchase transactions. The company also renders resale services to third parties linked to sales campaigns. In addition, ECC Insurance & Financial Co. Ltd. was created as an in-house insurer, thus guaranteeing payments of possible contingencies related to financial guarantees offered in the financing of some sales.

Aircraft Portfolio for Sale and Sales Support

In 2003, aircraft leasing activities were increased through ECC Leasing Co. Ltd. ECC Leasing Co. Ltd. increased its assets by US\$ 146.7 million in 2003 adding two ERJ 145, two ERJ 135, four Legacy jets and four EMB 120 turboprop aircraft.

With the objective of fulfilling its mission, the Company contributed US\$ 123.0 million in cash to ECC Leasing in 2003.

At the end of the period, the Company held an aircraft portfolio worth US\$ 152.1 million, 36% of which were being negotiated or available for sale.

In 2003, ECC-Insurance & Financial Co. Ltd. issued amendments worth US\$ 28.2 million to the policy initially contracted in 2002, thereby reaching a grand total of US\$ 235.6 million in premiums. In 2003, this company disbursed US\$ 2.5 million in payment of accident claims.

Support of Sales Financing

The market for aircraft financing has generally proven to be extremely restrictive. Therefore, the assistance of credit agencies with exports has been fundamental in overcoming the absence of financing from private sources. In this context, the support by National Social and Economic Development Bank (Banco Nacional de Desenvolvimento Econômico e Social – BNDES) has made available structured financing for sales to airlines.

Beginning in the second half of 2003, there has been a greater interest on the part of financial institutions and investors in providing aircraft financing in transactions where the airline credit risks are secured by the value of the aircraft. The success of a recent financing transaction using the U.S. capital markets involving future revenues from Continental Airlines and using ERJ 145 XR aircraft as collateral, demonstrated the improving conditions of the aircraft financing market and the gradual return of investors to this market.

An even greater improvement is expected for 2004, with the return of various financial agents who have been absent from the market for several years due to the crisis in the aerospace sector.

Capital Markets

Embraer Shares as an Investment

Due to the uncertainties of the world economy and the unfavorable aviation scenario, a situation made even worse by the rescheduling of deliveries to ExpressJet and SWISS, Embraer's shares suffered a sharp decline in the first months of the year.

From June onwards, however, after the announcement of aircraft sales to US Airways and JetBlue and the first signs of a recovery in worldwide economic activity, Embraer's shares began an upward trajectory.

In the domestic market, Embraer's common and preferred shares traded on the São Paulo Stock Exchange (Bolsa de Valores de São Paulo – BOVESPA) increased in value by 50.78% and 83.57%, respectively, in 2003. During the same period, the BOVESPA index increased in value by 97.34%.

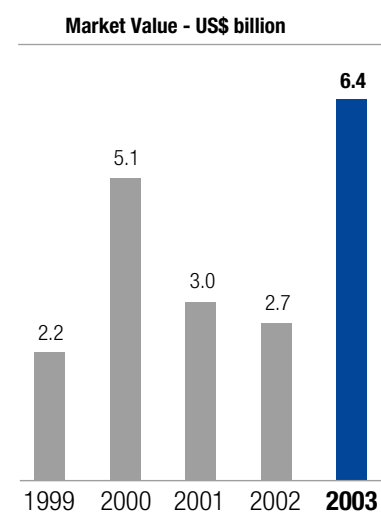
As to the performance of the Company's American Depositary Shares (ADSs), traded on the New York Stock Exchange (NYSE), these shares reached a value of US\$ 35.39 on the final day of the year, representing an appreciation of 122.58% in 2003.

Due to the good sales prospects of the new EMBRAER 170/190 family, the performance of Embraer's ADSs surpassed the Standard & Poor index for aerospace companies (S&P Aerospace), as well as the Dow Jones Index (DJIA) and Standard & Poor's 500 (S&P500).

	In US\$		
	Dec. 31 2003	Dec. 31 2002	Variation (%)
S&P 500	1,111.92	879.82	26.38
DJIA	10,453.92	8,341.63	25.32
S&P 500 Aeroespace	234.74	194.43	20.73
ERJ (ADS)	35.39	15.90	122.58

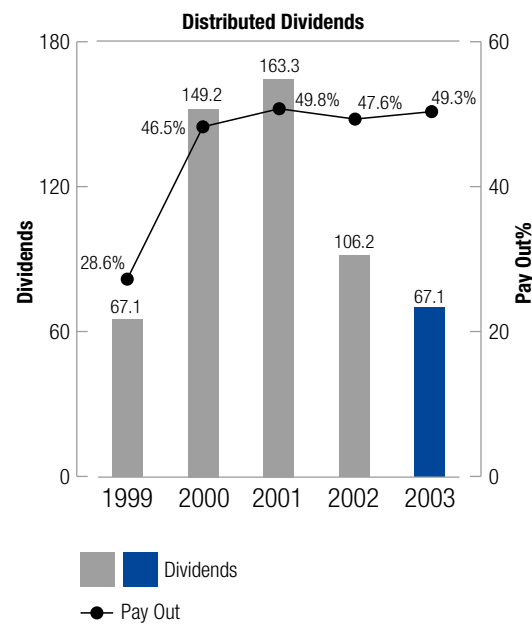
	In R\$		
	Dec. 31 2003	Dec. 31 2002	Variation (%)
Ibovespa	22,236	11,268	97.34
EMBR4 (PN)	25.70	14.00	83.57
EMBR3 (ON)	19.30	12.80	50.78

Embraer’s market value rose to US\$ 6.4 billion at the end of December 2003, more than double the US\$ 2.7 billion registered on December 31, 2002.



Shareholder Compensation

In addition to capital gains from the increase in share prices in 2003, Embraer also paid its shareholders US\$ 0.096783 per preferred share (equivalent to US\$ 0.387132 per ADR) and US\$ 0.087988 per common share as interest on shareholder equity, totaling R\$195.2 million (US\$ 67.1 million), on August 15, 2003 and January 15, 2004, respectively. This year payment of earnings totalled to 33.2% of net profit under Brazilian GAAP and 49.3% of net profit under USGAAP, since, despite the adverse scenario currently being faced by the aerospace sector, Embraer still maintains its policy of distributing more than the compulsory minimum to its shareholders.



(*) dividends converted from R\$ to US\$ using the exchange rate on the date they were approved by the board of directors

Liquidity of Shares and Shareholder Interests

There was a considerable increase in the liquidity of Embraer’s shares, both in BOVESPA and on the NYSE. In 2003, an average of 444,000 ADSs were traded daily on the NYSE, equivalent to a daily financial volume of US\$ 8.3 million, 38.0% greater than the previous year, in which an average of 312,000 ADSs were traded daily, equivalent to US\$ 6 million. On the Brazilian stock, exchanges transactions in preferred and common shares had an average daily volume of approximately 962,000 and 246,000 shares respectively, worth R\$ 13.4 million and R\$ 2.8 million. In 2002, the average daily volume of transactions was approximately 750,000 preferred shares, equivalent to R\$ 6 million, and approximately 185,000 common shares , equivalent to R\$ 2 million.

On December 31, 2003, Embraer had 716,045,583 shares outstanding, of which 242,544,448 were common shares and 473,501,135 were preferred shares. At the end of 2003, 52.2% of equity was held by foreign investors, including the 260 million outstanding ADSs , in comparison with 45.8% in 2002. Each ADS is equivalent to 4 preferred shares. Investments by private individuals remained at 3.0%. Free float, or shares traded on stock exchanges, amounted to 50.3% of all shares on December 31, 2003.

A Partnership with the Capital Markets

The development of the Brazilian capital markets is an important element in Embraer’s long-term objectives, which is the reason the Company has tried to stimulate the local markets through various partnership initiatives.

This year, the involvement of Embraer in the project “BOVESPA Comes To You” (A BOVESPA Vai Até Você) deserves special attention. This initiative is part of a capital market publicity project and aims to provide ideas and information about Brazilian stock exchanges. Initially scheduled to stay in the company’s facilities for three days, the interest of Embraer’s employees in learning about the workings of the markets resulted in extending the project’s stay an additional week.

In another initiative related to the policy to encourage the development of the Brazilian capital markets, Embraer, along with other companies and institutions, helped found the National Institution of Investors (Instituto Nacional de Investidores – INI). INI’s activities will focus on training individual investors, initially through the creation of investment clubs.

Corporate Governance

Embraer has constantly improved its practices and tools for investor and market analyst relations. Its actions are based on the principles of transparent and quality information, profound respect for legal and ethical principles, and consolidation and maintenance of the company's leadership and innovation image in the capital market.

In order to keep investors and analysts constantly informed about its activities and prospects, the Company held hundreds of meetings over the course of the year, as well tele-conferences for the release of quarterly results. Special attention should be given to the annual meeting with analysts and investors. This meeting is held in the Company's head office and, in 2003, had a record attendance of almost 100 Brazilian and foreign investors. The meeting lasted for two days, and included presentations by company executives, a visit to the industrial facilities and a flight on the EMBRAER 170.

Illustrating the recognition by the market of its transparency and its policy of maintaining close relations with investors, Embraer obtained three significant achievements.

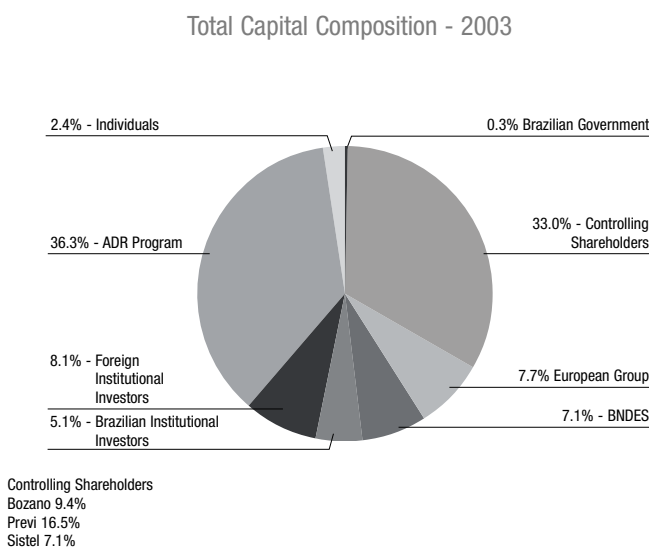
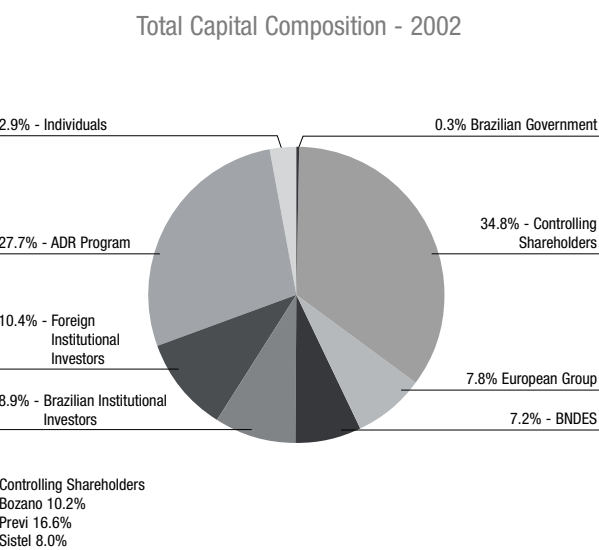
- For the fifth consecutive year, having been the winner in 2000, Embraer was chosen as one of the ten finalists of the 2002 Transparency in Financial Statements Prize awarded by the National Association of Financial, Administration and Accounting Executives (Associação Nacional dos Executivos de Finanças, Administração e Contabilidade – ANEFAC). The financial statements of the 500 biggest companies in Brazil are examined for this award.
- The 2002 annual report was also selected by the Association of Brazilian Public Companies (Associação Brasileira de Companhias Abertas – ABRASCA) as one of the five best annual reports in 2002 in the category “Public Companies”.
- Embraer received an honorable mention in Investor Relations Magazine's “Latin America Award 2003”, in the category “best investor relations web site”. The Embraer web site was selected after polling of more than 150 portfolio managers and analysts, covering all investor relations web sites of Latin American companies with shares traded in the United States.

As further recognition of its sustainability policy, Embraer was selected for the third consecutive year to be part of the Dow Jones Sustainability Index (DJSI World). DJSI awards companies with recognized corporate sustainability, which means that they are companies able to create value for shareholders over the long-term by taking advantage of opportunities and managing risks associated with economic, environmental and social factors, in a form that is sustainable in the long-term.

The Board of Directors and the Audit Board

The main function of the Board of Directors is to define long-term targets for Embraer, which are achieved through an Action Plan prepared by the company's Executive Officers. The Board of Directors also, among other responsibilities, approves and monitors annual budgets. It holds ordinary meetings every quarter.

The Board of Directors has a three-year mandate and is composed of 13 members. Six of the members are appointed by controlling shareholders – Cia. Bozano, SISTEL and PREVI. Of the other members, two are appointed by European aerospace and defense companies shareholders Dassault, Thales, EADS and Snecma, two are appointed by the Federal Government and two are appointed by employees. The Chief Executive Officer of Embraer also has a seat on the Board of Directors.



The Audit Board, responsible for reviewing managerial activities and analyzing financial statements, is also part of the transparency and good corporate governance policies. Therefore, Embraer has a permanent Audit Board, created in accordance with Article 29 of the Company Bylaws which meets every two months. The Audit Board is composed of five members and alternates elected for one year, with reelection permitted.

Management Model and Organizational Structure

Every year Embraer prepares an Action Plan considering the next five years, using a strategic planning model that takes internal and external scenarios into account and identifies opportunities and threats that may arise, as well as the Company's strengths and weaknesses. Once the scenarios and the desired strategic position have been established, the objectives and results to be obtained by the Company are identified, in order to ensure growth and continuity.

After approval by the Board of Directors, this plan becomes a central element that enables all employees to commit themselves to aligning their actions with the expected objectives and results, in addition to providing the basis for the preparation of Action Programs (Programas de Ação – PA's) and Sector Target Programs (Programas de Metas Setoriais – PMS's) applicable both to individuals and to groups of employees, through which the results to be aimed at by all the company's employees are negotiated, agreed upon and, thereafter, monitored and measured.

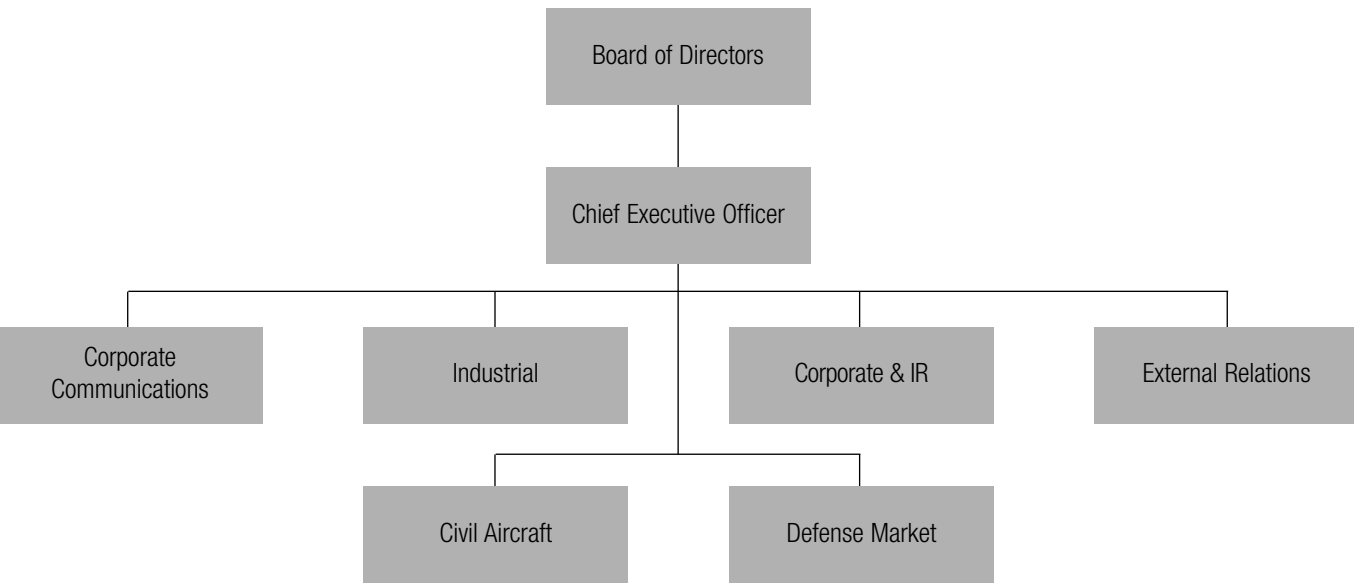
The management of activities and people using the PA's and PMS's, as described above, is recognized as one of the pillars of Embraer's business efficiency, and is known within the Company as the "Management Methodology Through the Action Plan".

In early 2003, alterations were made in the organizational structure, with the aim of improving decision-making abilities with customers by employing the required agility and flexibility, thereby making the Company better able to deal with the constantly increasing challenges inherent in the aircraft industry.

The new organizational structure seeks a greater emphasis on local action, allowing a better understanding of scenarios and agility in decision-making, while always caring for company security. It also aims to create greater proximity between customers and Embraer's technical resources, prioritizing the meeting of customer needs. This way, senior management is able to focus more on the formulation and implementation of strategies aimed at profitability, growth and new business and personnel development.

The Commercial and Corporate Aviation Organization areas were consolidated into a single Executive Vice-President for Civil Aircraft, in order to achieve a greater approximation with customers. Customer Service activities were separated and incorporated in the Executive Vice-Presidents for the Defense Market and Civil Aircraft.

In addition, following the expansion of the product lines both for civil and defense aircraft, industrial activities were divided into two new areas, Industrial Operations (logistics and production) and Product Development (improvement of products already being produced).



In addition to these alterations aimed at ensuring business growth and the continuity of actions, two strategic development committees were created, both presided over by the Chief Executive Officer: New Business and Personnel Development.

Management through Information Processes and Systems

Management through Processes is considered to be one of the touchstones of business excellence. Embraer is increasingly seeking to improve its organization and information systems through the continuous improvement of its production and administrative processes.

In 2003, process mapping was integrated in a single database, providing a complete vision of the Value Process, and creating a cooperative corporate environment for the documentation and analysis of processes focused on results through customer satisfaction.

With regard to Information Technology in 2003, with the aim of supporting organization and business growth processes, Embraer continued to invest in cooperative environments, essential to the reduction of product development cycle times and to the integration of the Company's systems with customer and supplier systems.

In 2003, the migration from version 4.0 of the Enterprise Resource Program (ERP) managerial system supplied by SAP to version 4.7 was commenced, with completion scheduled for 2004. This new development included the expansion of the use of new modules, providing a secure integration of the development, engineering, manufacturing, post sales support, and financial processes, and considerably increasing the coverage and functionalities in the same systems base.

Share Trading Policy

In order to ensure better corporate governance and at the same time guarantee management and business transparency to the benefit of all shareholders and investors, Embraer has prepared a Share Trading Policy applicable to those associated with the Company (both executives and employees) that have access to material information. The objective of this policy is to create rules and procedures to be observed in the trading of Company securities, including establishing periods during which such persons shall refrain from trading shares, in order to avoid any questions related to the unfair use of material information that may not yet have been released to the public.

At the same time, the policy for publicizing relevant facts shall define the criteria, the time and the person responsible for the release of this information to investors to guarantee transparency and the homogenous and widespread distribution of information to the market by Embraer.

Relationship with Independent Auditors

Embraer's independent auditor policy, in relation to the rendering of services not related to the external audit, is based on principles that preserve the independence of the auditor. These principles are based on the fact that the auditor should not audit his own work, nor exercise managerial functions, nor act as an advocate for his client.

During the 2003 fiscal year, Embraer contracted for and received from its external auditors services that were not directly related to the auditing of its financial statement of a total value not exceeding 5.0% of the total fees due for the external auditing services.

The independence of these auditors is assured because the aforementioned work was carried out by a team independent from the group responsible for the external auditing work. The decisions about the procedures adopted were made by Senior Management and approved by the Board of Directors.

Management

Board of Directors

- CARLYLE WILSON
Chairman of the Board of Directors
- NÉLIO HENRIQUES LIMA
Vice-Chairman of the Board of Directors
- ANDREA SANDRO CALABI (1)
- DIETRICH RUSSEL
- FERNANDO ANTONIO PIMENTEL DE MELO
- HENRIQUE PIZZOLATO
- ISAAC MARCEL DE PICCIOTTO
- JUAREZ MARTINHO QUADROS DO NASCIMENTO
- LUIZ FELIPE PEREIRA LAMPREIA
- MARIO HIPÓLITO SILVA
- MAURÍCIO NOVIS BOTELHO
- NEIMAR DIEGUEZ BARREIRO
- PAULO CESAR DE SOUZA LUCAS
- PIERRE CHOUZENOUX (2)
- TEN.-BRIG.-DO-AR REGINALDO DO SANTOS (3)
- VITOR SARQUIS HALLACK

Executive Officers

- MAURÍCIO NOVIS BOTELHO
President and CEO
- ANTONIO LUIZ PIZARRO MANSO
Executive Vice-President
Corporate and CFO
- FREDERICO PINHEIRO FLEURY CURADO
Executive Vice-President – Civil Aircraft
- HORACIO ARAGONÉS FORJAZ
Executive Vice-President – Corporate Communication
- ROMUALDO MONTEIRO DE BARROS
Executive Vice-President – Defense Market
- SATOSHI YOKOTA
Executive Vice-President – Development and Industry
- CARLOS ROCHA VILLELA
Vice-President – Legal Counsel

Officers

- ANTÔNIO PIRES MONTEIRO
Senior Vice-President - Corporate Aviation Market
- ARTUR APARECIDO VALÉRIO COUTINHO
Senior Vice-President - USA, Canada and Caribbean
Civil Aviation Market
- FLÁVIO RÍMOLI
Senior Vice-President - Commercial Aviation Market
- HENRIQUE COSTA RZEZINSKI
Senior Vice-President - External Relations
- IRAJÁ BUCH RIBAS
Senior Vice-President - Product Support
Civil Aviation Market
- LADISLAU CID
Senior Vice-President - Corporate Quality and Organization
- LUÍS CARLOS AFFONSO
Senior Vice-President
Engineering and New Product Development
- LUIZ FERNANDO FUCHS
Senior Vice-President - Europe, Africa and Middle East
Civil Aviation Market
- PAULO CÉSAR DE SOUZA E SILVA
Senior Vice-President
Sales Financing and Asset Management
- ROGÉRIO TEPERMAN
Senior Vice-President - Procurement and Industrial Operations

Directors of Subsidiary or Affiliated Companies

- GARY JOHN SPULAK
President - Embraer Aircraft Holding (EAH)
- LUIZ CLÁUDIO SIGAUD FERRAZ
President - Embraer Liebherr
Equipamentos do Brasil S.A - ELEB
- PAULO URBANAVICIUS
Managing Director - Indústria Aeronáutica Neiva S.A.
- MARCELO RAMON FERRONI
Managing Director Harbin Embraer Aircraft Industry – HEAI

Notes: (1) until February 2003, (2) until April 2003,
(3) until May 2003



Directors

ADELINO GOMES CARDOSO
Director - National Business - Defense Market

ALMIR MIGUEL BORGES
Director - Material and Procurement

ANDERSON MARKIEWICZ
Director - Latin America - Civil Aviation Market

ANTONIO CARLOS VIEIRA VICTORAZZO
Director - Product Quality and Integrity

ANTONIO JÚLIO FRANCO
Director - Human Resources

ANTONIO MARTINI NETO
Director - Fleet Support

BRUCE PEDDLE
Director - Asia and Pacific - Civil Aviation Market

CLÁUDIO AUGUSTO JOAQUIM MOREIRA
Director - Strategic Relations - Defense Market

CYNTHIA MARCONDES FERREIRA BENEDETTO
Director - Financial Management

DAVID SCOTT KALISTER
Director - Corporate Aviation Market

EDSON CARLOS MALLACO
Director - Customer Services - Civil Aviation Market

EDUARDO BONINI SANTOS PINTO
Director - Programs - Commercial Aviation Market

EDUARDO MUNHÓS DE CAMPOS
Director - International Business - Defense Market

EMÍLIO KAZUNOLI MATSUO
Director - Engineering

ERNEST SALVATORE FINO
Director - External Relations - USA.

FERNANDO RANIERI
Director - Serial Product Engineering and Technical Support

FRANCISCO HORÁCIO BENTO DE MELLO
Director - Institutional Relations - Brazil

GRACILIANO CAMPOS
Director - Marketing Services

GUAN DONGYUANG
Director - China - Civil Aviation Market

HERMANN PONTE E SILVA
Director - Corporate Planning

IAN FRASER MONTGOMERIE
Director - Programs - Corporate Aviation Market

JOHN R. DOYLE
Director - Sales & Marketing - Belgium, Ireland, United Kingdom, Turkey and Switzerland - Commercial Aviation Market

JOSÉ LUIS D'AVILA MOLINA
Director - Contracts - Commercial Aviation Market

JOSÉ RENATO OLIVEIRA MELO
Director - Advanced Projects

LUÍS ANTONIO HERNANDEZ GONZALEZ
Director - Defense Programs - Defense Market

LUIZ ANTONIO LOPES DE OLIVEIRA
Director - Manufacturing

LUIZ SÉRGIO CARDOSO DE OLIVEIRA
Director - Social Development

MARCELO BOTELHO RODRIGUES
Director - Controller

MARK PAUL HALE
Director - USA, Canada and Caribbean Commercial Aviation Market

MAURÍCIO RODRIGUES AVEIRO
Director - Customer Services - Europe, Africa & Middle East

ORLANDO JOSÉ FERREIRA NETO
Director - Market Intelligence - Commercial Aviation Market

OTÁVIO ERNESTO
Director - Logistic Support

PAULO MARCHIOTO
Director - Planning and Logistics

RICARDO MARCELO BESTER
Director - Customer and Product Support - Defense Market

ROBERT ADAIR DAVIS
Director - Maintenance Services

ROBERTO RIBEIRO SANTOS
Director - Infrastructure

ROSANA DIAS
Director - Communications

SÉRGIO MAURO DE MORAES REGO COSTA
Director - Test Programs

WAGNER LAPA PINHEIRO
Director - Information Technology

Audit Board

CARLOS ALBERTO DE CASTRO MONTEIRO
Chairman of the Fiscal Board

LUIZ TACCA JÚNIOR

JOSÉ MAURO LAXE VILELA

CELENE CARVALHO DE JESUS

PAULO OSCAR FRANÇA

Shareholder Information

Composition of Shareholder's Equity

Classe	Number of Shares	% of Shareholder Equity
Common	242.544.448	33.87%
Preferred	473.501.135	66.13%
Total	716.045.583	100.00%

Shares Traded

in Brazil	in the United States of America
Embraer shares are listed on the São Paulo Stock Exchange (Bolsa de Valores de São Paulo – BOVESPA) under the name EMBR3 (common shares) and EMBR4 (preferred shares)	Embraer is listed on the New York Stock Exchange (NYSE) under the ADR Level III Program, under code ERJ. Each Embraer ADS is equivalent to four preferred shares

Depository Banks

in Brazil	in the United States of America
Banco Itaú S.A. Rua Boa Vista, 185 – 2 º Andar 01014-001 – São Paulo – SP Brazil Tel.: (+55 11) 3247-3138 / 3247-3139 Fax: (+55 11) 3247-3141	JP Morgan 60 Wall Street, 36 th floor 10260-006 – New York, NY United States Tel.: (+ 1 212) 623-0875 Fax: (+ 1 212) 623-0079

Independent Auditors

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Publications and Information

Quarterly reports, press-releases and annual reports are available from our Investor Relations Department and on our website www.embraer.com

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