

EMBRAER BRAZILIAN AVIATION CO
Form 20-F
June 30, 2005

As filed with the Securities and Exchange Commission on June 30, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2004

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the transition period from [] to []

Commission file number 1-15102

**EMBRAER-EMPRESA BRASILEIRA DE
AERONÁUTICA S.A.**

(Exact name of Registrant as specified in its charter)

EMBRAER Brazilian Aviation Company Inc.
(Translation of Registrant's name into English)

Federative Republic of Brazil
(Jurisdiction of Incorporation)

**Avenida Brigadeiro Faria Lima, 2170
12227-901 São José dos Campos, São Paulo, Brazil**
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

Preferred shares, without par value
American Depositary Shares (as evidenced by American
Depositary Receipts), each representing four preferred shares

New York Stock Exchange*
New York Stock Exchange

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* Not for trading purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

242,544,448 common shares, without par value

475,797,420 preferred shares, without par value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3. <u>KEY INFORMATION</u>	1
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	16
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	36
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	56
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	63
ITEM 8. <u>FINANCIAL INFORMATION</u>	68
ITEM 9. <u>THE OFFER AND LISTING</u>	73
ITEM 10. <u>ADDITIONAL INFORMATION</u>	76
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	91
ITEM 12. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	94
<u>PART II</u>	
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	94
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	94
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	94
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	95
ITEM 16B. <u>CODE OF ETHICS</u>	95
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	95
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	96
ITEM 16E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	96
<u>PART III</u>	
ITEM 17. <u>FINANCIAL STATEMENTS</u>	97
ITEM 18. <u>FINANCIAL STATEMENTS</u>	97
ITEM 19. <u>EXHIBITS</u>	97

(i)

INTRODUCTION

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

Presentation of Financial and Other Data

Financial Data

Our audited financial statements at December 31, 2003 and 2004 and for the years ended December 31, 2002, 2003 and 2004 are included in this annual report and have been audited by Deloitte Touche Tohmatsu.

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

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

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

In our 2002, 2003 and 2004 financial statements, gains or losses resulting from the remeasurement of the financial statements and from foreign currency transactions have been reported in the consolidated statement of income as single line items.

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

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

Other Data

Some of the financial data contained in this annual report reflects the effect of rounding. Aircraft ranges are indicated in nautical miles. One nautical mile is equal to approximately 1.15 ordinary or statute miles, or approximately 1.85 kilometers. Aircraft speeds are indicated in nautical miles per hour, or knots, or in Mach, which is a measure of the speed of sound. The term regional jets refers to narrow body jet aircraft with 30-60 passenger seats. The term mid-capacity jets refers to jet aircraft with 70-120 passenger seats. All of our regional and mid-capacity jet aircraft are sold in the commercial airline segment. As used in this annual report, the term commercial aircraft, as it applies to Embraer, refers to our regional jets and mid-capacity jets. The terms very light jet and light jet refer to business jets that carry from 6 to 8 passengers and up to 9 passengers, respectively, that are designed for short take-off distances.

We calculate the value of our backlog by considering all firm orders that have not yet been delivered. A firm order is a firm commitment from a customer, represented by a signed contract, customarily accompanied by a down payment, where we have reserved a place on one of our production lines. Every time we refer to our backlog in this annual report, we only make reference to firm orders and not to options. When we refer in this annual report to the number or value of regional aircraft, we exclude one EMB 145 and two EMB 135s delivered to the Belgian government in 2001, one EMB 145 delivered to the Belgian government in 2002, one EMB 135 aircraft delivered to the Greek government in 2000, and two EMB 145s delivered to Satena Airline, a state-owned Colombian airline, in 2003 and 2004. These aircraft have been included in our defense data.

Special Note Regarding Forward-Looking Statements

This annual report includes forward-looking statements, within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, principally in Items 3 through 5 and Item 11 of this annual report. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

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

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

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

continued successful development and marketing of the EMBRAER 170/190 jet family, our line of business jets, including the new business jets for the light and very light categories, and our defense aircraft;

our level of debt;

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

our expenditure plans;

inflation and fluctuations in exchange rates;

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

availability of sales financing for our existing and potential customers;

existing and future governmental regulation; and

(iii)

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

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

(iv)

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3A. Selected Financial Data

The following table presents our selected financial and other data at and for each of the periods indicated. The selected financial data at December 31, 2003 and 2004 and for the three years ended December 31, 2004 are derived from our consolidated U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, included elsewhere in this annual report. The selected financial data presented for all other periods have been derived from our U.S. GAAP financial statements audited by Deloitte Touche Tohmatsu.

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At and for the year ended December 31,

	2000		2001		2002		2003		2004	
<i>(in thousands, except per share/ADS data)</i>										
Income Statement Data										
Net sales	US\$	2,762,162	US\$	2,926,995	US\$	2,525,800	US\$	2,143,460	US\$	3,440,533
Cost of sales and services		(1,879,318)		(1,769,234)		(1,531,720)		(1,335,032)		(2,267,330)
Gross profit		882,844		1,157,761		994,080		808,428		1,173,203
<i>Operating expenses</i>										
Selling expenses	US\$	(193,420)	US\$	(212,057)	US\$	(211,015)	US\$	(206,246)	US\$	(342,883)
Research and development		(69,593)		(99,566)		(158,499)		(173,216)		(44,506)
General and administrative expenses		(96,645)		(120,787)		(109,673)		(114,743)		(139,357)
Employee profit sharing		(41,770)		(43,746)		(25,222)		(20,399)		(61,199)
Other operating expense, net		(19,275)		(30,227)		(20,109)		(29,009)		(41,272)
Total operating expenses	US\$	(420,703)	US\$	(506,383)	US\$	(524,518)	US\$	(543,613)	US\$	(629,217)
Income from operations	US\$	462,141	US\$	651,378	US\$	469,562	US\$	264,815	US\$	543,986
<i>Non-operating income (expense)</i>										
Interest income (expenses), net	US\$	(6,874)	US\$	47,502	US\$	80,456	US\$	(140,755)	US\$	(38,000)
Exchange loss, net		(24,637)		(148,637)		(135,647)		(16,500)		(12,218)
Other non-operating income (expenses), net		5,955		(8,426)		(1,394)		711		(117)
Total non-operating income (expense)	US\$	(25,556)	US\$	(109,561)	US\$	(56,585)	US\$	(156,544)	US\$	(50,335)
Income before income taxes	US\$	436,585	US\$	541,817	US\$	412,977	US\$	108,271	US\$	493,651
Income tax benefit (expenses)	US\$	(117,379)	US\$	(218,394)	US\$	(188,502)	US\$	27,990	US\$	(112,139)
Income before minority interest	US\$	319,206	US\$	323,423	US\$	224,475	US\$	136,261	US\$	381,512
Minority interest		1,522		(423)		(1,883)		(217)		(1,306)
Income before cumulative effect of accounting change	US\$	320,728	US\$	323,000	US\$	222,592	US\$	136,044	US\$	380,206
Cumulative effect of accounting change, net of tax				5,440						
Net income	US\$	320,728	US\$	328,440	US\$	222,592	US\$	136,044	US\$	380,206
Earnings per share										
Common share basic (1) (3) (6)	US\$	0.55	US\$	0.48	US\$	0.30	US\$	0.18	US\$	0.50
Preferred share basic (1) (3) (6)		0.61		0.53		0.33		0.20		0.55
ADS basic (1) (3) (6)		2.43		2.11		1.32		0.79		2.18
Common share diluted (2) (3) (6)		0.48		0.46		0.30		0.18		0.49
Preferred share diluted (2) (3) (6)		0.53		0.50		0.33		0.20		0.54
ADS diluted (2) (3) (6)		2.10		2.01		1.31		0.78		2.17
Dividends per share										
Common share (3) (4) (5)	US\$	0.220623	US\$	0.235248	US\$	0.173256	US\$	0.088174	US\$	0.166520
Preferred share (3) (4) (5)		0.242686		0.258763		0.190578		0.096991		0.183169
ADS (3) (4) (5)		0.970744		1.035052		0.762312		0.387964		0.732676
Weighted averaged number of shares outstanding										
Common share basic (3)		242,544		242,544		242,544		242,544		242,544
Preferred share basic (3)		308,401		402,035		454,414		471,228		474,994
Common share diluted (3)		242,544		242,544		242,544		242,544		242,544
Preferred share diluted (3)		392,954		433,386		459,415		474,840		479,217
Balance Sheet Data										