

## Q2 2007 Earnings Call

### Company Participants

- Antonio Luiz Pizarro Manso, CFO
- Carlos Eduardo Camargo, IR
- Frederico Fleury Curado, President, CEO
- Marcelo Rodrigues, Controller

### Other Participants

- Christine Min, Analyst
- Joe Nadol, Analyst
- John Croft, Analyst
- Richard Hayden, Analyst
- Ron Epstein, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

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Participants on today's conference call are Mr. Frederico Fleury Curado, President and CEO; Mr. Antonio Luiz Pizarro Manso, Chief Financial Officer; Mr. Carlos Eduardo Camargo, Head of Investor Relations; and Marcelo Rodrigues, Controller.

I would now like to turn the conference over to Mr. Curado. Please go ahead, sir.

## **Frederico Fleury Curado** {BIO 2004589 <GO>}

Good morning, everyone. Just to start with, some highlights of the Second Quarter, starting with the good news.. We did -- we did have a ramp up in our deliveries. We delivered about 50% more aircraft than in the First Quarter, and we also had a good addition to our backlog in terms of sales. We had continuous success with the Phenom family. We also have some important contracts in the airline market, such as the Lufthansa, EMBRAER 190 and Japan Airlines. We also have the Brazilian BRA agreement for 20 plus -- 20 195s. And a few options confirmed for Alpi Eagles and GECAS.

On the negative side, we continue to see pressures on our costs, production costs relative to longer higher man-hour labor costs and production processes in general, and excessive overtime beyond what we expected, and a continuous investing in train investments -- in training for the new hirees, including the ones hired for the third shift in some of our production facilities or working centers. As a result of that, our gross margin decreased a little bit, although our net operating margin had a little bit of improvement in the quarter.

Before we start, before we start talking about and discussing the actual margins and numbers, it is important just to remark that as of last night we issued this market announcement, where basically we implemented -- after the implementation our new business segments, which is Customer Services, which includes training, includes technical services and maintenance and spare parts, a comprehensive analysis of our commercial operations and of certain accounting practices, we have decided to modify the application of previously adopted US GAAP accounting policies.

Fundamentally and basically, there is no change whatsoever on earnings from continuing operations, there is no change to net earnings, to returned earnings or shareholders equity. So basically the only thing we had was reclassification of net sales, cost of sales and services, selling expenses and interest income or expenses.

The description -- the detailed description is already available. I do not intend to do it here. But of course at the end of the conference, we will be available to clarify any points. We have our Controller here, our Chief Financial Officer and our IR, and then we can clarify that.

Before handing the presentation over to Carlos, I would like to walk you through some of our guidances. We have been saying that we were aiming to achieve 30% of gross margin by the end of the year, and we no longer see that a possibility. The devaluation of the real in the six months of this year is something close to 15%. Simply we will not allow us to get there. On top of course of everything I've just said in terms of our start, not startup but ramp up cost, setup cost which are still hurting our numbers and will gradually go down over the next quarters, but it will still be a burden in the end of short-term.

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If we just consider for reference. If we consider the old accounting -- all the accounting practices, our 30% would today be translated to something around 28%. So we don't think we'll be able to report those 2% in our gross margin. When we translated that 28% to the new accounting structure, this number will translate into something like 23.5% or 24%. So this is our adjustments to what we have been forecasting in terms of gross margin.

We have also been saying that our EBIT, our operating margin should reach about 10% this year. Taking in to account our exposure to the reais, this is our appearance not only on the cost of goods, of sales, it is perfectly with sales, but also in terms of our commercial expenses and our administrative expenses. The impact would mean something like 4% to 5% to our EBIT margin in '07.

We had taken several actions, of course to reverse that, and we believe we can reach the 7% EBIT margin by year end, including the adaptation of the new accounting procedures. So having said that, we maintain our delivery forecast for the year in the range of 165 to 170 aircraft and for '08, of over 195 to 205 aircraft.

So having said that, I will pass on to Carlos, and of course I will be available at the end for questions. Thank you.

### **Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Okay. Thank you, Fred. We delivered 36 aircraft in the Second Quarter of 2007. The same number of deliveries compared to the same period last year, with a total of 61 deliveries in the first six months of this year. Due to our better product mix and even delivering the same number of aircraft than last year, net revenues increased by 11.3% when compared to the same period of 2006. And gross margin decreased from 24.3% in the Second Quarter of 2006 to 21.8%, still reflecting the hiring of the new workforce and the training program, and because of the actions taken to structure our production processes.

The net revenue for the Second Quarter of 2007, they were split by the four segments of the company. The commercial aviation had a participation of 64% in total deliveries compared to growth of 66% in the last three years period.

The business aviation -- the executive aviation had a participation of 15% on deliveries compared to 11% by last year and the recently created customers and services had a participation of 13% by 2006 and decreased to 12% by this year. And as a result of higher operating expenses, the Company's operating income reached \$31 million and operating margin was 2.8 in Second Quarter of 2007 compared to an operating income of \$152 million and an operating margin of 15.3 in the Second Quarter of 2006. For the same reason, cash generation, as measured by EBITDA, reached \$51 million in the Second Quarter of 2007 compared to \$151 million in 2006. Net income totaled \$67 million in the Second Quarter of 2007 compared to a net financial income of \$19.7 million in 2006.

Now, we are going to discuss some issues on our balance sheet. During the Second Quarter of 2007, trade accounts receivables and customer and commercial financing

increased from \$276 million to reach \$328 million by the end of this quarter. Along with that inventories increased to \$2.6 billion by the end of the Second Quarter of 2007 from \$2.3 billion in the -- by the end of March of this year. This increase is related to the production ramp-up of the EMBRAER 170/190 aircraft that led to an increase in the number of aircrafts in the final stages of production and an increase in the demand for raw materials.

Embraer's cash position decreased by \$89 million in this quarter ending at \$128 million mainly due to an increase in working capital needs because of that increase described in the inventories.

Of the total debt at the end this quarter, 44.7% is effectively stated in reais and indexed to the TJLP, at a weighted average interest rate of 8.67% per annum. The remaining is denominated in other currencies, primarily in US dollars, with a weighted average interest rate of LIBOR plus 1.2% per annum.

Regarding our backlog, we still keep 53 aircraft in backlog for the ERJ 145 aircraft and that we will all be producing in our joint ventures in China. For the EMBRAER 170/190 family order book, we have sold a total of 655 aircrafts since the launch of the product of which 256 were already delivered. Therefore, the firm order backlog reached 395 aircraft by the end of the quarter, which includes those orders mentioned by Frederico at the beginning of the presentation.

Our firm order backlog had reached a record high level of \$15.6 billion and includes order for commercial aviation, executive aviation and defense and government segments. As mentioned, actions taken regarding our industrial and operating capabilities were implemented with increased deliveries expected towards the end of the year, allowing us to maintain our guidance between 165 and 170 deliveries for this year and between 195 to 205 aircrafts for next year including just between 15 and 20 Phenom 100.

We'll now -- we'll open this conference call for question-and-answers. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen. we'll now begin the question-and-answer session. Embraer, answer the questions from analysts and investors first and after that they will proceed answering questions from journalist.

(Operator Instructions)

Our first question is from Christine Min, Calyon Securities.

**Q - Christine Min** {BIO 5802066 <GO>}

Hi. Good morning. Can you hear me?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes. Hi Christine, how are you?

**Q - Christine Min** {BIO 5802066 <GO>}

Okay. Great. Can you elaborate a little bit more on the higher industrial cost that you cited? What are they specifically and how big has the increase been with them, are they fixed and with the increased delivery of aircraft. How would you expect your cost to be leveraged?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes, Christine, let me just try to elaborate a little bit on this. We have added to our workforce some 4,500 strong numbers of people this year and the majority of them related directly to the production ramp-up and some other infrastructure means. The hiring process is not just, we're getting somebody into the factory that person does not start producing in the next day. We have a training, an on-the-job training process which ranges from two to four months depending on the skill and depending on the activity to be performed. Where basically we are adding costs to our operations and investing in the proficiency of that professional to be used in the two, three or four months down the road. And of course even after that, there is a growing, there is learning curve to the coaching process that gradually will take this new hiree to a full proficiency situation.

So this of course, this is a longer-term investment in terms of really making sure that the fundamentals for our production ramp up will be there. And -- but of course as we do that in parallel, we have to keep in mind that we have to pursue our delivery targets to have commitments with our customers.

So we are using over time beyond what will be reasonable to fulfill any opportunity of closing, reducing cycle or closing gaps in terms of leasing operation. So it's a combination of short-term and mid to long-term actions to basically bring this operation of Embraer to a more stable and predictable level.

**Q - Christine Min** {BIO 5802066 <GO>}

Okay. And that expense is mostly in cost of sales right now?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes.

**Q - Christine Min** {BIO 5802066 <GO>}

Okay. And so on the selling expense side, do you expect that to also ramp up or stay at these levels for the second half, and then next year as the Phenom deliveries come out?

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**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

The selling expenses, they will be reduced because several of those accounts are now being reclassified to either cost of sales or a deduction of revenues. So there will be natural lift. The increase of course of -- what they call fixed typical, classical commercial expenses will grow much lower, much, much less than the production. So it will be relatively stable over the next couple of years.

**Q - Christine Min** {BIO 5802066 <GO>}

Okay. Thank you.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thank you.

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Christine this is Marcelo Rodrigues, the Controller.

**Q - Christine Min** {BIO 5802066 <GO>}

Okay.

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Just to remark that -- on the explanation that Frederico did. That Embraer worked in actual costs program, not in an accounting program where you kind of defer those kinds of deviation, when you have a ramp up effort like we are doing now, okay.

**Q - Christine Min** {BIO 5802066 <GO>}

Okay.

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

So we are not deferring anything, as bad as it is.

**Q - Christine Min** {BIO 5802066 <GO>}

Great, thank you.

**Operator**

Our next question is from Joe Nadol, JP Morgan.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Thanks. Good morning.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

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Good morning, Joe.

**Q - Joe Nadol** {BIO 3056499 <GO>}

First question is just a clarification. You mentioned 7% operating margin by year-end, so that is a Fourth Quarter target or is it a full year target, just want to be very clear on that?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

That's a full year target.

**Q - Joe Nadol** {BIO 3056499 <GO>}

So that's a full year target, so you know -- the 2% range I think in the first half. So you are forecasting that you will be in the double digits, 12%; 13% in the second half, is that about right?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Yes we have to be especially in the last quarter where we would have higher revenue and we would have lower -- you know the effects of everything I've just said will have to be lower than it is today.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. Then just on the new employee cost that you were citing Freddie, can you quantify what the total deadweight cost I guess in the quarter might have been, just so we can maybe size this, which will be -- maybe not the productivity issue but how much are the employees costing and what's the training costs if we were to sort of thinking about backing that out, looking at a better run-rate? Could you help us there?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

So I understand that vis-à-vis the gross margin, right?

**Q - Joe Nadol** {BIO 3056499 <GO>}

Yes. That's right.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Let me -- just a second, I am flipping numbers here. Just one sec.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Hi. Joe.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Yes.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Carlos speaking.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Hi, Carlos.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Hi. Regarding training it was -- we expect \$13 million in the Second Quarter, we expect right. Net-net something like 0.6%.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Okay.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay, just for the training. Okay. Then next question is on the E-Jets. Freddie, I think there's about 128 or 130 E-Jets in your guidance for the year, you delivered 47 thus far. And if we just do a simple math, we get to 13.5 aircraft per month for the entire second half of the year. I understand that you are going to be at 14 a month at the very end of the year but what's your confidence level in getting to that 128 level for E-Jets at this point?

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Yes. The way I -- please follow my math and see if I am correct here. We delivered 61 airplanes in the first half. So we also believe 104 to 109 in the second half. Let's take 108 just to be a multiple of 6, 108 is 16 -- I am sorry 18 aircrafts a month, an average rate and those 18 aircrafts a month will be seeing some 4 Legacy's per month, so we intend to deliver some 24ish Legacy's this semester. There will be one 145 per month in China to be delivered to China Eastern and Hainan, so that leaves us with 13 E-Jet average in the semester which is exactly where we are working to be as an average in the semester. Our production rates in the -- if you analyze the production centers upstream, I mean, they are already crossing 13 a month. So as a similar flow, we are getting ready to get 14 a month by the end of the year and that means we have to average 13 a month in terms of E-Jets in the second semester.

**Q - Joe Nadol** {BIO 3056499 <GO>}

So are you really looking at more like 36 Legacy things because you delivered 12 in the first half.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Right.

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**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

So that explain, we may have or maybe a little bit less E-Jets and more Legacy.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

But the whole math still holds.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. Then just a final question, just on the financial income, particularly since you've changed your accounting a little bit and you had a lot of financial income during this quarter, even though I guess it was lower than what it would have been under the old system, may be Marcelo or if someone could give us a little good sense as to what the run rate might be for that line item in the back half of the year?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Right. Well Marcelo, why don't you?

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Right, yes, the extraordinary financial revenue is controlled for this period. We have a position of derivatives that we had something around \$30 million unexpected for this quarter, okay.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Joe, you would be working the First Quarter revenue, the financial revenues, for reference for the future.

**Q - Joe Nadol** {BIO 3056499 <GO>}

So the First Quarter is the right run rate?

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Yes.

**Q - Joe Nadol** {BIO 3056499 <GO>}

So what was the 30 million in the Second Quarter?

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Yes.

**Q - Joe Nadol** {BIO 3056499 <GO>}

No. What was the source of that?

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

It was a position of derivative position that we sold.

**Q - Joe Nadol** {BIO 3056499 <GO>}

Okay. All right. Thank you very much.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

You're welcome. Thank you.

## Operator

(Operator Instructions)

Our next question is from Ron Epstein, from Merrill Lynch.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Hi. Good morning.

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Ron. Good morning.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Good morning.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Just I have got a couple of follow-on question. You guys sold a derivative position, a derivative of what? What kind of derivative? What are you guys doing selling derivatives?

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Its dollar to reais position.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Then we post--just help us understand a little bit more post this accounting change during the quarter what your gross margins would have been under I guess the old accounting methods?

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**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Yes. We saw -- we have the old accounting methods. We would have 25.8 for the Second Quarter 2007, we have the reclassification, we went to 21.8.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

25.8 Ron is your answer.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay, 25.8 and then that 30% level Fred you mentioned that now 28% under the new accounting method?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

No, no, no, the 20% sorry -- the 20% will be the apples-to-apples comparison for the 30%, so let's say we will be lowering our guidance anyhow, so 28 is comparable to 30.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay, 28 to 30 and then your -- so you expect for the full year though that it's going to be, if you don't mind to repeat for the full year in this year?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

I am not sure, I am not repeating everything I said for the full year. I did say 7% EBIT and something like 22%; 23% in terms of gross margin. Okay?

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay, good. Then if you could give us any color on what's going on globally in terms of sales campaigns for the E-Jets and then two how things are going in the business Jet market from a sales perspective?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Well on the top line and in terms of backlog I think the outlook is still very positive. We have the product information is not here in this presentation but I -- we disclosed publicly last Saturday in the Latin American Business Aviation Conference, here in Sao Paulo; we surpassed the 500 units in the Phenom backlog which is good news. It's becoming more and more challenging for us to sell airplanes with deliveries in late 2011 and 2012. The two are big endorsement for us in Phenom program, especially now where -- when the first prototype is already under Flight Test Campaign.

Airline market looks quite positively. It definitely is -- and its working towards having a one-to-one at least a one-to-one ratio in terms of deliveries in new orders. Of course we cannot specifically talk about campaigns, but the BRA letter of intent for the 2195 is now a firm contract, and there are others which we hopefully will be announcing in the next few months. So on the sales side I have many, many concerns and of course running the

company. But the sales today is not a particular concern, but it's particularly doing quite well in both markets; airline and executives jets.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay. Then maybe one more question to Fred. With everything, you know globally there is a liquidity if you are repricing risks of credit. Do you have expectations what that could do to aircraft financing markets at all? I mean have you guys thought about that with what's going on in the global credit markets could mean for financing aircraft?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Of course we are thinking about that Ron. I don't think we have -- this thing is so recent and so volatile, I don't think we have a conclusion yet but I'll ask Antonio, if there is anything that's wrong.

**A - Antonio Luiz Pizarro Manso** {BIO 1845027 <GO>}

We have it -- and we're today working more again with BNDES. That is a pick up for if the market is not feasible. But if we believe -- and if all the deliveries is scheduled for this year and the next year, it's almost financed. I don't see any kind of problem from that process today, but we are working again with BNDES to support as a back up or something there.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Well I think it's fair to say we have not felt in the last few days or weeks any strong signal of major change in the current liquidity, but of course if this volatility continues, who knows.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Okay. Great. Then just one last one. There was a lot of talk at I guess the Paris Air Show about the C390, the possibility of you guys doing a medium-sized military transport. Can you give us an update on your thinking on that?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Basically, we are at same stage. We are -- in terms of pre-design, lets say pre-design engineering work, we have this budget and we are developing this concept and making the pre-design conceptual studies and whatever wind tunnel. This is sort of pre-launch study, talking to potential customers. I don't have even a date and I don't want to have a date pressing myself on launching this program. But having said that, we are working strongly to put together a program architecture of the funding of the program. But of course we are trying to develop this airplane at without Embraer funds. It's a military program, so that's where the concentration is, that's where the focus is and that's going to take time. This is not something which is simple to put together.

**Q - Ron Epstein** {BIO 1868102 <GO>}

Great, thank you.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thank you.

**Operator**

(Operator Instructions)

Our next question is from John Carolyn [ph], Hartford Investment Management.

**Q - Unidentified Participant**

Hi just a question on the working capital comment. I think at the end, in the last quarterly call you talked about the ramp up, but also that there was at least intimated that there was some inventory in there that were kind of completed planes that will be swept out relatively quickly and now we're seeing another ramp up this quarter. Can you give a little bit of a framework around, how much of that increase in inventory that we are seeing, maybe won't be there as these planes get pushed out of the system by the end of the year, and where we could see that maybe coming back to and what -- rather than what is just a pure ramp up of raw materials for use at a much later date?

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

I'll just give you a general, let's say a management answer. It was certainly one of the most frustrating results. And we -- we do not have yet a continuous flow of our production program. We are working very, very hard to make that happen towards the end of the year, to have this factory working in a continuous flow. So we are still a little bit amortizing waves. So you know the materials, the deliveries are not identical. So when you talk about deliveries over the next six months averaging 18 a month, it does not mean that we will be delivering 18 a month. This thing will fluctuate and I think towards the end of the year and towards 2008 then we'll see a more say steady satisfactory production level, but in terms of -- in terms of the inventory, we have been saying that we should go down, back to \$2 billion, when we were at 2.3 you are right and conversely went upwards rather than downwards, so Carlos what's the new guidance for the year end?

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Yes what it seems that would increase in deliveries, increasing the production we will be delivering more aircraft in the third and increasing even more in the Fourth Quarter and that could bring inventories back to the beginning of the year levels, we are talking something around \$2.1 billion.

**Q - Unidentified Participant**

Okay. Thank you.

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**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Welcome.

**Operator**

(Operator Instructions)

Sir, it appears there are no further questions at this time.

(Operator Instructions)

Excuse me, our next question comes from Mr. John Croft with Flight International.

**Q - John Croft** {BIO 16000708 <GO>}

Good morning, gentlemen. pleasure to speak to you today, I was wondering if you could give me a little bit more information on the new Concept Jet that was announced either Friday or Saturday at the LABACE show in Sao Paulo?

**A - Antonio Luiz Pizarro Manso** {BIO 1845027 <GO>}

Yes. Actually we did not announced a jet, we tried to make it very clear that what we are doing is to bring it to NBAA a full-scale markup of a conceptual aircraft between Phenom 300 and the Legacy 600. So a full cross section and full length of an aircraft, which potentially would fit in that segment. This is one of the last stages of our marketing analysis, in terms of marketing acceptance, customer requirements aiming towards decision, a launch decision some time in the future. But it's not a program launch, it's just that's called as a teaser in the sense that we really want to have like fine tuning from customers, we've been talking to customer, potential customers for maybe a year now, but the fine tuning having the whole cabin that the true thing is there so people can actually come inside and touch and see it as a market assessment process.

**Q - John Croft** {BIO 16000708 <GO>}

Thank you.

**Operator**

(Operator Instructions)

So it appears there are no further questions at this time. Excuse me. Our next question is from Mr. Richard Hayden, Lehman Brothers.

**Q - Richard Hayden** {BIO 1412216 <GO>}

Good morning.

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**A - Antonio Luiz Pizarro Manso** {BIO 1845027 <GO>}

Good morning.

**Q - Richard Hayden** {BIO 1412216 <GO>}

Can you give us some sort of framework. I am not asking for precise numbers but direction and momentum in terms of gross profit margins and operating profit margins for '08 and '09.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Let me take your questions to say something. We obviously have not been able to deliver our guidances. And we are taking particular emphasis in building a set of guidance to be presented in November. In November we have a conference of full -- I think of a two day session. Where we basically have all the executives from the company describing all the operations, and then we will be talking about revised or confirmed guidance for '08 and for the first time providing guidance for '09. I do, I personally expect to have a more useful set of guidance variables for yourselves, for the market. And certainly guidances that will be more, I mean results which will be more adherent to our guidances. So at this stage, I prefer to just bring you our best vision of 2007 towards the end of the year. In '08 and '09, it will object of our discussions in November.

**Q - Richard Hayden** {BIO 1412216 <GO>}

Okay. I wish I could say thank you.

**Operator**

(Operator Instructions)

This concludes today's question-and-answer session. I would like to invite Mr. Curado to proceed with his closing statement, please go ahead, sir.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Well thank you for your attention and participation in our conference. I see the situation as a real turnaround, operational turnaround. A turnaround where there is no apparent crisis, because we have a very robust backlog, sales are still strong. But I'd like to inform you that, we are absolutely conscious of our needs to reverse the results. In US GAAP, we have -- we have of course in this quarter a slight reverse of the First Quarter results, although below the expected levels that we might have had.

The real focus is working in the means, not in the end. So we're dedicating a lot of efforts in implementing projects of lean manufacturing in several of our plants and several of our hangars and processes, and working processes. And also in the administrative side, we have taken a profound and comprehensive revision of our working procedures; just to make sure that this company will be a more streamlined operation in the future.

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We grew significantly over the last few years, and I think obviously as a company we underestimated the challenges that came with growth. But number one, we are absolutely conscious of that, and number two, I think we are working exactly in the variables which will take us out of the woods hopefully, not in the long distant future.

We should see increasing and improving results in the Third Quarter, Fourth Quarter and there forth. So I thank you all. And again on these changes to our accounting practices, we are absolutely at your disposal for any clarification afterwards, our IR, or Controller or CFO. Thank you, so much.

**A - Carlos Eduardo Camargo** {BIO 20195335 <GO>}

Thank you very much and excuse us by the delivery information in that time today.

**A - Frederico Fleury Curado** {BIO 2004589 <GO>}

Thank you, all.

**A - Marcelo Rodrigues** {BIO 22132956 <GO>}

Thank you, all. We are available for any clarifications. Bye.

**Operator**

That does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day, and thank you for using Chorus Call Brazil.

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