

Q4 2007 Earnings Call

Company Participants

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

Other Participants

- Heidi Wood, Analyst
- Joe Nadol, Analyst
- Ricardo Salgado, Analyst
- Steve Trent, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

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The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-looking statements. Embraer undertakes no obligations 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 on this conference call might not occur. The Company's actual results could differ substantially from those anticipated in the forward-looking statement.

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 Mr. 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, ladies and gentlemen. Thanks for attending the conference. We had a very tough year last year, a very busy one, but I think with decent results.

I would first mention the transition, the management transition from -- the executive transition from Mauricio to me, which was very smooth and very calm. Mauricio remaining as Chairman of the Board is certainly an asset in this whole process. But it's not -- we should not take for granted that a company of the size of Embraer should have -- having such a natural, such a smooth transition is something to remark.

Also, we managed to keep our investment grade rating with both Moody's and Standard & Poor's, despite the decreasing results of the year. Those of you who have followed the Company throughout the year, we certainly have showed a reverse, a reversal in our trends in terms of results. So although some of the financial -- some financial results were pretty good, such as the cash position, some were not so good, such as operating margin. But very importantly, I think in 2007 we saw a shift in flexion in our trends. So I think also, based on that, our investment grade was kept.

And we really spent the first semester of last year trying to get the resources, manpower and machinery and internal organizations, such as the installation of the third shift, really to cope with the growth we had had. In the First Quarter of last year, we delivered 25 aircraft. By the end of April, in the four first months of the year, we had delivered only 36 airplanes and in the first half of the year 61 airplanes. And we managed in the second half of the year to recover and to accelerate our throughput, thus finalizing the 169 jets, thus fulfilling our guidance.

We actually delivered a 170th jet, a jet airplane, which was a Brasilia, the last Brasilia we produced. But we did not count it, because it's not part of our regular counting mechanism.

So we were very happy with that result. And very importantly, that 4,500 people we hired, we did the first half of the year. We pretty much stabilized our workforce around July and all the growth which I've just mentioned occurred with a stable labor force. So it was a clear indication that we are on the right path towards better productivity.

Sales, beside of the (inaudible), was one of the highlights. We reached \$18.8 billion of backlog, firm backlog, which certainly gives us visibility and a chance to plan and streamline our operations. We think it's a very solid backlog. We do not see any threat, even with some concern about the current crisis, in the short term.

And we have surpassed in 2007 the \$5 billion mark, which was a historical mark. We have reached \$5.245 billion in terms of revenues and have -- at the end of the year have achieved a net cash position of \$740.m We were very successful in selling down to the market some accounts receivables we had, and that has reinforced our cash position. Our net income for the year was roughly \$490 million and later on Carlos will give you more details about margins, etc.

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Still touching on the sales point, on the commercial expansion of the Company, we have had in 2007 not only some key campaigns which we were very honored by our customers that choose Embraer, such as Air France/KLM, Lufthansa, Japan Airlines, Virgin Nigeria, TACA, Aeromexico, EgyptAir, Kenya Airways, U.S. Airways and Mandarin Airlines and so many others. It is important to give the perspective that the E-Jets is differently from some concerns we had in the 145 days of a higher concentration of our backlog in a few customers. In this family, I think we are seeing now what we have always believed, which is this aircraft, this family of aircraft, is much more a mainline type of airplane than a classical regional jet.

So overall, we have more than 750 aircraft ordered to date, over 330 or 340 already delivered and flying. But we have 45 customers, 45 customers in 30 countries, that's our customer base. So the polarity [ph] of this customer base is quite different and it is certainly one of the reasons why the assets have been well accepted by the financing community as far as Embraer financing goes.

We also had a landmark delivery of our 1,000th 145 airframe to Grand China Express in China this year, for another historical mark as well. Taking into account that our previous programs had -- was in the hundreds of airplanes, the Brasilia with close to 400 or the Bandeirante with 500. The 145 has surpassed 1,000 airplanes. And of course we have both lines opened, one in Sao Jose Dos Campos, basically producing Legacies, and one in Harbin, China, producing 145s for the local market.

The E-Jet fleet has also reached, actually surpassed, the 1 million hours, flying hours. And those growing pains that we had about 18 months ago, all the engineering efforts, all the new [ph] support efforts we have endeavored in the last 18 months have proven to be effective. So this better reliability of the average fleet is approaching 99%, and the level of reliability and therefore satisfaction of our customers is much superior now that we are attaining the plane maturity of the aircraft.

On the business, or the executive aviation, market, one -- I think one event to celebrate is the Legacy. Was last year the super mid-sizer with the most number of deliveries. We delivered 36 airplanes last year and that made the Legacy the number one in deliveries in 2007. That is a matter of joy and pride for us, because the Legacy, which in its early days had some questions about being a derivative of a commercial jet and maybe not having the characteristics of a business jet, this phase is over. And the airplane, it's quite competitive and has improved a lot in terms of comfort, in terms of range, in terms of all the amenities that one would expect in a \$25, m \$26 business jet.

On the lower end of the family, the Phenoms are continually -- they continuously are good sellers. They have surpassed the 700 orders mark. And between the Phenom 100 and the Phenom 300, and of course those are some of the challenges that we have for this year, to certify the Phenom 100 towards the end of the year, and of course advance the flight test campaign of the Phenom 300 which we shall start within the next few months.

The Lineage also, which is another target for 2008 to certify and have the first deliveries of the Lineage 1000. A couple of prototypes already in activity, one in the U.S., receiving

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there its interiors, and the other one in flight tests. And again, towards the end of the year, we shall have the certification for delivery of the Lineage 1000. So the tremendous effort in terms of development, resources and investments on the business jet market towards that strategic goal of ours to become a major player in this market by the middle of next decade.

And last but not least, we are progressing with the concept of the mid-size and mid-light jets. Our mock-up has been tested by hundreds, maybe thousands of people, potential customers. And we are refining and we are proceeding towards trying to make it a viable business case, and if we do we will then have a full range of products between the Phenom 100 until the Legacy 600. And of course, then we have another gap until the Lineage 1000. But if we make -- if we succeed in turning this program into a viable one, it will be an important step towards our participation in the business jet market in a stronger way.

Switching gears to defense and government, it was also an important year last year. We delivered 10 modernized F-5s. That's a contract we have with (inaudible) just to modernize avionics on the F-5s for the Brazilian Air Force. 10 airplanes were delivered last year, as per the contract, and on top of that another 18 Super Tucanos also.

Colombian Air Force, some of you may have seen the use of the Super Tucano in some anti-terror actions in Colombia recently. And this year, in 2007, we delivered 10 Super Tucanos to the Colombian Air Force, fulfilling our contract last year as well. We did have the confirmation of a new program, which is the modernization of the AMX, 55 airplanes for the Brazilian Air Force, mid-life update. And that is a contract which goes in a steady way throughout 2014. And the first airplane has already arrived at our plant, to start our first engineering assessments, etc.

And a last issue in terms of defense and government. We are making some positive steps with the Brazilian Air Force and the Brazilian government towards securing the funding for a potential new product, a new cargo -- military cargo aircraft, which we are again trying to in one side evolve in the discussions on the aircraft configuration and potential industrial partnership, on the other side trying to secure the funding for -- but of course we do not intend to launch a defense or military product without an assured funding, not launch at risk. So that's another avenue for -- potential avenue for growth, which we still have to nurture and solidify in the next several months.

Well as far as Aviation Services go, we have this year -- we've created a business unit to try to organize and optimize our actions towards exploiting the aftermarket of our products, to focus in the aftermarket of our airplanes. And so a couple of initiatives, which are very important. The construction of four new service centers for specifically focus in business aviation, so three in the U.S. and one in Europe, one in the northeast of the U.S., in Connecticut, one in the south, in Florida, and one in the west, in Arizona, and one in Europe in our old installations at Le Bourget Airport. We also expanded our inventory and our infrastructure in Singapore and Beijing for spare parts, as our presence in that market grows, as the fleet grows.

And on the training front, this year we established -- we formalized a joint venture with Canadian CAE for the Phenom 100 and 300 flight and ground crew training. The company is called Embraer CAE Training Services and used to be established in Dallas. The first simulator will be coming into operation around the same time as the first Phenom 100 is delivered to the market. So it's a very promising (technical difficulty).

Well a little bit on our people. As I said, we had a tremendous hiring exercise and effort in the first half of the year and we reached about 21,000 people in Brazil. On top of those, we have another 2,700 abroad. So our total employment is about 23,700 people roughly. And the whole idea is really to try to grow, constraining our resources and opportunity we have to streamline our operations, increase our efficiency and ultimately our profitability.

So this is the path that we have laid out several months ago, around mid last year. We have defined this roadmap towards the recovery of the Company and we have been working very hard, sometimes patiently, we have to be patient. But the important thing is we do make our steps one at a time and as we planned them. And so far, we have been on track in what we have proposed ourselves to do. Again, people is a key element in our strategy. Seriously, it's not just a speech. We really have tried to lever actions to turn that speech into real activities and real actions. One of them, for example, we increased more than 50% the investment last year in terms of people training and development, from \$30 million in 2006 to \$45 million in 2007. All this is part of our long-term view.

And just to close on a positive note on employees, for over 10 years we have exercised this sharing policy. So we have again, of course, distributed in reais \$130 million -- or sorry, BRL130 million of profit sharing to our employees last year, or actually we will pay it out soon, next month. But this is a significant amount. This is more than 10% of total volume of salaries paid throughout the year. So this -- even in a moment where we clearly need to improve our efficiency, this partnership is bonding all of us together and that's what will be one of the levers for the future.

Well '08, several challenges ahead. The development of the Phenom 300, the certification of the Phenom 100, certification of the Lineage 1000. To grow our production even further, to some 200 jets plus 10 to 15 Phenom 100s delivered this year. A 25% revenues increase. So it's plenty of challenges, plenty of targets. And we're all very busy here, but very motivated and with the pragmatism that, although we have enormous objectives to achieve, our starting point is definitely better than the starting point of 12 months ago. So we feel more towards our yearly goals and our guidances. I would say that we have a higher degree of certainty than we had last year.

So with that, I will turn to Carlos and later I'll be back for questions and answers.

Carlos Eduardo Camargo {BIO 20195335 <GO>}

Okay. Thank you, Frederico. We have -- as previously mentioned, we have delivered in 2007 169 aircraft and that's important to highlight again. It was the highest number of deliveries in a year by the Company.

The Commercial Aviation segment has increased its relative participation on total revenues in 2007 to 64.4%, up from 62.6% last year.

Net revenues increased by, in total in 2007, \$5.2 billion from \$3.7 billion in 2006. And comparing the Fourth Quarter of '07 with the Fourth Quarter of '06, it was an even higher increase. It reached \$1.87 billion compared to \$1.06 billion in the Fourth Quarter of 2006. That's mainly to the increase in the number of deliveries in that specific quarter and in the comparison of the years too.

The Company operating income reached \$456 million and the operating margin was 8.7% in 2007, compared to an operating margin of 9.1% in 2006. And as a result of that, in the Fourth Quarter we had \$178 million of operating income with an operating margin of 9.5%. Net income in 2007 reached \$489m representing a net margin of 9.3%, an increase in the comparison to the \$390 million of 2006, but a decrease in terms of margin when we had on that year, in 2006, we had 10.4% of net margin.

Accounts receivables and customer and commercial financing showed a decrease in the comparison of the years. Trade accounts receivable decreased by \$102 million when you compare the Fourth Quarter of 2007 with the Third Quarter of 2007 too. That decrease is mainly due to the sale of the company's ERJ 145 and Embraer 170/190 aircraft secured loan portfolio that the Company has given to some airline customers over the last few years.

Our inventories grew during 2007 and reached the \$2.49 billion level, compared to \$2.05 billion by the end of 2006. That's mainly due to the ramp-up process that we entered -- that led us to deliver 159 aircraft, with more aircraft on the production process and more parts also involved on that increase. Just to highlight, by the end of the year we had already reached those 14 E-Jets produced a month, as we were targeting in the beginning of the year.

In December of 2007, total debt for the Company was \$1.75 billion compared to \$1.8 billion in the end of the Third Quarter. The average tenure of our indebtedness was 3.6 (sic; see press release) years by the end of the year. Out of debt, 45% was stated in Brazilian reais and the remaining amount was in other currencies, mainly the dollar. The cost of our indebtedness in reais is 8.03% and in other currencies is LIBOR plus 1.64%. Due to the higher number of increases, our net cash position also increased, and reached \$740 million by the end of the year.

And back to our backlog, we have shown the high -- the record high level of backlog, \$18.8 billion by the end of the year, an increase compared to 2006 and a result of the structure of our sales of the E-Jets and also from the executive aviation too.

In terms of deliveries, we expect for this year we maintain our previous guidance of to deliver this year between 195 to 200 aircraft plus 10 to 15 Phenom 100s, as we expect to get the certification in the second half of this year.

In terms of investment, in 2007 Embraer invested a total of \$452.m That was evenly spread, divided between PP&E and R&D. We expect for 2008 to invest around \$243 million on R&D and \$330 million on PP&E.

We'll now open the session for question and answers. Thank you.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Joe Nadol of JP Morgan.

Q - Joe Nadol {BIO 3056499 <GO>}

Good morning.

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

Morning, Joe. How are you, Joe?

Q - Joe Nadol {BIO 3056499 <GO>}

Good, good. I guess first I'd like to ask a bit more about an operational update. You had what looks like a pretty nice sequential improvement in gross margin and said things have stabilized. You achieved your delivery targets of the E-Jets. You had mentioned earlier that you had expected perhaps a sequential decline in Q1 gross margin. I'm wondering if you're still looking for that, or if you think that maybe the improvements that you're generating could last into Q1 and Q2, and with gross margin up sequentially.

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

No, Joe. Unfortunately, we probably will see a decrease in gross margin and therefore all the lines below that. There's a very clear factor for that, which we have several of our materials, several of our supplies with a trigger escalation in January. And of course, as a significant part of our industrial costs, our cost of goods sold, are purchased goods, that has a negative effect on the gross margin. So this will of course evolve throughout the year. So comparing 2007, and 2008 to 2007, we do expect to have a stable or a little bit better, more favorable margin in 2008, despite the 17% devaluation of the U.S. dollar vis-à-vis the real last year. So it's a constant battle towards this currency devaluation. But this is what we have to do and that's what we are doing.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Secondly, Bombardier, you've got authorization to speak to customers about the C series recently. And some others have been moving forward in other parts of the world with their 70 to 100 seat aircraft, and I'm wondering, do you have any updated thoughts on your competitiveness relative to those platforms?

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

Well this is a process, this is not -- I cannot yet show a snapshot. And in this process, the fundamentals are still the same. We still do not have a clear vision about what is the configuration, what is the optimum configuration of the next narrow-body aircraft, narrow-body anything from 80 to 186. Though, by the way, as I understand it, neither Boeing nor Airbus have either -- neither -- anything in that respect either.

So investing a lot in technological developments, monitoring the efficient movements and, of course, a strong effort in terms of sales and occupation of the market. So we have been investing in the 170/190 family consistently. ETOPS 120 minutes, 190, 195, CAT 3A [ph], with both head-up displays and also throttle. So we're not idle in terms of product development, so we have a brand-new family of airplanes being well accepted in the market, and monitoring the development of the technology on the one side and of customers and competition.

So of course, when you have -- once you come closer to confirmation of new programs, of course the level of anxiety raises. It's natural. But as a leading force in the sub-120 seat market, we have to be very sober about making the right moves at the right time. And we do not have a short-term pressure now, until we -- we will not put ourselves into pressure until we are convinced exactly which way to go.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Then just one more, on the business jets that are supposed to be certified this year. Are we still looking at mid-year or early second half for the Phenom 100, or has that been slipping at all, maybe more towards the end of the year?

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

This is like -- it's like Third Quarter. This is what we have been seeing, I think. And --

Q - Joe Nadol {BIO 3056499 <GO>}

How's the margin on your schedule? Is it -- do you feel very comfortable with that or is there any question that you might achieve that?

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

If I said I did, it would be either the first time in ancient history or I would be lying, right? So no, the margins are tight. We have two, three prototypes flying more than 400 quality hours. 400 real hours of tests already captured. So the program is proceeding well, but as in any airplane program, the time is always a pressure. But we're still looking toward the Third Quarter. Will we meet that or not? We'll try. We're convinced we are. But I think it's fair to say if we have a delay, it will not be a delay that takes us towards 2007 (sic). So that's the ballpark of where we are.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Thank you.

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

2009, sorry. 2009.

Q - Joe Nadol {BIO 3056499 <GO>}

Right, I understand. Thank you. See you next week.

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

Yes. Take care.

Operator

Our next question comes from Heidi Wood of Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Good morning. Nice result, Fred, and let me add my congratulations on achieving what you did in 2007 on a number of fronts.

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

Thank you.

Q - Heidi Wood {BIO 3095506 <GO>}

A question for you first on the business jets front. Remind me, I thought my recollection was the backlog on business jets is 60% international, 40% U.S. domestic. I'm wondering if that's right. And secondly, what percentage of your international exposure is concentrated in Europe? And I wonder if you'd talk to us about how you feel about the resiliency of the backlog on the business jet front in U.S. and Europe, given the slowdown that we're experiencing here and looks like is extending into Europe.

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

Those questions are a lot of numbers. Let me see if I -- I'll give you an order of magnitude and later we can give you more precise answers.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay.

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

The number 40%/60%, like 50% U.S., 50% non-U.S. backlog for business jets sounds correct. That's more or less where we are, which is quite different from what we expected. When we launched the program, we expected -- like the Phenom 100, we expected to have 90%, 95% in the U.S., much less than that, which I think is positive in the current scenario. Europe, we tend to -- the way we organize our market information, we consider Europe and Africa and Middle East. This is roughly, I think, 25% of -- it's probably

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applicable both for the commercial and the executive market, but again we can give you some more precise numbers.

Backlog, we feel comfortable about the backlog. On the airline side, it's -- there are very clear indications of when a crisis is coming and approaching us. And so far, for example, the financing of aircraft, which would probably be the first level of resistance in the credit crunch, there's still a lot of liquidity out there, a lot of activity, actually banks bidding for and fighting, disputing deals.

On the business jets, it's a more -- it's a softer monitoring of those trends. But so far, we have not had, well, number one, any cancellations. We actually -- just looking into the Internet, there are several people trying to get some upside and selling early position of [ph] Phenoms. And no requests of adjournments of payments or anything like that. But I -- that's a market which I admit we have less experience than we have in the airline market. But what we know from what we perceive, we are relatively comfortable with our backlog.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. Then a question on the regional jet front, a little bit hearkening off of Joe's question. With the C series coming into the market and Mitsubishi, I wonder if you would talk to us a little bit about your outlook for regional jet orders in 2008. Do you think that these new competitors are going to, A, potentially bite into the number of campaigns that you could win? And B, what do you see is happening on pricing? And C, I'd love to get a sense as to what you think the year-end orders would look like, within a range.

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

Well certainly, if the C series is launched, if the Mitsubishi program is confirmed, they'll be bidding out there for -- will be head to head with us for sales, so it's -- I think it's rational to imagine that we may have some market share loss for those new airplanes. But the level of activity that we have been seeing since last year has not decreased. It's a very intense activity out there and campaigns where, maybe due to the fact that both Airbus and Boeing are sold out and so are we for the short term, there's a lot of requirements for short to mid-term deliveries, which is something that those new airplanes probably cannot fulfill. So the activity out there is very intense.

Of course, you understand we cannot give you a guidance in terms of orders, but you also know that we'd always, by design, be looking for a one-to-one ratio in our revenues and sales. So that's the ballpark you asked. We are trying to grow 25% this year, so we do not want to only just to consume the backlog we have built in the last [ph] several years.

Q - Heidi Wood {BIO 3095506 <GO>}

Thank you, Fred. That's very thorough. I appreciate that.

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

Thank you.

Operator

Thank you. Our next question is from Steve Trent at Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

Hi. Good morning, Freddy. Good morning, everybody. (foreign language).

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

(foreign language).

Q - Steve Trent {BIO 5581382 <GO>}

(foreign language). Just one or two questions from me, thanks. The first actually is also a follow-up on one of Joe's questions earlier. Looking at your maintenance of 2008 jet deliveries, any update as well on margins, or are you basically sticking with the broad guidance you gave us back in Brazil this past November?

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

That's the first one, yes. Yes. The answer is yes. We are sticking to our guidance. It's still a little bit early in the year. And remember that the dollar, from our last call to today, has further decreased in Brazil, so our challenge has only increased. But we are keeping the 8% to 9% EBIT margin, which by the way we have not outlined. I highlighted that, but we have to -- always to keep in mind, mainly inside the Company, that our 8-point-whatever percent we had, 8.7% EBIT margin in 2007 was due to an extraordinary result of a fiscal action we have, a reversal of a provision. Our actual operational result, if we discount that, would be around 4% to 5%.

So it's a huge challenge to grow, and to grow also with a more efficient structure, if you will. So our EBIT will grow significantly this year, but our EBIT margin we are sticking to the 8% to 9%. And we'll deliver 195 to 200 jets plus 10 to 15 Phenoms.

Q - Steve Trent {BIO 5581382 <GO>}

Terrific. And just one quick follow-up, if I may. Looking at the currency, we noticed in a positive light that the list price, for example, on the Legacy 600 is going to bump up a couple of percentage points beginning next month. We also have observed that you've increased the list price on the Phenom 100 twice over the last year or so. To what degree -- to the extent you're allowed or willing to tell me, to what degree might we possibly see some other escalators as we go forward that might help to offset the currency? And any comments on the Brazilian government's possible plans to give exporters some tax relief?

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

Yes. In terms of price lists, there are two movements, actually, Steve. One is to, of course, to stress the elasticity of our price as much as we can. And this is not only us, of course.

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Everybody's trying to do that. The market is very hot in that extent. So we're just not losing this opportunity.

But also, the discount to list price, we have been doing strong efforts to be very strict about discounting list price. For example, I can tell you we have not sold individual Phenom 100s -- fleets are different, of course, but individual Phenom 100s we have not sold to anybody at a discount, which is a tremendous discount to the [ph] list price, I guess, I'd say [ph]. That's a tremendous result, that extent. We -- the market will dictate the elasticity we can provide.

In terms of tax relief, yes. In Brazil, Brazil still has some very weird situations where exports are penalized. Maybe I'm not -- I don't recall any other country where we have situations like that, but we do have. And yesterday, there was a couple of measures decided by the Brazilian government and one of them, I think, was to reduce the tax, which of course is a plus for us. I don't have -- Antonio is still looking at the numbers. I don't think there will be any significant change.

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

There's not a big difference, but it is important.

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

Yes. It's at least in the right direction.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Excellent. (foreign language).

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

(foreign language).

Operator

Our next question comes from Mans Larsen [ph] of Canyon Partners.

Q - Unidentified Participant

Hi. Thank you very much for the call. I was just wondering if you could be a bit more granular in -- when discussing your -- the margin pressures that you're facing in 2008 and what has to happen for you to meet your guidance of the 8% to 9% EBIT margins. You mentioned, among other things, during this call, the currency challenges. You also mentioned the escalation in some of your supplier contracts and you also have alluded to the larger workforce that you now have. So I was just wondering if you could be a bit more granular in that regard.

Then my second question is, you talked about your backlog and your confidence on the business jet side, can you speak about the same for -- on the regional jet side as well,

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please?

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

Sure. Well the battle for improvement of our operating margin has several fronts. Well I think the fundament is we are seeing growth as an opportunity to streamline and optimize the use of our resources in general. So for example, we're not planning to add people in quantities this year, so a relatively stable workforce and a 25% growth. That says a lot itself. Another challenge, and we have already been successful in doing that, is gradually reduce overtime. We -- it would be an artificial -- it would be a dream to imagine that we can just eliminate overtime altogether at once, but we are gradually decreasing it.

Inventories, which I think is one of our Achilles heels, believe it or not, we have, for the first time since I remember, and I'm in Embraer for a while, for 24 years, that we had a slight decrease in our inventories. So inventories reached about \$2.7 billion some time last year, ended the year at \$2.5 billion or 2-point -- and it is now at \$2.45b. And the fact that I know those numbers by heart also says that we're trying to do that, as we grow. And if we do not grow the inventory, we are actually increasing the turnover of the inventory.

Administrative expenses, commercial expenses, it's all over the place. So it's very strict, very hands-on management in trying to hold the cost side and -- but of course, as the dollar goes down, 20% of our costs go up and we have to adjust to that, but this is our day-to-day management. Again, what we have to provide to our investors, our shareholders and to the market in general is our best assessment of our situation. Today, it's to keep our guidance. In terms of -- and, of course, on the other front, still talking about margin, there's the pricing, which I think I spoke a little bit to Steve about our efforts to keep our prices up and helping on the bottom line. Well -- sorry, on the top line.

As far as backlog goes, we feel very confident in terms of our firm backlog, not only because they are firm contracts with non-refundable deposits and of course all the penalties for cancellation, etc., but we have seen no signs of even stress. Customers are demanding more aircraft, not less aircraft. Financial institutions, banks and leasing companies -- we have just announced a second (inaudible), the 170/190 family, which is (inaudible). Although the quantity is relatively small and still the first tranche standard [ph] aircraft, it's an important strategic movement for the 190 family, because in a particular so high quality with a (inaudible) like that, you -- that's going to help us with the capitalarity [ph] and covering some niche markets and high-quality customers.

So -- and our exports to the U.S., a lot of people associate exports to the U.S. as a very bad thing. And I may be totally one clear voice, but we do not bet against the U.S. at all. So the short term, our backlog we see as a very solid one. I think the only concern would be if the crisis would be too long. If it is -- goes years ahead, then I think everybody would be affected. But so far, I have not seen anybody with that perspective.

Q - Unidentified Participant

Very helpful. Thank you very much.

Operator

(Operator Instructions)

Our next question comes from Ricardo Salgado of Goldman Sachs.

Q - Ricardo Salgado {BIO 16850280 <GO>}

Good morning. I have two questions. The first one relates to your backlog. Given that your backlog is at record levels and you're capacity constrained to produce 14 E-Jets per month, why not invest in increasing that capacity or is the answer more where, given the uncertain outlook that we're seeing in the U.S. and the slowing economy across Europe a bit, you're just being a little bit more cautious?

The second question is, given the credit re-pricing that we've seen and access to credit for some of your customers, has that affected you guys at all?

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

The first one, I'll have to come back to you later with that answer. It's a very good question and I think it's natural that we look into that. I think I have said already that if I depended only on my sales guys, I would step up again E-Jets. But coming from where we came, we cannot do that until -- if and until we are comfortable that we will not put ourselves again into the place we were for the last -- until end of last year.

So a very valid point and it's in my to-do list, to check the balance between more growth [ph] or -- and delivery. Basically, it's not a question of investment, but at this stage it's -- we're always talking about the margin on investments and significantly addition to the NPV of the program. So that would not be the case. My number one concern is making sure we are ready to deliver. Well number one, the market is there, will not disappear in two years, and, if it is, if we can deliver.

As far as credit goes, I'll ask Marcelo or Antonio to mention about them.

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

I believe we have that more or less the same. And we consider the -- we mix the reais and the dollar in our cost of the loans, I believe it's more or less the same average you had in the last (technical difficulty).

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

Any kind of concern about this today?

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

As far as the year-on-year results go, 2008 and '07, the cost of our debt was lower than 2006. But in this first three months of the year, I don't think we have seen anything significant.

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

We don't got any kind of big loans, I think, for the year, but you don't see any kind of big difference for the rest of the year, no.

Q - Ricardo Salgado {BIO 16850280 <GO>}

I guess I'm referring more to the customer side. If your customers' access to credit has declined a little bit or the cost of the credit has increased substantially, has that affected the demand? It seems it hasn't, but I just wanted to double-check.

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

No, no. It has not. Actually, it's -- we are seeing -- what we actually see, we cannot be overwhelmed by that, but what we actually see is people bidding for deals, so banks and leasing companies trying or (inaudible) operations trying to seek opportunistic customers and deals to finance (multiple speakers).

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

Maybe if you consider a weak client, it maybe increases the price, certainly. But for the average, I don't see that and what Fred said is important. We were seeing some banks to search for new clients for financing our aircraft. I believe that is not a big problem for this year and for the next year. We have all the levers for 2008, 2009 just until finance for the market or another kind of leasing companies or something that.

Q - Ricardo Salgado {BIO 16850280 <GO>}

Thank you.

Operator

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

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

Well again, thank you very much for your attention for spending or taking the time to follow Embraer. The road for recovery is not an easy one. It's not a short one. But our determination is to build it and put one brick on top of the other and fundamentally looking to the means, not to the ends, which is really to invest in our people, invest in our processes, seek to become, over time, a Company of excellence in terms of its internal procedures and processes. So bear with us. Long way to go, but it's going to be a nicer and nicer story. This is our firm belief. Thank you very much.

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

Thank you very much and we await to see you in New York next Wednesday. Thank you very much.

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

Yes. Thank you.

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

Thank you. 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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