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## INTRODUCTION

In this annual report, “Embraer,” “we,” “us” or “our” refer to Embraer-Empresa Brasileira de Aeronáutica S.A., formerly known as Rio Han Empreendimentos e Participações S.A. (as successor in interest to Embraer-Empresa Brasileira de Aeronáutica S.A., or former Embraer, as a result of the merger of former Embraer with and into Embraer), 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.

### Corporate Reorganization

On March 31, 2006, our shareholders approved a reorganization of our corporate structure. The purpose of the reorganization was to, among other things, create a basis for the sustainability, growth and continuity of our businesses and activities by simplifying our capital structure and thereby improving our access to capital markets and increasing financing resources for the development of new products and expansion programs. As a result of the reorganization and merger, former Embraer, ceased to exist and:

- Embraer (formerly known as Rio Han Empreendimentos e Participações S.A. and renamed Embraer-Empresa Brasileira de Aeronáutica S.A.) succeeded to all rights and obligations of former Embraer,
- each common share of former Embraer was exchanged for one common share of Embraer,
- each preferred share of former Embraer was exchanged for one common share of Embraer,
- each American Depositary Share, or ADS, of former Embraer, each of which represented four preferred shares of former Embraer, was exchanged for one ADS of Embraer, each of which represents four common shares of Embraer, and
- the golden share, a special class of common shares of former Embraer held by the Federative Republic of Brazil, was exchanged for a special class of common shares of Embraer.

For further information on our corporate reorganization, see “Item 4A. History and Development of the Company—Corporate Reorganization.”

Former Embraer was incorporated as a publicly held company with private participation by the Brazilian government in 1969 and was privatized in 1994. We have grown from a government-controlled company established to develop and produce aircraft for the Brazilian Air Force into a public company that produces aircraft for commercial aviation, executive jet and defense and government purposes. Throughout our evolution, we have obtained, developed and enhanced our engineering and technological capabilities through our own development of products for the Brazilian Air Force and through joint product development with foreign companies on specific projects. We have applied these capabilities that we gained from our defense and government business to develop our commercial aviation business.

### Presentation of Financial and Other Data

#### Financial Data

Our audited financial statements at December 31, 2005 and 2006 and for each of the years ended December 31, 2004, 2005 and 2006 are included in this annual report and have been audited by Deloitte Touche Tohmatsu.

Our consolidated financial statements as of and for the years ended December 31, 2002 and 2003 have not been included in this annual report.

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. 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. 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 2004, 2005 and 2006 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 reconciliation of amounts to the functional currency and other adjustments related to the differences in accounting principles between U.S. GAAP and accounting principles generally accepted in Brazil, or 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.

As a result of the listing of our common shares on the *Novo Mercado* segment of the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), beginning in June 2008 we will be required to either translate into English our quarterly financial statements, including cash flow statements, prepared in accordance with the Brazilian Corporate Law, or prepare such quarterly financial statements in accordance with, or reconciled to, U.S. GAAP or International Financial Reporting Standards, or IFRS.

#### **Other Data and Backlog**

In this annual report:

- some of the financial data 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 aviation segment;
- 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 executive jets that carry from six to eight passengers and up to nine passengers, respectively, that are designed for short take-off distances;
- the term “ultra-large” refers to executive jets that have longer range and over-sized cabin space and carry, on average, 19 passengers; and
- the term “executive jets,” as it applies to Embraer, refers to our aircraft sold to companies, including fractional ownership companies, charter companies and air-taxi companies and high net-worth individuals.

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 and customarily accompanied by a down payment, for which 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 commercial aircraft, we exclude one EMB 145 delivered to the Belgian government in 2002 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 and government data. In July 2005, we started to include the number of aircraft sold by the defense and government segment to state-owned airlines, such as TAME and Satena, in our commercial aircraft backlog.

#### **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, industry 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 executive jets (including our new executive jets, the Phenom 100, Phenom 300 and Lineage 1000), and our defense aircraft;
- our level of debt;
- anticipated trends in our industry and of our short- and long-term outlook for the 30-120 seat commercial airline 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
- other risk factors as set forth under “Item 3D. Risk Factors.”

The words “believe,” “may,” “will,” “forecast,” “estimate,” “plan,” “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. As a result of various factors such as those risks described in “Item 3D. Risk Factors,” undue reliance should not be placed on these forward-looking statements.