Financial Statements

Embraer - Empresa Brasileira de Aeronáutica S.A.

Financial Statements for the Year Ended December 31, 2008 and 2007 and Independent Auditors' Report

PricewaterhouseCoopers Auditores Independentes

Contents

EMBRAER

Balance Sheets

at December 31, 2008 and 2007

(in thousands of brazilian reais)

		Parent Company		Consolidated	
ASSETS	Note	2008	2007	2008	2007
CURRENT ASSETS					
Cash and cash equivalents	(4)	2,098,167	117,814	3,341,888	2,315,738
Temporary cash investments	(5)	1,523,911	1,778,023	1,780,196	2,095,540
Marketable securities	(6)	759	759	22,786	4,769
Trade accounts receivable	(7)	408,106	189,450	1,107,044	695,712
Accounts receivable from subsidiaries	(7)	273,857	175,235	-	-
Customer financing	(8)	-	-	20,123	7,603
Collateralized accounts receivable	(9)	-	-	26,886	21,993
Provision for doubtful accounts	(7)	(12,139)	(10,903)	(82,782)	(67,520)
Inventories	(13)	5,233,945	3,582,240	6,906,358	4,571,039
Taxes recoverable	(10)	157,970	129,939	246,101	156,894
Other credits	(11)	166,526	142,643	316,089	191,449
Deferred income tax and social contribution on net income	(33)	373,276	152,464	404,508	175,165
Prepaid expenses	(14)	70,896	29,337	76,351	35,874
		10,295,274	**6,287,001**	**14,165,548**	**10,204,256**
NON-CURRENT ASSETS					
Long-term receivables					
Marketable securities	(6)	473	439	159,633	74,321
Trade accounts receivable	(7)	-	-	13,689	70,252
Customer financing	(8)	77,009	61,939	264,538	119,583
Collateralized accounts receivable	(9)	-	-	1,091,720	824,138
Inventories	(13)	-	-	194,745	125,170
Taxes recoverable	(10)	67,255	16,242	76,472	20,230
Accounts receivable from subsidiaries	(15)	2,138,251	2,547,664	-	-
Guarantee deposits	(12)	18,691	21,661	1,152,636	831,721
Other credits	(11)	20,462	20,674	28,137	25,457
Deferred income tax and social contribution on net income	(33)	338,237	611,812	424,559	651,817
Prepaid expenses	(14)	-	-	16,786	10,771
Investments	(15)	2,865,319	1,941,326	10	2,415
Property, plant and equipment	(16)	1,291,557	782,528	2,300,207	1,397,445
Intangible assets	(17)	1,531,270	1,059,200	1,610,490	1,118,469
		8,348,524	**7,063,485**	**7,333,622**	**5,271,789**
TOTAL ASSETS		**18,643,798**	**13,350,486**	**21,499,170**	**15,476,045**

The accompanying notes are an integral part of these financial statements.

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Balance Sheets

at December 31, 2008 and 2007

(in thousands of brazilian reais) (continued)

		Parent Company		Consolidated	
LIABILITIES AND STOCKHOLDERS' EQUITY	Note	2008	2007	2008	2007
CURRENT LIABILITIES					
Loans and financing	(18)	930,096	1,457,000	1,259,809	1,659,051
Recourse and non-recourse debt	(9)	-	-	321,753	201,866
Suppliers	(19)	2,212,076	1,402,686	2,520,208	1,616,393
Accounts payable	(20)	89,830	78,403	163,503	135,125
Contributions from partners	(21)	-	-	5,823	7,316
Accounts payable to subsidiaries		109,585	102,173	-	-
Advances from customers	(22)	2,401,225	1,257,965	2,691,041	1,419,907
Taxes and social charges payable	(23)	81,366	133,686	148,009	166,911
Other provisions	(24)	802,133	437,526	891,737	509,705
Contingencies	(25)	20,957	11,235	22,137	12,413
Dividends	(26)	188	195,959	2,002	196,719
Deferred income tax and social contribution on net income	(33)	74,714	56,066	84,737	54,274
Unearned income		258,098	167,404	264,259	178,616
		6,980,268	**5,300,103**	**8,375,018**	**6,158,296**
NON-CURRENT LIABILITIES					
Long-term liabilities					
Loans and financing	(18)	2,696,902	1,186,147	3,039,870	1,465,944
Recourse and non-recourse debt	(9)	-	-	857,391	658,449
Suppliers	(19)	-	-	-	600
Accounts payable	(20)	2,820	2,758	41,218	46,179
Contributions from partners	(21)	65,484	35,466	103,453	198,742
Advances from customers	(22)	1,039,978	643,888	1,049,800	651,763
Taxes and social charges payable	(23)	539,696	610,952	547,027	619,372
Contingencies	(25)	60,049	64,300	80,114	80,328
Other provisions	(24)	235,902	193,445	235,902	188,753
Deferred income tax and social contribution on net income	(33)	865,627	507,780	921,430	548,242
Unearned income		7,948	22,824	7,949	22,824
Deferred income		105,880	84,245	105,973	84,245
		5,620,286	**3,351,805**	**6,990,127**	**4,565,441**
Minority interest		-	-	**163,494**	**114,223**
Stockholders' equity	(27)				
Capital		4,789,617	4,789,617	4,789,617	4,789,617
Treasury shares		(320,250)	(1,414)	(320,250)	(1,414)
Revenue reserves		1,578,001	1,392,688	1,487,677	1,283,064
Cumulative translation adjustments		(4,124)	(1,482,313)	13,487	(1,433,182)
		6,043,244	**4,698,578**	**5,970,531**	**4,638,085**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**18,643,798**	**13,350,486**	**21,499,170**	**15,476,045**

The accompanying notes are an integral part of these financial statements.

Statements of income

for the years ended December 31, 2008 and 2007

(in thousands of brazilian reais, except for earnings per share)

		Parent Company		Consolidated	
	Note	2008	2007	2008	2007
GROSS SALES					
Sales					
Domestic market		262,791	226,059	522,065	469,056
Foreign market		10,467,643	8,912,035	11,359,543	9,842,273
Taxes and deductions from sales		(24,238)	(77,397)	(134,843)	(317,677)
NET SALES		10,706,196	9,060,697	11,746,765	9,993,652
COST OF SALES		(8,599,236)	(7,222,660)	(9,339,709)	(7,940,856)
GROSS PROFIT		2,106,960	1,838,037	2,407,056	2,052,796
OPERATING INCOME (EXPENSES)					
Administrative		(297,122)	(338,496)	(396,845)	(432,176)
Management fees		(27,507)	(20,410)	(28,451)	(21,436)
Selling		(754,667)	(983,043)	(731,155)	(698,794)
Other income (expense), net	(30)	(102,650)	43,935	(138,018)	37,127
Equity in the earnings (loss) of subsidiaries	(15)	214,026	533,285	(91)	620
OPERATING PROFIT BEFORE FINANCIAL INCOME (EXPENSES)		1,139,040	1,073,308	1,112,496	938,137
FINANCIAL INCOME (EXPENSES)					
Financial expenses	(31)	(196,692)	(169,526)	(229,520)	(209,969)
Financial income	(31)	141,075	236,845	189,033	445,388
Monetary and foreign exchange variations, net	(32)	(256,684)	20,786	(188,830)	14,484
PROFIT BEFORE TAXATION		826,739	1,161,413	883,179	1,188,040
Income tax and social contribution on net income for the year	(33)	(1,877)	(34,109)	(23,623)	(64,204)
Deferred income tax and social contribution on net income	(33)	(415,412)	47,423	(411,513)	75,398
NET INCOME AFTER TAXES		409,450	1,174,727	448,043	1,199,234
MINORITY INTEREST		-	-	(19,293)	(14,055)
NET INCOME FOR THE YEAR		409,450	1,174,727	428,750	1,185,179
NET INCOME PER SHARE OUTSTANDING AT THE END OF THE YEAR - R$		0.566	1.586		

The accompanying notes are an integral part of these financial statements.

Statements of changes in stockholders' equity – parent company

for the years ended December 31, 2008 and 2007

(in thousands of brazilian reais, except for dividends and interest on own capital per share)

	Capital	Revenue reserves			Treasury shares	Retained earnings	Cumulative translation adjustments	Total
		Investment subsidy	Legal reserve	For investments and working capital				
AT DECEMBER 31, 2006	4,782,846	-	65,237	335,156	-	-	-	5,183,239
Adjustments Law 11.638/07 (Note 2.g)	-	-	-	-	-	266,286	(558,622)	(292,336)
Adjusted opening balance	**4,782,846**	**-**	**65,237**	**335,156**	**-**	**266,286**	**(558,622)**	**4,890,903**
Capital increase								
In cash	6,771	-	-	-	-	-	-	6,771
Treasury shares (Note 26)	-	-	-	-	(1,414)	-	-	(1,414)
Prescribed dividends	-	-	-	72	-	-	-	72
Net income for the year	-	-	-	-	-	1,174,727	-	1,174,727
Cumulative translation adjustments	-	-	-	-	-	-	(923,691)	(923,691)
Appropriations of net income								
Proposed dividends (R$ 0.17 per share)	-	-	-	-	-	(123,000)	-	(123,000)
Legal reserve	-	-	29,653	-	-	(29,653)	-	-
Interest on own capital (R$ 0.44 per share)	-	-	-	-	-	(325,790)	-	(325,790)
Reserve for investments and working capital	-	-	-	114,610	-	(114,610)	-	-
AT DECEMBER 31, 2007	**4,789,617**	**-**	**94,890**	**449,838**	**(1,414)**	**847,960**	**(1,482,313)**	**4,698,578**
Treasury shares (Note 26)	-	-	-	-	(318,836)	-	-	(318,836)
Prescribed dividends	-	-	-	73	-	-	-	73
Net income for the year	-	-	-	-	-	409,450	-	409,450
Cumulative translation adjustments	-	-	-	-	-	-	1,478,189	1,478,189
Appropriations of net income								
Effects of the retroactive adoption of Law 11.638/07	-	8,094	42,398	797,468	-	(847,960)	-	-
Investment subsidy	-	13,116	-	-	-	(13,116)	-	-
Legal reserve	-	-	20,472	-	-	(20,472)	-	-
Interest on own capital (R$ 0.31 per share)	-	-	-	-	-	(224,210)	-	(224,210)
Reserve for investments and working capital	-	-	-	151,652	-	(151,652)	-	-
AT DECEMBER 31, 2008	**4,789,617**	**21,210**	**157,760**	**1,399,031**	**(320,250)**	**-**	**(4,124)**	**6,043,244**

The accompanying notes are an integral part of these financial statements.

Statements of value added

for the years ended December 31, 2008 and 2007

(in thousands of brazilian reais)

	Parent Company		Consolidated	
	2008	2007	2008	2007
REVENUES	11,173,178	9,690,904	12,300,898	10,642,682
Sales of goods, products and services	10,715,849	9,072,853	11,762,101	10,014,368
Provision for doubtful accounts - reversals and new provisions	(72)	(1,891)	(3,213)	(2,221)
Other	101,983	253,795	87,873	250,879
Revenues relating to construction of own assets	355,418	366,147	454,137	379,656
INPUT MATERIALS PURCHASED FROM THIRD PARTIES	**8,805,469**	**8,063,207**	**9,303,689**	**8,280,032**
Raw materials used	7,074,045	6,294,698	7,525,984	6,782,200
Materials, energy, outsourced services and other	1,731,424	1,768,509	1,777,705	1,497,832
GROSS VALUE ADDED	2,367,709	1,627,697	2,997,209	2,362,650
RETENTIONS	167,369	178,759	227,574	225,198
Depreciation, amortization and depletion	167,369	178,759	227,574	225,198
NET VALUE ADDED PRODUCED BY THE ENTITY	**2,200,340**	**1,448,938**	**2,769,635**	**2,137,452**
VALUE ADDED RECEIVED IN TRANSFER	355,101	770,130	188,942	446,008
Equity in the earnings (loss) of subsidiaries	214,026	533,285	(91)	620
Financial income	141,075	236,845	189,033	445,388
TOTAL VALUE ADDED TO BE DISTRIBUTED	**2,555,441**	**2,219,068**	**2,958,577**	**2,583,460**
DISTRIBUTION OF VALUE ADDED	2,555,441	2,219,068	2,958,577	2,583,460
Personnel and charges	1,204,933	872,932	1,526,710	1,096,970
Taxes and contributions	68,597	105,420	137,934	187,837
Deferred income tax and social contribution on net income	415,412	(47,423)	411,513	(75,398)
Interest and rentals	457,048	113,412	434,377	174,817
Interest on own capital and dividends	224,210	448,790	224,210	448,790
Retained earnings	185,241	725,937	204,540	736,389
Minority interest in retained earnings	-	-	19,293	14,055

The accompanying notes are an integral part of these financial statements.

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Statements of cash flows

for the years ended December 31, 2008 and 2007

(in thousands of brazilian reais)

	Parent Company		Consolidated	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Net income for the year	409,450	1,174,727	428,750	1,185,179
ITEMS NOT AFFECTING CASH AND CASH EQUIVALENTS				
Depreciation and amortization	307,476	321,129	387,216	384,491
Losses (gains) on the sale of property, plant and equipment	(472)	(1,744)	1,371	(240)
Provision for obsolescence	255	(30,968)	(52,797)	(9,319)
Provision for losses	5,667	483	(3,287)	5,288
Write-off of intangible assets	-	-	20,128	(1,691)
Deferred income tax and social contribution on net income	415,414	(40,719)	411,513	(75,398)
Interest on taxes and loans payable in installments	(23,106)	(5,841)	(14,418)	14,291
Provision for doubtful accounts	(280)	1,991	(5,173)	(3,565)
Equity in the (earnings) loss of subsidiaries	214,027)	(533,285)	91	(620)
Monetary and foreign exchange variations, net	(86,029)	191,686	(100,288)	249,047
Minority interest	-	-	19,293	14,055
Other	613	(29,579)	1,752	(7,010)
CHANGES IN ASSETS AND LIABILITIES	**1,986,685**	**(880,423)**	**612,507**	**(947,611)**
Trade accounts receivable	680,307	(277,153)	(99,476)	(179,814)
Collateralized accounts receivable	-	-	(1,605)	666,383
Customer Financing	3,698	(68,128)	(116,466)	355,705
Prepaid expenses	(23,342)	117,075	(22,161)	31,824
Inventories	(318,796)	(550,040)	(644,979)	(1,049,612)
Other credits	28,287	(76,488)	18,991	(68,341)
Unearned income	14,264	50,299	5,395	61,444
Guarantee deposits	6,977	7,974	(42,934)	267,998
Taxes recoverable	(9,138)	(90,606)	(48,936)	(89,065)
Suppliers	206,043	(10,252)	247,818	(2,087)
Recourse and non-recourse debt	-	-	30,743	(670,332)
Income tax and social contribution on net income payable	740	-	5,897	(9,689)
Taxes payable	(313,485)	(108,933)	(306,344)	(107,462)
Contributions from partners	198,353	(76,338)	21,730	8,894
Contingencies	(12,414)	6,211	(14,130)	(12,845)
Advances from customers	684,646	757,799	739,827	859,463
Deferred income	11,334	92,663	(3,578)	(6,819)
Temporary investments	695,150	(877,333)	712,565	(1,226,578)
Minority interest	-	-	(2,628)	(18,043)
Other provisions	162,160	185,443	163,598	188,607
Accounts payable	(28,099)	37,384	(30,820)	52,758
NET CASH PROVIDED BY OPERATING ACTIVITIES	**2,801,646**	**167,457**	**1,706,658**	**806,897**
INVESTING ACTIVITIES				
Sales of property, plant and equipment	704	1,545	3,330	9,508
Additions to property, plant and equipment	(276,992)	(335,326)	(482,213)	(413,429)
Additions to intangible assets	(452,494)	(496,955)	(480,340)	(521,805)
Additions to investment	(50,651)	(6,782)	-	-
Marketable securities	-	(1,789)	53	2,365
Dividends received	2,671	8,799	-	-
Restricted cash reserved for construction of assets	-	-	(24,233)	28,430
NET CASH USED IN INVESTING ACTIVITIES	**(776,762)**	**(830,508)**	**(983,403)**	**(894,931)**
FINANCING ACTIVITIES				
Loans paid	(2,954,562)	(2,421,399)	(3,330,640)	(2,871,403)
New loans obtained	3,368,834	2,800,527	3,777,417	3,474,312
Dividends and interest on own capital	(423,797)	(329,987)	(423,468)	(329,491)
Capital increase	-	7,018	-	7,018
Treasury shares	(317,963)	(1,527)	(317,962)	(1,527)
Acquisition of minority interest	-	-	(3,215)	-
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	**(327,488)**	**54,632**	**(297,868)**	**278,909**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,697,396	(608,419)	425,387	190,875
EFFECTS OF FOREIGN CURRENCY TRANSLATION	282,957	(83,630)	600,763	(460,825)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2,098,167	117,814	3,341,888	2,315,738
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	117,814	809,863	2,315,738	2,585,688

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

at December 31, 2008 and 2007

(In thousand of reais unless otherwise indicated)

1 OPERATIONS

The operations of Embraer – Empresa Brasileira de Aeronáutica S.A.(Embraer or Parent Company; together with its subsidiaries, Consolidated or the Company), a corporation with its headquarters in the city of São José dos Campos, State of São Paulo, Brazil are the development, production and sale of jet and turboprop aircraft for civil and defense aviation, aircraft for agricultural use, structural components, mechanical and hydraulic systems and technical activities related to the production and maintenance of aerospace material.

The consolidated financial statements have been prepared and are presented in conformity with Brazilian Corporate Law and include the accounts of the Company and of all the subsidiaries in which Embraer directly or indirectly holds a majority of the capital or of the management control, as follows:

Canal Investments LLC – A wholly-owned subsidiary, domiciled in Delaware, United States, responsible for electronic commerce. The company is currently inactive.

ELEB Equipamentos Ltda. – Embraer holds 60% of the voting capital of this company, based in São José dos Campos, and Liebherr Aerospace S.A.S. hold the remaining 40%. On July 3, 2008, Embraer acquired the 40% interest in ELEB – Embraer Liebherr Equipamentos do Brasil S.A. from Liebherr Aerospace S.A.S., concluding the transaction announced on December 21, 2007. Embraer now holds 99.99% of ELEB's quotas, and the company name was changed to ELEB – Equipamentos Ltda. ELEB produces and sells precision hydraulic and mechanical equipment for the aviation industry. Its subsidiary, ELEB Aerospace, Inc., domiciled in Delaware, United States, with an operational base in the State of Kansas, United States, sells landing gear, spare parts, product support and customer training. ELEB Aerospace is currently closing down its operations.

Embraer Aircraft Holding Inc. – EAH – A wholly-owned subsidiary, domiciled in Fort Lauderdale, United States, responsible for corporate and institutional activities. It has the following subsidiaries located in the United States:

- **Embraer Aircraft Customer Services, Inc. – EACS –** sells spare parts, product support and customer training in the United States, Canada, the Caribbean and the United Kingdom.
- **Embraer Aircraft Maintenance Services Inc. – EAMS –** provides maintenance services for aircraft and components.
- **Embraer Training Services – ETS –** domiciled in Delaware, United States, responsible for corporate and institutional activities and has a 51% subsidiary, Embraer CAE Training Services – ECTS, also domiciled in Delaware – United States, which provides training for pilots, mechanics and crew.
- **Embraer Executive Jet Service, LLC – EEJS –** domiciled in Delaware, United States, currently in the pre-operating stage. Its objective is to provide after sales support and maintenance services for executive aircraft.
- **Embraer Services Inc. – ESI –** provides support in the United States for the defense and commercial market programs.
- **Embraer Executive Aircraft, Inc. –** incorporated in 2008 and domiciled in Delaware, with its operational base in Fort Lauderdale, in the United States, its objective is the final assembly and delivery of the Phenom executive jet.

Embraer Asia Pacific PTE. Ltd. – EAP – a wholly-owned subsidiary, domiciled in Singapore, incorporated in 2006 with the objective of providing after sales support services in Asia.

Embraer Australia PTY Ltd. – EAL – a wholly-owned subsidiary, domiciled in Melbourne, Australia, with the objective of providing after sales support services to customers in the Australasian and Asian regions. The company is currently inactive.

Embraer Aviation Europe SAS – EAE – a wholly-owned subsidiary, located in Villepinte, France, responsible for corporate and institutional activities and has the following subsidiaries:

- **Embraer Aviation International SAS – EAI –** domiciled in Villepinte, France, sells parts and provides after sales support services in Europe, Africa and the Middle East.
- **Embraer Europe SARL – EES –** domiciled in Villepinte, France, provides sales representation for the Company in Europe, Africa and the Middle East.

Embraer Credit Ltd. – ECL – a wholly-owned subsidiary, domiciled in Delaware, United States, provides support for sales operations.

Embraer GPX S.A. – a wholly-owned subsidiary, incorporated in 2006 and located in Gavião Peixoto, State of São Paulo, Brazil to provide specialized aircraft workshop services. The company is still in the pre-operating stage and scheduled to start operations in the first six months of 2009.

Embraer Overseas Limited – a wholly-owned subsidiary, domiciled in the Cayman Islands, B.W.I., incorporated in September 2006 with the sole objective of carrying out financial transactions, including raising and investing funds, intercompany loans for Embraer companies and derivative transactions to hedge against the risks of its operations.

Embraer Representation LLC – ERL – a wholly-owned subsidiary, domiciled in Delaware, United States, providing institutional representation for the Company.

Embraer Spain Holding Co. SL – ESH – a wholly-owned subsidiary, domiciled in Spain. Its objective is to coordinate investments in subsidiaries abroad, including those focused on activities that support the sale of aircraft and management of assets derived from these operations. ESH's operations are carried out by its subsidiaries:

- **Airholding SGPS, S.A. –** domiciled in Portugal, incorporated on December 22, 2004 as a 99.9% subsidiary of ESH. On December 23, 2004, it acquired 65% of the voting capital of OGMA – Indústria Aeronáutica de Portugal S.A., a Portuguese aviation maintenance and production company, from Empresa Portuguesa de Defesa – EMPORDEF. In March 2006, ESH transferred 29% of the capital of Airholding SGPS, S.A. to the European Aeronautic Defense and Space Company – EADS N.V., retaining 70% of the capital.
- **ECC Investment Switzerland AG –** domiciled in Switzerland, holds 100% of the capital of the subsidiaries ECC Insurance & Financial Co. Ltd. – ECC Insurance and Embraer Finance Ltd. – EFL.
  - **ECC Insurance & Financial Co. Ltd. –** domiciled in the Cayman Islands, is an in-house insurance company providing cover for the financial guarantees offered to customers and/or financing agents involved in structuring the sales of Embraer aircraft.
  - **Embraer Finance Ltd. – EFL –** domiciled in the Cayman Islands, assists customers in obtaining third-party financing, as well as providing support for some of the Company's purchase and sale transactions.
- **ECC Leasing Co. Ltd. –** domiciled in Ireland, its objective is the lease and sale of used aircraft.
- **Harbin Embraer Aircraft Industry Company Ltd. – HEAI –** based in Harbin, in China, its purpose is to manufacture aircraft of the ERJ 145 family in order to meet the commercial air transportation market demand in China for the 30 to 50 seat range. On July 1, 2007, as part of a corporate restructuring, Embraer transferred its full 51% controlling interest to ESH.
- **E.P.H. – SGPG S.A. –** a wholly-owned subsidiary, incorporated in 2008 and domiciled in Portugal, in the city of Évora, to coordinate investments and operations in its subsidiaries in that country.
  - **E Operacional Estruturas Metálicas S.A. –** incorporated in 2008 and domiciled in Portugal, in the city of Évora, its objective is the manufacture, assembly, maintenance and sale of parts, components and metal sets and carrying out other technical, industrial, commercial and service activities related to the metal products industry.
  - **EC Estruturas de Compósitos, S.A. –** incorporated in 2008 and domiciled in Portugal, in the city of Évora, its objective is the manufacture, assembly and sale of structures based on parts and sets in composite materials and carrying out other technical, industrial, commercial and service activities related to the composite, non-metal products manufacturing industry.

ECC do Brasil Cia. de Seguros – a 99.9% subsidiary, domiciled in Rio de Janeiro, Brazil, incorporated on June 3, 2004, and approved by the Private Insurance Agency – SUSEP. Its objective is to operate solely with export credit insurance.

On December 7, 2007, Embraer's Board of Directors approved the proposal to sell all of its shares in ECC do Brasil Cia de Seguros.

Indústria Aeronáutica Neiva Ltda.-Neiva – a 99.99% subsidiary, located in Botucatu, State of São Paulo, Brazil, which currently sells agricultural aircraft and parts and components for this model of aircraft. In a meeting held on July 28, 2006, the quotaholders approved a reduction in Neiva's capital and the transfer of its operations to the parent company, registered on November 22, 2006 in accordance with the requirements of the commercial legislation in force.

Special Purpose Companies – SPCs – The Company organizes some of its aircraft sale financing transactions through SPCs, in which the Company has no direct or indirect interest. The SPCs are consolidated in the financial statements of the parent company. Although it has no equity interests, the Company controls their operations or takes a majority share of their risks and rewards. The consolidated SPCs are: Barca Nine Ltd., Jurema Ltd., Corcim Inc., Sampa Gold Inc., PM Limited, Refine Inc., RS Limited, River One Ltd., Fifth Feathers Ltd. and Port One Ltd. Other SPCs were not consolidated, based on technical analyses made by management, which concluded that Embraer is not the "primary beneficiary" and that they have no continuous involvement with the Company.

Exclusive Investment Funds – in line with its business strategies, the Company has exclusive investment funds, which are consolidated in the financial statements. The balances of marketable securities and investments maintained through these

Funds are recorded in the Cash and cash equivalents or Temporary cash investments accounts, taking into consideration the original maturities of the securities and the fund investment strategies, which provide for negotiation of these securities in periods that reflect the immediate liquidity of the amounts (Note 4).

2 PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Company's Board of Directors in a meeting held on March 20, 2009.

The financial statements (parent company and consolidated) have been prepared in accordance with Brazilian corporate legislation and are presented in conformity with Brazilian accounting practices and additional regulations of the Brazilian Securities Commission (CVM), in accordance with principles, methods and criteria consistent with those of the financial statements of the previous year.

The preparation of financial statements requires that management makes estimates and adopts assumptions relating to the assets and liabilities reported, the disclosure of contingent assets and liabilities on the date of the financial statements and to the amounts of revenues and expenses reported in the corresponding years. The actual results may differ from these estimates.

Amendments to Brazilian Corporate Law

Law No. 11.638, enacted on December 28, 2007 and amended by Provisional Measure – MP No. 449, of December 4, 2008, amended and introduced new provisions in Brazilian corporate legislation. The main objective of this Law and of the MP was to update Brazilian corporate legislation in order to bring accounting practices adopted in Brazil into line with the international accounting standards issued by the International Accounting Standards Board – IASB. Application of the Law and MP is mandatory for annual financial statements of years beginning on or after January 1, 2008.

The Company is adopting Law No. 11.638 and Provisional Measure – MP No. 449 for the first time.

The changes in Corporate Law have the following main impacts on the Company's financial statements, adopted retroactively to 2007:

a. **Investments in marketable securities –** securities for trading are now valued at fair value against income for the year (Note 6).

b. **Adjustments to present value –** trade accounts receivable with long-term maturities were adjusted to present value, based on specific interest rates.

c. **Derivative financial instruments –** the Company now records financial derivatives at fair value (see Note 34).

d. **Capital leases –** certain of the Company's information technology equipment, leased from Banco IBM S.A., Bank Boston S.A. and HP Financial Services, was recorded in property, plant and equipment and the corresponding liability was recorded in Loans and financing in current and non-current liabilities, based on the value of the outstanding amounts payable at the transaction date (Note 18). The difference between the net asset value and of the liability recorded on the date of transition of the first-time adoption of Law 11.638/07 was recognized in the Retained earnings account. Prior to Law 11.638/07, capital lease agreements were recorded as operating leases.

e. **Reclassifications –** expenditure on the development of new products capitalized and recorded in deferred charges was reclassified to intangible assets.

f. **Business combinations / mergers and determination of goodwill –** in addition to the changes described above, resulting from the changes in Corporate Law, the Company recorded the negative goodwill on the purchase of the remaining 40% of the subsidiary ELEB Equipamentos do Brasil Ltda., on July 3, 2008. This negative goodwill is stated in Deferred income in the consolidated financial statements.

g. First-time adoption – As permitted by CPC (Brazilian Accounting Pronouncements Committee) Technical Pronouncement 13 – First-time adoption of Law No. 11.638/07 and MP No. 449/08, Company management chose January 1, 2007 as the transition date and is presenting restated comparative figures for 2007, adjusted in accordance with NPC (Accounting Rules and Standard) No. 12 – Accounting Practices, Changes in Estimates and Correction of Errors. The changes in accounting practices that affected income on the transition date have been recorded against retained earnings, as follows:

Reconciliation of Stockholders' Equity and Net Income between Corporate Laws 6.404 and 11.638 for the first time of adoption of the Law 11.638/2007
(in thousands of Brazilian reais unless otherwise indicated)

	Parent Company					Consolidated				
	Stockholders' equity			Net income		Stockholders' equity			Net income	
	2008	2007	2006	2008	2007	2008	2007	2006	2008	2007
Balance before changes introduced by Law Nº 11.638/07 and MP Nº 449/08	**5,444,126**	**5,341,025**	**5,183,239**	**646,074**	**593,053**	**5,381,623**	**5,262,315**	**5,040,610**	**649,109**	**656,972**
Equity accounting adjustments	(144,611)	(43,809)	(20,882)	(100,802)	(22,927)	-	-	-	-	-
Recording of capital leases	(1,676)	(1,699)	(362)	23	(1,337)	(1,676)	(1,699)	(362)	23	(1,337)
Recognition of a sale as na operating lease	(20,067)	(22,492)	-	2,426	(22,492)	(20,067)	(22,492)	-	2,426	(22,492)
Differences in depreciation calculations	110,999	122,112	136,691	(11,113)	(14,579)	110,999	122,112	136,691	(11,113)	(14,579)
Capitalization of interest on construction in progress	2,913	3,861	4,639	(948)	(777)	2,913	3,861	4,639	(948)	(777)
Cost of financing transaction (effective rate)	5,685	6,519	7,402	(834)	(883)	5,685	6,519	7,402	(834)	(883)
Marking to market of derivatives	(20,962)	(5,227)	9,270	(15,736)	(14,497)	(20,962)	(5,227)	9,270	(15,736)	(14,497)
Subsidies	21,210	8,094	-	13,116	8,094	21,210	8,094	-	13,116	8,094
Cumulative translation adjustments	(30,511)	(1,513,432)	(574,626)	-	-	(12,900)	(1,464,301)	(574,626)	-	-
Cumulative translation adjustments on investments	26,387	31,119	16,004	-	-	26,387	31,119	16,004	-	-
Deferred taxes differences between the book and tax bases of non-monetary items	(268,114)	331,915	194,484	(600,029)	137,431	(268,114)	331,915	194,484	(600,029)	137,431
Deferred taxes on differences in accounting practices - Law 6.404/76 x Law 11.638/07	(32,988)	(37,727)	(53,598)	4,739	15,871	(32,988)	(37,727)	(53,598)	4,739	15,871
Difference in formation of cost of sales	253,994	476,032	-	(222,038)	476,032	253,994	476,032	-	(222,038)	476,032
Differences in exchange variation as a result of the adoption of the US dollar functional currency	493,177	(265,567)	-	758,744	(265,567)	493,177	(265,567)	-	758,744	(265,567)
Differences in translation as a result of the US dollar functional currency	203,682	267,854	(11,358)	(64,172)	287,305	31,250	193,131	(9,687)	(148,709)	210,911
Balances with full application of Law Nº 11.638/07 and MP Nº 449/08	**6,043,244**	**4,698,578**	**4,890,903**	**409,450**	**1,174,727**	**5,970,531**	**4,638,085**	**4,770,827**	**428,750**	**1,185,179**

h. Functional currency

After analyzing Embraer's operations and business, with reference to the applicability of CPC Technical Pronouncement No. 2, approved by CVM (Brazilian Securities Commission) Resolution No. 534 of January 29, 2008, relating mainly to the factors involved in the determination of its functional currency, management concluded that the Company's functional currency is the US dollar. This conclusion was based on analysis of the following indicators, as set out in CPC Technical Pronouncement No. 2, approved by CVM Resolution No. 534 of January 29, 2008:

- Currency with the greatest influence on the prices of goods and services;
- Currency of the country whose competitive forces and regulations have the greatest influence on the determination of the selling price of the products and services;
- Currency with the greatest influence on labor, materials and other costs of the provision of products or services;
- Currency in which the funds for financial operations are largely obtained;
- Currency in which the amounts received from operations are usually invested.

The items included in the Company's individual and consolidated financial statements were measured using the functional dollar currency, which best reflects the economic environment in which the Company operates and the way in which the company is effectively managed.

i. Currency for presentation of the financial statements

The financial statements are presented in Brazilian reais, as permitted by CVM Resolution No. 534, translating the functional currency (US dollar) into reais at the closing rate of exchange for the year for assets and liabilities and the average quarterly rate for income statement accounts, as shown below. The stockholders' equity is maintained at the historic formation value. The exchange variations resulting from this translation of assets, liabilities, income and stockholders' equity are not recorded in the income statement, as the changes in the exchange rate have little or no effect on the current and future operating cash flows, and are therefore recorded in the specific stockholders' equity account Cumulative Translation Adjustments.

	Average rate					
	1st quarter	2nd quarter	3rd quarter	4th quarter	Annual	Closing rate
2007	2.1085	1.9818	1.9177	1.7861	1.9483	1.7713
2008	1.7379	1.6560	1.6675	2.2766	1.8375	2.3370

The consolidated balance sheet and statement of income in functional currency (US dollar) translated into the presentation currency (Brazilian reais), presented in accordance with accounting practices adopted in Brazil, are shown below.

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

ASSETS	Consolidated			
	2008		2007	
	US$	R$	US$	R$
CURRENT ASSETS				
Cash and cash equivalents	1,429,990	3,341,888	1,307,366	2,315,738
Temporary cash investments	761,744	1,780,196	1,183,052	2,095,540
Marketable securities	9,750	22,786	2,693	4,769
Trade accounts receivable	473,703	1,107,044	392,769	695,712
Customer financing	8,610	20,123	4,292	7,603
Collateralized accounts receivable	11,504	26,886	12,416	21,993
Provision for doubtful accounts	(35,422)	(82,782)	(38,119)	(67,520)
Inventories	2,955,225	6,906,358	2,580,612	4,571,039
Taxes recoverable	105,306	246,101	88,576	156,894
Other credits	135,254	316,089	108,084	191,449
Deferred income tax and social contribution on net income	173,088	404,508	98,891	175,165
Prepaid expenses	32,672	76,351	20,253	35,874
	6,061,424	**14,165,548**	**5,760,885**	**10,204,256**
NON-CURRENT ASSETS				
Long-term receivables				
Marketable securities	68,307	159,633	41,958	74,321
Trade accounts receivable	5,857	13,689	39,661	70,252
Customer financing	113,196	264,538	67,511	119,583
Collateralized accounts receivable	467,146	1,091,720	465,273	824,138
Inventories	83,331	194,745	70,666	125,170
Taxes recoverable	32,722	76,472	11,421	20,230
Guarantee deposits	493,212	1,152,636	469,554	831,721
Other credits	12,040	28,137	14,372	25,457
Deferred income tax and social contribution on net income	181,668	424,559	367,988	651,817
Prepaid expenses	7,183	16,786	6,081	10,771
Investments	4	10	1,363	2,415
Property, plant and equipment	984,256	2,300,207	788,937	1,397,445
Intangible assets	689,128	1,610,490	631,440	1,118,469
	3,138,050	**7,333,622**	**2,976,225**	**5,271,789**
TOTAL ASSETS	**9,199,474**	**21,499,170**	**8,737,110**	**15,476,045**

BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

LIABILITIES AND STOCKHOLDERS' EQUITY	Consolidated			
	2008		2007	
	US$	R$	US$	R$
CURRENT LIABILITIES				
Loans and financing	539,071	1,259,809	936,629	1,659,051
Recourse and non-recourse debt	137,678	321,753	113,965	201,866
Suppliers	1,078,395	2,520,208	912,546	1,616,393
Accounts payable	69,963	163,503	78,084	135,125
Contributions from partners	2,492	5,823	2,332	7,316
Advances from customers	1,151,494	2,691,041	801,619	1,419,907
Taxes and social charges payable	63,333	148,009	94,231	166,911
Other provisions	381,574	891,737	287,758	509,705
Contingencies	9,472	22,137	7,008	12,413
Dividends	857	2,002	111,059	196,719
Deferred income tax and social contribution on net income	36,259	84,737	30,641	54,274
Unearned income	113,074	264,259	100,838	178,616
	3,583,662	8,375,018	3,476,710	6,158,296
NON-CURRENT LIABILITIES				
Long-term liabilities				
Loans and financing	1,300,757	3,039,870	827,609	1,465,944
Recourse and non-recourse debt	366,877	857,391	371,732	658,449
Suppliers	-	-	339	600
Accounts payable	17,637	41,218	26,071	46,179
Contributions from partners	44,267	103,453	112,201	198,742
Advances from customers	449,208	1,049,800	367,957	651,763
Taxes and social charges payable	234,072	547,027	349,671	619,372
Contingencies	34,280	80,114	45,350	80,328
Other provisions	100,943	235,902	106,562	188,753
Deferred income tax and social contribution on net income	394,279	921,430	309,514	548,242
Unearned income	3,402	7,949	12,884	22,824
Deferred Income	45,347	105,973	47,561	84,245
	2,991,069	6,990,127	2,577,451	4,565,441
Minority interests	69,959	163,494	64,485	114,223
Stockholders' equity				
Capital	1,438,007	4,789,617	1,438,007	4,789,617
Treasury shares	(183,742)	(320,250)	(784)	(1,414)
Revenue reserves	1,287,777	1,487,677	1,167,883	1,283,064
Cumulative translation adjustments	12,742	13,487	13,358	(1,433,182)
	2,554,784	5,970,531	2,618,464	4,638,085
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	9,199,474	21,499,170	8,737,110	15,476,045

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais)

	Consolidated			
	2008		2007	
	US$	R$	US$	R$
GROSS SALES	6,411,756	11,881,608	5,385,875	10,311,329
Taxes and deductions from sales	(76,517)	(134,843)	(167,672)	(317,677)
NET SALES	**6,335,239**	**11,746,765**	**5,218,203**	**9,993,652**
COST OF SALES	(5,033,330)	(9,339,709)	(4,144,422)	(7,940,856)
GROSS PROFIT	**1,301,909**	**2,407,056**	**1,073,781**	**2,052,796**
OPERATING INCOME (EXPENSES)				
Administrative	(214,880)	(396,845)	(223,602)	(432,176)
Management fees	(15,956)	(28,451)	(11,189)	(21,436)
Selling	(399,433)	(731,155)	(361,306)	(698,794)
Other income (expenses), net	(76,577)	(138,018)	20,416	37,127
Equity in the earnings (losses) of subsidiaries	28	(91)	316	620
OPERATING PROFIT BEFORE FINANCIAL INCOME (EXPENSES)	**595,091**	**1,112,496**	**498,416**	**938,137**
FINANCIAL INCOME (EXPENSES)				
Financial expenses	(125,446)	(229,520)	(106,487)	(209,969)
Financial income	110,370	189,033	228,958	445,388
Monetary and exchange variations, net	(84,717)	(188,830)	7,761	14,484
PROFIT BEFORE TAXATION	**495,298**	**883,179**	**628,648**	**1,188,040**
Income tax and social contribution for the year	(12,551)	(23,623)	(33,545)	(64,204)
Deferred income tax and social contribution	(211,611)	(411,513)	36,027	75,398
NET INCOME AFTER TAXES	**271,136**	**448,043**	**631,130**	**1,199,234**
MINORITY INTERESTS	(9,716)	(19,293)	(8,180)	(14,055)
NET INCOME FOR THE YEAR	**261,420**	**428,750**	**622,950**	**1,185,179**

j. Consolidation and translation

The Company prepares its financial statements in its functional currency and translates them into the presentation currency as described in item "i".

The Company's consolidated financial statements include those of its subsidiaries. Intercompany balances, transactions and unrealized profits are eliminated on consolidation, including investments, current accounts, dividends receivable, revenues and expenses between consolidated companies and unearned income. The minority stockholders' interest in the subsidiaries has been disclosed separately in the consolidated financial statements.

The reconciliation between the stockholders' equity and the net income for the year (parent company and consolidated) is shown below:

	Net income for the years ended December 31		Translation adjustments as of December 31		Stockholders' equity at December 31	
	2008	2007	2008	2007	2008	2007
Parent company	409,450	1,174,727	1,478,189	(923,691)	6,043,244)	4,698,578
Unearned profits (i)	19,300	10,452	(31,520)	49,131	(72,713)	(60,493)
Consolidated	428,750	1,185,179	1,446,669	(874,560)	5,970,531	4,638,085

(i) These refer mainly to unearned profits on sales of spare parts and aircraft by the Parent Company to the subsidiaries and the related taxes, which are not eliminated in the parent company for purposes of stating the investment on the equity method of accounting, based on CVM Resolution No. 247/96.

The financial statements of subsidiaries located abroad are prepared in accordance with accounting practices compatible with those adopted by the Parent Company. The subsidiaries' functional currency is that of the country in which they are located, when that is not the economic environment of the parent company, and their financial statements are translated into the Parent Company's functional currency in accordance with CVM Resolution No. 534 of 2008 – CPC 2 – "Effect of the Changes on Exchange Rates and Translation of Financial Statements". Accordingly, the financial statements were translated into the Parent Company's functional currency using the current exchange rate method for balance sheet accounts and the average quarterly rate for income statement accounts. Exchange variations resulting from this translation are recorded in the stockholders' equity account Cumulative translation adjustments and these are only written off to income on the sale or loss of the investment.

Pursuant to item 4 of Technical Pronouncement 2 of the Brazilian Accounting Pronouncements Committee – Effects of the Changes in Exchange Rates and Translation of the Financial Statements, the assets, liabilities, income and expenses of subsidiaries abroad that do not classify as independent entities should be integrated with those of the parent company. As a result of a request made to the CVM, based on Circular Letter CVM/SNC/SEP No. 01/2009, Embraer obtained this body's approval in Official Letter/CVM/SEP/GEA-1/No. 083/09 to delay application of item 4 of this pronouncement until the year ending December 31, 2009. Management, based on an analysis made, concluded that adoption of this standard would have no significant effect on the Parent Company's financial statements.

k. Investment subsidies

The government subsidies received for investments in research that fulfill the conditions required are recorded in income for the year, as a reduction of the expenditure incurred in the research. In the appropriations of net income, these subsidies were allocated to the Investment subsidy reserve account, in stockholders' equity (Note 27 (f)).

l. Non-operating income (expenses)

The Company reclassified the non-operating income and expenses for the years ended December 31, 2007 and 2008, of R$ 3,192 and R$ 1,648, respectively, to Other operating income and expenses, in accordance with Provisional Measure No. 449/08 which eliminated the item Non-operating income (expenses).

m. Statement of Changes in Financial Position, Statement of Cash Flows and Statement of Value Added

The Law replaced the Statement of Changes in Financial Position with the Statement of Cash Flows and introduced the requirement for publicly-held companies to prepare a Statement of Value Added. The regulations for these statements were laid down by CPCs 3 and 9 and they are now an integral part of the Company's financial statements.

3 SIGNIFICANT ACCOUNTING PRACTICES

a. Determination of the results of operations and revenue recognition

Revenues from sales of commercial, executive and agricultural aircraft, spare parts and services are generally recognized at the time of delivery or shipment, when the risks and benefits are transferred to the customer. Revenue from negotiation of aircraft sales contracts involving the supply of spare parts, training and technical representation is recognized when effectively realized. In the Defense segment, the operations consist of long-term contracts, and revenues are recognized in accordance with the percentage of completion method of accounting, in addition to the time of delivery or shipment. Certain contracts have price restatement clauses based on predefined indexes and these are recognized on the accrual basis. Adjustments of recognition of revenues from sales contracts in the defense sector are recorded when there is evidence that they will occur, based on management's best estimates.

The revenue from the exchange pool program is recognized monthly over the term of the contract and the rate is partly fixed and partly variable, relating directly to the number of flight hours of the aircraft covered by the program.

The Company also recognizes revenues from aircraft rentals as operating leases, in proportion to the lease period, and records this revenue as net sales of other segments.

The costs are recorded on the accrual basis and comprise mainly expenditure on personnel and materials.

Operating expenses refer mainly to selling, administrative and other operating expenses.

Financial income and expenses mainly comprise income from financial investments, and interest on and restatement of loans, taxes with suspended payment and contingencies, recorded on the accrual basis (Note 31).

The government subsidies received for investments in research that fulfill the conditions required are recorded as a reduction of the expenditure incurred in the research.

b. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and highly liquid short-term investments.

c. Temporary cash investments

These are securities with original maturities of over 90 days from the investment date.

d. Trade accounts receivable

Trade accounts receivable are valued at the original amount and include revenues recorded on the percentage-of-completion method and not yet billed, less the provision for doubtful accounts.

The present value is calculated based on the effective interest rate for credit sales. The rate is compatible with the type, term and risks of similar transactions under market conditions.

e. Provision for doubtful accounts

The provision is recorded based on an individual analysis of receivables and in an amount considered sufficient to cover possible losses on realization of the trade accounts receivable.

f. Customer financing

These relate to temporary financing granted on the sale of certain aircraft and are stated at present value, when applicable.

g. Collateralized accounts receivable and recourse and non-recourse debt

Certain of the Company's sales are made under structured financing, whereby a Special Purpose Company – SPC purchases the aircraft, pays the Company the purchase price on delivery or at the end of the structured sales financing period, and transfers the aircraft purchased to the end customer. A financial institution finances the purchase of the aircraft from an SPC, with the financial institution bearing part of the credit risk, and the Company offers financial guarantees and/or residual value guarantees in favor of the institution.

The Company consolidates Special Purpose Companies in which it is liable to absorb the majority of the company's anticipated losses, if any, and receive the majority of the company's residual profits, if any, or both. Accordingly, SPCs acquired by third parties, in which the Company is the main beneficiary, are consolidated in the Company's financial statements. When the Company is no longer the main beneficiary, the assets and liabilities related to the aircraft will not be included in the balance sheet.

The Company classifies the risks of this transaction as non-recourse when the financing institution bears part of the risk and as recourse when the Company bears the risk. (Note 9)

h. Inventories

Inventories, including spare parts, are stated at the lower of average production or purchase cost and market value. Inventories of work in process and finished goods include raw materials, direct labor, other direct costs and general related production expenses and are reduced, when applicable, to net realizable value after deduction of costs, taxes and estimated selling expenses. A provision for potential loss is recorded when management determines that items are obsolete or stocks are in excess of the quantities required for projects. Imports in transit are stated at the accumulated cost of each import.

The Company maintains a spare parts pool for the exclusive use of customers that contracted the Exchange Pool Program. This program establishes that customers may exchange a damaged component for one in working condition, as defined in the Program. This inventory is depreciated on the straight-line method based on an estimated useful life of seven to ten years and an average residual value of 35%, which the Company believes to be the approximate utilization time.

i. Prepaid expenses

Prepaid expenses include sundry expenses, mainly the costs of bank guarantees, contractual concessions to customers and deferral of insurance premiums.

In accordance with CPC Technical Pronouncement 8, approved by CVM Resolution No. 556, the Company adopted the procedure of recording and evidencing the transaction costs incurred in raising funds through loans and financing and reclassified the amounts to the Loans and financing (Note 18).

j. Marketable securities

Investments in marketable securities that the Company is able and intends to hold to maturity are classified as investments held to maturity and recorded at amortized cost. Securities acquired for trading are classified as marketable securities and marked to market and the effects of changes in fair value are recorded in income.

k. Judicial deposits

The deposits are restated and presented as a deduction from the amount of the corresponding liability recorded when there is no possibility of redemption of the deposits, except in the event of a favorable outcome in the case for the Company.

l. Other current and non-current assets

Other current and non-current assets are stated at cost or realizable value including, when applicable, accrued income and monetary and exchange variations.

m. Investments

Investments in subsidiaries are recorded in the Parent Company on the equity method of accounting, and the earnings (loss) recorded as operating income (expense) for the year. In calculating equity adjustments, unearned profits or losses on the parent company's sales to the subsidiaries are not eliminated.

When necessary, the accounting practices of the subsidiaries are adjusted to be consistent with Company practices.

Other investments are stated at cost less provision to adjust them to market value, when applicable.

n. Property, plant and equipment

Property, plant and equipment are recorded at purchase, formation or construction cost, including financial charges on financing obtained from third parties for construction of the assets, which are capitalized in accordance with the criteria established in CVM Resolution No. 193/96.

Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets. Improvements to existing assets are added to their cost, and maintenance and repair costs are charged to income when incurred. Materials allocated to specific projects are added to construction in progress and are subsequently transferred to the final property, plant and equipment accounts.

The items comprising property, plant and equipment are described below.

Land – this mainly comprises areas on which the industrial, engineering and administrative buildings are located, stated at historical purchase cost.

Buildings and land improvements – mainly plants, engineering departments and offices, and land improvements include parking lots, road systems and water and sewage networks, and are stated at historical purchase cost.

Installations – auxiliary industrial facilities that directly or indirectly support the Company's industrial operations, as well as engineering and office installations.

Machinery and equipment – mainly the machinery and other equipment directly or indirectly used in the manufacturing process.

Furniture and fixtures – mainly furniture and fixtures used in the production, engineering and office areas.

Vehicles – mainly industrial vehicles and automobiles.

Aircraft – mainly aircraft leased to airlines, and those used in testing new projects.

Computers and peripherals – information technology equipment mainly used in the production process, engineering and offices.

Construction in progress – comprises mainly construction projects to expand the manufacturing plants and aircraft maintenance centers.

Interest on loans taken out to finance the construction of property, plant and equipment is capitalized over the period required for construction and preparation of the asset for the intended use.

o. Intangible assets

Research and development

These are recorded at cost and mainly comprise expenditure on product development, including drawings, engineering designs and construction of prototypes, for subsequent amortization based on the number of aircraft that the Company expects to sell. Contributions from partners established in agreements with the Company require the supplier to contribute to the Company as a form of compensation for its activities in relation to the development of new products. These amounts are deducted from the costs incurred, classified in intangible assets, when the contributions are no longer payable.

The costs are amortized from the time when benefits are first generated, based on the number of estimated aircraft sales for each project, and the amortized amounts are appropriated to production cost.

These estimates are reviewed as required.

In the case of inactive projects or those that are unlikely to be completed, the deferred costs are written off or reduced to the net estimated recovery value.

Computer programs (software)

Software licenses are capitalized and amortized over their estimated useful lives.

Software development or maintenance costs are recorded as an expense as incurred. Expenditure directly associated with identifiable and unique software, controlled by Company and that is expected to generate greater benefits than costs for more than one year, is recorded in intangible assets.

p. Reduction to the recoverable value of assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed annually to identify evidence of impairment, or whenever events or changed circumstances indicate that the book value may not be recoverable. In such cases, the recoverable value is calculated to check for impairment. In the event of impairment, it is recorded at the amount by which the book value of the asset exceeds its recoverable value, which is the higher of the net selling price and the book value of an asset. For evaluation purposes, assets are grouped at the lowest level for which there are separately identifiable cash flows.

In the case of intangible assets in the process of development, the impairment tests are carried out irrespective of evidence of loss.

q. Leases

For the leaseholder, leases of property, plant and equipment in which the Company assumes substantially all the risks and benefits of ownership are classified as capital leases. Capital leases are recorded in the same way as a financed purchase, initially recognizing a capital asset and a financing liability (lease). Property, plant or equipment acquired under capital leases is depreciated at the rates mentioned in Note 16.

Leases in which a significant portion of the risks and benefits of ownership are assumed by the lessor are classified as operating leases. Payments made for operating leases are appropriated to income on the straight-line method over the lease period.

Aircraft leased under operating leases are maintained in the Company's balance sheet as property, plant and equipment, and depreciated over their estimated useful lives. The rental income (net of any subsidy granted to the lessee) is recorded on the straight-line method over the lease period.

r. Foreign currency transactions

The Company records foreign currency transactions at the exchange rate ruling on the transaction date. Foreign currency assets or liabilities are translated at the exchange rate ruling on the balance sheet date and exchange variations are recognized in the income statement as and when they occur. Any transaction in a currency other than the Company's functional currency (US dollar) is regarded as a foreign currency transaction (Note 2j).

s. Derivative transactions

Derivatives are recorded at fair value and remeasured monthly, and changes in fair value are recorded as income (expense).

Although the Company uses derivatives as a hedge, as permitted by the rules in force, it does not follow hedge accounting principles.

The fair value of the derivatives is disclosed in Note 34.

t. Financing

Loans obtained are initially recorded at fair value on receipt of the funds, net of the transaction costs incurred. Subsequently, the loans are stated at amortized cost, including accrued charges and interest on a pro rata basis, less the fund raising costs, restated in accordance with the monetary and exchange variations, when applicable.

u. Advances from customers

Advances received prior to delivery of the aircraft, subject to exchange variations, when applicable.

v. Income tax and social contribution on net income

These are calculated in accordance with the standard rates of each country which, in the case of the Brazilian operations, total 34% (income tax at 25% and social contribution on net income at 9%).

Deferred tax assets are recorded on income tax and social contribution losses, and on temporary differences between the book and tax bases of assets and liabilities, when it is probable that future taxable income will be sufficient to absorb these tax credits. This assessment is based on projections of future results of operations prepared and supported by internal assumptions and on future economic scenarios which are, accordingly, subject to change.

There is no prescription of the accumulated losses of the Brazilian operations, however, their offset is limited to 30% of the taxable income of each year.

w. Product warranty

Warranty expenses relating to aircraft and spare parts are recognized at the time of delivery, based on the estimated amounts to be incurred. These estimates are based on historical factors that include warranty claims and the corresponding repair and replacement costs, the warranty given by the suppliers and the contractual coverage period. The warranty coverage period varies between 36 and 60 months. In some cases, the Company is required by the aviation certification authorities to modify the product. The estimated costs of these modifications are recorded when the new requirements are known.

Under certain circumstances, the Company may be obliged to make modifications to the products after delivery due to the introduction of improvements or to aircraft performance. The costs related with these modifications are recorded when known.

x. Financial guarantees

The provision for guarantees is based on statistical information or appraisals by third parties that take into consideration, among other factors, the credit risk of each customer, the probability of the customer not honoring the commitments assumed, the future values of the aircraft at the date of the events and the limits guaranteed by the Company. The provision is recorded to cover the risk of loss on these guarantees, and the estimates are reviewed annually (Note 35 b).

y. Unearned income

This refers to commitments to supply spare parts, training and a technical representative and other commitments established in sales contracts for aircraft already delivered, the revenue from which will be appropriated when it is effectively earned.

z. Deferred income

The deferred income balance refers to certain aircraft sales which, in accordance with contractual commitments, are recorded as operating leases and the revenue is appropriated as the commitments are fulfilled. In the consolidated financial statements, this also refers to the negative goodwill recorded on the acquisition of OGMA and ELEB, without any economic substance.

aa. Employee profit sharing program.

The employee profit sharing program, approved by the Board of Directors in December 2008, is linked to the Company's net income determined in accordance with US GAAP (United States Generally Accepted Accounting Principles), and to individual and sector performance targets.

ab. Contingent assets and liabilities and legal obligations.

Contingent assets and liabilities and legal obligations are recognized, measured and disclosed in accordance with CVM Resolution No. 489/05.

Contingent assets – these are not recognized in the accounts, except when management concludes that the gain is practically certain or in the case of secured guarantees or favorable legal decisions against which no further appeals can be made.

Contingent liabilities – these are recorded taking into account the opinion of the Company's legal counsel, the nature of the lawsuits, similarity with previous cases, complexity and court interpretations, whenever the loss is considered probable and would result in a probable disbursement of funds to discharge the obligations, and also when the amounts involved can be calculated with a reasonable degree of certainty. Contingent liabilities classified as possible losses are not recorded in the accounts, but merely disclosed in the financial statements, and where the probability of loss is classified as remote, neither provision nor disclosure is required.

Legal obligations – these arise from tax liabilities being contested on the grounds of legality or constitutionality, and are recorded in full in the financial statements, irrespective of evaluation of the chances of success.

The deposits are restated and recorded as deductions from the value of the corresponding liability when there is no possibility of redemption of the deposits, except in the event of a favorable outcome of the question for the Company.

ac. Other current and non-current liabilities

These are stated at known or estimated amounts including, when applicable, accrued charges and monetary and exchange variations.

ad. Interest on own capital

Interest on own capital paid or provided is recorded in the accounts as a financial expense for tax purposes. However, as permitted by the CVM for purposes of presentation of the financial statements, it is reclassified to stockholders' equity.

ae. Earnings per share

Earnings per share is calculated based on the number of shares of the Parent Company outstanding at the balance sheet date, net of treasury shares.

af. Cash flows

The statements of cash flows were prepared on the indirect method, based on the accounting information, in accordance with CVM Resolution No. 547 of August 13, 2008, which approved the Brazilian Accounting Pronouncements Committee – CPC Technical Pronouncement 3, which refers to the Statement of Cash Flows.

ag. Transition tax regime

For purposes of determination of income tax and social contribution on net income for 2008, the Company opted for the Transition Tax Regime – RTT, which permits elimination of the accounting effects of Law 11.638/07 and MP 449/08, through use of the Taxable Income Control Ledger – LALUR or auxiliary controls, without the requirement for adjustments to the accounting records. This regime will be adopted on filing the Corporate Income Tax Return – DIPJ for calendar year 2008.

The financial statements for the year ended December 31, 2008 were prepared taking into consideration management's best estimates which, at this time, indicate the option for the RTT.

Temporary differences between the tax and book bases of assets and liabilities as a result of the option for the RTT were also recorded as deferred taxes (Note 33).

ah. Possible losses not provided in the balance sheet

The Company is not party to any tax, civil and labor lawsuits in which management classifies the risk of loss as possible, based on the opinion of legal counsel, for which no provision has been recorded.

ai. Subsidies

These are investment subsidies received from FINEP (Projects and Studies Financing Agency) for joint development of technical innovation projects, in accordance with Law No. 10.973/04, relating to subsidies for technological research and development. These amounts are recorded as a reduction of the costs as the funds are invested and the contractual clauses are complied with.

4 CASH AND CASH EQUIVALENTS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Cash and banks				
US dollars	928	1,003	31,068	45,390
Brazilian reais	254,841	15,690	258,737	21,205
Euros	89	62	88,906	46,902
Other	1,169	358	26,542	85,254
Cash in transit	252,464	715	252,464	715
Financial investments				
In reais				
Exclusive investment funds (FIEs)				
Government securities (i)	1,468	32,889	1,720	35,849
Repurchase agreements (ii)	231,113	1,210	231,263	6,305
Private securities (iii)	–	54,214	1,058	62,390
	232,581	**88,313**	**234,041**	**104,544**
In US dollars				
Fixed-term deposits	149,444	11,673	285,062	1,205,336
Investment funds	1,197,186	–	2,098,146	724,879
Overnight	9,465	–	55,948	58,846
Other currencies				
Overnight	–	–	10,974	21,158
Fixed-term deposits	–	–	–	1,509
	2,098,167	**117,814**	**3,341,888**	**2,315,738**

The average interest annual rates for the financial investments made in Brazilian reais and US dollars for the year ended December 31, 2008 were 12.3% and - 1.2% (11.8% and 6.2% p.a. in 2007), respectively.

The financial investments in reais are mainly investment fund quotas, with immediate liquidity, classified as cash equivalents.

At December 31, 2008 and 2007, the portfolios of the Exclusive Investment Funds (EIFs) comprised mainly highly-liquid Brazilian Federal Government securities, recorded at realizable values, which management classifies as cash equivalents. As of these dates, the EIFs had no significant obligations to third parties, these being limited to asset management fees and other services inherent to the operations of the funds, which have already been deducted from the profit recorded.

(i) Securities issued by the Brazilian Government, comprising National Treasury Bills – LTN, Financial Treasury Bills – LFT and National Treasury Notes – NTN.

(ii) These refer to purchases of assets, mainly government securities, with the commitment to repurchase at a rate previously established by the parties, generally with a one-day term.

(iii) These refer mainly to Bank Deposit Certificates – CDBs, issued by Brazilian financial institutions, with terms of up to 90 days.

At December 31, 2008 and 2007, the cash equivalents denominated in US dollars comprised:

(i) Money Market Funds with daily liquidity whose portfolios comprise government and private securities issued by institutions abroad with a low level of risk and terms of less than 90 days;

(ii) Fixed-term deposits with premier financial institutions with terms of less than 90 days.

5 TEMPORARY CASH INVESTMENTS

	Parent Company		Consolidated	
	2008	2007	2008	2007
In Brazilian reais				
Exclusive investment funds (FIEs)				
Government securities	300,416	920,590	300,415	921,799
Repurchase agreements	958,759	590,548	958,759	590,548
Government securities	75,049	266,885	75,049	266,885
	1,334,224	**1,778,023**	**1,334,223**	**1,779,232**
In US dollars				
Fixed term deposits	189,687	-	189,687	262,898
Investment funds	-	-	256,286	53,410
	1,523,911	**1,778,023**	**1,780,196**	**2,095,540**

The classification as temporary cash investments relates to the original terms of over 90 days from the investment date. The details of the exclusive investment funds (FIEs) are provided in Note 4.

Temporary cash investments are instruments classified as available for trading.

6 MARKETABLE SECURITIES

	Parent Company			Consolidated		
	2008			2007		
	Available for negotiation	Held to maturity	Total	Available for negotiation	Held to maturity	Total
Shares	759	-	759	759	-	759
Government bonds (i)	473	-	473	439	-	439
	1,232	**-**	**1,232**	**1,198**	**-**	**1,198**
Current assets	759	-	759	759	-	759
Non-current assets	**473**	**-**	**473**	**439**	**-**	**439**

	Parent Company			Consolidated		
	2008			2007		
	Available for negotiation	Held to maturity	Total	Available for negotiation	Held to maturity	Total
Shares	759	-	759	759	-	759
Government bonds (i)	82,092	98,145	180,237	439	77,892	78,331
Other	1,423	-	1,423	-	-	-
	84,274	**98,145**	**182,419**	**1,198**	**77,892**	**79,090**
Current assets	759	22,027	22,786	759	4,010	4,769
Non-current assets	**83,515**	**76,118**	**159,633**	**439**	**73,882**	**74,321**

(i) In the consolidated statements, these refer mainly to (i) receivables represented by NTNs acquired by the Company from its customers, as an adjustment of the interest rates payable by the Export Financing Program (PROEX) between the 11th and 15th year after the sale of the respective aircraft, recorded at present value. These securities are classified as being held to maturity and the interest is recorded as financial income, since the Company intends and has the ability to hold these securities in portfolio to maturity (ii) Brazilian government bonds, denominated in US dollars, recorded at fair value and classified as available for trading; the interest is recorded as financial income.

7 TRADE ACCOUNTS RECEIVABLE

	Parent Company		Consolidated	
	2008	2007	2008	2007
Overseas customers	284,965	138,874	884,879	642,598
Brazilian Air Force	114,939	47,035	223,004	116,790
Domestic customers	8,202	3,541	12,850	6,576
Subsidiaries	273,857	175,235	-	-
	681,963	**364,685**	**1,120,733**	**765,964**
Provision for doubtful accounts	(12,139)	(10,903)	(82,782)	(67,520)
	669,824	**353,782**	**1,037,951**	**698,444**
Less - Current	669,824	353,782	1,024,262	628,192
Non-current	**-**	**-**	**13,689**	**70,252**

The changes in the provision for doubtful accounts are as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Opening balance	10,903	10,224	67,520	85,841
Foreign exchange variations	1,519	(1,384)	17,473	(7,379)
Additions	79	2,048	12,765	9,655
Reversals	(51)	(4)	(9,553)	(14,066)
Write-offs	(311)	19	(5,423)	(6,531)
Closing balance	**12,139**	**10,903**	**82,782**	**67,520**

8 CUSTOMER FINANCING

These refer to the partial financing of certain sales of new and used aircraft by the Company, at average interest rates of 5.46% a year plus exchange variations of the US dollar, recorded on the accrual basis and secured by the aircraft covered by the financing, at present value, when applicable. The maturities of this financing are monthly, quarterly and half-yearly, classified as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Current	-	-	20,123	7,603
Non-current	77,009	61,939	264,538	119,583
Total	**77,009**	**61,939**	**284,661**	**127,186**

At December 31, 2008, the long-term maturities of the financing of accounts receivable are as follows:

	Parent Company	Consolidated
Year	2008	2008
2010	4,711	24,818
2011	4,711	25,940
2012	4,711	24,224
2013	4,711	25,299
2014	4,711	24,141
After 2014	53,454	140,116
	77,009	**264,538**

9 COLLATERALIZED ACCOUNTS RECEIVABLE AND NON-RECOURSE AND RECOURSE DEBT

Certain of the Company's sales are made under structured financing, whereby a Special Purpose Company – SPC purchases the aircraft, pays the Company the purchase price on delivery or at the end of the structured sales financing, and transfers the aircraft purchased to the end customer. A financial institution finances the purchase of the aircraft from the SPC, with the financial institution bearing part of the credit risk, and the Company offers financial guarantees and/or residual value guarantees in favor of the institution.

These transactions are denominated in U.S. dollars and subject to normal market rates. There were no significant changes in the average interest rates of the assets and liabilities in the year ended December 31, 2008.

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a. Collateralized accounts receivable

	2008	2007
Minimum lease payments receivable	1,082,748	823,768
Estimated residual value of leased aircraft	1,082,553	838,030
Unearned income –future interest	(1,046,695)	(815,667)
Net amount receivable	**1,118,606**	**846,131**
Less – Current	26,886	21,993
Non-current	**1,091,720**	**824,138**

At December 31, 2008, the maturities of the amounts classified as non-current are as follows:

	Consolidated
Year	2008
2010	23,587
2011	25,890
2012	35,869
2013	32,749
2014	27,154
After 2014	946,471
	1,091,720

b. Debts of the SPCs

	2008	2007
With right of recourse	1,042,454	781,456
Without right of recourse	136,690	78,859
	1,179,144	**860,315**
Less – Current	321,753	201,866
Non-current	**857,391**	**658,449**

At December 31, 2008, the maturities of the amounts classified as non-current are as follows:

	Consolidated
Year	2008
2010	23,643
2011	24,778
2012	457,590
2013	24,314
2014	25,209
After 2014	301,857
	857,391

10 TAXES RECOVERABLE

	Parent Company		Consolidado	
	2008	2007	2008	2007
ICMS (State VAT) and IPI	73,778	62,558	122,184	80,458
Income tax and social contribution on net income withheld	87,507	47,159	122,358	59,408
PIS and COFINS	60,488	35,155	69,061	35,640
Other	3,452	1,309	8,970	1,618
	225,225	**146,181**	**322,573**	**177,124**
Less - Current	157,970	129,939	246,101	156,894
Non-current	**67,255**	**16,242**	**76,472**	**20,230**

VAT – Value-added tax on sales and services
IPI – Excise tax
PIS – Social Integration Program
COFINS – Social Contribution on Revenues

11 OTHER CREDITS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Credit with suppliers (i)	33,166	53,788	33,519	53,841
Advances to employees	22,429	19,559	23,421	20,459
Insurance receivable	21,944	16,610	21,921	16,680
Partners' contributions receivable	46,740	-	46,740	-
Banks - restricted account (ii)	-	-	64,782	42,408
Unearned gains on derivatives	2,569	14,292	69,960	14,292
Tax incentive - Amazon Investment Fund – FINAM (net)	9,604	9,604	9,604	9,604
Judicial deposit	8,663	8,421	9,859	9,233
Advance of commissions	134	4,253	7,434	7,891
Advances on services rendered	12,124	6,370	12,124	6,370
Collateral pledge	2,195	2,649	6,994	5,403
Compulsory loan	-	-	1,681	1,215
Benefits receivable	2,429	1,210	2,429	1,210
Dividends receivable	1,820	9,411	-	-
Other	23,171	17,150	33,758	28,300
	186,988	**163,317**	**344,226**	**216,906**
Less - Current	166,526	142,643	316,089	191,449
Non-current	**20,462**	**20,674**	**28,137**	**25,457**

(i) Refers to reworking of products supplied by third parties, to be reimbursed in accordance with the contracts.
(ii) Refers to funds tied to non-recourse financing.

12 GUARANTEE DEPOSITS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Sales structure guarantees (i)	-	-	700,518	509,265
Sales financing guarantees (ii)	-	-	433,232	300,642
Financing guarantees (iii)	16,522	19,643	16,522	19,796
Other	2,169	2,018	2,364	2,018
	18,691	**21,661**	**1,152,636**	**831,721**
Less - Current	-	-	-	-
Non-current	**18,691**	**21,661**	**1,152,636**	**831,721**

(i) U.S. dollars amounts deposited in an escrow account as collateral for the financing of certain aircraft sold. If the guarantor of the debt (unrelated party) is required to pay the lender, the guarantor will be entitled to the amount in the escrow account. The amount deposited will be released at the time of maturity of the financing contracts (between 2013 and 2021) if the aircraft purchaser does not default on the loan. The interest on the escrow account is added to the principal and recognized by the Company as financial income.

Seeking to ensure profitability compatible with the term of the guarantee, in 2004 Embraer invested principal of R$ 288,386, equivalent to US$ 123,400 thousand, in structured notes. These notes earned interest of R$ 17,767, equivalent to US$ 7,603 thousand, in 2008 (R$ 13,428 in 2007, equivalent to US$ 7,581 thousand), which was added to the principal and recognized as financial income for the year. In the event of default by Embraer, the maturity dates of these notes would be brought forward and they would be realized at market value, limited to a minimum of the amounts originally invested. Any amount by which the market value exceeds the amount invested will be paid to the Company in the form of bonds, or loans of that amount. Events of default that could result in early maturity of the notes include: (i) insolvency of Embraer or filing for a "Creditors' Agreement"; and (ii) default or restructuring of the Embraer debt in financing agreements. The balance of these notes was R$ 359,518 thousand, equivalent to US$ 153,838, in 2008 (R$ 259,026 in 2007, equivalent to US$ 146,234 thousand).

(ii) Financial investments denominated in US dollars, linked to the sales structures, whose release depends on completion of the structures. These investments earn interest at the annual LIBOR rate.

(iii) Amount deposited in an escrow account to guarantee payment of financing.

13 INVENTORIES

	Parent Company		Consolidated	
	2008	2007	2008	2007
Finished products (i)	400,543	-	400,543	-
Working in process (ii)	2,065,101	1,533,893	2,501,909	1,709,884
Raw materials	1,945,820	1,606,985	2,343,954	1,915,054
Spare parts	200,451	128,733	722,586	508,488
Spare parts pool (iii)	-	-	266,999	162,599
Used aircraft for sale (iv)	-	-	348,110	172,922
Consumables	42,183	25,877	43,621	26,928
Goods in transit	687,520	374,304	852,207	425,495
Advances to suppliers	74,723	36,578	82,859	59,610
Provision for obsolescence (v)	(182,396)	(124,130)	(396,123)	(279,322)
Provision for market value adjustment (vi)	-	-	(65,562)	(5,449)
	5,233,945	**3,582,240**	**7,101,103**	**4,696,209**
Less - Current	5,233,945	3,582,240	6,906,358	4,571,039
Non-current	**-**	**-**	**194,745**	**125,170**

(i) Comprises one Legacy 600, two EMBRAER 170, four EMBRAER 190 and one EMBRAER 195. Of these, two EMBRAER 170, three EMBRAER 190 and one EMBRAER 195 were delivered in 2009.

(ii) Includes pre-series aircraft of the Phenom 100 and 300 programs, totaling R$31,810, used for testing to obtain aircraft certification. After the certification campaigns, the Company intends to sell these aircraft.

(iii) These refer to spare parts for the Exchange Pool Program whose realization is estimated to be in excess of 12 months.

(iv) Comprises one EMB 120, two EMBRAER 170, one EMBRAER 175, three EMBRAER 190 and one Legacy 600 (one EMB 120, one ERJ 145, one EMBRAER 175 and three EMBRAER 190 in 2007) available for sale, recorded the lower of purchase cost and realizable value.

(v) A provision was recorded for items without movement for over two years, with no planned use in the production program, and also to cover possible losses on stores inventories and excessive or obsolete work in process, except for inventories of spare parts, for which the provision is based on technical obsolescence of items without movement for over six years.

(vi) Refers to the provision recorded to adjust the value of used aircraft to realizable values.

At December 31, 2008, inventories totaling approximately R$ 22 million had been pledged in guarantee of loans and financing.

Changes in the provision for obsolescence:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Opening balance	124,130	185,998	279,323	339,982
Provisions/reversals	3,288	(34,220)	39,330	(13,030)
Write offs	-	-	(26,875)	2,417
Foreign exchange variations	54,978	(27,648)	104,345	(50,047)
Closing balance	**182,396**	**124,130**	**396,123**	**279,322**
Less - Current	182,396	124,130	297,296	95,816
Non-current	**-**	**-**	**98,827**	**183,506**

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14 PREPAID EXPENSES

	Parent Company		Consolidated	
	2008	2007	2008	2007
Sales commissions	-	-	16,128	10,688
Commercial concessions	30,064	2,012	30,064	2,012
Financial expense	5,199	2,917	6,075	3,410
Insurance premiums	26,955	20,131	27,728	21,003
Credit insurance	-	1,517	-	1,517
Healthcare	7,293	-	7,293	-
Other	1,385	2,760	5,849	8,015
	70,896	**29,337**	**93,137**	**46,645**
Less - Current	70,896	29,337	76,351	35,874
Non-current	**-**	**-**	**16,786**	**10,771**

15 INVESTMENTS

a. Investments

	Parent Company		Consolidated	
	2008	2007	2008	2007
In subsidiaries				
ECC do Brasil Cia. de Seguros	4,468	4,404	-	-
ELEB Equipamentos Ltda. (Nota 1)	87,261	34,954	-	-
Embraer Australia PTY Ltd	1,270	-	-	-
Embraer Aircraft Holding Inc. – EAH	219,981	156,453	-	-
Embraer Ásia Pacific PTE Ltd.	24,577	16,694	-	-
Embraer Aviation Europe SAS – EAE	174,865	118,514	-	-
Embraer Credit Ltd. – ECL	5,329	2,666	-	-
Embraer GPX S.A.	1	1	-	-
Embraer Overseas Limited	9,699	3,425	-	-
Embraer Representation LLC – ERL	304,340	185,983	-	-
Embraer Spain Holding Co. SL – ESH	2,032,382	1,416,327	-	-
Indústria Aeronáutica Neiva Ltda – NEIVA	1,146	1,905	-	-
	2,865,319	**1,941,326**	**-**	**-**
Other	-	-	10	2,415
	2,865,319	**1,941,326**	**10**	**2,415**

Changes in investments of the parent company:

	Balance at 12.31.07	Equity in the erarnings (loss)	Cumulative translation adjustment	Dividends	Negative goodwill	Addition	Offset against provision for net capital deficiency	Balance at 12.31.08
ECC do Brasil Cia. de Seguros	4,404	64	-	-	-	-	-	4,468
ELEB Equipamentos Ltda.(note 1)	34,954	6,973	29,575	(2,672)	(14,919)	33,350		87,261
Embraer Aircraft Holding Inc. – EAH	156,453	4,154	53,269	-	-	6,105	-	219,981
Embraer Ásia Pacific PTE Ltd.	16,694	747	6,407	-	-	729	-	24,577
Embraer Austrália PTY Ltd. – EAL	-	5,653	1,285	-	-	-	(5,668)	1,270
Embraer Aviation Europe SAS - EAE	118,514	24,224	32,127	-	-	-	-	174,865
Embraer Credit Ltd. – ECL	2,666	1,423	1,240	-	-	-	-	5,329
Embraer GPX S.A.	1	-	-	-	-	-	-	1
Embraer Overseas Limited	3,425	4,081	2,193	-	-	-	-	9,699
Embraer Representation LLC – ERL	185,983	49,586	68,771	-	-	-	-	304,340
Embraer Spain Holding Co. SL - ESH	1,416,327	117,681	487,228	-	-	11,146	-	2,032,382
Indústria Aeronáutica Neiva Ltda – NEIVA.	1,905	(560)	(199)	-	-	-	-	1,146
	1,941,326	**214,026**	**681,896**	**(2,672)**	**(14,919)**	**51,330**	**(5,668)**	**2,865,319**

b. Information on the direct subsidiaries

	2008				2007	
	Capital	Holding %	Stockholders' equity	Net income (loss) for the year	Shareholders' equity	Net income (loss) for the year
Canal Investments LLC	12,116	100,00	-	-	-	(3,069)
ECC do Brasil Cia. de Seguros	4,113	99,99	3,386	67	4,404	81
ELEB Equipamentos Ltda.(i)	43,052	99,99	69,039	7,488	76,041	18,440
Embraer Aircraft Holding Inc. – EAH	94,578	100,00	172,779	4,384	162,278	11,601
Embraer Ásia Pacific PTE Ltd.	20,144	100,00	18,628	673	16,694	458
Embraer Austrália PTY Limited – EAL	6,560	100,00	963	4,838	(4,535)	870
Embraer Aviation Europe SAS – EAE	77,658	100,00	134,675	24,275	120,135	9,456
Embraer Credit Ltd. – ECL	-	100,00	4,039	1,510	2,666	2,505
Embraer GPX S.A.	1	99,99	1	-	1	-
Embraer Overseas Limited	96	100,00	7,351	4,319	3,425	1,779
Embraer Representation LLC – ERL	-	100,00	230,671	49,155	185,982	44,769
Embraer Spain Holding Co. SL – ESH	293,309	100,00	1,540,419	122,999	1,416,326	465,419
Indústria Aeronáutica Neiva Ltda – NEIVA	1,000	99,99	1,210	(860)	2,489	(6,654)
				218,848		545,655

(i) On July 3, 2008, Embraer acquired 40% of the capital of ELEB – Embraer Liebherr Equipamentos do Brasil S.A., from Liebherr Aerospace S.A.S., completing the transaction announced on December 21, 2007. Accordingly, Embraer now holds 99.99% of the quotas issued by ELEB, whose corporate name was changed to ELEB Equipamentos Ltda.

Unrealized profits of subsidiaries in transactions with the Parent Company were eliminated in the equity accounting adjustments.

The Parent Company recorded a provision of R$4,079 in 2007, corresponding to the net capital deficiency of its subsidiaries recorded in the account Provision for loss on investments in subsidiaries. No provision was recorded in 2008 (Note 24). The contra entries of the provisions were recorded as equity losses.

c. Related party transactions

c.1 Parent Company – 2008

	Current		Non-current		Financial income (expenses)	Operating income (expenses)
	Assets	Liabilities	Assets	Liabilities		
Banco do Brasil S.A. (i)	125,348	540,275	-	-	(3,657)	-
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	1,671	444	-	1,248,463	(59,902)	-
Brazilian Air Force	114,939	32,524	-	-	-	232,257
ECC do Brasil Cia. de Seguros	187	-	-	-	-	-
ECC Leasing Co. Ltd	1,101	-	71,052	-	952	(4,170)
ELEB Embraer Liebherr Equipamentos do Brasil S.A.	4,836	2,356	-	-	-	(125,943)
Embraer Aircraft Customer Services,Inc. – EACS	184,784	18,339		-	-	53,516
Embraer Aircraft Holding Inc. - EAH	658	-	92,345	-	3,542	627
Embraer Aircraft Maintenance Services Inc.- EAMS	5,286	3,841	-	-	-	3,809
Embraer Ásia Pacific PTE Ltd.	14,251	4,426	-	-	-	3,509
Embraer Aviation International SAS – EAI	22,350	19,834	-	-	-	18,239
Indústria Aeronáutica Neiva Ltda. – NEIVA	1,100	179	-	-	-	15,457
Embraer Credit Ltd. – ECL	-	-	54,401	-	-	-
Embraer Finance Ltd. – EFL	-	19,378	1,874,720	-	3,897	255,740
Embraer Representation LLC – ERL	-	123,312	-	-	-	(284,341)
Embraer Services Inc. – ESI	9,433	13,023	-	-	-	(103,694)
Embraer Spain Holding Co. SL – ESH	-	-	45,733	-	2,629	-
Financiadora de Estudo e Projetos - FINEP	-	19,323	-	109,805	(960)	-
Harbin Embraer Aircraft Industry Company Ltd.-HEAI	58,241	5	-	-	-	106,406
OGMA – Indústria Aeronáutica de Portugal SA.	876	833	-	-	-	(930)
	545,061	798,092	2,138,251	1,358,268	(53,499)	170,482

c.2 Parent Company – 2007

	Current		Non-current		Financial income (expenses)	Operating income (expenses)
	Assets	Liabilities	Assets	Liabilities		
Banco do Brasil S.A. (i)	15,301	-	-	-	-	-
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	2,324	1,231,112	-	-	(17,155)	-
Brazilian Air Force	47,035	47,177	-	-	-	111,222
ECC do Brasil Cia. de Seguros	251	-	-	-	-	-
ECC Insurance & Financial Co. Ltd.	-	-	-	-	-	(87,785)
ECC Leasing Co. Ltd	53	-	77,354	-	5,905	(1,089)
ELEB Embraer Liebherr Equipamentos do Brasil S.A.	4,617	8,452	-	-	-	(113,687)
Embraer Aircraft Customer Services, Inc. – EACS	85,684	13,748	46,303	-	264	81,622
Embraer Aircraft Holding Inc. - EAH	-	-	-	-	3,199	-
Embraer Aircraft Maintenance Services Inc.- EAMS	2,606	2,627	-	-	-	49
Embraer Ásia Pacific PTE Ltd.	12,259	2,557	-	-	-	8,221
Embraer Aviation Europe SAS – EAE	-	-	-	-	-	(328)
Embraer Aviation International SAS – EAI	38,161	5,206	-	-	-	26,643
Indústria Aeronáutica Neiva Ltda. – NEIVA	777	163	-	-	-	1,488
Embraer Credit Ltd. – ECL	-	-	46,413	-	-	-
Embraer Finance Ltd. – EFL	-	41,364	2,343,322	-	-	161,990
Embraer Representation LLC - ERL	-	109,522	-	-	-	(415,404)
Embraer Services Inc. – ESI	16,585	23,318	-	-	-	(77,035)
Embraer Spain Holding Co. SL - ESH	-	-	34,272	-	2,273	-
European Aerospace and Defense Group – EADG	-	-	-	-	-	(895)
Financiadora de Estudo e Projetos - FINEP	-	2,268	-	78,853	(735)	-
Harbin Embraer Aircraft Industry Company Ltd.-HEAI	50,018	-	-	-	-	100,960
OGMA – Indústria Aeronáutica de Portugal SA.	764	84	-	-	-	615
	276,435	**1,487,598**	**2,547,664**	**78,853**	**(6,249)**	**(203,413)**

c.3 Consolidated – 2008

	Current		Non-current		Financial income (expenses)	Operating income (expenses)
	Assets	Liabilities	Assets	Liabilities		
Banco do Brasil S.A. (i)	1,028,349	861,564	-	442,362	24,256	-
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	-	9,630	-	1,295,243	(63,609)	-
Brazilian Air Force	223,004	102,440	-	-	-	481,263
Empresa Portuguesa de Defesa – EMPORDEF	-	-	-	18,949	-	-
Financiadora de Estudo e Projetos – FINEP	-	22,977	-	116,427	(1,538)	-
	1,251,353	**996,611**	**-**	**1,872,981**	**(40,891)**	**481,263**

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c.4 Consolidated – 2007

	Current		Non-current		Financial income (expenses)	Operating income (expenses)
	Assets	Liabilities	Assets	Liabilities		
Banco do Brasil S.A. (i)	319,573	201,239	-	307,132	24,798	-
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	2,324	1,231,112	-	39,891	(18,418)	-
Brazilian Air Force	116,790	110,105	-	1,855	-	186,818
Empresa Portuguesa de Defesa – EMPORDEF	-	-	-	15,253	-	-
European Aerospace and Defense Group – EADG	-	-	-	-	-	(7,918)
Financiadora de Estudo e Projetos – FINEP	-	-	-	92,733	(1,604)	-
Liebherr Lindeberg	-	7,831	-	-	-	-
	438,687	**1,550,287**	**-**	**456,864**	**4,776**	**178,900**

(i) Previ, one of the Company's stockholders, is sponsored by Banco do Brasil S.A., which is controlled by the Brazilian government. Consequently, the Company regards Banco do Brasil S.A. as a related party.

The assets mainly comprise: (i) accounts receivable from subsidiaries for spare parts and aircraft sales and product development, under similar conditions to those with third parties, considering the volumes, terms and risks involved; (ii) intercompany loans with overseas subsidiaries at interest rates incurred by the Company in raising funds in foreign currency; (iii) amounts received on behalf of Embraer by the subsidiary Embraer Finance Ltd. – EFL, without interest; (iv) balances of financial investments (v) bank current account balances.

In liabilities, the amounts basically refer to: (i) the purchase of aircraft components and spare parts under conditions similar to those with third parties, considering the volumes, terms and risks involved; (ii) advances received on account of sales contracts, in accordance with the contract; (iii) commissions on sales of aircraft and spare parts under similar conditions to those with third parties; (iv) financing for research and product development at market rates for this type of financing; (v) loans and financing under normal market conditions; (vi) intercompany loans with overseas subsidiaries at interest rates normally incurred by the Company in raising funds in foreign currency, and (vii) export financing.

The statement of income accounts basically comprise: (i) purchases and sales of aircraft, components and spare parts and development of products for the Defense market; (ii) financial income from intercompany loans and financial investments; (iii) interest on financing for research and product development, import and export financing and advances on exchange contracts; and (v) sales commissions on aircraft and spare parts.

c.5 Remuneration of key management personnel

	2008	2007
Short-term benefits (i)	39,595	32,827

(i) Include salaries and social security contributions, profit sharing, bonus and severance pay.

During 2008 and 2007, no remuneration was paid in relation to post-employment, work contract rescission or other long-term benefits, or share based remuneration.

c.6 Guarantees granted to subsidiaries

The guarantees granted by the Company in favor of subsidiaries at December 31, 2008 totaled approximately R$ 216 million.

16 PROPERTY, PLANT AND EQUIPMENT

a. Parent Company

	Average annual depreciation rate (%)	2008 Restated cost	2008 Accumulated depreciation	2008 Net	2007 Restated cost	2007 Accumulated depreciation	2007 Net
Land	-	21,573	-	21,573	5,973	-	5,973
Buildings and land improvements	3.62	594,029	(169,812)	424,217	372,025	(113,189)	258,836
Installations	8.85	229,409	(164,073)	65,336	157,354	(114,932)	42,422
Machinery and equipment	9.60	561,312	(329,781)	231,531	363,019	(229,819)	133,200
Furniture and fittings	10.06	66,360	(31,418)	34,942	38,610	(21,998)	16,612
Vehicles	16.44	16,338	(11,817)	4,521	11,674	(8,557)	3,117
Aircraft	19.73	2,075	(2,047)	28	1,573	(1,471)	102
Computers and peripherals	19.77	202,913	(170,907)	32,006	146,618	(128,358)	18,260
Tooling	10.00	588,709	(211,651)	377,058	395,962	(138,765)	257,197
Other assets	-	4,947	(2,604)	2,343	5,379	(1,619)	3,760
Construction in progress	-	98,002	-	98,002	43,049	-	43,049
		2,385,667	(1,094,110)	1,291,557	1,541,236	(758,708)	782,528

Changes in property, plant and equipment:

Property, plant and equipment	2008 Cost	2008 Accumulated depreciation	2007 Cost	2007 Accumulated depreciation
At January 1	1,541,236	(758,708)	1,510,879	(838,274)
Additions	276,990	-	335,326	-
Write-off	(230)	-	190	-
Exchange translation adjustment	567,671	(254,567)	(286,721)	154,279
Transfer property, plant and equipment between sites)	-	-	(18,438)	-
Depreciation	-	(80,835)	-	(74,713)
At December 31	2,385,667	(1,094,110)	1,541,236	(758,708)

b. Consolidated

	Average annual depreciation rate (%)	2008 Restated cost	2008 Accumulated depreciation	2008 Net	2007 Restated cost	2007 Accumulated depreciation	2007 Net
Land	-	21,573	-	21,573	5,973	-	5,973
Buildings and land improvements	3.62	784,769	(219,554)	565,215	475,670	(147,322)	328,348
Installations	8.85	239,462	(170,117)	69,345	164,778	(119,096)	45,682
Machinery and equipment	9.60	952,912	(604,231)	348,681	640,962	(432,198)	208,764
Furniture and fittings	10.06	97,762	(54,775)	42,987	61,254	(39,627)	21,627
Vehicles	16.44	29,493	(22,728)	6,765	21,660	(17,008)	4,652
Aircraft (ii)	5.25	789,983	(140,827)	649,156	535,454	(93,763)	441,691
Computers and peripherals	19.77	246,947	(205,644)	41,303	181,664	(157,156)	24,508
Tooling	10.00	593,345	(215,041)	378,304	395,963	(138,766)	257,197
Other assets	-	5,603	(2,604)	2,999	9,337	(3,848)	5,489
Construction in progress (i)	-	173,879	-	173,879	53,514	-	53,514
		3,935,728	**(1,635,521)**	**2,300,207**	**2,546,229**	**(1,148,784)**	**1,397,445**

Changes in property, plant and equipment:

Property, plant and equipment	2008 Cost	2008 Accumulated depreciation	2007 Cost	2007 Accumulated depreciation
At January 1	2,546,229	(1,148,785)	2,702,788	(1,251,938)
Additions	482,210	-	413,429	-
Write-off	(4,699)	-	(8,879)	-
Exchange translation adjustment	865,748	(339,129)	(497,078)	233,475
Provisions for losses	3,287	-	(5,475)	-
Transfer to inventories	42,954	-	(58,556)	-
Depreciation	-	(147,607)	-	(130,321)
At December 31	**3,935,729**	**(1,635,521)**	**2,546,229**	**(1,148,784)**

(i) Refers mainly to construction projects to expand the installed capacity to manufacture new products and speed up production.

(ii) These aircraft are for use in testing, corporate flights and operating leases and are adjusted to realizable value, when applicable. At December 31, 2008, the Company had thirty-five aircraft, comprising five EMB 120, twenty-one ERJ 145, four EMBRAER 170, one EMBRAER 175, one EMBRAER 190 and three other models of aircraft. Of these, thirty aircraft were for operating leases, two for testing and one for corporate flights.

The Company recorded revaluations of its operating assets in 1988 and 1991. The residual balances of these revaluations at December 31, 2008 and 2007 were R$109,859 and R$89,886, respectively. The corresponding revaluation reserve was used to increase capital in prior years and, except for the portion relating to real estate, was included in the calculation of taxable income for income tax purposes. The depreciation rates of the revalued assets were based on the revised estimate of the useful lives of the assets, in accordance with the technical appraisal report.

The revaluations are being realized proportionally to the monthly depreciation or on disposal of the revalued assets. In accordance with CVM Resolution No. 469 of May 2, 2008, the Company decided to maintain these revaluations until their full depreciation or write off of the assets. In 2008 and 2007, depreciation amounted to R$ 5,337 and R$ 7,907, respectively.

At December 31, 2008, property, plant and equipment totaling approximately R$ 413 million had been pledged in guarantee of loans and financing and labor contingencies.

17 INTANGIBLE ASSETS

a. Parent Company

	2008			2007		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Research and Development						
Commercial	2,184,104	(1,453,558)	**730,546**	1,547,707	(970,469)	**577,238**
Executive	920,588	(176,810)	**743,778**	545,819	(119,587)	**426,232**
Defense and Government	53,643	(44,895)	**8,748**	36,181	(15,651)	**20,530**
Other	6,963	(676)	**6,287**	6,753	(205)	**6,548**
	3,165,298	**(1,675,939)**	**1,489,359**	**2,136,460**	**(1,105,912)**	**1,030,548**
Software	175,681	(133,770)	41,911	119,897	(91,245)	28,652
	3,340,979	**(1,809,709)**	**1,531,270**	**2,256,357**	**(1,197,157)**	**1,059,200**

Changes in intangible assets:

Intangible assets	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
At January 1	2,256,357	(1,197,157)	2,227,676	(1,257,254)
Additions	452,494	(226,641)	496,955	(242,353)
Transfer of contribution from partners (i)	(177,717)	-	28,498	-
Exchange translation adjustment	809,845	(385,911)	(496,772)	302,450
At December 31	**3,340,979**	**(1,809,709)**	**2,256,357**	**(1,197,157)**

(i) Refers to the transfer from non-current liabilities of contributions from partners in the Phenom 100 program after certification of this model of aircraft by the Brazilian, United States and European certification authorities, in December 2008, when return is no longer payable. (Note 21)

b. Consolidated

	2008			2007		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Research and Development						
Commercial	2,194,326	(1,453,558)	740,768	1,554,154	(978,647)	575,507
Executive	962,765	(177,133)	785,632	561,892	(119,587)	442,305
Defense and Government	55,514	(46,068)	9,446	37,599	(16,262)	21,337
Other	68,036	(44,923)	23,112	43,149	(1,833)	41,316
	3,280,641	**(1,721,682)**	**1,558,959**	**2,196,794**	**(1,116,329)**	**1,080,465**
Software	251,211	(199,680)	51,531	175,438	(137,434)	38,004
	3,531,852	**(1,921,362)**	**1,610,490**	**2,372,232**	**(1,253,763)**	**1,118,469**

Changes in intangible assets:

Intangible assets	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
At January 1	2,372,232	(1,253,763)	2,332,661	(1,312,426)
Additions	480,341	(239,609)	521,805	(254,170)
Write-offs	(20,127)	(274)	1,691	-
Transfer of contribution from partners (i)	(177,719)	-	28,498	-
Exchange translation adjustment	877,125	(427,716)	(512,423)	312,834
At December 31	**3,531,852**	**(1,921,362)**	**2,372,232**	**(1,253,763)**

These refer to the costs incurred in developing programs for each new aircraft, including support services, productive labor, materials and direct labor allocated to the construction of prototype aircraft or significant components. The costs of flight and ground testing and subsequent design changes are also included.

Based on market studies carried out by the Company which indicate that sales of the ERJ 145 and EMBRAER 170/190 families may be higher than initially estimated, the review of these estimates was completed in the second quarter of 2008, and the effects of these changes were recognized, prospectively, in income for the period, in accordance with CVM Resolution No. 506 of June 19, 2006. This change in accounting estimate resulted in an increase of approximately 7% in profit before taxation for 2008.

18 LOANS AND FINANCING

a. Analysis

	Currency	Contractual interest rate - %	Effective interest rate - %	Maturity	Parent Company		Consolidated	
					2008	2007	2008	2007
Other currencies								
Working capital	Euro	Euribor + 0.450 to 1.125%	Euribor + 0.450 to 1.125%	2017	-	-	108,758	75,766
		4.48%	4.48%					
	US$	2.55% to 8.69%	2.55% to 8.69%		952,373	721,975	1,280,493	966,592
(-) Amortization cost	US$				-	-	(9,820)	(8,364)
		Libor 6M e 12M + 0.55%	Libor 6M e 12M + 0.55%					
	Other	2.53% to 6.20%	2.53% to 6.20%		-	-	51,539	9,588
Project development	US$	Libor + 0.875% to 1.75%	Libor + 2.652% to 3.635%	2016	311,762	282,597	315,483	284,609
(-) Amortization cost	US$				(5,969)	(5,330)	(5,969)	(5,330)
Purchase of materials	US$	4.12% to 5.95%	4.12% to 5.95%					
		Libor + 1.10%	Libor + 1.10%	2012	84,847	217,400	86,292	219,220
Export financing	US$	6.30% to 7.81%	6.30% to 7.81%	2010	118,827	90,044	130,565	98,930
Advances on exchange contracts	US$	4.20% to 8.50%	4.20% to 8.50%	2009	778,088	-	797,455	24,434
Acquisition of property, plant and equipment	US$	3.53% to 5.35%	3.53% to 5.35%	2035	-	-	60,122	47,603
Finance Leasing	US$	5.98% to 7.24%	5.98% to 7.24%					
		Libor + 2.54% to 3.40%	Libor + 2.54% to 3.40%	2014	9,029	6,535	14,379	11,410
					2,248,957	**1,313,221**	**2,829,297**	**1,724,458**
Brazilian currency								
Pre-shipment	R$	TJLP + 2.09% to 2.10%	TJLP + 2.09% to 2.10%	2010	1,248,911	1,248,756	1,274,073	1,267,822
Project development	R$	TJLP + 5.0%	TJLP + 5.0%	2015	129,130	81,170	166,500	113,206
Working capital	R$	106% CDI	106% CDI		-	-	-	1,809
Finance Leasing	R$	CDI + 0.49% to 2.46%	CDI + 0.49% to 2.46%	2015	-	-	29,809	17,700
					1,378,041	**1,329,926**	**1,470,382**	**1,400,537**
					3,626,998	2,643,147	4,299,679	3,124,995
Less - Current					930,096	1,457,000	1,259,809	1,659,051
Non-current					**2,696,902**	**1,186,147**	**3,039,870**	**1,465,944**

The maintenance cost of the standby syndicated credit line of up to US$ 500 million maintained by the Company was included in financial expenses. No disbursements of this line were made up to December 31, 2008.

b. Long-term maturities

Year	Parent Company	Consolidated
	2008	2008
2010	1,471,605	1,650,528
2011	82,544	117,180
2012	82,552	153,019
2013	49,885	61,453
2014	34,254	43,637
After 2014	976,062	1,014,053
	2,696,902	3,039,870

c. Currency analysis

The total debt is denominated in the following currencies:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Brazilian Real	1,378,041	1,329,926	1,470,382	1,400,537
US dollar	2,248,957	1,313,221	2,668,999	1,639,104
Euro	-	-	108,758	75,766
Other	-	-	51,540	9,588
	3,626,998	2,643,147	4,299,679	3,124,995

d. Interest and guarantees

The total debt in Brazilian reais is subject to interest based on the variation of the Long-term Interest Rate (TJLP) and the Interbank Deposit Certificate (CDI). The variations of these indexes in 2008 were 6.25% and 13.62%, respectively (6.25% and 11.12% in 2007, respectively).

The foreign currency financing at December 31, 2008 is subject to exchange variations plus an average annual weighted interest of LIBOR plus 3.73% a year (LIBOR plus 1.64% in 2007) and the financing in local currency is subject to an average annual weighted interest rate of 8.94% (8.03% in 2007).

Taking into account the effects of the effective rates on the foreign currency financing, which include the financial structuring costs incurred and already paid, the average effective weighted rates are equivalent to LIBOR plus 4.05% a year.

Real estate, machinery, equipment, commercial pledges and bank guarantees totaling R$ 752,519 were pledged as collateral for the financing. Financing of the subsidiaries is guaranteed by the Parent Company to the amount of R$ 241,072.

e. Restrictive clauses

The long-term financing agreements are subject to restrictive clauses, in line with normal market practices, which establish control over the degree of leverage through the net indebtedness/EBITDA (“Earnings Before Interest, Taxes, Depreciation and Amortization”) ratio, and also limits for debt service cover using the EBITDA/net financial expense ratio. There is also a clause that establishes a minimum amount for the Company’s net equity. They also include the customary restrictions on the creation of new encumbrances on assets, significant changes in the Company’s ownership, sales of assets, payment of dividends above the minimum mandatory dividend in the event of default on the financing and on transactions with affiliated companies.

The Parent Company and subsidiaries were in compliance with all the restrictive clauses at December 31, 2008, except for the subsidiary OGMA, whose interest coverage ratio was in excess of the contractually agreed level. The subsidiary obtained a waiver from the creditors after December 31, 2008.

19 SUPPLIERS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Overseas suppliers				
Risk partners (i)	1,117,271	580,889	1,117,271	580,889
Other	928,907	612,548	1,293,155	873,693
Brazilian suppliers	69,968	104,448	109,782	162,411
Subsidiaries (ii)	95,930	104,801	-	-
	2,212,076	1,402,686	2,520,208	1,616,993
Less - Current	2,212,076	1,402,686	2,520,208	1,616,393
Non-current	-	-	-	600

(i) The Company’s risk partners develop and produce significant aircraft components, including engines, hydraulic components, avionics, wings, tail section, the interior, parts of the fuselage, etc. Certain contracts between the Company and these risk partners are long term and include deferral of payments for components and systems until a negotiated term after delivery.

Once the risk partners have been selected and the aircraft development and production program has started, it is difficult to change them. In some cases, such as for engines, the aircraft is specially designed to accommodate a given component, which cannot be replaced by another supplier without incurring delays and significant additional expense. This dependence makes the Company vulnerable to the performance, quality and financial position of its risk partners.

(ii) Of the total amount at December 31, 2008, R$2,531 is denominated in Brazilian reais and R$93,399 in other currencies.

20 ACCOUNTS PAYABLE

	Parent Company		Consolidated	
	2008	2007	2008	2007
Insurance	9,627	7,615	9,890	7,807
Materials pending (i)	8,885	26,811	8,885	26,811
Commercial rebates	17,383	2,654	17,383	2,654
Financial credits (ii)	-	-	7,630	16,628
Related parties (iii)	-	-	20,132	24,082
Bond	-	-	9,051	9,951
Contractual obligations (iv)	-	-	49,987	27,402
Accounts Payable (v)	56,755	44,081	81,763	65,969
	92,650	**81,161**	**204,721**	**181,304**
Less - Current	89,830	78,403	163,503	135,125
Non-current	**2,820**	**2,758**	**41,218**	**46,179**

(i) Accessories or components to be installed in aircraft already delivered, in accordance with the contracts.

(ii) Amounts provided to compensate customers for certain financing costs.

(iii) Basically, the intercompany loan between OGMA and EMPORDEF, an OGMA shareholder.

(iv) Mainly amounts provided to cover the maintenance costs of aircraft rented under lease contracts.

(v) Expenses incurred in December 2008, for payment in 2009.

21 CONTRIBUTIONS FROM PARTNERS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Current	-	-	5,823	7,316
Non-current	65,484	35,466	103,453	198,742
Total	**65,484**	**35,466**	**109,276**	**206,058**

The Company has agreements with certain key suppliers, referred to as partners, to participate in research and development. Certain supply agreements require the supplier to contribute cash to the Company as a compensation for its research and development. As part of this supply agreement, the contributions are tied to compliance by the Company with certain important stages of development, including aircraft certification, first delivery and minimum number of aircraft delivered. The Company records these contributions when received as non-current liabilities, which will not be claimed if the contractual objectives are achieved. As and when the objectives are achieved, and these amounts are therefore no longer subject to return, they are deducted from the aircraft development costs, recorded in the Intangible assets account in non-current assets.

22 ADVANCES FROM CUSTOMERS

	Parent Company		Consolidated	
	2008	2007	2008	2007
In Brazilian reais	103,289	50,541	113,042	57,462
Other currencies	3,337,914	1,851,312	3,627,799	2,014,208
	3,441,203	**1,901,853**	**3,740,841**	**2,071,670**
Less - Current	2,401,225	1,257,965	2,691,041	1,419,907
Non-current	**1,039,978**	**643,888**	**1,049,800**	**651,763**

23 TAXES AND SOCIAL CHARGES PAYABLE

	Parent Company		Consolidated	
	2008	2007	2008	2007
Income tax and social contribution on net income (i)	315,560	376,641	335,088	391,523
INSS (National Institute of Social Secutiry)(ii)	174,813	227,782	179,151	231,159
PIS and COFINS (iii)	62,878	59,709	62,884	59,716
INSS -installment payments	25,670	30,873	34,836	40,998
IRRF (Income tax withheld at source)	26,914	37,281	28,891	38,915
FGTS (Government Employee Ibndemnity Fund)	12,439	11,878	12,787	12,245
Other	2,788	474	41,399	11,727
	621,062	**744,638**	**695,036**	**786,283**
Less - Current	81,366	133,686	148,009	166,911
Non-current	**539,696**	**610,952**	**547,027**	**619,372**

Taxes and social charges with suspended payment, based on court or administrative measures (see items i, ii and iii) are stated in the financial statements net of the related judicial deposits in accordance with CVM Resolution 489/05, as shown below:

Parent company and consolidated

	2008			2007		
	Provisions	Judicial deposits	Net	Provisions	Judicial deposits	Net
Income tax and social contribution (i)	487,927	(172,367)	315,560	526,897	(150,256)	376,641
INSS (ii)	153,369	(11,265)	142,104	207,447	(11,729)	195,718
PIS/PASEP/ COFINS (iii)	134,649	(72,224)	62,425	125,043	(65,755)	59,288

The Company is challenging at the administrative and judicial levels the constitutionality of the nature, calculation base, changes in rates and expansion in the calculation bases of certain taxes, charges and social contributions, to avoid payment or recover payments made in prior years. Through administrative and legal action, the Company obtained injunctions and similar measures not to pay or offset the payment of taxes and charges and social contributions. Based on preliminary court rulings, provisions are being recorded for the amounts of the unpaid taxes, restated at the SELIC rate, until a final ruling has been obtained.

The principal ongoing cases of a tax nature are as follows:

(i) The Company is claiming the recognition of constitutional immunity of the social contribution tax on exports and the right to offset the income tax and social contribution against IPI (Excise Tax) credits on purchases of materials exempt from tax, not taxed or taxed at a zero rate. The first lawsuit is at the third court level, awaiting judgment of the extraordinary appeal, in which a suspensive effect was awarded in favor of the Company, and the second is the administrative level. In some of the administrative IPI cases, a final ruling was handed down against the Company. The principal amounts in these cases, restated at the SELIC rate, have been paid and the fines deposited in court. The amount involved in these cases totals R$487,927, parent company and consolidated.

(ii) This refers to the increase in the work-related accident insurance (SAT) rate. The Company contested the legality of the SAT in the Higher Court of Justice which, on June 19, 2008, handed down a final judgment in favor of the Federal Treasury. However, the right to charge the differences between the minimum and maximum rates of these contributions was once again suspended, since 1995, through granting of a preliminary injunction in a lawsuit in which the Company contests the legality and the legal criteria for establishing the rates, while accepting the legality of the introduction of the tax. The amount involved in this case is R$153,369, parent company and consolidated. The remaining balance refers to the current contributions. In the third quarter of 2008, the Company reversed the provision of R$65,875, with credits of R$ 37,777 to financial expenses, R$ 21,824 to cost of sales and R$ 6,274 to operating expense, in relation to the litigation concerning the increase in the National Social Security Institute – INSS contribution rate.

(iii) Includes the contributions to the Social Integration Program (PIS) and Public Service Employee Savings Program (PASEP), where the Company is challenging the expansion of the PIS/PASEP and COFINS calculation bases and the charges in certain periods. The first case is at the second court level and in the second case, in which the Company disputes the charge of the contribution, a final ruling recognizing the material right was handed down by the Federal Regional Court, 3rd Region, and the dispute continues at the third court level only in relation to the prescription of part of the amount. The amount involved is R$134,649, parent company and consolidated. The remaining balance refers to current contributions. In the case challenging the expansion of the COFINS and PIS calculation bases introduced by Law 9718/98, the Company obtained a favorable decision in the Higher Court of Justice on September 6, 2007 and in the Federal Supreme Court on October 5, 2007. This resulted in the reversal of R$369,248, of which R$ 313,721 refers to COFINS and R$ 55,527 to PIS R$198,800 of this amount is recorded in the statement of income as a credit to Other operating income/expense, and R$170,448 Financial income (expenses).

The provision recorded in relation to the above issues will be maintained until there is a final ruling against which no further appeal can be made.

24 OTHER PROVISIONS

	Parent Company		Consolidated	
	2008	2007	2008	2007
Payroll	243,344	206,592	292,150	241,803
Product warranty (i)	214,924	182,552	224,474	185,849
Employee profit sharing program	63,924	96,257	71,201	106,962
Provision for financial guarantees (ii)	63,963	43,325	63,963	43,325
Product improvements (i)	50,290	37,976	50,290	37,976
Unrealized losses with derivatives	389,072	19,278	389,072	19,340
Accrued retirement and pension benefits	-	-	11,537	8,772
Provision for losses on investments in subsidiaries	-	4,079	-	-
Other	12,518	40,912	24,952	54,431
	1,038,035	**630,971**	**1,127,639**	**698,458**
Less - Current	802,133	437,526	891,737	509,705
Non-current	**235,902**	**193,445**	**235,902**	**188,753**

(i) Provisions recorded to cover product costs, including warranties and contractual obligations to make improvements to aircraft delivered, in order to ensure that the performance targets are met. In the third quarter of 2008, the Company carried out statistical studies of the expenditure incurred to cover the warranty on the commercial jets of the EMBRAER 170/190 family, resulting in changes in accounting estimates. The effects of these changes are recognized in income for the period, in accordance with Resolution No. 506, of June 19, 2006. This change in accounting estimates resulted in an increase of approximately 9% in profit before taxation for 2008.

(ii) Provision recorded to cover possible losses on guarantees provided to customers and financial agents involved in structuring the financing of aircraft sales (Note 35 b).

25 PROVISION FOR CONTINGENCIES

a) On the dates of the financial statements, the Company's liabilities in relation to contingencies, net of the corresponding judicial deposits, were as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Labor	48,018	43,886	52,091	47,319
Tax	32,988	31,649	36,030	33,977
Civil	-	-	14,130	11,445
	81,006	**75,535**	**102,251**	**92,741**
Less - Current	20,957	11,235	22,137	12,413
Non-current	**60,049**	**64,300**	**80,114**	**80,328**

Changes in the provisions:

a Parent Company

	At 12/31/2007	Additions	Interest	Transfers	Write-offs	Translatiom adjustment	At 12/31/2008
Labor	43,886	379	5,683	-	(2,220)	290	**48,018**
Tax	31,649	-	2,079	858	-	(1,598)	**32,988**
	75,535	**379**	**7,762**	**858**	**(2,220)**	**(1,308)**	**81,006**

b Consolidated

	At 12/31/2007	Additions	Interest	Exchange / monetary variations	Transfers	Write-offs	Translatiom adjustment	At 12/31/2008
Labor	47,319	1,755	4,991	892	-	(2,980)	114	**52,091**
Tax	33,977	823	2,320	-	858	(45)	(1,903)	**36,030**
Civil	11,445	-	3,209	-	-	-	(524)	**14,130**
	92,741	**2,578**	**10,520**	**892**	**858**	**(3,025)**	**(2,313)**	**102,251**

The Company is party to labor, civil and tax lawsuits, which are supported by judicial deposits, when applicable, and is contesting these cases in both the administrative and judicial levels. The provisions for probable loss in these lawsuits are estimated and updated by management, based on the opinion of its external legal counsel.

b) The nature of the obligations is summarized below:

Labor contingencies

The labor contingencies relate to claims brought by Unions representing the employees or individual claims in which former employees claim overtime, productivity, reinstatement, allowances, backdating of salary increases and readjustments.

The principal claims pending were filed by the Union in June 1991 which seek to backdate a salary increase given by the Company in January and February 1991 to November and December 1990. By December 31, 2007, approximately 97% of the employees and former employees had made settlements with the Company. Another lawsuit claims price-level restatement of the Verão and Collor 1 economic plans on the 40% FGTS penalty paid to employees employed by the Company between February 1989 and April 1990 and dismissed between 1989 and June 2003. In September 2007, the Union and the Company signed an agreement that provides for payments to begin in October 2007. By December 31, 2008, the Company had made payments to 80% of the former employees.

The total exposure in these lawsuits is estimated at approximately R$64,000. The proceedings are at various levels awaiting judgment. Based on the opinions issued by the Company's legal advisors and the success of certain judgments and negotiations that are expected to occur, the amount provided is considered adequate by management.

Tax

The principal tax cases in progress are as follows:

I **Social security contributions –** the Company was notified by the authorities for not withholding social security contributions from service providers. These cases are at the 2nd court level. In addition to these cases, the Company was notified to pay additional allowances for environmental work risks. This lawsuit is at the 2nd court level. The amount involved in these lawsuits, for which a full provision has been recorded, is R$20,918. These amounts are net of the judicial deposits made, of R$ 8,245 as of December 31, 2008.

II **Special Fund for Development and Improvement of Inspection Activities (FUNDAF) –** in 1999, Embraer received an Assessment and Penalty Notice (AIIM) from the Federal Revenue Secretariat, assessing an alleged contribution liability for FUNDAF. At that time, an administrative defense was filed, which was subsequently successful, in view of the interpretation of the judging authorities to the effect that this contribution is not of a tax nature and that, therefore, there were no grounds for issuing the AIIM, which is intended for collection of tax liabilities. However, in March 2005, the Company was notified by the Federal Revenue Secretariat to pay the FUNDAF contribution on the grounds that the AIIM had been canceled as a result of a formal error (a different instrument should have been used for collection, rather than the AIIM) and not a material error (in terms of the potential illegitimacy or unconstitutionality of the demand), and that the contribution could be collected by another means. As a result of this new notification, the Company filed a tax debt annulment lawsuit at the 1st court level, which is pending judgment. The amount involved in this case at December 31, 2008 is R$ 10,090, and a provision has been recorded in the financial statements.

III **Import duty –** Import duty and IPI due on materials imported for two flight simulators, which should be exported in order to obtain the suspension of these taxes. Due to problems experienced by the customer, these materials were exported after the regulatory deadline. Another lawsuit refers to the questioning by the tax authorities of the tax classification of the materials. These lawsuits are at the 2nd and 1st court levels, respectively. The amount involved in these lawsuits, for which a full provision has been recorded, is R$4,813 at December 31, 2008. This amount is net of the judicial deposits of the same amount.

IV **CIDE –** Between January and September 2002, the Company paid the Economic Domain Intervention Contribution (CIDE) charged on royalties, technical services and technical assistance, without having altered the calculation base, due to lack of any legal provision on the matter. After a first inspection of this period and a favorable ruling at the administrative level with regard to the facts contested, the Federal Revenue Secretariat notified the Company to pay the difference on the calculation base charged in the above period. The Company filed a defense to the administrative lawsuit, which is currently at the Federal Revenue Judgment Office awaiting a hearing at the 1st level. The amount involved is R$ 4,587 at December 31, 2008.

Civil

Lawsuit filed by Gaplan Administradora de Bens S/C Ltda. against the subsidiary Indústria Aeronáutica Neiva Ltda. – NEIVA, relating to the "Guarantee to Supply Aircraft and Consortium Purchase" agreement signed with Embraer for the period 1988 to 1997, in which it undertook to supply a given number of aircraft within a stipulated period, in accordance with the standard series configuration at the time of manufacture, directly to the consortium members. The plaintiff alleges late delivery of the aircraft, which led to termination by some of the consortium purchasing members, who demanded the return of the installments paid, financial losses caused by the increase in the term of the pool purchase and price alterations, in addition to a reduction in the management fee. In February 2009, the parties to the case signed an agreement for the amount of R$14,120, and a provision of this amount has therefore been recorded in the subsidiary Neiva.

26 DIVIDENDS AND INTEREST ON OWN CAPITAL

Under the terms of the bylaws, stockholders are entitled to dividends or interest on own capital equivalent to 25% of net income for the year, adjusted in accordance with the provisions of the bylaws.

Pursuant to Law No. 9.249/95, and subject to approval by the Annual General Meeting of Stockholders, which will analyze the accounts and financial statements for 2008, the Board of Directors approved the distribution to its shareholders of interest on own capital, calculated based on the Long-term interest rate – TJLP, attributing it to the amount of the minimum mandatory dividend. In accordance with tax legislation, the interest on own capital was recorded as a financial expense. However, for purposes of these financial statements, the amount is considered a distribution of the net income for the year, and reclassified to stockholders' equity, at its gross amount as the tax benefits arising therefrom are included the net income for the year.

The interest on capital for 2008 was paid as follows:

Date of approval	Base period	Amount	Amount per common share – R$	Date of payment
03/07/08	1st quarter of 2008	65,887	0.091046	04/15/2008
06/13/08	2nd quarter of 2008	65,376	0.090340	07/15/2008
09/12/08	3rd quarter of 2008	92,947	0.128440	10/15/2008

The dividends were calculated as follows:

	2008	2007
Net income for the year	409,450	1,174,727
Subsidies	(13,116)	(8,094)
Legal reserve	(20,472)	(29,653)
Net income available for distribution	375,862	1,136,980
Minimum mandatory dividend (25%)	93,965	284,245
Dividends		
Interest on own capital	224,210	325,790
Proposed dividends	–	123,000
Total stockholder remuneration	224,210	448,790
Additional distribution	140,743	164,545
Dividend per share		
Common shares outstanding – R$	0.309826	0.606149

27 STOCKHOLDERS' EQUITY

a. Capital

The authorized capital is divided into 1,000,000,000 common shares. The Company's subscribed and paid up capital at December 31, 2008 is R$ 4,789,617 and comprises 740,465,044 common shares, without par value, of which 16,800,000 shares are held in Treasury.

b. Special common share

The Federal Government holds one special common share with the same voting rights as other holders of common shares, however, with special rights established in article 9 of the bylaws.

The special class share grants the Federal Government the power of veto on the following matters:

I Change of the Company's name or its corporate objective;

II Alteration and/or use of the Company's logo;

III Creation and/or alteration of military programs, whether or not the Federal Republic of Brazil is involved;

IV Training third parties in technology for military programs;

V Interruption of the supply of maintenance and spare parts for military aircraft;

VI Transfer of the Company's ownership;

VII Any changes in: (i) the provisions of article 9, or of article 4, the main clause of art. 10, arts. 11, 14 and 15, sub-item III of art. 18, paragraphs 1 and 2 of art. 27, sub-item X of art. 33, sub-item XII of art. 39 or Chapter VII; or (ii) the rights attributed by the bylaws to the special class share.

c. Stockholders

	Number Common shares		% of total capital	
	12/31/08	12/31/07	12/31/08	12/31/07
Caixa de Previdência dos Funcionários do Banco do Brasil – Previ	103,082,901	103,082,901	13.92	13.92
Janus Capital Management	75,807,944	38,511,632	10.24	5.20
Cia. Bozano	58,136,689	54,089,844	7.85	7.30
Oppenheimer Fund	44,721,636	-	6.04	-
BNDES Participações S.A. – BNDESPAR	37,412,579	37,412,579	5.05	5.05
Thornburg Investment Management	37,726,280	-	5.09	-
Treasury shares	16,800,000	70,000	2.27	0.01
Federal Government	2,349,911	2,349,911	0.32	0.32
Other	364,427,104	504,948,177	49.22	68.20
	740,465,044	740,465,044	100.00	100.00

d. Granting of Embraer stock options

We show below the changes in options, taking into consideration the incorporation of the stock dividends:

	12/31/2008		12/31/2007	
	Options	Average granting price – R$	Options	Average granting price – R$
At the beginning of the year	1,353,391	22.00	2,225,046	18.30
Exercised	-	-	(561,130)	12.07
Canceled or expired	1,353,391	22.00	(310,525)	13.84
At the end of the year	-	-	1,353,391	22.00

e. Legal reserve

A legal reserve is recorded annually as an appropriation of 5% of the net income for the year; the reserve may not exceed 20% of capital.

f. Investment subsidy reserve

Refers to the appropriation of part of the retained earnings derived from government subsidies received by the Company for investment in research.

g. Reserve for investments and working capital

The purpose of this reserve is to: (i) guarantee funds for investments in property, plant and equipment, without detriment to retained earnings, pursuant to art. 196 of Law 6.404/76; and (ii) reinforce working capital; it may also be used (iii) to redeem, reimburse or purchase shares in the Company.

h. Share repurchase

On April 4, 2008, funds from the Reserve for investments and working capital were used to purchase 16,800,000 common shares, amounting to R$320,251, registered in stockholders' equity under Treasury shares.

This transaction was carried out in accordance with the guidelines approved by the Board of Directors in a meeting held on December 7, 2007.

The shares purchased will be held in Treasury during which period they will lose their political and economic rights.

i. Cumulative Translation Adjustments.

These refer to the exchange differences resulting from translation of the balance sheet and statement of income for the year from the functional currency of the Company and its subsidiaries (mainly US dollars) into the currency of presentation of the financial statements (Brazilian Reais).

28 SUPPLEMENTARY PENSION PLAN

a. Defined contribution

The Company and its subsidiaries sponsor a private defined contribution plan for employees. For the companies based in Brazil, the plan is managed by Banco do Brasil S.A. – BB Previdência. The Company's contributions to the plan in 2008 and 2007 were R$31,456 and R$28,357 (R$33,138 and R$27,689, consolidated), respectively.

b. Defined benefit

EAH used to sponsor a defined benefit pension plan for certain employees, as well as a post-retirement medical plan, for which the estimated pension and post-retirement medical care for the benefited employees and their dependents were accrued based on actuarial valuations. The defined benefit plan was liquidated in 2006.

By means of an addendum, all the benefits were frozen as of December 31, 2003 and a provision was recorded for the full proportional benefit.

The supplementary pension plan for employees hired as from October 1, 2001 is a defined contribution plan and those hired prior to that date were also transferred to the defined contribution plan.

The changes in benefit liabilities for the years ended December 31, 2008 and 2007, are as follows:

	Post-retirement benefits	
	2008	2007
Opening balance	6,946	14,872
Foreign exchange variations	2,219	(2,551)
Current service cost	92	1,240
Interest cost	561	678
Adjustments	-	(6,556)
Actuarial gain	832	(313)
Benefits paid to participants	(474)	(424)
Closing balance of accrued obligations	10,176	6,946

The changes in plan assets for the years ended December 31, 2008 and 2007 are as follows:

	Post-retirement benefits	
	2008	2007
Fair value of plan assets at the beginning of the year	3,364	4,262
Exchange variation	1,075	(731)
Employer's contributions	(873)	257
Benefits paid to participants	(474)	(424)
Fair value of plan assets at the end of the year	3,092	3,364

The provisions for benefit costs at December 31, 2008 and 2007 are as follows:

	Post-retirement medical benefits	
	2008	2007
Accumulated deficit	(7,084)	(3,582)

The main actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	% Post-retirement medical benefits	
	2008	2007
Discount rate	5.75	5.75
Estimated return on plan assets	7.75	7.75
Future salary increases	5.50	5.50

The net costs of benefits as of December 31, 2008 and 2007 are as follows:

	Post-retirement medical benefits	
	2008	2007
Service cost	92	1,240
Interest cost	561	678
Estimated return on plan assets	(340)	(257)
Amortization of unrecognized prior service cost	(294)	(317)
Net cost of benefits	19	1,344

29 EMPLOYEE PROFIT SHARING

Based on the variable remuneration policy approved by the Board of Directors in April 1996 and renewed in November 2005, the Company has an Employee Profit Sharing Plan which is linked to an action plan, the payment of dividends to stockholders and to achieving specific goals which are established and agreed at the beginning of each year. The profit sharing is equivalent to 12.5% of net income for the year, determined in accordance with US GAAP. Of this amount, 30% is distributed in equal parts to all employees and 70% proportional to salary. The Company recorded expense of R$ 91,073 and R$ 119,226 in 2008 and 2007, respectively (R$ 95,252 in 2008 and R$ 132,666 in 2007, consolidated).

30 OTHER OPERATING INCOME (EXPENSES), NET

	Parent Company		Consolidated	
	2008	2007	2008	2007
Studies for projects	(154,385)	(111,530)	(154,315)	(112,582)
Professional training and development	(636)	(23,017)	(636)	(23,017)
Taxes on other revenue	(7,299)	(20,004)	(9,349)	(20,478)
Contractual fines	21,695	(17,159)	23,297	(17,507)
Aircraft maintenance and flight costs - fleet	(13,636)	(15,859)	(15,925)	(15,859)
Provision for contingencies	(396)	(4,276)	(1,011)	(5,155)
Expense of finance restructuring	-	-	(4,376)	-
Tax fines	(246)	4,789	(534)	4,735
Flight safety standards	(5,314)	(4,123)	(5,314)	(4,123)
Royalties	24,544	13,358	18,354	(2,191)
Reversal PIS/COFINS (Note 23)	-	198,800	-	198,800
Other sales	17,351	20,954	17,858	28,768
Recovery of expense	17,054	13,602	17,320	16,389
Product modifications	(19,717)	(6,318)	(18,692)	(6,318)
Maintenance of third-party aircraft	(2,993)	-	(2,993)	-
Corporate income tax contingency	11,044	-	11,044	-
Expense of programs	(11)	(7,574)	(11)	(7,574)
Other	10,295	2,292	(12,735)	3,239
	(102,650)	43,935	(138,018)	37,127

31 FINANCIAL INCOME (EXPENSES)

	Parent Company		Consolidated	
	2008	2007	2008	2007
Financial expense				
Interest and commissions on loans and financing	(158,955)	(196,040)	(185,448)	(219,431)
Interest on taxes, social charges and contributions (Note 23)	(19,352)	87,913	(20,294)	87,882
Tax on bank account outflows transactions - CPMF	-	(44,551)	(462)	(45,684)
Financial restructuring COSTS	(1,293)	(1,018)	(2,918)	(12,069)
IOF on financial transactions	(1,411)	(2)	(5,179)	(9)
Other	(15,681)	(15,828)	(15,219)	(20,658)
	(196,692)	(169,526)	(229,520)	(209,969)
Financial income				
Financial investments	90,673	194,445	99,760	215,683
Interests on receivables	48,002	36,548	85,892	199,834
Financial structuring income	-	-	206	22,844
Other	2,400	5,852	3,175	7,027
	141,075	236,845	189,033	445,388

32 MONETARY AND FOREIGN EXCHANGE VARIATIONS, NET

	Parent Company		Consolidated	
	2008	2007	2008	2007
Net monetary and foreign exchange variations				
Income				
Trade accounts receivable	(64,530)	41,697	(71,575)	40,909
Derivative transactions	(54,381)	100,042	14,784	100,549
Advances to suppliers	-	-	(10,164)	2,709
Financial investments	(208,669)	312,324	(205,201)	315,240
Tax credit	(26,090)	135,776	(28,127)	136,791
Other	2,600	2,666	(5,484)	17,171
	(351,070)	**592,505**	**(305,767)**	**613,369**
Expenses				
Advances from customers	31,997	(8,315)	30,868	(11,812)
Loans and financing	88,067	(167,152)	102,805	(175,485)
Suppliers	25,108	(11,104)	28,039	(12,912)
Accounts payable	22,397	(26,011)	26,053	(32,265)
Derivative transactions	(331,826)	(25,611)	(333,388)	(26,201)
Losses on translation of investments abroad	-	-	2,945	(15)
Translation of balance sheet of subsidiaries abroad	-	15	(898)	(288)
Taxes and charges payable	253,178	(206,952)	253,462	(208,521)
Deferred taxes	(37,754)	(84,138)	(37,754)	(84,136)
Provisions	97,498	(39,365)	99,287	(41,481)
Contingencies	(57,722)	(2,223)	(56,718)	(2,702)
Other	3,443	(863)	2,236	(3,067)
	94,386	**(571,719)**	**116,937**	**(598,885)**
Monetary and exchange variations, net	**(256,684)**	**20,786**	**(188,830)**	**14,484**

33 INCOME TAX AND SOCIAL CONTRIBUTION ON NET INCOME CREDITS

The Company records deferred tax credits on income tax and social contribution on net income losses when realization is probable, based on internal studies. Credits on temporary differences relating to non-deductible provisions, mainly labor contingencies, provisions and tax litigation, will be realized as and when the corresponding lawsuits are concluded. In accordance with generally accepted accounting practices, deferred taxes were also recorded in income for the year on the temporary difference between the tax and book bases of assets and liabilities, in view of adoption of the balance sheet method. As the Parent Company's tax basis is in historical Brazilian reais and the accounting basis is in US dollars (functional currency), variations in the exchange rate have a significant impact on the tax basis and, consequently, on the deferred income tax expense/income.

At December 31, 2008, the balances of income tax and social contribution losses, which do not prescribe, are as follows:

	Parent Company	Consolidated
Income tax	115,323	190,644
Social contribution	-	36,164

The components of the deferred tax assets and liabilities at December 31, 2008 and 2007 are as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Deferred tax assets on				
Income tax losses	28,831	28,831	47,662	42,685
Social contribution losses	-	-	3,255	1,526
Unrecognized credits	-	-	(5,076)	(6,191)
Tax losses to offset	**28,831**	**28,831**	**45,841**	**38,020**
Deferred tax assets on temporary differences				
Temporarily non-deductible provisions	632,178	421,187	731,468	506,478
Effect of Law 11.638/07	50,504	314,258	51,758	282,484
	682,682	**735,445**	**783,226**	**788,962**
Total assets	**711,513**	**764,276**	**829,067**	**826,982**
Deferred tax liabilities on temporary differences				
Deferred research and development costs	(535,553)	(465,572)	(548,055)	(478,812)
Revaluations of property, plant and equipment	(14,194)	(14,813)	(14,194)	(14,813)
Special monetary restatement reserve	(4,359)	(4,733)	(4,359)	(4,733)
Effect of Law 11.638/07	(370,379)	(73,847)	(381,281)	(88,177)
Other	(15,856)	(4,881)	(58,278)	(15,981)
Total liabilities	**(940,341)**	**(563,846)**	**(1,006,167)**	**(602,516)**

Based on the expectation of generation of taxable income, the Company recorded in its financial statements the deferred tax credits on the income tax and social contribution losses shown above.

The realization of the deferred tax credits at December 31, 2008 is estimated as follows:

	Parent Company	Consolidated
2009	373,276	404,508
2010	270,022	342,008
2011	48,328	53,204
2012	13,832	14,407
2013 and 2014	6,055	7,396
2015 and 2016	-	1,573
After 2016	-	5,971
Total	711,513	829,067

The estimated realization of deferred income and social contribution taxes on contingencies and taxes with suspended payment as a result of administrative or legal measures is based on the opinion of the external tax attorneys and internal management studies.

The deferred net tax credits presented above are shown in the financial statements as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Deferred tax credits				
Current	373,276	152,464	404,508	175,165
Non-current	338,237	611,812	424,559	651,817
	711,513	764,276	829,067	826,982
Deferred tax liabilities				
Current	(74,714)	(56,066)	(84,737)	(54,274)
Non-current	(865,627)	(507,780)	(921,430)	(548,242)
	(940,341)	(563,846)	(1,006,167)	(602,516)
Deferred tax credits, net	(228,828)	200,430	(177,100)	224,466

The analysis of the current and deferred income tax and social contribution income (expense) is as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Deferred tax				
On tax losses				
Recording of tax losses	-	28,831	6,706	25,189
Increase (decrease) in unrecognized credits	-	-	1,115	1,775
	-	28,831	7,821	26,964
Effect of reversals of temporary differences	(429,259)	(135,448)	(409,387)	(128,359)
Effect of the functional currency	13,847	154,040	(9,947)	176,793
	(415,412)	18,592	(419,334)	48,434
Deferred income tax expense	(415,412)	47,423	(411,513)	75,398
Income tax expense for the year	(1,877)	(34,109)	(23,623)	(64,204)
Total income tax and social contribution (expense) income	(417,289)	13,314	(435,136)	11,194

The reconciliation of the income tax and social contribution expense is as follows:

	Parent Company		Consolidated	
	2008	2007	2008	2007
Profit before taxation	826,740	1,161,413	883,179	1,188,040
Income tax and social contribution at the standard rates – 34%	281,092	394,880	300,281	403,934
Non-deductible expenses				
Tax on profits of overseas subsidiaries	131,399	127,723	-	-
Other	8,794	6,415	8,812	6,415
	140,193	134,138	8,812	6,415
Income not taxable and/or tax incentives				
Equity in the earnings of subsidiaries	(111,522)	(126,422)	-	-
Expenditure on research and development (art. 19 of Law 11196/05)	(87,945)	(55,191)	(87,945)	(55,191)
Interest on own capital	(76,231)	(110,769)	(76,231)	(110,769)
Adjustment of non-monetary items – Law 11.638/07	600,029	(137,431)	600,029	(137,431)
Income tax adjustment on the difference between the tax and Law 11638/07 bases	(374,019)	(90,763)	(385,895)	(67,616)
Effect of translation of income tax and social contribution expense	50,034	(15,885)	50,034	(35,808)
Other	(4,342)	(5,871)	26,051	(14,728)
	(3,996)	(542,332)	126,043	(421,543)
Income tax and social contribution expense (income) recorded in the statement of income	417,289	(13,314)	435,136	(11,194)

The Company recorded a deferred tax expense of R$ 600,029 in 2008 and deferred tax income of R$ 137,431 in 2007 relating to the difference between the book and tax bases of assets and liabilities.

The recognition of the above amounts, as well as the other adjustments arising from the application of Law 11.638/07 on the current and deferred income taxes, resulted in an effective tax rate of 49.3% (expense) in 2008 and 0.9% (income) in 2007.

34 FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

The fair values of the Company's financial assets and liabilities were determined using available market information and appropriate valuation methodologies. However, considerable judgment was required in interpreting market data to produce the most adequate estimates of the fair values. Accordingly, the estimates presented below are not necessarily indicative of the amounts that might be realized in a current market exchange. The use of different assumptions and/or methodologies could have a material effect on the estimated realizable values.

At December 31, 2008, the Company had the following financial instruments:

i Cash and banks, financial investments, accounts receivable, other current assets and accounts payable.

The book values approximate the realizable values.

ii Investments

These are mainly subsidiaries which are of strategic interest for the Company's operations, recorded on the equity method of accounting. Market value considerations do not apply.

iii Loans and Financing

These are subject to interest at normal market rates, as mentioned in Note No. 18. The estimated market value was calculated based on the present value of future cash payments using interest rates that are currently available to the Company for issuing debt with similar terms and maturities. The estimated market value of the loans and financing, including short-term installments, is as follows:

	Consolidated	
	12/31/2008	12/31/2007
Book value	4,299,679	3,124,995
Market value	3,966,167	3,252,551

b) Financial risk management policy

The Company has and follows a risk management policy to direct transactions, which involves the diversification of transactions and counterparties. This policy provides for regular monitoring and management of the nature and general situation of the financial risks in order to assess the results and the financial impact on cash flows. The credit limits and risk rating of the counterparties are also reviewed periodically.

The Company's risk management policy was established by the Executive Board and submitted to the Board of Directors, and provides for the existence of a Financial Management Committee. Under this policy, the market risks are protected when there is no counterparty in the Company's operations and when it is considered necessary to support the corporate strategy. The Company's internal control procedures provide for a consolidated monitoring and supervision of the financial results and of the impact on cash flows.

The Financial Management Committee assists the Financial Department in examining and reviewing information in relation to the economic scenario and its potential impact on the Company's operations, including risk management policies, procedures and practices.

Under the terms of the financial management policy, the Company uses derivative instruments to manage certain risks, in order to hedge its operations against the risks of variations in interest and foreign exchange rates. The use of this type of instrument for speculative purposes is prohibited.

Credit risk

The Company can incur losses on amounts receivable for sales of spare parts and services. To reduce this risk, customer credit analyses are made continuously. In relation to accounts receivable from aircraft sales, the Company may have credit risks until the financing structure has been completed. To minimize this credit risk, the Company operates with financial institutions to facilitate structuring of the financing.

To cover possible losses on doubtful accounts, the Company has recorded a provision in an amount considered sufficient by management to cover losses on realization of the receivables.

The financial management policy establishes that assets in the investment portfolios in Brazil and overseas should have a minimum risk classification in proportion to the investment grade, and also establishes a maximum exposure level of 15% of the stockholders' equity of the issuing financial institution and, in the case of a non-financial institution, a maximum of 5% of the total amount of the issue.

Counterparty risks in derivative transactions are managed by contracting transactions through premier financial institutions and registration with the Clearing House for the Custody and Financial Settlement of Securities (CETIP).

Liquidity risk

This is the risk of the Company not having sufficient liquid funds to honor its financial commitments as a result of a mismatch of terms or volumes of estimated receipts and payments.

Assumptions for future disbursements and receipts are determined in order to manage cash liquidity in Brazilian reais and US dollars, and these are monitored daily by the Treasury department.

Market risk

I Interest rate risk

This risk arises from the possibility that the Company might incur losses on account of interest rate fluctuations that increase the financial expense of loans and financing raised in the market or reduce the return on financial investments.

Financial investments – Company policy for managing the risk of fluctuations in interest rates on financial investments is to measure market risk by the Value-At-Risk – VAR methodology, analyzing a variety of risk factors that might affect the return on the investments. The financial income determined in the period already reflects the effects of marking the assets in the Brazilian and foreign investment portfolios to market.

Loans and financing – the Company uses derivative contracts to hedge against the risk of fluctuations in interest rates on certain transactions, and also continuously monitors market interest rates to evaluate the potential need to contract new derivative transactions to protect against the risk of volatility in these rates.

At December 31, 2008, the Company's consolidated financial investments and loans and financing are indexed as follows:

	Pre-Fixed		Post-Fixed		Total	
	Amount	%	Amount	%	Amount	%
Financial instruments	1,978,977	38.6%	3,143,107	61.4%	5,122,084	100.0%
. In reais	508,777	9.9%	1,568,264	30.6%	2,077,041	40.6%
. In US dollars	1,343,779	26.2%	1,574,842	30.7%	2,918,621	57.0%
. In other currencies	126,422	2.5%	-	0.0%	126,422	2.5%
Loans	2,241,083	52.1%	2,058,596	47.9%	4,299,679	100.0%
. In reais	-	0.0%	1,470,382	34.2%	1,470,382	34.2%
. In US dollars	2,154,695	50.1%	514,304	12.0%	2,668,999	62.1%
. In other currencies	86,388	2.0%	73,910	1.7%	160,298	3.7%

Post-fixed transactions by exposure factor

Financial instruments	3,143,106	100.0%
CDI	1,568,264	49.9%
LIBOR	1,574,842	50.1%
Loans	2,058,596	100.0%
CDI	29,809	1.4%
LIBOR	514,304	25.0%
TJLP	1,440,573	70.0%
Other	73,910	3.6%

II Foreign exchange rate risk

In accordance with the provisions of CVM Resolution No. 534 of January 29, 2008, the Company uses the US dollar as its functional currency. Operations originating in this currency are translated into Brazilian reais. (Note 2h).

Consequently, the Company's operations most exposed to exchange variation risks are those denominated in reais (labor costs, local expenses, financial investments and loans and financing denominated in reais) as well as investments in subsidiaries in currencies other than the US dollar.

Company policy for protection against foreign exchange risks is mainly based on seeking to maintain a balance between assets and liabilities indexed in each currency and daily management of foreign currency purchases and sales to ensure that, on realization of the transactions contracted, this natural hedge will actually occur.

Rights and obligations denominated in currencies other than the functional currency may require derivative transactions, such as Non-Deliverable Forward ("NDF") transactions, to balance the portion of the Company's rights and obligations denominated in reais. The objective of such transactions is solely to hedge against exposure to equity and cash flow risks and they are not used for leverage or for speculative purposes.

The appreciation of the Brazilian real against the US dollar can result in gains on current derivative transactions, which could be offset by a reduction in the equivalent amount of income in reais from sales to the foreign market, as exports in US dollars account for approximately 97% of the Company's revenues.

At December 31, 2008 and 2007, the Company's assets and liabilities, denominated by currency, were as follows:

	Consolidated			
	Without the effect of derivative transactions		With the effect of derivative transactions	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Loans and financing				
Brazilian real	1,470,382	1,400,537	1,775,657	1,411,100
US dollar	2,669,000	1,639,104	2,363,725	1,628,541
Euro	108,758	75,766	108,758	75,766
Other currencies	51,539	9,588	51,539	9,588
	4,299,679	**3,124,995**	**4,299,679**	**3,124,995**
Suppliers				
Brazilian real	73,508	112,130	73,508	112,130
US dollar	2,350,523	1,429,481	2,350,523	1,429,481
Euro	91,422	71,163	91,422	71,163
Other currencies	4,755	4,219	4,755	4,219
	2,520,208	**1,616,993**	**2,520,208**	**1,616,993**
Total (1)	**6,819,887**	**4,741,988**	**6,819,887**	**4,741,988**
Cash and cash equivalents and financial investments				
Brazilian real	2,077,041	1,904,981	2,077,041	1,904,981
US dollar	2,918,621	2,351,453	2,918,621	2,351,453
Euro	89,341	46,902	89,341	46,902
Other currencies	37,081	107,942	37,081	107,942
	5,122,084	**4,411,278**	**5,122,084**	**4,411,278**
Trade accounts receivable (*)				
Brazilian real	127,874	53,612	127,874	53,612
US dollar	765,074	622,404	765,074	622,404
Euro	227,481	89,762	227,481	89,762
Other currencies	304	186	304	186
	1,120,733	**765,964**	**1,120,733**	**765,964**
Total (2)	**6,242,817**	**5,177,242**	**6,242,817**	**5,177,242**
Net exposure (1 – 2)				
Brazilian real	(661,025)	(445,926)	(355,750)	(435,363)
US dollar	1,335,828	94,728	1,030,553	84,165
Euro	(116,642)	10,265	(116,642)	10,265
Other currencies	18,909	(94,321)	18,909	(94,321)

(*) Without the effect of the provision for doubtful accounts.

Derivatives

The Company uses derivatives to protect its operations against the risk of fluctuations in foreign exchange and interest rates; they are not used for speculative purposes.

Gains and losses on derivative transactions are recorded monthly in income, taking into account the realizable value of these contracts. The provision for unearned gains and losses is recorded in the balance sheet under Other provisions (in the case of losses) or Other credits (in the case of gains), and the contra item under Exchange variation income (expense).

Swap contracts

These are contracted with the main objective of exchanging the debt at floating rates for fixed interest rates, and exchanging US dollars for Brazilian reais. At December 31, 2008, the Company had no contracts subject to margin calls.

At December 31, 2008, the Company had swap contracts by which it effectively converted loans of R$ 310,304 subject to floating rates of LIBOR + 0.875% to 1.75% p.a. into a fixed rate transaction of 5.90% p.a.

At the same date, the Company held a swap contract by which it effectively converted loans of R$ 301,808 subject to foreign exchange variations plus fixed interest of 5.26% p.a. to a floating interest rate in Brazilian reais equivalent to 99% of the CDI.

It also converted the amount of R$ 434,357 in liabilities with and without recourse from a fixed interest rate of 5.95 % p.a to a floating rate of LIBOR + 1.21% p.a.

These swap transactions are shown in the following table:

Purpose	Type	Original Currency	Present Currency	Notional Swap (in thousands)	Average rate Agreed	Gain (Loss)		Gain (Loss)	
						Book value 12.31.2008	Market value 12.31.2008	Book value 12.31.2007	Market value 12.31.2007
Import financing									
Company assets	Swap	US$	US$	4,788	4.79 % p.a.	-	-	(14,124)	(14,124)
Company liability	Swap	US$	R$	4,788	64.03% of the CDI				
Counterparty									
ABN						-	-	(5,736)	(5,736)
Votorantim						-	-	(8,388)	(8,388)
Company assets	Swap	US$	US$	81,789	Libor + 1.10%	-	-	(799)	(799)
Company liability	Swap	US$	US$	81,789	6.40% to 6.45%				
Counterparty									
Citibank								(799)	(799)
Project development									
Company assets	Swap	US$	US$	310,304	Libor + 0.875% to 1.75% p.a.	(24,181)	(24,181)	(4,355)	(4,355)
Company liability	Swap	US$	US$ (*)	310,304	5.90% p.a.				
Counterparty									
Citibank						(16,087)	(16,087)	(2,842)	(2,842)
Santander						(8,094)	(8,094)	(1,513)	(1,513)
Export financing									
Company assets	Swap	US$	US$	301,808	5.26% p.a.	2,569	2,569	-	-
Company liability	Swap	US$	R$	301,808	99% CDI				
Counterparty									
Banco do Brasil						2,569	2,569	-	-
Recourse and non-recourse debt									
Company assets	Swap	US$	US$	434,357	5.95% p.a.	67,391	67,391	-	-
Company liability	Swap	US$	US$	434,357	Libor + 1.21% p.a.				
Counterparty									
Natixis						67,391	67,391	-	-
Total						**45,779**	**45,779**	**(19,278)**	**(19,278)**

Exchange futures contracts

At December 31, 2008, the Company has exchange futures contracts of R$ 1,343.8 million (equivalent to US$ 575 million). None of these contracts are subject to margin calls.

The following table shows the maturities of the current transactions at December 31, 2008:

Purpose	Type	Original currency	Present currency	Notional amount (in thousands)	Average rate agreed	Gain (Loss) Book value 12.31.2008	Gain (Loss) Market value 12.31.2008	Gain (Loss) Book value 12.31.2007	Gain (Loss) Market value 12.31.2007
Future revenues									
1) Maturities to 06/30/2008	NDF	US$	R$	442,825	1.8716	-	-	14,250	14,250
Counterparty									
Citibank						-	-	11,649	11,649
JP Morgan						-	-	2,601	2,601
2) Maturities to 3/31/2009	NDF	US$	R$	1,226,925	**1.7254**	(339,793)	(339,793)	-	-
Counterparty									
Citibank						(34,713)	(34,713)	-	-
ItauBBA						(144,899)	(144,899)	-	-
JP Morgan						(13,087)	(13,087)	-	-
Santander						(147,094)	(147,094)	-	-
3) Maturities to 6/30/2009	NDF	US$	R$	116,850	1.9000	(25,098)	(25,098)	-	-
Counterparty									
JP Morgan						(12,497)	(12,497)	-	-
Santander						(12,601)	(12,601)	-	-
Total						**(364,891)**	**(364,891)**	**14,250**	**14,250**

Purpose	Type	Original currency	Present currency	Notional (in thousands)	Average rate agreed	Gain (Loss) Book value 12.31.2008	Gain (Loss) Market value 12.31.2008	Gain (Loss) Book value 12.31.2007	Gain (Loss) Market value 12.31.2007
Imports with maturities to 02/01/2008	"NDF"	GBP	US$	675	3.5267	-	-	41	41
Counterpary									
Santander						-	-	41	41
Total						**-**	**-**	**41**	**41**

Fair value of derivatives

NDFs – these are valued at the present value of the difference between the estimated value of the asset at maturity, in accordance with market information on the base date, and the reference value of the contract at maturity (strike price).

Swaps – these are valued at present value, at the market rate on the base date, of the future flow determined by applying the contractual rates up to maturity and discounting to present value on the date of the financial statements at the current market rates.

Sensitivity analysis

As determined by the CVM Resolution No. 475/08, in order to present a positive and negative variation of 25% and 50% in the risk variable considered, a sensitivity analysis of the financial instruments is presented below, including derivatives, describing the effects on the monetary and exchange variations and on the financial income and expense determined on the balances recorded at December 31, 2008, in the event of the occurrence of such variations in the risk component.

However, statistical simplifications were made in isolating the variability of the risk factor in question. Consequently, the following estimates do not necessarily represent the amounts that might be determined in future financial statements. The use of different hypotheses and/or methodologies could have a material effect on the estimates presented below.

a) Interest risk factor

In the sensitivity analysis of the fluctuations in interest rates, the derivative contracts (swaps) were considered where the effect has been the change from pre-fixed to post-fixed interest rates, as described in the table of the current derivative transactions, as well as the amounts of the other assets and liabilities exposed to the interest rate risk.

	Risk factor	Market value as of 12/31/08	Additional Variations in Book Balances (*) -50%	-25%	Probable scenario	25%	50%
Swaps	CDI	2,569	14,495	6,373	2,487	(8,630)	(15,574)
Swaps	LIBOR	43,210	32,329	16,198	0	(13,325)	(26,892)
Total		**45,779**	**46,824**	**22,571**	**2,487**	**(21,955)**	**(42,466)**
Rates considered	CDI	12.38%	6.19%	9.29%	11.00%	15.48%	18.57%
Rates considered	LIBOR	1.75%	0.88%	1.31%	1.75%	2.19%	2.63%

(*) The positive and negative variations of 25% and 50% were applied on the rates in effect as of 12.31.2008

Methodology for sensitivity analysis of the derivative contracts: the contracts were projected to the maturity dates at the contractual rates and discounted to present value by the market curves (Brazilian Mercantile & Futures Exchange – BM&F). The positive and negative percentage variations of 25% and 50% were applied on the market curves to generate the other scenarios.

In the evaluation of the amounts exposed to interest rate risk, only the risks for the financial statements were considered, that is, the transactions subject to pre-fixed interest rates were not included.

	Risk factor	Amounts exposed at 12/31/08	Additional Variations in Book Balance (*) -50%	-25%	Probable scenario	25%	50%
Financial investments	CDI	1,568,264	(97,076)	(48,538)	(21,642)	48,538	97,076
Loans	CDI	29,809	1,845	923	411	(923)	(1,845)
Net impact	CDI	**1,538,455**	**(95,231)**	**(47,615)**	**(21,231)**	**47,615**	**95,231**
Financial investments	LIBOR	1,574,842	(13,780)	(6,890)	-	6,890	13,780
Loans	LIBOR	514,304	4,500	2,250	-	(2,250)	(4,500)
Net impact	LIBOR	**1,060,538**	**(9,280)**	**(4,640)**	**-**	**4,640**	**9,280**
Financial investments	TJLP	-	-	-	-	-	-
Loans	TJLP	1,440,573	45,018	22,509	3,601	(22,509)	(45,018)
Net impact	TJLP	**(1,440,573)**	**45,018**	**22,509**	**3,601**	**(22,509)**	**(45,018)**
Rates considered	CDI	12.38%	6.19%	9.29%	11.00%	15.48%	18.57%
Rates considered	LIBOR	1.75%	0.88%	1.31%	1.75%	2.19%	2.63%
Rates considered	TJLP	6.25%	3.13%	4.69%	6.00%	7.81%	9.38%

(*) The positive and negative variations of 25% and 50% were applied on the rates in force as of 12.31.2008

Methodology for sensitivity analysis of the other assets and liabilities exposed to interest rate risk: the probable scenarios are based on the Company's estimates of the variables indicated. Based on the balances of the exposed amounts, assuming that these remain constant, the interest differential for the assets and liabilities exposed was calculated for each of the variables in question.

b) Foreign exchange risk factor

	Risk factor	Market value as of 12/31/08	Additional Variations in Book Balance (*) -50%	-25%	Probable scenario	25%	50%
NDF sold		**(364,891)**	**677,294**	**335,196**	**(43,790)**	**(348,999)**	**(691,097)**
1) Due 03/31/2009	US$	(339,793)	619,925	306,522	(40,675)	(320,283)	(633,686)
2) Due 06/30/2009	US$	(25,098)	57,369	28,674	(3,115)	(28,716)	(57,411)
Currency Swap	US$	2,569	(154,350)	(77,837)	6,926	75,188	151,701
Total		**(362,322)**	**522,944**	**257,359**	**(36,864)**	**(273,811)**	**(539,396)**
Exchange rate considered		2.3370	1.1685	1.75275	2.4000	2.92125	3.5055

(*) The positive and negative variations of 25% and 50% were applied on the rates in effect at 12.31.2008

Methodology for sensitivity analysis of derivative contracts: the contractual liquidation values of each contract (strike prices) were compared with the future rates indicated by the BM&F for the same due dates and discounted at the projected market interest rate curve for the period. The positive and negative percentage variations of 25% and 50% were applied to the market curves to generate the other scenarios.

	Risk factor	Amounts exposed at 12/31/08	Additional Variations in Book Balance (*) -50%	-25%	Probable scenario	25%	50%
Assets		**2,512,677**	**1,256,339**	**628,169**	**(67,736)**	**(628,169)**	**(1,256,339)**
Financial investments	R$	2,077,041	1,038,521	519,260	(55,992)	(519,260)	(1,038,521)
Other assets	R$	435,636	217,818	108,909	(11,744)	(108,909)	(217,818)
Liabilities		**2,584,980**	**(1,292,490)**	**(646,245)**	**69,685**	**646,245**	**1,292,490**
Loans	R$	1,470,382	(735,191)	(367,596)	39,638	367,596	735,191
Other liabilities	R$	1,114,598	(557,299)	(278,649)	30,047	278,649	557,299
Total, Net		**(72,303)**	**(36,151)**	**(18,076)**	**1,949**	**18,076**	**36,151**
Exchange rate considered		2.3370	1.1685	1.7528	2.4000	2.9213	3.5055

(*) The positive and negative variations of 25% and 50% were applied on the rates in force as of 12.31.2008

Methodology for sensitivity analysis of the other assets and liabilities exposed to the foreign exchange rate variation risk: the probable scenario is based on the Company's estimates of the variables indicated. Based on the balances of the exposed amounts, assuming that these remain constant, the exchange variation differential was calculated for the exposed assets and liabilities.

35 JOINT LIABILITIES, RESPONSIBILITIES AND COMMITMENTS

a) Trade-ins

The Company is subject to trade-in options for 15 aircraft. The right to exercise the option was exercised for 12 aircraft up to December 31, 2008, and four of these aircraft were received by the Company by that date. The other eight aircraft will be received in the course of 2009. Exercising of the option for the remaining three aircraft is tied to compliance with contractual clauses on the part of the customer. The Company continues to monitor all trade-in commitments in order to anticipate adverse situations. Based on the Company's current estimates and third-party appraisals, management believes that it will be possible to sell any aircraft accepted as a trade-in on the market without material gains or losses.

(b) Financial guarantees

Financial guarantees may be triggered if customers do not meet their obligations during the financing term established in the respective agreements. The financial guarantees support the guaranteed parties to mitigate any losses due to default. The corresponding aircraft are attached as collateral for the financing agreements. The value of the tied aircraft may be adversely affected by market conditions. In the event of default, the Company normally acts as an agent for the guaranteed party for the refurbishment and resale of the aircraft. The Company may be entitled to a fee for such resale services. Typically, a claim under the guarantee should be made only upon surrender of the tied aircraft for resale.

Residual value guarantees normally complement the function of financial guarantees in sales financing structures, providing third parties with a specific guaranteed asset value, generally at the end of the financing agreement. In the event of a decrease in market value of the underlying asset, the Company will bear the difference between the specific guaranteed amount and the fair market value. The Company's exposure is reduced by the fact that, in order to benefit from the guarantee, the guaranteed party has to return the tied asset under specific conditions of use. Residual value guarantees typically guarantee that, on average 15 years after delivery of the aircraft, there will be a residual market value of a percentage of the original sale price. The majority of residual value guarantees are capped and, consequently, the guarantee exposure is limited on average to 19% of the original sale price. Currently, based on third-party valuations, management is of the opinion that certain agreed residual values may exceed the valuation amount for certain aircraft already delivered. The Company has therefore recorded a provision of R$63,963 (R$ 43,325 in 2007) to cover financial guarantees for aircraft delivered to December 31, 2008.

Certain sales contracts contain clauses guaranteeing minimum aircraft performance levels subsequent to delivery, based on predetermined operating targets. If the aircraft subject to such guarantees do not achieve the minimum performance indices after delivery, the Company may be obliged to reimburse its customers for the increase in operating costs and services incurred, based on formulae defined in the agreements. Losses relating to such performance guarantees are recognized when known or when, in management's estimation, circumstances indicate that the aircraft will not meet the minimum performance requirement.

The provisions recorded are considered sufficient to cover the estimates of potential losses for the Company.

(c) Leases

EAH is responsible for non-cancelable operating leases of land and equipment. These leases expire at various dates to 2020.

The facilities of the subsidiary Embraer Aircraft Customer Services, Inc. – EACS are located on land leased under a contract that expires in 2020.

The Company has lease agreements for land, IT equipment and vehicles, with payments scheduled as follows:

Year	Parent Company	Consolidated
2009	15,184	24,500
2010	11,686	21,972
2011	3,579	11,749
2012	208	8,039
2013	-	7,288
After 2013	-	34,570
Total	30,657	108,118

36 INSURANCE

At December 31, 2008, the insurance cover for property, plant and equipment and inventories taken out with third parties amounted to R$ 20,121,509 , and the amounts are considered to be sufficient to cover the risks involved. This amount does not include the insurance of vehicles, which are covered at market value.

Line	Amount insured
Fire on the facilities	15,824,170
Aviation	4,297,339

In addition to the above cover, the Company maintains civil liability policies for products, general civil liability and directors' liability (D&O) at amounts that management regards as adequate.

37 ADDITIONAL CASH FLOW INFORMATION

	Parent Company		Consolidated	
	2008	2007	2008	2007
Payments during the year				
Income tax and social contribution on net income	324	-	34,186	26,225
Interest	149,506	184,163	153,898	192,888
Transactions not involving cash disbursements				
Additions to property, plant and equipment through capitalization of interest	3,573	3,208	3,573	3,208

38 SEGMENT INFORMATION – CONSOLIDATED

I – Commercial Aviation Market

The Commercial Aviation market operations mainly involve the development, production and sale of commercial jets and supplying support services, particularly in the regional aviation segment.

- The ERJ 145 family, comprising the ERJ 135, ERJ 140 and ERJ 145 jets, certified to operate with 37, 44 and 50 seats, respectively. At December 31, 2008, the Company had 40 firm orders for this aircraft family (number unaudited).
- The EMBRAER 170/190 family, comprising the EMBRAER 170, with 70 seats, EMBRAER 175, with 76 seats, EMBRAER 190, with 100 seats and the EMBRAER 195, with 108 seats. The EMBRAER 170 model has been operating commercially since 2004, the EMBRAER 175 and EMBRAER 190 models started commercial operations in 2006, and the EMBRAER 195 model in 2007. As of December 31, 2008, the Company had 426 firm orders for this family of aircraft (number unaudited).

II – Defense and Government Market

The Defense and Government market operations mainly involve research, development, production, modification and support for military defense aircraft, and related products and systems. The Company's principal customer is the Brazilian Defense Ministry and, in particular, the Brazilian Air Force.

- **Super Tucano –** a light attack aircraft, specially developed to operate in severe climates, subject to extremes of temperature and humidity, and equipped with sophisticated navigation and attack, training and flight simulation systems.
- **AMX –** an advanced ground attack jet, developed and produced through a cooperation agreement between Brazil and Italy. Embraer was contracted by the Brazilian Air Force to modernize these aircraft.
- **F-5BR Program –** modernization of the F-5 jet fighters.
- **The ISR family** (Intelligence, Surveillance and Reconnaissance), based on the ERJ 145 platform, includes the EMB 145 AEW&C – Airborne Early Warning and Control, EMB 145 AGS – Remote Sensing and Air to Ground Surveillance and P-99 – Maritime Patrol and Anti-submarine Warfare models. Originally developed for the SIVAM program, different versions were ordered by the Greek and Mexican governments.

III – Executive Aviation Market

The Executive Aviation market operations mainly involve the development, production and sale of executive jets and providing support services for this market segment.

- **Legacy 600 –** executive jet in the Super Mid Size category using the ERJ 135 regional jet platform.
- **Legacy 500 and Legacy 450–** executive jets in the Mid Size and Midlight categories, respectively, launched in April 2008.
- **Phenom –** executive jet in the Very Light Jet, Entry and Light Jet categories, comprising the Phenom 100 and Phenom 300 models.
- **Lineage –** Ultra-large executive jet based on the EMBRAER 190 commercial aircraft platform.

IV – Aviation Services

The Aviation Services segment, introduced in 2007, relates mainly to: (i) after sales support services to customers, including maintenance and training; (ii) sale of spare parts for the aircraft manufactured by the Company; and (iii) provision of aircraft maintenance services and components.

V – Other

Operations in this segment relate to operating leases of aircraft, supply of structural parts and mechanical and hydraulic systems, and production of agricultural crop-spraying aircraft.

Other unallocated costs include corporate costs not related to the operating sectors. Unallocated expenditure on purchases of property, plant and equipment and depreciation relate primarily to shared asset services.

Net sales per geographic area	In millions of reais	
	2008	2007
Americas, except Brazil		
Commercial aviation	4,447.3	4,294.3
Defense and Government	397.6	291.9
Executive aviation	829.2	583.5
Aviation Services	451.3	415.9
Other	102.2	133.6
	6,227.6	5,719.2
Europe		
Commercial aviation	1,217.7	946.7
Defense and Government	30.8	56.8
Executive aviation	422.7	916.5
Aviation Services	460.2	440.1
Other	14.6	12.5
	2,146.0	2,372.6
Brazil		
Defense and Government	395.6	184.2
Executive aviation	-	49.5
Aviation Services	27.6	91.9
Other	97.9	143.5
	521.1	469.1
Other		
Commercial aviation	2,173.5	1,180.4
Defense and Government	129.9	125.2
Executive aviation	367.2	45.8
Aviation Services	172.9	77.3
Other	8.6	4.1
	2,852.1	1,432.8
Total	11,746.8	9,993.7

Gross profit per segment	In millions of reais	
	2008	2007
Net sales		
Commercial aviation	7,838.5	6,421.4
Defense and Government	953.8	658.1
Executive aviation	1,619.1	1,595.3
Aviation Services	1,111.9	1,025.1
Other	223.5	293.8
	11,746.8	9,993.7
Cost of sales		
Commercial aviation	(6,664.3)	(5,273.4)
Defense and Government	(719.0)	(469.8)
Executive aviation	(1,151.5)	(1,193.0)
Aviation Services	(604.3)	(767.5)
Other	(200.6)	(237.2)
	(9,339.7)	(7,940.9)
Gross margin		
Commercial aviation	1,174.2	1,148.0
Defense and Government	234.8	188.3
Executive aviation	467.6	402.3
Aviation Services	507.6	257.6
Other	22.9	56.6
	2,407.1	2,052.8
Operating expense		
Commercial aviation	(532.4)	(429.1)
Defense and Government	(105.9)	(86.8)
Executive aviation	(283.8)	(340.6)
Aviation Services	(142.1)	(114.8)
Other	(4.8)	(8.6)
Unallocated expense	(225.6)	(134.8)
	(1,294.6)	(1,114.7)
Operating profit before financial income (expenses)	1,112.5	938.1
Property, plant and equipment		
Commercial aviation	535.9	293.6
Defense and Government	44.4	25.6
Executive aviation	113.8	86.5
Aviation Services	257.2	100.1
Other	663.5	502.5
Unallocated	685.4	389.1
	2,300.2	1,397.4
Advances from customers		
Commercial aviation	1,733.3	1,077.1
Defense and Government	584.4	117.5
Executive aviation	1,228.8	778.5
Aviation Services	187.6	63.1
Other	6.7	35.4
	3,740.8	2,071.6
Trade accounts receivable		
Commercial aviation	-	61.5
Defense and Government	231.1	164.3
Aviation Services	662.8	261.1
Other	144.0	211.6
	1,037.9	698.5

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39 SUBSEQUENT EVENT

As a result of the unprecedented crisis that is affecting the world economy, and the air transport sector in particular, Embraer was obliged to review its cost base and its personnel, adjusting them to the new circumstances of demand for commercial and executive aircraft.

The personnel reductions, representing around 20% of the Company's staff of 21,362 employees at January 31, 2009, excluding Harbin Embraer Aircraft Industry Company Ltd. and Ogma – Indústria Aeronáutica de Portugal S.A., were concentrated on the operating, administrative and management personnel, including elimination of a hierarchical level of its management structure.

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Report of Independent Auditors

To the Board of Directors and Stockholders

Embraer – Empresa Brasileira de Aeronáutica S.A.

São José dos Campos - SP

1 We have audited the accompanying balance sheets of Embraer – Empresa Brasileira de Aeronáutica S.A. and the consolidated balance sheets of Embraer – Empresa Brasileira de Aeronáutica S.A. and its subsidiaries at December 31, 2008 and 2007, and the related statements of income, of changes in stockholders' equity, of cash flows and of value added of Embraer – Empresa Brasileira de Aeronáutica S.A. and the related consolidated statements of income, of cash flows and of value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Embraer – Empresa Brasileira de Aeronáutica S.A. and of Embraer – Empresa Brasileira de Aeronáutica S.A. and its subsidiaries at December 31, 2008 and 2007, and the results of operations, the changes in stockholders' equity, the cash flows and the value added from the Company's operations, as well as the consolidated results of operations, cash flows and value added from the operations of the Company and its subsidiaries, for the years then ended, in accordance with accounting practices adopted in Brazil.

4 As mentioned in Note 2, as a result of the changes during 2008 in accounting practices adopted in Brazil, the financial statements for the prior year, presented for comparison purposes, have been adjusted and restated as established in Accounting Standards and Procedures (NPC) No. 12 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

São José dos Campos, March 20, 2009

PricewaterhouseCoopers
Independent Auditors
CRC 2SP000160/O-5

Valdir Augusto de Assunção
Accountant CRC 1SP135319/O-9