

## Q4 2008 Earnings Call

### Company Participants

- Carlos Eduardo Camargo, Head of Capital Markets and IR
- Frederico Curado, President and CEO
- Luiz Carlos Aguiar, CFO
- Unidentified Speaker, Analyst

### Other Participants

- Augusto Encici, Analyst
- Darren Shannon, Media
- Joe Nadol, Analyst
- Kirby Harrison, Media
- Marie Tison, Media
- Rodrigo Goes, Analyst
- Ron Epstein, Analyst
- Vinicius Canheu, Analyst
- Virginia Costa, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and welcome to the audio conference call that will review Embraer's Fourth Quarter 2008 results. Thank you for standing by. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions to participate will be given at that time.

(Operator Instructions)

As a reminder, this conference is being recorded at webcasting at [www.embraer.com](http://www.embraer.com). This conference call includes forward-looking statements or statements about events or circumstances which has not occurred. Embraer has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions including among other things general economic, political and business conditions in Brazil and in other markets where the Company is present. The words, believe, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements.

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Embraer undertakes no obligations to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties the forward-looking events and circumstances discussed on this conference call might not occur. The Company's actual results could differ substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Frederico Fleury Curado, President and CEO, Mr. Luiz Carlos Aguiar, Chief Financial Officer, Mr. Carlos Eduardo Camargo, Head of Capital Markets and IR. And Mr. Rodrigo Rosa, Controller. I would now like to turn the conference over to Mr. Curado. Please go ahead, sir.

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

Thank you. Good morning, everyone. We will be discussing this morning our Fourth Quarter and also our fiscal year 2008 results in US GAAP which were released yesterday along with our financial statement in Brazilian GAAP.

This is the first conference that we have our new CFO, Luiz Aguiar, present and we also have as mentioned our Controller and our Head of IR. We do have slides which can be followed on [www.embraer.com](http://www.embraer.com) so you're welcome to do that.

First, addressing the firm order backlog and in spite of the drop in sales in the last quarter last year, year-over-year our backlog increased of about \$2 billion, reaching \$20.9 billion by year-end, that's firm backlog.

As far as deliveries are concerned we had our highest ever delivery figure. We delivered 202 jets comprising ERJ-145s, Legacies and the E-Jets. And on top of those we also have the first two Phenom delivered last year. That compares with a 21% increase in throughput from the year 2007 to 2008.

That consequently reflected in our net revenues which reached \$6.34 billion compared to the \$5.2 billion in 2007 and we had a decrease in our net cash position from \$740 million by year-end 2007 to year-end 2008 from \$740 million to \$376 million. This is net cash.

I think one of the most relevant results we had last year was important inflection in our operational margin. We had in 2007 a 7.1% in our EBIT margin but I remind you that if we just consider the fiscal reversion we had in our balance sheet, the actual operating margin would be 5.1% so 5.1% to 8.5% was the results of the several multiple actions that we have engaged in the Company, both manufacturing results in terms of administrative and commercial costs. Our net income this year was \$389 million, a slight drop from 2007. And we will be discussing that in a minute.

As far as highlights of the overall business, we delivered E-Jet number 500 and we are proceeding towards the number 600, which shall happen this year. We have 10 new customers in terms of new sales and some very important ones and including British Airways just to mention one. And we have entered into service of five new operators,

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among them KLM and Japan Airlines so we'll have a very intense year in terms of commercial jets.

Relevant to what the ramp-up of our presence in the Brazilian domestic market, with the contract with both Azul and also with Trip. Azul for 190s and 195s and Trip for 175s. Azul actually is already operating the 190s or 95 [ph] and Trip shall take their first delivery within a few weeks.

We have two very important landmarks, we have a certification on Phenom 100, both in Brazilian authority and also FAA and we also have the Lineage 1000 certification. So those were important milestones in finishing our certification efforts on both programs.

We had very good year in terms of Defense and Government business, both in terms of sales and also in terms of revenues. We formally adhered to the Global Compact of the United Nations. This is already reflected in our document and our processes and as any company which is a signatory of this Global Compact we have to provide annual follow-up reports on what we are doing to that regard.

And last but not least we, had despite all the crisis which is impacted our industry, we kept our investment grade ratings in both agencies, Moody's and Standard & Poor's.

If we compare our guidance to our actual results, I think we've pretty much delivered on what we have forecasted. Deliveries we exceeded a little bit the number of large aircraft, large on our portfolio, from 195 to 200, we actually delivered 202. And a little shortage on the Phenom because the ramp-up was a little bit pushed to the right compared to what we had planned so instead of 10 we only delivered two. Those eight Phenoms represent something like \$25 million. They were not material to our revenues which were pretty much in line to what we had forecasted from \$6.5 billion we achieved \$6.41 billion in terms of gross revenue.

Our EBIT margin was right in the middle of our guidance, from 8% to 9% we achieved 8.5%. And our investments were kept within the forecast so we had \$500 million total investment between R&D and PP&E and we actually had a little bit less than that without of course compromising any of the results, any of the goals associated with those investments. So I think we've pretty much delivered on what we had planned.

Talk a little bit about the current situation and how we see the market. The crisis is out there. We at Embraer, we became very visible especially in Brazil for significant layoffs that we had to perform in February. Those we affected 20% of our labor force and this is not very distinct from our competitors in other industries in our activity. This is just results from a continuous degradation of the external scenario, both the recession and the increasing aggressiveness of this recession but also the credit crunch which does affect the ability of our customers to take deliveries.

So as a result of that if we compare our guidance's in the last six months or so we clearly see that impact on the revenue side, on deliveries and revenues. Now we are forecasting 242 aircraft to be delivered this year which shall bring revenues to \$5.5 billion which are

numbers which are lower than 2008 numbers. Nevertheless, we keep our forecast, our commitment to increase the EBIT margin and in spite of the lower revenues and we delivered 10% which we had forecasted in November to be kept as far as percentage rules of course, it might be of nominal value. But the percentage.

And as a matter of protecting our cash position we have also diminished \$100 million in our CapEx investment which are postponable without compromising our number one, revenues. And number two, our future competitiveness.

As far as expenses control, besides the 20% labor, reduction in 20% of our labor, we had planned are we implementing very strict reduction in all G&A expenses. We also are trying to reduce our financial expense, our interest expenses. Sharing obviously all of those discounts with our suppliers. So a specific action in that regard. Reducing our inventories and also, as I already mentioned, postponing the CapEx investment which we can without compromising our health.

And the last comment I would make which I think is again, I think it's more let's say visible for Brazil but I think it's important for our shareholders as well is that adjusting capacity to radical changes in these scenarios is part of our industry. In 2001 the whole industry was affected by the 9/11 events and those companies which were fast and firm and adapted themselves to the new reality, they survived. And Embraer was one of them. We in October 2001, we reduced 15% of our labor which was a very difficult decision at that time but of course, after that we were able to recover that level of employment and go beyond.

In terms of net jobs created in Brazil, from 2001 to now, even after our reduction we have contributed with 6,000 new jobs. So the Company still is a strong employer in Brazil and it is our aim to keep it like it is. We are not in crisis. We are facing a crisis. The Company is as strong fundament, it is our duty to keep the Company strong even if we have to take discount measures as we did in our labor in February.

So I'll be back in the end for questions and answers but I now turn to Luiz Aguiar, our Chief Financial Officer to discuss our financial performance.

### **Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Thank you, Frederico. Good morning, everyone. I will try to avoid repeat the same information that was presented by Fred and the first slide I have for you I think Fred has already mentioned regarding the jet deliveries. We reached our delivery schedule with 204 airplanes.

One important thing regarding the net revenues by segment, the revenues for Commercial Aviation segment reached to 67% of the Company's total revenue. And also important to highlight the increase in participation of Defense and Government from 6.6% to 8% in 2008. I think it's very important to keep in mind that in 2006 the Defense and Government's participation with 6% and there are two years in a row that this business has been growing.

The next slide regarding net revenue by market is I think important news as well to be talked to you about. Embraer has lowered its geographical risk exposure by sales records in different regions of the globe. If you take a look in Asia-Pacific region we jumped from 6% to 18%, very important achievement.

The net revenue for 2008 totaled \$6.4 billion for 20.8% increase over 2007 net revenues of \$5.2 billion. In 2008 the gross margin was 21.2% compared to 22% in 2007. The decrease is mainly due to the product mix delivered during the quarter. We can go back to this issue if you wanted to make any questions or doubts about it later on.

Regarding income from operations, the operating income and operating margin for '08 was \$537 million and 8.5% compared to \$374 million and 7.1% in '07, the selected result achieved from the specific gains regarding our program, due to the E3E and expense controls implemented by the Company since 2007, was a great achievement from our point of view.

The net income as Fred has already announced it was \$388 million with to date 6.1% net margin compared to net income of \$489 million and net margin of 9.3% in 2007. This decrease is mainly due to losses on operational hedge positions.

Regarding accounts receivable and clients financing, we increase it by \$120 million mainly due to temporary financial restructure, bridge loans, given to Embraer to customer and to the aircraft, accepted as a trade-in during the quarter.

Inventories, the level of inventories reaches \$2.8 billion as the Company freezes product portfolio. But have in mind that this is just another increase -- that improves a little bit from 1.8 to 1.9. Net cash, the Company maintains high levels of liquidity, its total cash position at the end of 2008 was \$2.2 billion. Deducted the total indebtedness of \$1.8 billion to the end of 2008, the net cash position December 31 was \$376 million. Okay, I think it's that. I think it's done for a while and we are completely open here to answer your questions.

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

So we're ready for the question-and-answer session.

## Questions And Answers

### Operator

(Operator Instructions) Embraer will answer the questions from the analysts and investors first. And after that they will proceed answering the questions from the journalists.

(Operator Instructions)

Vinicius Canheu with Credit Suisse.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

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Hi. Good morning. Hello, everyone. Thanks for the call. I have two questions. The first one is about the gross margin. You mentioned that the reason for the drop in the gross margin was the mix of the aircraft delivered in the quarter.

I would like to understand better which aircraft tracked down margins especially because the Phenom they have a quite small participation in this Fourth Quarter results so I thought that they would not impact that much the margins. That's the first question. And second question, when we look at the R&D expenses, if we exclude the credit you received from suppliers we get to a very low level of research and development expenses so we would like to know if this is not the recurring level we should consider or if there's any other non-recurring facts that hit your research and development expenses in this quarter? Thank you.

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

So let me address the gross margin. We have basically on the revenue side product mix and you're right, the Phenom is very little impact. We did have less Legacies than what we expected which is our aircraft with better margins. And also on the Defense business, particularly in that quarter in the last quarter we had a lower margin than expected so it is overall seasonality and product mix, customer mix affecting our quality of our REUs or revenues. As far as R&D, Aguiar, do you want to comment?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

For sure. I think your question is regarding the Fourth Quarter or the total?

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

The Fourth Quarter.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Fourth quarter. We have received about \$90 million of -- from our potential partners. Then that's why this amount of money is so low, because in this specific quarter we have this concentration. And from now on we have changed this procedure. I think we had announced this recently and we are going to receive and account and record into our P&L pari passu with the cash flow from the quarters. Then we are not going to see this situation any more in which you have a specific quarter with a lot of money in, with a lot of money coming in from the partners.

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

Just to add on, this is an economical recognition of our cash which we already have and is directly linked to certification of the Phenom 100. It's a one-time event.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

No. I understand the one-time event but my point is if you recorded \$46.5 million of gain, if we exclude the \$80 million that you mentioned in the press release that you received. So the expense that you would have would be still quite low, about half of what you had

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last quarter. So even adjusting for this cash you received, the level of R&D expense are still quite low. That's my point.

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

Yes. You're right and in a sense, (inaudible) speaking. If you get to those \$33 million for the First Quarter, that's not in line what is going to be this year. As we estimate \$200 million and it's going to be more linear because we are not going to have any non-recurring event as we had the \$80 million. I would say that those \$33 million, we were pretty much focusing on the certification of the Lineage and the Phenom 100 and other programs we were still analyzing those programs because it was when everything, when we were revising the numbers for 2009.

So for some specific steps that we should take in the First Quarter we have then pushed them to 2009 so those are not, they pretty much refer to the certification of the Phenom 100 and the Lineage which were the focus of the Fourth Quarter. But to think for this year, I wouldn't think about those \$33 million, I would say that you should consider something more linear, quarter-by-quarter around those \$200 million we estimate.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Okay. So the best thing is to work with \$200 million for 2009 and then we can have a good idea.

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

Yes.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Okay. Thank you.

**Operator**

Joe Nadol with JPMorgan.

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

Thank you. A couple of questions. Just starting out again on the gross margin, just was wondering as you look into 2009, your Legacy deliveries are going to be down quite a bit which are high margin aircraft and I'm not sure what the Defense mix is but could you I guess give us a better sense as to what your gross margin expectation is for this year given the mix, the change in employment levels and what was posted in the Fourth Quarter?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

Joe, once again I think you were correct. You had the different mix in the Fourth Quarter and as Fred said, it was a mix of clients and products but we expect it to keep and that's we are strength. We are trying to be pursue and achieve the same 10% for 2009. And

well, we are going to have a fourth Legacy as we have already announced now , our guidance on that and this might -- but sometimes it's not so easy to accommodate the ideal mix in just one quarter.

And that's why it happened but we are trying to avoid this this year and I think it's going to be possible to do it but in under this scenario that we are living right now, it's quite difficult and tough to confirm that we'll be able to achieve this in each quarter during this year. Our margin, our pressure on margin, we are working hard here to keep at

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

Okay. So you would say that maybe your product this year may be similar to Q4 or not quite as good but your customer mix might be a little bit better than Q4? You had some unusually poor customer mix in Q4, is that fair?

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

It's Fred here, Joe. There are other variables there. I think that the honest answer is we're not quite sure. It should be materially equivalent to 2008 average. Variables like if you take the whole business jet flow, the industry uses CPI, CPI or CPI value as an index for direction. If you have CPIs that are going up, that may play in favor of your revenues versus cost with suppliers.

If it goes down, they play the other way around. So we have to see how those things evolve. We do have the ramp-up of the Phenom 100 so it is obvious that the first aircraft will have lower gross margin than towards the year-end because it we plan to have 110 aircraft delivered by year-end and this, the production is ramping up right now. So as we ramp up it's going to get better.

Commercial aviation, I think overall tends to be relatively stable. So in Defense, maybe a little bit of upside on that side but it is a little bit hard to tag a number to that. I would say probably we're looking toward a material equivalent average as 2008.

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

Okay. Then secondly, Fred or Luiz, on the finance side, could you address where we are today on aircraft finance? What you have been doing in the Fourth Quarter and anything on your balance sheet? I noted some of your receivables ticked up a little bit. And what you did in the Fourth Quarter, what you've done so far in the First Quarter to help customers and how comfortable you feel with the outlook for 2009?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

We have announced that we are going to use our cash in every single case especially those cases that we are waiting for the disbursements from BNDES or from other sources. That's exactly what we have been doing right now. And we expect to have BNDES to double the amount of money that was financed in the last year. Last year was around 11% of the total deliveries, this year we expect to have 22% up to 25% from BNDES.



There are some contracts that were already financed last year like some clients roll on like JetBlue and Republic and then our others they are underlying on the pipeline right now. We had been discussed, they are open for us and we confirmed that we will be able to double the support from BNDES, they did the same. They have announced this route and I'd like to confirm this, Joe. I think we are going to get 22% of financing our aircraft this year, the total deliveries.

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

Okay. Then just a couple more. Could you speak about where the Phenom 100 is right now in terms of the ramp-up and the deliveries? How many have you delivered roughly so far in the First Quarter? And are the first aircraft, are they profitable? Or are they contributing to a major depression on the gross margin?

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

I don't have exact numbers. I would say around 10 aircraft delivered so far. Assembly line with probably high 20s or 30s already in the assembly line. As far as profit, I hope they are really. I'm sure that we are not in negative margins there but --.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

The kind of economy scale, okay, Joe. And there is an economy scale underneath this project of course but don't forget this costs like \$3.5 million. Even though of course we expect to have the ramp-up of the production to reach the profit, don't forget the number itself, the figure itself not so relevant in terms of our gross margin. Remind that.

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

Okay. Then just finally, if you could comment on some of the EPS calculation in the quarter. Carlos, if you want to jump in, some of the numbers didn't quite foot. I've got a lot of questions on it this morning and I was wondering if you could provide some of the numbers and what we should be looking at in share count for the year, for the quarter and the property PS numbers?

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

Sure. We do apologize, the numbers we have released is a mistaken number. It was mainly due some spreadsheet, Excel spreadsheet when you transfer information from one to the other, we just didn't copy enough lines so it was totally mistake of the Company and we do apologize for that. The real earning per ADR for the quarter is going to be 0.6174.

We have disclosed 0.7181, this is mistaken and a yearly-basis, let me just get the number, which is 2.14. We have disclosed 2.3432 on a yearly-basis for fiscal year 2008, it's going to be 2.14. In '08 it was not numbers, the number is mistaken but it was mainly because of operating and because of spreadsheet here.

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

Thank you.

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

Again, we do apologize for that.

**Operator**

(Operator Instructions) Ron Epstein with Bank of America Merrill Lynch.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Good morning.

**A - Unidentified Speaker**

Good morning.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Fred, just a quick question for you. What are you thinking about the dividend this year? Is the dividend safe? Might you cut it back just to conserve cash? What are you thinking?

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

We have distributed dividends throughout last year regarding interest on capital actually which are applicable against the dividend. For the first, second and Third Quarters we have taken to the General Assembly of Shareholders next April 29 a proposal not to distribute further dividends as far as 2008 fiscal year go.

This if the Assembly of shareholders does follow our proposal, that will mean that what we have paid in terms of cash disbursement for this year 2008 was about \$244 million. To be more precise, we had about 116 due paid in 2008 but due to the result of 2007 and accrued in 2008 and paid in 2008 \$127 million. So we are proposing not to distribute more than those \$127 million already paid in 2008.

**Q - Ron Epstein** {BIO 15893287 <GO>}

Okay, super. And just if I could follow-up, when you look out into the landscape of what's going on in terms of campaign for aircraft, how should we think about that? What's the sales force doing? How active are things? Can you give us some color there?

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

The color is actually very pale. The whole industry, not many campaigns out there. We do have a few cases here and there but honestly I think we are basically holding on to our strong backlog and both on business jet and airliners we are seeing a very shy activity, very demand. Of course the people are working very hard but the environment, the prospects are not very enthusiastic, to be very frank.

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**Q - Ron Epstein** {BIO 15893287 <GO>}

Okay. Thanks. Have a good day.

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

Same to you.

**Operator**

Augusto Encici with Morgan Stanley.

**Q - Augusto Encici**

Hi. Good afternoon, gentlemen. Just a couple questions, if I may. First of all, what are you seeing in the executive jet business these days? Then also how much of the backlog could go before you'd have to change your production rate? Then secondly, in a more negative scenario let's say without a recovery until late 2010, without significant orders, how low might your backlog eventually get? Then in such a scenario, when would you see book-to-bill rising above 1% again.

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

We see the business jet in a perfect storm that the industry's leaving a recession and a credit scarcity, we see the business jet being more impacted than the airline at least as far as the short term goes. We have already cut our production rate related to the larger aircraft like the Legacy 600 and the Lineage 1000.

On the Phenom we did not and actually we did in November, we kept from November to our February guidance taking into account that we do have a very large backlog in that particular line of products. We have over 800 aircraft so even if we do have cancellations and requests for deferrals, which we do, there is a very large potential for anticipating, for advancing other customers which is not the case with the Legacy 600 which we have a much shorter backlog. That's why we had to cut the production rate.

So the skyline of our production plan looks good, looks positive as far as 2009 and 2010 go. Of course the challenge there is financing and as Aguiar has mentioned, we are working particularly hard with BNDES so they can also speed up their throughput and increase their participation in our sales exports. And crystal ball about the end of the turmoil, nobody really knows. We are taking, let's say our standpoint is assume that the situation will not improve before end of next year.

So we do not see book-to-bill ratio above one at least until 2011 which hopefully we are wrong but that's the kind of baseline that we are using to plan and dimension the Company.

**Q - Augusto Encici**

So in that case then you would just continue going through the backlog and how low do you think, at what level might we see the backlog at that point?

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

That's a tough question to answer. We obviously expect to sell, this year, next year. So we do not see a depletion of our backlog but we're going to certainly deliver on more than the intake of new orders in this year for sure and next year probably. But we do not see a total depletion of our backlog.

**Q - Augusto Encici**

Thank you very much. That was very helpful.

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

Thank you.

**Operator**

Gustavo Moreira with UBS.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Good afternoon, guys, it's actually Rodrigo Goes. Just a quick question on just going back to the dividends and the decision to cut dividends in order to preserve cash. Correct me if I'm wrong but I have you guys being pretty free cash flow positive this year following the cuts to R&D and specific CapEx. You should be throwing off a good call it \$300 million, \$400 million. Was the decision mostly to be extra cautious? Or is the forecast regarding free cash generation too optimistic in your view?

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

No. I think it was not done as a precaution, as a respect for our cash management than anything else. Keep in mind that if we take the what we have already paid to our shareholders in terms of dividend this year, the payout ratio it's already 32%. So even not declaring further dividends, 32% is a pretty decent return to our shareholders as dividend. So I just thought we would prefer to have this extra cushion in our cash than -- and it will be available there in the future of course when we go over the crisis. It is a much more preventative than corrective move.

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

If I add something to you regarding this, we are going to have the first month at least some new events for this severance package regarding this missile [ph] going to be one of them. And we have also to adjust the suppliers account. As long as we have reducing our production rate, it's not the same time that you can do it with our suppliers. We're going to take a little bit more time. And that's why you have these cautions to keep a little bit, to save this money but for sure we are going to this year we are going to pay of course dividends but we are not sure right now what is going to be the percentage of that.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

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While we're on the subject, could you provide a little bit more color with regards to how large the severance package could ultimately look like?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

We don't have this figures right now. And we are in the process of doing this and for sure in the next quarter we will be announce this.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

But it should hit the P&L all in the First Quarter of '09, right?

**A - Luiz Carlos Aguiar** {BIO 6035667 <GO>}

For sure it is. Correct.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Okay, prefect. Thanks a lot.

**Operator**

(Operator Instructions) Kirby Harrison with Aviation National News.

**Q - Kirby Harrison**

I wondered if you could talk about the Legacy 450 and 500 programs? Has there been any delay in those programs?

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

No. There has been not. We have kept in our reduction in terms of investment, we reduced from \$450 million total investment in 2009 down to \$350 million and those 100 they were majorly applicable to CapEx investments. So we pretty much preserved our engineering capability and we have today a strong dedicated of that workforce into the Legacy 450 and 500. So we are keeping the development as planned, moving towards certification in 2012 and 2013 respectively.

**Q - Kirby Harrison**

What are you forecasting for deliveries in terms of executive aircraft for 2009?

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

We are forecasting 110 Phenoms plus 17 Legacies and Lineages between the two models.

**Q - Kirby Harrison**

Thank you very much, sir.

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

You're welcome.

## Operator

Marie Tison with La Presse.

**Q - Marie Tison**

Hi, I'd like to know how far you are in your thinking about a bigger Embraer 195, something that could compete with the C-series from Bombardier now that Bombardier has got some firm orders for this airplane?

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

Hello, Marie. We actually do not have any news to our position. We keep looking into the whole spectrum of commercial airlines from small ones all the way up to whatever 156 or so. And in that regard, we think there are still important moving pieces in this puzzle. Number one, the engine technology, number two, the correct proportion, the correct level of use of composites and aluminum alloys into a new airframe. Not necessarily a carbon aircraft is the answer for all types of applications, more electrical aircraft.

So we keep doing the same thing that we have been doing the last 12, 24 months, assessing the markets, investing significantly into technological development to be able to use them. As we think and probably within the next 18, 24 months we will conclude this part strategy to address maybe a larger aircraft, maybe an updating of the existing aircraft.

Other important moving piece in this puzzle is of course the competition landscape, Bombardier is there with the C-Series, we are also of course interested in learning what Boeing and Airbus are planning to do in that regard. We regard them as formidable competitors and we have to make sure that we are not in direct competition with either. So I think a lot of those pieces will start to be fixed in the next 18 to 24 months and then we will come up with something more concrete.

**Q - Marie Tison**

And how about turbo-prop?

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

As we look at turbo-prop or jet is the kind of secondary decision as far as the overall strategy goes in terms of addressing markets. We certainly see very small aircraft of 30, 40, 50, 60 seaters with a clear trend towards turbo-prop. Between 70, 80, 90 seaters, we are certainly -- we are not sure, to be frank, what is the correct way to go and open rotor in larger aircraft. In the end, they have similar architectures of turbo-prop. You have psychological factors in the industry, the factors that led turbo-props to a small, turn into a large reduction of demand in the last 20 or 15 years. Maybe (inaudible) is present.

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What is the trade-off between fuel burn and fuel efficiency versus speeds versus psychological perception from passengers? We do not know yet but we were until let's say a couple of years ago very much focused on jets and we did not think it would make any sense to introduce a third turbo-prop to the market beyond the mature present [ph] ones. If that demand shifts towards more use of turbo-prop in the future then we may consider. So it is part of our analysis. What will be the platform of the future generation aircraft for anything smaller than 80, 90, 150.

## Q - Marie Tison

Okay. Thank you very much.

## Operator

Virginia Costa with Citigroup.

## Q - Virginia Costa {BIO 16772079 <GO>}

Hi, guys. Just two quick questions for me. If you could you talk a little bit about the FX derivative, if we should expect more losses going forward? And also if you have any updates on the Aerolineas Argentina order? Thank you.

## A - Luiz Carlos Aguiar {BIO 6035667 <GO>}

Let me talk about FX. We have finalized by the end of 2008 with \$575 million exposure and we have, I don't know if you remember but we got up to \$875 million exposure last year. It means that we have been reduced to \$300 million by the end of 2008. The remaining part of it will be liquidated by June 30, most of them like \$525 million will be is going to expire by March 31. And the time that we are talking to order right now, we have already recreated like almost the entire part of our exposure.

Going forward regarding derivative we have analyzed the scenario, the foreign exchange scenario here in Brazil is not the same as the last five years. From 2003, the foreign exchange was like 3.5 and bringing down from this rate about 1.59 and now I think we believe that the rate is quite stable and there is no reason so far to do other currency the foreign exchange hedging operation.

Then we're going keep our position as is right now and of course we are going to continue to analyze scenarios if scenario change, of course we are going to change because we have the policies approved by our Board of Directors to implement operational hedge position. But we are not going to do it right now.

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

As far as Aerolineas Argentina go, we have had preliminary discussions with them, commercial discussions. We do not have anything concrete, neither a proposal nor much less a contract. Nevertheless, we have already presented that potential case for consideration from BNDES and as far as the financing availability it's moving in the right direction.

So we have to make sure that the financing moves on and becomes available and obviously we have to engage in deeper negotiations with Aerolineas and hopefully come into a contract. So at this stage it is a prospect. There are a lot publicity in the press but it's just a prospect.

**Q - Virginia Costa** {BIO 16772079 <GO>}

Perfect. Thank you.

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

Gentlemen, ladies, if you can take one last question please to finalize our one-hour session.

**Operator**

(Operator Instructions)

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

So I guess we may -- may we wrap up?

**Operator**

Excuse me, sirs. Darren Shannon with Aviation Daily.

**Q - Darren Shannon**

Good morning, gentlemen.

**A - Unidentified Speaker**

Hi, Darren.

**Q - Darren Shannon**

I wanted to get some color on BNDES. Can you tell me where we stand with that and what you expect the deal with them to be?

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

BNDES has last year they financed 11% of our exports and of course as the credit becomes more and more scarce in the regular banking system, we are asking them, as of course is also happening with the Action Bank [ph], ADC, COFAS, Erta [ph] and so forth, to be more higher participation in the sales finance for unit aircraft. So we expect them to raise their percentage in terms of participation from last year at 11% to somewhere around 25% this year or so. And we are hopeful that that will be the case.

**Q - Darren Shannon**

Is the line still open?



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

The what?

**Q - Darren Shannon**

Sorry, I just want to do a follow-up, I wasn't too sure if the line was open. Can you give us an update on Harbin as well? Last time we spoke you indicated that something would happen before month's end? Is there an update on that?

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

I did and I hoped that before the month actually ends we have something. All the paperwork is done and basically waiting on signatures.

**Q - Darren Shannon**

Did you change the numbers on deliveries?

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

To be reduced, yes. We reduced both the total quantity of aircraft and also the written of deliveries but of course I have to wait until this document is signed to disclose this information.

**Q - Darren Shannon**

Thank you.

**Operator**

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

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

I would like to thank you all for your attention and taking the time to be present today. And reinforce that we are working hard to make sure that the Company goes through this financial crisis strong and solid. Thank you very much. Have a great weekend.

**Operator**

Embraer audio conference call is over for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.

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