

Q3 2009 Earnings Call

Company Participants

- Andre Gaia, Head of Capital Markets and IR
- Frederico Curado, President and CEO
- Luiz Carlos Aguiar, EVP Finance and CFO

Other Participants

- Alan Cardoso, Analyst
- Augusto Ensiki, Analyst
- Caio Dias, Analyst
- Daniela Bretthauer, Analyst
- Luis Adaime, Analyst
- Nicolai Sebrell, Analyst
- Ron Epstein, Merrill Lynch
- Steve Trent, Analyst
- Tiding Sevastry, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call that will review Embraer's Third Quarter 2009 results. Thank you for standing by. (OPERATOR INSTRUCTIONS.) As a reminder, this conference is being recorded and webcasted at www.embraer.com.

This conference call includes forward-looking statements, or statements about events or circumstances which have 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 believes, may, will, estimates, continues, anticipates, intends, expect. And similar words are intended to identify forward-looking statements.

Embraer undertakes no obligations to update publicly or revise any forward-looking statements because of new information, future events, or other factors. In light of these risks and uncertainties, the forward-looking events and circumstances discussed on this

conference call might not occur. The Company's actual results could differ substantially from those anticipated in the forward-looking statements.

Participants on today's conference call are Mr. Frederico Curado, President and CEO; Mr. Luiz Carlos Aguiar, Chief Financial Officer; Mr. Andre Gaia, Head of Capital Markets and IR; and (Ms. Elaine Funo), Assistant Controller. I would now like to turn the conference over to Mr. Curado. Please go ahead, sir.

Frederico Curado {BIO 2004589 <GO>}

Good morning, everyone. Thank you for attending our conference.

Starting with a brief summary on the quarter, we have celebrated -- we are very happy to celebrate 40 years this quarter, as well as 30 years in corporate presence in the United States. We also had our first delivery to Mozambique -- LAM -- Airlines, first delivery of E-JETs to British Airways and also to Lufthansa CityLine.

We also celebrated the 600th E-JET produced. And that aircraft was delivered to LOT in Poland, as well as the first of two Presidential aircraft. And that's an Embraer 190 modified to the Brazilian Air Force requirements.

And in this quarter we were also awarded in Brazil as the most transparent company in terms of financial statements and the relationship with the market, which made us very proud. And we also offered -- we had this offering of \$500 million in notes, which was accomplished a few weeks ago.

Turning to our results and to our financials, in this Third Quarter we delivered 57 aircraft in total. That, of course, comprising not only E-JETs. But also executive jets, between them -- among them 5 Legacy's and 22 Phenom's. Those deliveries translated into a revenue of about \$1.25 billion. This revenue is lower than the previous quarter and lower than the Third Quarter of last year as well. And this lower revenue, that caused our gross margin to come down as well to an 18.8% margin in the Third Quarter.

We have managed to keep our selling, general and administrative expenses under control. Of course, there is pressure from the currency rate, the exchange rate in this aspect. But we've been able to keep them at a relatively stable level, around \$52 million for G&A; about \$73 million for selling expenses in the quarter.

As far as income from operations, we registered \$68 million in the quarter. That represents a 5.5% margin, which gives us an average so far in the year-to-date of about 7% operating margin, which we consider that under the circumstances and under the pressure from exchange, the currency exchange rate, it's a good result and is a direct consequence of the huge efforts we are endeavoring in our internal operations, including the P3E program.

FINAL

When we come from income from operations to net income, then of course we bump into the -- let's say rather confusing legislation on Brazil income tax calculation. So when comparing US GAAP with the Brazilian legislation there are substantial differences. But in US GAAP, we registered \$58 million, which is an incredible coincidence, the same number as we registered last year, the Third Quarter of last year. And that represents a margin of 4.6% over revenues on this quarter. This is better than last year's margin.

As far as accounts receivable and customer financing, we are keeping a very strict attitude towards limiting our exposure. So we are pretty much stable, pretty much flat throughout the year. So about \$1 billion, just a slight increase; \$1.03 billion compared to \$1.02 billion last quarter. So that has been our attitude and it will continue to be looking forward, trying to limit our exposure in terms of customer financing.

I think we have good news in terms of the inventories. We were -- we have been able to -- after, of course, the overshoot when we first pulled the brakes earlier this year, we've been able to gradually and consistently reduce our inventories, which have reached \$2.7 billion, coming down from \$3.1 billion in the beginning of the year. So I think we are on good track in that aspect.

As far as indebtedness is concerned, I think our treasury has been doing a great job in terms of not only increasing the average term, the average maturity of our loans, which it is now 2.6 years. So we are making it longer into the future. But on top of that, we have also been successful in reducing the cost of such debt from 8% in -- our debt in reais from 8% to 7.8% and our debt in US dollars from 4.95% to 3.88%. So very important results in that front.

Our net cash went up a little bit in this quarter. So from \$52 million to \$71 million, which is very consistent with our -- call it policy or our willingness to keep always our cash position stronger, higher than our total debt. It does have a net positive.

And the last item is our backlog, which we are still seeing a very slow activity in terms of new sales, both in the commercial aircraft. But also in the executive jet market. And so, as a result of our revenues, our backlog has decreased and it is now \$18.6 billion, vis-a-vis \$19.8 billion in the last quarter. Still a comfortable backlog. This is all firm, of course. But it has been decreasing as the new sales are still scarce.

Before I turn it to questions and answers, I would like to give you, as promised, a vision on next year. The last time we were together we promised to give you some insight on our vision about 2010. Whilst we are not prepared to give you a full guidance in details, we thought we should at least share with you what we see ahead.

As what we have been saying for the -- throughout the year, we were aiming towards a kind of flattish revenues next year. Given the quantity of sales that we captured throughout the year, that's going to be hard to maintain the current level of revenue. So we estimate something around 10% reduction next year. As far as margins go, that of course would be an additional challenge for us. But we will just continue to work as we

have been working in terms of continuous improvement, in terms of our productivity program, to try to sustain our margins as close as possible to where we are now.

So I think that will allow you to at least have a big picture on what Embraer sees for the next year. And in the future we will -- on Embraer's Day we're going to provide you with the full guidance for the fiscal year.

So with that, I would like to thank you again and open for questions.

Questions And Answers

Operator

(OPERATOR INSTRUCTIONS.) Our first question comes from Mr. Nicolai Sebrell with Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Hi. Good morning. A couple questions. First, could you just repeat what you said about the margins? I don't think I caught all of it. What's the margin expectation for next year?

Second, what was the driver behind the delivery guidance change? In other words, 10 fewer Phenom's for 2009? And given the fewer Phenom's. And also given the revenue that you recorded in the Third Quarter, how do you think you might meet the \$5.5 billion that I believe you maintained in revenue guidance for the year? Some details around that would be very helpful. Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

Sure. Well I did not give a number for our margins next year. What I said is that we will try to sustain an operating margin as close as we can to the current -- to our current performance. So of course, having a lower revenue, that's going to present us an additional challenge. So we'll try to bring it as close as possible to where we are now. A more precise number we're going to provide when we do provide a full guidance.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay.

A - Frederico Curado {BIO 2004589 <GO>}

Phenom 100s, we think now that we may lose -- actually, we have already mentioned that we could lose a handful of airplanes. So maybe this handful becomes something around 10 aircraft. This is not due to any production limitation. We are actually well in terms of the production ramp up. It is customer financing and more related to commercial issues than anything else. So as a matter of fact, we have a significant amount of Phenom in -- let's say in inventory, if you will. Not in inventory, just waiting for delivery and customer acceptance.

FINAL

Revenues, right. So of course, losing 30 Phenom's -- I mean 10 Phenom's, that's about \$30 million. It is not a huge impact to our delivery numbers or revenue numbers. We have -- I think we have expectations to have a higher contribution of defense in this quarter. And maybe we're going to surpass our deliveries in commercial aircraft to compensate for other shortages.

So we feel we're going to come at \$5.5 billion or really close to that. And those 10 Phenom's that we may lose -- by the way, there's 2 doable out of the 10. But it's just unlikely that we'll be able to deliver some of those airplanes which essentially will be sitting on the ramp for delivery early next year. So it's not a production issue.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. Thank you very much.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Mr. Ron Epstein with Banc of America.

Q - Ron Epstein {BIO 1868102 <GO>}

Good morning.

A - Frederico Curado {BIO 2004589 <GO>}

Good morning.

Q - Ron Epstein {BIO 1868102 <GO>}

Do I understand in the Brazilian GAAP results that there was a \$16 million roughly nonrecurring item? Did that happen in the US GAAP results or no?

A - Frederico Curado {BIO 2004589 <GO>}

Yes. Yes. It did.

Q - Ron Epstein {BIO 1868102 <GO>}

So in the operating income is there -- can you just -- what was it and how much was it in US GAAP?

A - Frederico Curado {BIO 2004589 <GO>}

It's the same \$16 million. Yes. This is related, Ron, to pan-outs and cancellations on the business jets. It is the same amount, \$16 million, too, here.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. So is this like liquidated damages or something?

A - Frederico Curado {BIO 2004589 <GO>}

Yes. Exactly what it is. Exactly.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Okay. And it was about \$16 million in the quarter?

A - Frederico Curado {BIO 2004589 <GO>}

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

And Fred, what are you seeing in terms of the -- whatever you call it, the sales campaign environment right now? What's going on or what's not going on? That kind of thing.

A - Frederico Curado {BIO 2004589 <GO>}

Well Ron, as I said, the activity is slow and there's not many campaigns out there. It's not a question of market share. It's a question of really the market demand. So it's not an Embraer problem, it's an industry problem.

As you certainly know, the industry will lose some \$18 billion this year, the airline industry. Next year the forecast, it's still very negative, about \$4 billion or so. So it's a difficult moment for the industry and that translates into very few sales opportunities, which are disputed very fiercely by all competitors. So it's not a pretty picture.

Our model tells us that we should start to see some recovery in 2011. So hopefully, 2010 will be really the rock bottom of this difficult phase. But nobody really knows. Not even that I think we can say positively. But that's kind of what we see. And fortunately, having a strong backlog really helps us to weather through the storm. But the sales have not picked up yet.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Then maybe just two more quick ones. When we think about margins in the Fourth Quarter. So we think the Company can exit the year around 7%? Is that right? And what's going to change in the Fourth Quarter that would give a boost to the margins in a very -- if we have a similar currency environment, what would change in the Fourth Quarter to raise margins over the 5.5% level we saw this quarter?

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

There's a couple of things, Ron. First, I think fundamentally the higher revenues. So if we think about something in the range of \$1.6 billion, which would get us to the 5.5; \$1.5

billion, \$1.6 billion. So that automatically will help us a great deal in terms of diluting our fixed costs.

And there's a second contributed to that, although of maybe less importance but still relevant, is that as we have tried to -- as we have been doing, actually, trying to make a pari passu recognition of revenue -- of income and cash of our contributions from our partners. So we are pretty much, if you look to our R&D expenses throughout the year, they're very much stable. So that shows that we have been really able to -- have been able to level that off.

In the old -- let's say old programs, we still have some contributions attached to events such as certification. So what I'm trying to tell you is that we -- probably we're going to see a higher contribution for R&D. In other words, lowering our R&D in the Fourth Quarter coming from the certification of the Phenom 300. So that's going to also help the operating margin in the next quarter.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Then maybe one last question. There wasn't a cash flow statement in the release. Is there a reason for that?

A - Andre Gaia

Ron, we prefer -- as we have been disclosure, the balance sheet account, you can see that we -- you can see the inventory, trade receivables, all of those things. We believe that we are going to be able to calculate our cash flow through utilizing these charts in the page number five in our PR, okay?

And we realigned that -- this cash flow, account cash flow that we showed before, nobody uses that, as a matter of fact. And they prefer -- most of the people told us that they prefer to utilize this balance sheet data in the page five, in which you can see the most important accounts related to working capital. I'm not sure if it's your case. But that's the evaluation that I personally did and we decided to take this out. But it is not a managerial cash flow as we are doing here at Embraer. But I'm not sure if you have something to tell us about it.

Q - Ron Epstein {BIO 1868102 <GO>}

So if I understand. So now on a go-forward basis on the quarters you won't be presenting a cash flow statement? Is that right?

A - Andre Gaia

Yes. That's right.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Okay.

A - Frederico Curado {BIO 2004589 <GO>}

If I may, Ron.

Q - Ron Epstein {BIO 1868102 <GO>}

Yes.

A - Frederico Curado {BIO 2004589 <GO>}

If I may just offline, I think on this balance sheet data, we just think a couple of important things. We reduced in this quarter about \$150 million in our inventories. And we also reduced about \$170 million in our trade accounts payable. So I think those are solid results for (multiple speakers) our cash flow.

A - Andre Gaia

Even our debt net cash position has been improved a bit, right? From \$52 million to \$70 million.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Thanks, guys.

A - Andre Gaia

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Caio Dias with Santander.

Q - Caio Dias {BIO 21849043 <GO>}

Good morning, everyone. My question is a follow-up question on the operating margin during the quarter. It seems that the impact of FX was higher than the 50 basis points by the \$0.10 you mentioned in the last conference. So were there other reasons for such a low margin, 5.5%? Because according to our estimates, the FX would bring margin to 7% and not 5.5%. Did the learning curve or the Phenom's affect margins during the quarter, or it was only a matter of lower revenues diluting -- with a lower dilution of fixed costs?

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

Okay, Caio. Aguiar speaking. Of course there is an impact on the foreign exchange. But I would say that the main aspect, negative aspect, is the first line is related to the revenues. If you can calculate, if you add for instance the \$200 million -- \$300 million on the top of our actual number in terms of revenues, we are going to -- you are going to get at the operating margin around 8.2%. Okay?

And this -- what's basically (inaudible), when you don't have enough revenues in the first (inaudible), it's very difficult to dilute the fixed costs of the Company. More than that, we

(summarized) for instance the revenues related to services, related to defense. Those businesses have been contributed in terms of margin in a very good shape. If you look at that, you are going to realize that there are some responsibilities from that part of the business to have this reduction in terms of operating margin as well. Okay?

And the last. But of course -- I mean, there is something that exceeds the operating margin of Phenom. But we're talking about 22 Phenom's. 22 multiplied by 3.5 is not a big number. But no doubt we are in the process of ramping up our production in terms of Phenom and they don't have yet the same operating margin as our other mature product.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. So for 2010 we can assume that Phenom should have a higher contribution for margins than what it is contributing this year. And could you give more details on the contributions from risk partners you're expecting to book in the Fourth Quarter? How much would it be?

A - Frederico Curado {BIO 2004589 <GO>}

Yes. It probably is around \$40 million.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Thank you very much.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Mr. Steve Trent with Citi.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, everybody.

A - Frederico Curado {BIO 2004589 <GO>}

Bom dia, Steve.

Q - Steve Trent {BIO 5581382 <GO>}

(Spoken in foreign language.)

A - Frederico Curado {BIO 2004589 <GO>}

(Spoken in foreign language.)

Q - Steve Trent {BIO 5581382 <GO>}

(Spoken in foreign language.) My first question was already answered by one of the gentlemen had posed something earlier. But I did also -- excuse me, I do also want to follow up just to see what you might be seeing or hearing with respect to Brazil's defense programs, primarily the jet fighter tender. We'd heard -- or seen in the press, at least, that the deadline for bidding was earlier this month. And what sense do you have in terms of timetable and any color in terms of how you plan to participate in this project?

A - Frederico Curado {BIO 2004589 <GO>}

Okay. Well we are not a direct bidder in this program. On the other hand, we will very likely, or almost certainly, be a direct part in the execution of the program, teaming up with whomever is selected. So we anticipate -- I mean, we don't know exactly what will be the final decision date. We expect that to be end of October. Actually, not very -- to end of October. We think it's going to be now November.

And we also feel -- and this is not an information that we have, it's more like a perception, that there's a strong willingness to make it before year-end anyway. So it's not likely that's going to slide to December and then to January and then to February. It looks like the government really wants to make a decision this year. So our best shot would be November this time.

So how will we participate? We will participate certainly in whatever development is contracted. So depending on the aircraft selected, we have more or less work content depending on how -- basically how off the shelf the airplane is or it is not. So there'll be an engineering participation from Embraer's side and there'll be some degree in production participation as well. To my knowledge, it is not determined yet whether the aircraft would be built in Brazil or not. If it is built in Brazil, I would highly expect that that assembly would be done by Embraer, although there is no guarantee of that happening.

So we -- for us, Steve, the (FX2) program, it's a very interesting proposition in any case, whichever is the final bidder to be selected. And the work content and of course value will depend on some decisions which are still to be made by the Air Force, such as how much customization the aircraft to have, how much of the aircraft will be produced in Brazil, including assembled or not in Brazil. But we expect Embraer to be the major partner of the Brazilian government in that endeavor.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Very clear. Thanks very much, Fred.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Ms. Daniela Bretthauer with Raymond James.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hi, everyone.

A - Frederico Curado {BIO 2004589 <GO>}

Hello.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Another couple of questions. Correct me if I'm wrong. But because you are a company listed in Novo Mercado, I think you are required to disclose your cash flow statement. So you guys may want to check on that. That's the first actually kind of comment.

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

But we did, Daniela. We did. (inaudible) felt that we did -- we did not through our (PR). But our (2B) disclosure through (TVM) requirement. That will be there.

A - Frederico Curado {BIO 2004589 <GO>}

In the ITR. (Multiple speakers.)

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. So why not include it in the release as well? I'm not sure why that is the case.

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

I think there is a lot -- it's accounting issues in this cash flow that in our opinion, it doesn't help a lot to understand our cash flow and even our working capital situation. I would say that we disclose all information that you need in this balance sheet data that I showed a couple of minutes before. And we have all of the data there, which (inaudible) as calculated cash flow and working capital needs of the Company. But anyway, if you need, you can access the ITR of the Company. This statement will be there. No problem.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Thank you very much.

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

You're welcome.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

I have two questions, actually. The first one with regards to the guidance again for 2010 operating margin. Does that guidance -- like, as you clarified in the Portuguese call, the 7% guidance for 2009 includes the \$40 million expected revenue from the certification of the Phenom 300. So are you saying guidance stable in 2010 of about 7% including or excluding that gain? I'm still a bit confused on the guidance for 2010 in terms of operating margin.

FINAL

A - Frederico Curado {BIO 2004589 <GO>}

The notes right here, we did not provide a guidance for 2010 as far as margins or revenues. What we -- but on the other hand, as we have promised to give you all at least an idea, a vision of where we are. But what we are saying at this stage is that we, despite the additional challenge coming from the lower revenues and the currency, we will try to sustain the margins as close as possible.

So I don't have a precise number to give you but we will try to stay as much really close to where we are now as possible. That's what we can see now. We are in the middle of the planning, of our planning for 2010, by the way. So -- which will not be finished until mid-December.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Because some journalists in the Brazilian Press are already circulating headlines that you guys have confirmed 2010 guidance. So you may want to address that later.

A - Frederico Curado {BIO 2004589 <GO>}

Yes.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

And the last question, Fred, is on the Lufthansa announcement this morning on the delivery deferrals. I mean, does that affect Embraer? Because in their press release, they actually mentioned that it will be Embraer and Airbus aircraft. Do you have a sense of how many are we talking about?

A - Frederico Curado {BIO 2004589 <GO>}

I haven't read Lufthansa's press release. But we have for some time already, it's probably about maybe 45 days or 60 days ago, we reached an agreement with them to defer two aircrafts.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Two 190s or 195s?

A - Frederico Curado {BIO 2004589 <GO>}

Those are -- I don't know. Either. Either.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Okay. Thank you very much, Fred.

A - Frederico Curado {BIO 2004589 <GO>}

You're welcome.

Bloomberg Transcript

Operator

Excuse me. Our next question comes from Mr. Nicolai Sebrell with Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Hi. Thanks for the follow up. Just talk -- so, if we look at the Fourth Quarter and the margin in the Fourth Quarter and we take out the \$16 million one-time item in the third. And you say that Fourth Quarter revenue should be a bit better than the third, we might have a bead, for example, on the deliveries. It seems logical to think that Fourth Quarter, everything else held constant. And I'm talking about the FX for example, we should see a better margin. Maybe 8% or better. Is that reasonable to say?

A - Frederico Curado {BIO 2004589 <GO>}

Qualitatively, we agree with you. Qualitatively, yes. That 7% -- if we stay 7%, a flat 7.0%, then yes. To your point, we do have a potential upside in the Fourth Quarter.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. I just wanted to make sure I understood. Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

Yes. You did.

Operator

Excuse me. Our next question comes from (Tiding Sevastry) with Credit Suisse.

Q - Tiding Sevastry

Hi. Good morning, everyone. I just want to understand what scenario are you guys looking to the improvement on defense and also the service for the Fourth Quarter. Because to reach the guidance, those revenues should be really strong for the last quarter. So I would like to understand which are you guys looking to see a better scenario on that?

A - Frederico Curado {BIO 2004589 <GO>}

Yes. On defense, our \$0.6 billion or \$600 million guidance, if we don't reach that, we're going to come close. That's our vision. So we have several events and several things to happen this quarter.

On services, our \$0.8 billion guidance will probably not be achieved. So we'll be short on that. And most likely going to surpass our guidance in commercial jet deliveries. So somehow offsetting those shortages. So overall, we should come at or very close to our revenue numbers, with a little bit change, slight changes in the breakdown of our -- of the contribution of each business. We stay exact to the business pretty much on target. But that's despite maybe a few Phenom's left and maybe one or a couple of Legacy's more. So that is still to be determined.

Q - Tiding Sevastry

Okay. Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Mr. Ron Epstein with Banc of America.

Q - Ron Epstein {BIO 1868102 <GO>}

Hi, guys. Just a couple quick follow-on's. Early in the quarter you did that \$500 million bond issue. Why did you do that? Just curious.

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

Well Ron, it's Aguiar speaking. We are going to have in the first semester of next year almost \$600 million expired, expiration date from February up to June. The total amount is going to be, like, \$600 million. Then we decided to refinance the short-term debt, okay, by issuing these notes. And we are in the process of paying some of these debts but, most of them will be paid off from February up to June next year.

Then we are going to have absolute -- leaving a little bit less than the actual number in terms of debt by June next year. And in terms of (inaudible), I mean, we are going to minimize, reduce the refinancing risk because we are going to extend the (inaudible) up to, I don't know, 60 or something like that.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Okay. Then in terms of the dividend that you guys pay, I mean, I guess the interest on shareholders' equity, any change there?

A - Frederico Curado {BIO 2004589 <GO>}

Changes? What do you mean exactly?

Q - Ron Epstein {BIO 1868102 <GO>}

Well are you still going to follow the same policy in terms of what you pay out?

A - Frederico Curado {BIO 2004589 <GO>}

We have been -- we don't have actually a formal policy, Ron. But you're absolutely right in that we have a very solid practice over the last at least eight, nine years of paying out 50% of our net income. This will probably not be the case this year. So what we have committed, of course, is 25%, which is the legal requirement in Brazil.

FINAL

Bloomberg Transcript

FINAL

And so we're not -- number one, we're not giving -- advancing advanced payments throughout the year. We're going to concentrate that in a one-shot payment when we close the fiscal year financials. And number two, I mean, probably we take a more conservative position with the traditional 50% due, of course, to the very uncertain scenarios just to preserve a little bit of cash, which of course we can always distribute in the future. So that's something which -- and as far as we perceive in talking to our board, they share the same vision.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Then maybe just one last question. In this quarter how much of your R&D expense was offset by supplier payments or offsets? In Q3 what was the number?

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

I don't think we divulge that, do we? No. The idea is always to give you guys a net figure. If you'll recall our guidance for the year, I think that may help you. It's 100 -- I'm sorry, it's \$200 million in R&D. Year-to-date we have accrued \$138, if I have my numbers correct. So we have \$62 million to go. So it's very likely that we're going to come -- I mean under our guidance for revenues -- I mean, sorry, for R&D this year. So instead of \$200 million, it'll be a lower number than \$200 million. That's going to also help, as we said, the operating margins in the last quarter.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Great. Thanks.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

(OPERATOR INSTRUCTIONS.) Our next question comes from Mr. Luis Adaime with (BRZ Asset).

Q - Luis Adaime {BIO 6300655 <GO>}

Hi. Good morning. A quick question on the hedge side. I apologize if this was already addressed during the call. But from what I recall, you had removed any sort of currency hedge at the beginning of the year. And I was wondering, given the relatively optimistic perspective for the Brazilian economy and for foreign currency flow if that's being reconsidered or even discussed at the board level or management level? Thank you.

A - Andre Gaia

Well we did -- you are right. I mean, we paid off all of our derivatives and (inaudible) in the beginning of the year. What we did this year was the following. We decided to internalize some additional reais from our cash to look at our cash position in terms of currency. We are going to realize that we have more cash in reais that we used to have in the past. We

did that in the beginning of the year when the foreign exchange rate was around 2.05. And we -- it was a very successful action because we have been protecting our cash flow by doing that.

Then we are using reais that was internalized by the beginning of the year to pay our current expenses, our payroll and R&D and everything here in Brazil. And now we are evaluating the strategy for next year. But I think that we have -- I consider that we did the right thing, to have more cash in reais than we used to have in the previous years, take into consideration the appreciation of our national currency here in Brazil.

Q - Luis Adaime {BIO 6300655 <GO>}

Okay. Thank you very much.

A - Andre Gaia

You're welcome.

Operator

Excuse me. Our next question comes from Mr. Augusto Ensiki with Morgan Stanley.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good morning, gentlemen. Just a question if I may on your backlog. I notice that the E-JET numbers shifted around a little bit. It looks like there was a 7 order decline in the 190s. Is there any outlook in terms of cancellations or deferrals for both commercial and business, I guess, for this quarter and next year? Thank you.

A - Frederico Curado {BIO 2004589 <GO>}

It's hard to predict. Of course, it is a possibility. We -- if you look in our detailed backlog that we do publish, I'm not in a position to make any assessment on each specific airline's trend. But I think you certainly could do that. And you can estimate if there is some fragility there or not. So it's a possibility. We may have to have further -- we may face further cancellations in our backlog due to airline insolvency or something like that.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Could you -- are you allowed to disclose where the cancellations of the 190s, from what airline that was?

A - Frederico Curado {BIO 2004589 <GO>}

Yes. Absolutely. If you -- I don't have it really here. Actually, I don't have the numbers precisely in the details. But it just takes you to compare quarter by quarter, customer by customer, it's going to be there. I really don't have it here at hand, the specific details.

Q - Augusto Ensiki {BIO 15988025 <GO>}

But it is in the backlog. Okay.

A - Frederico Curado {BIO 2004589 <GO>}

Yes. It is there so you can compare quarter by quarter. It's a very easy exercise (inaudible).

Q - Augusto Ensiki {BIO 15988025 <GO>}

Thank you very much.

A - Frederico Curado {BIO 2004589 <GO>}

Third quarter. Just to add on, sorry. Carlos is reminding me, at least five of them are US Airways.

Q - Augusto Ensiki {BIO 15988025 <GO>}

US Airways. Okay.

A - Frederico Curado {BIO 2004589 <GO>}

The others, do you know by heart?

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

No jets, not others.

A - Frederico Curado {BIO 2004589 <GO>}

Yes. Okay.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. Thanks once again.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

Excuse me. Our next question comes from Mr. Alan Cardoso with Agora Corretora. Alan, your line is open.

Q - Alan Cardoso {BIO 15933677 <GO>}

Hello? Sorry. I was on mute.

A - Frederico Curado {BIO 2004589 <GO>}

Hello.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good morning, to everyone.

A - Frederico Curado {BIO 2004589 <GO>}

Good morning.

Q - Alan Cardoso {BIO 15933677 <GO>}

Just a quick question. If you take the (inaudible) commercial aircraft that were delivered to -- in the nine -- the first nine months of 2009 and your guidance for 2009 for commercial aircrafts of 115 and revenue of 2009 for commercial aircraft, you have indicated you're going to meet or even surpass, the average price per aircraft would be much higher than what we saw in the first nine months. So could you speak a bit about the mix of commercial aircraft you're expecting in the Fourth Quarter of 2009?

A - Frederico Curado {BIO 2004589 <GO>}

Well in the -- the math is certainly -- there's some flaw in the math just presented because we do not expect a huge bump in price. The average prices should be relatively the same. As in the previous question, we expect in this last quarter a higher contribution average-wise from the defense business, which tends to have a little bit better margin. And we will probably most likely have a shortage in our services revenues compared to the year guidance, which will be compensated by probably more business -- I'm sorry, more commercial jets, E-JETS and probably maybe I think one 145 in China. So that's the overall picture. And do not expect to have any (chief) variation on an aircraft price, no.

Q - Alan Cardoso {BIO 15933677 <GO>}

Okay. Thank you for the answer.

A - Frederico Curado {BIO 2004589 <GO>}

Thank you.

Operator

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

A - Frederico Curado {BIO 2004589 <GO>}

Thank you, again, all, for your attention and consideration to be with us in the morning. And we keep striving. We are three months closer to the end of this crisis than we were three months ago. So hang on with us. Take care. Have a nice weekend. Bye-bye.

Operator

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

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