# Q4 2009 Earnings Call

## **Company Participants**

- Frederico Fleury Curado, President
- Luiz Aguiar, IR
- Unidentified Speaker, Unknown

## Other Participants

- Rodrigo Goes, Analyst
- Stephen Trent, Analyst
- Unidentified Participant, Analyst

#### Presentation

### **Operator**

(audio in progress) Embraer teleconference to discuss the earning results for the Fourth Quarter 2009. Audio of this conference is being presented in the Internet at www.embraer.com.br where you can see and find the presentation [ph] as well. All the participants will be only listening to the presentation during the representation of the organization and we start a Q&A session at the very end. (Operator Instructions)

This conference includes forecasts and perspectives and they are based upon on the current situation of the Company; some financial trends that can impact the business as well. These forecasts are mainly about all the markets where Embraer is working. We'll talk as well about investment plans and the ability to deliver products in the scheduled dates and also regulatory affairs.

The words could, maybe, similar they are used to talk about forecasts. Embraer is not obliged to revise any of its forecasts, future events or any other events due to the risks and unforeseen events, because in the future that could not happen.

With us in our conference today, the President of Embraer, Frederico Curado; Siqueira [ph] Luiz Aguiar, Investor Relations; Controller, Mr. Frederico Fleury Curado, the President is going to show the earning results.

## Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Well. Good morning those who are here with us in Sao Jose dos Campos [ph]. Good morning, too to our listeners in simultaneous translation abroad and in Brazil. We will now talk a little bit about 2009, a very important year in the Company's lifetime. We had many difficulties in the beginning. But it ended with a series of conquests.

I'd start repeating that we have (technical difficulty) for 40 years. We always make fun of that, it's a young lady, the Company. In those 40 years, it's been more than 5,000 aircraft made and delivered to the five continents. We are in 78 countries, operating; it's a real landmark. It shows our lengths in terms of Company.

In the beginning 2009, we started a feeling since the end of 2008 an impact -- a very strong impact, of the international crisis. This financial crisis had a double impact to the airline companies; first of all, the recession because of the crisis and the second, the lack of credit that especially to our situation, is very relevant because aircrafts are financed, they are almost never bought.

So this perspective created a very hard situation. And the Company had to adjust very strongly on costs. And the cash -- the cash flow, in order to get prepared to go through this hard period. And this was very effective with some difficulties in some points. But the important thing is that the result could maintain the Company's competition in the market. We had -- we could achieve our goals in terms of quality, delivery, punctuality, productivity. And the financial part, we'll talk about that later on. Besides difficulties, we could deliver the aircrafts that we had predicted and get inside the budget we had.

In terms of technology, in terms of improvement of processes, we also did that in 2009. We also could maintain our first semester of too much pressure on our cash. But after we had a reversion of that; that gave us a very solid situation of cash position -- our very solid net cash position of \$500 million, which is a necessity in this industry. A very high demand of money and then because of these turndowns of the market, if not been -- if they're not taken care of, they could have a bad impact on the Company.

Also, the financial part, in terms of our debt, we could get \$500 million. We have very attractive rates for that of 6.5%. This was the lowest rate we could get in terms of our Brazilian Company, according to our level. It allowed us to postpone our debt because of that.

Another thing in this process of being adjusted to that, adjusting our expenses -- general expenses, our reduction of revenue right after, in the beginning of the year, we had to adjust our expenses in which we could maintain the capital of the Company.

Another relevant result is the reduction in the stocks. We finished the year \$2.3 million [ph] in stocks. In \$500 million of reduction in stock, which was centered in the process and material. It was much lighter the operation, now. We had a reduction of the material and the process. Delivering in assembly line will take less time now. This reduction is reflected in the purchase as well. So also the costs we had with the materials, these are responsible for our reduction.

We also had a strong reduction in investment of capital. But not compromising our future, our projects that, for us, are strategic; industrial automation. The projects of having P3E [ph], a project for 2011 in Melbourne to produce -- to make Phenom, which is going to be a paperless company. Just a few adjusts we have to make -- adjustments. But our

deadlines are all -- we are in the deadline and we have a good cash flow. This is our fifth year we are (technical difficulty) Bovespa's index of sustainability.

This is -- we had a very good performance, despite the crisis. The Commercial (technical difficulty) was affected. But also the Executive because of the Phenom 100 in the assembly and also the Lineage we also had an increase of market share, which was very -- from 4% to 6% -- 6.5%. The revenue increased to \$900 million. So we grew, inside the crisis. We also grew the number of aircrafts. This number is even more representative 14% of the deliveries. Of course, we were helped by the 98 Phenoms that were delivered. But it is a very important progress.

Another important issue was the idea of finishing the Phenom 100 in time. And reaching or, even over that, we could go ahead our goals when we started in 2005, in terms of ramp up, in terms of performance and fuel. We know perfectly well how the industry has been affected in many programs in the world, mainly [ph] the integration of providers. We cannot minimize the relevance of making a plane, which is sophisticated like that inside the line [ph].

As I mentioned before, we could also, industrially-speaking, we could ramp up the Phenom 100, the first flight of Legacy 650. This aircraft is the equivalent to Legacy 600. But with a higher -- with almost 4,000 miles. So we have now a niche in which the Legacy 600 couldn't reach. And now we can. So we have reached more markets. We had a -- we have a very promising product.

In the Commercial area, we delivered about 120 aircrafts in the market. We could finish all this one year ago. We didn't forecast and we didn't plan to (technical difficulty) our balance sheet for that, only for transitory, or small businesses. But we could really make them happen without putting danger our cash flow.

A little bit about Defense, we launched a program with the Government to develop an aircraft, a very sophisticated one, in dimensions that -- in which we had never done before; the KC-390. Just for you to have an idea is like a 767 in terms of size. It's a tactic used for the army, not only for cargo and people. But also to transport fuel. It can land in non-specific lanes. It flies sub-sonic speeds. We have an opportunity with this project to advance in technology and knowledge that the Company didn't have before.

The Brazilian Government is interested in the contract and as totally related to that and [ph] to the prototypes. And in the future, we hope in those six or seven years in 2015, this aircraft is going to be ready and then we're going to have a confirmation of an order to the Brazilian army.

In our point of view, this project is going to put us into a situation, which is a step ahead of where we are now. It's a complement to what we did -- we have done so far. It's a surplus to -- and in terms of technologically speaking, it's a very important conquest for us.

I just mentioned before, we had a huge progress in our P3E; a solid progress, which has a very wide program regarding not only efficiency of our processes. But also it's about the

people. It involves the culture -- the corporate culture, the motivation of the personnel. And last year, we had, as we always do regularly, the satisfaction. We have a 70% percentage of the employees between satisfied and very satisfied; it's an extraordinarily high number, especially after -- if you can see the difficulty we had.

So we have reached the revenue we had planned to, even though it was lower than 2008. But it was made possible, because of the deliveries we made. We had a little bit less deliveries of Phenom. But they were compensated by other products, like Legacy or Lineage. And in the Commercial area as well. This group of factors made us reach \$5.5 billion.

We had lots of cancellations last year and postponing. We lost a position of backlog. But I want to emphasize that it's still a healthy backlog; three years in terms of revenue. It's a profile, which is not only Embraer's profile; all the industry is like that.

In (technical difficulty) 2009 [ph], what we did -- what we had according to the backlog that was from -- that came from the other years. We're trying to diversify. If you look back 10 years ago, we depended on commercial flights. But now we have executive flights as well.

More recently, three or four years, we also have the area of defense, which is increasing in the companies. 60% of our revenue is because of Commercial Aviation and we are reaching 20% Executive Aviation and Defense.

Another change in the profile is the distribution, geographically speaking. Not only in Embraer. But any other company depended on the American industry. Of course, it's still a market that's under crisis. Don't consider those 23% of last year as a typical number. It's a market that (technical difficulty) increase even more; it is very important.

Brazil, particularly speaking, it's more than 10% of our revenue. It's the biggest one in those 40 years of Embraer in Brazil. We never -- we have this impression that it's going to be increasing.

Also, in the Middle East, it's more distributed, geographically speaking.

With that, I will be passing then the presentation to --

## **Unidentified Speaker**

(interpreted) Good morning, everyone. Before I begin my presentation, I just need to show to the people which are analytical with the Company, we also have the BR GAAP regarding the Company.

Well we will talk a little about net [ph] revenues and gross margin. Literally talking, we had a loss of approximately \$2 million of revenues. We just lost from in US GAAP -- in the BR GAAP from 20.5% to 19.2%. I think it's very important to mention the reduction of millions.

We also have to mention that our mix of products have changed very much from 2008 to 2009. We have seen a lot of Phenoms in 2009, three Lineage, which are products that are initiating their carriers here in Embraer. In the beginning of the ramp-up of the production and manufacturing the margins of these products are not yet planned. But, with no doubt, this is a result of the first line of the reflects [ph] of our P3E program. If we see these two events, we had a loss of \$800 million regarding these new products, making this mix of revenues.

Another point very important to say is our results of Defense's and Commercial dispenses [ph] and administratives are -- as long as our dispenses in US GAAP, they decreased in 21%; more than the receipt decreased. This shows that adjustable program that the Company have implemented, a lot of products with variable prices -- this shows in the commercialization decrease prices, in a good part are (technical difficulty) regarding the decrease.

The deliveries of Phenoms is about this; the physical per people. It's important to say that beyond this commercialization, the overhead of the Company decreased from \$238 million to -- from finance.

Talking about income from operations, we had in US GAAP 6.1% in 2009. In terms of three months rolling [ph] GAAP, the difference from 15.1% to 4.1%. But this in a specific case; we had an event not -- that not happen before. The Company had in some times talked about and communicated the market about this risk; that the Company was in an operational, economical and finance with this issue.

In January 5, 2008, they showed their requests in the USA. A little bit after the 2009, in a preventive way and conservative way, we have done a provision of \$3.3 million. And warranties done by Embraer, 36 aircrafts. And a good part of this program have taken us [ph] to do that is related to the operational estate of the aircraft.

The information's we have are not yet completely. And there is long process so we can follow-up. But information's that we have is that this aircraft will need dispenses -- additional dispenses to be in an operational level. And can be sold in the future. And this is the reason why we have done this prediction.

Important also to say, in case of the -- we have done the warranty of the -- equivalent to \$74 million. Also, if \$74 million are outside, not counted inside our cash -- liquid cash, \$500 million are not included for these needs.

But going back to our results, our operational results, if we didn't have this event in the middle, the operational state of the Company in US GAAP and in trimester is 10.5%.

The same results now in BR GAAP. This change from 6.1% [ph] to -- the difference is really [ph] to the accounting standards. This is about the expenses of R&D being allocated or not due to the standard of accounting that is being used.

Brazilian regulation has another standard; that's why the gross margin is reduced. So the operational margin doesn't account the R&D expenses and operational expenses as well. If we didn't have the MESA case, we would have a better operational result.

Regarding the EBITDA, the EBITDA was 7.7%; without MESA, 9.6%. This is similar to the margins that we had last year. It will be 2.3% [ph] in BR GAAP.

Going back to operational margins and cash flow, regarding EBITDA, the guidance for last year -- beginning of next year was the operational margin of 10%. The exchange rate was about 2.3 by that time and then it changed to 2.1 Third Quarter. And there was this revaluation [ph] of the local currency. We revised our guidance and we put another guidance of 7% of EBIT. And due to the exchange rate, we could -- we wouldn't be able to achieve the 10% of our plan. If we look at the results from EBIT without the MESA case, we have 18%, with MESA 6%.

Regarding the operational profit -- net income, we need to explain the Brazilian GAAP. We had operational income \$249 million in the year, especially in the Third Quarter; \$146 million including the MESA case.

Here, we have the effect of income tax. That's very important to stress; there's been this positive result, \$80 million in the Third Quarter. This explains that we calculate the income tax in Brazil based in the previous legislation and in the current legislation. So this new legislation obliges companies to count their income in reals. So we have this imbalance; the same we had last year, due to the account legislation. The average rate of CPV [ph] stocks, they have a high impact in our results due to this previous legislation.

In this quarter, (technical difficulty) due to [ph] the CPV -- the CPV rate being higher than the average rate of our income (technical difficultly) our exports, we had a loss -- operational loss considering this fiscal legislation. So when you calculate income tax, you can have a positive result of \$80 million. Obviously, it comes to -- it brings us benefit in the final results.

Regarding the explanation of the operational income in reals, we had BRL895 million as an income. Here, we have a different impact regarding income tax. But in this case, what happens is we need to mark our stocks according to (technical difficulty)

We have two different basis for calculating; one in reals, one in dollar, due to the legislation. 2008, we had an exchange rate of 2.31. By the end of the year, December 31, 2009, we had an exchange rate of 1.74. So this difference from 2.31 to 1.34 [ph] is 33%. So you have to take this potential loss and the valuation of the currency. And apply to the stocks. So this potential loss does not come to the results of the costs; it goes to the P&L account.

On the other hand, for the income tax, that you have to pay if -- again, the income tax, considered 34% of the exchange rate variation, you need to bring this to your balance sheet or to your bottom line. So the legislation doesn't give you a space -- any room for interpretation. It should go straight to the P&L, this difference. But it has an impact in our

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net income. We don't have room to interpret the legislation. So the exchange rate variation, you need to bring it to your net income.

299 million of credit; that is coming from income tax calculated on the valuation of reals. If we take this value, we would have BRL600 million or \$300 million. If we compare this to \$248.5 million we had in the US GAAP standard, net income of \$250 million. But there is a kind of distortion in the numbers. I hope you have -- understand.

Talking about our inventories, we have already talked about this. So we are in sub-sizing [ph]. We were very worried this year about our pipeline of our purchases; our materials for the Company; the focus of our management.

The ones who are following us, they know that financing these inventories, they suffered an impact due to the sales were not the ones you were expecting. So the money we have from our customers in advance, the amount we had in these accounts had an impact. Receiving accounts had a loss. So the payment that we had to do also had an impact.

In this scenario we had, we could not reduce our purchases and we had to negotiate the time for delivering, because your suppliers the same situation as you are. But there was some benefit for the organization in this reduction.

The profile of our debt -- indebtedness, four to five years; it's adequate to our organization and to the cycle of product development of our products. Our products, it takes four to five years to be believed all the approbation of authorities and the Council. 75% is our indebtedness in the long-term.

Our cash flow -- operating cash flow is very volatile, as you can see 2009.. And then I'm looking at quarters. We started with a negative value of \$245 million. Then we had a great recovery, due to the deliveries that we've done in the last quarter and the adjustment of the suppliers' account and the cut of other expenses that resulted in this extraordinary result in terms of generating operating cash flow.

In terms of investment, we were able to keep our investments around \$247 million and a total of \$250 [ph] million. We were more efficient and we didn't let any project down.

All the competitive projects were taken, projects for new products. No question about it, the market is going back to normal. We're going to be more competitive that our competitors, especially in Executive Aviation, because we have these options to offer.

Net cash, we achieved \$503 million, showing a recent (inaudible) last three trimesters -- the last quarters the variation of our net cash.

Now I'm going to ask Fred to make some comments on the guidance.

## Frederico Fleury Curado (BIO 2004589 <GO>)

Luiz and me are working together, only one slide, the way we see the future, 2010 more specifically. Then we talk about the guidance (technical difficulty) some complementary information. So you can help all the ones who are following the Company's activities.

(technical difficulty) Commercial Aviation [ph] market, unless we've been having good news. (inaudible) has published a revision of results foreseen [ph] for aviation companies, more than 9% up in international traffic, \$5.8 [ph] billion.

The new forecast is there's going to be a reduction to \$2.6 billion, very negative numbers. But the trend is pointed to the right way. There are positive signs in the horizon but we have a very conservative perspective regarding the Commercial Aviation market, due it to the structural problems, like the availability [ph] of credit. There is no reaction -- no significant reaction in the availability of credit, although the situation is today far better than it was 1.5 years ago. But it's a problem that's still a real problem.

The availability of resources to finance new aircraft is a problem. And all those structural questions make long backlogs, a huge number of airplanes that were ordered. So the capacity it's above the demand.

Demand's going to grow but in a lower rate, even considering China, Brazil or countries where there is a good demand, a good global demand related to the gross product -- the global gross product.

So considering this scenario, we've seen one year ago. So it's a conservative view. But we need to be pragmatic regarding the evolution of the Commercial market for aviation.

In Executive Aviation, it's not so different. There are some structural signs; the reduction of mainly new aircraft. So there are loads of aircrafts landed, not in use; reduction of hours. The parameters that are regulating their use [ph] show there is a recovery. But it's still a light recovery, if you compare to the boom that this market had in 2008.

We have a pragmatic view about the recovery of the market. However, particularly speaking about Embraer, we are bringing new products every year. So we said five [ph] Phenom 100, Phenom 300; we said (inaudible) Legacy 650, 500. We are moving from one to seven/eight products. And as long as we introduce these new products, our market share is going to increase. So despite, we are foreseeing Embraer is going to grow in a stronger rate than the market, due to the gain of market share.

In the Defense business, we were -- you can see this business was very resilient. We are succeeding in taking advantage of the good moment Brazil is living. Better availability of resource budget for the Federal Government, to invest in equipment. Brazilian Air Force is investing and there are many problems, like the new aircrafts. Embraer's going to be involved whoever wins the bid.

The increase of the budget of the Brazilian Government to equipment allows us to expand our sales to the Brazilian Air Force and Brazilian Navy. But first, the Brazilian Navy

should bring new (technical difficulty)

The presence of Brazil in the world, geographically speaking, this is growing. So if we consider G7, it's replaced now G20. So there is this clear command of Brazil and it helps us in the area [ph] (technical difficulty) of import.

We've been successful with exports, especially of Super Tucano, contracts with Chile, Dominican Republic, Ecuador. It's a market that's in a very good moment. Brazil's in a particularly good moment in this business.

It's a business that not only brings technology. But the contracts for development they are supported by their own customers. So the risk of capital is very low. So no question, it's a very attractive business and we are pursuing this kind of business.

In terms of the evolution of our internal program, P30, is going fully strength. We don't have a short vision, at least in this initial phase, five/seven years. And this five/eight years is going to bring to the Company the consolidation [ph] of culture of continuous improving.

So in the future, we don't -- we're not going to depend on a very concentrated problem. I am sure the legacy of P30 is going to be for the Company. It's going to stay in the Company forever.

In 2010, we're going to have huge advancement. I'm not going to details right now. But the certification of continuous improving sales, it's a very detailed program, the mapping of processes, the parameterization of process in all the 400 sales that compound the Company. It's a strong focus and is a positive view of evolution.

In this sequence, Emilio, our Vice President of Technology, is going to show you that we already benefit from what we've done in the past, in terms of competitive development.

We already have new solutions -- technological solutions; new solutions [ph] in current projects like Legacy 450. That is a product that is going to have a joystick fly by wire [ph], more complex than the ones we have now. And this is a result of this work. We did not reduce investment in this area. On the other hand, on the contrary, in terms of materials, carbon optimization, we'll keep our focus and the results are already seen.

A conclusion, just before I go to guidance. We see Embraer in a very solid position; a company that's adjusted very fast to the new dimension of the market. It has a very strategic positioning in the three (technical difficulty) it's operating. We can see Embraer is ready to take advantage of whichever recovery the market presents.

We are ready to be very fast and to adjust to our adverse scenario and easier to the bad scenario than to the positive position when there is this reversion in the market and we expect that it's going to happen very soon. If there is a soon reaction, we are up front, ready to take advantage of this good moment.

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We are foreseeing for 2010 a reduction of the income for the Commercial Aviation, because there's a reduction of demand. It's not a loss of market share. It's the market is shrinking; the market itself. So we are looking forward for \$2.6 million in Commercial Aviation.

Commercial Aviation, we're going to reach \$1 billion. So we can see the dimension that we are a player in this market. In 2005, we had a vision for 2005; so in 10 years we wanted to be a major player. So we can say that regarding we are getting faster where we wanted to.

Defense segment is growing. We are supposed to reach \$650 million and the Service areas \$350 million in Service sic; see presentation [ph].

(inaudible) income is around (technical difficulty) It is a higher contribution in terms of margin. So the return on investment is an investment in our customer. So we cannot look at it from the dimension of income only.

We are looking forward for an operational result of \$300 million with a margin of 6%. Of course, if the exchange rates -- if there is a devaluation of real, it will have some impact. So it's a hypothesis that we don't think the probability is high. But we have some safety regarding we are going to achieve these results.

Beyond this information, some complementary information that are relevant. The income is built upon this delivery of 90 commercial jets. It's explicit that we are reducing 120 deliveries to 90. In terms of business jets, we are delivering 120 Phenom and 17 Legacies or Lineages.

Our EBITDA is \$375 million and margin [ph] of 7.5% investment. Investments are going to be a bit above 2009, \$300 million split half, because we have to keep the investments that are already in place. R&D area's going to receive \$160 million, including partnerships.

So we're going to questions and answers. We're going to give priority to the people who are on the conference calls, because they are not here physically speaking.

### **Questions And Answers**

## **Operator**

(Operator Instructions) Rodrigo Goes.

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

(interpreted) Good morning, all. I wanted to know, Fred, if you could open a little bit more what potentially exists in relation of warranty of individual value and potentials about warranties -- financial warranties.

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As we are a little bit far from receiving the 20F, could you give us a little -- a small bit regarding this liquid situation?

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Regarding the values, I would ask again Luiz Aguiar to comment.

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

(interpreted) We have the warranties regarding the 20F in a dictated way. The two biggest expositions are linked to the clients, American Eagle, which are American Airlines and the Continental Express, which is the Continental Airlines. They are two companies, relatively good in the market, very solid. Relatively speaking, it's a market in some pressure.

The front lines in these companies are very big. We have regarding 170 or 180 aircrafts flying in the Continental or for Continental and about 200 aircraft in another subsidiary American Airlines, which is American Eagle.

We can see a small risk in a default event, So we can say that these two clients have a predominant present in our position. And relatively, we are -- it's a secure position. Luiz Aguiar will now give a comment.

(interpreted) Rodrigo, now we have availability regarding these numbers. We are actualizing these numbers, updating these numbers regards for the 20F. But around \$1.8 billion. The 20F before the total of revenues were above this value. They had passed this value regarding this position. And now regarding this reality; this ForEx [ph], the 20F [ph], this position. And the total of aircrafts between the companies.

What Fred has said, that these companies they have 80% in the presence of this position. And also, in the specific case, (inaudible) for -- it's a provision. It's not the value of the Company. But the state of this aircraft. We are almost sure regarding this aircraft that we will have to repair this, to make it operational.

Another point I wanted to highlight. These dispensers, they do not happen in a moment, in a month or a day. They pass a series of processes, to take back the aircrafts to its normal state. Even after that, you have to see the results and see which is with the senior [ph] in operation and to await feedback of us. And this will take some time to be diluted. And also, the cash regarding this event.

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

(interpreted) Well I have two questions. Just a moment. Two questions more related to that.

In the case of MESA, specifically speaking, the event of filing bankruptcy of the Company, it's not necessarily the trigger for this provision, this forecast and, yes, the state of the aircraft.

And the second question is, the size of the provision, when you say the position net, it's a small fraction taken into consideration -- collateral consideration. Is this already the net of the collateral, or how do you make this calculate?

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

(interpreted) The trigger is really what takes us to provision. What takes us to provision is the event of (inaudible)

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

(interpreted) In relation of the \$100 million?

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

(interpreted) Yes. It's a liquid amount, regarding \$2.5 million or \$2.3 million per aircraft to make it in a good state to be resold. With this problem, we can cover these additional expenses.

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

(interpreted) So you say this is already provisioned \$75 million from the \$100 million and expectation is about a second provision to cover (technical difficulty)? I imagine that.

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

(interpreted) No. I'm sorry, it's not that, Rodrigo, in reality I can say. And related to the cash share, it's becoming the dispensers and as the cashier goes outside, we can see the value of \$74 million. If you have to spend more than \$74 million, you have to use from the \$500 million above our debt.

So the cash flow, it's regarding also the results. We take the provision to make the dispensers related to that here [ph] \$103 million, which we imagine -- which is the total to repair the aircraft and sell it in a good price in the market.

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

(interpreted) So thank you.

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

(interpreted) Welcome.

### **Operator**

Stephen Trent from Citi Group.

### **Q - Stephen Trent** {BIO 5581382 <GO>}

Hi. Good morning, everybody. And sorry I couldn't attend in person this time. Two questions from me, if I may.

The first is whether you an update on Brazil's jet fighter program? It looks like the (inaudible) administration had narrowed the potential winning bidders now to three finalists. And we're expecting this for the end of 2009. It (technical difficulty) seems [ph] the election process has clouded the exact timing on this. And I was wondering if you had any color? That's my first question. Thanks.

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

Steve, I missed the second question.

### **Q - Stephen Trent** {BIO 5581382 <GO>}

I didn't ask the second question. But I can throw it out there. With regard to your 2010 guidance, Freddy, I was wondering the R&D you mentioned, if the R&D level you gave is net of contributions from risk sharing partners?

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

Very good. So Steve, we -- sorry, in Portuguese.

(interpreted) The last event in this competition of (inaudible) happened in -- around some days ago, when the Air Force have said about the buying and the grouping of SAAB [ph] and SAAB from (inaudible)

(technical difficulty) the necessities, the operational necessity [ph] regarding the logistics of the Air Force. And now, the decision becomes a political decision and a strategical one. We have indications by declarations from the Minister of Defense that the process should end in the short-term, Brazil, this year's and the next months some election process.

In our better knowledge, we don't have inside information. Our better knowledge are very close -- relatively close. Embraer should actively participate in this program. Any of the three winners. And we have signed with the three in an alliance publicly for the Air Force.

And the program we are waiting; the program does not exist. It's not incorporated in the Company life cycle. So it will bring, certainly, very good and important things for the next years.

Related to the question, it's yes; the \$160 million of the R&D are liquid, from the investments of the partners to the liquid \$160 million.

## Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Thank you very much, Freddy. And I'm sorry, just one more quick follow-up question, if I may.

Also looking at the credit market for aerospace, what are you seeing in terms of offerings regarding loan to value ratios? I recall last year we were talking about 60% to 65% versus maybe 80% loan to value pre-crisis. And I'm wondering what you're seeing now (foreign language)

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Well in relation to the financing of (technical difficulty) via the market, we have (technical difficulty) also, again -- very slowly. But then, there is something new that didn't exist before, some months more, which was the financing of our aircrafts through leasing, through the market.

That happened in the case of three aircrafts in November. And December and January, which surprised us; which is the beginning of -- or which seems to be the beginning of the leasing and the banks financing our operations.

We have seen in those operations restructured percentage of 80%/20%; 80% of financing and, as I said before, very limited in our specific case. What makes us continue, depending on -- just like the other makers, this support of BNDES [ph], which has been very efficient and has guaranteed to most clients, or almost all clients the continuity of our business.

### **Q - Stephen Trent** {BIO 5581382 <GO>}

Okay. Thank you very much, Freddy. I'll let somebody else ask questions now. (foreign language)

## A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Well I think we could now open to the questions here in the audience.

## **Q** - Unidentified Participant

Good morning. Could you comment on demand, with the year 2010 guidance here for commercial? Could you comment on -- Fred, on your outlook for the years beyond that? We saw Boeing announce, just this morning, that they're going to raise the production rate on 777 and 747. And Airbus is going to (technical difficulty) on A320 and -- effective 2011/2012. What are you seeing in the market? And how do you see demand?

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) I have to admit that it doesn't surprise me, especially in 320. Even though we are not in that market, the 150 market, we don't foresee [ph] a recovery of the market as a whole, that would motivate a ramp-up. Of course, the other one is doing that in a correct way. We don't have a view. Our industrial capacity is to make up to 15 aircrafts every month. We reached half [ph] of that number.

As I said before, a direct answer is, I don't see this growth. If it happens, the Company very quickly can recover. A positive aspect is, we have seen some campaigns; bigger

campaigns. Of course, I cannot comment on that, before you ask me. But we already have some campaigns of 20 aircrafts, 30 [ph]. And some talks with some clients. Just like we started feeling in 2008 the crisis, six months before, in the sales there was a reduction in demand. Now, we start feeling the opposite.

(inaudible) the reason more pragmatism, I think it's still too early to have that kind of perception, to make sure that it is going to change. In (inaudible) bodies, I think it's something different. I think we have more solid demand. Our aircrafts are from other -- or are even bigger ones.

### **Q** - Unidentified Participant

Morning. How much of the SG&A reduction do you expect to be permanent, when aircraft (inaudible) rates go back up?

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Part of the reduction was in the structure. The D&A and overhead is basically pure. The commercial costs we have are variable. But even so, the fixed part is still the same. This fixed cost -- the reduction of the fixed cost is permanent. The way is every time to be more efficient, more excellent in our internal affairs, the variable part, like commissions, guarantees, training to clients. And of course, this is an increase. But the fixed part, I'm sure it's going to be permanent.

### Q - Unidentified Participant

Regarding the discussion around re-engineering and Boeing. And Airbus. And your turbo fan and the lead back [ph], what does that mean for Embraer?

## A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) We're actively also looking at the -- what would be the next possibility for the E-Jets Family. We have certified jets. They are in the state-of-art. The engines, which come with architectures [ph] from one architecture [ph] or that's more traditional or not, 15% [ph] of cost. We are not indifferent to that.

We're studying seriously what the next step would be. We're monitoring the market right above us. We still believe that to go into segment with a bigger aircraft, without any differential, which is a game changer, is an excess of risk. We're talking about solid companies with solid products, with many, many clients.

So this is the scenario, the competitive scenario we have now. Not as a reaction. But to analyze if it's the right thing to do. We try -- we want to be leader in all the segments. We're studying those projects. If we launch new aircraft, a new generation of jets, it's not only new engines; we're talking about other improvements, many of them coming from this plan of development and technology.

### **Q** - Unidentified Participant

(interpreted) I'd like to know if Embraer has realized some -- in the domestic market or abroad, which has some influence on (technical difficulty) in the future?

### A - Frederico Fleury Curado (BIO 2004589 <GO>)

(interpreted) Domestic market; there are some activities. Some small companies, especially in this sense; I'm talking about Brazil. ADS [ph] is really -- they have bought small companies they have incorporated.

In the international market, our biggest [ph] company, this movement of acquisitions or (technical difficulty), which are very -- they don't happen much, because of the importance, strategic importance that the companies have. It's impossible to think, in my opinion, Boeing buying Airbus, or the opposite. Always think of Airbus or Boeing acquiring smaller companies, such as Bombardier.

In our case, it's not only a matter of pride; it's a matter of the golden share in all the assets of the companies. The company is protected because of the two [ph] hostile bids. Bombardier is a private company. It doesn't have a golden share. It would be very difficult for the Canadian government not to get motivated towards that. There are probably many attempts to buy.

Then if you think of China, it's the opposite of fusions and acquisitions. We are -- they are investing in a new company to compete globally against us. The Japanese are developing a new aircraft.

The Russians, there is a movement, it's like an opposite movement, from what the logic would be. There is a proliferation of manufacturers; we have (inaudible), Embraer, Airbus and Bombardier which are very famous ones, sticks [ph] with us. And this is increasing. We are making fun of that. But maybe we don't see the problems right now. But it's related to -- well, technology brings that element that creates a certain instinct behavior in terms of consumerism and other things.

By now we are over the Q&A session, now final conclusions. In a few words, 2009 was a real hard year. We ended the year even better than what we had imagined at the peak of the crisis. And with our vision, our pragmatic vision for the future; a vision of being ready to face difficult moments. In case the crisis goes on, we are ready; we have been adjusted for this. But we are also (inaudible) and prompt to go over the market the first chance we have. We're going to be on the first line. So this is the vision we have; a positive vision on the long-term.

Investments we have been doing are to -- the investments for the future haven't been affected and this is the vision that prevails; a vision of a Company, which has its personnel united, joined, motivated, capable and with a very good financial economical situation, which allows us to go over next slips [ph].

Thanks for your time and for your attention. Have a good day, everyone.

### **Operator**

Embraer Q&A session is over. We thank everyone. Have a good day.

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