

Q3 2008 Earnings Call

Company Participants

- Antonio Luiz Pizarro Manso, Empresa Brasileira de Aeronáutica S.A.
- Carlos Eduardo Camargo, Empresa Brasileira de Aeronáutica S.A.
- Frederico Fleury Curado, Empresa Brasileira de Aeronáutica S.A.
- Luiz Aguiar, Empresa Brasileira de Aeronáutica S.A.
- Unidentified Speaker, Analyst

Other Participants

- Bernard Carneiro, Analyst
- Daniela Bretthauer, Analyst
- Heidi Wood, Analyst
- Joe Nadol, Analyst
- Nick Sebrell, Analyst
- Rodrigo Goes, Analyst
- Ron Epstein, Analyst
- Steve Trent, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the audio conference call that will review Embraer's Third Quarter 2008 results. Thank you for standing by. At this time all participants are in 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 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," "expects," 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 Fleury Curado, President and CEO; Mr. Antonio Luiz Pizarro Manso, Chief Financial Officer; and Mr. Carlos Eduardo Camargo, Head of Capital Markets and IR; and Mr. Rodrigo Rosa [ph], Controller. I would now like to turn the conference over to Mr. Curado. Please go ahead, sir.

Frederico Fleury Curado {BIO 2004589 <GO>}

Good morning, everyone. Besides the people already mentioned I would like to tell you that we also have Luiz Aguiar, our future CFO taking over in the 1st of January joining us today. So thanks for joining us.

A brief summary of the Third Quarter. So by the end of September, we had this very sharp volatility of the Brazilian currency. And that brought some impact to our net results. Our policy is to mitigate our exposure to currency variations based on the balance between assets and liabilities, indexed in foreign currency. And also on the daily management of our currency trading; remembering that of course most of our revenues are in US dollars. And so this could act as a natural hedging for us.

As of 30th September, the end of the quarter, we had derivative positions in the range of BRL1.7 billion, which is approximately \$875 million. And they are non-deliverable forwards. And basically that is to hedge our exposure to the Brazilian currency, part of costs which we are exposed to the Brazilian currency. So we never had any speculative component in our hedge. And the purpose was exclusively to protect our Company against a potential loss from a -- adverse changes in the currency exchange rates.

Furthermore, in the Third Quarter -- so as a result of that we recognized financial expenses which are not -- are non-cash events, they are just a market-to-value -- marking-to-market value of 92 -- \$93 million. And this was consistently with the strengthening of the US dollar. Of course this will have a positive impact. And the stronger dollar will translate into a positive impact into our operational results moving on -- moving forward.

In this quarter we also had some adjustments in our administrative organization, basically resulting in some streamlining and some consolidation of management positions. And basically the recession of close to 150 white-collar administrative management jobs.

Well as far as sales go we had 13 new orders this quarter, including five for China for Shenzhen -- Kun Peng Airlines, also for NIKI of Austria -- in Austria, Mozambique. And one sale to Montenegro Airlines. We also informed -- disclosed 17 of our sales of 190 sales which were undisclosed before. And they are -- 12 of them to Aeromexico and five to National Air Services in Saudi Arabia.

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So -- and also in terms of our operations -- in terms of our actual aircraft in operation in -- during this quarter we had the first delivery for China's Kun Peng, also for TACA in El Salvador, Petroecuador in Ecuador. And the Virgin Nigeria. And as a result of those sales and deliveries our backlog reached \$21.6 billion. And this is -- this includes about \$7 billion in the business jet market.

So in terms of backlog, the E-Jets accumulated 865 firm orders. And we also have 813 options. On the defense side we have a very important contract with India for three Embraer 145 Early Warning & Control aircraft. And on the operation side we announced and are already initiating all the actions towards the implementation of two centers of excellence in Portugal. One will be dedicated to complex metallic structures. And the other one to composite airframes.

Still on the defense side we have another important contract with Super Tucano for the Chilean Air Force. And to finalize, we opened two new Executive Jets Service Centers in the United States, out of the three that we have in our plants. And the third actually was already opened late October. So that completes our commitment to have three new service centers for the business jet market before the Phenom comes into the markets late this year.

So having said that I will be back later for Q-and-A. But I pass on to Carlos so he can present the financial results. Thank you.

Carlos Eduardo Camargo {BIO 20195335 <GO>}

Thank you, Frederico. Good morning, everyone. Embraer delivered 48 aircraft during the Third Quarter of 2008 compared to 47 deliveries in the Third Quarter of 2007, closing out the first nine months of this year with a record of 145 jets delivered. This result represents a 34% increase over the 108 airplanes delivered during the first nine months of 2007.

The commercial aviation segment represented 64% of total revenues for the Third Quarter 2008, a decrease related to the 69% of the Third Quarter of 2007. And also the Second Quarter of 2008.

Net revenues for this quarter totaled \$1.5 billion, an 8.2% increase over the \$1.4 billion net revenues for the Third Quarter of 2007, basically due to the higher number of aircraft deliveries and a more favorable product mix.

The gross margin for this quarter totaled 21.7%, representing an increase over the 21.2% for the Third Quarter of last year, despite the impact of 13% decrease in the average exchange rate, reais against dollars on the portion of the Company's costs stated in reais. And also the average increase of 10.13% in the payroll.

The higher gross margin is due to productivity gains achieved since the improvement of the Company's industrial processes that started in mid-2007. The gross margin for this quarter was in line with the margin for the Second Quarter of this year, which was 21.9%.

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Income from operations reached \$100 million in this quarter representing a decrease from the \$162 million recorded in the same period of last year. The operating margin was 6.5% this quarter, representing a decrease from the 11.4% from the Third Quarter of 2007. And also a decrease from the operating margin of 6.9% for the Second Quarter of 2008.

Cash generation, as measured by the EBITDA reached \$119 million in this quarter compared to \$181 million in the Third Quarter of 2007. Net income totaled \$57.7 million in this quarter compared to \$195 million in the Third Quarter of 2007. And \$134 million in the Second Quarter of 2008. The net margin decreased to 3.7% in the Third Quarter of 2008, compared to 13.6% in the Third Quarter of last year. And 8.2% in last quarter.

Trade accounts receivable and customer commercial finances totaled \$850 million in the second (sic-see Press Release) quarter of 2008, representing a 4% increase compared to \$817 million of last quarter. And that's due to the normal course of the Company's businesses.

The Company during the Third Quarter inventories increased to \$2.9 billion, compared to \$2.8 billion in the Second Quarter of 2008. Higher inventory levels are part of Embraer's plan to achieve committed deliveries for near 200 aircraft this year.

On September 30, on the end of the quarter, Embraer's total debt was \$1.4 billion compared to \$1.6 billion at the end of the Second Quarter of this year. The average maturity of our total debt was 3.5 years, below the average of 3.6 years of the last quarter. Of the total debt 27% was stated in reais and indexed to the TJLP at a weighted average interest rate of 7.71% per annum. The remaining \$707 million (sic-see Press Release) is stated in other currencies, primarily the US dollars with a weighted average interest rate of LIBOR plus 1.16% per annum.

The Company's maintained its high level of liquidity. And our net cash position was \$492 million for the quarter ended at September 30. On the same date the firm order backlog was -- that included the commercial aviation, the executive aviation. And also defense and government markets -- totaled a new record of \$21.6 billion with special attention to the backlog of the executive aviation segment that increased from \$6 billion at the end of the Second Quarter to approximately \$7 billion at the end of this Third Quarter.

Now, we will open the session for Q-and-A, reminding that first we will answer the questions from the investors and analysts. And after that we will answer the questions from the journalists. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question-and answer-session. Embraer will answer questions from analysts and investors first. After that they will proceed answering questions from journalists. (Operator Instructions) Our first question comes from Joe Nadol of JPMorgan. Please go ahead.

Q - Joe Nadol {BIO 3056499 <GO>}

Good morning.

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

Good morning, Joe.

Q - Joe Nadol {BIO 3056499 <GO>}

Just want to start you off to get it out of the way, on the currency. I'm wondering if you could explain -- and thanks for the information in the press release. I'm wondering if you could explain the degree to which you hedge operations. So the size of your portfolio, you -- you're hedging your exposure with your debt, your real-denominated debt. To what degree beyond that are you hedging your expenses?

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

One moment, please. We have the same strategy, talk about these -- in the other currencies [ph]. We try to maintain equilibrated the assets and the liability in both currencies and the -- what you make with their hedge is (inaudible) part of our exposure in reais for the next six months, is that more or less we have the NDFs [ph] for the next six months.

Q - Joe Nadol {BIO 3056499 <GO>}

So is it part of the exposure of the next six months, or is it all of your exposure of the next six months?

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

Our exposure related to the Brazilian currency --

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

Yes. The Brazilian currency.

Q - Joe Nadol {BIO 3056499 <GO>}

So all -- okay. So all of your currency exposure that you anticipate in the next, say, eight months in operation --

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

Yes, more or less, it's not exactly the amount. But the amount is 25% [ph] of the total we have in the total of the sales and this part is normally in reais.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Then secondly, Fred, could you comment on what you're hearing from customers? And I'm looking at the next year with the 14 a month rate on the 170, 190, how good do you feel about maintaining that rate. And give us some context.

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

Yes, Joe, as you know next week we're going to -- this week right? It's -- this week, yes. Later this week we will be divulging our forecast for next year. And so -- in general terms there is an obvious concern about liquidity, about availability of credit. Credit is getting more scarce and it's getting more expensive.

So how that will translate into our deliveries is -- we will detail in a few days. But we do not see any sharp problems at this stage. It's a concern. But -- for example, for the remaining of the deliveries this year we feel pretty confident that the agreements which are already in place, the change -- the financial sources and our customers are -- will be honored. But we're going to talk a little bit more about that by the end of the week.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Looking a little bit more near-term, can you tell us for the Fourth Quarter and the First Quarter, for just the next five months or so, the aircraft that you are scheduled to deliver, how many of them don't have financing?

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

We -- First Quarter of 2009, I do not have the details with me. We do intend to deliver something around 55 airplanes in this quarter. And if not all, the vast majority of them have financing.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay.

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

So we feel confident of fulfilling our 200 aircraft target.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. Then just one more question. Could you update us on what's happening in China, with the 145 orders, it looks like they've been -- or the 145 deliveries, looks like they've been suspended. Can you tell us what's going on there?

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

Sure. It's -- we delivered one aircraft. And -- but part of the lower revenues in the -- lower than expected revenues on the Third Quarter was exactly, I think, a couple of airplanes which we -- they did not take -- 'they' meaning Grand China Express, NHA (sic) Group did not take delivery.

It's -- we do not have a definition of the outcome of that discussion yet. And we are -- and that's something we're working very intensively to -- so we can reschedule. There is, I think, an irreversible chance that we will reschedule the deliveries. But I just do not know at this stage when we will have a final definition.

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It's something which is a matter of concern for us. And -- but that will not jeopardize our deliveries figure for this year anyway.

Q - Joe Nadol {BIO 3056499 <GO>}

So are you still making the aircraft? What's the inventory? How many aircraft are completed there. And are you still making them?

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

We have obviously slowed down the supply of parts and the procurement of supplies until we have a definition. So it's a kind of halt until we sort out what will be the newer rate, or the new schedule. In terms of inventories, probably have one or two aircrafts -- probably one finished. And one semi-finished, I do not know exactly. But this is the overall picture.

Q - Joe Nadol {BIO 3056499 <GO>}

Okay. All right. Thank you, see you later in the week.

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

See You.

Operator

Okay. Our next question is from Nick Sebrell of Morgan Stanley. Please go ahead.

Q - Nick Sebrell {BIO 7321622 <GO>}

Good morning, guys. If you could answer my question regarding R&D. R&D this quarter is a little bit higher. I thought we were going to see some contribution. And I think we didn't realize it, or it wasn't -- didn't read it in the press release. Did we see any R&D contribution from risk partners? That's the first question.

Second question, can you talk a little bit about the outlook for the Fourth Quarter margin? Do you think you'll still hit the 2008 margin guidance?

Then the last question, if you could comment just anything on the -- in the local news we've seen some indications that there might be a joint venture under discussion with Airbus.

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

Okay. A three-in-one question.

Q - Nick Sebrell {BIO 7321622 <GO>}

Yes.

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

Let me -- so let me try to address that. And -- well, in terms of R&D, actually we had a little decrease over -- when compared to the Second Quarter. And the contribution that we expected in terms of our risk-sharing partners more specifically related to the certification of the Phenom 100 aircraft, did not obviously happen in the Third Quarter. Once we expect the certification to happen in -- before -- to the end of this month. So in a few weeks, a couple of weeks or so. So we're still on to recognize that contribution against the total R&D for the year.

And attaching that to the margin issue, we are targeting some 55 or so deliveries in the next quarter. That shall generate revenues somewhere between \$1.9 billion-\$2 billion in the quarter. And this will result into a -- probably a gross profit of \$440 million or something like that, in the range of 22% gross margin.

If we take the average general -- SG&A expenses for the year, we should probably -- we should be looking at something around \$200 million in terms of EBIT contribution. And adding those \$200-or-so million, coming from the operations, with the above-\$80 million coming from this contribution due to the certification of the Phenom, then we're still on and positive towards reaching our 8 to 9% EBIT target for the year. So the answer is, yes.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay.

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

Last on the -- on this -- I was very curious to read about the -- about our joint venture in the press this morning. We learned from the press. So the question is -- the reality is the president of Airbus is in Brazil visiting customers. And as you probably know EADS is a partner of Embraer. It's been -- it was a shareholder for many years. And is partners with us in OGMA in Portugal.

And the -- it's a courtesy visit. It's a general purpose visit. He has been here before, I think at least once, as I visit Fiat and Toulouse when I have the opportunity and vice versa. So it's just speculation. So there is nothing really to declare in that sense.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. Thank you.

Operator

Our next question comes from Heidi Wood of Morgan Stanley.

Q - Heidi Wood {BIO 3095506 <GO>}

Hi. Good morning, guys. I want to talk a little bit about the tone of [ph] demand. And understand what you're saying. Can you give us a sense, Fred, about the campaigns that

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you see coming on the horizon, both on the RJ side, as well as the executive jet? And give us some color as to what you think the order book will look like in 2009 versus 2008.

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

Yes. Heidi, we are -- this is not something easy to put numbers to. But I can certainly comment that for the last three months we've seen a sharp decline in activity in both markets.

This year, we'll post -- actually we have already posted a more than one-to-one build ratio. So we're going to end up with more orders than the revenues. But the general outlook for next year is not that positive. So as I said, last few weeks, important recession activity. And I think this is now time for us to hold on to our solid backlog. And -- because I think we'll probably have a dry season for some time. And I say 'we,' it's not only Embraer, it's the whole industry.

Q - Heidi Wood {BIO 3095506 <GO>}

And Fred, can you talk just a little bit about your business process to protect against the risk of deferrals, particularly in the executive jet in 2009. And 2010? I'm not so concerned about your risk of cancellations because I think your customers aren't going to want to forfeit their money. But how do you protect against them asking to move out. And take deliveries at a later juncture? You have backlog. But how do we better understand how solid it is?

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

You're talking about the business jets, right?

Q - Heidi Wood {BIO 3095506 <GO>}

Yes.

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

Yes, Heidi. We are in a particularly good moment as we are ramping up the Phenom line, as we are ramping up the Lineage, as -- we should certify the Phenom in a couple of weeks or so. And the Lineage in December. So 2009 will be years [ph] where we'll be just starting to deliver our first airplanes. And having a very strong backlog in those families. And the Legacy is pretty much sold out for next year as well.

Even if there are people willing to defer, or even cancellation, it may happen -- although I agree with you, people do not like to leave deposits behind, I think we -- having backlogs stretching out to 2012, in some case 2013, we don't see a huge risk of swapping positions. There are people asking actually already saying well, there are defaults, please, give them the chance to advance my delivery. So we feel confident in terms of our backlog.

Remember, we have about 850 airplanes in Phenom. And we have also more than 20 Lineages already in order. So this is the outlook for next year.

Q - Heidi Wood {BIO 3095506 <GO>}

Okay. One last question, if I might. And -- as we look ahead on the RJs for 2009 and 2010, Fred, can you give us a sense about the geographical breakdown (technical difficulty) next year and the year after? And what percentage of the deliveries go to Europe and what percentage are Asian-based et cetera?

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

Yes, I'm going to give you by the top of my head. But we can give you more precise numbers. US, probably something between 25% and 30%; Asia range of 20%, 20%-plus; and Europe and Latin America and -- (inaudible) taken care of the rest, the remaining 50% or so. But we can give you more precise numbers. But this is the order of magnitude.

Q - Heidi Wood {BIO 3095506 <GO>}

All right. Thanks so much.

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

Yes.

Operator

Our next question comes from Daniela Bretthauer of Goldman Sachs. Please go ahead.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes, hi. Good morning, everyone.

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

Good morning.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Fred or Manso, I just have a question on the contribution from risk-sharing partners, \$280 million. But how much have you booked in the year so far?

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

No. This is -- we have not booked it at all.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Right.

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

And so this is an event-related contribution which we shall recognize as we certify the Phenom 100.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

So in other words the guidance that you gave is assuming that you're going to get that in the Fourth Quarter. So that your EBIT margin is above 8%, let's say at 8.4%, something like that. And if you don't certify the Phenom, hypothetically speaking, then your operating margin is below the guidance. Is that correct? Just wanted to clarify that.

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

Yes. It is. And that has been since day one, since we've -- since we first divulged this margin, we -- it was clear that we expected contribution of that amounts, which of course if we do not achieve, will reduce our final result.

And this is not -- although this is a non-recurring event, this is absolutely part of our operation, because the program was launched with that assumption.

So in all of our business plans this was -- a bit of [ph] others' contribution which we had and we recognized are an integral part of our business this year [ph]. But the answer is yes.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

And you're quite confident that you will get the certification done during the Fourth Quarter? In the next two months, let's say.

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

This is what the program director assures me every day.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay.

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

So before the end of the month.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Second question is related to the notes that you published regarding your hedges. I just wanted to understand again. And it looks like you have a big part of that hedged, about BRL1 billion in notional value at 1.72 FX rate. And that expires in the end of March of next year.

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Well assuming that the real -- it's now at 2.15. But let's say it stays that way until March, then you're likely to have a big loss again, something like BRL150 million.

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

Yes. If you consider 2.10 to 2.20 certainly go to a new impact in our -- in the end of this year, certain, that I don't have a doubt. If you consider to them as example, we have maybe 100 -- it's 100 more in our end of the year.

But that is to recognize the final NDF to December. And the MTNE [ph] for the margin [ph] we will go to put in the results of this year, okay? But the cash is only -- with impact at December is around that amount you have today, that first party is 20 -- between \$20 million and \$40 million, depends on if the dollars will go for a ride in the end of this year.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Then similarly again, if the currency stays where it is right now, you're also going to have another FX gain, a positive one and that's related to the investments outside of Brazil?

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

Yes.

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

No, you're mixing two things there.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes, separate --

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

You're mixing the hedge of our cash exposure, our real exposure, with the investments and all the foreign exchange gain and losses. So those are two different issues.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Right. But in one you have a loss. And then in the other one you have a gain. Which is the one you had in this quarter? It's just that the magnitude will be bigger, because for instance one you had shown 1.7250 or let's say around 1.70. And the other is -- it's the difference between 1.90 and 2.15, whatever.

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Okay. But the -- I believe you're referring to the \$93 million gain in (inaudible) derivatives, which is out of those NDF position, that is to protect our exposure to the reals in our expenses. Any offer to have the foreign exchange given a rough net [ph], which is the difference of practice from Brazilian GAAP to US GAAP. But in Brazilian GAAP we refer to the balance between our assets and liabilities and also investments outside Brazil.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

So what was that \$58 million gain that you had in FX in the Third Quarter?

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Yes. That's what I mentioned. We have -- if you check the Brazilian GAAP, we also have a gain in our investments outside Brazil.

So you have to -- that reflects all those gains that you have in the Brazilian real. And also the difference of practice between the Brazilian GAAP and the US GAAP.

We are -- you can never forget that we are a Brazilian company, we pay taxes here in Brazil. So we have to first do our Brazilian GAAP and then we have to adjust it to the US GAAP.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Right. But if we're doing US GAAP then that's the impact that you're likely to replicate in the Fourth Quarter, maybe even higher, because of how the currency has moved. That was what I was -- my question.

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Yes, historically you have seen that when the real was appreciating, we had losses, we had foreign exchange losses. Now that it has depreciated, we have shown a gain.

It tends to be on that trend. Of course, you -- we also have a lot of volatility in the market that can affect our results in the Brazilian GAAP too. But the trend is as you mentioned.

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

Well if I may add just an overview. And referring back to the first question of -- I think it was Joe's -- a stronger dollar is something which favors Embraer. So -- as we have no speculative positions or hedges. So yes, if the dollar grows 2.3-2.4 or stays at 2.7 (inaudible), we're going to have an impact in our hedge positions. But this was exactly what the hedge was meant for.

We're going to have better than that or at least equal contribution on the operating side. So I think we are -- and again, as we have never gone above our -- through exposures to the reals, a stronger dollar is -- generally is a favorable thing for us.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Then very last question, if I may ask. In terms of the tax rate estimate, you basically had a very small tax credit in the quarter. In US GAAP again, what guidance for tax rate should we use going forward?

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

Okay. I ask just for Luiz to answer here. But before I start on the -- this debt comes from the (inaudible), because we -- where you make the calculation.

A - Luiz Aguiar {BIO 6035667 <GO>}

Yes. We have to remember that the tax rate -- the tax effective rate is calculated based on Brazilian GAAP first, okay? And in Brazilian GAAP, we have a loss of BRL127 million which approximately goes to \$60 million in this line. And we will apply the 34% of Brazilian tax rate.

We -- in the -- just in the beginning we have a benefit of about \$20 million on taxes. And over to that we have to apply the interest rate on equity for -- to shareholders. And the exchange variations that are not deductible and not taxable in Brazil. And also the difference between prices in US and Brazilian GAAP, which impacts that. That's why we come to a benefit of taxes in the end about \$2 million.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Thank you.

A - Luiz Aguiar {BIO 6035667 <GO>}

For the Fourth Quarter all these -- the same concept applies. So probably, if we go to a -- if we have a reverse situation here, we go to an expense on tax other than a benefit. And if the scenario keeps almost the same in concept, we will have again a benefit on taxes.

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

And if you consider in the all the year one compensates the other.

A - Luiz Aguiar {BIO 6035667 <GO>}

Yes.

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

And the -- what means cash in this case is not to go to (inaudible).

A - Luiz Aguiar {BIO 6035667 <GO>}

Yes. And we have to remember that we have an annual basis of taxation. So in the end, gains and losses, we probably will have an expense on taxes.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Thank you.

Operator

Our next question comes from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Yes. Good morning guys.

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

Good morning.

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

Good morning, Ron.

Q - Ron Epstein {BIO 1868102 <GO>}

Fred, as we go forward and the aircraft financing environment becomes more challenging -- Boeing has said that they are willing to take aircraft under their balance sheet. Airbus has said the same.

Are you willing to do that with the Embraer's balance sheet? Were you willing to give bridge financing, A. And then B, just outright financing?

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

Ron, we will not change our conservative stance on this issue. Today of course we have virtually no counter-receivable or very little in our books.

And we made surgically [ph] use some support and this is certainly -- bridge finances are the ones that we dislike the less, not saying we like the most, we dislike the less, the least.

So -- but in overall terms we've not assigned that big chunk of our balance sheet to the finance customers. So if we have to consider, in our thesis, if we have to consider an agreed deferral until the market gets better and reduce the outputs and keep the output going, on the expense of our balance sheet, we will chose the corporate [ph] first.

So I think this is a concept of (inaudible) than not do anything. We may do a little bit pieces in there. But overall protect our balance sheet, protect our cash.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. And this is a follow-on to that, do you expect the BNDES to become more active in the aircraft financing market? There is an expectation that the Ex-Im Bank in the US will become more active and also their European counterparts.

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

Yes. We do. We have been already talking to them very strongly. The positive effect is that they have reduced -- as they have not done much in the last four years, their exposure to the aviation market today is less than it was a few years ago. So that opens some room.

And Embraer is of course making them pretty much aware that this is the time for them to step up and do some more things. So the answer is yes.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Just maybe two more questions. One quick point, just following up on Daniela's question, on the derivative hedge exposure -- is that hedge going to be in place next quarter? Are you going to hold that position until it winds down, what, next March? Is that right?

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

Yes. I think in the next few years [ph] -- although we can always leave the position if we want, because I think there is time.

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Yes. Let's go to (inaudible). If you go to a dollar to 210-220, certainly you'll go to a new marked-to-market in relation of the exposure we have in the hedge today.

If that in the end of the year, one part of the industry \$100 million. And the deficit [ph] will go to recognizing that loss and to go to extend the cash in relation of these. That's the situation of today.

If you go to (inaudible) between 220 the exposure of this cash is around \$50 million. That is the exposure today if you go to 2.2, the dollar.

And you go to make a new marked-to-market in relation of the exposure we've had in the end of March, it's the 6 -- 500 in the (inaudible).

If you consider that. And go to factor our results in the end of the year, more about the \$100 million to \$120 million. That will go to affect only the results. But in the other hand certainly, we go to increasing -- if considered the FX, the result of our EBIT, because we go to results, or recognizing the expense to raising cash.

And in our projection that is a must for compensation, that the event of impact in our results from the new appreciation of the reais in relation of the dollar and the MTM to the hedge.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. So just to repeat to see if I understand right. So if we end the year and for the Fourth Quarter the average reais for the quarter's about BRL2.20 then it's a roughly \$120 million-\$130 million negative marked-to-market, is that right?

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

Yes.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay. Great. And I think that's everything. Thank you, guys.

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

Thank you, Ron.

Operator

Our next question comes from Steve Trent of Citi.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, guys.

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

Good morning, Steve.

Q - Steve Trent {BIO 5581382 <GO>}

Most of my questions have been answered. Just two quick ones from me. The first is, thanks for the color on the Phenom 100 certification. Could you remind us on the Phenom 300 and the Lineage, what again is the approximate time frame in terms of expected certification?

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

Sure, Steve. The 100 is -- it's basically now down to reports and again some components - - basically reports on some components.

So we feel really feel comfortable about the before the end of the month. The Phenom 300 is probably sometime around -- not probably, its target is sometime around the Fourth Quarter of next year. So about a year from now; hopefully a little bit less than a year from now.

We have two prototypes flying. And the airplane was displayed for the first time -- the actual airplane in the NBAA.

So everything is moving on. And of course, in this final stretch of the Phenom 100, there is a natural concentration of expansion of resources to this final certification which will be released to dedicate to the Phenom 300 as soon we accomplish our flight certificate.

On the Lineage 1000, the first aircraft which will be the basis for certification and it's the first customer aircraft, it came already -- it's already back from the completion of the interiors about a month ago or so. And we are finalizing the final installation of the fuel system.

So as far as hardware goes, we have maybe two; or three-weeks' efforts still and then it's down to paperwork. And we are very confident we are going to have this in December. So I think this is our -- what we have for the three aircraft.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Great. And just one other thing. I believe earlier in the call I didn't totally catch what you said about options on E-Jets. And if you could please state what -- how many options you have on the E-Jets and roughly when these options expire?

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

We have 813 options. This I think is probably the figure of end of this Third Quarter. And well, they expire anywhere from today through, I don't know, 2012-2013.

So it's a pretty -- it's a very advanced amount of options throughout the next several years. But we probably have options expiring in every month.

Q - Steve Trent {BIO 5581382 <GO>}

Okay, that's very clear. Thanks very much guys.

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

Thank you.

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

Thank you, too.

Operator

Our next question is from Bernard Carneiro of Deutsche Bank. Please go ahead.

Q - Bernard Carneiro

Good morning, everyone. I had (technical difficulty) questions. The first one is regarding the -- if you can provide a guidance so we can better forecast your order revenues and additional services revenues. We saw in the Third Quarter a good number, in the \$160 million-\$150 million amount. So I'd like to have more color on how to forecast these ancillary revenues for every quarter.

And the second question, I noticed that your average price in the commercial segment improved regarding the better mix that your aircraft delivers in the quarter. So I ask you if you could provide a detailed update on your average prices, the list price to the public, if that information, you can provide in the website or through a press release, because I have noticed that your prices are slightly increasing over the past few -- four quarters? Thank you.

FINAL

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

Well we -- I'm not sure I understood your question. But in terms of predicting intake of orders, we do not make predictions of sales. We do in revenues. But not in terms of contracts or backlog.

Aviation services is something which has a high turnover. So there is not much backlog in that anyway. So it's the result of basically sales of spare parts. And training. And maintenance and some power [ph]-by-the-hour services that -- which we provide. So it's a relatively stable number.

In the revenues, it may go up or down a little bit, if we have for example, at the first delivery for a given customer, sometimes you have a package of spare parts without a tax policy with the number. But I would not know in details at that level anything. But it's pretty stable. We shouldn't see much change in that number for now.

Q - Bernard Carneiro

Yes, Fred, actually, sorry, I was referring to the order revenues. You reported \$49 million this quarter and last year it was \$23 million; in the Second Quarter it was \$18 million. So it's a big jump in the orders revenue.

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

Those are, I think, in terms of -- I think --

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

There has been some leaseings, yes.

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

Aircraft (multiple speakers).

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Leasing the prototypes.

A - Unidentified Speaker

The -- it's only the use of aircraft. All the prototypes are (inaudible) that we took as a trade-in in the past, that we -- that they're also placed with the ECC.

So that's the revenue from the -- basically the --

(Multiple speakers) ECC that is leasing and the aircraft to prepare to sell.

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

It's very marginal.

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FINAL

Q - Bernard Carneiro

Do you expect this line to remain in the \$40 million to \$50 million or to come down a little bit in the Fourth Quarter, in the next year?

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

No. That is -- it's stable. We have that number of aircraft inside of the assets of the ECC Leasing Company. That is the amount --

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

Yes. Around the \$40 million (multiple speakers).

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

If only we change the (inaudible) to present the debt in the mix -- the disclosure for making that (inaudible).

Q - Bernard Carneiro

Okay. And if you can provide an update on the prices? Prices per aircraft?

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

Well you asked the part -- the list price. The list price now, that is not the actual price that we are going to receive from the customer, because we have all the negotiation, everything that is on the contract.

So I believe for a better modeling, we should give you the average backlog price. That would be more helpful to model. For the Embraer 170, it's currently \$36.5 million. For the Embraer 175, it's \$27.3 million. The 190 is \$29 million. And the 195 is \$30.5 million. Again -- but again, this is the average backlog price.

Q - Bernard Carneiro

This is great, very helpful. Thank you.

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

Thank you.

Operator

Our next question comes from Rodrigo Goes of UBS Pactual.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Hi, Good morning. Actually, most of my questions have been answered. Just a quick one to the extent you can comment on this. And you may prefer to wait until Friday.

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But you have -- you are likely to deliver somewhere around 10 Phenom 100s this year. And that jumps to roughly, according to your current guidance, 120 to 150. Based on how your manufacturing progress has -- process has progressed as of late. And based on what you're seeing in terms of demand from your client-base, does this number still seem reasonable to you, delivery guidance for next year, or would you prefer to wait until Friday to comment further on this?

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

If you don't mind, yes. That's what I --

Q - Rodrigo Goes {BIO 6232382 <GO>}

That's what I --

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

We feel we could announce the commercial, on the backlog (inaudible). We're exactly in the process of doing the exercise of post-production ramp-up, to figure whether or not, with this two; or three-month delay in the specification, if we can accomplish that. So let's - if you can wait today, we'll have that.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Thanks, no problem. Thanks a lot.

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

Yes.

Operator

Our next question comes from Nick Sebrell, Morgan Stanley.

Q - Nick Sebrell {BIO 7321622 <GO>}

Hi guys, thanks for the follow-up. Just very quickly, can you give us an update on ERJ 145s, 135 and which are customers that have still valid guarantees, have any of them come up for execution, or are any coming in the Fourth Quarter. And if so what's the status of those and have they found new homes?

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

In relation of this next quarter, we don't have any kind of exposure -- don't have any kind of exposure to the 145 for the next quarter. And the -- when you talk about the RVG [ph], certainly all of the exposure is going to happen in the end of the concert [ph]. And you talk about the -- around six, seven, eight years ahead.

And the -- when you look at the present value made by the appraisers, the value of our exposure in relation of the (inaudible) in the past around the residual value guarantee is

completely covered by the expected value of the aircraft ahead in this process. I don't see any kind of prominent relation of the RVG today.

Q - Nick Sebrell {BIO 7321622 <GO>}

Perfect, thank you.

Operator

Our next question comes from Ron Epstein of Merrill Lynch.

Q - Ron Epstein {BIO 1868102 <GO>}

Yes. Good morning again. Just another follow-up question. On the business-to-market, what impact do you see the -- what's going on in the credit markets. And just the broader global slowdown having -- one of the variables we track is business jet activity and business activity, at least in North America, is defined by takeoffs and landings, has come off pretty dramatically over the last several months.

What impact do you think that's going to have on your customers and your delivery profile?

A - Antonio Luiz Pizarro Manso {BIO 1845027 <GO>}

Ron, I think the impact will not be very light. We've seen on top of what you've said, the parameters which have a relation to the men [ph], the S&P 500, GDP availability -- to take availability of our semi-new aircraft, or the log activity including -- I'm not talking about our aircraft, I'm talking about the industry.

So there are several signals out there showing that there will be a reduction in demand and you'll see in our forecasts that we've not taken a -- I've not seen the final numbers yet. So we're going to tell you at the end of the week. But it's pretty much sluggish in terms of demand ahead. And 2008 and 2009, probably will still be a good year in terms of deliveries, because everybody has a strong backlog.

Even with the potential cancellations, I think in 2010 probably we're going to see a drop in delivery. So I think the general -- then again, back to the Embraer case, we are busy on backlogs which stretch out significantly to the future. We tend to believe that we have a very reasonable protection for the short and mid-term.

Q - Ron Epstein {BIO 1868102 <GO>}

Okay, Great. Well thanks a lot, Fred. And I'm looking forward to seeing you guys later this week.

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

Yes, good.

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

Thanks Ron. Take care. Have a safe trip.

Operator

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

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

Okay. Well thank you all again. And just final words, obviously we have a crisis in front of us. The industry has faced another one cyclically. No -- not news for -- what is new maybe in this crisis that it may be harder in terms of combining the credits with demands, the price as well.

So in our own case, basically holding to the fundamentals, keep working very strongly in terms of streamlining our operations, investing in our productivity. And also holding on to our cash. So motivating people, working with our customers, holding our cash, working to have a lower-cost, lean company. This reinforces, I think, the strategy we have been trying to develop for the last two years.

Thank you. So much. And I hope to see you in a few days in San Jose [ph]. Take care.

Q - Unidentified Participant

Thank you very much. (Multiple speakers). Bye, Fred. Thank you. See you in the end of -- at the end of the week.

Operator

That does conclude Embraer's audio conference for today. Thank you very much for your participation. Have a good day. And thank you for using Chorus Call, Brazil.

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