

Q3 2010 Earnings Call

Company Participants

- Andre Gaia, Empresa Brasileira de Aeronautica S.A.
- Frederico Fleury Curado, Empresa Brasileira de Aeronautica S.A
- Luiz Carlos Siqueira Aguiar, Executive Vice President Financial, CFO
- Unidentified Speaker, Unknown

Other Participants

- Caio Dias, Analyst
- Nick Sebrell, Analyst
- Unidentified Participant, Analyst
- Youssef Abboud, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. and welcome to the audio conference call that will review Embraer's Third Quarter 2010 results. Thank you for standing by. At this time, all participants are in a listen only mode. Later, we'll 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 any forward-looking statements.

Participants on today's conference call are Mr. Frederico Curado, President and CEO, Mr. Luiz Carlos Aguiar, Executive Vice President and CFO, Mr. Andre Gaia, Director of Investor Relations. And Mr. Rodrigo Rosa, Tax and Accounting Director.

I would like now to turn the conference over to Mr. Curado. Please, sir, go ahead.

Frederico Fleury Curado {BIO 2004589 <GO>}

(inaudible) everyone. Thanks for attending our conference. I'll just mention a few highlights of the quarter. And then I'll turn it over to our CFO to -- a further detailing of our financials.

We had a good Farnborough Air Show last July. We announced 37 firm E-Jets. So we definitely see a recovery in the commercial aircraft business. Recently, we affirmed also another 10 plus five options of 190 aircraft to Air Lease Corporation. It's a very -- I think, very important step towards broadening the operating lease footprint of the E-Jets family.

We delivered the first airplanes to Austral, a contract of 20, which shall be completed by next year. We also expanded our customer support presence in China, including an investment in the Company to -- basically, to handle all the spares technical support. The fleet will be more than 100 airplanes very soon, in China.

Last week, we were very proud to announce 50 plus 75 -- 50 firm, plus 75 Phenom 300 aircraft for NetJets, worldwide leader of fractional ownership, very important. It's a breakthrough for us.

And we also were fortunate to have the Legacy 650 certified. So since 2008, we have been certifying business aircraft exactly as per our planning in the Phenom 100, the Phenom 300, like the Lineage 1000. And now, the Legacy 650, both in Brazil and Europe. And the US, we will come soon. The first deliveries are for Brazil and Europe.

And we also have an important development on the military business, on the Defense business, with the letter of intention for cooperation between Brazil and Chile, Colombia, Portugal and the Czech Republic, where those countries, through their industries, would participate in the KC-390 aircraft. And also, they would purchase -- they would procure that aircraft in the future, when they get them in production.

For the first time in two years, we are seeing our backlog -- you know, actually going a little bit up. So \$15.2 billion to \$15.3 billion. So that's a good sign, for sure. As we have said earlier on this year, we do expect to have a -- at least a 1-to-1 book to bill ratio this year. And net revenues were just a little bit over \$1 billion, with a gross margin of 22%.

Our operating income was \$63 million, which represents a margin of 6%, year to date margin 7.3%, ahead of what we had forecasted. So that's why we are also revising our guidance, as we will detail later on.

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And net income, because of a tax, income tax reversion, we actually had the higher income than the net income than operating income. It reached \$98.5 million. And this means earnings per ADS of \$0.54. And we kept our cash position very much stable during the quarter.

So with that, I'll ask Luiz Aguiar to go into a bit more details on our financial statements.

Luiz Carlos Siqueira Aguiar {BIO 6035667 <GO>}

Good morning, everyone. It's a great pleasure to have you all here. It's an important date for us. We celebrate our 10th anniversary of our listing on the New York Stock Exchange. And just to give you a flavor of what was represent, we have increased our liquidity since then about 380%. And it's a good indicator of how important it is, this market for us. And thank you for you all to follow us for the -- over this last ten years.

Let's go over the figures. The revenues, as Fred said, I mean, we posted \$1 billion revenue. We brought in this slide, segmentation of this \$1 billion. Aviation Service was responsible for 16% -- it was 12% a year ago. Defense 7% -- it was 6% one year ago. And Executive Aviation, 19%. Clear for those businesses, they grow from last year, the Third Quarter of last year. Why the Commercial Aviation decrease from 66% down to 58%? It's, of course, is the picture. But I mean, it shows how our business units are developing.

In terms of deliveries, as we announced in the beginning of this month, we have delivered 44 jets. But to us, what I think what's very important to say here is the following. I mean, we have already delivered year to date 70 commercial jets. It's missing 20 for the last quarter. I think we are going to be able to achieve this number. It's not going to be a great challenge to do it.

Seven, eight Phenoms -- we have like 30, 42 to be delivered in the last quarter. Someone could find something very difficult to achieve. But if you look back, we go back for the Fourth Quarter of '09, we have delivered 55 Phenoms. And the Second Quarter of this year, we have delivered 39. I think we will be able to once again to achieve our projection.

And in terms of the large scale, large company airplane, we have delivered six. And we needed to deliver 17 in order to achieve our projects. That's a real challenge. But we cannot forget that we have certification of Legacy 150. What's completed, it was -- the airplane was set fire recently. And it opened the door to deliver. And I don't have white tail in our factory right now. Then it's a matter of delivering the airplanes to our clients. I think we -- that's why we keep -- we are keeping the same projection, the same project deliveries for 2010.

Our backlog, it was said already. You have -- we still have three years' backlog. In terms of revenues, the current revenue for Embraer, \$15.3 billion backlog.

Let's talk about gross margin. This is the Fourth Quarter that we are posting a margin, a gross margin above 20%. It sounds very consistent right now. It's very important for us

after it has been implemented since 2007, a very important productivity gain quarter three. And this is the result of this problem, there is -- we don't have any doubt about it.

And in terms of IFRS, we are showing both GAAP for you. And I will trouble to educate you. Don't forget that next year, we're going to have only IFRS in US dollars. And you have a smaller percentage. We can explain that. The R&D, certain development, amortization has been posting in the IFRS gross margin, while the rest GAAP, the R&D expense, the total R&D expenses are accounted for the operational expenses of the Company. We are going to see this impact US GAAP R&D when we are talking about operational margin.

SG&A expense -- here, there is our, let's say, great effort, made an effort to keep under control our costs, despite effects of depreciation of our national currency, the real. Just to give a flavor, if you compare the real right now, in the -- by the end of this Third Quarter with last year's Third Quarter, we had 14.4% appreciation. But despite effect, we were able to keep it under control, our general and administrative expenses. If you take the US GAAP, we can look both, it's quite similar. We had \$53 million general and administrative expense while last year, \$52 million despite a 14% of appreciation of the currency. That's a great achievement.

In terms of selling expenses, we planned that. We needed to increase this item. There is no other way, in order to follow our clients' needs. We are increasing the number of our airplanes and the business jet throughout the world. And we see it imposes a need to invest in client and customer support. And we are doing that, in order to be closer with our clients and to satisfy our clients.

Income from operations, in terms of EBIT, we had \$63 million EBIT in the Third Quarter 2010, a 6% margin, while our IFRS, 6.4%, a little bit more. And the explanation is that in US GAAP, we recorded the entire certain development expenses as, of course. And that's why we have a smaller number in terms of US GAAP.

It is not always like this. It depends on the level of deliveries. When you have a lot of deliveries, it tends to be the opposite. The IFRS is going to amortize per delivery more R&D than the R&D expense as a whole. Depends on how the R&D expense goes, compared with amortization effects of R&D into the cost of goods, say, the goods are sold.

EBITDA margin, in terms of cash generation measured by EBITDA, we posted 7.7% in terms of US GAAP, while IFRS, 12.5%. Much bigger. And there is another explanation for that. Also in our IFRS, we have a -- the amount of depreciation of fixed assets is much bigger than the US GAAP. We have some accounts for IFRS that are considered as a fixed asset, as I can give you some examples, like used aircraft. When we lease a used aircraft, it's posted, it's registered at the IFRS as a fixed asset, while US GAAP, it's posted as a CCF customer and commercial financing. That's why the number of depreciation is bigger in the IFRS.

Income before tax, just to give you a clear result in terms of our financial results and the monetary foreign exchange valuation, we had a positive financial result, \$10 million

positive this year. And the income before tax compared with EBIT, operational results, you can see \$63 million against \$73 million, which shows you the performance of the financial, the treasury of the Company.

The net income, here we have to remind you that we calculate the income tax based on the Brazil regulation. In order to do that, we needed to calculate a new net income based on the Brazil regulation, which is -- that has the real as the functional currency. And by doing that, we have to take into consideration the impact on the foreign exchange in all of the operational side, all operational accounts of our income tax, net income.

And by doing that, we -- you have to take into consideration that the cost of goods sold, foreign exchange, was 1.8, while the export of the goods, export of the aircraft, was converted into reais at 1.70. This difference reduced a lot the net income in reais. And that's the base in which we calculated the income tax. Then we have a -- by the end of this history, a very complex history, I have to say that, we have a fiscal credit, US GAAP, \$26 million, while IFRS, \$50 million fiscal credit.

Let's talk about cash flow. We have a negative cash flow, free cash flow this quarter. It's -- we can explain that by saying that we have been preparing the Company to deliver \$1.8 billion of revenue in the last quarter. Then, of course, the inventories was a little bit higher than we expected. That -- but we have a kind of offset. If you look at the trade receivables and the accounts payable, both of them partially offset the increasing -- the increases of the inventories. Then it ends up with negative \$57 million free cash flow.

Let's talk about -- right now, about debt. We are -- we're still improving the mature debt maturity. We have like six years, the average maturity (inaudible), which implies 94% of the debt, total debt, is long term. It's over one year. And just 6% less than that. And the total cash is still very solid. The net cash is \$624 million, while the total cash, \$2 billion. And I'd like just to remind you that we still -- we are continuing -- we have continued to reduce our total debt. The Second Quarter was \$1.5 billion -- now, \$1.43 billion.

Then I'm going to leave you with Fred again, to talk about the 2010 guidance revision. Thank you very much for your attention.

Frederico Fleury Curado {BIO 2004589 <GO>}

Well so just in closing, the last call, we have indicated the \$5.25 billion revenues. This is where we should think we will get. We do have a little bit of a challenge in the -- some business jet deliveries in this quarter. But we are very much convinced that will be accomplished.

In terms of our EBIT margin, having achieved so far what -- so to date, we have close to \$250 million in terms of EBIT. So obviously, we have to revise those numbers up. So we are raising our forecast for another \$40 million in terms of EBIT, which will bring us roughly in line with the margin year to date. So we expect the last quarter to have a consistent performance as far as operating profit, despite the stronger real.

And as a consequence, our EBITDA also shall raise, about \$40 million. And the margin, we expect something like 8.75%. And in terms of investments, R&D very much in line with what we had forecasted. And our CapEx, our PP&E, we will not reach the value of \$140 million. That does not mean that we have compromised any important investments. It just means that the combination of payment terms and also better negotiation of a lot of the capital goods we are acquiring, machinery and so forth. So that's positive, on the cash side.

So I think with that, we are -- we complete, I know, our presentation. And we are absolutely at your disposal for questions. Thanks again for coming.

Andre Gaia

For the questions section, let's start by the phone. And as we have, just organized to have that chance the people over the phone to make questions, too.

Questions And Answers

Operator

Excuse me. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Excuse me, our first question comes from Mr. Caio Dias from Santander.

Q - Caio Dias {BIO 21849043 <GO>}

Good morning, everyone. My first question is regarding the facilities in China. What is the status of the negotiations with the Chinese government regarding the factory you have in Harbin? Is there any new information about this facility?

And my second question is related to the Business Jet segment. How is the scenario evolving? Has the scenario improved? You just received a very large order from NetJet. Are you expecting new orders of that size, or does the scenario remain challenging? Any orders would only resume by the end of next year?

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

Okay, well, China, we are fundamentally in the same position which we were in the last call. Still waiting on the Chinese government to either approve the assembly of the 190s in that same facility, or if this is not the case, then we have, of course, to wind down our industrial operations, given the fact that the one -- the last 145 -- last year the 145 will be delivered, in March next year.

Let us all keep in mind that we do have contracts of exports of Embraer 190 out of Brazil directed to China. And those contracts are going normally, (inaudible) normally.

So we -- before year-end, obviously, we have to make a decision. And we are expecting their formal position in that sense.

As far as business jets go, the NetJet order, the first deliveries are in 2013. So NetJet is a large -- it's a -- they have a large fleet, the largest fleet of business jets all over the world. So they do have a long-term plan. So the 300s will come between 2013 and 2014 and 2015, the firm ones. And the 75 options, beyond that, hopefully they will exercise those.

We do not see that orders as, let's say, as an indication that the market is rebounding very strongly. We see a gradual and relatively slow recovery on the business jet market. It's going to take another year, maybe two years, since we see some more meaningful activity.

Used aircraft are relatively stable in the markets. It has been coming down -- the inventory has been coming down, has stabilized in the last few weeks. So we remain confident that the worst is behind us. But still a little bit cautious about how steep and how strong the recovery will be.

So we kind of see, again, a flattish, gradual, slow recovery in the Business Jet market, especially in the segments we are in. The upper side of the market, like the ultra long-range aircraft, they are recovering faster. But the midsize and the small cabins are really in that situation that I mentioned slow recovery.

Q - Caio Dias {BIO 21849043 <GO>}

And (inaudible), just one more question. Regarding the ultra range segment of Business Jets, given the fact that the scenario is much more favorable than for the other segments, even if you are planning to launch a product in that segment, or your portfolio product is already complete? And what about the pricing in the Business Jets? Do you feel that's a -- the pricing -- the price scenario is under pressure? How is it behaving now?

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

The ultra long range, we do not have any firm commitment at this stage to launch a program in that area, in that segment, although we do have, let's say, a long-term vision that Embraer wants to play in that segment eventually. How soon will depend fundamentally on, of course, the way the market develops, the way we grow our brand awareness, we grow our support, customer support infrastructure. And obviously, also, vis a vis the investments in other business areas of the Company.

So it's definitely not a long range (inaudible). But at this stage, the focus is really to certify the Legacy 450 and Legacy 500s on time, as we have done in the last several Business Jet programs. Let's remind us that from one product, the Legacy, back in the early stage of this decade, we now have seven products and we choose to be certified. So that really will give us, until 2014, a very broad portfolio of airplanes. So that allows us to hold our breath a little bit. And then move on to newer market segments.

As far as pricing goes, we have seen pricing holding up pretty okay. I mean, prices are stable, not particularly feeling any special pressure, any strong pressure on pricing. So it's manageable.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Thank you very much.

Operator

Excuse me, our next question comes from Mr. Nick Sebrell from Morgan Stanley.

Q - Nick Sebrell {BIO 7321622 <GO>}

Hi, Fred and Luiz. Two questions from me. If you could give a little bit more color behind the strong revenue that you're looking for next quarter, I mean, it seems like you're going to have contribution -- maybe not from all the businesses. But maybe one or two in particular that will grow. And from your comments and the delivery guidance, it seems like the Executive Jet business will contribute significantly next quarter.

First, could you confirm that. And that you do expect to fulfill all the Executive Jet deliveries? Then second, does that also have an effect on the margin? Because obviously, the margin's a little bit stronger than what consensus had previously expected in your new guidance. That's the first question.

Second question, if you could give us any detail or just discuss in general terms the campaigns that are going on now for regional jets, roughly how many are going on around the world. And maybe some general geography.

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

Well we are so -- we are targeting \$1.8 billion, \$1.9 billion in terms of revenue. And that's in this quarter. This is -- it is achievable, though we are -- we do not have any showstopper, we do not see any showstopper for us to get there.

We probably will have an upside in terms of our Commercial Jet deliveries. So our initial forecast was to deliver 19 jets. We are probably going to surpass that, maybe a handful, five more jets. That is what is going to help us to get to this \$5.25 billion revenues. So basically, the increase in revenues will come from the airline markets.

As far as Business Jet goes, the Phenoms, as Luiz already mentioned, we got 44 Phenoms to deliver. This is -- I mean, all those airplanes are already either finalized or at the final stage of the production area. And firm contracts. So we do not anticipate any issues there.

We do have a challenge in terms of delivery, of course, of the Legacy and the Lineages. We have 11 airplanes to deliver in those three months. But let's keep in mind that we've been producing the Legacy 650 and advancing them in the production line waiting for

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certification, which just happened last week. So there an important inventory of aircraft finished or semi-finished, which are now in a position to be delivered.

So it is again, a bit of upside on the airline markets. The delivery, full delivery of our guidance, in terms of the Business Jet side. And also Defense. We forecast this quarter to come back to normality. So the little dip we had in Third Quarter, we should be -- we should not see something like that. So Defense will also contribute for the revenues in last quarter. And again, \$650 million is what we are targeting for the Defense revenues this year. So it's a combination of all three.

Margins, we see them relatively stable. Of course margin should -- as the trends increase the margin, we'll have a little bit of a headwinds in terms of the currency. So we feel good about 7.3% in this quarter.

As far as airline campaigns, commercial jet campaigns, we've seen -- we are experiencing a recovery in the -- even in Europe, small numbers, some options being confirmed. We just announced British Airways confirming two options. We have, of course, still one contract in the United States to be completed for the one which was announced in February for Republic, the (inaudible) aircraft. There is activity in Brazil, Latin America, there is activity Middle East, there is activity in Asia. And even China, we have activity, (inaudible) activity there. So it's a little bit everywhere.

So I think probably, we will -- into the day, this afternoon. But I think even already today, we have a book to bill ratio of 1, maybe even more than 1 already. And we do expect a few more sales before year-end.

So I think we -- I mean, although we cannot be, let's say, very bullish about it. But it's -- the signals are of a sustained recovery. We feel good about the performance of our E-Jets in this market recovery.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. Would you say that the recovery is fairly broad based when you're talking about geography, or are there certain reasons you see doing significantly better than others?

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

Nick, could you ask again? I could not understand you.

Q - Nick Sebrell {BIO 7321622 <GO>}

Yes. Would you say that the recovery, nascent recovery, is fairly broad based, geographically speaking? Because you mentioned a lot of areas. You mentioned Europe, you mentioned Asia, you mentioned Latin America. And so it sounds as if there are a lot of things going on, that it's a broad recovery, geographically speaking. Is there any area that you would pick out as being special, either because it's a little healthier, or less so?

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

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Well of course, the one market which is still slow is the US, clearly. So a direct consequence of the whole US economy. And how fast that will recover. So that's the big one. And that's the major market which, I would say, is lagging behind the other ones.

Europe, as I said, Europe is kind of a maintenance. So people are exercising options, re-fleeting slowly. There has never been -- we don't see many -- developed (inaudible) is more, it's less. So even in the crisis, there are some activities and options that have been exercised. But I would say Europe and the United States are the ones which are slower. And the Middle East, Latin America and Asia, more activity.

Q - Nick Sebrell {BIO 7321622 <GO>}

Great. Thank you very much.

Operator

Excuse me, our next question comes from Mr. Youssef Abboud, independent analyst.

Q - Youssef Abboud {BIO 1761574 <GO>}

Good morning, gentlemen. I have a question regarding the regional -- regarding your regional campaign, specifically the Middle East. My understanding is Gulf Air, they were complaining recently regarding some of your jets, the engine specifically, the CF34, the GE engine. And there is bidding now from you and from your competitors on a new fleet that Gulf Air may -- that Gulf Air is wanting to expand their regional fleet.

Can you give us a little bit update on this issue. And what are the status regarding this bidding?

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

Well obviously, we cannot make comments on specific campaigns. What you can say is that we have delivered two 170s earlier this year for Gulf Air. And those two airplanes are followed by two 190s. So we've got four airplanes there. The airplanes are performing well. Obviously, the Middle East is a very stringent environment in terms of temperatures and also sand. This is a challenge for engines. Engines do not like temperatures and sand, of course, especially when you have short hauls.

Our airplanes and the GE engines, they're performing very well under those circumstances. But if you compare such an operation with an operation elsewhere in the States and Europe and Brazil, etc., where you do not have those requirements, obviously, the whole environment is less aggressive.

So we believe that by the fact that we are already there, the airplane has been used and very well accepted by customers -- customers in the Middle East, they travel cheaply, they have a lot of luggage. So the roominess of the E-Jets, it's been well accepted by that -- in that area, as far as passengers go. And obviously, we did the economics of the airplanes.

We feel we are in a relatively good position for the upcoming evaluation for the larger fleet. So having four airplanes already there being fully tested in a real day to day operation, we see that as an asset. Obviously, we cannot take for granted that this will be enough. But we feel positive that it's more than just a paper offer. We have a real offer that they know from A to Z, all the details of the airplanes.

Q - Youssef Abboud {BIO 1761574 <GO>}

And (inaudible) Gulf Air, how many -- how much the bidding is for how many planes Gulf Air wants to expand their fleet?

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

How many airplanes?

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

How many? Can you say again?

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

Could you ask that again, please?

Q - Youssef Abboud {BIO 1761574 <GO>}

The bidding for how many planes? Gulf Air planes, how many planes they want to expand their regional fleet?

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

Oh, gee, I don't know by heart. I would say probably 10 to 15, something like that. Ten aircraft, I would say.

Q - Youssef Abboud {BIO 1761574 <GO>}

Okay. And any update, Fred, on the issue of whether you're going to engine or coming with a new program for your E-190? I know you were waiting for your competitors to react. But can you give us an update, what's your thought, what you're hearing?

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

Well I think that what I have just discussed, the E-Jets, they are being procured again. As soon as the market starts to recover, the airplanes are being, again, acquired. That shows us that obviously, airplanes which were certified from 2004 to 2006 before, in that family. So they're brand new aircraft, state of the art. So there is a market demand for those airplanes. So we should not be -- make any premature decision about that family.

Having said that, obviously, we have taken a close look in what the developments in terms of the competition landscape. And there are two elements in the scenario which are very, very important before to be more clear, before we make a decision of what is the next program in the commercial aircraft market.

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One is the engine offerings. And as you mentioned, that GE has launched a couple of engines, one for this Chinese jet which is based -- actually, it's not GE, it's CFM -- based on the GNX technologies for the LEAP-X. So that is probably a 30,000 pounds thrust level. And recently, a new -- also, a new engine for large business jets, which follows in the high tens, 18,000, I think, pounds.

So in that range. So GE now, they definitely have offerings that would fit into our size of airplanes. Perhaps (inaudible) obviously, they already have their gear turbo fan offerings. And (inaudible) also, they have some concepts about an advanced turbo fan in that thrust class.

So we think that in the next several months, the situation about which is the most adequate engine architecturally will be more clear. And that's one element. The other one is competition.

Boeing and Airbus, they have not yet defined their next moves. I think the whole market expected Airbus to announce their re-engining by Farnborough. And then in October, they did not. Boeing, knowing no clear indication whether or not they will do it or when. So that's -- for us, this is such a fundamental element in the competition that try to pre-empt and do anything at this stage, having a solid product line, just does not make sense.

So we will wait for the right moment. And we're not waiting, of course, sitting down. And we are studying, we are investing in terms of the technologies, which may be used in this new aircraft. We are talking intensively to airlines, to engine manufacturers, to a source. And we'll make a decision when the time is right.

Q - Youssef Abboud {BIO 1761574 <GO>}

Okay. One off question, Fred, is regarding the -- your guidance on the Business Jet revenue. So can I understand, or can you confirm that it's unlikely that you will meet the \$1.1 billion revenue. And this is -- it's going to meet your target for the all revenue of \$5.25 is going to be upset by a higher Commercial Aircraft revenue. Correct?

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

Yes. So we see -- let's just make sure that we see the Business Jets achieving the \$1.1 billion guidance. And those extra \$250 million on top of our initial guidance will mostly come from the Airline business.

Q - Youssef Abboud {BIO 1761574 <GO>}

Okay. Okay. Thank you very much.

A - Andre Gaia

With that, we open for the audience here.

Q - Unidentified Participant

Great quarter. And very nice margins. Could you update us on the exposure to currency? I think in the past, you had said \$0.10 was 30 or 50 basis points. But the real is going up. And your margins are going up. So how should we think about this going forward, not only for operating margin. But really, for the gross margin, specifically?

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

Well I think you are right. I mean, the best to have this kind of correlation that you just mentioned. But we are doing -- I think we are doing a great job in terms of our productivity gains, even the way that we have been planning our budget. We have changed even the methodology, (inaudible) methodology to have a better understanding for all of the leaders involved in the production and in the business side, what represents foreign exchange against us. Then there is no other way out. And that's why I think we have tried to -- we are achieving to offset what we would lose in terms of margin by reducing our expense.

We can -- it's quite difficult to go forward and say, well, we are going to keep the same margin, because of course, what are you saying, that it's always a limit for that? But we will -- we were planning that the Company, for 2010 right now, it cannot anticipate what's going to be the guidance for next year.

But as far as I am concerned, we have room to continue this trend -- I mean, to keep our costs under control, especially administrative and general expenses. That's what I can say, Joe. It's quite difficult to measure exactly how it's going to be the impact of exchange on our margin in the future. It's going to be completely different from what we had in mind in the past.

Q - Unidentified Participant

You comment on the 22% in the quarter, then. And characterize how much of the improvement sequentially from earlier this year, because the volume was down quite a bit in Q3, as expected. And the margins still went up. So how much of this was mix. And how much of this was underlying improvement through your efficiency program?

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

Okay. Well we have, of course, a mix of product. If you look at that, we have -- as you know, we have a few Phenoms delivered this quarter. And as you probably know also, we have the Phenom 100. We have tried to improve the margins. We are -- I would say that we have room to improve that.

We have also the case of some specific region in which we can make better margins. And I would say that it represents like 20%, 25% if you just ask me, in terms of margin improvement. And I would say that 75%, 80% comes from the hard working of our people internally in order to reduce our administrative costs and general costs as well.

Q - Unidentified Participant

So as we look into Q4, anyway, not looking too far ahead but just Q4, your volume comes way up, Defense, which is higher margin, comes back? There's no reason to expect any decline in gross margin. It should actually go up, not down, right?

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

We're going to have a lot of business jets, okay? Don't forget that we are going to have a Legacy 650 to be delivered the last quarter. It's a brand new airplane. Then, just to remind that, for sure, we are going to -- rather to post \$1.8 billion is a lot. But most of them is going to come from the Business Jet. And most of them comes from -- even then the old airplanes. Then, I think, I would say, around 20, around 20 is going to be a good guess.

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

We're going to have a little bit of overtime also we'll have to face. So that's going to put a little bit of pressure on the industrial costs.

Q - Unidentified Participant

Okay. Thanks. I'll pass it on.

How should we think about R&D trends as we go into next year?

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

Well of course, one element is the real. And not only the real vis a vis the dollar. But also the evolution of the wages in Brazil. Brazilian economy is still, it's indexed. And some -- and labor is one of the things every year, you have a -- so definitely, there's a pressure there.

As far as the volume of our R&D, no material change. Some concentration on the Legacy 450 and 500, KC-390 also starting to pick up a little bit. So we may see some increase in the whole R&D costs. But I would not -- not to the point to really materially change the performance of the Company. But it tends to increase a bit.

A - Unidentified Speaker

(inaudible).

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

Oh, yes. Just to remind, of course, that (inaudible), it's more like labor is related because it's fully funded by the customer. So --

Q - Unidentified Participant

In terms of supplier offsets next year, is -- are there many coming through next year, or does that slow down because nothing new is getting certified next year, right?

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

No, since the (inaudible) -- from this program, for the 450, 500s, the recognition -- and the cash and the recognition of the contributions, they are more or less pari passu with developments. So in the past, we used to have those big spikes, right? So we should not see that from now on. We shall be -- not from now on. Actually, from probably a year and a half, already.

Q - Unidentified Participant

And maybe one last question on Commercial Aircraft. If book to bill this year is going to be greater than 1, would you expect the regional jets or the larger commercial aircraft deliveries to go up next year, over 2010?

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

When we -- of course, today, I am not in a position to advance precise numbers. I kind of see next year that pretty much, a flat year. Hopefully a little bit of increase in terms of revenues, with preserving margins. So in a very general point of view, I see regional jets stable, maybe a little bit more. I don't see a step function upwards. I do not see any threats downwards.

So it's -- and the challenge would be to keep the Company stable and hopefully growing a little bit. And preserve margins despite the pressure as shown from exchange rates and the costs in Brazil.

Q - Unidentified Participant

And maybe just one last one. Have you seen much pressure from customers in either the regional jet market, or maybe even the business jet market, to finance airplanes or put some sort of bridge financing in, given the difficulty to finance business jets today?

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

Well there is obviously still a scarcity in terms of customer finance, in terms of banking or even capital markets. There's more fundamentally related to the commercial aircraft. The presence of BMGS [ph] financing our export has been fundamental. This year was something like 60%, I think, of our deliveries.

So next year, most of the financing acquisition are already defined. So we do not see, again, a threat there. But the market is not recovered.

On the business jets, what we kind of -- it's kind of a feeling, there is liquidity out there. There is people that could really make investments. There is some hesitance to invest in business aircraft still. So people cheaply renew their airplanes every five years, six years, or whatever. They are now maybe waiting a couple of more years, three years.

So I don't think it's -- we don't feel -- we have not felt any specific pressure on the financing side. It's much more the hesitance that customers have to really go and resume

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buying.

Q - Unidentified Participant

Hi. A question for you, Fred. Can you give us an update on the learning curve on the Phenom? How are you performing versus plan. And talk a little bit about the challenges. What are the long poles in the tent to get more efficient? Can you maybe shed some light on some metrics that -- so we can see progress in 2011 and 2012 from where you are at now?

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

Well I remember when we launched the Phenom, one of the concerns of (inaudible) was, we could not over engineer the Phenom, we could not overdo the Phenom deliver airplane.

I don't think we did that. But obviously, it's big that Phenom, in an environment as Embraer, it's a little airplane. So we are -- we have challenges all across the spectrum. So in terms of, of course, labor productivity, in terms of our bill of materials. And also, we -- I think the whole market expected -- not only the Phenom. That's happening also to the Mustang and other smaller aircraft.

The reality of 2005, 2006, 2007, it was a very, very aggressive market. So the scale, of course, it's not what we had planned. So of course, the dilution of our fixed costs is also a challenge.

Having said all that, I do not have metric specifics here. But we have -- so we are -- if you have to -- are you -- you have plans back in 2005? No. We are not. We are up. So we have higher costs than we expected.

On the other hand, we are much better than we were when we first initiated the production of the Phenoms back in 2008. So that is, as I said, we are ramping up the efforts. So absolutely. We have specific projects to address the cost side of the Phenom. And so, I see that as something which we will achieve in the next few years.

The 300 is still initiating. So the 100s already are a very strong rhythm. The 300 is still going up. So probably within maybe a year or two years, we are -- I expect a very reasonable improvement in terms of industrial costs of both Phenom 100 and 300.

We are, next year, end of next year, we will have the first Phenom 100s being delivered out of our facility in Melbourne. And as of today, my persons, we even have some internal bets. But I am very convinced that the cost of the Phenom to be produced in the United States will be very similar to the one produced in Brazil. So that will not be detrimental to the whole program return. And hopefully, that will help us to multiply our sales throughput.

Just to add on that. And we are not going to have foreign exchange exposures by producing Phenoms here in the United States, an additional advantage.

Q - Unidentified Participant

Maybe this is a follow-up, Fred. If we could bracket it, when you look at the opportunities to gain efficiencies, is it more along your own internal network, your own internal plant and internal organization, or is it with the supplier base?

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

I think it's a little bit of both. Of course, the elasticity in the supplier base is more limited. But definitely, we act in both directions.

But in terms of percentage of improvement, I would say more internally. On the other hand any gains in supply chain have a stronger impact than in the -- our internal operations. That's the major part of the cost. So it's actually both. We have specific actions regarding both fronts.

Q - Unidentified Participant

Good morning, gentlemen. or should I say. Good afternoon. Just two questions from me, if I may.

The first is, with respect to expectations on R&D in the Fourth Quarter. Now that the Legacy 650 has gotten confirmation, can we expect income from risk sharing partners in the Fourth Quarter that benefits EBITDA?

My second question pertains to competition. Apparently, one of your emerging competitors out of the former Soviet Union is suggesting that they have a fairly big jet order, arguably coming from a Western customer that they haven't disclosed. How often are you seeing these emerging OEMs face to face as you go out for new business, versus the past, let's say, year and a half? And to what degree do you feel that some of their governments are giving them an exceptional amount of help versus the market? Thank you.

A - Unidentified Speaker

That's a big (inaudible).

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

Yes. In terms of R&D, we don't expect to have a higher level of suppliers. But funding participation because we have changed the way that we are doing that in the past, to have established milestones in which they send the money to Embraer. And now it is different. It is pretty much more stable. In order to be able to measure better the operational margin, we have changed that, they agreed. And we have implemented doing this here, this new model. Then we don't expect to have a higher money.

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

Well competition from new entrants are -- I think we are getting closer to the time when really, the rubber hits the road. And those companies, they will start facing what we have

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said all along. It takes more than just designing an aircraft. I mean, airlines which is, of course, is a very complex business, to say the least, they cannot really get a high risk element on the airplane, even if the airplane is offered at an artificially lower -- artificially lower prices. There are so many other elements -- the reliability of the airplane, the fleet - - you know. If you have an airplane broken down, what you lose in terms of revenues is much more important than the actual capital cost on that airplane. Customer support, spare parts distribution, etc., etc., etc.

So it doesn't surprise me that we have not been seeing large orders, or actually, any orders at all, for those new airplanes, because I think airlines, they will be very, very strict about facing the risk vis a vis the benefits. And we -- I mean, with -- we really feel comfortable about the performance and competitiveness of our airplanes. So we don't see in those new entrants' offerings no real advantage, airplane against airplane.

So if you add that to the risk element, we have to feel comfortable. Long-term I see, for example, China as a player. But one point -- and actually, I spoke this week in the Aero Club in Washington. I did bring this up.

Beyond this disputes in the US and Europe about subsidies in terms of launches, the Boeing versus Airbus, Embraer and Bombardier, obviously, through Brazil and Canada, we had our own disputes in the past. And that resulted in the framework which both countries have been respecting since then. And I think Boeing and Airbus -- or, US and EU, find also a framework.

I would actually target my concern over to China, because of the state owned companies. It's very hard to have any visibility over what sort of support is there.

The Chinese market is important enough, of course, to be just kept captive. So any subsidies, even if that did not result in exports. But result in some sort of, let's say, a non-level playing field into the massive market, take into account the size of that market, it's something important enough.

And obviously, in the future, clearly, there have been intentions, strategic intentions to play abroad as well, to be an international player.

So I think it's fundamental that Brazil, Japan, Canada, the United States, the European Union. And China, which is a member of the WTO, do abide by the same rules, the same framework. And the -- today, of course, we cannot state that things are done correctly, incorrectly, why we can't say that, there is very little visibility of what it's -- what sort of support, what sort of funding, what sort of repayment of those loans are -- it's -- are behind the programs.

So I think this is the broader deal. No -- in a nutshell, no real, let's say, immediate threat. Long-term, clearly. At least one of those countries -- and I say China is a very likely one -- will be a major player 10, 15, 20 years ahead.

A - Andre Gaia

Any more questions from the audience? Okay.

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

Okay. So I really appreciate you taking the time for us. It is a special, very special day. It's ten years of Embraer's listing in the New York Stock Exchange. In Sao Paulo, we have been listed since 1989. And some of us had hair when Embraer was listed ten years ago. But we are very, very pleased. And I think there's a special word to many of you that have been following our Company for all those years with patience, with understanding, with being forgiving about our accents and about sometimes the lack of control of the language, the English language. And I just reiterate our commitment to try to provide the most transparent information, visions about the Company to you. And our absolute commitment to take Embraer into the (inaudible).

So a special thanks for you for being with us along this decade. Thank you very much.

Operator

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

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