

3D. Risk Factors

Risks Relating to Embraer

A downturn in the commercial and executive aviation markets may reduce our sales and revenue, and, consequently, our profitability.

We expect that a substantial portion of our sales will be derived from sales of commercial aircraft and executive jets. Historically, these markets have been cyclical due to a variety of factors that are both external and internal to the air travel industry, including general economic conditions.

Economic downturns in our industry may reduce air travel demand and corporate and personal spending, which may negatively impact our Commercial Aviation and Executive Jets segments. Downturns may also lead to a decrease in the volume of financing available to our customers for aircraft purchases, particularly in the aforementioned segments. A continued downturn in general economic conditions could result in further reductions in air travel and decreased orders for our aircraft. Our customers could also defer or cancel their purchases of our aircraft. We cannot predict the magnitude or duration of the impact that the above events would have not only on the air transport industry as a whole and on our business in particular.

We depend on key customers.

In the Commercial Aviation segment, as of December 31, 2015, around 80% of our firm orders in backlog for the EMBRAER 170/190 jet family were from the airlines Skywest, American Airlines, United, Republic, JetBlue, Air France-KLM and Tianjin, and the leasing company Aldus. We believe that we will continue to depend on a select number of key customers, the loss of any one of which would reduce our sales and our market share. Fewer sales would reduce our profitability.

Progressively, the commercial airline industry is seeking to reduce costs and increase efficiency, and is experiencing a consolidation process through mergers and acquisitions and alliances through code-sharing arrangements. Although it is expected that such consolidations and alliances may result in the creation of more stable and competitive airlines, they may also have the effect of reducing the number of existing and potential customers and, possibly, the number of aircraft purchases.

Financial difficulties, restructurings and bankruptcy proceedings of customer airlines can have a materially adverse effect on our results of operations and financial position. In February 2016, Republic Airways Holdings, which currently operates a fleet of 230 Embraer Commercial Aviation aircraft (of which 50 are of the ERJ145 family and 180 are E170/E175 models), filed for a Chapter 11 bankruptcy. At the date of the filing, Republic had a total of 24 firm orders for E175 commercial aircraft in our backlog, to be delivered between 2016 and 2017. As a result, we have provisioned a total of US\$100.9 million to account for expected expenses related to obligations from financial guarantees. For more information, see "Item 5E - Off-Balance Sheet Agreements."

In addition, delays in payment cycles by significant customers can negatively affect our cash position and working capital, as occurred for example in 2014.

In our Defense & Security segment, the Brazilian Federal Government is our largest customer of defense aircraft products. Revenue from sales to the Brazilian federal government accounted for 59.0% of segment revenue for the year ended December 31, 2015. A decrease in defense investments by the Brazilian federal government due to budgetary constraints or other factors that are out of our control could decrease our Defense & Security revenue. We cannot assure you that the Brazilian federal government will continue to acquire defense products and services from us in the future at the same rate or at the same level.

We depend on key suppliers.

We do not manufacture all of the parts and components used in the production of our aircraft. Approximately 83% of the production costs of our aircraft consist of materials and equipment purchased from our risk-sharing partners and other major suppliers. Risk-sharing arrangements are those in which suppliers are responsible for the design, development and manufacture of major components or systems of our aircraft. Once risk-sharing partners have been selected and program development and aircraft production have begun, it is difficult to substitute these partners. In some cases, the aircraft are designed specifically to accommodate a particular component, which cannot be substituted by another manufacturer without significant delays and expense. We work closely with our main suppliers to mitigate any potential risk, but, given our dependence on the supply chain, we cannot assure you that we will be able to manage this risk.

We cannot assure you that we will not experience significant delays in obtaining key equipment in our manufacturing process in the future. Although we work closely with, and monitor the production process of, our risk-sharing partners and major suppliers, the failure of our risk-sharing partners and other major suppliers to meet our performance specifications, quality standards or delivery schedules or to comply with regulatory requirements (including export control requirements) could affect our ability to deliver new aircraft to customers in a timely manner. In addition, a large amount of the equipment employed by the aircraft industry is subject to export control regulations and, as such, deliveries are dependent on suppliers having secured the applicable export licenses.

Our aircraft sales are subject to cancellation provisions that may reduce our revenues, profitability, backlog and cash flow.

A portion of our aircraft firm orders is subject to significant contingencies before delivery. Prior to delivery, some of our purchase contracts may be terminated, or all or a portion of a particular firm order may be canceled, for different reasons, including (i) extended delays in delivering aircraft or failure to obtain certification of the aircraft or otherwise meet performance milestones and other requirements, (ii) the failure of a customer to honor its aircraft purchases or (iii) production rate shortfalls.

Our customers may also reschedule deliveries or cancel orders, particularly during an economic downturn. In 2015, we had revenue of US\$17.3 million related to contractual penalties paid by customers due to contract cancellations, compared to contractual penalty revenues of US\$14.5 million in 2014 and US\$40.8 million in 2013. Material cancellations, delays or decreases in the number of aircraft delivered in any year would reduce our sales and revenue, and, consequently, our profitability, cash flow and backlog.

Some of our aircraft sales may be subject to financial and residual value guarantees and trade-in options that may require us to make significant cash disbursements.

For certain aircraft sales we guarantee the financial performance of a portion of the financing for, and the residual value of, some of our aircraft that have already been delivered. Financial guarantees are provided to financing parties to support a portion of the payment obligations of purchasers of our aircraft under their financing arrangements to mitigate default-related losses. These guarantees are collateralized by the financed aircraft.

Residual value guarantees typically ensure that, at the exercise date (between 6 and 18 years after the aircraft delivery date), the relevant aircraft will have a residual market value equal to a percentage of the original sale price. Most of our residual value guarantees are subject to a limitation (a "cap") and, therefore, on average, our residual value guarantee exposure is limited to 17% of the original sale price. In the event of an exercise by a purchaser of its residual value guarantee, we will bear the difference, if any, between the guaranteed residual value and the market value of the aircraft at the time of exercise, limited to the cap.

Assuming all customers who are supported by off-balance sheet financial guarantees defaulted on their aircraft financing arrangements, and also assuming we were required to pay the full aggregate amount of outstanding financial and residual value guarantees and were unable to remarket any of the aircraft to offset our obligations, our maximum exposure would have been US\$676.5 million (or, subtracting provisions and liabilities already recorded in the amount of US\$ 134.8 million as reflected in Note 25 to our audited consolidated financial statements, US\$541.7 million) under these guarantees as of December 31, 2015. As a result, we would be obligated to make substantial payments that may not be recoverable through proceeds from aircraft sales or leases, particularly if we are not able to remarket any of the aircraft to offset our obligations or financing defaults occur with respect to a significant portion of our aircraft. The value of the underlying aircraft is more likely to decrease and third parties are more likely to default during economic downturns. For further discussion see our exposure to these guarantees in Note 36 to our audited consolidated financial statements and "Item 5E - Off Balance Sheet Agreements."

In addition, we sometimes provide trade-in options to our customers in purchase agreements for new aircraft. These options provide customers with the right to trade in aircraft upon the purchase and acceptance of a new aircraft. In 2015, we accepted 25 aircraft, with a total invoiced value of US\$ 145.8 million, for trade-in pursuant to trade-in options. In the aggregate, we are currently subject to trade-in options relating to 31 aircraft, as a result of trade-ins tied to contractual obligations with customers and to their taking delivery of certain new aircraft. In addition, other aircraft may become subject to trade-in due to new sales agreements. The trade-in price is determined based on the new aircraft sold, as well as other factors, including a market value assessment performed by independent third party appraisers. We may be required to accept trade-ins at prices that are at market price of the aircraft, which would result in financial loss for us when we receive the aircraft.

We continuously re-evaluate our risk related to financial guarantees and trade-in obligations based on a number of factors, including the estimated future market value of our aircraft based on third-party appraisals, information on similar aircraft remarketing in the secondary market and the credit rating of the customers.

In 2015, 2014 and 2013, we made provisions of US\$192.2 million (excluding US\$100.9 million in provisions due to the Chapter 11 filing of Republic Airways Holdings), US\$238.0 million and US\$293.5 million, respectively, related to exposure from financial guarantees.

Any unexpected decrease in the market value of the aircraft covered by trade-in rights or financial guarantees would decrease our ability to recover the amounts payable to satisfy our obligations and cause us to incur additional charges to income. If we are required to pay amounts related to such guarantees, we may not have sufficient cash or other financial resources available to do so and may need to seek financing to fund these payments. We cannot assure you that the then-prevailing market conditions would allow us to resell or lease the underlying aircraft at its anticipated fair value or in a timely manner. Consequently, honoring our financial guarantee or trade-in obligations could require us to make significant cash disbursements in a given year, which, in turn, would reduce our cash flow in that year.

Any decrease in Brazilian federal government-sponsored customer financing, or increases in government-sponsored financing that benefits our competitors, may decrease the competitiveness of our aircraft.

Traditionally, aircraft original equipment manufacturers, or OEMs, from time to time, have received support from governments through governmental export credit agencies, or ECAs, in order to offer competitive financing conditions to their customers, especially in periods of credit tightening from the traditional lending market.

In the past, much of this official government support was alleged to constitute unofficial subsidies causing market distortions, which gave rise to disputes among governments at the World Trade Organization, or WTO. Since 2007, an agreement known as the Aircraft Sector Understanding, or ASU, developed by the Organization for Economic Co-operation and Development, or OECD, has provided guidelines for the predictable, consistent and transparent use of government-supported export financing for the sale or lease of aircraft, in order to establish a “level-playing field.” ECAs from signatory countries are required to offer terms and conditions no more favorable than those contained in the ASU’s base financial agreement when financing sales of aircraft that compete with those produced by the OEMs of their respective countries. The effect of the agreement is to encourage aircraft purchasers to focus on the price and quality of aircraft products offered by OEMs rather than on the financial packages offered by their respective governments.

The Brazilian ECA, *Banco Nacional de Desenvolvimento Econômico e Social* (Brazilian Social and Economic Development Bank), or BNDES, together with the Brazilian National Treasury Export Guarantee Fund, offer financing and export credit insurance to our customers under terms and conditions required by the ASU. Any reduction or restriction to the Brazilian export financing program, and any increase in our customers’ financing costs for participation in this program, above those provided in the ASU’s base financial agreement, may cause the cost-competitiveness of our aircraft to decline. Other external factors may also impact our competitiveness in the market, including, but not limited to, aircraft OEMs from countries which are not signatories to the ASU agreement offering attractive financing packages, or any new government subsidies supporting any of our major competitors.

From 2004 through 2015, approximately 24% of our Commercial Aviation deliveries was subject to official export credits. In 2014 and 2015, approximately 47% and 43%, respectively, of our Commercial Aviation deliveries were supported by the Brazilian ECA Program. We cannot assure you that the Brazilian federal government, for policy reasons or otherwise, will not reduce or discontinue this type of funding for the financing of our aircraft or that other sources of funding will be available to our customers. The loss or significant reduction of funds available to our customers, without an adequate substitute, could lead to a reduction in sales of our aircraft or to an increase of eventual aircraft financing arrangements.

We may face a number of challenges resulting from the development of new products and the possible pursuit of strategic growth opportunities.

Our products require a high level of research, development and production expenditures. Our main ongoing project is the development of the E-Jets E2 family, comprising three new airplanes, the E175-E2, E190-E2, and E195-E2. We estimate our total investment in this project will be US\$1.7 billion, net of contributions from suppliers, through 2020. Our investments in the Legacy 450/500 executive jets, launched in April 2008, are almost concluded with an estimated total value of US\$ 830 million through 2016. The first Legacy 500 executive jet was delivered in October 2014, and the Legacy 450 entered into service in December 2015. We cannot assure you that our products will be accepted by our customers and the market, and if any of our new products does not meet customer expectations or market demand, our business would be materially and adversely affected. In addition, as we continue to develop new products, we may need to reallocate existing resources and coordinate with new suppliers and risk-sharing partners. Finally, cost overruns and delays in the development and delivery of new products would materially and adversely affect us.

We have in the past and may pursue strategic growth opportunities, including joint ventures, acquisitions or other transactions, to expand our business or enhance our products and technology. We may face a number of challenges, including difficulties in identifying appropriate candidates, assimilating their operations and personnel and maintaining internal standards and controls, as well as the diversion of our management's focus from our ongoing business. We cannot assure you that we will be able to meet these challenges or that our business will not face disruptions.

We may suffer from a lack of qualified personnel.

From time to time, there is significant competition within the aviation industry for skilled personnel in general and engineers in particular. To the extent such competition re-emerges, we may be unable to recruit and retain the necessary number of highly skilled engineers and other personnel we require. Failure to coordinate our resources in a timely manner or to attract and retain skilled personnel could slow down our development efforts and cause delays in production and deliveries of our aircraft, which would negatively affect us.

We may be required to refund cash contributions in connection with the production or development of our aircraft if certain milestones for our aircraft are not reached.

We have arrangements with our risk-sharing partners, pursuant to which they have contributed to us, in cash over the years, a total of US\$1,029.7 million since the beginning of the development of the EMBRAER 170/190, Phenom 100/300 Legacy 450/500 jet families and the E2 jet family through December 31, 2015. Cash contributions would have to be refunded by us to the risk-sharing partners to the extent that we had failed to fulfill certain agreed-upon milestones. The full amount of these cash contributions were nonrefundable during 2015, as we had met all the required milestones.

Although, currently, no cash contributions from our risk-sharing partners are refundable, we may enter into similar arrangements, and if we are unable to meet certain milestones agreed upon with our risk-sharing partners, we may be required to refund cash contributions for which we have not established provisions.

We face significant international competition, which may adversely affect us.

The worldwide commercial aircraft manufacturing industry is highly competitive. Along with Boeing, Airbus and Bombardier, all large international companies, we are one of the leading manufacturers of commercial aircraft in the world. Certain of these competitors may have greater financial, marketing and other resources than we have. Although we have attained a significant share of the market for our commercial aircraft products, we cannot assure that we will be able to maintain our current market share. Our ability to maintain our market share and remain competitive in the commercial aircraft manufacturing market over the long term requires continued enhancement of our products' technology and performance. In addition, tariff and other entry barriers may hinder our growth in certain markets. Our primary competitor in the regional and mid-capacity jet markets is Bombardier Inc., a Canadian company, which has significant technological capabilities and financial and marketing resources. Additionally, Chinese, Russian and Japanese companies are also developing mid-capacity jets and already have firm orders in backlog.

As a relatively new entrant to the business jet market, we face significant competition from companies with longer operating histories and established reputations in this industry. Some of our competitors in the business jet market have a longer track record and a more established customer base and, as a result, may reach the market with their products before we do and may frustrate our efforts to gain greater market share. In addition, the level of pre-owned aircraft for sale continues to pressure new aircraft demand in this segment and may impact the value of the used aircraft we own in our portfolio. We cannot assure you that we will continue to increase our market share in the business jet market segment, or that we will not experience a reduction in our current market share in this segment.

Intellectual property violations may negatively affect us.

We rely upon patent, copyright, trademark and trade secret laws, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. Despite these efforts to protect our intellectual property rights, any of our direct or indirect intellectual property rights could be challenged, invalidated or circumvented. In addition, although we believe that we lawfully comply with the intellectual property rights granted to others, we may be accused of infringement on occasion and could have claims asserted against it in the future. These claims could harm our reputation, lead to fines and penalties and prevent us from offering certain products or services. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly, hurt our reputation or require us to enter into licensing arrangements. We may not be able to enter into these licensing arrangements on acceptable terms. If a claim of infringement were successful against us, an injunction might be ordered against us, causing further damages.

We are subject to environmental, health and safety risks.

Our products, as well as our manufacturing and service activities, are subject to environmental laws and regulations in each of the jurisdictions in which we operate, governing, among other things: product performance or content; energy use and greenhouse gas emission; air; water and noise pollution; the use, storage, transportation, labeling and disposal or release of hazardous substances, human health risks arising from the exposure to hazardous or toxic materials; and the remediation of soil and groundwater contamination on or under our properties (whether or not caused by us), or on or under other properties and caused by our current or past operations. Environmental regulatory requirements, or enforcements thereof, may become more stringent and we may incur additional costs to be compliant with such future requirements or enforcements.

Investigations by U.S. government authorities under the Foreign Corrupt Practices Act and related inquiries may result in substantial fines and other adverse effects.

In September, 2010, we received a subpoena from the Securities and Exchange Commission, or SEC, and associated inquiries from the U.S. Department of Justice, or DOJ, concerning possible non-compliance with the U.S. Foreign Corrupt Practice Act, or FCPA, in relation to certain aircraft sales outside of Brazil. In response, we retained outside counsel to conduct an internal investigation of sales in three countries.

In light of additional information, we voluntarily expanded the scope of the internal investigation to include sales in other countries, reported on these matters to the SEC and the DOJ and otherwise cooperated with them. The U.S. government inquiries, related inquiries and developments in other countries and our internal investigation are continuous and we will continue to cooperate with the governmental authorities, as circumstances may require. We have begun discussions with the DOJ for a possible resolution of the allegations of non-compliance with the FCPA. A resolution of the U.S. government inquiries, and related inquiries, proceedings and developments in other countries would result in fines, which may be substantial, and possibly other substantial sanctions and adverse consequences. See "Item 8A - Consolidated Statements and other Financial Information - Legal Proceedings."

We benefit from certain tax and other government-granted benefits, the suspension, cancellation or non-renewal of which would have a material adverse effect on us.

Similarly to other Brazilian companies, we receive certain tax and other government-granted benefits, including incentives related to our export and research and development activities. For further information, see “Item 5A – Operating and Financial Review and Prospects–Operating Results–Current Conditions and Future Trends in the Commercial Airline Industry and Executive Jet Market–Defense & Security–Tax Incentives.”

We cannot assure you that these incentives will be maintained or renewed or that we will be able to obtain new incentives. We could be materially adversely affected in the event our existing benefits are cancelled or not renewed.

Risks Relating to the Commercial Airline Industry

Scope clause restrictions in airline pilot contracts may limit demand for regional and mid-capacity jets in the U.S. market.

A key limiting factor in demand for regional and mid-capacity jets is the existence of scope clauses contained in airline pilot contracts. These scope clauses are union-negotiated restrictions on the number and/or size of regional and mid-capacity jets that a particular carrier may operate. Current scope clause restrictions, which are more prevalent in the United States, include restrictions on the weight of aircraft and number of 76 seat commercial aircraft in an airline’s fleet operated by regional carriers. As a result, our opportunities for near-term growth in the U.S. regional jet market in the 76 seat jet category may be limited. The continuation or further tightening of scope clauses could also lead some of our customers who have purchased options to acquire our regional and mid-capacity jets not to exercise those options. We cannot assure you that current restrictions will be lessened, or will not be expanded, including by amending these scope clauses to cover larger-sized commercial aircraft. Furthermore, although scope clauses are less prevalent outside the United States, we cannot assure you that scope clauses will not become more prevalent or restrictive, or that some other form of restriction will not take effect, in Europe or in other markets.

The supply of pilots to the airline industry may be limited.

FAA regulations may impact negatively the supply of qualified pilot candidates eligible for hiring by the airline industry. A first officer in domestic operations must hold an airline transport pilot certificate and an airplane type rating for the aircraft to be flown. An airline transport pilot certificate requires that a pilot be 23 years of age and have 1,500 hours total time as a pilot. Due to those requirements, there may be a growing scarcity of new entrant pilots who meet the experience qualifications, impacting mainly regional carriers as they are the normal entry airlines for new pilots, and the majors are expected to hire many of their experienced pilots. Any further inability to recruit, train and retain qualified pilots may materially impact our customers’ operations.

We are subject to stringent certification and regulatory requirements, which may adversely affect us.

Our civil aviation products are subject to regulation in Brazil and in each jurisdiction where our customers are located. The aviation authority in Brazil, known as the *Agência Nacional de Aviação Civil – ANAC* (National Civil Aviation Agency), or Brazilian Aviation Authority, as well as authorities in other countries in which our customers are located, most notably the U.S. Federal Aviation Administration, or the FAA, and the European Aviation Safety Agency, or the EASA, must certify our civil aviation products before we can deliver them to our customers. We cannot assure you that we will be able to obtain certification of our aircraft on a timely basis or at all. In addition, complying with the requirements of regulatory authorities can be both expensive and time-consuming. If we fail to obtain a required certification from an aviation authority for any of our aircraft, that aviation authority can prohibit the registration of that aircraft within its jurisdiction until certification has been obtained. Changes in government regulations and certification procedures could also delay our start of production as well as entry of a new product into a new market. Despite our continuous efforts to strictly observe and comply with all aviation certification and other regulatory requirements, we cannot predict how future laws or changes in the interpretation, administration or enforcement of such laws will affect us. We may be required to spend significantly more money to comply with these laws or to respond to these changes.

We and our customers are also subject to extensive Brazilian federal, state and local and foreign environmental protection laws and regulations concerning matters such as discharge and emission of substances into the environment, the disposal of hazardous wastes, the remediation and abatement of contaminants and other activities affecting the environment. We currently have several ongoing comprehensive programs to reduce the effects of our operations on the environment. For more information, see “Item 4E. Information on the Company–Property, Plant and Equipment.” Changes to current environmental regulations may demand that we spend additional amounts to enhance our environmental compliance programs. In addition, environmental regulations, such as those requiring the reduction of greenhouse gas emissions, are becoming one of the main drivers of airline fleet decisions, potentially causing our customers to change their purchasing plans or requiring us to make additional capital investments to adapt to new requirements.

The various products manufactured and sold by us must also comply with relevant health and safety and substances and preparations related laws and regulations in the jurisdictions in which we operate. Although we seek to ensure that our products meet the highest quality standards, increasingly stringent and complex laws and regulations, new scientific discoveries, delivery of defective products or the obligation to notify or provide regulatory authorities or others with required information (such as under the EU regulation known as “REACH,” which addresses the production and use of chemical substances) may force us to adapt, redesign, redevelop, recertify and/or eliminate products from the markets in which we operate. Seizures of non-compliant products may be required, and we may incur administrative, civil or criminal penalties. In the event of an accident or other serious incident involving a product, we may be required to conduct investigations and undertake remedial activities.

Any accidents or catastrophic events involving our aircraft could adversely affect us.

We believe that our reputation and the safety record of our aircraft are important selling points for our products. However, the safe operation of our aircraft depends to a significant degree on a number of factors largely outside our control, including our customers’ proper maintenance and repair of our aircraft and pilot skill. The occurrence of one or more accidents or catastrophic events involving one of our aircraft could adversely affect our reputation and future sales, as well as the market price of our common shares and the ADSs.

Risks Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the trading price of our common shares and ADSs.

The Brazilian federal government has frequently intervened in the Brazilian economy and occasionally has made drastic changes in policy and regulations. The Brazilian federal government’s actions to control inflation and affect other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and the trading price of the common shares and the ADSs may be adversely affected by changes in policy or regulations at the federal, state or municipal level involving or affecting factors such as:

- interest rates;
- monetary policies;
- exchange controls and restrictions on remittances abroad (such as those that were imposed in 1989 and early 1990);
- currency fluctuations;
- inflation;
- liquidity of domestic capital and lending markets;

- tax policies;
- energy and water shortages and rationing; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies. These and other future developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and may adversely affect the trading price of our common shares and ADSs.

In addition and as a consequence to the above mentioned, since 2011, Brazil has been experience an economic slowdown. The Gross Domestic Product, or GDP, growth rates were -3.8% in 2015, 0.1% in 2014, 2.7% in 2013, 1.8% in 2012 and 3.9% in 2011, compared to a GDP growth of 7.5% in 2010. In 2016, analysts forecast that the Brazilian GDP will contract 3.5%.

Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of the Brazilian GDP. We cannot assure you that the GDP will increase or remain stable. Developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the use of our products and services.

Currently, Brazilian markets are experiencing heightened volatility due to the uncertainties derived from the ongoing Lava Jato investigation, being conducted by the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. Members of the Brazilian federal government and of the legislative branch, as well as senior officers of large state-owned companies have faced allegations of political corruption. The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether such allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their effect on the Brazilian economy. The development of such unethical cases could adversely affect our business, financial condition and results of operation.

Inflation and government efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and, consequently, may adversely affect the market value of our common shares.

Brazil experienced extremely high rates of inflation during the decade of the 1980s and in the early 1990s. Since 1994, Brazil's inflation has been kept in check. Brazil's annual rate of inflation was 6.5%, 5.8%, 5.9%, 6.4% and 10.7 %, from 2011 through 2015, respectively, as measured by the *Índice Nacional de Preços ao Consumidor Amplo* (National Consumer Price Index), or IPCA. However, there has been a recent increase in inflation as a result of the strong devaluation of the *real* against the U.S. dollar. In 2015, Brazil experienced higher levels of inflation than in recent years. Accumulated inflation measured by the IPCA was 10.7%, the highest rate since 2002. The Brazilian government has begun to introduce policies aimed at reducing inflationary pressures, which may have the effect of reducing the overall performance of the Brazilian economy. Among the effects of such inflationary pressure is a rise in labor costs. Most recently, the Brazilian government has taken certain fiscal actions in order to keep inflation in check. Contracts in our Commercial Aviation and Executive Jets segment are adjusted for U.S. inflation, and major contracts in our Defense & Security segment are adjusted for Brazilian inflation.

Future Brazilian federal government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix value of the *real* may trigger increases in inflation. If Brazil experiences high inflation again, our operating expenses and borrowing costs may increase, our operating and net margins may decrease and, if investor confidence decreases, the price of our common shares and ADSs may fall.

Exchange rate volatility may adversely affect us.

The Brazilian currency has devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods of time has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. In 2012, the *real* depreciated by 8.5% against the U.S. dollar and the *real*/U.S. dollar exchange rate reported by the Central Bank on December 31, 2012 was R\$2.04 per U.S. dollar. Fiscal policy coupled with increased government intervention in certain sectors weighed on the *real* in 2013, which depreciated 13.0% against the U.S. dollar. In the first quarter of 2014, the *real* appreciated by 9.1% against the U.S. dollar. However, from March to December 2014, the *real* depreciated approximately 14.8% against the U.S. dollar, and the exchange rate reported by the Central Bank was R\$2.65 per US\$1.00 at the end of the year. Since December 31, 2014, the *real*/U.S. dollar exchange has continued to depreciate, falling past R\$4.00 per US\$1.00 for the first time in a decade, due mainly to fiscal and political turmoil, signs of economic contraction and high political risk. As of December 31, 2015, the *real*/U.S. dollar exchange rate reported by the Central Bank was R\$ 3.90 per US\$1.00. The *real*/U.S. dollar exchange rate has continued to experience significant volatility in early 2016, mainly due to political uncertainty in Brazil and the performance of the Brazilian economy. As of March 24, 2016, the *real*/U.S. dollar exchange rate reported by the Central Bank was R\$3.69 per US\$1.00. See Item 3A–Exchange Rates and Item 11–Foreign Exchange Risk.

Historically, depreciations in the *real* relative to the U.S. dollar have also created additional inflationary pressures in Brazil by generally increasing the price of imported products and requiring recessionary government policies to curb aggregate demand. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the current account and the balance of payments, as well as dampen export-driven growth. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies.

Although most of our revenue and debt is U.S. dollar-denominated, the relationship of the *real* to the value of the U.S. dollar, and the rate of depreciation of the *real* relative to the prevailing rate of inflation, may adversely affect us:

- Approximately 15% of our total costs are incurred and denominated in *reais*.
- Because taxes on income are largely determined and paid in *reais* based on our Brazilian tax books, the income tax expense (benefit) line item of our statements of income, which has the U.S. dollar as our functional currency, is significantly impacted by appreciation of the *real* relative to the U.S. dollar to the extent we must record deferred taxes resulting from exchange rate fluctuations on the reported basis of our nonmonetary assets (principally property, plant and equipment and intangible assets). Had the *real* devalued or appreciated by 10% against the dollar in relation to the actual exchange rate as of December 31, 2015, the deferred income tax expense would have been higher or lower by approximately US\$130.2 million. For more information, see Note 24 to our audited consolidated financial statements as of and for the year ended December 31, 2015.
- Depreciation of the *real* against the U.S. dollar or other currencies would reduce our *real*-denominated revenues from the Defense & Security segment, when converted to the U.S. dollar as our functional currency.
- Depreciations of the *real* relative to the U.S. dollar would also reduce the U.S. dollar value of distributions and dividends on our ADSs and may also reduce the market value of our common shares and ADSs.

Appreciation of the *real* against the U.S. dollar or other currencies increases the costs of our products when measured in U.S. dollars, and may result in a decrease in our margins.

We may, as a result, be materially and adversely affected by exchange rate variations.

Economic developments and investor perceptions of risk in other countries, including both in developed or emerging market economies, may adversely affect the trading price of Brazilian securities, including our common shares and ADSs.

The market value of securities of Brazilian issuers is affected in varying degrees by economic and market conditions in other countries, including in developed countries, such as the United States and certain European countries, and in emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, the reaction of investors to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers.

Any further downgrading of Brazil's credit rating could adversely affect the trading price of our common shares, ADSs and bonds.

Credit ratings affect investors' perceptions of risk and, as a result, the yields required on future debt issuance in the capital markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

In September 2015, Standard & Poor's reduced Brazil's sovereign credit rating to below investment grade, from BBB-minus to BB-plus, citing, among other reasons, general instability in the Brazilian market caused by the Brazilian government's interference in the economy and budgetary difficulties. Standard & Poor's again downgraded Brazil's sovereign credit rating in February 2016, from BB-plus to BB, and maintained its negative outlook on the rating, citing a worsening credit situation from the time of the September 2015 downgrade. In December 2015, Moody's placed Brazil's Baa3 issuer and bond ratings on review for a downgrade, citing negative macroeconomic trends and a deterioration of the government's fiscal conditions. Subsequently, in February 2016, Moody's downgraded Brazil's issuer and bond ratings to below investment grade, to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's debt metrics in a low growth environment, in addition to challenging political dynamics. Rating agency Fitch also downgraded Brazil's sovereign credit rating to BB-plus with a negative outlook, citing the country's rapidly expanding budget deficit and worse-than-expected recession. As a result, Brazil lost its investment grade status from all three major rating agencies and consequently the trading prices of securities of the Brazilian debt and equity markets were negatively affected. A prolongment of the current Brazilian recession could lead to further ratings downgrades.

As a result of the Moody's downgrade of Brazil's issuer and bond ratings in February 2016, the rating agency also downgraded Embraer's issuer rating from Baa3 to Ba1, below investment grade, as the rating agency largely does not rate issuers higher than one rating notch above the sovereign credit rating of the country in which issuer is located. At this time, Embraer maintains its investment grade rating from Standard and Poor's of BBB, with CreditWatch negative.

Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, increase the future cost of debt issuance and adversely affect the trading price of our common shares and ADSs.

Risks Relating to Our Common Shares and ADSs

If holders of our ADSs exchange the ADSs for common shares, they risk losing the ability to remit foreign currency abroad and Brazilian tax advantages.

The Brazilian custodian for the common shares has obtained an electronic certificate of registration from the Central Bank permitting it to remit foreign currency abroad for payments of dividends and other distributions relating to the common shares or upon the disposition of the common shares. If holders of ADSs decide to exchange their ADSs for the underlying common shares, they will be entitled to continue to rely on the custodian's electronic certificate of registration for five business days from the date of exchange. Thereafter, such holders of ADSs may not be able to obtain and remit foreign currency abroad upon the disposition of, or distributions relating to, the common shares unless they obtain their own electronic certificate of registration or register their investment in the common shares pursuant to Resolution No. 2,689, which entitles certain foreign investors to buy and sell securities on the São Paulo Stock Exchange. Holders who do not qualify under Resolution No. 2,689 will generally be subject to less favorable tax treatment on gains with respect to the common shares. If holders of ADSs attempt to obtain their own electronic certificate of registration, they may incur expenses or suffer delays in the application process, which could delay their ability to receive dividends or distributions relating to the common shares or delay the return of their capital in a timely manner. In addition, we cannot assure you that the custodian's electronic certificate of registration or any certificate of foreign capital registration obtained by a holder of ADSs will not be affected by future legislative or other regulatory changes, or that additional restrictions applicable to such holder, to the disposition of the underlying common shares or to the repatriation of the proceeds from such disposition, will not be imposed in the future.

The Brazilian federal government has veto power over the change in our corporate control, and of our name, trademark or corporate purpose and over the creation or alteration of our Defense & Security programs, and its interests could conflict with the interests of the holders of our common shares and ADSs.

The Brazilian federal government holds one share of a special class of our common stock called a “golden share,” which carries veto power over our change of control, name, trademark or corporate purpose and over the creation or alteration of our Defense & Security programs (whether or not the Brazilian federal government participates in such programs). For example, in 2010, we changed our corporate name to Embraer S.A. and altered our bylaws to allow us to enter the defense and security market, which required the approval of the Brazilian federal government. The Brazilian federal government may veto transactions that may be in the interest of the holders of our common shares or ADSs. We cannot assure you that we will be able to obtain approvals from the Brazilian federal government in the future to effect important corporate changes, such as those carried out in 2010, or other important corporate changes that may be required.

Our bylaws contain provisions that could discourage our acquisition or prevent or delay transactions that you may favor.

Our bylaws contain provisions that have the effect of avoiding the concentration of our common shares in the hands of a small group of investors so as to promote the dispersed ownership of such shares. These provisions require any shareholder or group of shareholders that acquires or becomes the holder of (1) 35% or more of the total shares issued by us or (2) other rights over shares issued by us that represent more than 35% of our capital, to submit to the Brazilian federal government a request for making a public tender offer to purchase all of our shares on the terms specified in our bylaws. If the request is approved, such shareholder or group of shareholders must commence the public tender offer to purchase all of our shares within 60 days of the date of approval. If the request is refused, such shareholder or group of shareholders must sell all of their shares that exceed the 35% limit within 30 days, so that the holding of such shareholder or group of shareholders falls below 35% of our capital stock. These provisions may have anti-takeover effects and may discourage, delay or prevent a merger or acquisition, including transactions in which our shareholders might otherwise receive a premium for their common shares and ADSs. These provisions can only be altered or overridden with the approval of our Board of Directors and our shareholders in a shareholders’ meeting convened for this purpose and, with the consent of the Brazilian federal government, as holder of the golden share.

Our bylaws contain provisions that limit the voting rights of certain shareholders, including non-Brazilian shareholders.

Our bylaws contain provisions that limit the rights of a shareholder or group of shareholders, including brokers acting on behalf of one or more holders of ADSs, to exercise voting rights in respect of more than 5% of the outstanding shares of our capital stock at any general meeting of shareholders. See “Item 10B. Additional Information–Memorandum and Articles of Association–Description of Capital Stock–Voting Rights of Shares–Limitations on the Voting Rights of Certain Holders of Common Shares.”

Our bylaws also contain provisions that limit the right of non-Brazilian shareholders to exercise voting rights in respect of more than two-thirds of the voting rights that may be exercised by Brazilian shareholders present at any general meeting of shareholders. This limitation will effectively prevent our takeover by non-Brazilian shareholders and limit the ability of non-Brazilian shareholders to effect control over us. See “Item 10B. Additional Information–Memorandum and Articles of Association–Description of Capital Stock–Voting Rights of Shares–Limitations on the Voting Rights of Non-Brazilian Shareholders.”

The absence of a single, controlling shareholder or group of controlling shareholders may render us susceptible to shareholder disputes or other unanticipated developments.

The absence of a single, controlling shareholder or group of controlling shareholders may create difficulties for our shareholders to approve certain transactions, because, among other things, the minimum quorum required by law for the approval of certain matters may not be reached. We and our shareholders may not be afforded the same protections provided by the Brazilian Corporate Law against abusive measures taken by other shareholders and, as a result, may not be compensated for any losses incurred. Any sudden and unexpected changes in our management team, changes in our corporate policies or strategic direction, takeover attempts or any disputes among shareholders regarding their respective rights may adversely affect our business and results of operations.

Holders of ADSs may not be able to exercise their voting rights.

Holders of ADSs may only exercise their voting rights with respect to the underlying common shares in accordance with the provisions of the deposit agreement governing our ADSs. Under the deposit agreement, ADS holders must vote the common shares underlying their ADSs by giving voting instructions to the depositary. Upon receipt of the voting instructions from the ADS holder, the depositary will vote the underlying common shares in accordance with these instructions. Otherwise, ADS holders will not be able to exercise their right to vote unless they surrender the ADS for cancellation in exchange for the common shares. Pursuant to our bylaws, the first call for a shareholders' meeting must be published at least 30 days in advance of the meeting, the second call must be published at least 15 days in advance of the meeting, and the third call, if necessary, must be published at least 8 days in advance of the meeting. When a shareholders' meeting is convened, holders of ADSs may not receive sufficient advance notice to surrender the ADSs in exchange for the underlying common shares to allow them to vote with respect to any specific matter. In addition, the depositary has no obligation to notify ADS holders of an upcoming vote or distribute voting cards and related materials to ADS holders, unless we specifically instruct the depositary to do so. If we ask the depositary to seek voting instructions from ADS holders, the depositary will notify ADS holders of the upcoming vote and will arrange to deliver proxy cards to such holders. We cannot assure you that ADS holders will receive proxy cards in time to allow them to instruct the depositary to vote the shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for an untimely solicitation of voting instructions. As a result, holders of ADSs may not be able to fully exercise their voting rights.

The relative illiquidity and volatility of the Brazilian securities markets may substantially limit the ability of holders of our common shares or the ADSs to sell the common shares underlying ADSs at the price and time they desire.

Investing in securities, such as the common shares or the ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may substantially limit the ability of holders of our common shares or ADSs to sell the common shares or the ADSs at the price and time desired. See "Item 9C. The Offer and Listing—Markets—Trading on the São Paulo Stock Exchange."

Holders of our ADSs might be unable to exercise preemptive rights with respect to the common shares.

Holders of our ADSs may not be able to exercise the preemptive rights relating to the common shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares or other securities relating to these preemptive rights, and we cannot assure holders of our ADSs that we will file any such registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our ADSs may receive only the net proceeds from the sale of their preemptive rights by the depositary or, if the preemptive rights cannot be sold, the rights will be allowed to lapse.