

3B. Capitalization and Indebtedness

Not applicable.

3C. Reasons for the Offer and Use of Proceeds

Not applicable.

3D. Risk Factors

Risks Relating to Embraer

A downturn in commercial aviation may reduce our sales and revenue, and, consequently, our profitability, in any given year.

We expect that a substantial portion of our sales in the near future will be derived from sales of commercial aircraft, particularly the EMBRAER 170/190 jet family. Historically, the market for commercial aircraft has been cyclical due to a variety of factors that are both external and internal to the air travel industry, including general economic conditions.

The commercial airline industry has been negatively impacted by a number of factors since 2001. First, the U.S. and world economies experienced an economic downturn that began in 2001 and was characterized by rapid declines in securities markets, a decline in productivity and an increase in unemployment. Second, the terrorist attacks of September 11, 2001 caused an immediate decline in airline travel and a high level of financial uncertainty among the worldwide commercial airline industry.

In addition, airline travel decreased significantly in 2003 as a result of both the commencement of military action by the United States and other countries in Iraq and the concerns over outbreaks of severe acute respiratory syndrome (SARS) in Asia and Canada. In response to these events, beginning in the fourth quarter of 2001, many airlines, including our largest customers, reduced their flight schedules for the long-term and announced significant lay-offs, and a number of airlines filed for bankruptcy protection. As a result, we agreed to modify, between 2001 and 2004, certain delivery schedules to adjust to the changes in our customers' businesses and reduced scheduled commercial aircraft, executive jet and government transportation aircraft deliveries. In 2004, we reduced scheduled deliveries from 160 to 145 aircraft following US Airways' second Chapter 11 filing in September 2004. In 2003 and 2004, we also re-evaluated our risk exposure related to aircraft valuations and customer credit risk, which resulted in charges to income of US\$40.6 million and US\$16.0 million, respectively.

Although the U.S. and world economies showed some signs of recovery starting in 2004, many airlines continued to face increased competition, escalating insurance costs, increased security costs, credit downgrades, liquidity concerns and bankruptcy, and later sharply higher fuel costs.

In the second half of 2007, the economies of the U.S. and many other countries began to experience downturns which were characterized by, among other factors, instability in securities' value and capital markets, instability of currencies, a widespread reduction in demand, sharp reductions in the availability of credit, inflationary pressure.

By the second half of 2008, the additional effects of the severe economic downturns in our markets included significant reductions in air travel and contractions in corporate and personal spending which, as a result, have negatively impacted our product lines. Additional impacts of such downturns on the air transport industry have been a dramatic decrease in orders of executive jets and the lack of financing available to our customers for aircraft purchases, particularly in the commercial and executive aviation segments (see "Item 4B Business Overview-Aircraft Financing Arrangements"). A continuation of a downturn in general economic conditions could result in further reductions in air travel and decreased orders from our customers for our aircraft. Our customers could also defer or cancel their purchases of our aircraft. We cannot, at this time, predict the magnitude or duration of the impact that the above events will have on the air transport industry as a whole and on our business in particular.

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During the three-month period ended March 31, 2009, we reduced our personnel by 20% to reflect the new demand for commercial and executive jets in the current economic crisis. In addition, we also experienced some cancellations of aircraft orders by our customers, including the HNA Group, a Chinese airline, that reduced its firm orders for 50 ERJ 145 regional aircraft, of which 11 had already been delivered, to 25. Although these cancellations have occurred only in our executive aviation business, we cannot guarantee that material cancellations will not occur in the future or that our other businesses will not be affected. Material cancellations, delays or decreases in the number of aircraft delivered in any year in the future would likely reduce our sales and revenue, and, consequently, our profitability for that year.

We depend on key customers and key suppliers, the loss of any of which could harm our business.

Commercial aircraft. As of March 31, 2009, all of our firm orders in backlog for the ERJ 145 regional jet family were attributable to a Chinese company, the HNA Group. The aircraft will be assembled by our joint venture Harbin Embraer Aircraft Industry Company Ltd., formed with Harbin Aircraft Industry (Group) Co., Ltd. and Hafei Aviation Industry Co., Ltd., subsidiaries of China Aviation Industry Corp. II, or AVIC II.

In addition, at March 31, 2009, 57.8% of our firm orders in backlog for the EMBRAER 170/190 jet family were for JetBlue Airways and US Airways from North America, HNA Group from China, Lufthansa from Germany, JAL from Japan, LOT Polish from Poland and Azul, the new Brazilian airline founded by David Neeleman. Furthermore, in 2008 we signed firm orders with the following new clients: Air Moldova from Moldavia, the aircraft leasing company Jetscape, Inc., from the U.S., Regional, a subsidiary of Air France, EgyptAir Holding Company from Egypt, Finnair from Finland, M1 Travel Ltd. from Lebanon, ETA Star Group from Dubai, TRIP Linhas Aéreas from Brazil, Kun Peng Airlines from China, Aeroméxico from Mexico, Nasair Aviation from Saudi Arabia, and NIKI from Austria. We believe that we will continue to depend on a number of key customers, and the loss of any one of which could reduce our sales and reduce our market share. Fewer sales could reduce our profitability.

Increasingly, the commercial airline industry is experiencing consolidation and alliances through mergers and acquisitions and 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 our customers and, possibly, the number of purchases of our aircraft through cost reduction programs or otherwise.

Defense aircraft. The *Força Aérea Brasileira*, or Brazilian Air Force, is our largest customer of defense aircraft products. Sales to the Brazilian government accounted for approximately 42% of our defense and government sales for the year ended December 31, 2008. A decrease in defense spending by the Brazilian government due to defense spending cuts, general budgetary constraints or other factors that are out of our control could decrease our defense and government sales and defense research and development funding. We cannot assure you that the Brazilian government will continue to purchase aircraft or services from us in the future at the same rate or at all.

Key suppliers. Our risk-sharing partners develop and manufacture significant portions of our aircraft, including the engines, hydraulic components, avionics, interior and parts of the fuselage and tail. 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, such as the engines, which cannot be substituted by another manufacturer without significant delays and expenses. This dependence makes us susceptible to the risks of performance, product quality and financial condition of these risk-sharing partners.

We cannot assure you that we will not experience significant delays in obtaining key equipment in our manufacturing process in the future. A large number 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. In 2007, deliveries of equipment for one of our defense products were temporarily suspended due to export control requirements. Although we work closely with and monitor the production process of our risk-sharing partners and 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.

Our aircraft sales are subject to cancellation provisions that may reduce our cash flows.

A portion of our aircraft firm orders is subject to significant contingencies, both before and after 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:

- extended delays in delivering aircraft or failure to obtain certification of the aircraft or otherwise meet performance milestones and other requirements;
- failure of a customer to receive financing, when required, with respect to any aircraft at the scheduled delivery date, in which case the customer can cancel the order for the particular aircraft to be delivered or terminate the contract with respect to all undelivered aircraft; or
- production rate shortfalls.

Our customers may also reschedule deliveries, particularly during an economic downturn. During the three-month period ended March 31, 2009, we experienced some cancellations of aircraft orders by our customers, including the HNA Group, a Chinese airline, that reduced its firm orders for 50 ERJ 145 regional aircraft, of which 11 had already been delivered, to 25. Although these cancellations have occurred only in our executive aviation business, we cannot guarantee that material cancellations will not occur in the future or that our other businesses will not be affected. Material cancellations, delays or decreases in the number of aircraft delivered in any year in the future would likely reduce our sales and revenue, and, consequently, our profitability, for that year. A substantial number of cancellations or extensions of delivery schedules could reduce our sales and revenue for a given year, which in turn would reduce our cash flow.

Our aircraft sales are subject to trade-in options and financial and residual value guarantees that may require us to make significant cash disbursements in the future.

In connection with the signing of a purchase agreement for new aircraft, we may provide trade-in options to our customers. These options provide a customer with the right to trade-in existing aircraft upon the purchase of a new aircraft. In 2008, we were required to accept four aircraft for trade-in and at December 31, 2008, eight additional commercial aircraft were subject to trade-in options to be exercised until 2010. Other aircraft may become subject to trade-in due to new sales agreements. The trade-in price is determined in the manner discussed under "Item 5A. Operating Results—Critical Accounting Estimates—Guarantees and Trade-In Rights" for commercial aircraft. We may be required to accept trade-ins at prices that are above the market price of the aircraft, which would result in financial loss for us when we remarket the aircraft.

We have in the past guaranteed, and may in the future 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, in the 15th year after delivery, the relevant aircraft will have a residual market value 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 18% of the original sale price. In the event of an exercise by a purchaser of its residual value guarantee, we will bear the difference between the guaranteed residual value and the market value of the aircraft at the time of exercise.

Assuming all customers that 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 under these guarantees (less provisions and liabilities) would have been US\$1,870.1 million as of December 31, 2008. For further discussion of these off-balance sheet arrangements, see Note 35 to our audited consolidated financial statements. We have deposited US\$299.7 million in escrow accounts to secure a portion of our financial guarantees. Based on current estimates, we believe that the proceeds from the sale

or lease of the covered aircraft (based on resale value as of December 31, 2008) and from other offsetting collections, such as cash deposits, would be US\$2,013.5 million as of December 31, 2008. As a result, we would be obligated to make substantial payments that are not recoverable through proceeds from aircraft sales or leases, particularly if in the future, we were 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.

We continually re-evaluate our risk for the 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, including information developed from similar aircraft remarketing in the secondary market, and the credit rating for the customers. For example, the last time we recorded a charge against income in connection with financial guarantees was in 2004, when we recorded an amount of US\$16.0 million based on our risk assessment, on an individual aircraft basis, for the corresponding issued guarantees. Any future decrease in the market value of the aircraft covered by trade-in rights or financial guarantees would decrease our ability to recoup 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 trade-in or financial guarantee 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 government-sponsored customer financing, or increase in government-sponsored financing that benefits our competitors, may decrease the cost-competitiveness of our aircraft.

Historically, when purchasing our aircraft, our customers have benefited from export financing incentives provided by Brazilian government-sponsored export programs. The most important of these government programs is a system of interest rate adjustments called the *Programa de Financiamento às Exportações* (the Export Financing Program), or ProEx program.

As a result of past disputes between the Canadian and Brazilian governments at the World Trade Organization, or WTO, regarding the granting of export subsidies relating to sales of aircraft, the Brazilian government ultimately amended the ProEx program so that any ProEx payments would not decrease the effective interest rate below the interest rate permitted by the WTO and the Canadian government has also made changes to their financing arrangements for sales of aircraft by Bombardier, a Canadian aircraft manufacturer.

Although the ProEx program is currently in compliance with WTO rules, other export financing programs available to our customers may be subject to challenge in the future. If the ProEx program or another similar program is not available in the future, or if its terms are substantially reduced, our customers' financing costs could be higher and our cost-competitiveness in the regional jet market could decrease.

Any future government subsidies supporting any of our major competitors may cause the cost-competitiveness of our aircraft to suffer and our sales to decline.

In July 2007, Brazil and the Organization for Economic Co-operation and Development, or OECD, countries entered into an agreement to establish a "level -playing field" for official export financing support of aircraft. Export Credit Agencies, or ECAs, from signatory countries are required to offer the same financial terms and conditions when financing sales of competing aircraft. The effect of the agreement is to focus on the price and quality of aircraft products offered by aircraft manufacturers rather than on the financial packages offered by their respective governments. As a result of the agreement financing support by the Brazilian government to the potential purchasers of our aircraft will contain similar terms and conditions offered by Boeing, Airbus and Bombardier to such purchasers. By the end of 2007, the *Banco Nacional de Desenvolvimento Econômico e Social* (Brazilian Social and Economic Development Bank), or BNDES, started to offer financing to our customers under terms and conditions required by the agreement. To the extent we do not continue to maintain the pricing advantage and quality of our aircraft, our future sales may be negatively affected. In addition, aircraft manufacturers from countries which are not signatories to the agreement may be able to offer financing packages which will negatively affect the cost competitiveness of our products.

Brazilian government budgetary constraints could reduce amounts available to our customers under government-sponsored financing programs.

From 1996 through 2008, approximately 28% of the total value of our exports sales was subject to financing by BNDES. As a government agency BNDES relies on funds allocated by the Brazilian national budget. We can not assure you that the Brazilian government will continue to provide sufficient funding in the national budget for the financing of our aircraft or that other sources of funding will be available to our customers in the market. The loss or significant reduction of funds available to our customers, without an adequate substitute, could lead to fewer sales and result in lower profitability for us.

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

As we continue to develop new products, we may need to reallocate existing resources and coordinate with new suppliers and risk-sharing partners. 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 reoccurs, we may be unable to recruit 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 impede our development efforts and cause delays in production and deliveries of our aircraft, which would delay recognition of revenue.

We 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 have to refund cash contributions in connection with the production or development of the EMBRAER 170/190 jet family, the Phenom 100/300 family and the Legacy 450/500 family if certain milestones for each of these aircraft are not reached.

We have arrangements with our risk-sharing partners, pursuant to which they have contributed to us, in cash, a total of US\$397.9 million in 2008 and we expect to receive an additional US\$303.7 million in future years for the development of the Phenom 300 and Legacy 450/500 family. Cash contributions do not have to be returned by us to the risk-sharing partners if we fulfill certain milestones agreed with our risk-sharing partners. In 2008, US\$353.6 million of these cash contributions had become nonrefundable. If we cancel the production of any aircraft in the EMBRAER 170/190 jet family or of the Phenom 100, or the development of the Phenom 300 or of the Legacy 450/500 family because we are unable to obtain certification or for other nonmarket related reasons, we may be required to refund US\$44.3 million of the total cash contributions already received. We expect the certification of the Phenom 300 to be granted in the second half of 2009. The Legacy 450/500 executive jets are expected to enter into service in 2013 and 2012, respectively.

If we require additional financing and we are unable to obtain it, we will not be able to continue to develop and market our Phenom 300 and Legacy 450/500 aircraft family.

We face significant international competition, which may adversely affect our market share.

The worldwide commercial aircraft manufacturing industry is highly competitive. We are one of the leading manufacturers of commercial aircraft in the world, along with The Boeing Company, Airbus S.A.S. and Bombardier Inc., all of which are large international companies. Certain of these competitors have greater financial, marketing and other resources than we do. Although we have attained a significant share of the market for our commercial aircraft products, we cannot assure you that we will be able to maintain this market share. Our ability to maintain market share and remain competitive in the commercial aircraft manufacturing market over the long term requires continued technological and performance enhancement to our products. 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 and benefits from government-sponsored export subsidies. In addition, other international aircraft manufacturers, including The Boeing Company and Airbus S.A.S., produce or are developing aircraft at the high end of the 70-120 seat category, in which our EMBRAER 170/190 jet family competes thereby increasing the competitive pressures in that

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category. These companies also have significant technological capabilities and greater financial and marketing resources. Additionally, Chinese, Russian and Japanese companies are developing mid-capacity jets and already have firm orders in backlog.

As a relatively new entrant to the business jet market, we also face significant competition from companies with longer operating histories and established reputations in this industry. Some of our competitors in the business jet market may also reach the market before we do, allowing them to establish a customer base and making our efforts to gain greater market share more difficult. We cannot assure you that we will be able to compete successfully in the business jet markets in the future.

We may have to make significant payments as a result of unfavorable outcomes of pending challenges to various taxes and payroll charges.

We have challenged the constitutionality of certain Brazilian taxes and payroll charges, as well as modifications and increases in the rates and basis of calculation of such taxes and charges. Interest on the total amount of these unpaid taxes and payroll charges accrues monthly based on the Selic rate, the principal lending rate of the Central Bank, and we make an accrual as part of the interest income (expenses), net item in our statements of income. As of December 31, 2008, we had obtained preliminary injunctions permitting us not to pay certain taxes, in the total amount, including interest, of US\$332.1 million, which is included as a liability (taxes and payroll charges) on our balance sheet. We are awaiting a final decision in these proceedings. We cannot assure you that we will prevail in these proceedings or that we will not have to pay significant amounts, including interest, to the Brazilian government in the future as payment for these liabilities. For an additional discussion of these liabilities, see Note 17 to our audited consolidated financial statements.

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 number of seats, weight of aircraft and number of 50-70 seat commercial aircraft in an airline's fleet. As a result, our opportunities for near-term growth in the U.S. regional jet market in the 30-60 and 60-90 seat categories 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.

We are subject to stringent certification requirements and regulation, which may prevent or delay our obtaining certification in a timely manner.

Our products are subject to regulation in Brazil and in each jurisdiction where our customers are located. The aviation authorities in Brazil and in other countries, in which our customers are located, including the *Agência Nacional de Aviação Civil*, or Brazilian aviation authority, the U.S. Federal Aviation Authority, or FAA, the Joint Aviation Authority of Europe, or JAA, and the European Aviation Safety Agency, or EASA, must certify our aircraft before we can deliver them. We cannot assure you that we will be able to obtain certification of our aircraft on a timely basis or at all. If we fail to obtain a required certification from an aviation authority for any of our aircraft, that aviation authority can prohibit the use of that aircraft within its jurisdiction until certification has been obtained. In addition, complying with the requirements of the certification authorities can be both expensive and time-consuming.

Changes in government regulations and certification procedures could also delay our start of production as well as entry into the market with a new product. We cannot predict how future laws or changes in the interpretation, administration or enforcement of laws will affect us. We may be required to spend significantly more money to comply with these laws or to respond to these changes.

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Any catastrophic events involving our aircraft could adversely affect our reputation and future sales of our aircraft, as well as the market price of the common shares and the ADSs.

We believe that our reputation and the safety record of our aircraft are important selling points for our products. We design our aircraft with backup systems for major functions and appropriate safety margins for structural components. 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 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 government has frequently intervened in the Brazilian economy and occasionally has made drastic changes in policy and regulations. The Brazilian 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; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian 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.

In addition, in October 2006 elections were held in all states of Brazil and at the federal level to elect state governors and the president. The re-elected president has, to date, largely continued the policies of his previous administration; however, it is impossible to predict how new policies that may be adopted by the president or by the state governors would affect the Brazilian economy or our business.

Historically, the political scenario in Brazil has influenced the performance of the Brazilian economy in the past; in particular, political crises have affected the confidence of investors and the public in general, which adversely affected the economic development in Brazil.

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.

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 the common shares and ADSs.

Brazil experienced extremely high rates of inflation in the past. More recently, Brazil's annual rate of inflation was 1.2% in 2005, 3.8% in 2006, 7.7% in 2007 and 9.8% in 2008 as measured by the *Índice Geral de Preços - Mercado* (General Market Price Index), or IGP-M. Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Actions taken to combat inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets.

Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences high inflation again in the future, 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 instability may adversely affect our financial condition and results of operations and the market price of the common shares and ADSs.

Although most of our net sales and debt are 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.

As a result of inflationary pressures, among other factors, the Brazilian currency has devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The exchange rate (R\$/US\$) increased by 9.3% in 2000 and 18.7% in 2001. In 2002, the exchange rate (R\$/US\$) also increased 52.3%, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the exchange rate (R\$/US\$) decreased 18.2%, 8.1%, 11.8%, 8.7% and 17.2% in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008 it increased 31.9%. No assurance can be given that the *real* will not appreciate or depreciate significantly against the U.S. dollar in the future.

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. 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 may also have an adverse impact on the competitiveness of our products as approximately 13% of our production inputs, including labor costs, are incurred and denominated in *reais*. Therefore, appreciations 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.

Economic developments and investor perceptions of risk in other countries, including emerging market countries, 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 to varying degrees by economic and market conditions in other countries, including other Latin American and 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. For example, the occurrence in 2008 of the global economic crisis has had a global impact on the world economy and capital markets. Such crisis is evidenced by instability in securities' value and capital markets, instability of most currencies, a widespread reduction in demand, a credit crunch, inflationary pressure, and other factors that could adversely affect our financial condition and diminish investor's interest in securities of Brazilian issuers, including ours. Future crises in other countries could adversely affect the trading price of our common shares and ADSs, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

Risks Relating to our Common Shares and ADSs

If holders of 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 government has veto power over change of control, change of name, trademark or corporate purpose and over the creation or alteration of our defense programs, and its interests could conflict with the interests of the holders of our common shares or ADSs.

The Brazilian government holds one share of a special class of our common stock called a "golden share," which carries veto power over change of control, change of our name, trademark or corporate purpose and over the creation or alteration of our defense programs (whether or not the Brazilian government participates in such programs). The Brazilian government may have an interest in vetoing transactions that may be in the interests of the holders of our common shares or ADSs.

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 make a public tender offer to purchase all of our shares on the terms specified in our bylaws, or to sell all of such shareholders' shares that exceed the 35% limit, in either case, as required by the Brazilian government. If the request is approved, such shareholder or group of shareholders must commence the public tender offer within 60 days of the date of approval. If the request is refused, such shareholder or group of shareholders must sell such number of common shares within 30 days so that the holding of such shareholder or group of shareholders is less than 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 government, as holder of the golden share.

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 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.

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

Our bylaws contain provisions that limit the right 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. 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. Memorandum and Articles of Association–Description of Capital Stock–Voting Rights of Shares–Limitations on the Voting Rights of Non-Brazilian Shareholders.”

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

Holder of ADSs may only exercise their voting rights with respect to the underlying common shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, ADS holders must vote by giving voting instructions to the depository. Upon receipt of the voting instructions of the ADS holder, the depository 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 eight days in advance of the meeting. When a shareholders’ meeting is convened, holders of ADSs may not receive sufficient advance notice to surrender the ADS in exchange for the underlying common shares to allow them to vote with respect to any specific matter. If we ask for voting instructions, the depository will notify ADS holders of the upcoming vote and will arrange to deliver the proxy card. We cannot assure that ADS holders will receive the proxy card in time to ensure that they can instruct the depository to vote the shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. As a result, holders of ADSs may not be able to exercise their voting rights.

The relative volatility and illiquidity 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.