

**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.

Although the U.S. and world economies have recovered gradually from 2008 crisis, airlines continued to face decreased passenger yields due to increased competition, escalating costs, credit downgrades, liquidity concerns and bankruptcy.

Economic downturns in our industry may reduce air travel demand and corporate and personal spending, which may negatively impact our product lines. Additional impacts of such downturns on the air transport industry have included a decrease in orders of executive jets and a decrease in the volume of financing available to our customers for aircraft purchases, particularly in the Commercial Aviation and Executive Jets segments (see “Item 4C. Information on The Company–Business Overview–Aircraft Financing Arrangements”). A continued 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 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.

In February 2009, we laid off approximately 20% of our labor force as part of our efforts to reposition Embraer in view of the global economic downturn. The cost of these layoffs was US\$61.3 million. In addition, we also experienced aggregate cancellations of 60 aircraft orders by several of our customers. For more information on aircraft cancellations, see “Item 3D. –Our aircraft sales are subject to cancellation provisions that may reduce our cash flow”.

We cannot assure you 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 revenue and backlog.

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

***Commercial aircraft.*** As of December 31, 2013, 88% of our firm orders in backlog for the EMBRAER 170/190 jet family were from the airlines Skywest, American, United, Republic, JetBlue and Flybe, and the leasing companies ILFC and Aldus. We believe that we will continue to depend on a select number of key customers, 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 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.

**Defense aircraft.** The *Força Aérea Brasileira*, or Brazilian Air Force, is our largest customer of defense aircraft products. Revenue from sales to the Brazilian federal government accounted for more than 71% of our Defense & Security revenue for the year ended December 31, 2013. A decrease in defense spending by the Brazilian federal government due to defense spending cuts, general 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 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 engine, which cannot be substituted by another manufacturer without significant delays and expense. This dependence of ours on these key suppliers 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 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. 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.

***Our aircraft sales are subject to cancellation provisions that may reduce our 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:

- 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 honor its aircraft purchases; or
- production rate shortfalls.

Our customers may also reschedule deliveries or cancel orders, particularly during an economic downturn. In 2013, we had revenue of US\$40.8 million related to contractual fines charged from customers due to contract cancellations, compared to contractual fine charges of US\$41.7 million in 2012 and US\$67.1 million in 2011. 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 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 in the future.***

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, 15 years after the aircraft delivery date, the relevant aircraft will have a residual market value equal to a percentage of the original sale price. More recently, residual value guarantees have been issued to ensure a residual market value 10 years after the aircraft delivery date. 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.

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\$810.7 million (or, subtracting provisions and liabilities already recorded in the amount of US\$155.3 million as reflected in Note 25 to our audited consolidated financial statements, US\$655.4 million) under these guarantees as of December 31, 2013. 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 in the future 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 37 to our audited consolidated financial statements.

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 existing Embraer aircraft upon the purchase and acceptance of a new aircraft. We had one trade-in option outstanding in 2011, which was cancelled in 2012, before it was exercised. In 2013, we accepted 15 aircraft, with a total value of US\$118.1 million, for trade-in pursuant to trade-in options signed in 2012, with respect to 7 aircraft and 2013, with respect to 16 aircraft. As a result, we are currently subject to trade-in options relating to 8 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 above the market price of the aircraft, which would result in financial loss for us when we remarket 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 this respect, based on our risk assessment of Mesa's Chapter 11 filing, in 2009 we reserved US\$74.4 million of collateral in the form of cash deposited in escrow in recognition of estimated losses that at the time we had classified as probable with respect to financial guarantees extended by us in connection with sales of our aircraft to Mesa.

In 2011, we made a total net provision of US\$362.8 million related to exposure from financial guarantees and residual value guarantee obligations. Of this amount, US\$107.4 million was accounted for under financial (expenses) income, net, and, therefore, did not impact our operating margin. The remaining US\$255.4 million was accounted for under other operating income (expenses), net, and, therefore, impacted our operating margin for the year. In 2013 and 2012, we made additional provisions of US\$6.7 million and of US\$6.0 million, respectively, which are accounted for under operating income (expense), net. In the fourth quarter of 2013, a total of US\$180.7 million positively impacted operating results, recognized in the other operating (expense) income, net account. The US\$180.7 million comprised a provision reversal of US\$109.3 million, coupled with a US\$71.4 million payment reversal, which we had already made on these financial guarantees.

Any future 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 increase in government-sponsored financing that benefits our competitors, may decrease the cost-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. After the “credit crunch” in 2008, the participation of ECAs grew in importance, playing a crucial role in the aviation industry.

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.

***The Brazilian federal government may reduce funds available to our customers under government-sponsored financing programs.***

From 2004 through 2013, approximately 20% of the total value of our Commercial Aviation export deliveries was subject to financing support by the BNDES and the Export Guarantee Fund (*Fundo de Garantia à Exportação*), or FGE, a special fund linked to the Ministry of Finance and managed by the BNDES to foster exports. We cannot ensure that the Brazilian federal government will continue to provide sufficient 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 fewer deliveries 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 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 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 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\$737.0 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, 2013. A portion of these cash contributions would have to be refunded by us to the risk-sharing partners if we had failed to fulfill certain agreed-upon milestones. The full amount of these cash contributions had become nonrefundable during 2013, as we had met all the required milestones.

Although, currently, no cash contributions from our risk-sharing partners are refundable, in the future 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 our market share.***

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 (i.e., regional and mid-capacity 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 you 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. 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, in some instances, benefits from government-sponsored product development subsidies. 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. Also, some of our competitors in the business jet market may reach the market with their product before we do, allowing them to establish a customer base and frustrating our efforts to gain greater market share. 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.

***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 financial expenses, net item in our statements of income.

As of December 31, 2013, there was a US\$232.0 million provision recorded as a liability on our statement of financial position in connection with litigation contingencies that we classify as probable losses. 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 federal government in the future as a result of these proceedings.

***We may be required to pay substantial fines and/or to incur other sanctions as a result of an inquiry by the U.S. Securities and Exchange Commission, or SEC, and U.S. Department of Justice, or DOJ, concerning the possibility of non-compliance with the U.S. Foreign Corrupt Practices Act.***

We received a subpoena from the SEC and associated inquiries from the DOJ into the possibility of non-compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, in September 2010, which inquired about certain operations concerning sales of aircraft abroad. The internal investigation and related government inquiries concerning these matters remain ongoing and we, with the support of our outside counsel, have concluded that it is

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still not possible to estimate the duration, scope or results of the internal investigation or related inquiries by relevant authorities. In the event that the authorities take action against us with respect to these or any related matters that may arise in the future, or we enter into an agreement to settle such matters, we may be required to pay substantial fines and/or to incur other sanctions or liabilities. See “Item 8A. – Consolidated Statements and Other Financial Information–Legal Proceedings.”

***Our business, financial condition and results of operations could suffer as a result of current or future regulatory proceedings and/or litigation.***

We are subject to risks relating to legal, governmental and regulatory proceedings and/or investigations to which we are currently a party or to which we may become a party in the future. Such proceedings and/or investigations involve, among other things, non-compliance with labor and tax regulations and/or alleged or suspected violations of applicable laws. For additional information with respect to specific proceedings see “Item 8A. – Consolidated Statements and Other Financial Information - Legal Proceedings.” Under certain circumstances we either record a provision for risks arising from legal disputes and proceedings or report possible contingent liabilities, as per Notes 23 and 26 to our audited consolidated financial statements. There can be no assurance that the results of these or any other proceedings and/or investigations will not materially harm our business or reputation. In addition, each of these risks may have a material adverse effect on our financial condition or results of operations, and our provisions for legal proceedings-related losses may not be sufficient to cover our ultimate losses or expenditures.

### **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 76 seat commercial jet 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.

***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 in those regions. 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 use 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 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. 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 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 effect 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 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.

***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 and ADSs.***

Brazil experienced extremely high rates of inflation during the decade of the 1980s and in the early part of the 1990s. Since 1994, Brazil's inflation has been under control. More recently, Brazil's annual rate of inflation was 4.3%, 5.9%, 6.5%, 5.8% and 5.9%, from 2009 through 2013, respectively, as measured by the *Índice Nacional de Preços ao Consumidor Amplo* (National Consumer Price Index), or IPCA. Although inflation rates in Brazil are under control to a certain extent, there continues to be some inflationary pressure as a result of the strong expansion of the Brazilian economy in recent years. Among the effects of such inflationary pressure, labor costs have risen. More recently, the Brazilian government has taken certain fiscal actions in order to keep inflation under control.

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 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 our common shares and ADSs.***

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.

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 federal 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.

For example, in 2002, the *real* to U.S. dollar exchange rate increased by 52.3% due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the R\$ to US\$ exchange rate decreased by 18.2%, 8.1%, 11.8%, 8.7%, and 17.2% in 2003, 2004, 2005, 2006, and 2007, respectively, in 2008 it appreciated by 31.9%, mainly as a result of the global economic crisis. In 2009 and 2010, the *real* to U.S. dollar exchange rate decreased by 25.5% and 4.3%, respectively, mainly as the effects of the global economic crisis on the Brazilian economy appeared to be less severe than in other parts of the world. In 2013 and 2012, such rate increased by 14.6% and 8.9%, respectively. No assurance can be given that the *real* will not appreciate or depreciate significantly against the U.S. dollar in the future. See "Item 3A.—Exchange Rates."

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 25% of our total costs are incurred and denominated in *reais*. Therefore, appreciations of the *real* against the U.S. dollar or other currencies increase the costs of our products when measured in U.S. dollars, and may result in a decrease in our margins.

In addition, 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 appreciations 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).

***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. For example, the 2008 global economic crisis has had an impact on many economies and capital markets around the world. This crisis was evidenced by instability in the value of securities and capital markets, stock and credit market volatility, instability of most currencies, unavailability of credit, higher interest rates, a widespread reduction in demand, a general economic slowdown and other factors that could adversely affect our financial condition and diminish investors' 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, diminish investor interest in securities of Brazilian issuers, including our common shares and ADSs, and make it more difficult for us to access the capital markets and finance our operations on acceptable terms or at all.

#### **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 our change of control, 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 or 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 in the future.

***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 such shareholder’s 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.

***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.

***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.”

**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 depository. Upon receipt of the voting instructions from 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 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 depository 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 depository to do so. If we ask the depository to seek voting instructions from ADS holders, the depository will notify ADS holders of the upcoming vote and will arrange to deliver proxy cards to such holders. We cannot ensure that ADS holders will receive proxy cards in time to allow them to instruct the depository to vote the shares underlying their ADSs. In addition, the depository 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.

There is also significantly greater concentration in the Brazilian securities markets than in major securities markets in the United States. See "Item 9C. The Offer and Listing—Markets—Trading on the São Paulo Stock Exchange."

**The sale of a substantial number of common shares, or the belief that this may occur, could decrease the trading price of the common shares and the ADSs; holders of our common shares and/or ADSs may not be able to sell their securities at or above the price they paid for them.**

Sales of a substantial number of common shares, or the belief that this may occur, could decrease the trading price of our common shares and ADSs. As a consequence of sales by existing shareholders, the market price of the common shares and, by extension, the ADSs may decrease significantly. As a result, the holders of the ADSs and/or common shares may not be able to sell their securities at or above the price they paid for them.

**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