

Q3 2016 Earnings Call

Company Participants

- Andre Luis Rodrigues, Managing Director, Financial Superintendent
- Luis Fernando Oliveira, Investor Relations
- Paulo Polezi, Director of Finance and Investor Relations Officer

Other Participants

- Alexandre Falcao, Analyst
- Carlos Louro, Analyst
- Daniel Magalhaes, Analyst
- Fernando Latum, Analyst
- Juan Tavaréz, Analyst
- Lucas Brendler, Analyst
- Lucas Marquiori, Analyst
- Marcio Prado, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and welcome to the conference call of WEG to discuss the Earnings of the Third Quarter 2016. We would like to inform you that this conference call is being recorded, and that all participants are in listen-only mode at this time. Later on, we are going to start the Q&A session when further instructions would be provided (Operator Instructions) We are simultaneously webcast this conference call together with the slides on the website of Investors Relations of WEG at www.weg.net/ri. We would like to remind you that this conference call is being recorded, and after its completion, the audio is going to be available on our IR site. Journalist should forward their questions to the press relations 47-3276-4295.

Any forward-looking statements made in this document or statements eventually made during this conference relating to WEG's business perspectives, projections and operating and financial goals, and to WEG's potential future growth are based on management beliefs and expectations, and rely on information that is currently available. Forward-looking statements involve risks, uncertainties and therefore depend on circumstances that may and may not occur. Investors should understand that general economic conditions and other operating factors may affect WEG's future performance and lead to results that will materially differ from those in such forward-looking statements.

We would like to remind you that this conference call will be conducted in Portuguese with simultaneous translation into English. Today, with us in Jaragua do Sul are Mr. Andre Luis Rodrigues, Managing Director, Financial Superintendent; Paulo Polezi, Financial and Investor Relations Officer; Wilson Watzko, Controller Officer; and Luis Fernando Oliveira, Investor Relation Manager.

Now, we are going to turn the call to Mr. Rodrigues. You may go on.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. Once again, it is a pleasure to be with you for this conference call to discuss the earnings of the third quarter '16.

Starting with the main highlights of the quarter in item one, we are going to talk about revenues. And with regard to that, we continue to face a business environment that is quite difficult. Overseas, we have loan growth and important segments continue to suffer with low prices, without investments for expansion and modernization. In Brazil, there is no additional retraction, quite the contrary, the expectation is for the Brazilian economy to pick up, there are some movements of the government that has cheered[ph] the economy, especially it reflects in the exchange rates, and that gives us a belief that the situation is going to get better. So there is reason for cautious optimism, but in practice, there hasn't been a change yet.

In this regard, in this quarter, net operating revenues dropped 12.1% compared to the previous year, part, because of the poor performance in Brazil and also the negative impact of the exchange rates in the exchange of currencies.

On the third -- our second highlight is the operational adjustments we are conducting. We still have an unfavorable environment, so we have to preserve margins and returns, keeping our capacity to react. We think as well as the whole of the market that, there is reason to be cautiously optimistic, but while that, we have to preserve margins and returns. In recent quarters, we showed resilience in our EBITDA margin. In this quarter, as proof that, we are on the right path, we improved reaching margin of 15.1%, net income shows stability compared to the second quarter '16 with margin of 11.5% with slight recovery. Closing, the third highlight, we highlight our discipline in the use of capital and investments of our cash. And we would like to highlight two points, we continue to gain efficiency in managing our operating working capital with evident results in cash generation, and we adjusted the speed of organic expansion to optimize the use of our capacity.

I close my introduction, and turn the floor to Paulo Polezi to continue.

Paulo Polezi {BIO 19468811 <GO>}

Thank you, Andre. Good morning, everyone. I'm now going to slide number four to give details on the behavior of our revenues in the different markets this quarter. I'll start with the domestic market. Yes, after recent political changes, there was no additional retraction. In practice, there was still not a positive effect, and the environment continued difficult. In some segments, we are able to recomprise our sales prices with transfer of more elevated costs, but without setting up for the effect of the drop in volumes.

Then in the domestic market, we saw drop of 8.9% compared to 3Q '15. Outside of Brazil, we continue to face a market of low growth and retracted investment, especially in commodities, as mining and oil. However, it's important to remind you that, this is normal environment, although difficult, there is diversification works intact[ph] as a tool to reduce risks. So revenues in the foreign market showed drop of 14.5% compared to 3Q '15, in Brazilian reais, a drop of 6.6% in dollars, and 1.6% in the respective local currencies.

In business areas, we can see that the performance in industrial electric-electronic equipment continue to be affected by low economic growth and consequent restriction in global industry investments. Important markets, as mining and oil are suffering with the drop in price in commodities and have an effect in the supply chain. So to grow, we have to explore new markets and new products. In Brazil in turn, we have positive expectations, but in practice, very little changed as Andre mentioned.

The recovery of investment that will be long and gradual in our opinion is that with more series products of short-cycle. and we will expand from them. In equipment for generation, transmission and distribution of energy, GTD, the pace for new orders in Brazil is too low, but we have a

portfolio that enables us to keep our performance right now. The scenario for the expansion of electric energy supply starts to change, and there is reason to be moderately optimistic. This is also the environment for transmission and distribution with slow current pace, but good prospects.

Finally in the foreign market, the pace is the same, with quarterly revenues oscillations based in the delivery of transit.

As for Domestic Motors, the Brazilian market continues at a low level, and if there is no recovery, there is no additional drop. The changes and oscillations overseas are normal for this type of business. For Paints and Varnishes, this is also an industry without major changes. And we still depends on the performance of the Brazilian industrial sector. And we continue to explore new markets and applications for our products.

Going on to slide number five, we can see the evolution of our EBITDA. As we have reinforced along 2016, our focus is fully to preserve margins and returns and ensuring our competitiveness. In the current environment, we are limited by the weak performance sale, that affects the cost of transformation and dilution of fixed cost. And therefore, we have an absolute drop of 14.4% in EBITDA compared to the 3Q '15.

But the main causes for the reduction of margins last year have had their impact quite reduced or even to zero this year, because we went back to what we could call our usual behavior. Our preservation efforts are already yielding results, so that we improved our margins, and we had 15.1%.

We expanded the reduction of work hours and salaries into November, preserving our jobs and capacity to react to the market. The normalization of conditions in Brazil will enable us to go back to our usual standard of margins.

As for financial results on slide six, the most important point is that, once again, our operations of hedge worked very well. And the financial results continues positive, reaching approximately BRL65.9 million.

WEG continues to find options that are quite attractive for its indebtedness. This is the result of a very solid capital structure. In this quarter, we raised approximately \$200 million in trade finance operations, specifically, the (inaudible) operations of BNDES.

Going to slide number seven. Here, you can find an analysis of our cash flow. Cash generation in operating activities reached 1.589 million approximately year-to-date and first nine months of the year. We highlight consistent gains of efficiency in managing our working capital, more than affecting the difficulties of the weak demands of the Brazilian market. Investment activities consumed BRL702 million in the period, with a decrease in the pace of disbursements of investments and showing our concern to optimize our production capacity and maximize returns over invested capital.

Financial activities and fund consumes BRL\$1.43 million approximately in the period, with net funds of 139 million in loans and the financing. Finally in slide number eight of our presentation, which show the investments to expand our capacity in the past seven quarters. Investments in expansion and modernization reached BRL243 million in the first nine months of 2016, with highlights for the projects of the new electric motor plants in Mexico and China.

We should close 2016 below the amounts that was previously estimated for the year of BRL470 million. Our expectation is that, this amount will be close to the depreciation expenses accumulated in the year. Since our investments to increase capacity have a model of characteristics, we'll continue to monitor the performance of market and seek to maximize return over the capital investment.

Now I'm going to turn the call back to Mr. Rodrigues to talk a bit about future prospects.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Well, closing the presentation and before going to questions, I'd like to once again reinforce some points. First, the environment in Brazil still in transition. There is reason for cautious optimism in Brazil, with important reforms being proposed, but the behavior so far indicates that the recovery is going to be slow and long. Overseas, there is expectations of some recovery investments in capacity, even growing little, there are opportunities, and we'll continue to seek these opportunities for new products and markets.

And it's only possible to seek new opportunities, because our positioning in face of the circumstances we described is to keep consistency and focus on adjustments and preserve our capacity of (Technical Difficulty) adjustments and preserve our capacity of reaction. This is what brings the necessary competitiveness to preserve our margins and [ph]EBITDA. To close, and even the information that is not in our results release, we announced yesterday, the acquisition of the wind generation technology called utility-scale that we have been licensing since 2013, that shows our commitment and trust in this market.

We'll now open for Q&A. Thank you very much. Please operator, you may go on.

Questions And Answers

Operator

Ladies and gentlemen, we'll now start our Q&A session. (Operator Instructions) Our first question comes from Daniel Magalhaes from Credit Suisse.

Q - Daniel Magalhaes {BIO 19231638 <GO>}

Good morning, everyone. Congratulations on your results, and thanks for taking my call. My first question is about the transmission auction to be held. These auctions to be a bit more an appealing for investors. And the first one is going to be tomorrow. I would like to know WEG's expectations with regard to those auctions. And if you could quantify something, and give us an idea of time, when we could have some reflexes for that. I'm going to ask my second question later on. Thank you.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Hi, Daniel. this is Luis Fernando. Thanks for your question. Difficult to quantify, first, that this is a very good expectation, we do have high expectations for the auctions, the regulation is evolving, this is very clear. And we believe that those that are (inaudible) the auction are going to have a very good conditions to invest. The investments are becoming clearer, and that gives us a better prospect, even for us that our suppliers of equipment.

But indeed, quantifying that before the chicken has laid their egg is a bit complicated. But it is a very large auction, that has very good prospects, we are talking about almost BRL12 billion in investments during the lifetime of projects. Of course we are not going to capture all that, we are much more concentrated in energy substations, which is our focus, but it is a market that is mature enough for us to have high expectations to take part in the business that is equivalent to our market share in the T&D market. We are one of the leaders in the market in Brazil, and I don't see why not think about our participation in the auction is going to be similar to that, and maybe 35% to 45 -- to 40% of the market. I think this is what we should expect, it can even be a bit better eventually.

Q - Daniel Magalhaes {BIO 19231638 <GO>}

Very good. Thank you very much. My second question is about the acquisition that you announced yesterday in wind energy. From what we saw on the website of Northern Power Systems website. It seems that, they are having a negative EBITDA margin, about minus 10%. And they are having net losses in recent quarters. So I would like to know, how you are going to reverse the situation, if you had the specific factors that cause that. And what is the strategy behind the acquisition?

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Well, just to make it clear we did not buy Northern Power Systems. We bought this technology of one of the products that they had developed, and they had in their portfolio. So we bought the portfolio of patience and knowhow for this product that we recently introduced in Brazil as of three years ago.

That we have not acquired NPS, NPS continues to be a company in operation, it is a state-owned company -- I'm sorry, it's a public company that's why you found the information online, and it is a company that continues to operate.

We already had a partnership with them in 2015. It was a licensing agreement works for the whole of South America, and we have information release at that time. And now we decided, we saw the opportunity of acquiring the technology and bringing it to Brazil.

And by doing so, we are more in control of the technological destination of this property in terms of adjusting the production process, talking about gains in productivity, redesigning, everything's are lot more simple made[ph] So the engineering team is going to be comprised by bank employees are still based in the (inaudible) we are talking about more than 60 patents altogether. So basically, this is what it is. NPS continues to be a company in its home, and we do not have any prospect to reverse their result. They are completely independent. It's a possible partner for future businesses in the future, if all works out well.

Q - Daniel Magalhaes {BIO 19231638 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Lucas Marquiori from Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Hello, everyone, good morning. I have 2 questions. First, with regards to the foreign markets. I would like to understand the information about the growth in foreign and local currency. In the second quarter, you had achieved[ph] business growth, and in the third quarter, you had some drop. So I would like to know which geography or which industry most contributed to this drop?

The second question, still talking about NPS, I understood that this is the purchase of one technology. So the question I have is as following. The idea of having the technology in the hands of the WEG, but does it have to do with an objective of making the products more international, growing to new markets, maybe exploring new projects overseas, I would like you to give a bit more color on that.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, Lucas, I'm going to start with your second question. Well, quite honestly, yes, it (inaudible) will have been in the release talks specifically about that, this licensing that we had this licensing that we had was for the whole of South America, but we are thinking of using this product in other geographies, and it was certainly one of the driver for the acquisition of this technology. We do see

opportunities to apply the same technology in markets in which we are already present with reasonable share.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

And this is Andre speaking. Answer your first question, I think that we have to be a bit careful with short-term analysis. I think that we are not losing sales for competitor overseas or in the market. Just for you to have an idea, North America, things are not bad, even with the American market performing below our expectation. In Europe, we have seasonally weaker third quarter, this is something that we already knew. South Africa is also depends on the commodities market that has been weak. And China, we are following our clients, our plan and our clients (inaudible) I think this is one time number, and I think that we should always look at things at a longer period.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Carlos Louro from JPMorgan.

Q - Carlos Louro {BIO 17325073 <GO>}

Good morning. Thanks for your call. I have two questions. The first is that, it seems that the economy is picking up. Are you already feeling some improvements in terms of placement of orders for the next quarter. And second, do you have any relevant opportunity to cut costs.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

I'm going to start with the first. We have to be very cautious, as we has been talking since beginning of this call. We have to think of the different sectors. When we talk about the economy picking up, loan cycle factors are the one that are going to have a faster pick up, because they are based on maintenance, and that's where recovery starts. So electric-electronic equipment is probably going to recover faster, because we are having a shorter cycle. For long-cycle especially, when you are talking about GTD, excluding wind energy, of course. These are factors that demand more time in investment, they demand some expectation of hope about the economy as a whole expectation of hope about the economy as a whole to really go back to historical levels.

So what we are saying is basically that's a short-term or short-cycle products are going to pick up faster.

So we believe the Brazilian economy is going to (inaudible) and the fact that WEG work with a diversification of products and sectors enabled us to be able to be a bit more resilient in such atypical moments we are going through. So once again, compared to what we have seen in recent quarters, we do not have a situation that is completely different. But we believe that the short-cycle products are showing some recovery, and they will be followed by long-cycle products. And so I think that this has to do with the first question that was asked in this call. The auctions, we have an auction tomorrow. And in December, we are going to have another auction, more focused on renewable energy. The second question, what was it?

Q - Carlos Louro {BIO 17325073 <GO>}

Cost.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Yes. Well, a cost in WEG is something that we are always looking at. We are very much paying attention to that, we are constantly developing program and what we won is to do everything that is in line with our practic. It becomes a sign that we had to implement a reduction of work hours to

offset the economic downsides, we have to do that. And we in this case, has the approval of our employees at 83%. In the beginning, we thought of having this reduction for a shorter period. That's looking into what was going on, we decided to extend it a bit more. It's going to be over in November now. And of course, we adjusted the number of employees whenever necessary along the year, and we are always going to pay attention to that.

When we talk about reduction of cost opportunities, we talk about only to work with fixed cost. There are several initiatives that have to do with improving our variable cost, production indexes. And so all that is we implementing and bringing good results for WEG altogether.

Q - Carlos Louro {BIO 17325073 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Daniil Fedorov[ph] from Goldman Sachs

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning, everyone. This is Marcio Prado, in fact. I have two questions. The first, Andre has just talked about that, but anyhow, I would like to talk a bit more about cost. In the third quarter, revenues were weaker not only year-on-year, but also quarter-on-quarter, and so margin was much better compared to the second quarter. So Andre already talked a bit about initiatives, but if you could give a bit more color on the dynamics -- quarter-on-quarter. Is the improvement of margin is related to the facts that you had down sign of employees, just for us to know what cause this improvement of margins quarter-on-quarter?

And my second question is with regards to the transmission auction. The [ph]first are we able to make some estimate, Luis, Andre could you talk a bit about that. When we think about investment project, every BRL1 billion for a transmission line, do you have a pocket mix, how much WEG equipment would compared to the investment of a line that is, what would be the investments of transmission equipment for that? Luis mentioned the market share of 40%, but could give a bit more detail on that. Just for us to know the size of equipment in a transmission line?

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Well, first, let me answer the costs.

Well, first, this is a process in which we address all lines. When we talk about improving productivity, even improving consumption in the excess, WEG has some initiatives with the use of Six Sigma projects that address the organization as a whole, taking for more efficiency. When we talk about reduction of fixed cost, direct or indirect production costs, then you have adjustments, and we talked about the reduction of working hours, we don't think that we need additional adjustment, because we want to keep our capacity to react, but it was a great opportunity, I'm going to give you an example. If we do not work two days in a month, we are able to renegotiate several contracts, if no one works on a Friday we do not need cleaning services on a Friday. And so, we took advantage, and took a look at all our contracts, and we try such to seek optimization, and we were quite successful, and even more, all service agreements. With that[ph], we also had a work group, and we try to renegotiate all of them, and to see the real need of high range of services and so on.

So the results that we are seeing, our margin is not a reflect of the cost of production of certain equipment. It was the whole thing, and when we analyze our variable in variable costs and expenses, we had improvements in the whole thing.

And unfortunately, investments in transmission are a bit more complicated. In generations, a bit easier, if it were hydraulic plant, we would know how much share we would have in the investments, in biomass, a bit better et cetera. But in transmission lines, it's a bit more complex. It depends on lots of things. The distance of the line, and all the things make any kind of mess a bit more complicated to have a pocket row is very complicated, and it will vary a lot from project to project.

Q - Marcio Prado {BIO 15398968 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Alexandre Falcao from HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. I have two questions. The first with regard to provision. After two quarters, with even reversal of provisions, you had an increase both in inventory and accounts receivable, of course in labor as well. I would like to know if this is the level that we are going to see that from now on, if it was a normal uptake or not, the percentage of revenues was 1.1% which was quite above what we saw in previous quarters. This is my first question.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Hi, Falcao. Thanks for your question. Okay. We are considering that, provisions are following the policies that we have in place that demand distribution. We had some exceptional things this quarter related to provisions in labor, and focusing on previous notice and the release of the workers compensation funds. When you downsize, that sometimes you have to lead to a bit more conservative in some of your labor-related provision. So out of normal in this quarter was just that, so to speak. What's benefited the second quarter was some reversal you mentioned about that, that's all. the rest is quite ordinary. And you can compare to year-to-date last year compared to this year, if we were to have a projection, we would be slightly above what was the whole of last year.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you very much. The second question is with regard to margins. I would like to know, what's your thinking about margins for the fourth quarter and next year? So clearly, you are improving your margin. If you are not above, you are slightly below the guidance that you provided in the beginning of this year. How about the fourth quarter and next year? But now you are at a comfort level probably much better than when you gave the guidance?

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Well, thank you, Falcao. Well, comfort level that's the average, where we are not quite comfortable to be quite honest. It's a very tough day-to-day fight for us to be able to get these numbers. Our expectations is to have the margin of 2016 close to 2015 is still below our historical level. 2015 was a worst margin, and in 2016, along the year, we have been able to improve it, but we are not comfortable with that.

We have struggled a lot and worked very hard for that. This is our expectations. We do not know, if we are going to get to the same level of last year. We do not have a guidance of margin, we really don't know, we are working, this is our goal, it is our direction. But it's something that we are working.

What is important I think is that we are working with a normalization of market. Margins of 14%, 15% are still below the usual standards that we have had along the year. And why is that? So because we know in the last two, three years, Brazil is out of the curve, so diversification is very important,

but is really did not fully work. But as the market normalizes, our margins will be normal again, and we'll go back to historical levels. The global environment is still difficult. The world is growing little. And in this type of environment, we are not going back to margins of EBITDA[ph] of 22% as we had in 2007-2008. We do not expect that not even in the long-term, but we are going back to normal, back to usual. Now are we going to be able to see that in 2017? Let's hope so. But this is not what we are working with. We are working with with what the market can offer, and the margin is whatever we can get.

What is important is our competitive business, and having better margins than our competitors. This means that, we are better at getting orders, and we are better at choosing what's best for us.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Can I ask just one more follow-up. I would like you to talk a bit about this tariff review in transmission companies that is going to happen in 2018. Some companies are reactivating CapEx in 2017 to recompose their asset base, but maintenance, investments, are you getting these contracts, are you working with them, and what's the margin of this contract? And do you think this can yield an important amount?

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Not yet. We are -- seeing changes, even in the funding of this sector. This sector was very much relating a single spending source. They are diversifying, so it's a whole transition going on, but we have good expectations in terms of production capacity, technical capacity and products, we are ready and we are talking. That is still a market in terms of order backlog is to be seen. We hope that this is clear in this quarter, third[ph] quarter.

Q - Alexandre Falcao {BIO 5515455 <GO>}

And how about the margin in this sector. Is it higher?

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Yes. This is the trend, so long-cycle products, they are affected by price. It is the price that we were just demand. When you have some more heated demand, this trend is for prices to pickup and those margins, but it will be a gradual recovery as well.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Fernando Latum from Hoya Corretora.

Q - Fernando Latum

Good morning. Thanks for the call. Congratulations on your results, very good results. I'd like to know the following. Can we activate your crystal ball, and tell me what you see for 2017 in each of the sectors that you operate in?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Our crystal balls are bit cloudy, unfortunately, seriously. The key words is back to normal. Brazil is not going to grow 4% next year, this is not what we expect. We want to go back to normal, what we cannot is to have minus for growth, as we had last year. In a normal environment, even if you're growing little, some segments are growing more than the others that are not growing, and we are going to focus on those that are growing more.

And we can do the best with the opportunities that we have available to us. This is our track record, if you take a look at the company, historically, the company has been able to find opportunities, when you have an economy that is operating at normal pace. So if Brazil has a normal market, we'll find opportunities, and we are going to see growth, specifically by sectors. It seems clearly that our investments that are being postponed, especially in the industry, we believe that the investments in maintenance especially will come back little by little.

We are going to see more elaborate investments to remove bottlenecks, to improve capacity, and some greenfield projects. This was the natural pact, and this is what we have witnessed historically. And we have reason, as Andre said to be optimistic, and this is what our optimism look like. We believe that this is going to be clear in 2017.

Q - Fernando Latum

And just one more question. Does WEG have a share? And I ask that out of curiosity.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

In the automotive industry, -- in the electric part of the automotive industry, we do have products that are developed for the industry. We have -- on our corporate website, a page talking about the product, we have the bus traction, ship traction products. We have been developing this area for some time, and we are part of the technological development in Brazil. But this is an area that, we are still looking into -- to know how fast this market is going to grow, and what kind of share we would have in this market. For now, we are focused on the traction of large vehicles and - passenger cars.

Q - Fernando Latum

Okay. Thank you very much.

Operator

Our next question comes from Lucas Brendler from GF, Geracao[ph] Futuro

Q - Lucas Brendler {BIO 5662278 <GO>}

Hello. Good morning, Andre, Luis. I'd like to hear your opinion in something that we see more and more talk about, which is intelligence energy. The WEG is supporting the development of clean energy. And we believe that the business is quite embrionary [ph] in the country, but it has some major potential to develop. However, we see that utility companies are not doing their homework to adapt to this type of energy for the technology to really spread. Do you have any idea of when this is going to be economically feasible for the companies to invest? I would like to hear your opinion on that.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, Lucas, you're correct. This is a trend, and it is a clear trend, a smart grid is a technology to come. It will effectively the energy generated, transmitted and consumed. It effects all the parts of the business. As you include more technology and a centering in the process, and this is what it is about. Some people call it Internet thing for dot zero companies, the smart grid, but they're all the same thing.

In Brazil, we have a problem that is triggered to that, which is that the electric sector decapitalize. It went through a very difficult period as of 2012, and there was a clear preference for a tariff that decreased the capacity of companies to invest.

And today, there are several pilot projects. We were the first to develop the smart meters in Brazil. A solution that was recently certified by (inaudible) we already have a client. But we are still talking

about pilot projects as regulators, and regulations evolve to make investments more appealing. I think they will come. The next investment will consider the concept of smart -- in the energy. But when you talk to companies that are in the GTD industry, do they talk about that? Oh yes, all the time. But so we have to have enough capital to make investments. Any are we doing[ph] in terms of time. Well, we still have to settle the basic problems of the industry. We have generation that does not have transmission lines yet. So for you to have smart grid, first you have to have energy. So as the sector is more sustainable, this is going to happen.

Q - Lucas Brendler {BIO 5662278 <GO>}

Okay. Thank you very much.

Operator

Our next question in English comes from Juan Tavaréz from Citigroup.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi. Thank you, good morning, everyone. My first question is, just to touch on the acquisition again, that you did recently. I want to understand a bit, as you're changing here from owning the company versus licensing the technology, how does that impact your operating results within your wind segment? Should we start to see the margins impacted? And also in this acquisition, where they are already licensing to other competitor of yours? Should we expect a revenue stream from this portfolio of technology?

My second question is more on the adjustments you've been doing in work hours. Just to get some clarity there, if it was owned in Brazil, are you starting to make adjustments abroad as well? Thanks.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

The answer is going to be translated (inaudible) for right review. Well, just going back, we have not acquired the company, we acquired the technology. So it is thing between licensing the technology, and holding the patent of the technology. This is the difference. We have a small initial impact, we no longer pay licensing fees. In fact, we -- it's not that we are not to see the events of the payment, we had lower payments to be made through NPS, and we acquired the technology advancing of the fee that we had to pay them.

So in this sense, we have a marginal impact or almost non-existent. We have just minor advantage there. As per cost, it can be a bit more relevant. So this is something that is going to happen along time. Lessen the impact on margins, I think it has a an impact on competitiveness, that is, we are more competitive, more agile to develop new products that are more appealing to our clients in the end of the day. And for the reduction of work hours, well this is impacting Brazil alone. It is very much focused on units in the region of Santa Catarina Brazil, not even whole units in Brazil are following the same program, and I'll give you an example.

In (inaudible) units, where our greatest focus is the production of motors for the appliance sector, we are running our business as usual without any reduction in work hours. So even with the appliance sector in Brazil being a bit affected, we are being able to import -- we are being able to just working out with imports that we had and keeping the plants in collaboration.

Operator

We now have a plan -- question coming from the web. The question is do you want to review your 20 year plan, because of this lack of growth in 2016?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Well, the answer is in 2016, we are basically focused on preserving margins. Our 2020 plan is still our north, so we believe that we can get to it, but I don't know, if we are going to get to the 20 billion in 2020, perhaps 2021, 2022, but what we want is to reach this number without just decreasing the value of the company. So we haven't reviewed the plan. But clearly in 2016, the focus was not growing revenue.

Operator

(Operator Instructions) Our next question comes from (inaudible) from (inaudible)

Q - Unidentified Participant

Hello, Luis.

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Hello. Yes (inaudible)

Q - Unidentified Participant

I am sorry to insist on margins, but I still have a question. I see that electric-electronic products in this quarter, although, it went down compared to the third quarter '15, you had an increase of share in your revenue. Can you consider that influence that, this has influenced your margins?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Certainly. All those things happened. But certainly, the major impact is those efforts also reduced cost, and decreasing work hours is certainly the most relevant initiative. The limiting factor is that we can (inaudible) market and our difficulty is to dilute fixed cost, and having a appealing transformation costs. Our product mix is improving marginally, but it's still far from ideal. There are other things that have an impact, but thus far, this was the greatest impact.

What Andre mentioned in terms of changing our cost structure and additional programs.

Q - Unidentified Participant

And one more question. For the transmission auction, the BNDES said that, they would finance part of the project, then it said, it wouldn't. And then it talks about, just financing machinery and equipment. Can you confirm that your equipment could be financed by the BNDES?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Just a second (inaudible). I don't know, if I understood your question. What's the line are you talking about?

Q - Unidentified Participant

In the transmission auction?

A - Luis Fernando Oliveira {BIO 15985519 <GO>}

Oh, yes, oh, certainly. Our equipment will certainly be financed. What BNDES said was to decrease the percentage finance in T&D projects. And as we've said, the T&D sector is going through a transition, and we have to have a different financing structure that was used until a [ph]year ago. And just to add, the major beneficiary was financing to solar energy that had an increase in the share of taxes over interest, all the rest is basically the same.

And our equipment is fully funded by the BNDES.

Q - Unidentified Participant

Okay, thank you very much. We are now closing the Q&A session. I would like to turn the call back to Mr. Andre Luis Rodrigues for his final consideration.

A - Andre Luis Rodrigues {BIO 17964192 <GO>}

Well, thank you very much once again, and see you next time.

Operator

WEG conference call is now closed. We thank you very much for your participation. Have a good day, and thanks for using chorus call.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.