

Y 2021 Earnings Call

Company Participants

- Andre Luis Rodrigues, Chief Financial Officer
- Andre Meneguetti Salgueiro, Finance and Investor Relations Officer

Other Participants

- Daniel Gasparete, Analyst
- Fernanda Recchia, Analyst
- Lucas Barbosa, Analyst
- Lucas Laghi, Analyst
- Marcelo Motta, Analyst
- Renata Cabral, Analyst
- Rogerio Araujo, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, and welcome to the WEG Conference Call for the Earnings of the Fourth quarter of 2021. We inform you that we are transmitting this conference call accompanied by the slides in our Investor Relations website at the web address, ri.weg.net. And after it finishes, the audio will be available in our Investor Relations website. (Operator Instructions)

Any predictions contained in this document or any statements that may be made during this call about future events, business prospects, projections and operating and financial goals of the company and the potential future growth of WEG are based on beliefs and expectations on company's management based on information currently available. Such statements involves risks and uncertainties and therefore they depend on circumstances, which may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of WEG and conduct to results that differ materially from those expressed in such forward-looking statements. We would like to remind you that this conference call is being held in Portuguese with simultaneous translation into English.

With us here at Jaragua do Sul, are Andre Luis Rodrigues, General Director, Financial and Administrative Officer; Wilson Watzko, Controller, and Andre Salgueiro, Finance and Investor Relations Officer.

Mr. Rodrigues, you may continue.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Good morning, everyone. It's a pleasure to be here with you once again for the earnings conference call of WEG. Well, let's start with the highlights of the quarter, when the net operating revenue grew by 33.7% when compared to the fourth quarter of '20. The continuation of the economic recovery worldwide was a material fact for the results presented with an increase in demand for industrial equipments in several regions important where we operate in the international market. Good performance in providing solutions related to renewable energy equipment has also contributed significantly, especially Brazil, where solar and wind power generation businesses had a significant growth when compared to the same period of last year.

Another highlight of the quarter was EBITDA which grew by 14.7%, reaching BRL1.1 billion. The EBITDA margin closed the quarter at 17.2% with a drop of 2.9 percentage points when compared to last year. This movement was expected due to the increases in cost of materials, and also to the mix of products sold. Throughout the presentation, Andre Salgueiro will give more details about this performance.

Finally, we had another quarter of development of ROIC when compared to the same period of last year, as we'll see better in the next slide. It has grown by 5 percentage points when compared to the fourth quarter 2020 reaching 30.5%. The improvement in our operating performance shown by the combination of the growth of revenue and EBITDA margin more than offset the higher need for working capital and increase in investments in fixed assets in the period.

Now I turn the floor over to Andre Salgueiro.

Andre Meneguetti Salgueiro {BIO 22483393 <GO>}

Thank you, Andre. On the Slide 5, I'll show the development of our business areas in the markets we operate. Starting with Brazil, where the activity in industrial electro-electronic equipment continued positive in this quarter. We had a good demand for short-cycle products such as low voltage motors, reducers and zero automation equipment with the highlights for these segments of agricultural machine and equipment, water and sanitation. Sales of long-cycle products such as medium voltage electric motors and automation panels have also grown, especially in mining and pulp and paper industries.

In the area of GTD, we presented a growth in virtually all businesses, especially with the gradual return of sales for wind turbines, distributed solar generation kits and electric generators for other energy sources. The T&D business also delivered high levels driven by large transformers and substations for projects related to transmission auctions along with sales of transformers for distribution and industrial networks.

Commercial and appliance motors, despite the good sales volume presented in segments of food and beverage and agribusiness, leveling the demand for motors

destined to the segment of appliances, such as washing machines, impacted the performance of this quarter. As anticipated, this movement was expected after a strong recovery seen in the second quarter of 2020. In paints and varnishes, the demand can -- remained hard with the highlights for the segments of road tools and agricultural tools.

In the international market, the performance of electro-electronic and industrial equipment was influenced by the resumption of industrial investments in the last quarters. We noticed an important increase in sales of short-cycle equipment for equipment manufacturers, the OEMs, with pulverized demand among the several industrial segments. Long-cycle equipment have also increased in sales confirming the signs of recovery of our order portfolio reported in the last quarters with improvement in sales in general, and new orders and projects in the segments of iron, gas, mining and water and sanitation.

In GTD, we presented another positive quarter with important T&D projects happening in strategic areas for WEG such as North America and Africa. In commercial and appliance motors, we've seen a continuation in the growth for the demand of our products explained by the acceleration of the economic recovery and gain of market share in United States and Mexico. Pumps and compressors were the highlights of this quarter. Finally, in paints and varnishes, sales grew in Latin American countries, such as Chile through exports from Brazil and in Mexico where we started our operations of our new plant of paints in the end of 2020.

On Slide 6, we see the development of EBITDA in the fourth quarter of '21 with a growth of 14.7% when compared to the same period of last year. EBITDA margin closed the quarter at 17.2%, presenting a reduction of 2.9 percentage points when compared to the fourth quarter of 2020 confirming our expectations regarding this movement. The challenges in the global supply chain with the consequent increase of cost of raw materials, along with a change in the mix of products, especially due to the revenue from projects of wind power resulted in a reduction of operating margins in this quarter.

Finally, on Slide 7, we show the development of our investments. In 4Q '21 investments reached BRL321.3 million, 52% in Brazil with higher concentration in projects to increase capacity, improve processes and productivity gains at Jaragua do Sul plant and full-year 48% to units abroad continuing investments in our plants in the United States, India, China and Mexico. Confirming the acceleration, an increase of investments expected for the second half of the year.

With this, I end my part, and I turn over to Andre.

Andre Luis Rodrigues {BIO 17964192 <GO>}

Before we move on to the Q&A session, I would like to speak about some of our last achievements and comment on our prospects for the remainder of the year. With regards to our achievements, I would like to highlight the following things. First, we were selected for the 10th consecutive year to be part of the ISE Index of B3. that's an important

acknowledgment of the culture of efforts regarding responsibility and sustainability of the company's business.

We announced recently new investments to increase capacity. In Brazil, the expansion of the Linhares plant, in Espírito Santo state, with an investment of BRL178 million to be executed up to 2023 focusing on commercial electric motors. And the new plant in Santo Tirso in Portugal dedicated to manufacture in special industrial electric motors of low or rather medium and high voltage with an estimated investment of EUR23 million and expected to be completed by 2024.

In 2021, we closed with very positive results despite the challenging scenario. We recorded a record growth of 34.9% in annual net revenue reached an EBITDA margin consolidated of 19.9%, adjusted by non-recurring effects of ICMS credit on the calculation basis of PIS and COFINS, and it reached 18.6%. Despite the challenges in the global supply chain and constant increases in cost of raw materials throughout the year, we managed to maintain profitability at the same level of 2020, and a ROIC of 30.5% which is a very important indicator for the company.

Finally, on the prospects for the remainder of the year, we expect to have another year of growth of revenue, especially due to the positive portfolio of long-cycle equipment globally both in industrial electro-electronic equipment and GTD. The good prospects for short-cycles in the external market and the development of new businesses and new areas we entered. It's important to highlight that the prospects of higher interest rates and lower growth of GDP in Brazil can impact the demand for products of short-cycle throughout the year. Our operating margins should remain healthy, but possibly with some volatility due to dynamic of business of WEG. To support the current levels of growth, we approved a capital budget of BRL1.5 billion, which is significantly higher than the one realized in the latest years due to the increase for the production capacity, that will be conducted in Brazil, the United States, Mexico, India, Portugal and China, and due to the postponement of some projects of 2021.

I now end the presentation. Please, we can move on to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Daniel Gasparete from Credit Suisse.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Good morning, everyone. Thanks for the call. I have two questions. Most, I would like to understand how do you see the margin in 2022? In the conversations we had, we see a consolidated EBITDA margin similar to 2021, except for the non-recurring events, and usually the first quarter is a bit lower. So how do you see the composition of margin throughout the year, and where, would it come from price adjustments or some changes? That's the first. And the second question, I would like to talk a bit about GD, we see fourth

quarter in the domestic market a bit slower in activity, I would like to understand whether that was a reflex of the supply chain that affects the dynamic of sales of the fourth quarter, and how do you see 2022 if in change of the regulatory framework, there will be some change in that? Thank you.

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

Hello, Daniel. This is Andre Rodrigues speaking. I'll talk about margins expectations for the beginning of this year. Well, the first point to highlight is that our margin analysis is always looking at longer periods. We are careful enough to say that there may be variations among quarters. So the right thing to do is to make the analysis with longer periods in mind. The things that could have exert pressure on margins remain the same. Nothing has changed since what we said throughout last year. We still have a pressure from increase in costs and mix of products, especially the return of wind turbines. That has more significance in revenues, could exert pressure on the margins in the year.

On the other side, the positive aspects are the acceleration of the demand in the international market, and also the composition of sales prices that could help to recompose the margins. We don't provide guidance regarding margins, but I can tell you that we will continue to work to deliver margins above the market average. And right now, in the beginning of the year, we do not expect the year margin to be reduced in addition to what was seen in 2021.

A - Andre Meneguetti Salgueiro {BIO 22483393 <GO>}

Gasparete, good morning. This is Andre Salgueiro speaking. Thank you for the questions. As for the solar generation, in your question of GD, in fact the business has evolved and grown for some time now. But when we look at the fourth quarter more specifically, there was the effect of supply chain on it and I would like to remind you that way back in the beginning of the fourth quarter, around October-November, we had the closing of a port in a harbor in China and the energy crisis, that caused some impacts, especially in October and November. But in December that went back to normal. And so we entered 2022 with that chain reestablished. It was a very specific thing that happened in the first two months of the quarter. Today, we don't have that concern anymore.

As for the second part of your question, yes, there was the law was enacted in the beginning of the year. According to the new law, the projects implemented throughout 2022 continue with the full benefit until 2045. So people are really trying to anticipate some of these projects. So we do expect some pre-buy, some larger purchases because of these anticipation of purchases. But these change in the regulation started in the end of 2019, so many people already made their purchases in expectation of the enactment of the law. So this could have some effect during this year, but we don't know yet exactly how much.

Q - Daniel Gasparete {BIO 17999254 <GO>}

Okay. Thank you very much for your answers.

Operator

The next question comes from Rogerio Araujo from UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning, everyone. Andre Salgueiro, thank you for the opportunity. I would like to explore a bit more this acceleration in revenue growth that we've seen, especially in the international market and mainly driven by industrial electro-electronic segment. Based on your orders portfolio, do you see an incremental acceleration during the next quarters or has the sales level reached the high level and will remain close to that? And still about revenues, wind has a low comparable basis, so what would like to understand when the equipment will be delivered again, so we can have comparable basis? And finally if you could give us an update how are the segments with high growth potential within WEG such as wind and the solar outside Brazil, electric vehicles, the share of industrial segment outside Brazil especially Europe, transformer in the United States is, does it still have a high growth potential? And any other division, which I may have forgotten to mention, if you could just give some detail about that so we can understand this acceleration in growth if it could come from any of these divisions? Thank you.

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

Hello, Rogerio. Thank you for the question. Let's start talking about the dynamics of the foreign market. I think it's too early to talk about an additional acceleration as compared to what we have now, we said during the slide presentation that the external market has had a performance that was better than we expected. In the second half of 2020, we said, after the pandemic we may have in international market with the same performance of revenues post-pandemic in 2021 as we had in 2019. And surprisingly, it was better. and that was due to some reasons. First, we said that in short -- in long-cycles, I'm sorry, in long-cycles, we start this year as we started 2021 with a very good portfolio for our high voltage vehicles in the external market and T&D, but when we look at other areas of WEG industrial equipments, for example, I may say that important areas of our industrial business continuing to recover, such as the United States and Europe, the demand for our products is very scattered among our manufacturers of machines and equipment.

So it's different to point out which industry is growing more, but we know that important segments for the demand of long-cycles such as oil and gas and mining is at a high, internationally. We have also disclosed to you the development of new segments such as water and sanitation abroad, that has helped, and the company has positioned itself to grow abroad, working to increase capacity and opening commercial companies in other countries. We started with an organization in Kazakhstan, Poland, we are finishing the low voltage motors plant in India. When we see the TD, we see a positive demand in our products and solutions, especially in production and transmission in North American generation, in Europe, and India. This is what is explaining the good performance we have internationally.

A - Andre Meneguetti Salgueiro {BIO 22483393 <GO>}

This is Salgueiro speaking Rogerio. As for wind, revenues have returned starting at the end of the second quarter of last year, and then it's continue to grow. The third quarter was a bit better and the fourth quarter increased, and we said in the past that sales in 2021 would be an important part of the first contract that we disclosed to the market with

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Alianca. For 2022, we have announced the backlog that's complete for the year. The portfolio currently goes up to half of 2023, due to that we have a positive expectation for wind projects throughout 2022 even for future years. The demand of the market is high, and we believe this business will continue to develop in the short and medium-term.

As for your last question, we addressed many -- you addressed many topics, but let me see if I can explain. We separate in three main avenues of growth. The first is going international, internationalization and the growth of business that are mature for WEG in Brazil, and we have the opportunity to grow abroad, such as the plant of low voltage industrial motors in India, we expanded TD capacity in the United States, Andre mentioned some examples of commercial activities. So we're working on mature businesses such as industrial area, automation generation.

So yes, there is a lot of opportunity to be pursued in the mature businesses of the company. When we move to new businesses, which is where we concentrate our developments right now, the main are the three ones we always mention, electric mobility, which is a large development here in Brazil in terms of powertrains for heavy duty electric vehicles and recharge stations, there is these energy storage business, which is also growing here in Brazil, with focus in Brazil and the United States and digital business. So these are the main opportunities. And just to complement, the renewables area is also an area that we are well established here in Brazil. So we're looking for opportunities abroad. And the wind turbines in India is an example, they are now being certified, and we expect it to be finished until the end of this year and then we'll start the sales process. And then the solar energy area, we're trying to go international starting with Latin American countries.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect. That's very clear. Thank you, Andre Salgueiro.

Operator

The first question is from Lucas Laghi from XP Investments.

Q - Lucas Laghi {BIO 20757425 <GO>}

Good morning, Andre Rodrigues, Salgueiro. So I would like to understand pricing, have you made any increase in prices in the second half of 2021? What do you expect to do in the first half of 2022, in what segments, maybe motors, maybe appliances, so I would like to understand the price positioning in these segments? And the second point is, when we look at the revenue turnover when compared to invested capital, it is at the highest level of recent years which indicates a good utilization of capacity. So you're at the capacity level close to its limit, especially here in Brazil. If this CapEx 65% higher for 2022 is necessary to increase capacity despite the increase in raw material prices. So follow-up on margin and the capital investments. Thank you.

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

Hello, good morning, Lucas. I don't know if everyone had the same problem, but for us, your voice was chopping, we're not so sure if we understood 100% your question. But the first point is a follow-up on margin including price composition, if so, I can talk about that. And the second one is about the capacity and uses of plants and the CapEx, we're seeing for expansion in coming years. Please confirm if this is what you asked.

Q - Lucas Laghi {BIO 20757425 <GO>}

Yes. The margins and CapEx budget close to the limit today.

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

Okay. We still have a hard time understanding you, but let's address those points. Okay, in terms of price and recomposition of margins, what we always say is that the industry usually is a pass-through regarding some costs, especially materials, and obviously in short-cycle. Short-cycle are products for which we have a price list. So from time to time when needed we try to readjust prices, and we have been doing that since 2020. The long-cycle, we also adjust prices and costs, but when we speak of projects then because they are projects involved, it takes longer. So you update costs for the new projects and the pipeline is being delivered and with time we have equalization of prices. So looking from that point of view, you can also check that on the breakdown of cost of materials over the total of costs. So in theory that should resume normal levels along the next quarters.

As for your second question, in fact, we are operating today with the capacity with a high level, and high growth utilization of our capacity is high and the high level of revenue, we had historical highs in 2021. If we consider the exchange rate in 2019, BRL4.95, we can see that we have -- this is the year we have grown the most. we've had investments, The CapEx in '21 was almost BRL850 millions, and now for 2022 we approved A capital budget of BRL1.5 billion. We always say that we may not be able to deliver 100% of the approved budget. But that's the goal given the need for investments in order to continue to increase capacity to meet the growth in demand that we see at the end, that growth will happen both in Brazil and abroad.

Q - Lucas Laghi {BIO 20757425 <GO>}

Okay, perfect, Andre. That's it. Thank you.

Operator

The next question comes from Lucas Barbosa from Santander.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning, everyone. Congratulations on the earnings. Thank you for the question. My question is about working capital. There have been large increases and a large portion of it is an inventory of products in work-in-progress and exports. So there has been a high increase in inventory levels. Any specific thing in products that are in production that has affected inventory levels, and then process of import, any global

things. If you could explain what happened and talk about normalization, if you expect any accommodation or leveling for this year?

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

Lucas, good morning. So let's talk about working capital, and despite the increase that happened in the last quarters, our working capital is somewhat lower than historical levels that WEG has always presented. This, for sure, there was an increase in inventory, which I will talk about shortly, but the improvement in the long-cycle dynamics has helped in the average term of trade receivables and advances from customers to offset that. In the last quarter, there was an increase in inventories, and the reason for that is highly concentrated on increase of costs and implicit inflation in our inventories, also due to the pandemic, in order to ensure that no client would have problems in receiving our products we anticipated the purchase of components, given the volatility of the global supply chain. And in some cases difficulties with freight, which delayed many deliveries, so they concentrated and arrived at the end of the year. So as I said, to ensure the needs of manufacturing inputs, we increased our safety inventory levels are -- in some areas, which led to an increase in working capital. Of course, there are specific actions taken at moments when you have very low visibility of the supply chain, we had to be more conservative. But throughout the year, the trend is for levels and values of inventory to be reduced as soon as we get comfortable regarding the safety of the supply chain, and the reliability of the supply chain. And when you have a long-cycle products, you have more products being produced and that increases our inventory levels, but the main villain of this increase is the situation that we had after the pandemic with difficulties in receiving supplies, the high demand of some commodities, and we had to position ourselves to ensure that we would continue to operate, as Salgueiro said, without compromising the deliveries to our clients with at the high capacity of production.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Okay, thank you very much. That was very clear. Have a good day.

Operator

The next question is from Marcelo Motta from JP Morgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions. If you could comment on domestic industrial equipment, we've seen a slightly lower growth when compared year-on-year with the historical levels at 8%. I would like to understand this quarter, I mean is this due to market dynamics, should we expect some recovery because the comment doesn't say anything about what might have caused that decrease? And looking at CapEx, of course, 2022 had some CapEx that's remained from last year, in '20, but for 2023, does it make sense to maintain that level of CapEx at BRL1.5 billion or should it be like an average of the last 3 years, just to understand going forward? Thank you.

A - Andre Meneguetti Salgueiro {BIO 22483393 <GO>}

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This is Salgueiro speaking, Motta. Good morning. As for industrial electro and electronic equipment in Brazil, well, the activity in the end is still positive, we see still good demand. So there has been no new effects. The only thing is that at the year-end we can see some seasonality in December, that could have some effect, and also for the long-cycle projects from one quarter to the other there may be some mismatches. So these are two points of attention. But it's important to look at the company in a longer timeframe in order to understand these effects, but from the demand point of view, we still see a very good demand from the end, of course, we don't imagine large growth leaps such as those happened in the end of 2020, in the first half of 2021. But we don't see any signs as we do in commercial and appliances, for example.

Motta, as for the CapEx in the long-term view, it's important to remember that usually the company invests around 3% to 5% in CapEx of the net operating revenue. This year it will be slightly above that because we had a carryover, as Salgueiro said, slightly over BRL150 million that came from last year. So in order for us to be able to see if it's going to be closer to which level, three or five, it will depend on the performance of our products and some strategic decisions of the company that causes us to be more aggressive in terms of investment, and if we make an acquisition in a certain segment, we use less cash, regarding CapEx. So we don't see any change in behavior in terms of this percentage that we usually operate at. But the increase in capacity we're making, the construction of new plants, that could in the long run reduce this percentage as compared to what we're doing this year.

Q - Marcelo Motta {BIO 16438725 <GO>}

Perfect. Thank you very much.

Operator

The next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Congratulation on the performance. I have two question. Lately, we've seen a quick development in the process of offshore wind power projects in Brazil. This investment plan of BRL1.5 billion for 2022, does it include an investment in this segment for wind turbines? And the second question is regarding WTU, last year you completed the capacity growth. I don't know if you could comment on the usage rate and the entry of new orders?

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

Hello, Victor. Good morning. Regarding offshore wind power, we do not have that technology in our portfolio currently, and to this moment, we do not have any study in that direction. We are now in the second generation of onshore wind turbines. So that's the 4.2 machine we're working with and we are highly focused in the domestic market and we have announced that will also work with the Indian market, and this market of India has a lot of potential to be developed on onshore projects. This is why where we are so far.

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As for WTU, the dynamics, we have reported in last quarters has not changed. It's doing very well with the good number of orders coming, which led to the construction of the third plant in the United States that was opened last year, and now we are investing to increase the capacity of one of the plants in the United States. All of that, because first, we are the leaders in providing energy transformers and distribution in the renewables, solar and wind segment in the United States, which is doing very well. And secondly, there is an important opportunity to be explored, the supply of these transformers for large concessionaires in the United States and industrial segments. These are areas in which WEG has low exposure, and with the increase in capacity we will have new opportunities, because increase in capacity at WTU makes us invest to increase capacity in Mexico where we develop some equipment that have high synergy with the United States. So as I said, nothing has changed in terms of dynamics and things are going fine.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Great. Thank you.

Operator

The next question is from Fernanda Recchia from BTG Pactual.

Q - Fernanda Recchia

Hello, everyone. Thank you for having the question, I have two questions, first, I would like to explore on the tax rate that's 3% or 13%, last year there was this increase, to help us with the modeling, what should we expect in terms of tax rate, and why was it reduced, it was more of a geography issue or was there any change in benefit? Also, the second question is about the potential impact on reduction of IPI in terms of the income statement and cash flow. So how big would that reduction be or give us some light on these questions we are having here? Thank you.

A - Andre Meneguetti Salgueiro {BIO 22483393 <GO>}

Hello, Fernanda. Good morning. Regarding the actual income tax rate, there was no change. The only point that we would like to reinforce that quarter-on-quarter, there may be a change or some variation due to mismatches of percentages from one quarter to the other, but when you look at the one-year period, in theory, it should remain within the trend levels. And looking at the annual earnings compared 2021 to 2020, it has not changed much. You have to take into account in the second quarter of '21, there was the ICMS credit over the basis of physical PIS and COFINS, which raised it a bit. So once this is normalized, you would see that there has been no major change on that indicator on an annual basis. So that is the benefits due to the benefits we had, they didn't change in that period. As for IPI, it's hard to comment on. First, these are feasibility studies and some news published in the media. So we don't make any detailed analysis, let's wait to see how it develops. We are interested in some products, not all products in our portfolio, but there are some that we do, and a reduction could be beneficial, but let's wait further discussions. And in the future if this passes, then we can have a broader discussion about possible impacts.

Q - Fernanda Recchia

Okay. Thank you.

Operator

The next question is from Renata Cabral from Citibank

Q - Renata Cabral {BIO 21901583 <GO>}

Hello, everybody. Thank you for the question. First, I would like to have a follow-up on the wind generation. Last year the prototype was sent to India and you mentioned that the plant would start its operations in the second quarter or half of the year. And should we expect revenue starting in 2023, beginning of the year? Second question, could you give us some update on the development of ROI year-on-year, it increased by 30%, so what would like to know what to expect? Thank you.

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

Good morning. Renata. As for wind projects in India, we are now in the process of certification of the turbine. The turbine has arrived in India some months ago, and we are certifying the plant and it was installed some weeks ago. We're now connecting the turbine, and then we'll start the simultaneous tests. This test will take some months. So we expect that to happen during the year 2022, we expect to have the turbine approved through -- during the second half of 2022, and after that we'll start to work on a more active commercial effort looking for some type of supply. When this business will start to generate revenue, will depend on the first contract. We do not have a contract in our portfolio. As we advance in the certification, our commercial efforts will increase, but we don't know the timing, the precise timing now. I would certainly say won't be for this year, because we're still working on the turbine certification.

As for the ROI or ROIC after delivering an exceptional ROIC of 30.5%, it's hard to make projections also because the fact that the company operates in several countries with different dynamics in terms of capital allocation, but we expect to deliver consistent ROIC levels. There may be some changes or oscillations in the future, oscillations in margins, exchange rate and CapEx could bring some volatility with time, but we do expect a stabilization at attractive levels above the levels before pandemic.

Q - Renata Cabral {BIO 21901583 <GO>}

Okay. Perfect. Thank you.

Operator

This will now end the Q&A session, and I turn the floor over to Mr. Andre Rodrigues for his final remarks.

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

Thank you very much everyone for attending our conference call, and we'll see you soon in our next call for the earnings of 2022. Have a good day.

Operator

The earnings release conference call of WEG has now ended. We thank you all for attending and have a good day.

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