

## Q1 2016 Earnings Call

### Company Participants

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

### Other Participants

- Alexandre Falcao, Analyst
- Felipe Vinagre, Analyst
- Joao Noronha, Analyst
- Lucas Marquiori, Analyst
- Mario Bernardes Junior, Analyst
- Murilo Freiburger, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning and welcome to the conference call to discuss WEG First Quarter Results for 2016. We would like to inform you that this conference is being recorded, and at this moment, all participants are connected in listen-only mode. Later on, we will start a Q&A session when further instructions will be provided. (Operator Instructions)

To get a hold of the quarterly results and the press release, which will be used throughout the conference, please refer to our Investor Relations' webpage at [www.weg.net/ir](http://www.weg.net/ir).

Any forward-looking statements contained in this document or statements made during the call about future events, business outlook, operating and financial targets and also about the company's potential growth are based on the assumptions and beliefs of the company's management, which are based on information currently available.

Those forward-looking statements involve risks and uncertainties and therefore, depend on circumstances that may or may not materialize. Investments [ph] should have in mind that, general economic conditions, industry conditions and other operating factors could affect the future performance of WEG and lead to results that might lead -- that might differ materially from those presented in these forward-looking statements.

We'd like to remind you that this video conference -- audio conference is being conducted in Portuguese with English simultaneous translation. With us today in Jaragua

do Sul, we have Mr. Andre Luis Rodrigues, Managing Director and Financial Superintendent, Mr. Paulo Polezi, CFO and IRO; and Mr. Fernando Oliveira, IR Manager.

I'd -- I'd now like to give the floor over to Mr. Andre, who will conduct.

**Andre Luis Rodrigues** {BIO 17964192 <GO>}

Hello, good morning everyone. Once again, it is a pleasure to be with you at this conference result. We'll start with the first quarter highlights on page three. I'd like to highlight the following. Point number one, our capacity of growth in a unfavorable environment, we have grown 13.4% when compared to the first quarter 2015. This is a very positive performance especially, if we consider the environment in which we operate in the Brazilian market.

In our last conference call, and I'd like to insist on that type of business that manages to grow is a healthy business, a business that has an ability to react to unfavorable conditions. It's worth remembering that we had a drop in concern, when we are comparing to the fourth quarter 2015, which is due to seasonality that seasonality is weaker, which has also impacted results highlighted in point number two. For example, last quarter, we closed our last call saying, how challenging the year 2016 was going to be. The start of the year was slower than usual and I also talked about our focus on preserving the margins throughout the year.

Our EBITDA margin for the first quarter was 14.2% showing resilience of our WEG model, which is able to react to negative factors which harm our operating results. And net income, we grew 14.9% vis-a-vis the first quarter of 2015, a slight growth moving from 11.5% to 11.7% of margin.

Throughout the presentation, we will break those numbers down. To close the slide, a third point I'd like to emphasize is that, we continue to execute our expansion plan both organically and non-organically. We have taken an important step in our growth strategy in fractional motors in North America with the acquisition of Bluffton Motor Works and we have increased our operating cash generation and we continue to have competitive access to the market even in a negative scenario.

We close the introduction now and give the floor over to Paulo, so that we can move on.

**Paulo Polezi** {BIO 19468811 <GO>}

Thank you, Andre. Good morning everyone. I'll be referring to slide -- to the next slide, slide number four. I'll be breaking down what we have achieved in the quarter in terms of revenue growth. First, the domestic market, the main growth factor, the main growth driver remain our wind energy system that growth is lower because, when you compare with 2015, we have the seasonal effects, but still we have achieved growth in price and average volumes, but the growth in GTD was not able in it itself to offset the drop in other business areas in Brazil, and the final result was a drop of approximately 3% -- 3%.

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Outside of Brazil, we still observe a growth of around 10% in local currency, which is a pace, which is within our expectations and growth is not apparent in US dollars yet, because it's still being influenced by the valuation effect of the American currency throughout 2015. But we still dedicate efforts in personnel; infrastructure and services abroad, which serve us to strengthen our brand, the WEG brand.

Moving on to slide number five, now please. Number five, number five, we have a breakdown of our business areas. The performance of electric -- industrial electric equipment in Brazil is still weak, a reflect of a low investment levels in the industry in Brazil. It's quite clear to us that, the players are postponing investment decisions. Investments, which are not urgent they're waiting to better understand the economic and political scenario. A price adjustment is just about over and to become clearer in our revenues throughout the year.

As for the external market, we continue the growth in local currency as I said, despite the low demand for engineered products linked to process industry, also expanding the capacity, and in that respect, in that front, I'd like to mention one that as I already mentioned, the acquisition of Bluffton.

In GTD, we still continue to deliver our wind generation portfolio in Brazil with high productivity. The main change here was the engineering and T&D effort, which allowed us to gain competitiveness and remain with our market share, even with the economic slowdown we see around this right now. The expansion in the external market was also robust.

For domestic use motors, the Brazilian market remain weak with no perspective of change in the short run and an increasing price will somewhat mitigate that performance. And finally, the operation in China showed a certain level of a stability. Finally, our paints and varnishes business is quite exposed to the Brazilian industry as you know, and the alternative here is to try and explore to tap on the Latin American market with new products.

Moving on to the next slide, slide number six, we can see a breakdown of the EBITDA. As we have said, it's difficult to recover our margins in the conditions we have today in the Brazilian market. And what concerns the first quarter of 2015 last year, we still observe some loss in terms of gross margin, but with a -- with an impact, which is gradually lower when compared to last year. For example, the difficulty to trend -- to move to pass on the increasing prices and also the effect of the growth in our new business. For example, the wind generation in Brazil and also the white line models in China and also the effect, we feel from additional provisions made in 2015.

Still even with the Brazilian market drop, it's difficult to keep cost up and dilute fixed costs. Our work in controlling expenses relative to sales, general and administrative still remains strong then we also -- we're always looking to minimize the effect of those costs on the EBITDA margin with higher productivity.

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Moving on to slide number seven, financial results. An important point to highlight is that even if we do not consider the effect of the mark to market in the hedge operations that we have in our debt, we remain with a positive financial result. The foreign exchange behavior, if you will, the DI interest and the exchange coupon, those are the variables that we use to specify the swaps and they may also lag [ph] quarter-on-quarter. But these are mainly accounting effects, they do not represent an outflow of cash. That logic [ph] continues even with the current market conditions continues with a very good access to financing lines with competitive costs, with several different lines offered by the market.

Moving on to slide number eight, we have a breakdown of the cash flow. And we can see a little more clearly, something that was already emerging in the previous quarter, which was the efficiency gain and the working capital investments showing results in inventory and also in accounts receivable. So the cash generation coming from operating activities improved reaching the level of BRL383.3 million. Also activities of investments consumed approximately BRL507 million in the period with investments in China and Mexico mainly; and now more recently with the acquisition of Bluffton fractional motor manufacturer in the US.

Finally, we have amortized loans and financing lines with -- along with the payment of interests and dividends in the second half of 2015, the payment -- the pay out of dividend was made in March, resulted in a cash consumption of BRL647 million, which can be seen in our financing activities' chart. And so that closes our slide number eight.

Moving on to the next slide, slide number nine. We have investment made in expansion, in capacity expansion throughout the last quarters. In the first quarter of 2016, we invested BRL113 million approximately, which is in line with our budget, which contemplated an investment of BRL470 million for the whole year of 2016. The new electric motor and units in Mexico and China are already in production and should continue to expand in the coming years.

I'd like also to mention that, despite the uncertainties in terms of tax behavior, investments in -- investments in research and development reached BRL75 million approximately in the first quarter, which represents 3.1% of our net operating revenue, which is quite in line with our standards.

And with that, I close and I'd like to give the floor back to Andre, who will be talking about our future outlook. Please, Andre, you have the floor.

**Andre Luis Rodrigues** {BIO 17964192 <GO>}

Thank you, Paulo. Well to close the presentation, and before I move into the Q&A session, I'd like to say that in this quarter, WEG showed resilience in its margins and ability to continue to grow even in unfavorable conditions. As we had anticipated in Brazil, the year 2016 started as the year 2015 finished with a slow economic activity and with economic players averse to risk. It's difficult to overestimate the difficulties faced by the industrial sector in Brazil. It's important to remember that the current crisis is not one of the deepest crisis in our history, but one of the longest as well.

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This environment of uncertainty of -- in lack of definition shows that the crisis has not been overcome yet. That's when one of our main characteristics emerge, which is, we will keep faithful to our strategy. This can be clearly seen abroad, where we haven't seen markets react fully, but we continue to present growth and continue to search for new opportunities, acquisitions and capacity expansions. If adjustments are demanded, we have at the same time to preserve our competitiveness and our ability to react.

In conclusion, in these unfavorable environment, our focus remains on -- preserving returns and on sustainable growth.

We can now move on to the Q&A session. Thank you very much for your attention. Please operator, you have the floor.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now start the Q&A session. Once again, this conference is being conducted in Portuguese with simultaneous translation into English.(Operator Instructions) Our first question comes from Felipe Vinagre, Credit Suisse.

#### Q - Felipe Vinagre {BIO 19282922 <GO>}

Good morning, everyone. I have two questions. The first one is to -- try to understand two initiatives. The optimization of working capital, if you could give us some more color on that. How much do you -- do you plan to reach in terms of hedge and where are we now, today?

And the second question along the same line, if you could talk about the T&D, you talked about the reengineering of product, if you could give us some color on that front and what you're doing in terms of product reengineering? And also, if you could talk about Brazil, the short run. What is the level of our activity in Brazil. How would you compare -- would you compare that with the first -- fourth quarter of last year and how do you see the trend in terms of economic activity in Brazil and industrial activity?

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

Thank you, Felipe. I'll be talking about the working capital first. Let's split that in three different phases, operating, inventory and accounts receivable and payable. In terms of inventory, we started a very strong initiative, which we began in October last year, where we define a new organization. Now totally -- focused on inventory management empowering the different business units with very clear objectives. And this Group, what we call, Committee, which is part of WEG's management system, I'm the leader of this initiative with other officers and this Group is independent in terms of defining objectives regardless of other units.

So we have worked intensely in assessing all the inventory lines, raw material, replacement, finished products. We have redefined objectives for all units both in Brazil

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and abroad. We have created specific communities with clearly stated responsibilities throughout the globe. We have implemented new processes and we have moved ahead significantly.

I think the level we are today speaking of numbers, I don't have them by heart, but I remember that in September last year, we closed the month with a inventory level at BRL2.2 billion, maybe a little more. And in this quarter, we closed the quarter at around BRL1.8 billion. So it was a difference of almost 400 million, a tremendous effort coming from these new management methodology. And I can tell you that, there is room to improve in this front, some of the process implementations are not over yet, but we're getting close to a level when we compare to the average of the industry, which is quite comfortable. Of course, we're always looking for new initiatives, but this first step was very -- very positive and we are very satisfied with the results.

When we talk about receivables, accounts receivables, and we have mentioned that before. The situation in Brazil exert some pressure in terms of payment terms and also on default levels. If we look at December, our expectation was to have a little more difficulty in closing the quarter. Fortunately that expectation was never confirmed and within the scenario, we managed to keep the situation under control. Of course some clients asked for a line extension. We assessed the risks on a case-by-case basis and we obtained very attractive rates for that to make sure we could maintain the client and still have an advantage.

Thanks to our credit management system, which is much more technical, much more careful in terms of obtaining additional guarantees. We have been doing well in that front as well. And the focus once again, is on the short-term default levels. Sometimes it's a one-off situation and sometimes the company to improve their balance sheets at the end of the quarter, they try to extend and we are -- we are keeping a close eye on that especially, abroad.

For me, today, I will have a -- we have room to grow abroad, in the external market, it's a cultural issue especially, in Europe, where you do not have financial burdens, as we have in Brazil. So we are focusing on recovering those isolated default lines. And in terms of accounts payable, it has -- has been our standard here to work towards and this initiative - initiative is being led by Paulo Polezi, which is quite technical. The idea is to establish some arbitrage mechanisms to see, if we become more effective in terms of cost gain. So, as a whole, this is what we have been doing in terms of working capital management.

For T&D, I'll give the floor over to Paulo.

#### **A - Paulo Polezi** {BIO 19468811 <GO>}

Hi, Felipe, this is Paulo. In terms of T&D briefly, transformers are big pieces of machine. We have copper and steel laminated steel and at the end of last year, there was an increase in the cost of steel here in Brazil in reais and this affected our production costs. And we noticed that in the third quarter, the impact was more intense and the company has ways to react to that. We can, for example, manage the amounts being produced; we

can change the equipment configuration without affecting norms and codes [ph] and productive levels -- levels of different machines.

So we adjusted the machines decreasing the consumption of steel and increasing the consumption of copper. So in the end of the year, the products that started reproducing in the end of the year, which will be delivered now, they represent a lower cost of production and this will give us some breathing room in terms of margins.

I give the floor over to Andre to continue.

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

Felipe, if I understood your question. Well, let's talk about Brazil, right your final question. I think in practice, from a fundamental standpoint, nothing really has changed. It remains bad as it was bad last year. There is the respect evolving improvement, somewhat in the case of the US dollar for example, as we see now. But we need to have a clear perception of improvement that can be confront in practice sooner than later. With that, we'll be able to execute everything we plan in terms of expansions in other fronts. So we expect recovery to take place soon, right. But in practice, we are waiting to see what's going to happen.

**Q - Felipe Vinagre** {BIO 19282922 <GO>}

Okay. Thank you, Andre and Paulo. All the best.

**Operator**

The next question comes from Alexandre Falcao, HSBC.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Good morning everyone. I have three brief questions. The first about GTD if that's the growth level by around 7%, that's the growth level that we can expect for the remainder of the year for GTD that's the first question? Question number two, concerning provisions. We see low levels of provisions in this quarter. What can we expect going forward. What can we -- is there anything to happen in the coming quarters? And the third question, in terms of price increase, you've passed along some of your margin from the third -- fourth quarter to the first quarter, what kind of impact do we expect to see in the coming quarters?

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

Good morning, Falcao. Starting with your last question, price increase. For the current levels, unless we see some significant change in the situation, I'd say, we are well-adjusted. The current prices helped us recompose our margins. Of course, this does not happen overnight, but -- but we expect this to take place throughout the year unless again, there is a significant change in price levels. We do not expect that, but we did what had to be done in short. So fundamentally, we are well-adjusted.

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**Q - Alexandre Falcao** {BIO 5515455 <GO>}

But a relative part of that -- that has not been felt in the first quarter, right?

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

Yes, you're right. We increased the price then we have other portfolios, where there is some delay throughout the time. So we only clearly see that as we move throughout the quarters. So again, unless some major change in currency for example, takes place, I don't see big changes in that front. This shouldn't be a problem going forward in short. Our problem won't be price, it will be volume. Okay.

In your first question, you asked about GTD. What we have in our GTD portfolio for generation, we are concentrating our efforts on wind energy. There is some expectation relative to the A minus 5 auction, which is expected to take place next week. So let's see how this auction plays out. There are some doubts about that, but we have to wait and see.

In any event, in terms of generation, we are talking about wind energy, where we have some volume growth, a certain growth in average price and a gain in productivity. As for T&D, we have a second half of the year, which we will present some level of growth. We have a better composed portfolio for the second half.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

So the growth should be in line with the first quarter, right?

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

It shouldn't fundamentally change till March from the first quarter Falcao. We didn't expect that to happen. Maybe not seven exactly, but high-single digit, low double digits in all likelihood, okay. Falcao, I'll be talking about the provisions. So what has happened -- what happened last year? The drop in inventory in abroad, which is -- which we also implemented in Brazil. This process is over then we have a piece of good news in the first quarter, which is people worked well and produced a positive impact in our numbers. People mobilized, they felt the pressure, if you will, in terms of reducing those items, right. It's not a decision item A or item B, it's a -- it's an overarching policy in terms of inventory management. So we're now getting to new pace.

In terms of labor, things followed naturally. But as we had warned before, we're getting close to a point, where we have an expectations of a changing levels and when compared to last year. And in terms of clients, we are, I'd say in a normal path, nothing really changed when compared to the previous quarter.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

So this is Falcao again. So in this quarter, you have resumed historical levels, right and you can expect that going forward.

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

Yes. In terms of provision, in terms of labor provisions, I'd say, it will be a little less than that, but there was an impact of the reversals that's something I cannot control. It depend on the activity abroad as well. We have to wait.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Okay. Thank you.

**Operator**

The next question comes from Mario Bernardes Junior from Banco do Brasil.

**Q - Mario Bernardes Junior** {BIO 17363553 <GO>}

Good morning, everyone. Thank you for the opportunity. I have a question about price again. What kind of sensitivity do you see on the part of the clients when you talk about price raises, do you see any resistance? Fernando just said that all margins were recomposed. My question is, did the market accept those price increases?

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

Well, well we can never say it's well except it, as you know. But we are having great difficulty in adjusting the prices because of the internal situation. When we pass along our currency devaluation in -- when the market is growing that's one thing, when you do that in a slowed down market, that's a different ball game. So clearly it was not an easy process. It was not a fast passes. There was some resistance, but it was only natural, but we are getting close to concluding that process. We only see now very fine tuning of price adjustments going forward.

**Q - Mario Bernardes Junior** {BIO 17363553 <GO>}

My second question has to do with cost. Some companies have announced a price increase, Arcelor for example, Mittal, and now we have a down trend in the US dollar, how do you see that in terms of impact, a good part of your revenue comes from the external market. So you know, do you see any disconnect because of that?

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

We see stability going forward, Mario. We do not see problems. On the contrary, given the demand conditions, we have now in Brazil, which are weak just as we see our clients' resistance -- resisting, we do not see major variations in price in the near future at least for the remainder of the year.

**Q - Mario Bernardes Junior** {BIO 17363553 <GO>}

Okay. Thank you.

**Operator**

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The next question comes from Lucas Marquiori from Safra.

**Q - Lucas Marquiori** {BIO 17907247 <GO>}

Hello, everyone. Good morning. My question has to do with the energy sector. You mentioned in the release some recomposition of the other portfolio for T&D. Are you talking about the domestic or the foreign market? Where are you really recomposing your T&D portfolio? You showed a drop in revenue by markets, if you could perhaps in terms of domestic energy, could you at least say how much in terms of growth you have for wind and for the other energy sources so we can have a better idea?

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

Lucas, our portfolio got our attention last quarter. As I said, the decrease in consumption of electric energy was causing a decrease in our T&D portfolio, because of a postponement -- postponement of investments. Besides, we had cost pressures, as well as Paulo mentioned, we conducted a strong effort in terms of reengineering the products and we managed to expand somewhat. There are few available business in Brazilian market, but we closed good deals, some of them are public.

For example, CPFL, one of our clients announced a big project for several substations in the state of Sao Paulo, and we captured that business and we were mentioning their release. So we're talking clearly about the local market, where we had identified that problem in the previous quarter.

In terms of generation specifically, the growth comes from fundamentally from the wind market, where we have prices going up for sale. We have higher monthly averages. We have good productivity. So the growth we see there comes fundamentally from wind systems. The other business lines are way slower.

**Q - Lucas Marquiori** {BIO 17907247 <GO>}

Okay. Thank you, Luis.

**Operator**

The next question comes from Joao Noronha from Santander.

**Q - Joao Noronha** {BIO 17451608 <GO>}

Good morning. If you could give us some color, please on the growth and share for industrial equipment in the internal market 2.4% quarter-on-quarter. What kind of backlog, do you have for the year. Do you see that as a trend that growth?

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

Actually, our share didn't really grow and specifically in internal market, the performance for industrial equipment showed a little drop for electric motors for domestic use dropped slightly faster, both faster. So that -- that's the effect we are seeing. In that business area, we see very, very few business taking place.

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When we look at the backlog, even for industrial equipment, we see quick consumption products in origin. Some products, which are fundamentally consumed when we have a demand, which is mainly focused on maintenance works and that's clear to us, it has been clear since last year. So it's not really any recovery of share, it's simply dropped at a slower pace than other business areas.

**Q - Joao Noronha** {BIO 17451608 <GO>}

Okay. Thank you.

**Operator**

The next question comes from Joe Moura, Bank of America. Mr. Joe, you have -- the line is open for you.

**Q - Murilo Freiburger** {BIO 17385357 <GO>}

Good morning, everyone. This is Murilo speaking actually. And most questions have been answered. I'd like to have some more information from you concerning the external market. You remain growing in other currencies, when we look and same currency, you're growing in euros and other regions, I'd like to know, where is that growth coming from? Do you feel any slowdown anywhere in terms of capital goods, and what do you expect in terms of the external operations going forward for the coming years?

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

Okay. Murilo. As I said, growth abroad sits at around 10% in local currency. We have been talking about this recently and it happens basically in countries, where we have made acquisitions, where we have expanded our operations. As an example, in Europe for example, I can mention Spain, which is a fast-growing market. Spain itself it's not producing a lot of revenue, but yet it exports to several markets and it has increased our operations. In other countries, we have the same situation.

Some countries have better performance than others, because they export more.

Moving from Europe to Latin America, we have another case, which is quite emblematic, which is the case of Colombia. Colombia is a growing economy, WEG was there had been there for some time. We acquired two companies, one in the automation sector; another in the transformer sector and that expanded our operations in the country and allows us to reach the other markets, oil and gas, for example.

And then, we move to places, where our operation is even more robust or where we have been working for longer. For example, transformers in Mexico, where we have seen important growth. Mexico supplies to the US to Central America, also in South Africa, we have had a very good, a very positive reaction in terms of motors and transformers. And finally in China, both the industrial line and in the consumption line, the export -- the export of motors for the appliance line in the US. So the combination of all those business have produced good growth levels over -- double-digit growth. I hope, I have tackled your -- your doubts.

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**Q - Murilo Freiburger** {BIO 17385357 <GO>}

Yes, yes. Thank you. And just a follow-up question, actually it's a new question. In terms of the cost of debt, we see an -- a marginal increase moving up to 7.9, what do you expect for the year. Do you expect to go over that level or that's the level we can expect for the year?

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

The cost of debt has been going up Murilo, because we have renewed some on the lines. So the prefix lines are being renewed by the higher cost. Of course, so the cost of debt has been going up. It's important to us to keep an eye on the difference, the cost of what we pay and the cost we have in terms of investment, but that cost has been going up, but we expect to amortize the older debts.

**Q - Murilo Freiburger** {BIO 17385357 <GO>}

Okay. Thank you, Luis. Thank you.

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

One -- one last thing. I'll answer two questions that came from the webcast and the question is, in what Brazilian region, do we see the wind plants, where WEG supplies. It's nothing new. We have two major areas in Brazil, where we produce wind energy, the south of Brazil, the state of Rio Grande do Sul, and also the north eastern region, especially the Coast of the north eastern region of Brazil. Those are the main regions.

So in the south of Rio Grande do Sul, (inaudible), Rio Grande do Sul and also on the coast of the State of Ceara and Rio Grande del Norte, the north eastern region. Coming up next deliveries will take place fundamentally in the north eastern region of Brazil, where the main wind projects that we have in our portfolio are.

And another question is, if we tend to have a new production unit, if there is some legislation change in terms of income tax and so on social [ph], we look at that type of opportunity from a market standpoint. We won't make a decision in increasing capacity based on tax incentives alone that's not the -- the main criteria. Of course, it's an important parameter, but it needs also to present a local market need, mid-market there, right. In a situation that we see in the Brazilian markets today, a production unit just as the one we have here in the South is extremely productive, extremely competitive.

We have a world level -- productivity level here. Even here, we -- because of that we -- it's very, very unlikely that we were in the short run investing, creating another production unit. There is nothing in the horizon in that front.

**Operator**

The next question comes from Lucas (inaudible) from (inaudible).

**Q - Unidentified Participant**

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Good morning everyone. Thank you for answering my question. It's not really a question. I'd like to listen from you something about this -- the scenario that we have in Brazil today in terms of political issues. How do you position the company according to the two different scenarios, if the present is impeached or if the present is not impeached? Is there any change in terms of CapEx? Do you plan to change plans depending on what scenario materializes? How would WEG behave if the government changes, and if the government does not change? Thank you.

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

Hi, Lucas, I'll go back to my first question. In practice, nothing really changed and the company's expectations are that, this perception of improvement materializes sooner than later. It's not our role to say, who we prefer to be in the present that's not our role to do that. We have to maintain our discipline to maintain our strategic growth plans, regardless of foreign exchange rate, regardless of the government, we put things down on paper then we transform those ideas in action plans and we have to have the discipline to execute that.

Of course, depending on what happens, we need to have flexibility from the production modules all the way to our financial flexibility allows us to go forward are -- on different directions in terms of adjustments. But, the main message I could convey now, I'm -- I'm sure, I have not answered your question fully in terms of the company's position, but what I can tell you is that, we will remain faithful to what we have committed to do.

In other words, to move the company ahead and having in mind, our mission of growing sustainably, that's what I can tell you.

**Q - Unidentified Participant**

Okay. Thank you.

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

Just one more question from the webcast. Marcelo [ph] asks about the investments. Investments have increased considerably and productivity and cash dropped somewhat. That's the comment he makes. When will those investments return? And also a question about our finance line, how are we controlling that?

That's a very broad question, Marcelo, but as a whole in terms of investments, we have investments which have return characteristics in the short run and others with longer terms of return. And this has been our track record and this will remain, if we find attractive opportunities to invest, we will do so. The idea is to add value throughout the business and we are also adjusting for risk of course, that's our main criteria. The variations in cash, they are seasonal. In the first quarter, we usually have a higher variation than in other quarters, because we payout dividends. We just paid dividends in March, so it's only natural that we see a drop in cash in this quarter. But in any event, we always have very attractive financial opportunities out in the market that's not an issue as we see it. So much so that our financial results remain positive even when we adjusted for market -- mark to market variations, swaps and so one. We still have a positive financial --

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performance, which shows we have a good -- we have ability to -- to obtain attractive financing lines which in short also add value to the business.

## Operator

We now close the Q&A session. I'd like to give the floor back to Mr. Andre for his final remarks. Please Mr. Andre, you have the floor.

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

Well, once again, thank you all for participating. Have a good long weekend and I'll see you next call. Have a nice day.

## Operator

WEG conference call is now over. We would like to thank you all for participating and have a nice day. And thank you for using Chorus Call.

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