

WEG S.A.

2nd Quarter 2018 Earnings Results Conference Call

July 19, 2018 – 11:00 a.m. (Brasilia time)

Transcript of the simultaneous translation from Portuguese into English



CORPORATE PARTICIPANTS

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The information denominated EBITDA – Earnings Before Interest, Taxes on Income and Social Contribution on Fiat Income, Depreciation, and Amortization; EBIT – Earnings Before Interest and Income Taxes and Social Contribution on Fiat Income are presented in accordance with Instruction RAS/27 issued by CVM on October 4, 2012.



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PRESENTATION

Operator: Good morning and welcome to WEG's conference call to discuss results of 2Q 18.

Conference Call 2Q18

Revenue, EBITDA and Return on
Invested Capital growth in the quarter



We would like to inform that we are webcasting this conference call accompanied by the slides on our investor relations website at ir.weg.net and upon completion the audio will be available on our IR website. If you need support during the conference call please request assistance from an operator by typing star zero.

Any forward-looking statements contained in this document or any statements that may be made during this conference call regarding future events, business prospects, operating and financial projections and goals and WEG's future growth potential constitute mere beliefs and expectations of the management based on the information currently available. The statements involve risks, uncertainties and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect WEG's future performance and lead 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 conducted in Portuguese with simultaneous translation into English.

With us today in Jaraguá do Sul are André Luís Rodrigues, Chief Financial Administrative Officer; Paulo Polezi, Finance and Investor Relations Officer; Wilson Watzko, Controller and André Salgueiro, Investor Relations Manager at WEG.

Please Mr. André Rodrigues you may proceed.



Mr. André Luís Rodrigues – Managing Director
Financial Superintendent

Good morning everyone. It is a pleasure to be with you again for the conference call to discuss the results of 2Q 18.

**Highlights
Second Quarter
2018**
01

Significant revenue growth reflecting the improvement in the global economic environment and new business.

Net Operating Revenue were **R\$ 3,056.6 million**, 34.0% higher than 2Q17 and 19.8% higher than 1Q18.

02

EBITDA margin within expectation but still impacted by recent acquisition and new business.

EBITDA reached **R\$ 405.5 million**, with margin of 15.2%, 25.6% higher than 2Q17 and 22.6% higher than 1Q18.

Net Income of **R\$ 336.6 million**, with net margin of 11.0%, 23.7% higher than 2Q17 and 18.1% higher than 1Q18.

03

ROIC expansion, reflecting better operational performance and discipline in the capital use.

Operating Cash Generation of **R\$ 643.5 million** in 1H18.

ROIC reached **16.8%** in 2Q18 (last 12 months) expansion of 1.6 p.p. over 2Q17.


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I would like to start by highlighting that in this quarter we observed the continuity of the business dynamics that occurred in 1Q TY, highlighting the following points: the first point is the strong revenue growth, 34% in consolidated terms, 35.6% in the domestic market and 32.8% abroad.

In the domestic market this growth was driven mainly by the economic recovery by the greater share of the solar generation plant businesses and by the recent acquisition of the steam turbine business - TGM, which we started to consolidate as of March 2018.

In the foreign market growth is still concentrated on the sale of short cycle equipment, but we have already identified some opportunities in major industrial projects that require long cycle equipment. In addition the consolidation of the new transformers business in the United States has helped drive revenue growth.

The second point EBITDA margin was within our expectations showing a slight improvement over 1Q 18, but standing below the margin of 2Q 17 impacted by the rapid growth of the solar generation business, still in the maturation; and with the lower operating margins; and by the acquisition of the transformers operation in the United States.

Finally I would like to highlight again the generation of operating cash, which reached 643.5 million in 1H 18 and the growth of return on equity on an annual

comparison, which is WEG's main performance indicator.

**Return on invested capital
(ROIC)**

ROIC Formula

$$\text{ROIC} = \frac{\text{NOPAT}^1}{\text{Invested Capital}^2 \text{ (Equity + net debt + provisions (net judicial deposits) + dividends payable)}}$$


¹Figures from Income Statement, accumulating last 12 months.
²Figures from Balance Sheet obtained by the Average of last 4 quarters.
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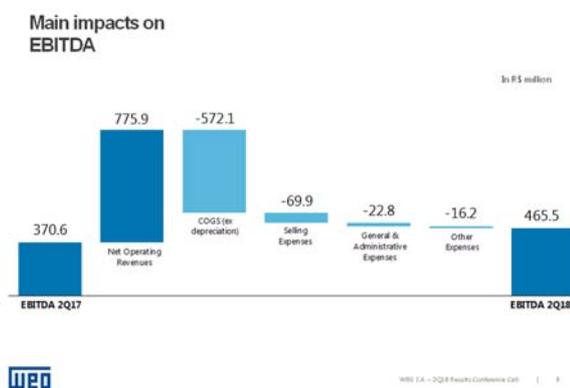
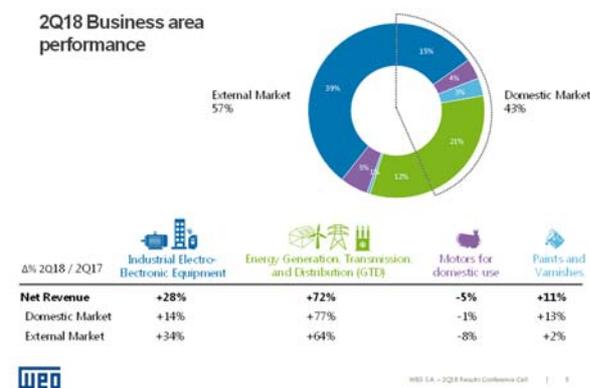
Then going on to slide four we have more details on ROIC, which presented growth of 1.6 p.p. in relation to 2Q 17 reaching 16.8%. The growth in the after-tax operating income is a result of revenue growth and improved operating performance. This growth more than offsets the growth in the capital employed, which is necessary to support business growth, both from recent acquisitions and working capital investments, fixed assets and intangible assets made over the last 12 months.

I would like to remind you that on the last WEG Day we announced a small adjustment in ROIC methodology and in this slide we will present the new calculation formula. For purposes of comparison we also made the same adjustment in previous quarters. Our IR team is available should you have any questions about this process.

I now turn the call over to Paulo Polezi to continue the presentation.

Mr. Paulo Polezi – Finance and Investor Relations
Officer

Good morning everyone. Turning to slide five we present the evolution of the business areas in the different markets.



In the area of industrial electrical and electronical equipment in Brazil sales are still concentrated in short cycle products, especially low voltage motors and serial automation equipment. The solar generation business was the highlight in GTD gaining relevance in the recent months and now counting on three important solar projects added to our portfolio. In addition, since March we have been consolidating the operation of TGM in this business area.

As for engines for domestic use there was a small downturn in revenue reflecting the dynamics of consumption in Brazil, impacted by the truck drivers' standstill this quarter.

The performance of the paint business reflected the performance of the industrial and consumer goods markets, which intensified the year recovery process in recent quarters.

Abroad we shall revenue growth in all areas with the exception of engines for domestic use, where we can observe a specific impact on the operations of China and Argentina.

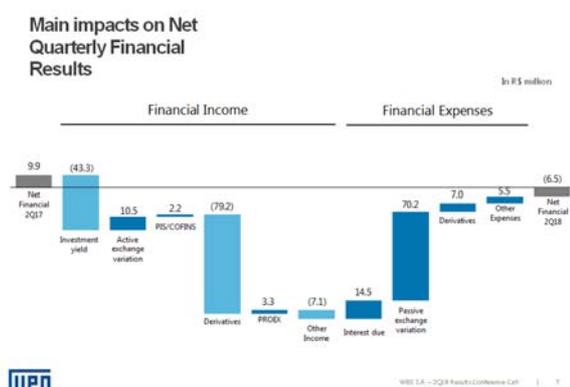
In electronics growth continues to be driven by short cycle products in countries and Europe, Asia and Africa posted significant revenue growth this quarter.

In addition projects increased capacity and building new plants, which also demand long cycle products, continued their growth trajectory mainly in the oil and gas industries infrastructure and pulp and paper production.

In the GTD area revenue growth was driven mainly by the consolidation of the new US transformers company.

As to paints revenue growth in the foreign market reflects the search for new customers mainly in Latin America, with products already consolidated in Brazil.

Slide six shows the evolution of EBITDA in 2Q 18, in which the main highlight in the quarterly comparison was revenue growth. EBITDA increased 25.6% in relation to 2Q 17 with a reduction of the EBITDA margin to 15.2%. As Andre commented on this performance was better than the previous quarter and was within our expectations, and the recovery of the EBITDA margin is happening naturally with the integration of to do acquisitions and the maturation of the new businesses in GTD.

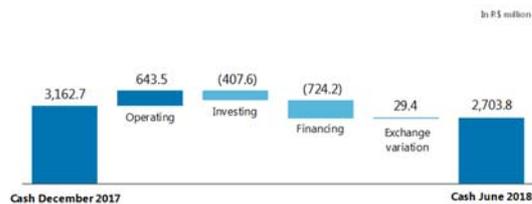


On slide seven we provide details on the net financial result, which was -6.5 million. The decrease in the quarterly comparison is mainly due to the lower interest rates received from our cash position.

It is worth mentioning that although it negatively impacted our financial results the interest rates reduction is very positive for the company's business as it reflects the more stable economic environment with the higher consumption trend and consequently a higher level of industrial investment.



Main impacts on Cash Flow

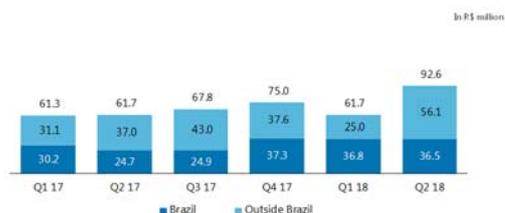


On slide eight we have the analysis of the cash flow. Cash generation in operating activities reached 643.5 million BRL in the quarter, an increase of 3% when compared to the same period of the previous year mainly as a result of better operating performance.

Investment activities consumed 407.6 million in the quarter reflecting the recent acquisition of TGM and the movement of long-term financial investments.

Finally financing activities consumed 724.2 million BRL in the period reflecting the settlement of loans, the payment flow of interest on equity and dividends in the quarter.

Capex Program Quarterly Evolution



Finally on slide nine we show the investments of the last quarters. In 2Q 18 investments reached 92.6 million BRL, out of which 47% went to Brazil and 53% to production units abroad. It is worth mentioning that the normalization of the market behavior will require that we gradually increase disbursement in modernizing should not production capacity and purchase of new machinery and equipment.

With that I wrap up my part and turn the call back to Andre.

Outlook

Focus on revenue growth and ROIC attractiveness

- Improved global investment, recent acquisitions and new businesses are expected to boost revenue growth
- ROIC continues to be company's main driver

Consistent recovery from sales abroad

- The improvement in order intake in the short-cycle products continues, especially in OEMs
- We have already found some opportunities in projects that require long-cycle equipment
- Industries continue the recovery trends

New business and acquisitions will continue to positively impacting performance in Brazil

- The entry into the solar generation business and the acquisition of TGM should contribute to the GTD's revenue growth in 2018
- In the industrial electro-electronic equipment area the continuous improvement is concentrated in short-cycle products
- Economic and political scenarios should guide the performance of the next quarters



Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Thank you Paulo. Before beginning the question and answer is part I wanted to reinforce some points. As anticipated in the latest releases revenue growth and the continued focus on ROIC will be the key drivers for 2018.

Revenue is expected to grow both organically with the improvement of global investment and the new businesses such as solar generation and acquisitions that increase our competitive advantages, such as the recent acquisitions of WEG Transformers in the United States and TGM for example.

The second point is that in the external market sales recovery is already a reality. Industrial production is growing in the main global markets and the improvement in short cycle products continues to be driven by the OEMs. In addition, important industries continue their recovery path with the emergence of project opportunities involving long cycle equipment.

I must mention that we are watching closely the increase in exchange rate volatility, where a weaker BRL allows as an additional budget to increase competitiveness, which we can and we will continue to use to grow.

In Brazil the diversification of our business should continue to contribute positive to revenue growth. After the recovery in 2017 of the area of electronic industrial equipment in 2018 we have the business of solar generation and the acquisition of TGM contributing to the growth of GTD revenue.



We can now start the Q&A session. Operator please you may continue.

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Q&A Session

Operator

Excuse me ladies and gentlemen we can now begin the question-and-answer session. To ask a question please enter star one and to remove the question from the list type the pound key.

The first question comes from Mr. Alexandre Falcão, HSBC.

Mr. Alexandre Falcão – HSBC

Good morning everyone. I have two questions first one is related to the domestic market. I would like to know if there was any impact due to the truck drivers' strike. It could have been even impacted worse as we saw... As the consequence in Brazil.

And in terms of GTD what is the total in terms of solar area and the rest and what can we expect for the quarters to come? Thank you.

Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Hi Falcao this is Andre speaking. Well talk about the truck drivers' strike of course there was a specific impact on the week of the strike; but it was not significant

considering the nature of our products, when the clients usually place their orders in advance.

We had something still on some lines because there was no raw material. This time once again I would like to say that the verticalization model of WEG was very important so that we could have avoided impacts.

For example for electric motors you have the factory of rotors and stator and then we suffered some problems and then we focused on some other areas then. If we consider only the impact due to the days that were not... Came to a standstill it affected some inventory levels but we should be recovering this along the year.

I believe that this movement may impact the confidence of some entrepreneurs and some analysts because there was a downturn of the GDP that is projected for the year. WEG is a global company and therefore the market has been having a very good performance regardless of the Brazilian situation.

If we were to consider the impact in terms of margin I would say that it was 0.3 p.p. on EBITDA. This was the consequence of this strike, which was not due to the idleness at the plants.

Mr. Alexandre Falcão – HSBC

What about GTD?

Mr. Paulo Polezi – Finance and Investor Relations Officer

Falcao good morning this is Paulo speaking. The solar area in its internal market about 280 million BRL was in addition to what we had and part of it save it save it, the large part of it was the solar field. We also have the distribution of solar energy in this amount and most of it comes from the mills, from the plants; but both have to be considered in the total amount.

You asked about future perspectives about the solar field. As we said in the beginning of the call today we are delivering three projects, three solar plants. So the three plans are underway and we also have considered the distributed generation of energy in different States in Brazil, and we want to add something around 500 to 600 million BRL for 2018.



In terms of backlog the deliveries of the projects are happening now and they are likely to be happening in a linear fashion this year, and the three projects that are included in the portfolio will be completed up to 1Q 19.

Mr. Alexandre Falcão – HSBC

Wonderful. Could you ask another question in terms of revenues abroad? In terms of Mexico... But then you disclosed to us in terms of the verticalized project? Thank you.

Mr. André Salgueiro – Investor Relations Manager

Falcao this is Andre Salgueiro speaking and for this year we approved the Capex for the market abroad, which is focused on Mexico. So we expect to continue the project and according to our schedule we are going to start testing at the end of the year and we plan to start production in the beginning of the year.

For China we have completed what we had planned but China has been performing very well in terms of market and production and so we are we are evaluating whether or not we will have to make a new investment in China, and we are discussing investing an additional 22 million USD to increase the capacity of production in China.

Mr. Alexandre Falcão – HSBC

Great thank you.

Operator

The next question comes from Daniel Gewehr from Santander.

Mr. Daniel Gewehr – Santander

Good morning everyone. I have two questions, the first one is related to ROIC which was very strong this quarter and I would like to understand what is the percentage we stand. If we look at three years ahead of us is their goal to intend to reach 20%? And if you give us a

breakdown what would be ROIC in Brazil and ROIC abroad so that we can have a clearer vision on ROIC.

And I would like to ask a follow-up on Falcao's question related to the solar field. You mentioned 600 million as an additional revenue, so I would like to understand what is the potential of solar activity as a whole.

Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Hi Daniel this is Andre speaking so let us talk about ROIC then. First we do not disclose long-term covenants for ROIC; but our expectation is that it will stand around 15% or 17% and this is what we have always mentioned, and this is our main indicator of performance of our company.

In relation to your question related to the breakdown of ROIC in Brazil and abroad we do not have a goal in relation to this aspect; but it is important to say that at WEG every business unit regardless whether it is production or commercial it has an individual ROIC target, and the value that we established for each unit will depend on the level of verticalization as we mentioned in Falcao's question.

The point is that the more mature units have a certain level which is established and we have opportunities of improvement in the units that are under development.

Mr. Paulo Polezi – Finance and Investor Relations Officer

Daniel this is Polezi speaking as for GTD and solar, to provide more details on them. For 2019 as for solar mills we do not have anything contracted. Of course we are working on this and at this time what we can talk about is the distributed generation. For example in 2017 this area added 50 million BRL in our sales and this is likely to double in 2018 and we expect that this will continue to grow rapidly in the years to come in Brazil.

What I would also like to point out still talking about solar energy the latest project that we are providing or delivering is still related to the energy auction of 2015. So we have the visibility to implement projects of other auctions that were much stronger and our perspective is that this business is going to continue to be positive in the future and orders are likely to be captured as well. So this is the visibility that we can share with you in terms of solar energy.



Mr. André Salgueiro – Investor Relations Manager

And to complement - this is Andre speaking - solar may vary from 6 to 8 months and so there is still the possibility of being part of projects and include them in the portfolio for the next year. We still do not have this visibility now; but as Paulo said there are many opportunities out there in the market.

Mr. Daniel Gewehr – Santander

Okay great thank you.

Operator

The next question comes from Ricardo Alves, Morgan Stanley.

Mr. Ricardo Alves – Morgan Stanley

Good morning everyone thank you very much for the opportunity. My question is not going to be related to GTD, I would like to talk about industrial equipment. We are trying to understand a little bit better its good performance in Brazil. We saw that there was a very strong evolution in the annual growth when compared to growth in 1Q, and believe we consider the rupture or the disruption due to the truck drivers' strike and also in terms of pricing have there been any relevant changes in terms of pricing or maybe a better mix? I do not know maybe for the long cycle products being more relevant? I would like to understand the good evolution for this area.

Mr. Paulo Polezi – Finance and Investor Relations Officer

Ricardo this is Paulo Polezi speaking now. To answer your question I am going to step back and look at 1Q TY were in the performance in the business areas, motors and automation more specifically, it was a little bit flat in relation to last year and in this semester we can see a growth.

Automation was more stable because there was a balance in terms of serial products and engineered products of long cycle and 1Q was weaker - and this is something that did not happen in 2Q. Automation continues to perform well in terms of serial products and also for panels and other equipment that we refer to as engineered products.

And motors performed quite well with the growth of 14% and we can see that this is a process. In a year when the economy is still... Has changes, is not very solid; but in our client base we have not felt any changes and so we can see that we have some stability and this quarter automation, the engineered part is the part that made the difference.

Mr. Ricardo Alves – Morgan Stanley

It was so clear thank you Paulo.

Operator

The next question comes from Rogerio Araujo from UBS.

Mr. Rogério Araújo – UBS

Hello everyone good morning, congratulations on the results. My first question is related to GTD in Brazil. We know that the portfolio of wind products will... The end of the year. Can you give us a breakdown what you have planned for the year in terms of this portfolio?

Mr. Paulo Polezi – Finance and Investor Relations Officer

Rogerio this is Polezi speaking. Okay for wind power we have already announced in other moments our portfolio is very similar to what we had in 2017, about 700 million BRL. For this quarter it was a bit stronger in terms of delivery. If you divide the value in equivalent quarters you can see that 2Q was over 200 million and this is due to the high concentration of deliveries and some improvements in some plants.

This is a portfolio there is nothing new. What was new is that we concentrated a little bit more on 2Q in relation to the previous quarters.



Mr. Rogério Araújo – UBS

Okay perfect thank you Paulo. My second question is related to the markets abroad. WEG has been watching closely the market outside where you have some share in some other regions. Have you been gaining share abroad? If you could disclose to us in which segments and where are the markets you have entered into?

Mr. Paulo Polezi – Finance and Investor Relations Officer

WEG's share in the foreign market we shared this information on the WEG Day. We have, we delivered materials with important details and this is a process of evolution. Of course we have a strong share everywhere we operate and the United States is the region outside Brazil where we have the greatest share. We stand as the second position competing with Regal Beloit and depending on the country we stand, we rank as the third or fourth and Asia as to motors we can see a very segmented market and we have been working on this market. We are still on the beginning of this process... In this process and in China we would have a share around 2%.

So we are working on recovering the share in this improvement we have reported this year will improve to increase the share or shares outside Brazil as well.

Mr. Rogério Araújo – UBS

The last point in relation to the raw materials. I would like to know where we are going to see the COGS of raw materials impacted at WEG and what are the negotiations for... To passing through the prices to clients. Is there a time when this prices going to be passed to the clients and how are you going to handle this price passing through?

Mr. André Salgueiro – Investor Relations Manager

Rogerio this is Andre Salgueiro speaking. In relation to the hedge we always look at a one-year horizon and we made divide them in scales. The copper price is going to be updated as the agreements are matured. So we do this to have a prediction of the prices and then to make

settlements in the price of commodities - but we understand this is something we cannot control.

We can see that copper price for example is linked to the second question which is related to the price. We made a new recommendation of prices in the beginning of the year as we always do. Of course raw material costs increased sense of them; but we always expect to we make any decisions because we have hedge mechanisms that allow us to have this predictability and we always want to understand how stable the foreign exchange rate is going to be, because otherwise we run the risk of increasing the prices more than necessary.

So this is a decision that we are waiting to be made and we can see that the prices are adequate considering the raw material prices that we have at the present.

Mr. Rogério Araújo – UBS

Thank you very much good morning everyone.

Operator

Next question comes from Victor Mizusaki from Bradesco BBI.

Mr. Victor Mizusaki – Bradesco BBI

Hello good morning congratulations on the results. I have two questions. The first question, in the results release you said the impact of WEG Transformers and TGM, the new businesses, in relation to the revenues. Could you provide more details which was the impact and the margin when you made the consolidation of those companies?

And the second question still talking about GTD. On WEG Day you mentioned in relation to transmission that you had lots of projects that could be implemented or they were under the phases of contracting. Do you have an update in relation to those negotiations?

And thinking about solar farms can we have an idea of values when we talk about market? What are the projects that need to be contracted in the next years?



Mr. André Luís Rodrigues – Managing Director
Financial Superintendent

Hi Victor this is Andre Rodrigues speaking. Let us talk about TGM and WTU. TGM comes from a level of revenue and margin and according to our expectations margins close to what we have been using in our consolidated terms. We can see that the opportunities for expansion are great using all the structure that WEG has outside Brazil, not only in Latin America but across the world.

We have some initiatives in South Africa to bring this business taking our structure there and as we said on WEG Day the United States is a market where we want to operate more strongly. So all is well.

And WTU is at the speed that we expected. The margin is lower when compared to our transformers plants. We are working on improving those margins and this is going to continue along the year so that we can present better margins than those recorded this year. We expect that the margin for this year is better than last year and in 2019 the margins will be even better.

Mr. Victor Mizusaki – Bradesco BBI

And considering these expansion and margins and operations and as you mentioned in the beginning in relation to the increase of inventory because of the strike, after this is normalized and the margins are expanded can we expect that ROIC should continue this expansion trend?

Mr. André Luís Rodrigues – Managing Director
Financial Superintendent

Victor let us imagine the following: in a situation of normal temperature and pressure this would be correct to say. You have the same distribution of sales abroad, we have been improving the units, ROIC will improve; but at WEG it is a little bit more complex considering all those segments.

For example solar had no relevance last year and it is more important than GTD now. So we have to understand what is going to be the product mix, what are the markets we are going to continue to grow and everything else. That is why we say that ROIC operates at the range of 15% to 17%.

Mr. Paulo Polezi – Finance and Investor Relations
Officer

Victor the second part of your question if we understood well is related to the distribution auctions. Let me talk about the history and what we have said about this topic. WEG has a pre-agreement of 250 million BRL that has already been signed with EDP. This is public information. Our business unit is working on different negotiations. We expect a similar value in other agreements which are less relevant related to the sales of equipment.

And what is important to understand is that this is a slow negotiation process. We are also working on the sales of equipment for the winners, winning bidders and also to suppliers of all the lots.

More recently in June there was another auction, 6 billion BRL in new projects. As a standard WEG had some agreements and our clients won a lot; but we still have some other agreements, pending agreements and WEG is trying to negotiate with other clients. So this is a process which is underway. It is slow and gradual and we will provide updates as we have more clarity on them. And I think there is another part of the question?

Mr. André Salgueiro – Investor Relations
Manager

I think the last part is related to the solar energy and the potential of the project in the market. In terms of value it is difficult to provide information because it will depend a lot on the location and the characteristics of the project; but what we can share with you is that if we consider the auction of December 2017 we had 675 MW of energy for solar and 800 for solar later on. So the projects that we are delivering at present would be something around 30 to 60 MW. So you can understand the market potential of the latest auctions considering what we have in the portfolio nowadays.

Mr. Victor Mizusaki – Bradesco BBI

Okay great thank you.



Operator

The next question comes from Murilo Freiberger, Bank of America Merrill Lynch.

Mr. Murilo Freiberger – Bank of America Merrill Lynch

Good morning thank you very much for the call. I would like to understand the recovery of long cycle products, which have ROIC and margins greater when the market is better. So how do you see this? Is there anything related to long cycle products that are starting to be included in your backlog?

What is the turnaround of CG Power, which is very important to the margin and profitability of the company? So I would like to know what is the long-cycle products profile and the turnaround as well. Those are the questions I would like to ask.

Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Hi Murilo here we go. As for long cycle products sector we have seen some signs of recovery in the market and what can I say about it? What we have seen is the Asia/Pacific or India, which are markets which are performing well. Our unit of long cycle has been receiving orders and what we see in terms of sectors is what we have been announcing, especially oil and gas which is also picking up and also mining, among other areas which are also had a very positive trends.

So the orders are being received and so we can see some recovery and whenever we have more concentrated presence we can see that recovery is very positive and this is what we can see in terms of what we have measured in the sectors.

In terms of WTU turnaround we can say that it continues and we consider this process to last two years in terms of this increment and this is moving on. We have seen that as I said before in 2H TY we can present a better result than what we have posted since its acquisition.

We have made some synergy works, changes in organization, centralization of the sales areas. It used to be divided in two areas and now it is unified in a single location and this is moving according to our action plan.

Mr. Murilo Freiberger – Bank of America Merrill Lynch

Thank you Andre for your answer.

Operator

Next question comes from Felipe Vinagre, Credit Suisse.

Mr. Felipe Vinagre – Credit Suisse

Good morning. I have two quick questions, one is about the abroad market. You said that excluding the effect of the acquisitions... But I would like to know if this is going to be maintained in the quarters to come; and the second question is related to GTD Brazil and as far as the solar area I understood that you are likely to add 600 million up to 2019; however in the release I understood that there was a higher concentration in 1H TY. I would like to know if I am making any confusion considering those pieces of information thank you.

Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Hi Felipe. The international market will continue with this growth trend, maybe not as the same basis of 1Q when the concentration was more on the solar area; and as of August we have a comparison basis which is going to be as favorable when we consider WTU that happened in August and so the bases is going to change but we have the expectation that this is going to continue to be positive.

And what we would like to say as you said the growth in strong currency and the impact of the acquisitions that we cannot disregard the foreign exchange variations, which can have very strong influence in the domestic market. As I said at the end of my presentation we have this increase of volatility in the currency and the weaker BRL allows us to be more competitive, and this will allow us to continue to use, to grow in this process. And the second question is going to be answered by Andre.



Mr. André Salgueiro – Investor Relations Manager

This is Salgueiro speaking. In relation to the solar in fact the two projects that were already included in our portfolio since the end of last year they are more concentrated on this 1H TY. One of them was delivered in July and we intend to deliver the other projects in August and so the revenues are normally concentrated on the 1H of the year.

On 3Q there will be a reduction from the solar farms and the third project that entered recently in the portfolio will be more relevant in the future. What is new is the project that has not been defined in terms of how much revenue will be included this year and how much will be left for the next year; but we are going to continue providing updates in relation to our schedule.

Mr. Felipe Vinagre – Credit Suisse

Thank you. Unless question in relation to income tax. Is there any update in terms of what is going to happen next year? If you could disclose some information it would be nice.

Mr. André Salgueiro – Investor Relations Manager

We have no expectations in terms of changes is related to the effective rate because the benefits that we provided with today will continue and these are basically the equity on... Interest on equity and another law; and we do not expect any changes for the next year.

Mr. Felipe Vinagre – Credit Suisse

Okay great.

Operator

Ladies and gentlemen excuse me. We would like to remind you that if you would like to ask a question on class star one.

Mr. Paulo Polezi – Finance and Investor Relations Officer

I have a question... There is a question which is going to be asked in English, David and he asked if we can make some comments on the demand movement on short cycle products in Brazil and in the main countries abroad.

David short cycle products for you to understand clearly has been recovering quite well in 2017 after a very serious crisis, very deep crisis in Brazil. We have always had balance of short cycle and the long cycle products and the long cycle products nearly disappeared and the short cycle products recovered as of 2016; the recovery was very strong in 2017, we grew more than 20% in Brazil; and in 2018 this recovery process continues in a less intense rate than in 2017 but in a very wide and varied way. There is no concentration on some specific segments. It is very open segments that used to be very strong before the crisis, especially oil and gas; and generation; cement; pulp and paper industries. They do not have such an important role but the industry as a whole has been playing this role that the older players used to have.

More mature economies are at a more advanced pace than we see here in terms of comparing what is happening abroad and my clients that demand short cycle they have started to place orders for long cycle products, and this is the main difference in terms of the local market and the market abroad okay David? Thank you.

Operator

Ladies and gentlemen we now close the question-and-answer session. I would like to turn the floor over to Mr. Andre Rodrigues for his final considerations. Andre you can proceed.

Mr. André Luís Rodrigues – Managing Director Financial Superintendent

Once again thank you very much for attending the conference and I hope to see you next time.

WEG S.A.

2nd Quarter 2018 Earnings Results Conference Call

July 19, 2018 – 11:00 a.m. (Brasilia time)

Transcript of the simultaneous translation from Portuguese into English



Operator

WEG's conference call is now closed. I appreciate everyone's participation have a good day.
