

Integrated Annual REPORT 2016



Continuous and **sustainable growth**
while maintaining **simplicity.**

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TRIBUTE TO WERNER RICARDO VOIGT

On June 1ST of 2016, Mr. Werner Ricardo Voigt, one of the three founders of WEG, died from natural causes.

Born on September 8th, 1930, descendant of German immigrants coming from the region of Düsseldorf, Werner Ricardo Voigt always had electricity as a passion. Since he was a boy, Werner always knew that wires, dynamos, generators and coils would be part of his life. At the age of six, he already showed all his inclination to the electricity subjects, producing scale models of sawmills.

Influenced by his grandfather, Werner became a book and music lover. At the age of 14, he already played clarinet flawlessly.

Adolescent, he lived in Joinville and studied at the Industrial Learning National Service and worked at the electric motor rewinding repair shop of Werner Strohmeier.

At the age of 18, he was called up to join the army in the city of Curitiba. After the military service, he was one of the two soldiers selected to study at the Federal Technical School, where he specialized in radiotelegraphy and electronics.

Returning to Joinville, he worked in the local electric energy utility company for two years. At the age of 23, he worked at the “Kanning & Weber” repair shop. In September 1953, Werner established his own business, a small repair shop downtown in the city of Jaraguá do Sul. The repair shop evolved, always rendering general

services, from household appliances to farm and home machines in the countryside, meeting virtually all the needs in the area. He assembled radios and turntables, manufactured and installed generators, wound motors and oriented the installation of water wheels in the region.

In 1961, together with Eggon João da Silva and Geraldo Werninghaus, he founded WEG, which then produced only electric motors. Werner was always a man of technology. Great responsible for the technological development of WEG, he also contributed to the development of the Brazilian industry. His long-term vision combined with his technical capacity were decisive for the implantation of technical standards at WEG and in the country. Likewise, his influence was important for the company to adopt the IEC (International Electrotechnical Commission) standards, based on the metric system.

Werner worked as a Technical Director at WEG until 1980. Then, for eight years he was the CEO of WEG Máquinas, a unit that produced high-voltage motors and generators. He was part of WEG Board of Directors from 1989 to 2005, as well as of WPA, holding company of the WEG Group. Until the last days of his life, Werner was constantly present at WEG manufacturing plants. He lived with newly-graduated or experienced engineers with the same old pleasure. Asking, looking, listening, discovering and talking, Werner effectively shared all of his experience in the production and problem solving.



MESSAGE FROM THE **PRESIDENT**

When we look at WEG in view of the sustainability triple bottom line concept, we realize our company has a long tradition of sustainable operation. Actions in this regard have always been present in the daily routine of the Company and can be easily observed when reading our integrated report.

Even facing one of the most difficult periods in the company's history, caused by the strong economic downturn and fall in the industrial production and investments, we were able to keep our tradition and reach fairly positive results in 2016. The stock market itself, which is quite critical, acknowledges that: we are a company member of the Corporate Sustainability Index (ISE, from the Brazilian acronym), prepared by the BM&F BOVESPA (SÃO PAULO STOCK EXCHANGE), member of the Dow Jones Sustainability Indices (DJSI), and our shares were included in the Bovespa Index in January of 2016.

In addition to the efficient use of natural resources to make electric equipment, we offer the market the best solutions in energy efficiency and renewable energy generation. Our performance led us to win the award of The Most Sustainable Company in the Capital Goods sector of Exame Magazine Sustainability Guide 2016, prepared by Abril publishing company.

Regarding social responsibility, we contributed to the development of the communities in which we keep our operations with health, education, culture, sport and leisure projects.

We believe that the sustainable growth depends basically on an ethical behavior in the relations among the stakeholders; therefore,

we reinforce our continuous commitment to the UNO's Global Pact, supporting and defending all of its principles related to the human rights, labor, environment and fight against corruption.

In the financial scope, we are working to speed up the expansion in the external market and investing in the great trends related to renewable energy, and sales of more efficient products.

In 2016 we invested R\$ 247.3 million in the research and development of new products and improvement of the industrial processes. The investments in the expansion and modernization of the production capacity added up to R\$ 325.5 million in 2016, besides the three acquisitions: Bluffton, in the U.S.A., TGM in Brazil and NPS.

We will continue to identify opportunities firm in our mission: Continuous and sustainable growth, maintaining the simplicity, characteristics that have guided the company since its foundation.

I thank all our employees, customers, investors and community in general for the support and dedication in this challenging year.

Thank you all and good reading!

Harry Schmelzer Jr.
CEO



MATERIALITY

The materiality process identifies the most relevant aspects related to the sustainable development for the company. The identification occurs by surveying the main stakeholders combined with the company's opinion.

Within the 2-year interval established to execute this process, WEG carried out a new survey cycle, which will be used in the strategic sustainability planning, and also in the alignment with the GRI methodology of this report.

SURVEY PROCESS

The survey was carried out by means of an online questionnaire, approaching fifteen aspects related to sustainability, with the ten priorities mentioned in order of relevance.

WEG

The material aspects were defined by WEG Sustainability Group, which is composed of representatives of corporate areas strategic for the sustainability.

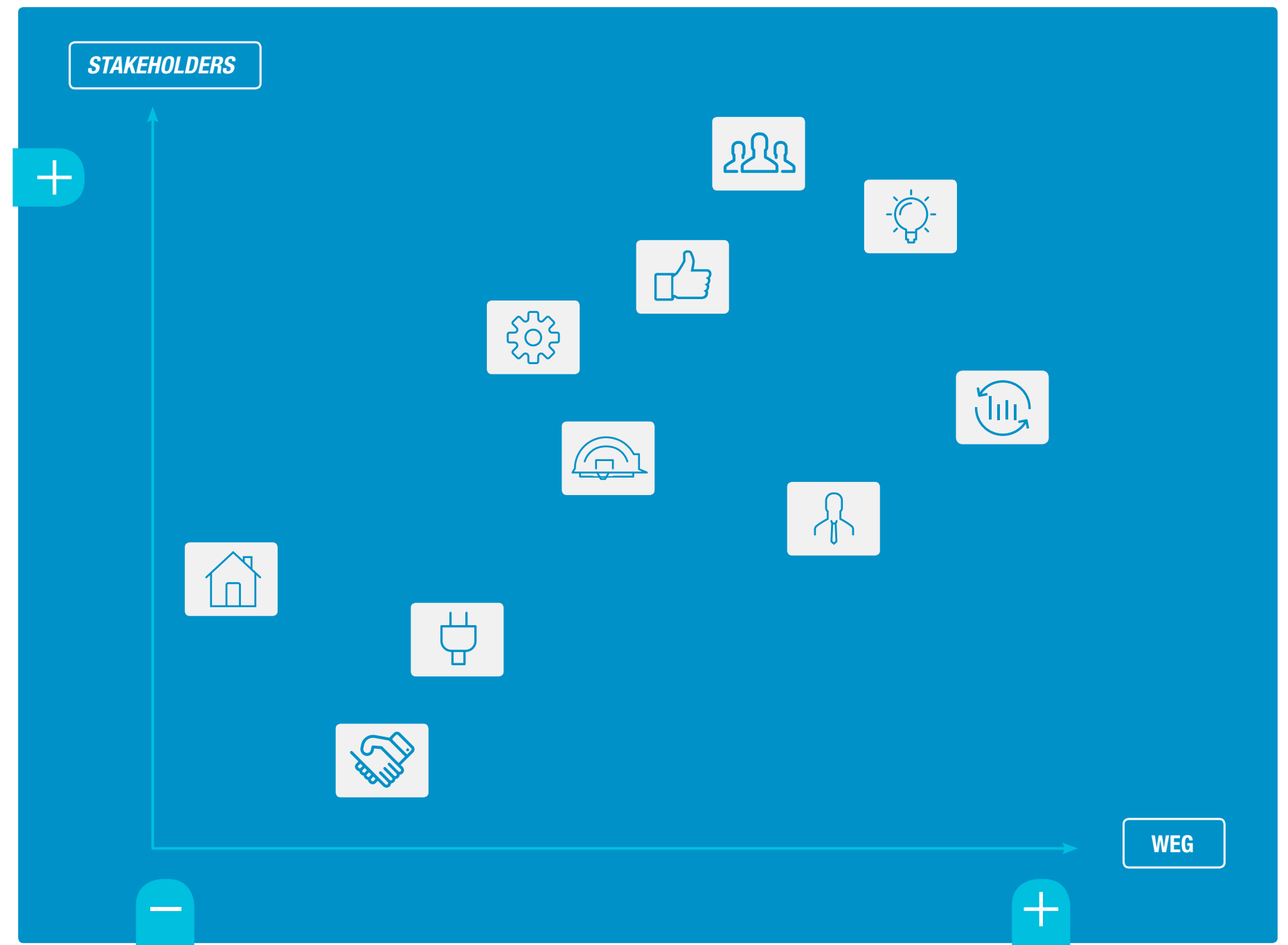
STAKEHOLDERS

The definition of the stakeholders to be surveyed considered a study that identified on which aspects WEG has the greatest impact and/or by which it is impacted, being those:



MATERIAL ASPECTS

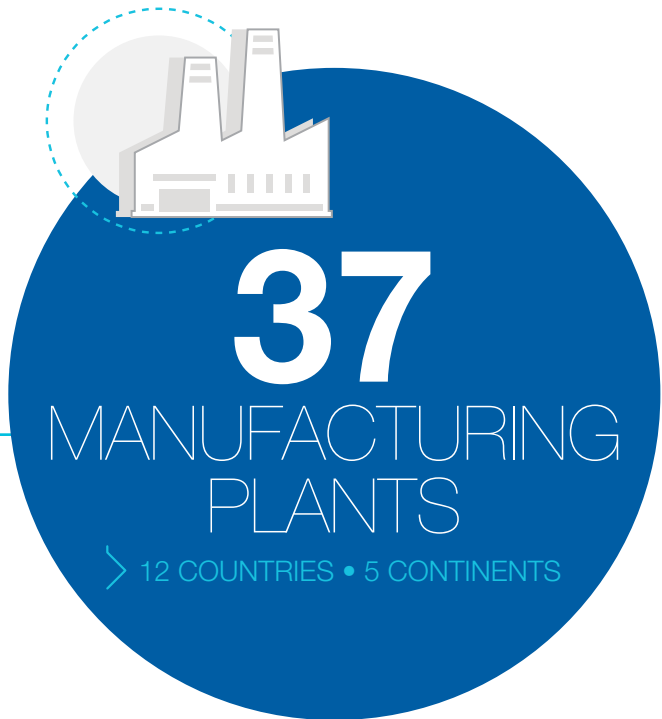
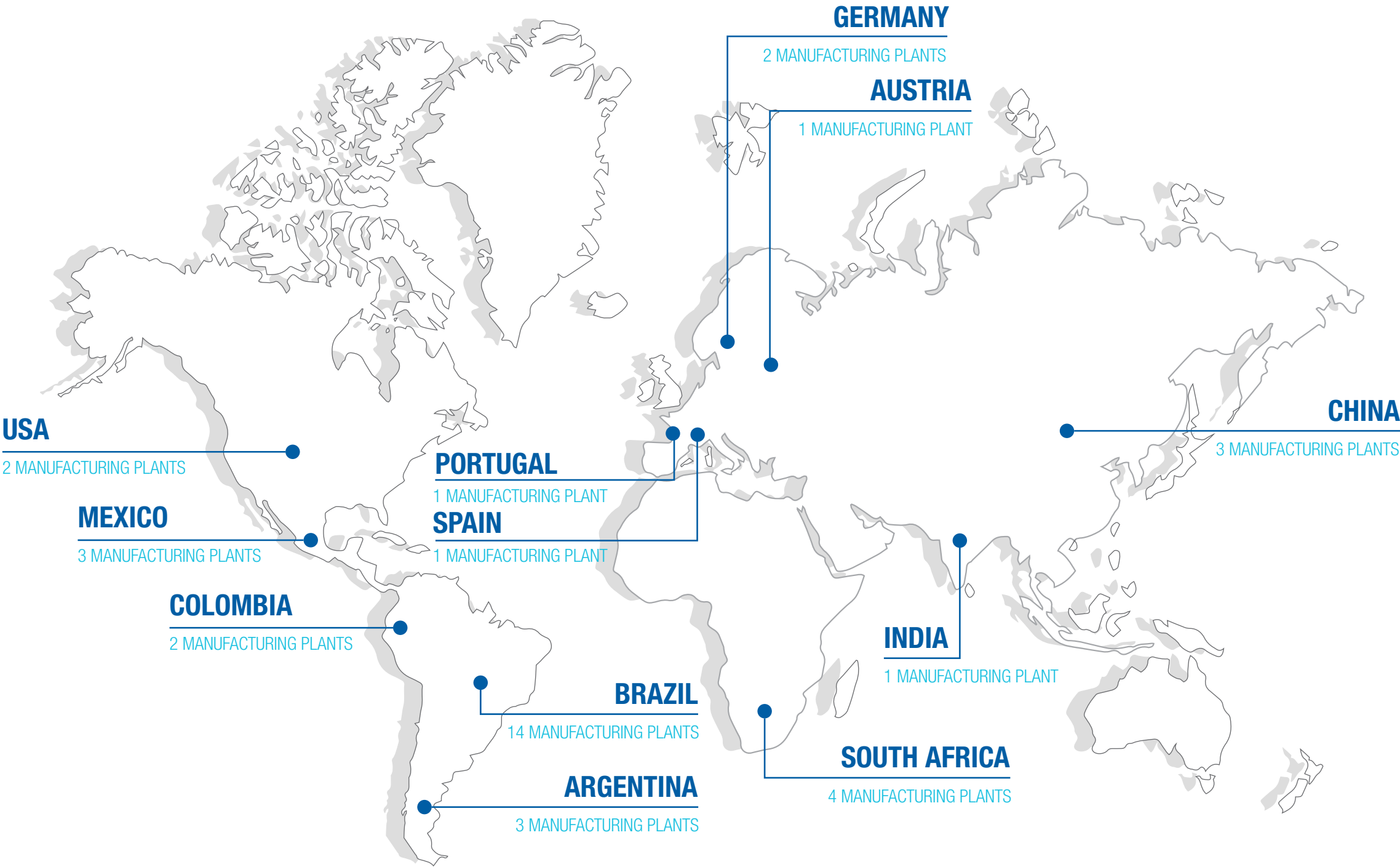
The survey process (WEG and stakeholders) defined, by order of relevance, the following aspects:



WEG



WEG GLOBAL PRESENCE



COMMERCIAL SUBSIDIARIES IN 29 COUNTRIES

- Argentina
- Australia
- Austria
- Belgium
- Brazil
- Chile
- China
- Colombia
- Ecuador
- France
- Germany
- Ghana
- India
- Italy
- Japan
- Malaysia
- Mexico
- Netherlands
- Peru
- Portugal
- Russia
- Scandinavia
- Singapore
- South Africa
- Spain
- Ukraine
- United Arab Emirates
- USA
- Venezuela

DISTRIBUTION OF THE NET INCOME BY GEOGRAPHIC REGION ON THE EXTERNAL MARKET

COVERED MARKETS	2016	2015	2014
North America	41%	40%	38%
South And Central America	15%	16%	15%
Europe	26%	24%	25%
Africa	9%	10%	12%
Asia e Oceania	9%	10%	10%



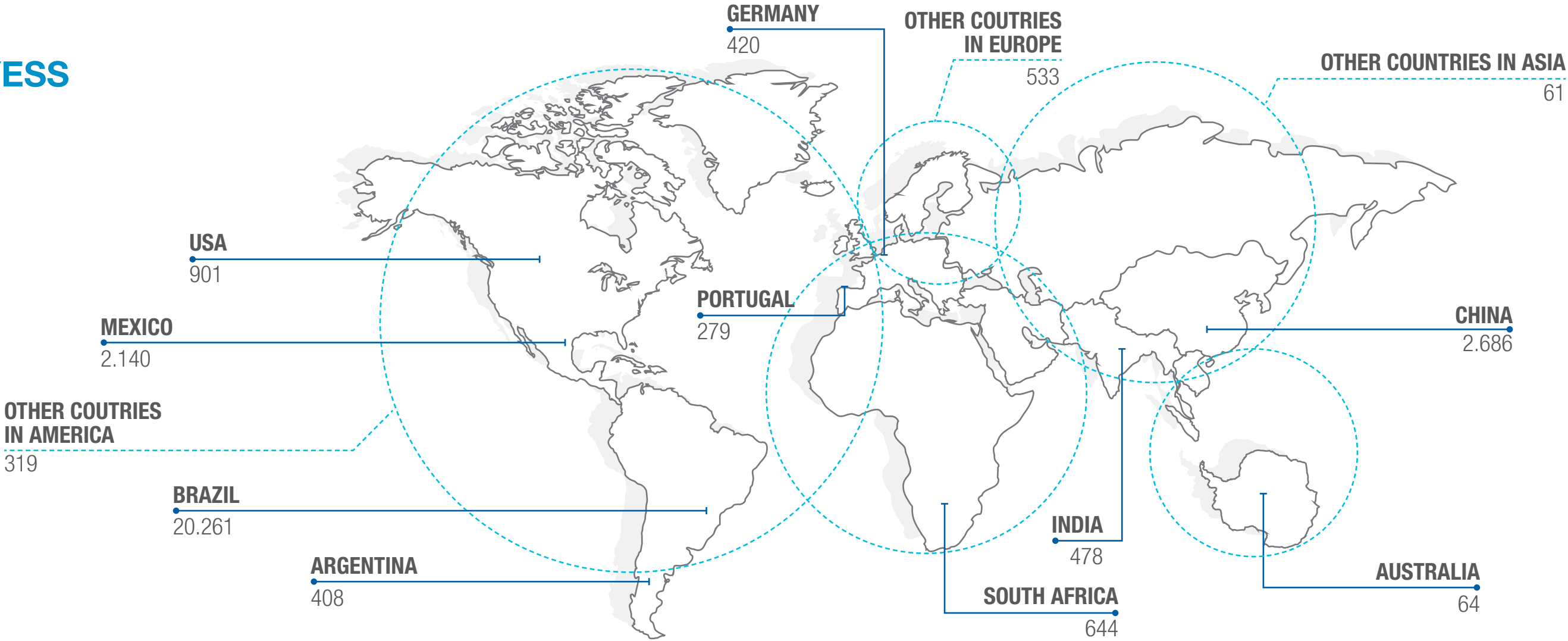
DISTRIBUTORS IN 90 COUNTRIES

SALES FOR OVER 135 COUNTRIES

MORE THAN 1.400 REPAIR SHOPS
ALL AROUND THE WORLD

PROFILE OF THE EMPLOYEES

TOTAL EMPLOYEES



AMERICA
24.029
2015 | 25.798
2014 | 25.942

EUROPE
1.232
2015 | 1.262
2014 | 914

AFRICA
644
2015 | 783
2014 | 669

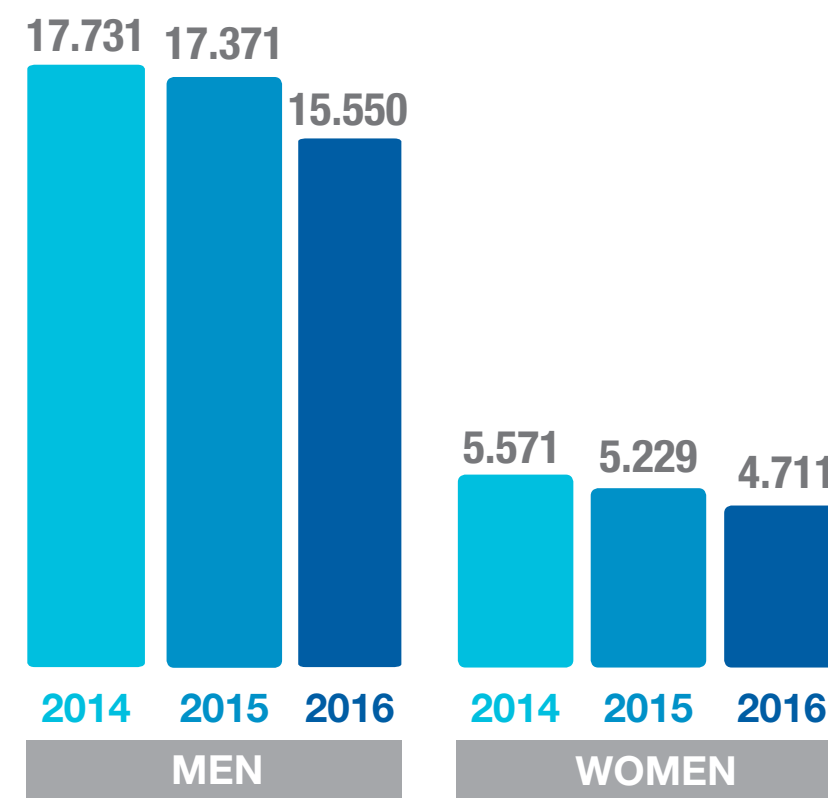
ASIA
3.225
2015 | 3.053
2014 | 3.058

OCEANIA
64
2015 | 77
2014 | 81

2016
29.194
EMPLOYEES
2015 | 30.973
2014 | 30.664

PROFILE OF THE EMPLOYEES

GENDER



TOTAL EMPLOYEES BY:

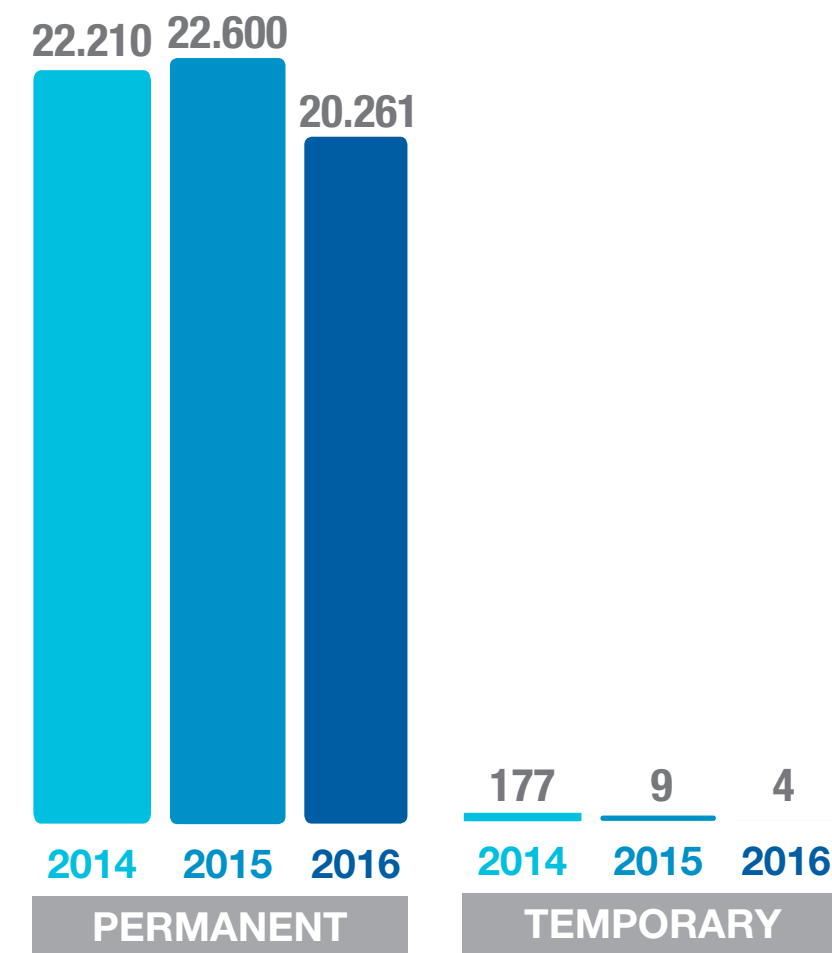
It refers to the units in Brazil

Working hours (full time)

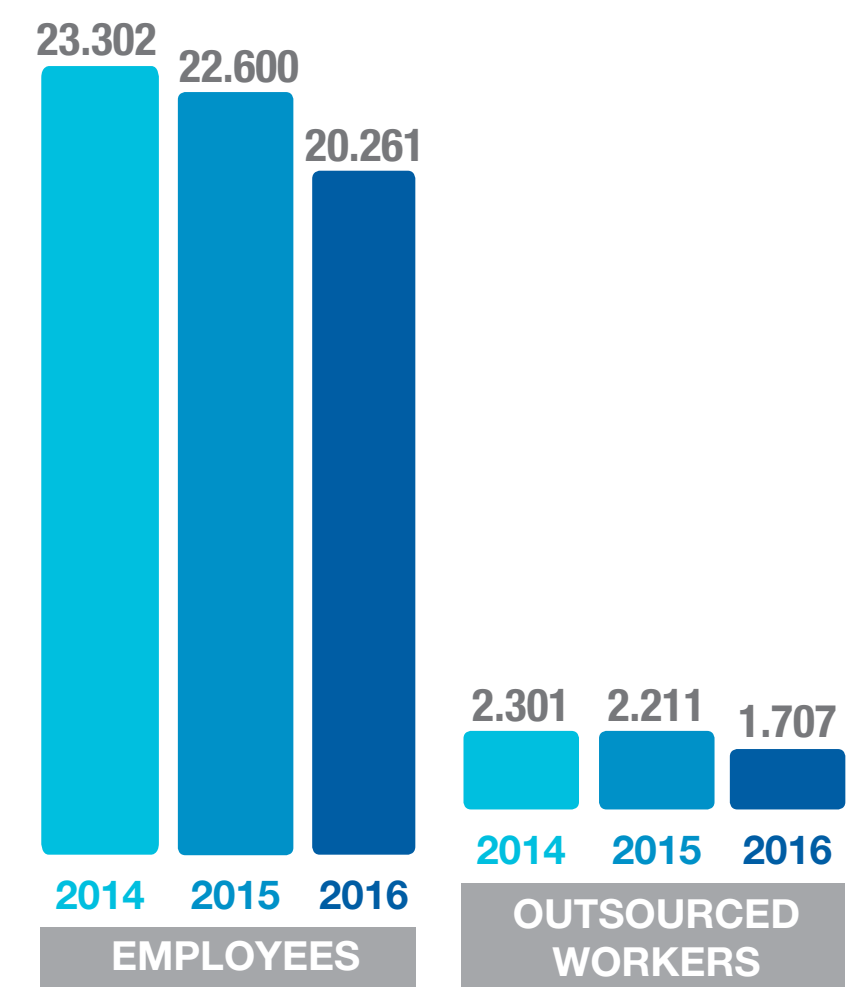


WEG does not have employees working part-time.

Type of contract



Kind of job



except for associates

MAIN RECOGNITIONS IN 2016

- Selected to make part of the ISE portfolio - BM&FBovespa Corporate Sustainability Index
- Selected to make part of the Sustainability Dow Jones Index (DJSI) in the Emergent Markets category;
- Selected to compose the Exame Magazine Sustainability Guide - Elected the most sustainable company in the Capital Goods sector;
- VOCÊ S/A Magazine – “The 150 Best Companies to Work”;
- WEG CEO, Harry Schmelzer Jr, chosen by Forbes magazine for the list of “Best CEOs” of Brazil;
- Harry Schmelzer Jr. is ‘Valuable Executive 2016’
- Abrasca Value Creation Award;
- WEG among the winners of the Broadcast Companies Award - 9th place among the 184 companies with shares traded at BOVESPA;
- WEG among the best of Estadão Newspaper: Company is elected the best of the Machinery and Equipment sector with distinction in Corporate Governance in the “Top Companies” Ranking, of Estadão Newspaper;
- British Quality Foundation Award. Winner in the category “Best Lean Six Sigma Project” in the United Kingdom Excellence Awards 2016;
- WEG is elected Leader in Machinery and Equipment by Brazil Leaders Award 2016;
- Composé line of switches received the iF Design Awards, considered the biggest design award of the world;
- Composé line of switches awarded by BDA (Brazil Design Award);
- Best program of relations with investors of Brazil - IR Magazine Awards Brazil 2016.



WEG stands out in the Latin America Executive Team Ranking 2016 of the Institutional Investor Magazine:

- Best Program of Relations with Investors;
- Best Team of Relations with Investors;
- Best Meeting with Analysts (WEG Day);
- Best Website (2nd place);
- Harry Schmelzer Jr, President of WEG, - Best CEO;
- Andres Luis Rodrigues, Best CFO (2nd place in the category)

WEG is elected the best company of the sector by Época NEGÓCIOS Magazine:

- 1st place in the category “Financial Performance”;
- 2nd place in “Capacity to innovate”;
- 3rd place in “Socio-environmental responsibility”.

INNOVATION AND SUSTAINABILITY



INNOVATION AND SUSTAINABILITY

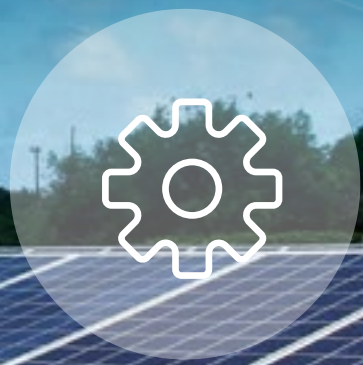
Innovation is essential for a company to improve its processes, keep competitive and expand its businesses. When the innovation and technology contribute to minimizing environmental impacts by providing efficient solutions, they maximize people's life quality and contribute to the business competitiveness. All this positive impact on the stakeholders reinforces the commitment to the sustainable development.

WEG encourages and strengthens the use of renewable energy sources, and energy efficiency practices, and the alignment of high technology with the sustainable concepts, helping its customers increase their competitiveness with a smaller environmental impact.

HIGHLIGHTS IN THE BUSINESS UNITS



WE ALWAYS TRY
TO DEVELOP NEW
EFFICIENT SOLUTIONS
to respond to situations
of change and meet the
needs of the customers.



MOTORS UNIT



ENERGY EFFICIENCY

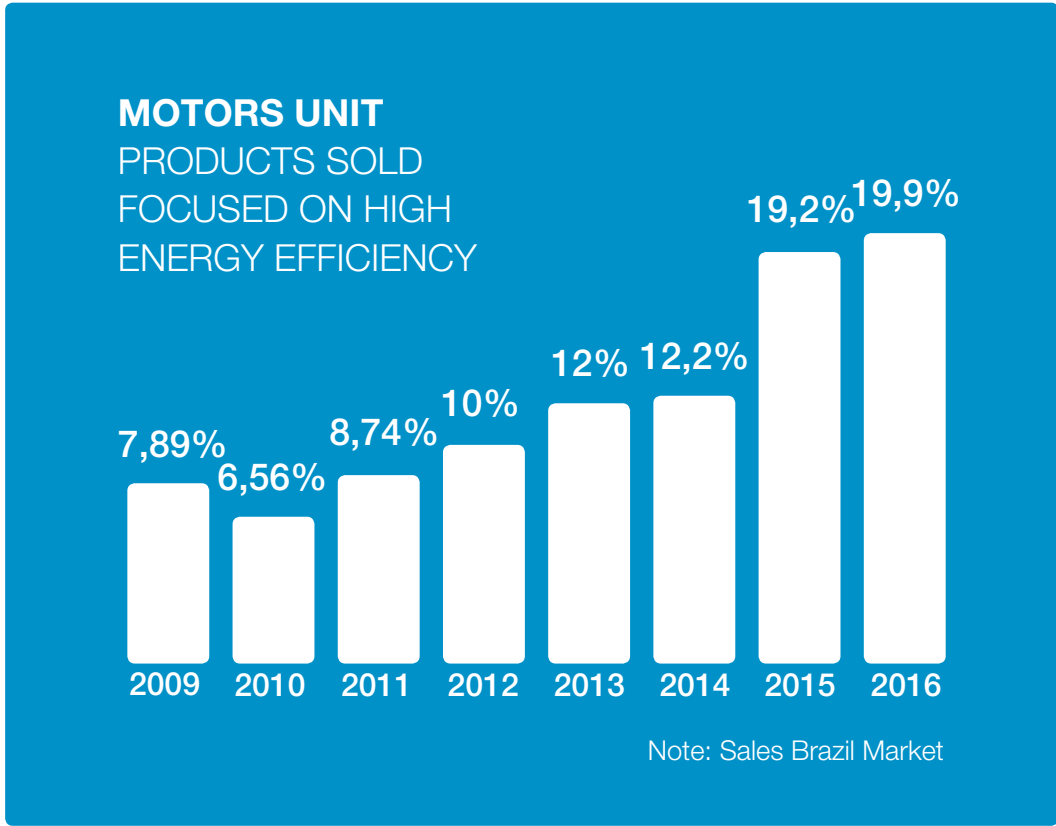
The Motors unit has based the development of its products on the efficiency improvement so as to save energy and consequently reduce greenhouse gases emissions.

Nowadays, it offers motors with up to two levels above the minimum level the most advanced global regulations require. All that translates into opportunities for our customers to increase their competitiveness and reduce the environmental impact.

In 2016, all eyes were on the public bids of the Energy Efficiency Priority Project # 002/2015 of the National Agency of Electric Energy (ANEEL, from the Brazilian acronym): “Incentive to the replacement of electric motors, promoting the energy efficiency in the motor segment” on the part of the energy utility companies in Brazil. This project of ANEEL aims at replacing old low-efficiency motors manufactured before 2009 by new motors that comply with the efficiency legislation. Moreover, the project requires the proper disposal and recycling of the old motors, preventing their restoration and return to the market.

In this scenario, WEG became an option for the customers to do such reverse logistics, as it

is already doing it by means of its own Motor Exchange Plan. And also, as a form to disseminate such policy and foster the opportunity to obtain bonus to exchange the motors, it launched an advertising channel in a partnership with Procobre called Change your Motor Project (www.troqueseumotor.com.br), concentrating in a single place all the information the users need to know to participate in the project.



AUTOMATION UNIT



SOLAR POWER

The sun is an inexhaustible source of energy, and Brazil has an enormous potential to use such source. Therefore, combined with the sustainability principles, WEG uses all of its experience and technology in energy conversion to offer a complete solar energy solution, exploring the potential of the renewable power sources in the distributed generation for the customers.

Composed of inverters, transformers, cubicles, and substations, in addition to integration engineering and software application, WEG solution for solar energy generation can be adapted, according to the application needs, to plants, industries, commercial buildings, residential buildings and isolated systems.



ELECTRIC TRACTION

Integrated solutions for electric vehicles

Electric vehicles are part of the vehicle group called zero emissions. They are a non-polluting means of transportation, very quiet, and with lower operating and maintenance costs than the combustion engine.

In addition, they are more efficient, recovering energy from the braking and helping the traditional braking system of the vehicle by means of the regenerative electric braking. WEG continuously develops its line of electric motors and frequency inverters for electric traction, combining efficiency, quality, and lower environmental impact.

WEG electric drive systems can be applied to different road and railway vehicles such as:

- Light vehicles such as golf carts, industrial tow trucks, forklifts, and the like;
- Drive of auxiliary loads such as compressors, pumps, and fans installed on vehicles;
- Medium vehicles such as delivery trucks, and vans;
- Heavy vehicles such as buses, and trucks;
- Locomotives and railway vehicles such as trains, monorails, light rail vehicles, and streetcars;
- Other electric and hybrid vehicles to transport passengers or cargo in industrial, road or railroad environments;

ENERGY UNIT



SUSTAINABLE ENERGY

The Energy unit is dedicated to developing and producing equipment for electric energy generation with minimum environmental impact. This equipment is developed with cutting-edge technology, seeking the maximum efficiency of each component.

WIND TURBINES

The wind generation has achieved a significant participation in the global energy mix and has presented a constant growth in Brazil, which justified the installation of wind equipment manufacturing plants. WEG, as part of this market, in 2010, started its first researches, and the development of generators and other equipment for wind generation. From 2014, when WEG made its first supply of wind turbines, until 2016, 90 wind turbines (189 mW) were installed. At the end of 2017, 245 (514.5 mW) will be installed.

ALTERNATORS FOR GENERATOR SETS

The necessity of energy supply for activities that cannot have any interruptions, such as hospitals, manufacturing plants, commercial centers, among others, demand the use of generator sets driven by internal combustion engines (diesel, gas, ethanol etc.). Aiming at reducing the fuel consumption and minimizing the environmental impact, in 2016, WEG launched an alternator exchange plan.

The program encourages the replacement of alternators with low efficiency levels, removing from the market old, rewound or even scrapped alternators, which will be accepted as part of the payment in the purchase of new alternators.

WEG alternators offer modern technology and greater reliability in the energy generation, reduction of fuel consumption, contributing to the reduction of CO2 emission, and higher financial return of the operation.

TURBOGENERATORS

The first 2-pole turbogenerators manufactured in Brazil started to operate.

An unprecedented project added innovation and technology to a sugar and alcohol plant in Brazil in order to optimize the renewable energy cogeneration from sugarcane bagasse in the harvest and off season. The significant production of electric energy allows the plant to sell the excess, which will be able to supply other consumers for a whole year.

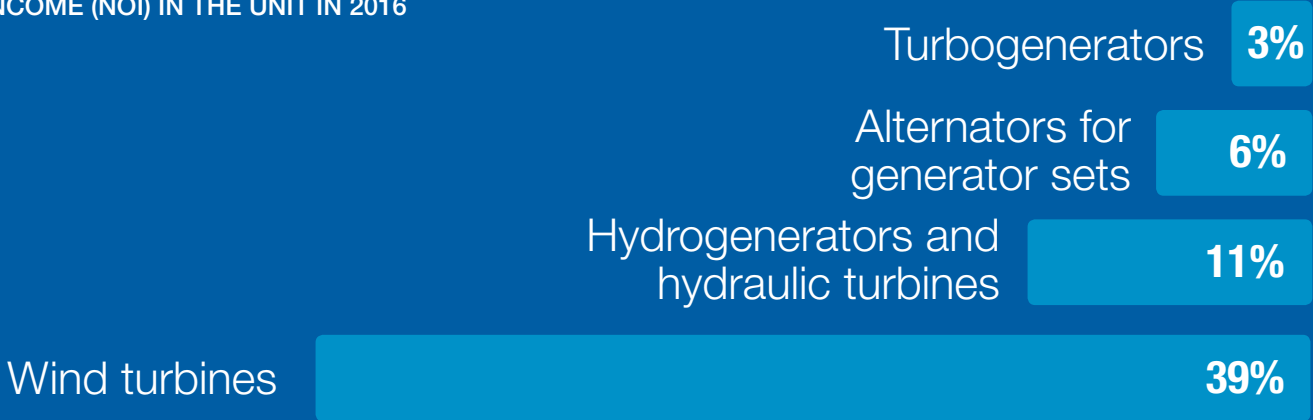
HYDROGENERATORS AND HYDRAULIC TURBINES

In renewable energy mixes, the hydroelectric plant represents a significant part of the global production (about 16% of all the electricity generated in the planet). In Brazil, besides being a historical factor of economic development, the hydroelectric plant has a significant participation of 66% in the energy mix.

WEG takes part actively in this market by supplying complete solutions for hydroelectric plants and small power plants up to 200 MVA. They are generators, hydraulic turbines, panels and cubicles, supervisory systems, substations - in short, all the equipment for hydraulic generation, produced observing the highest quality standards and technology, guaranteeing the efficiency of the generation unit.



% OF THE NET OPERATING
INCOME (NOI) IN THE UNIT IN 2016



TRANSMISSION AND DISTRIBUTION UNIT

The Transmission & Distribution unit continuously seeks solutions that enable the rational use of natural resources and new alternatives for the improvement of its processes, working on the development of practices that allow reusing resources in the manufacturing plants, and in projects in the field.

PRODUCTS DEVELOPED FOR RENEWABLE ENERGIES

OPTIMIZED TRANSFORMERS FOR SUSPENDED WIND ENERGY SOLUTIONS

The development of those transformers required a special thermal project, considering the action of the natural ventilation on top of the high wind towers in order to attain maximum power density. Due to the inclusion of the particular conditions of the specific application in the development of the transformer, the final result produced an extremely compact machine, with significant reduction of natural resources used in the manufacture. Additionally, due to the installation configuration, in which the source and the transforming unit are very close to each other, the system allows smaller losses and greater energy efficiency.

TRANSFORMERS FOR SOLAR PLANTS

Strategically directed to the best use of alternative energy sources, the Transmission & Distribution unit developed a line of transformers for application in photovoltaic plants, focusing on the efficiency and convenience in the application and also using esters as thermoinsulating fluid. The project has power supplies for the control circuit components fully independent of the transformer, with a photovoltaic matrix, which requires hybrid source equipment (electric and photovoltaic simultaneously).



SUSTAINABLE ACTIONS IN THE WORKS IN THE FIELD

The practices adopted in our works in the field are aligned with the actions in the manufacturing process, specifically in the supply of turn-Key conventional substations, among which we point out:

- **REUSE OF THE MATERIALS FROM THE EXCAVATION OF THE CONTAINMENT BASINS** where the transformers will be installed, and of the Substation wiring channels for leveling the plateau. The reuse prevents excavations around the construction site and consequently the consumption of fossil fuel (produced from oil) to supply the trucks for the transportation of such materials from excavations. As the trucks do not travel, the emission of atmospheric pollutants is also prevented;

- **REUSE OF THE WATER USED TO CLEAN THE CONCRETE MIXERS** to moisten the roads around the substations, controlling the atmospheric particulate materials;

- **USE OF WATER TANKS TO COLLECT RAIN WATER AT THE WORK SITES** so as to use the aquifer rationally. The collected water is used for cleaning the toilets and moistening the area around the construction site, controlling the emissions of particulate materials and saving groundwater;

- **REUSE OF THE TEST PIECES¹** to demarcate parking and living areas, avoiding the use of materials for such demarcations and the disposal of civil construction waste.

1. Test Piece: Sample of hardened concrete, especially prepared to test properties such as compressive strength and elastic modulus.



COATINGS UNIT



CONTRIBUTING TO
THE REDUCTION
OF ENERGY AND
INCREASING
PRODUCTIVITY

Developed with state-of-the-art technology, the products of the Coatings Unit meet the needs of the customers, seeking to increase productivity, reduce losses, and save inputs in the coating and primary and secondary insulation processes.

For each product line, more sustainable solutions, in compliance with the legislation in force, and aligned with the global trends of ecologically correct products.

LIQUID PAINTS

- Water soluble products with anticorrosive resistance for coating metallic surfaces, reducing the environmental impact;
- Low-VOC (volatile organic compound) coatings, reducing the emission of solvents that harm the ozone layer;
- Elimination of toxic lead, chromium, and cadmium pigments in the products so as to preserve people's health;
- Development of a biodegradable solvent (WEG Clean 1015 BIO).

ELECTRICAL INSULATORS

- Water soluble products to impregnated windings with reduced impact on the environment and the worker, presenting high electrical resistance;
- Resins with low-VOC (Volatile organic compound) emission, complying with the international standards;
- Varnishes to insulate aluminum and copper wires with lower energy loss, increasing the efficiency of electric motors.

POWDER COATINGS

- Products developed with lower setting temperatures, providing greater energy savings and higher speeds in the coating line;
- Line free of heavy metals, complying with international standards, such as the UE ROHS Directive;
- Power coatings developed with less waste generation;
- Powder coatings with controlled granulometric distribution, providing less waste generation for the customers.



% OF NET OPERATING
INCOME (NOI) IN 2016
OF MORE SUSTAINABLE
PRODUCTS

48%

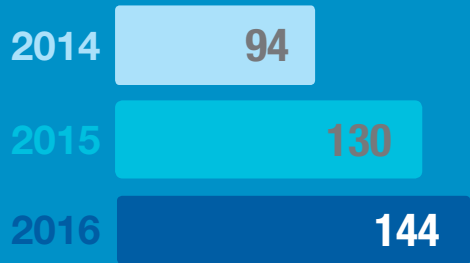
INNOVATION AND TECHNOLOGY

TECHNOLOGICAL DEVELOPMENT PROGRAM

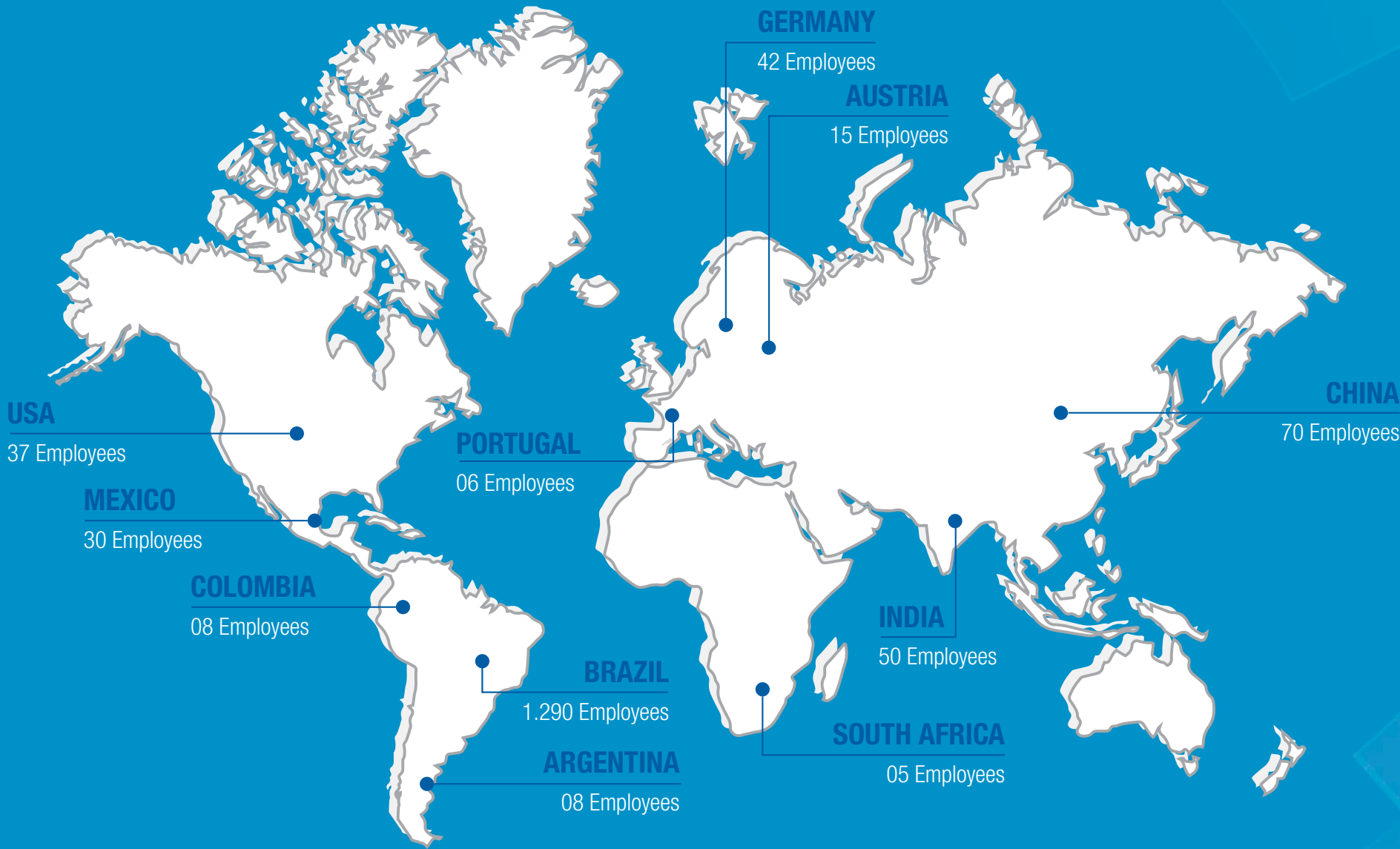
At WEG, all ideas are organized and systematized by means of WEG Program of Quality and Productivity. Inside that is the Technological Development Program, which gathers the innovation projects regarding new products and processes. Based on the Technological Strategic Planning, the various projects that will be part of the programs are defined.



NUMBER OF PATENTS



1.561 EMPLOYEES DEDICATED FULL TIME TO INNOVATION





PEOPLE MANAGEMENT



EMPLOYEES' TRAINING AND EDUCATION

Seeking the continuous development of its employees, WEG offers education and training programs that involve both technical and behavioral enhancement, aiming at promoting greater qualification and generating more competitive strategies on the market. The education also extends to the community with opportunities to start a career as a young apprentice, and intern in a structure that offers free internal courses.

Qualified teams use the best equipment, create solutions for the daily problems, adapt processes and products, develop and implement innovations. That is essential for the good performance and professional development, as well as to contribute to meeting the organization's expectations of continuous and sustainable growth.

HIGHLIGHTS



COMMUNITY



CENTROWEG

The apprentice has guaranteed training at WEG Training Center (CENTROWEG). The professional training school develops competences, qualifying young people to perform activities requiring technical training. CENTROWEG started its activities on April 23, 1968.

CENTROWEG CURRENTLY OFFERS THE FOLLOWING COURSES:

- Machining and Electromechanical Assembly (length of one year);
 - Chemistry; Electronics; Electrotechnics; Mechanical Maintenance, Toolmaking, and Information Systems Programming (length of two years).
- The school has 21 laboratories for practical activities, and five classrooms arranged in an area of 2,550 m² with 14 professionals.

RESULTS OF THE PROGRAM

- ANNUALLY ABOUT **140 PROFESSIONALS** GRADUATE;

- MORE THAN **3.600 YOUNGSTERS** ALREADY STUDIED AT CENTROWEG;

- **49% OF THE 3.600 YOUNGSTERS** THAT STUDIED AT CENTROWEG REMAIN WORKING AT THE COMPANY UNTIL TODAY;

- NOWADAYS, **MORE THAN 100 MANAGEMENT POSITIONS** ARE TAKEN BY STUDENTS OF CENTROWEG.

OTHER PROGRAMS FOR THE COMMUNITY:

INTERNSHIP PROGRAM: Chance for the students to complement their education.

PQPA: Professional qualification of production apprentices.

EMPLOYEES

PERFORMANCE AND COMPETENCE REVIEW

It is a tool for all employees of the company in Brazil, involving almost 17.2 thousand people, who are evaluated once a year by the immediate supervisor.

The reviewed competences comprise: Communication, Knowledge, Creativity and Innovation, Focus on the Customer, Initiative, Negotiation, Attendance and Punctuality, Occupational Safety, Discipline, Productivity, Quality, Interpersonal Relationship, and Responsibility. According to the results of this review, the employees can prepare their self-development plan, establishing actions to develop their technical, educational, and behavioral skills.

BELOW ARE SOME OF THE PROGRAMS THAT HELP THE EMPLOYEE:

• **YOUNGSTER ADULT EDUCATION:** in a partnership with Social Service of the Industry since 2010, the program provides the employees with the chance to raise their educational level for free. Up to 2016, 307 employees finished secondary school or graduated in high school;

• **SCHOOL SUPPORT:** provides scholarships (technical courses, graduation, post-graduation, and languages). In 2016, the average of scholarship holders by course was, Technical: 8, Graduation: 141, Languages: 434, Post-Graduation: 100;

• **INTERNAL TRAINING:** classroom courses and distance learning that allow increasing the technical and behavioral knowledge. Distinction in the number of participations in classroom courses in 2016, 31% above 2015;

• **OPEN EXTERNAL OR IN-COMPANY TRAINING COURSES:** development of specific courses together with external entities. Open courses: out of the company and with external instructor. In-company: course with external instructor inside the company. In 2016 we had an increase of 41% in the participation in comparison to 2015;

• **PROFESSIONAL QUALIFICATION FOR ENGINEERS AND TECHNOLOGISTS:** Oriented to engineers and technologists wTho work in the technical, commercial and industrial areas. Held in Brazil, Mexico, China, and India.

• **IN-COMPANY POST-GRADUATION:** Update and specialization in engineering. The post-graduate courses can be at specialization or mastering level. The programs have already involved approximately 687 employees.

• **EXPATRIATED EMPLOYEE SUPPORT PROGRAM:** Started in 2016, the program provides greater support for the employees and their families in the expatriation process, following the adaptation period, and performance in the unit abroad. 22 expatriated employees were followed in the adaptation process until the end of 2016.

LEADERSHIPS

POTENTIAL EVALUATION

Tool that identifies potentials, considering administrative, interpersonal and intrapersonal characteristics in order to support the company in strategic decision making in case of promotions to supervision, specialist, management or direction positions.

SUCCESSION PLAN

Tool to map the current executives and identify possible and potential successors. The potential employees are indicated by the immediate supervisors and validated by a specific committee based on the future demand and/or study of remaining time. The names are annually reevaluated by the committee. The objective is to identify potential employees for management and direction positions in the medium and long term, value the people from the company, and plan the development of those employees.

Thinking of helping them in this additional development, WEG also offers the Management

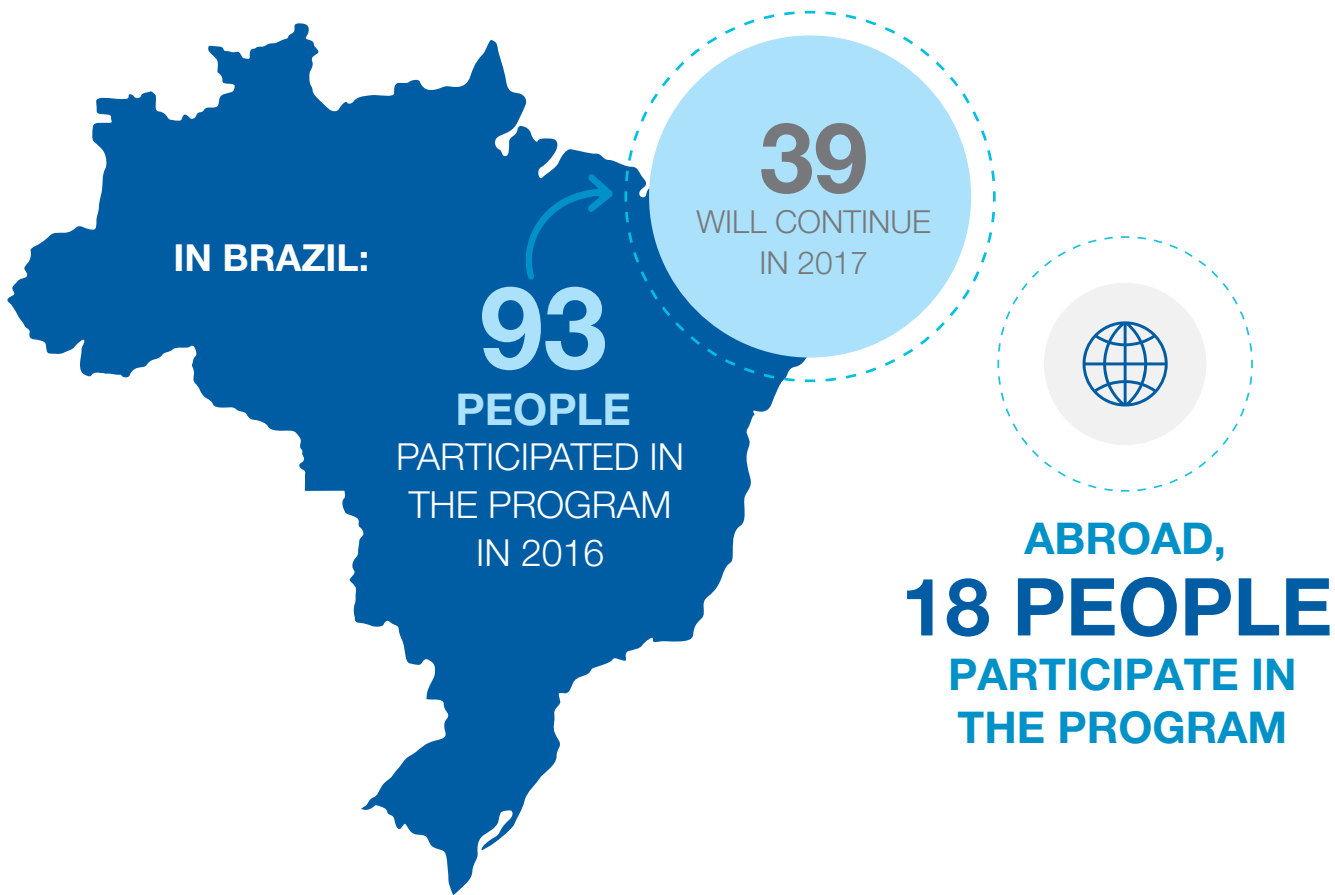
Development Program, which is oriented to Management and Direction positions, and intended to develop the current executives, and potential talents in the high management career.

The programs are carried out in business schools in Brazil and abroad, such as Amana, Cenex, Insead, Kellogg, Stanford, Indian Institute of Management, Trend School, among others.

In parallel with this program, managers identified as potential may take a specialization in Business Administration in partnership with FGV-SP in order to develop their potentials for future leadership roles.

LEADERSHIP FORMATION

The Leadership Formation Program was created in 1979 in order to prepare managers for future challenges. Every year the modules are updated according to the demands of the company and adapted according to the reality of each unit (Brazil and abroad). Currently, the program has 39 modules, totalizing up to 234 hours of course.



COACHING

WEG offers its leaders another development tool (Coaching) for free to work on self-knowledge and potentialize their skills for reaching their objectives, involving management, and relationship competences.

SEMINAR ON MANAGEMENT PRACTICES

Developed to share people management practices as a way to stimulate the internal benchmarking among managers. The meeting is held monthly with length of 1h30min, and subjects established based on climate indicators, and management competence reviews. In 2016, the Seminar started to be held monthly; until then it was bimonthly.

YEAR	NUMBER OF PARTICIPANTS
2014	839
2015	1.330
2016	2.170

MANAGEMENT COMPETENCE REVIEW

Tool that helps managers identify the best developed competences and which ones can be worked on. The managers are evaluated every two years by the immediate supervisor, peers and subordinates; the subordinates only evaluate the “Prepare people and build teams” competence.

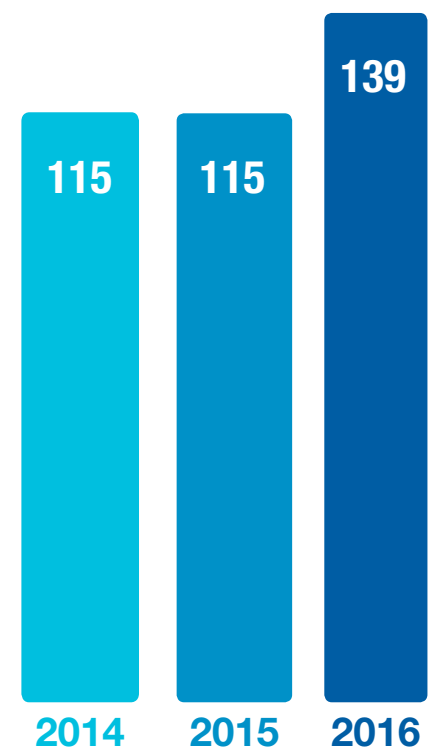
After those reviews, the results generate a self-development plan for the managers, checked at each review process, aiming at their continuous development. The last Review process was held in 2015, involving nearly 19,000 employees.



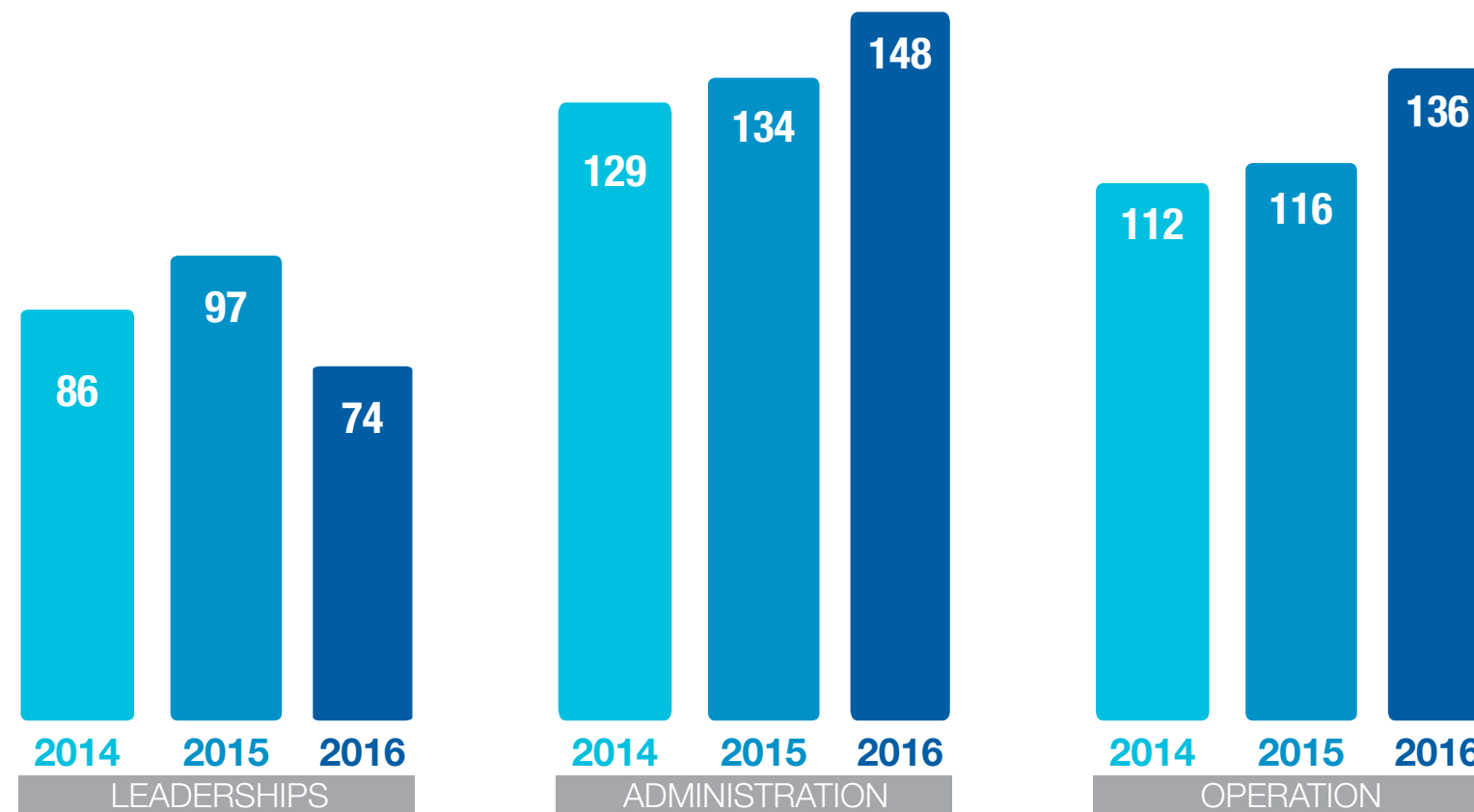
The competences reviewed:

TRAINING INDICATORS

Average of training hours per employee



Average hours of training per functional category



Investment in training



ORGANIZATIONAL CLIMATE

ORGANIZATIONAL CLIMATE SURVEY

The Organizational Survey is held every two years in order to identify the satisfaction level of the employees regarding the policies, values, benefits, development, and management. In 2016, 13,877 employees answered the survey.

The result of the survey is stratified by unit and place, seeking to identify the good practices, and specific improvements to be developed.

From the result, manager groups together with the HR department develop and implant an action plan supported and aligned with the corporate directives.

VOCÊ S/A MAGAZINE - “TOP 150”

The participation in the VOCÊ S/A Magazine survey - “the 150 Best Companies for You to Work” - evaluates the satisfaction and motivation of the employees in the work environment, and it is the only organizational climate survey of the country with a qualitative phase: the visit of the journalist, being a form to recognize the initiatives carried out at the company. In 2016, we participated with a sample of 1.800 employees with a national scope. Employees from all the places and job positions received a questionnaire on their satisfaction with the company and answered it spontaneously.

In 2016, the company was among the 150 best companies to work, and the magazine highlighted its performance based on the results of the organizational climate survey.



BENEFITS OFFERED TO EMPLOYEES



Aware that the success of any business depends on the life quality of the people who dedicate to it, WEG Brasil provides a set of benefits for its employees. Some of them are:

 PROFIT SHARING	 HEALTH CARE
 DENTAL CARE	 PENSION PLAN
 MEALS	 INFLUENZA VACCINATION PROGRAM
 LIFE INSURANCE	 CHRISTMAS GIFTS
 CHILD EDUCATION SUPPORT PROGRAM	

PROMOTION OF HEALTH

The promotion of health and good practices for the well-being and life quality of our employees is provided by means of different programs and actions, among them:

MEDICAL CARE

CHRONIC DISEASES
HEALTH PROGRAM

PSYCHOSOCIAL
CARE

PREPARATION FOR
RETIREMENT

HEALTH
CAMPAIGNS

WEG involves its units in the whole world in campaigns like:

PINK OCTOBER

It aims at calling people's attention to the current condition of the breast cancer, and the importance of the early diagnosis.



Middle East



China



Spain

BLUE NOVEMBER

It raises the awareness of male diseases, with emphasis on the prevention and early diagnosis of the prostate cancer.



Brazil



China



UK

OCCUPATIONAL SAFETY AND HEALTH

Valuing the human being in the development of its activities is one of WEG's policies. By means of internal processes and programs related to occupational safety, the company promotes the awareness and dissemination of the prevention culture.

PROGRAMS AND PROCESSES

SAFETY AND ERGONOMICS COMMITTEE

Consisting of members of the Direction, the committee regularly analyzes process indicators, and the result of WEG Safety and Ergonomics Program.

WEG HEARING CONSERVATION PROGRAM

Standardizing measures to promote, maintain and prevent the hearing health of employees exposed to "occupational noise risk" is the objective of WEG Hearing Conservation Program.

EMERGENCY TEAMS – BRIGADE

Emergency teams are composed of volunteer employees, trained and qualified to act in events such as fire, serious accidents, chemical spills, floods, and other situations.

LABOR GYMNASTICS

The labor Gymnastics seeks to improve the life quality, encourage physical activity and integration of employees, in addition to preventing stress and occupational diseases.

INTERNAL COMMISSION OF ACCIDENT PREVENTION

The Internal Commission of Accident Prevention develops improvements for the irregularities identified in the monthly inspections.

WEG SAFETY AND ERGONOMICS PROGRAM

It is an ergonomics and safety program directed to the manufacturing areas, encouraging the participation of employees in the solutions for improvement in the workstations.

PREVENTION, SAFETY AND HEALTH

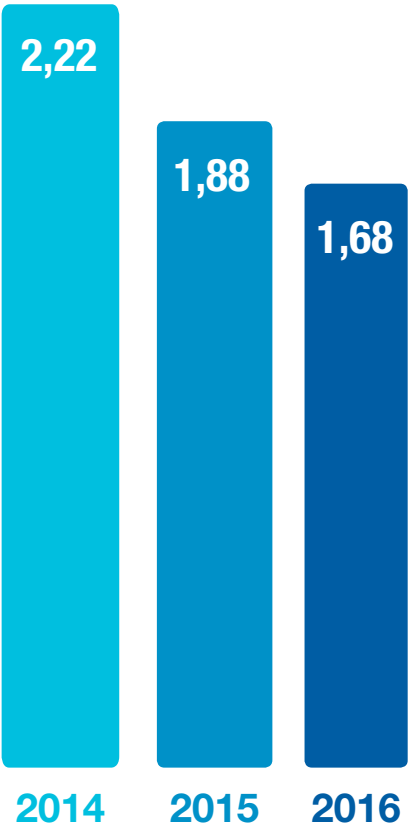
The program performs inspections, preceded by technical training on a specific topic, and safe behavior.



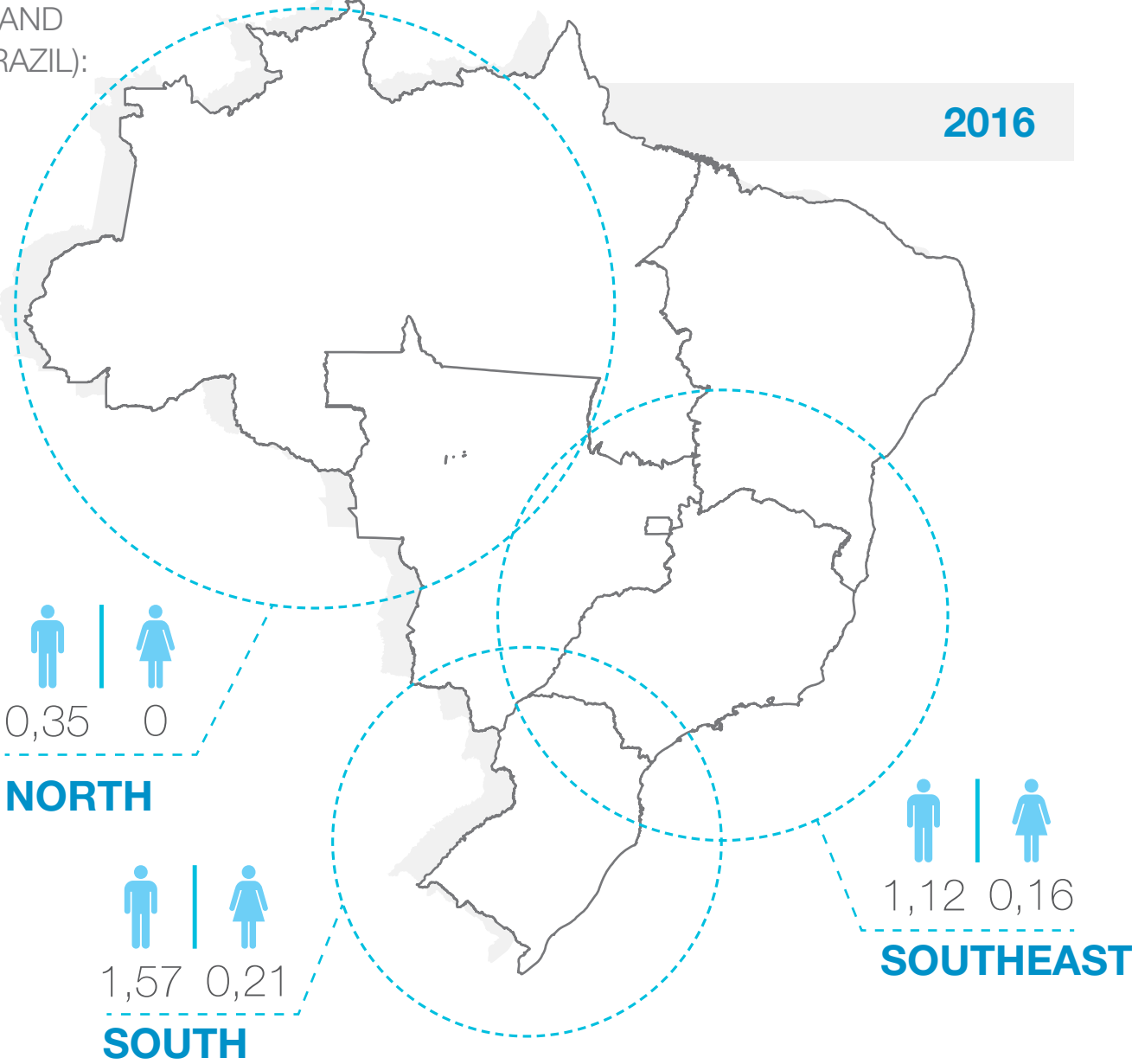
HEALTH AND SAFETY INDICATORS

Injury rate

(Number of people involved in accidents every 200 thousand hours of work)



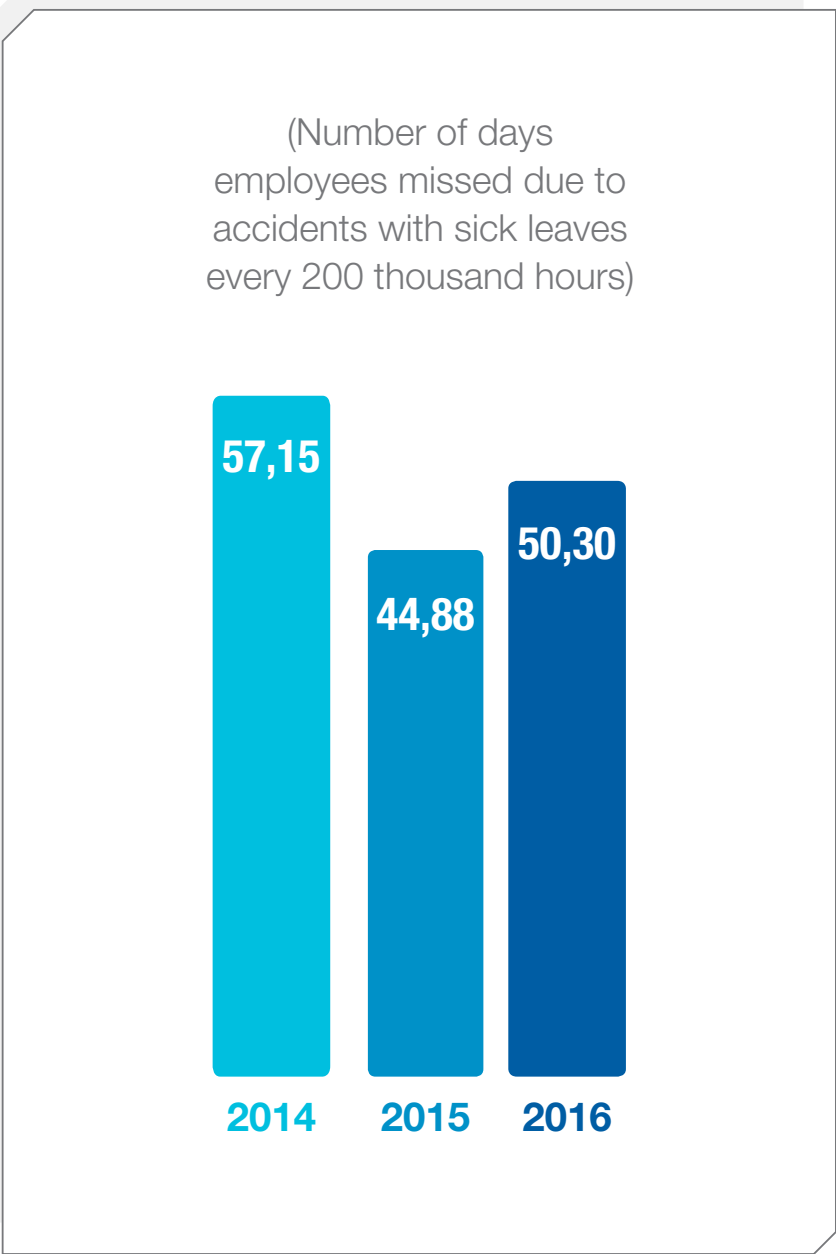
BY REGION AND GENDER (BRAZIL):



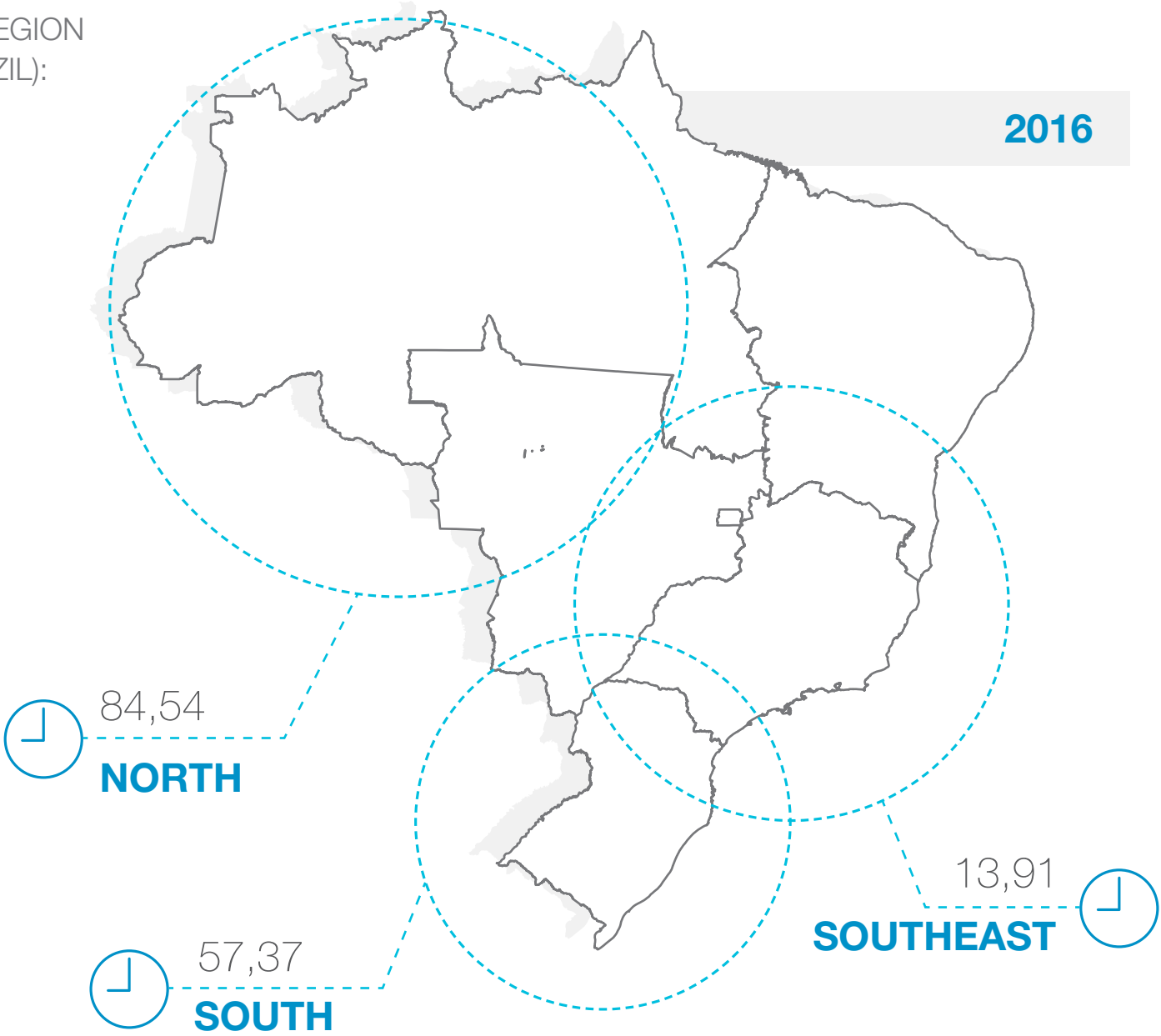
2014	2015
SOUTH	
Men 2,68	Men 1,56
Women 0,48	Women 0,29
SOUTHEAST	
Men 2,16	Men 1,85
Women 0,41	Women 0,14
NORTH	
Men 2,19	Men 0,82
Women 0,49	Women 1,44

HEALTH AND SAFETY INDICATORS

Total number of working days missed



BY REGION
(BRAZIL):



2014	2015
SOUTH	
60,85	49,39
SOUTHEAST	
40,47	15,88
NORTH	
111,52	49,23

HEALTH AND SAFETY INDICATORS

Total Absenteeism
(Quantity of absenteeism every
200 thousand hours of work)



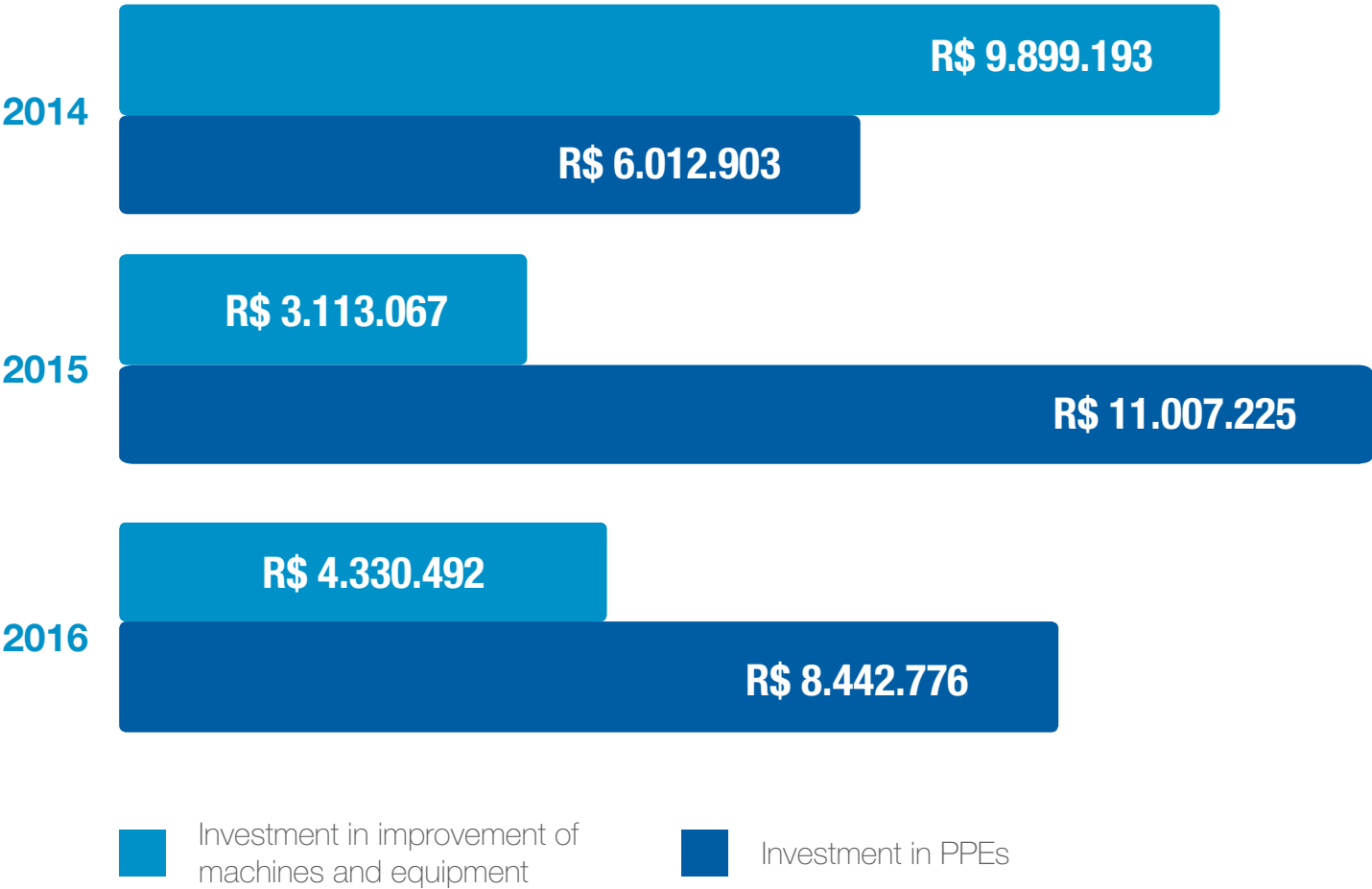
BY REGION (BRAZIL):

	SOUTH	SOUTHEAST	NORTH
2015	2,4	1,2	3,3
2016	1,7	1,4	3,4

Total deaths

There were no deaths in the past 3 years.

INVESTMENTS IN SAFETY (IN THOUSAND R\$)



CORPORATE GOVERNANCE



The adoption of special Corporate Governance practices reflects the example set by WEG founders, and the respect for the partners who have joined the company along its history. The company is committed to continuing to work within the same principles of transparency, fairness and accountability to shareholders and other stakeholders. In this context, WEG joined the Novo Mercado listing segment and adopted the ABRASCA Code of Self-Regulation and Good Practices of Open Capital Companies.

The management of the WEG Group is exercised by the Board of Directors, with deliberative functions; by the Executive Direction, with executive and representative functions; and by the Audit Committee.

The Board of Directors is composed of six members, with one president and one vice-president. Four board members are considered “independent” in accordance with the provisions of the Listing Rules of Novo Mercado of BM&FBOVESPA.

It is for the Board of Directors to assess formally the performance results of the company, of the Board of Directors itself, of the Direction and, individually, of the members of each of these bodies. In order to do so, the Board of Directors meets whenever necessary, at least quarterly, convened by its President.

BOARD OF DIRECTORS

Composition on December 31, 2016



DÉCIO DA SILVA
PRESIDENT



NILDEMAR SECCHES
VICE-PRESIDENT
(INDEPENDENT)



MARTIN WERNINGHAUS
MEMBER



SÉRGIO LUIZ SILVA SCHWARTZ
MEMBER



UMBERTO GOBBATO
MEMBER



DAN IOSCHPE
MEMBER (INDEPENDENT)

Board members are elected and dismissible by the General Meeting for a unified period of two years, and they may be reelected. As a committee, we seek to gather competences in the Board of Directors such as:

- Experience as a senior executive in other Boards of Directors, managing changes and crisis, identifying and controlling risks and managing people;
- Knowledge of finance, accounting, legal aspects of WEG's businesses and national and international market;
- Network of contacts significant for the corporation.

Individually, the applicants are expected to have:

- alignment with the corporation's values;
- capacity to defend his/her point of view based on his/her own judgment;
- time availability;
- motivation;
- strategic vision;

- teamwork skills;
- knowledge of the best practices in Corporate Governance;
- capacity to read and understand managerial, accounting and financial reports;
- notions of corporate law;
- perception of the risk profile of the corporation.

The board member shall also be free of fundamental conflict of interest (not manageable, not occasional or situational, which is or is expected to be permanent) and permanently alert to matters of the organization, as well as understand that his/her duties and responsibilities are comprehensive and not restricted to the meetings of the Board.

As per the company's Bylaws , the positions of Chairman of the Board and President cannot be held by the same person.

DIRECTION EXECUTIVE

The Executive Direction is composed of 13 (thirteen) members, namely: a CEO, a CFO, a Director of Finance and Investor Relations, and other Directors. All members of the Direction are elected and dismissible at any time by the Board of Directors and may accumulate functions. The office term is two years, and reelection is permitted.

The Board, within the limits set by law and by the Corporate Bylaws, is vested with broad and general management powers so as to enable the execution of all the necessary actions to regulate the operation of the company in order to achieve its corporate purposes.

Executive Direction – Composition on December 31, 2016

HARRY SCHMELZER JR.	CEO
ANDRÉ LUÍS RODRIGUES	CFO
PAULO GERALDO POLEZI	Director of Finance and Investor Relations
CARLOS DIETHER PRINZ	Director
EDUARDO DE NÓBREGA	Director
HILTON JOSÉ DA VEIGA FARIA	Director
LUIS ALBERTO TIEFENSEE	Director
LUIS GUSTAVO LOPES IENSEN	Director
MANFRED PETER JOHANN	Director
REINALDO RICHTER	Director
SIEGFRIED KREUTZFELD	Director
WANDAIR JOSÉ GARCIA	Director
WILSON JOSÉ WATZKO	Director

AUDIT COMMITTEE

The Audit Committee is permanent, composed of three (3) members and three (3) alternates, and the members are elected annually at the General Meeting.

Composition on December 31, 2016

ALIDOR LUEDERS	Effective Member
PAULO CESAR SIMPLICIO DA SILVA	Effective Member
VANDERLEI DOMINGUEZ DA ROSA	Effective Member
ARAMIS SA DE ANDRADE	Alternate Member
ILÁRIO BRUCH	Alternate Member
PAULO ROBERTO FRANCESCHI	Alternate Member

REMUNERATION

The achievement of goals and indicators of economic, environmental and social performance is the objective that guides all the actions of the organization. For this reason, members of the Board of Directors and the Executive Direction receive, in addition to fixed remuneration, variable remuneration in accordance with the achievement of goals. This form of compensation promotes consistent and transparent sharing of results, as well as the alignment of the interests of the company, directors and shareholders, in accordance with the best management and corporate governance practices.

RISK MANAGEMENT

WEG developed its Enterprise Risk Management System in compliance with the international best practices, and the standards set by regulatory agencies in Brazil and abroad adapted to the specific characteristics of the company. Guidelines, responsibilities, and limits are set in order to guide the actions of the Committees, Commissions, Departments and Sections in accordance with the directions of the Board of Directors.

Anticipate, evaluate and produce effective responses to risks and opportunities are the scope of this system. In order to ensure the achievement of strategic goals is not affected by unexpected events and conditions in any area of corporate activity, the system comprises four large dimensions:



STRATEGIC DIMENSION:

capacity to anticipate,
protect itself and/or adapt
to changes.



FINANCIAL DIMENSION:

capacity to obtain
and/or preserve
financial resources.



PEOPLE DIMENSION:

company's capacity to
attract, develop, retain
and keep available
human resources.



PROCESS DIMENSION:

capacity to use available
resources effectively
and efficiently.

The Enterprise Risk Management System has the fundamental support of the corporation's participative management structure, which establishes multidisciplinary commissions and committees to analyze, define, approve and implement changes in its business processes. The risk management is under the responsibility of such committees and commissions, and it is periodically submitted to the referendum of the Senior Management.

GOVERNANCE IN SUSTAINABILITY



WEG SUSTAINABILITY GROUP

The Sustainability Group acts corporately in the planning of the company's strategic sustainability actions. Formed by a multidisciplinary team under the coordination of the corporate sustainability team, the group was recently reorganized, containing now 13 members representing the following areas: Investor Relations, Financial, Health and Safety, Communication, Human Resources, Environment, Training, Organizational Climate, Community Relations, Product, Corporate Marketing, Supplies, Insurances and Risks, and Corporate Sustainability.

SUSTAINABILITY COMMISSION

It is responsible for reviewing, approving and implanting policies and sustainability practices, as well as disseminating the issues related to the subject in order to contribute to ensuring the sustainable development of the company. The commission reports to the General Direction, which, along with the President, analyzes and validates the proposed subjects.

INFORMATION DISCLOSURE COMMITTEE

Among its attributions, the Information Disclosure Committee previously analyzes the content of the specific communications with the stock market containing relevant information about WEG, including about sustainability, ensuring that no relevant information will be improperly disclosed.



RELATIONS WITH SUPPLIERS



WEG understands that the sustainability and the perpetuation of the entire value chain are linked to the responsibility of the organization for encouraging all of its suppliers and service providers to adopt a management based on specific economic, social, environmental, and technical criteria, and standards of legal compliance.

The search for the sustainable development is expressed in the relations with the suppliers and service providers, and in the formal commitment established in the respective supply and service contracts, preserving:

- | | |
|---|---|
|  <p>Quality assurance of the products;</p> |  <p>Compliance with labor and tax obligations in accordance with the laws in force;</p> |
|  <p>Compliance with the RoHS Directive, which prohibits or restricts the use of certain chemical substances in raw materials and components or used in the manufacture processes of electrical and electronic equipment;</p> |  <p>Commitment to developing internal policies to promote diversity and fight discriminatory practices in compliance with international labor standards and conventions;</p> |
|  <p>Compliance with the standards established by the environmental legislation;</p> |  <p>Commitment to extend the above requirements to its key business partners, encouraging the alignment with those policies;</p> |
|  <p>No use of child labor, forced or compulsory labor in its supply chain;</p> |  <p>Commitment to develop local and/or regional suppliers and contract small and/or medium-sized suppliers in its supply chain.</p> |



THIS FORMAL COMMITMENT
ENSURES THE PRACTICE
THAT EVERYONE PART
OF THE SUPPLY CHAIN
IS ALIGNED WITH
THE SUSTAINABLE
DEVELOPMENT OF THEIR
BUSINESS AND THE
SOCIETY IN WHICH THEY
OPERATE.

As business partners, WEG suppliers are encouraged to grow together with the company. For this purpose, we point out the following practices:

- **Valuing of the Local Supplier**
- **Development of Suppliers**
- **WEG Assured Quality Program (certification)**
- **Technological exchange**
- **Product development** (development of materials and components together with suppliers for future application to WEG products);
- **Periodic audits**
- **Online communication system** (allows suppliers to view the programming of components and deliver the materials directly to the company's central stockroom);
- **Relationship with service providers** (training and awareness of safety and environment aspects so as to ensure that they perform their activities safely within the current regulations).
- **Development, selection and assessment of suppliers based on sustainability criteria:** The new and strategic suppliers answer the sustainability assessment form. The assessment form, with versions in Portuguese and English, considers requirements related to the environment, health and safety management at work, and social responsibility. The assessment generates a performance result, which allows evaluating whether the supplier is in compliance with those requirements or if it needs an improvement plan to become a WEG supplier.



CODE OF ETHICS FOR SUPPLIERS

The Code of Ethics is one more important communication channel about relevant ethical aspects for the evolution of the business with WEG suppliers. WEG encourages the dissemination of the Code directives in all the scopes of decision and operation of the suppliers, and also in their respective supply chains.

VERSIONS:

Portuguese, English and Spanish.

DENOUNCEMENTS AND QUESTIONS:

WEG provides different communication channels for denouncements and/or questions, namely:



WEG Website



E-mail



Telephones
(Brazil and abroad)



Letter



SUPPLY CHAIN



MOTORS UNIT

The Motors Unit purchases parts and raw materials from suppliers from different regions of Brazil, as well as from suppliers abroad.

In 2016, WEG carried out business transactions with 5,415 suppliers, of which 94% of the purchases are from Brazil. 45% of the purchases made in Brazil are from the states of Santa Catarina, Amazonas and Espírito Santo (places where WEG has units). The main supplier groups are in the following segments: steel sheets, steel rods, copper rods, rolling bearings, aluminum ingots, plastic parts, machined parts, steel work processing, stamped parts, insulating materials, electric conductors, fasteners and brakes.

WEG encourages its business units to buy from regional suppliers so as to strengthen the local economy and generate opportunities.

MAIN CHANGES IN THE PERIOD OF THE REPORT

In 2016, WEG Motors acquired Bluffton Motor Works, electric motor maker headquartered in the city of Bluffton, Indiana, U.S.A. Bluffton is specialized in the manufacture of fractional electric motors (commercial or rolled steel) up to 5cv. The sectors of beverage processing, manufacturers of industrial machines, commercial and service equipment, pumps and ventilation stand out among the customers.

SUPPLY CHAIN



Geradores PCH Salto Góes

ENERGY UNIT

The Energy Unit carried out business transactions with over 1800 suppliers in 2016, of which approximately 90% are national (Brazil) and 97% of those are located in Southern and Southeastern Brasil.

For the wind power segment, there are approximately 300 suppliers with active contracts. The suppliers fall into different material families, such as: Metal Sheets, Steel Rods, Copper Rings and Rods, Insulating Materials, Processed Metal Parts, Machined Parts, Cast Parts or Forged Parts, among others.

SUPPLY CHAIN



AUTOMATION UNIT

In the year, more than 2,700 suppliers of the most diverse sectors, from screws to semiconductors, did business with the Unit. Despite its highly complex products, the Unit acquires 58% of its raw materials in Brazil.

Among those different materials are semiconductors, printed circuit boards, polymers, special alloys, electronic parts and magnetic components (reactors, transformers, inductors), and steel.

MAIN CHANGES IN THE PERIOD OF THE REPORT

In 2016 the Unit incorporated to its operation in the city of Jaraguá do Sul-SC three new business areas: Outlets and Switches, Critical Power (UPSs, stabilizers and batteries), and Machine Safety and Industrial Sensors.

SUPPLY CHAIN



TRANSMISSION AND DISTRIBUTION UNIT

In general, WEG Transmission and Distribution only buys abroad production materials of higher technological complexity. For other items, which are majority and demand intensive use of labor, the volume of purchase is quite concentrated in suppliers of the local market.

In 2016, it carried out business transactions with approximately 500 suppliers, being 90% from the local market, and 10% from abroad. The suppliers fall into different material families, such as: Metal Coils or Sheets, Insulating Mineral Oil, Tap Changers for Transformers, Paper Fiber or Polymer Insulating Materials, Bushings with Porcelain Bodies, Processed, Machined or Cast Metal Parts.

SUPPLY CHAIN



COATINGS UNIT

The Coatings Unit purchases different products and raw materials from national and international suppliers. In 2016, it carried out business transactions with more than 1,600 suppliers, with approximately 55% of the purchases from local companies. About 98% of the purchases made in Brasil are from suppliers from the south and southeast.

The imported materials are purchased mainly from the European, American, and Asian markets. The main supplier groups are in the following segments: pigments, solvents, additives, mineral fillers, catalysts, hardeners, monomers and reagents, resins, packages, mineral and vegetable oils, industrial equipment, among others.

MAIN CHANGES IN THE PERIOD OF THE REPORT

In 2016, the Coatings Unit consolidated the operations of its new plant inaugurated in Mauá-SP (Paumar). Together with the units of Guaramirim-SC and Argentina, it allowed expanding the logistics capacity for supplying industrial coatings and increased the participation on the market of coatings for glass, mirrors, plastics, car parts and automotive refinish.

GOVERNMENT AND SOCIETY



Committed to the development of the region in which it operates through the generation of jobs and social responsibility projects, WEG maintains strong involvement with Class Associations and the Government.

WEG REPRESENTATION IN INDUSTRIAL POLICY

WEG contributes with suggestions for the implantation of public policies by participating in meetings and events related to the Brazilian government, its authorities, and Trade Associations.

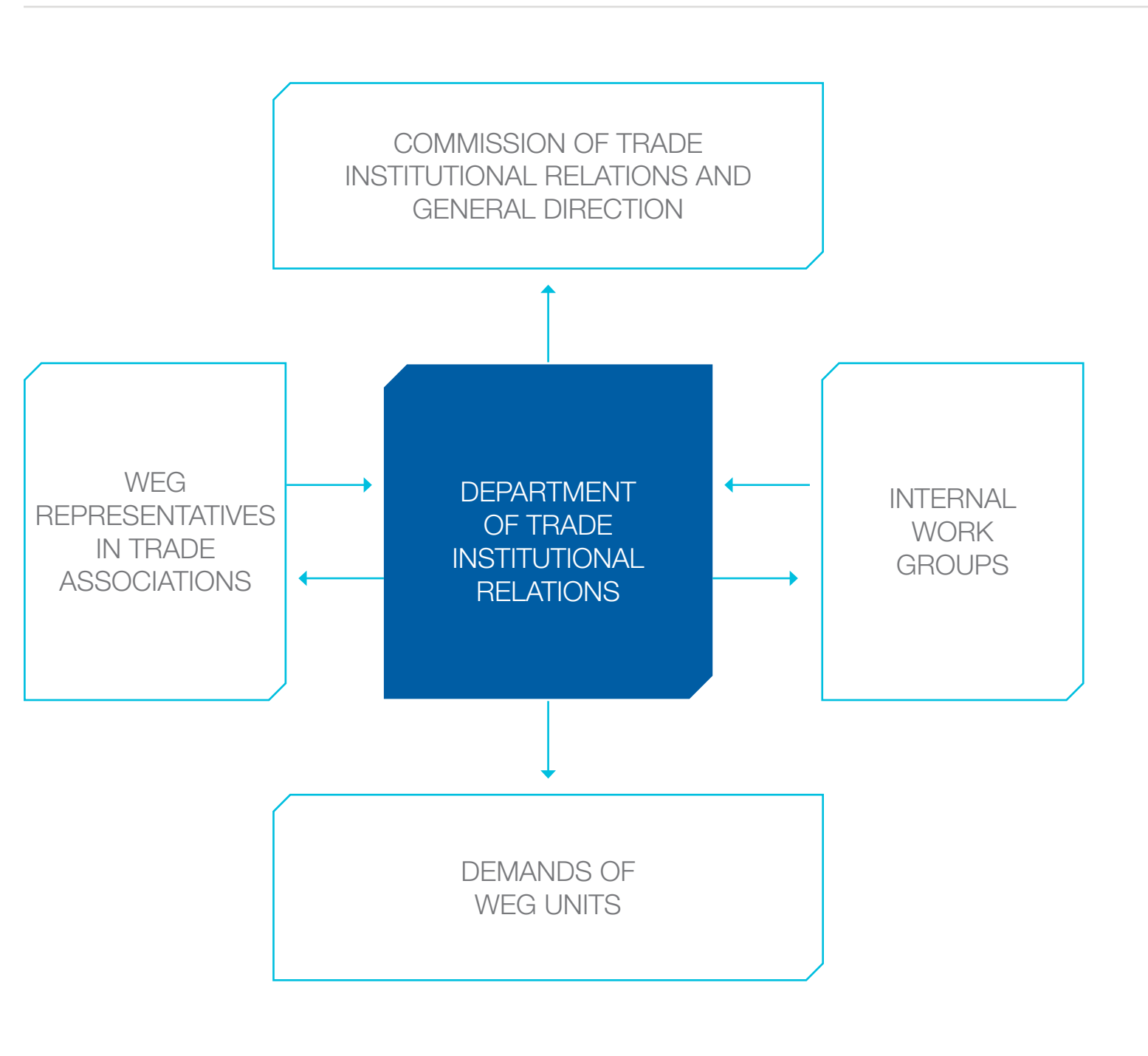
REPRESENTATION IN TRADE ASSOCIATIONS

WEG participates in strategic meetings with trade associations and proposes actions to the political and economic bodies, aiming at strengthening and promoting the sustainable development of the national electronics and capital goods industry.

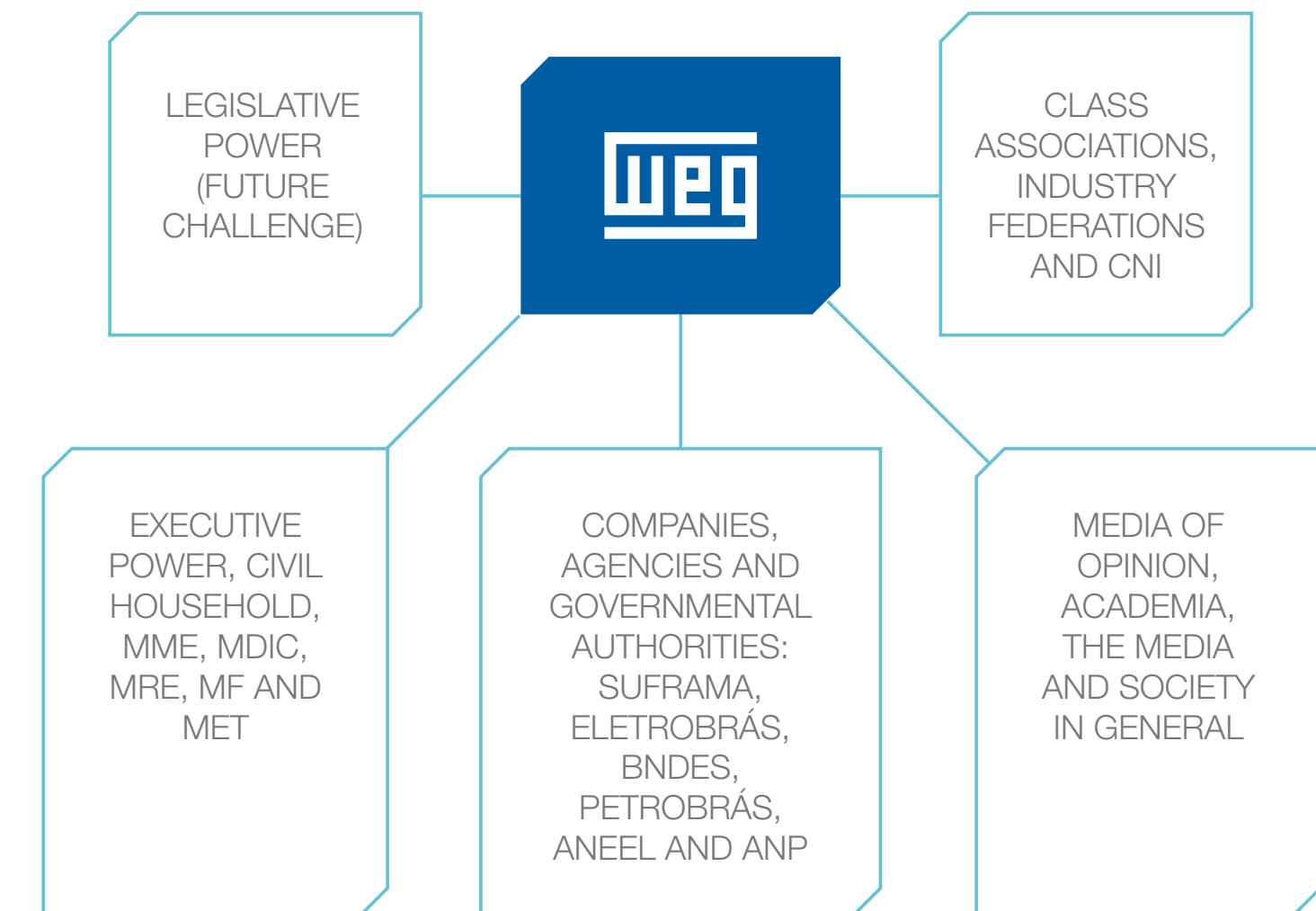
THE MOST PROMINENT TRADE ASSOCIATIONS AND FEDERATIONS ARE:

ABIMAQ – Brazilian Association of Machinery and Equipment Industry;
ABINEE – Brazilian Association of Electrical and Electronic Industry;
ABDIB – Brazilian Association of Infrastructure and Base Industry;
AEB – Brazilian Foreign Trade Association;
FIESP – Federation of Industries of the State of São Paulo;
FIESC – Federation of Industries of the State of Santa Catarina;
CNI – National Industry Council;
ABNT – Brazilian Association of Technical Standards;
ABEOLICA – Brazilian Association of Wind Energy;
ABSOLAR – Brazilian Solar Photovoltaic Energy Association;
ABRAFATI – Brazilian Coatings Manufacturers Association;
INMETRO – National Institute of Metrology, Quality and Technology;
ABESCO – Brazilian Association of Service and Energy Conservation Companies;
ABVE – Brazilian Electric Vehicle Association;
ANPEI – National Association of R&D of the Innovative Companies;
ONIP – National Organization of the Oil Industry;
IEDI – Institute of Studies for Industrial Development.

WEG Institutional Representation – Internal Flow



WEG Institutional Representation – External Flow



ETHICS AND INTEGRITY



A sustainable operation depends basically on an ethical behavior at the company and in the relations between the stakeholders. WEG has a solid structure of corporate policies and codes, and it constantly works on their improvement so as to guarantee an administration fully integrated to ethical aspects.

CODE OF ETHICS

DEVELOPMENT AND APPROVAL

The coordination process of the last version was carried out by the Code of Ethics Management Commission, which defined a cross-sectional discussion process, involving different hierarchic levels of the company up to the final approval by the high administration and Board of Directors.

INTERNAL APPLICATION

In the launch of the last version (2014), the Code of Ethics was delivered to all employees and managers, and its content was fully presented. The employees and managers read and signed a term of commitment, acknowledging its receipt and undertaking to comply with the Code of Ethics. When new employees are hired, they undergo the same process.

Furthermore, WEG encourages its stakeholders (associated companies, suppliers, service providers, commercial representatives/ distributors, dealers and repair shops, customers, investors, community and government) to follow the directives of the Code of Ethics.

COVERED TOPICS:

- | | | |
|--|----------------------------------|------------------|
| • Compliance with Laws and Regulations; | • Community; | • Communication; |
| • Information; | • Competitors; | • Corruption; |
| • Property; | • Shareholders and Stock Market; | • Environment. |
| • Employees and Work Environment; | • Finances and Accounting; | |
| • Suppliers and Independent Contractors; | • Public Authorities; | |
| • Customers; | • Trade Associations; | |



DENOUNCEMENT MANAGEMENT SYSTEM

In order to make denouncements about violations, the Code of Ethics has different communication channels, applied globally, namely:



WEG Website



E-mail



Telephones
(Brazil and abroad)



Letter



Communication to immediate
supervisor (leader, manager or director).

DUTIES OF THE CODE OF ETHICS MANAGEMENT COMMISSION:

- Interpret the Code of Ethics in case of uncertainties in order to make the understanding uniform and avoid ambiguities in its application;
- Periodically analyze and review, when necessary, the Code of Ethics in the light of the application and ethical evolvement in the social field and within the company;
- Monitor the alignment of the application across the units of the group;
- Check and inform the direction about the application of the Code in the company;
- Deliberate on the necessary resources for the application of the Code.

The provided information are kept confidential, except for situations in which WEG has the legal obligation to inform the authorities. The cases not included in the document are discussed by the Code of Ethics Management Commission together with the Human Resources direction, which is responsible for this management tool.

The Code of Ethics has global application, with versions in Portuguese, English, Spanish, Mandarin and Russian.

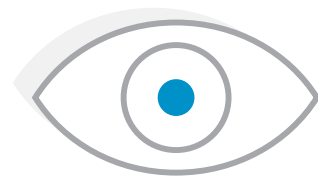


THIS IS WEG



MISSION

Continuous and sustainable growth while maintaining simplicity.



VISION

Be global benchmark for electrical machines with a wide range of products, providing full and efficient solutions.



VALUES

HUMAN COMPANY

We value each individual contribution to our success, and we motivate people by means of integrity, ethics and constant support for personal development.

TEAM WORK

Working as a team, we gather the best knowledge, intelligence, and skill to constantly improve our work and benefit our customers.

EFFICIENCY

Every day we work to make things better. All products, processes and developments are guided by the efficiency enhancement.

FLEXIBILITY

We will always develop new efficient manners to respond to situations of change and meet the needs of the customers.

INNOVATION

New ideas and technologies ensure the existence of the company. That is why we encourage and support an atmosphere favorable to thinking ahead of our time.

LEADERSHIP

Be benchmark in the relations with customers.

WEG POLICIES



QUALITY

Provide products and services with true quality, that is, meet the needs of our customers at the lowest possible cost.



ENERGY EFFICIENCY

Ensure the development, production and trade of products and services with greater efficiency and continuous improvement of our business processes, meeting the legal requirements and enabling the reduction of energy consumption and impacts on the energy matrix.



ENVIRONMENT

The policy of the WEG Group is to ensure the lowest environmental impact of its products and production processes, seeking:

- Compliance with the applicable environmental legislation;
- Continuous improvement by establishing environmental goals and objectives;
- Operation in a preventive way, aiming at protecting the environment of which it is part;
- Eco-efficient processes and products, while preserving the natural resources.



HEALTH AND SAFETY

The WEG Group establishes as policy to value the health and safety of people in the development of their activities, products and services, and it is committed to:

- Adopting preventive approaches in all hierarchical levels;
- Identifying, eliminating and/or minimizing the significant risks to the safety and health of its employees, contractors and public in general;
- Identifying and complying with the legal requirements applicable to occupational health and safety related to its processes, products and services;
- Setting objectives and goals, aiming at continuously improving the performance of the management system.

SOCIAL RESPONSIBILITY

The WEG group conducts its business for continued and sustainable growth, valuing and respecting all stakeholders, maintaining transparency and ethics in the relationships and committing itself to:

- Complying with the labor and tax legislation, among others, applicable to all activities of the company and the place where it operates;
- Ensuring the eradication of child labor and forced or compulsory labor in all activities of the company;
- Ensuring the fight against sexual exploitation of children and adolescents in all activities of the company;
- Not hiring people under 18, except as apprentices;
- Encouraging and providing conditions for the development of employees, aiming at the expansion of competences and personal and professional growth;
- Valuing diversity and multiculturalism and restraining any act of discrimination by race, gender, sexual orientation, physical condition, religion, age, social class, political position and nationality;
- Rejecting any practices of moral and sexual harassment in work relationships that compromise the person's integrity;
- Respecting the right of its employees to join trade unions, as well as negotiating collectively, ensuring no retaliations;
- Supporting the communities which directly interact with the Group, strengthening the economic and social development.



POLICY OF PREVENTION AND FIGHT AGAINST CORRUPTION AND OTHER DETRIMENTAL ACTS

It aims at reinforcing WEG's policies and the commitment to the good practices so as to avoid, detect and solve deviations, frauds, irregularities and wrongful acts practiced against the national or foreign public administrations, as well as stimulate the denouncement of noncompliance with it.

Such policy represents a summary of the company's directives and forms a set of internal mechanisms of integrity, audit, prevention, and fight against corruption.

ALIGNMENT WITH INTERNATIONAL LAWS AGAINST CORRUPTION

In addition to the rules that the policy establishes, it also determines compliance with national and international legislations, such as the American Foreign Corrupt Practice Act (FCPA) and the UK Bribery Act.

SCOPE

The policy encompasses all the administrators, members of the Audit Committee, managers, employees, suppliers, customers, commercial representatives and other people that may act on behalf of and authorized by WEG.

LIABILITY AGREEMENT

The administrators, members of the Audit Committee, managers and other employees keeping relationship with national and international public administrations must sign a liability agreement regarding the Anti-corruption Law # 12.846/2013, thus characterizing the dissemination of the information, as well as seeking the commitment of all the involved people.

TRAINING

WEG carried out training courses on prevention and fight against corruption, aiming at reinforcing WEG's policies and commitment to the good practices to detect and solve deviations, frauds, irregularities and wrongful acts practiced against the national or foreign public administrations, as well as stimulating the denouncement of noncompliance with it.

TARGET AUDIENCE

- Board of Directors;
- Managers of branches and associates in Brazil;
- Sales and Supplies departments and employees having interface with public entities. The selection of the employees was carried out with the participation of the Manager Directors of each business unit.

INFORMATION ON THE TRAINING

Languages: Portuguese, Spanish and English.

Method: Distance Learning Course, divided into three modules.

NUMBER OF TRAINED EMPLOYEES

Brazil: 2.277

Abroad: 489

Total: 2.766

THE GLOBAL COMPACT

The Global Pact is a voluntary initiative that seeks to provide directives to promote the sustainable growth and citizenship, aiming at encouraging the international business community to adopt, in their business practices, fundamental and internationally accepted values regarding human rights, labor relations, environment, and fight against corruption.

THOSE FUNDAMENTAL VALUES ARE EXPRESSED BY MEANS OF 10 PRINCIPLES, NAMELY:



HUMAN RIGHTS

1. The companies should support and respect the protection of internationally acknowledged human rights; and



2. Make sure that they do not take part in the violation of such rights.



LABOR

3. The companies should support the freedom of association and the effective recognition of the right to collective bargaining;



4. The elimination of all forms of forced or compulsory labor;



5. The effective abolition of child labor; and



6. Elimination of discrimination at work.



ENVIRONMENT

7. The companies should support a precautionary approach to environmental challenges;



8. Undertake initiatives to promote environmental responsibility; and



9. Encourage the development and dissemination of environmentally friendly technologies



FIGHT AGAINST CORRUPTION

10. The companies should fight corruption in all its forms, including extortion and bribery.



LEARN MORE ABOUT THE
GLOBAL PACT ON
WWW.UNGLOBALCOMPACT.ORG

COMMUNICATION OF PROGRESS OF THE 10 PRINCIPLES - WEG

HUMAN RIGHTS



1. The companies should support and respect the protection of internationally acknowledged human rights; and



2. Make sure that they do not take part in the violation of such rights.

Such important issue must be widely disseminated, aligned and monitored by all the sectors of the society. The companies have an important role to promote and protect those rights, in the organization itself, and in its whole chain.

WEG addresses this subject in its Code of Ethics and in its Health and Safety, and Social Responsibility policies. In addition, it promotes the awareness of the subject in the training of and communication with its employees, and it provides different global anonymous channels to denounce violations of the Code of Ethics.

In its chain, it actively monitors the subject in its suppliers. It has a specific Code of Ethics for suppliers and uses the sustainability assessment form, which includes requirements regarding human rights. In 2016, 254 forms were answered.

LABOR



3. The companies should support the freedom of association and the effective recognition of the right to collective bargaining;

The freedom of association and the recognition of the right to the collective bargaining are widely recognized and applied at WEG. WEG has this position stated in its Social Responsibility policy, which includes the respect for the right of its employees to association in trade unions and to collective bargains, assuring that no retaliation will occur. WEG actively works to guarantee those rights. In Brazil, 100% of the employees are covered by collective bargaining regulations.

COMMUNICATION OF PROGRESS OF THE 10 PRINCIPLES - WEG



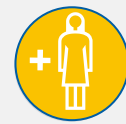
4. The elimination of all forms of forced or compulsory labor;



5. The effective abolition of child labor; and

WEG's position regarding the effective abolition of the child labor and elimination of all forms of forced and compulsory labor is covered in the Code of Ethics and in the Social Responsibility policy. The denouncement system of the Code of Ethics provides different communication channels for denunciations, which can be done anonymously.

In its suppliers, those subjects are addressed in the Code of Ethics for Suppliers, which also has denunciation mechanisms. For monitoring, WEG uses the sustainability assessment form, which includes the requirement of eliminating the forced and compulsory labor and child labor.



6. Elimination of discrimination at work.

Living with people who have different habits, cultures and opinions expands our vision of ourselves and of the world, breaking the barriers of prejudices. In the companies, valuing diversity also contributes to personal and professional development.

WEG values the differences by fostering the inclusion and restraining any act of discrimination by race, gender, sexual orientation, physical condition, religion, age, social class, political position and nationality;

WEG has different channels to receive anonymous denouncements.

WEG has practices that respect the diversity, such as the adoption of salary policies and education programs that are independent of gender or race. Furthermore, it has health and safety assessment for the adaptation to the workstation of women and employees with special needs.

With its suppliers, the subject is addressed in the Code of Ethics for Suppliers, which also has denunciation mechanisms. For monitoring and qualifying its suppliers, WEG uses the sustainability assessment form, which includes mechanisms to restrain discrimination practices.

COMMUNICATION OF PROGRESS OF THE 10 PRINCIPLES - WEG

ENVIRONMENT



7. The companies should support a precautionary approach to environmental challenges;



8. Undertake initiatives to promote environmental responsibility; and



9. Encourage the development and dissemination of environmentally friendly technologies

Preventive measures for the environmental challenges, initiatives to promote environmental responsibility and the incentive to the development and dissemination of environmentally friendly technologies are essential for a company to contribute effectively to the sustainable development.

WEG incorporates all those aspects in a structured and solid way and approaches them in its Code of Ethics and its Environmental Policy.

In its internal management, it develops training courses on environment management and energy efficiency, promotes the dissemination of information and awareness of the subject in communications oriented to the employees, in addition to investing in the prevention and environment management of its activities, having the ISO 14001 and 50001 certifications, which generated an internal program of energy efficiency. The energy efficiency is extremely relevant for the environmental impact at WEG, because the electric energy consumption is responsible for approximately 75% of the company's greenhouse gas emissions.

Incorporated to the business, oriented to the customers' application, it develops products and solutions with higher energy efficiency than the legal requirements and works on the development of renewable energies, such as wind, solar and biomass power. It has the Exchange Plan, a program in which WEG gives discounts in the purchase of a new motor with performance above the law requirements, in exchange for an old, damaged or low-performance motor.

For its suppliers, it approaches the subject in the Code of Ethics for Suppliers, and for the monitoring and qualification, WEG uses the sustainability assessment form, which includes specific environmental management requirements.

COMMUNICATION OF PROGRESS OF THE 10 PRINCIPLES - WEG

FIGHT AGAINST CORRUPTION



10. The companies should fight corruption in all its forms, including extortion and bribery.

WEG keeps a history of transparency and ethics in its business and in the relations with its stakeholders, and it has been strengthening this culture of ethics and transparency even more.

It has recently created the Policy of Prevention and Fight against Corruption and other Detrimental Acts (presented in this report), which represents a summary of the company's directives and forms a set of internal mechanisms of integrity, audit, prevention, and fight against corruption. It contains a liability agreement applied to Administrators, members of the Audit Committee, managers and other employees who keep relations with the national or foreign public administration. The policy encompasses all the administrators, members of the Audit Committee, managers, employees, suppliers, customers, commercial representatives and other people that may act on behalf of and authorized by WEG. Besides this specific policy, the subject is addressed in WEG Code of Ethics, which has an anonymous denouncement channel.

At its suppliers, the subject is addressed in the "general conditions to purchase goods, materials and/or services" contract, and in the Code of Ethics for Suppliers - public documents available on WEG's website.

In 2016, WEG carried out training courses on prevention and fight against corruption and other detrimental acts, aiming at reinforcing WEG's policies and commitment to the good practices to detect and solve deviations, frauds, irregularities, and wrongful acts practiced against the national or foreign public administrations, as well as stimulating the denouncement of noncompliance with it. The training included: The Board of Directors, Managers of the branches and associates in Brazil, Sales and Supplies Departments, and employees who have interface with public entities. The education method was by means of Distance Learning, distributed into three modules, in Portuguese, Spanish and English. 2,766 employees received training, 2,277 in Brazil and 489 abroad.

COATINGS CARE

The Coatings Care is one of the most important programs of awareness and commitment that the agents throughout the paint production chain can adopt worldwide. The objective of this program is to help manufacturers manage their responsibilities in relation to health, safety and care for the environment.

Coordinated by an international committee of leaders of associations representing paint manufacturers worldwide, the program is governed by four codes that can be put into practice together or separately:



PRODUCTION
MANAGEMENT;



TRANSPORT AND DISTRIBUTION
MANAGEMENT;



PRODUCT
MANAGEMENT;

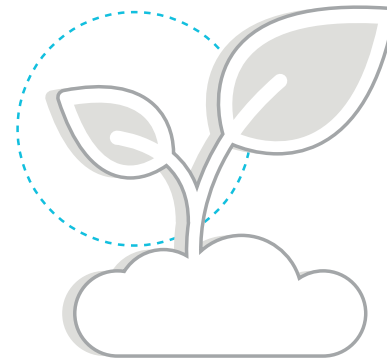


COMMUNITY
RESPONSIBILITY.

The four codes, in turn, are subdivided into 67 management practices. In addition to defining these practices, the program provides the elements for the participating companies to establish systems of continuous self-evaluation, execution and improvement. In Brazil, the Coatings Care program was implemented in 2004 by the Brazilian Association of Paint Manufacturers, which is responsible for its coordination nationwide. WEG has been a member of the program since 2007.

ENVIRONMENT MANAGEMENT





At WEG, the respect for the environment is incorporated in its internal management, and in the relations with its stakeholders.

The environment management is based on preventive measures for the environmental challenges, initiatives to promote environmental responsibility, and the incentive to the development and dissemination of environmentally friendly technologies.

ENERGY MANAGEMENT

Reducing electric energy consumption is one of the great challenges of the industry. In addition to incorporating energy efficiency into its products, WEG manages energy internally in a structured and systematic way, which has been producing important results.

ENERGY EFFICIENCY PROGRAM

Since 2011, WEG has one of its plants certified by ISO 50001 (Energy Management System), and in 2014, based on the requirements of such standard, it began the implantation of the Energy Efficiency Program in its plants of the Motor Unit in Brazil. In 2016 the Program was implanted in the Energy Unit (in the city of Jaraguá do Sul/SC, at the company's headquarters), and it is expected to be implanted in the Automation Unit in 2017.

In addition to the general indicators, each Department of the Motors and Energy Units, in the headquarters in Jaraguá do Sul/SC and Guaramirim/SC, have individual energy efficiency indicators that, as of 2015, started being monitored by the Quality and Sustainability Commissions and the Infrastructure and Facilities Commission, which are in charge of assessing the performance of the manufacturing plants and monitoring the actions proposed to reduce the electric energy consumption, and the index of compressed air leakage.

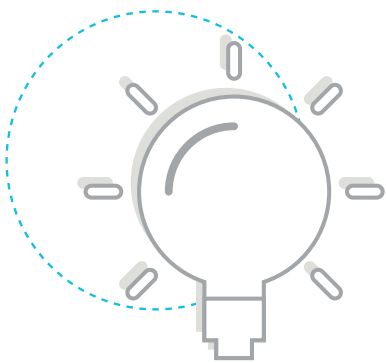
HIGHLIGHTS OF THE PROGRAM IN 2016

EQUIPMENT AND IMPROVEMENTS IN THE PROCESS

Replacement of 135 standard motors by high-efficiency motor;	Installation of 2 energy regenerative systems, allowing the use of the energy generated during the motor testing;	Implantation of new work procedures in the melting furnaces;	Implantation of actions to reduce the index of compressed air leakage, resulting in annual savings of 341 MWH.
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RETROFITTING OF INDUSTRIAL SYSTEMS

- Industrial systems were retrofitted with solutions manufactured by WEG, combining high-efficiency motors with speed control by frequency inverters, which considerably increase the energy savings of the set, as the motor just delivers the necessary force for the work, without waste.
- Automation of the bag filters with flow control based on the needs of the process. Thus, the operations in the process are sensed, and the flow rate required by the system is automatically regulated. In 2016, this solution was applied to five exhaustion systems;
- Automation of the cooling towers with speed control of the fans and pumps. The flow rate of the pumps is automatically adjusted according to the points of consumption, as well as the air flow in the ventilation. There is also the indirect gain of lower water consumption, since there is no unnecessary water evaporation, in addition to the lower consumption of chemicals for water treatment. In 2016, this solution was applied to 11 cooling towers.



GOALS OF ELECTRIC ENERGY REDUCTION

In Brazil the units that participate in the Energy Efficiency Program have goals to reduce the electric energy consumption.



AWARENESS

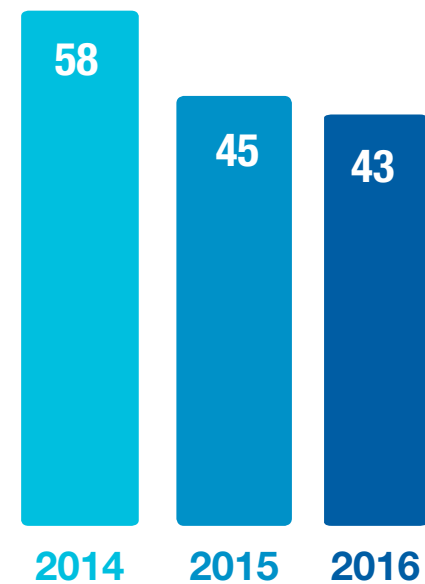
WEG seeks to raise the employees' awareness using different methods, such as training courses and oriented communication, encouraging and promoting good practices in the use of electric energy.

RESULTS

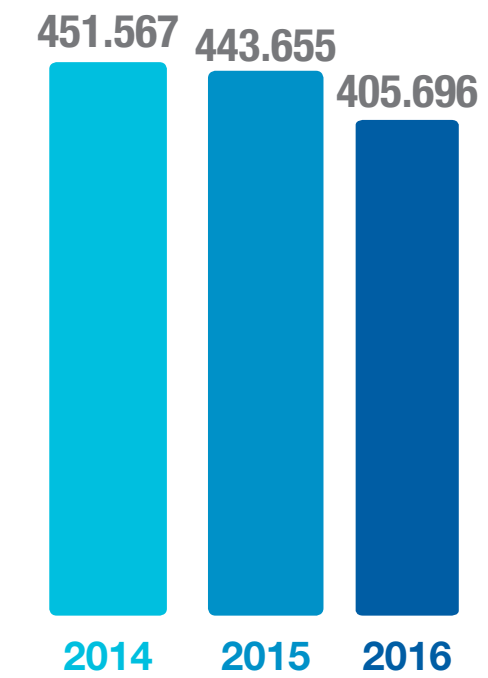
ENERGY EFFICIENCY INDEX

To measure the energy efficiency index, WEG has as indicator the ratio between the electric energy consumption and the net operating income (NOI).

Consumption of electric energy – manufacturing units of the WEG Group
MWh/NOI



Consumption of electric energy
– manufacturing units of the
WEG Group



The absolute electric energy consumption of WEG manufacturing plants reduced 8.5% in relation to 2015.

In 2016 there was a reduction of 4.4% in relation to 2015. That demonstrates the relevance of the Energy Efficiency Program, which, by means of its actions, has produced positive and consistent results in recent years.

ATMOSPHERIC EMISSIONS MANAGEMENT



WEG has been assessing the emissions of greenhouse gases since 2010. The measurement is done according to the methodology of the Brazilian GHG Protocol Program, which has the objective to map the emissions for their management, in addition to enabling the definition of strategies to continuously improve the emission management.

Atmospheric emissions monitored by WEG are associated with metallurgical processes, impregnation of stators, painting, finishing of metal surfaces, and enameling of copper wire. The technologies used to mitigate such emissions are: cyclones, scrubbers, bag filters and catalytic burners

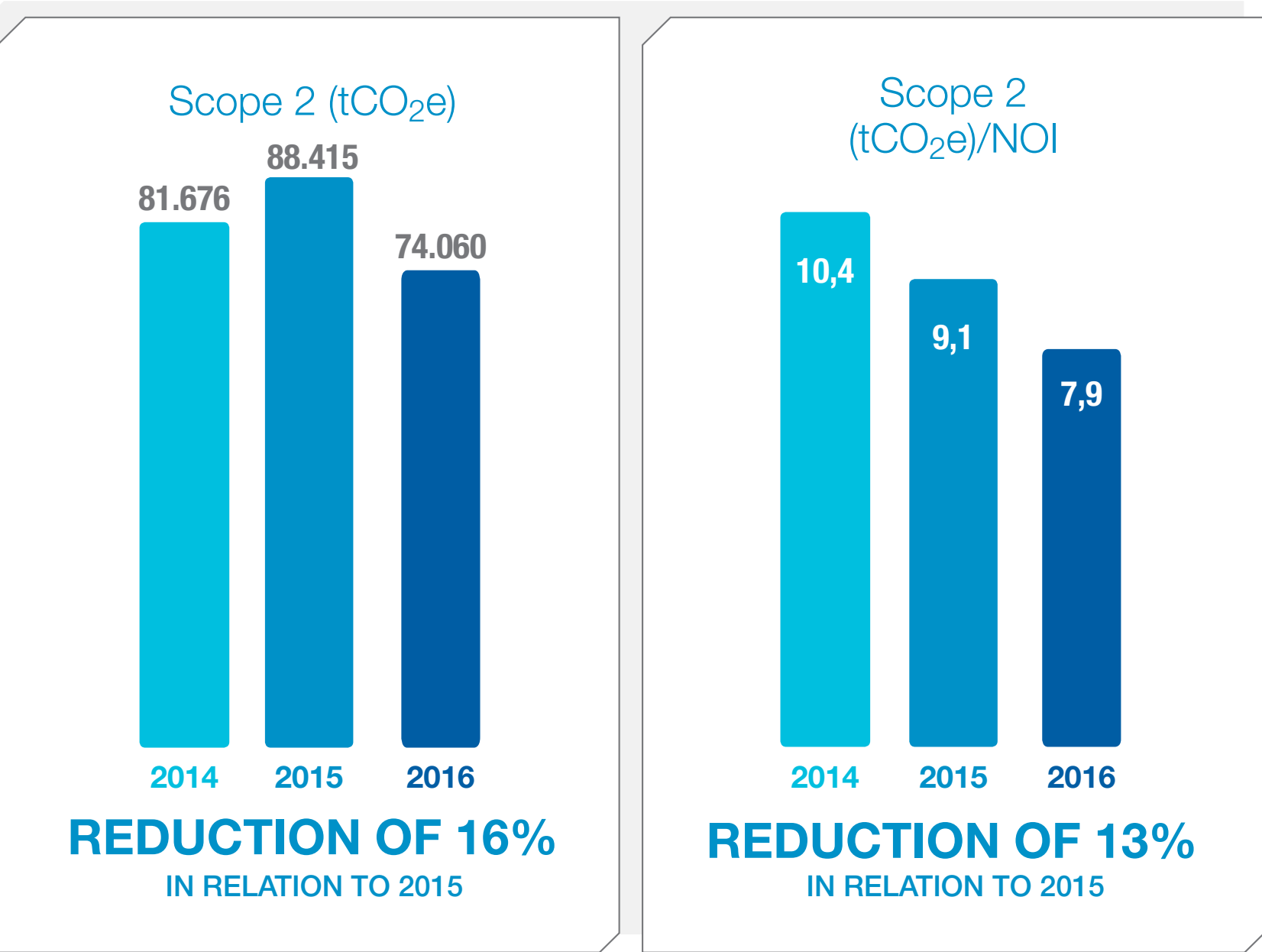


TRANSPARENCY

WEG reports data on its management and performance of atmospheric emissions to the Corporate Sustainability Index, in addition to reporting its performance to the CDP Investor and Supply Chain Program, Dow Jones Sustainability Indices (DJSI) and Exame Magazine Sustainability Guide.

ATMOSPHERIC EMISSIONS MANAGEMENT (SCOPE 2)

Scope 2, which refers to the indirect emissions of Greenhouse Gases resulting from the purchase of electric energy, is considered the most relevant for WEG, because the electric energy consumption is responsible for approximately 75% of the company's greenhouse gas emissions.



REDUCTION OF EMISSIONS AT CUSTOMERS

The industrial sector represents more than 40% of the energy consumed in Brazil, which encourages WEG to develop technologies intended to improving the energy efficiency with short-term return on investment, generating renewable energies and reducing electric energy consumption, consequently reducing the greenhouse gases. Therefore, WEG works strongly on the projects below.



WATER MANAGEMENT

The search for the continuous improvement of the processes applies to water management. When purchasing machines, WEG considers those providing the highest efficiency in water use or enabling its reuse. Some examples are the effluent treatment plants with reuse, and multiple cycles on washing machines and cleaning carts.

WATER RESOURCES MANAGEMENT

Nowadays, the water resources management of the WEG Group companies is executed based on the Environmental Policy and on the corporate directives, and approved by the General Direction of the company. Each unit is responsible for defining environmental goals, as well as for executing projects that enable the reaching of those goals.

INFORMATION MANAGEMENT

The monitoring of water consumption is mostly done by means of direct measurements. Subsequently, those data are sent to the corporate area, where they are analyzed for the presence of unjustifiable outliers and then consolidated. That produces more reliable information, showing the actual situation of the company.



GENERAL WATER CONSUMPTION

The manufacturing plants of WEG units have different water sources, each one working according to their reality, and it is not mandatory to use all the sources in the same unit. Among those sources, we may point out:

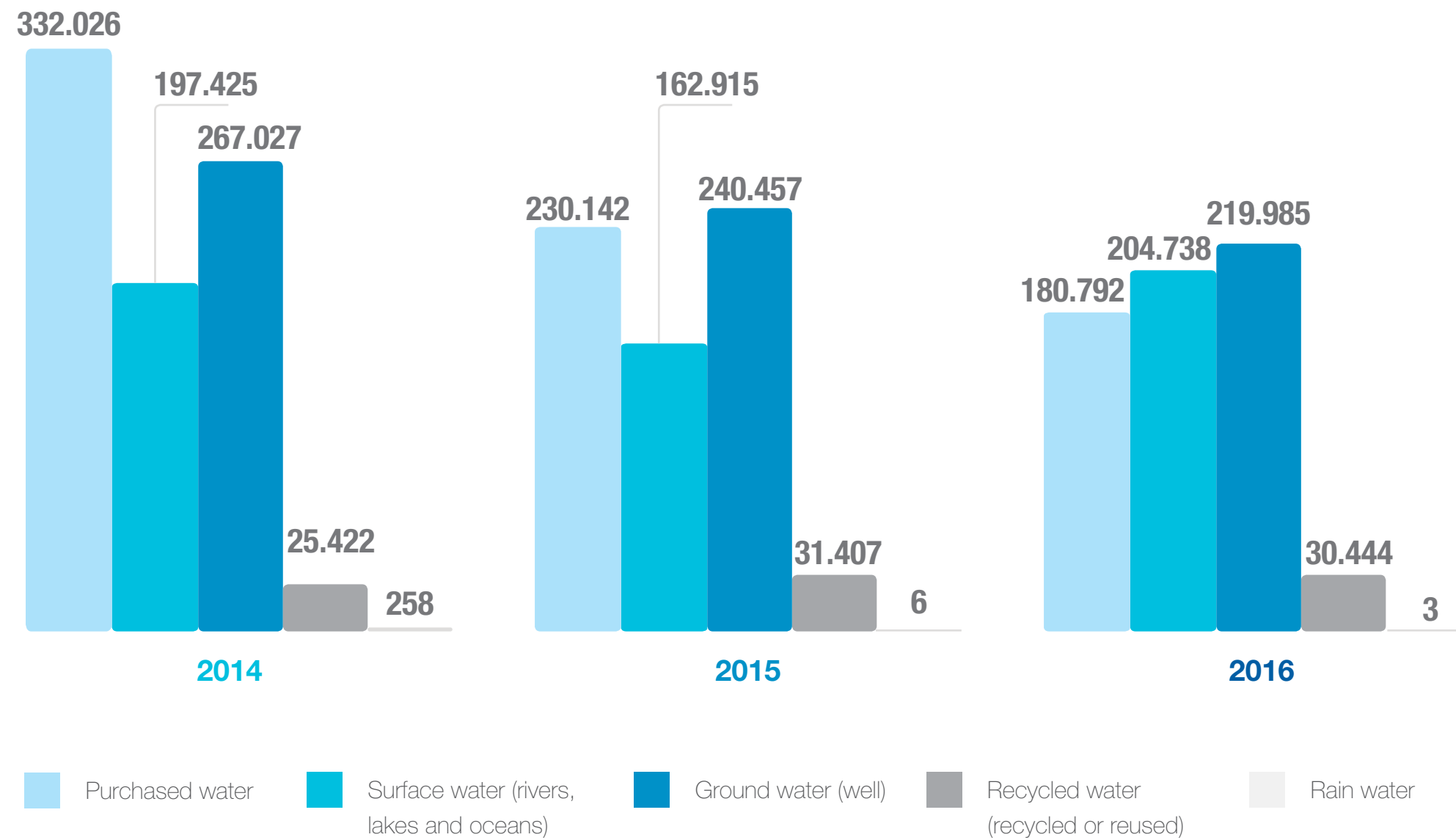


Consumption of water in WEG Brazil units (m³)



THE WATER CONSUMPTION **REDUCED 4,3%** IN RELATION TO 2015

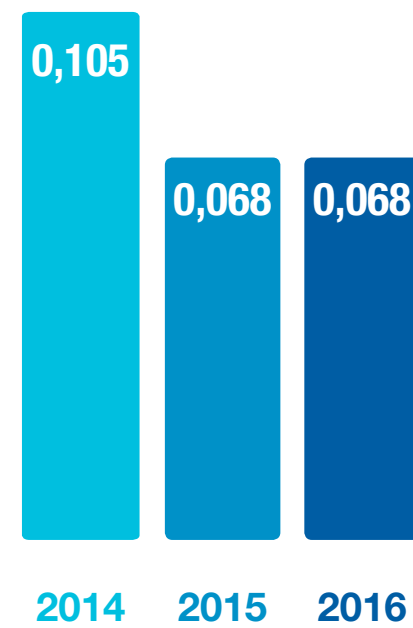
Water consumption by source (m³)



The greatest reduction in the source consumption was the “purchased water”, which reduced 21.4% in relation to 2015. Another source that also presented significant reduction was the “underground water”, 8,5%.

The consumption of recycled water reduced about 3%, due to the reduction in the production, which prevented a bigger amount of reuse of effluent.

Water consumption/NOI L/NOI

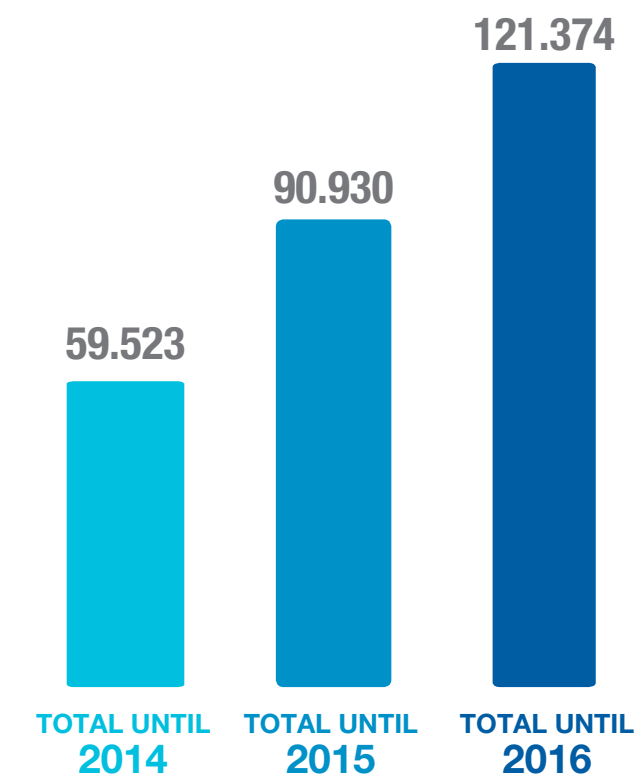


Note: the chart takes into account the water consumption of WEG units in Brazil, and the NOI of the WEG Group units.

VOLUME OF RECYCLED WATER

Considering the accumulated volume of recycled water between 2014 and 2016, WEG saved 121,374.3 m³ (121,374,300 liters), **enough to supply 415 families for a year.**

Recycled water – Accumulated (m³)



SOLID WASTE MANAGEMENT



The generation of solid waste is an intrinsic part of the companies' productive processes. The waste generated by a company is its raw materials that were not processed and must then be disposed of.

By properly managing their waste, the companies improve their efficiency (generating less waste while increasing the production), in addition to guaranteeing the best disposal for the waste.

THE THREE RS ARE PART OF THE WEG WASTE MANAGEMENT DIRECTIVES



REDUCE: WEG reached the goal of reducing waste with external disposal by 2% in relation to 2015.

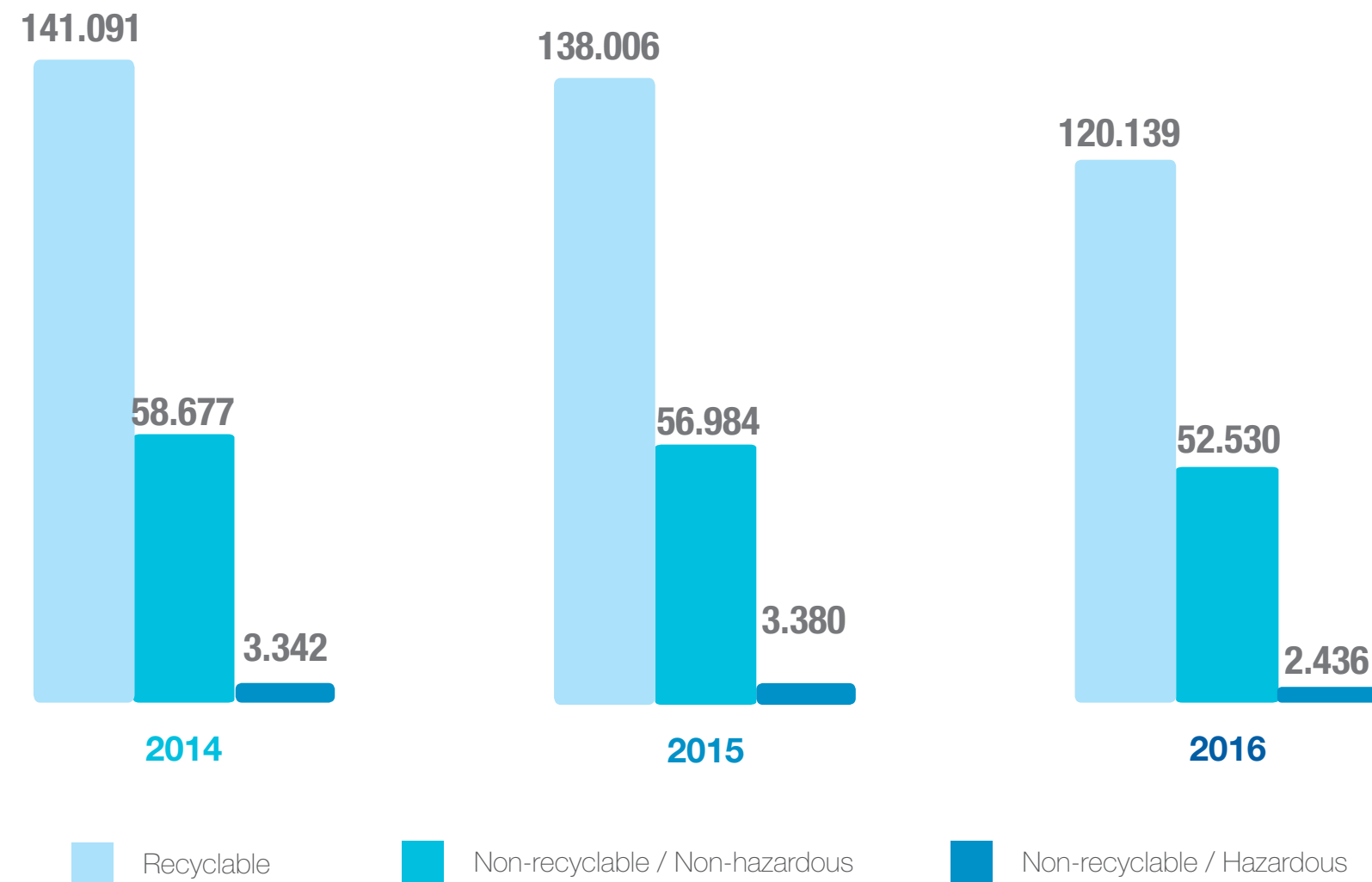


REUSE: WEG recycles approximately 93% of molding sand.



RECYCLE: practically all the metal forming sheet scrap is transformed into iron to be used in the motor production process. In 2016, 60,297.05 tons were processed.

Solid waste - Generation by Type (Quantity (ton))



VARIATION OF GENERATION OF TYPES OF WASTE IN RELATION TO 2015:

- **12,9%** 
 RECYCLABLE

- **27,9%**
 NON-RECYCLABLE / HAZARDOUS

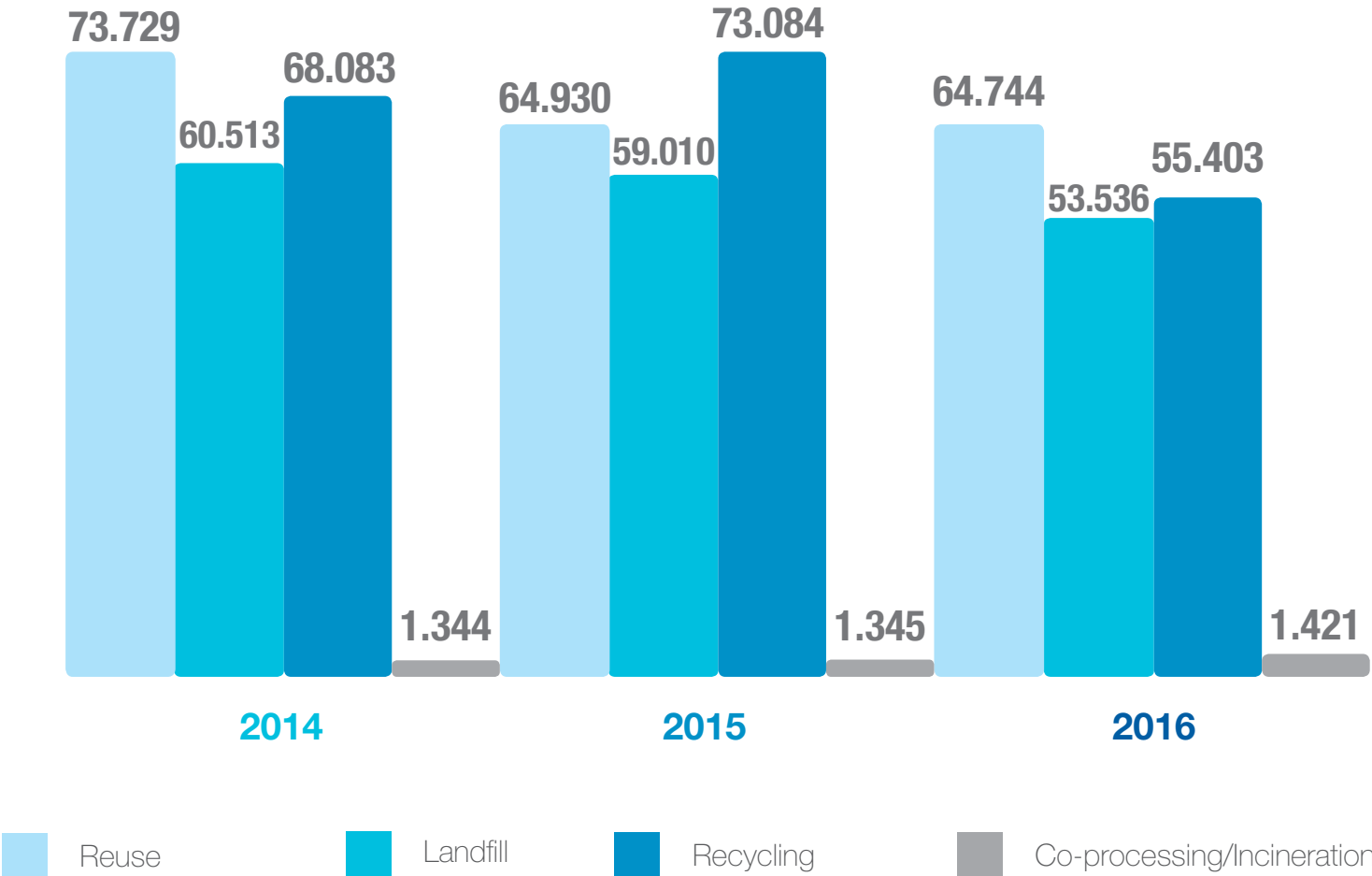
- **7,8%**
 NON-RECYCLABLE / NON-HAZARDOUS

TOTAL REDUCTION
WASTE GENERATION:

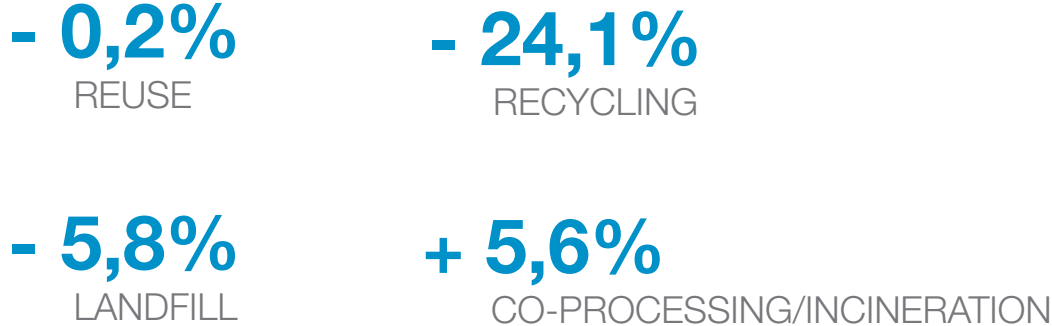
11,7%

**98,6% OF THE GENERATED WASTE IS FREE OF HAZARD
(CLASS 2A OR 2B).**

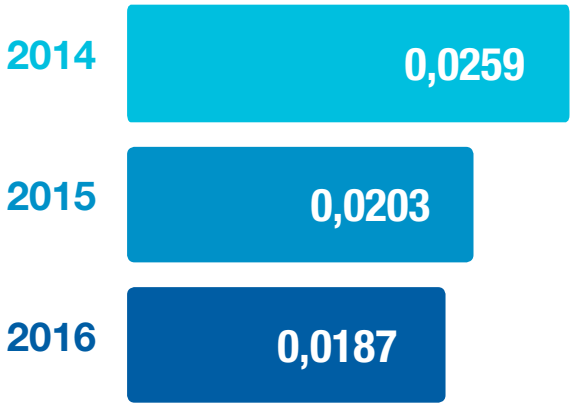
Solid Waste - Disposal Type (Quantity (ton))



VARIATION IN THE GENERATION OF WASTE TYPES IN RELATION TO 2015:



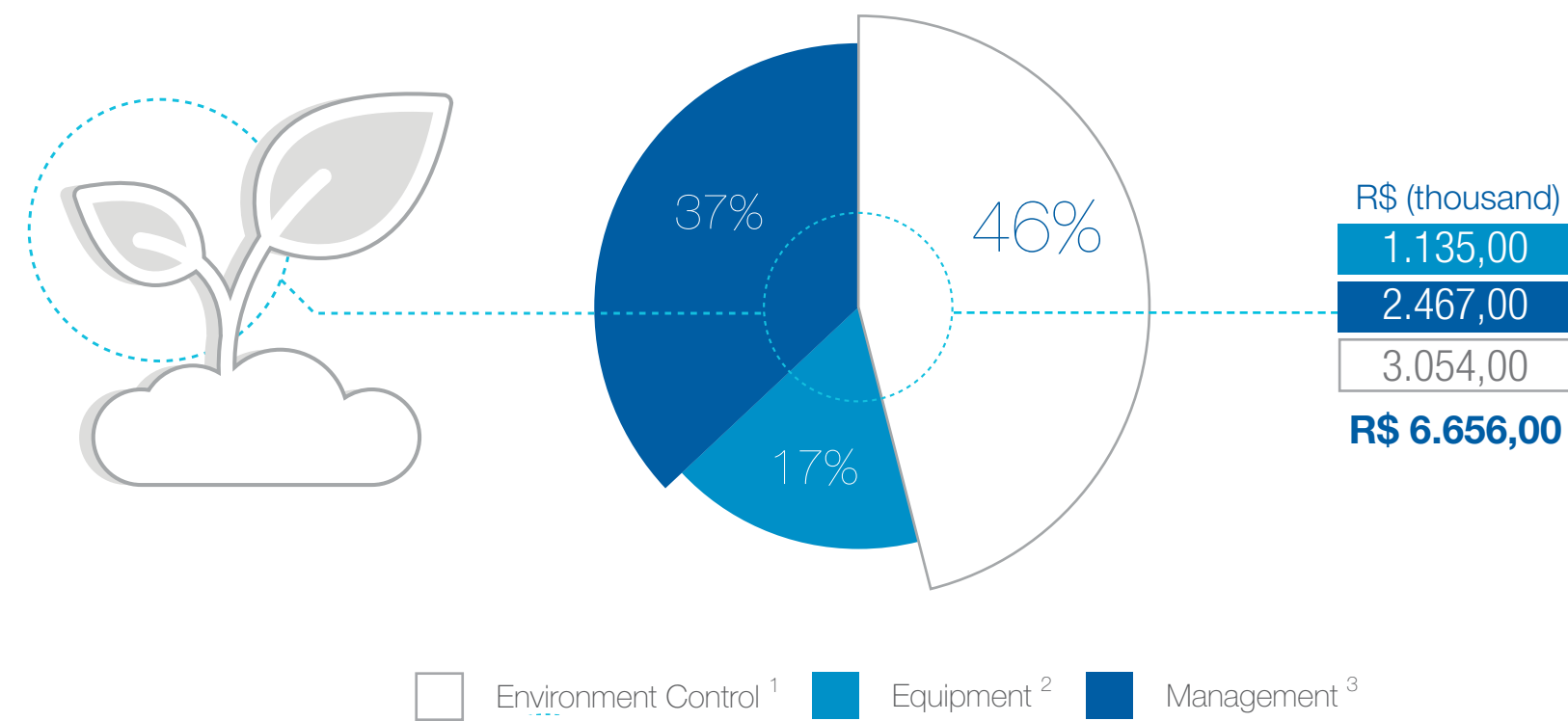
Waste generation ton/NOI



**THE WASTE
GENERATION (TON)
PER NOI REDUCED 8%
IN RELATION TO 2015.**

ENVIRONMENTAL INFORMATION

2016 Environmental Investment – WEG Brasil



Biodiversity

AREAS	
Reforestation	6.026,09 ha
Natural Forests	2.810,78 ha
Legal Reserve	2.445,54 ha*
Permanent Preservation Areas	818,43 ha**

* Area of Legal Forest Reserve not considered in the item "Natural Forests"

** Areas of Permanent Protection not considered in the item "Natural Forests"

Notes:

1 - Related to treatment/disposal of waste, treatment of atmospheric and liquid emissions, environmental liability insurance and depreciation of devices and expenses with materials and maintenance, in addition to their operation;

2 - Related to the purchase of equipment for environmental control

3 - Related to the remuneration of training personnel who act in environmental management, research and development, and certification of environmental management systems

CERTIFICATIONS

ENVIRONMENT

ISO 14001 (ENVIRONMENTAL MANAGEMENT)

THE CERTIFIED UNITS ARE:

AUTOMATION

- WEG Equipamentos Elétricos S.A. – Automation
- WEG Drives & Controls – Automation LTDA

ENERGY

- WEG Equipamentos Elétricos S.A. - Energy
- WEG Industries (INDIA) Private Limited

MOTORS

- WEG Equipamentos Elétricos S.A. – Motors
- WEG Linhares Equipamentos Elétricos Ltda

TRANSMISSION & DISTRIBUTION

- WEG Equipamentos Elétricos S.A. – Transmission and Distribution

COATINGS

- WEG Tintas Ltda

ISO 50001 (ENERGY MANAGEMENT)

THE CERTIFIED UNIT IS:

WEG Equipamentos Elétricos S.A. - Motors.
(Jaraguá do Sul/SC):

Area of the Manufacturing
Plant of Jaraguá do Sul/SC unit
(headquarters)

RELATIONS WITH THE COMMUNITY



Keeping good relations with the surrounding communities is A philosophy WEG has had since its foundation. WEG communicates and reaches out such communities by means of projects, seeking to understand and fulfill the population's needs. When WEG proposes a project, it is aligned with those needs.

In order to manage the relations, WEG has the Social Investment Group, with representatives in all the cities where WEG keeps industrial operations in Brazil. This group receives and evaluates projects according to the Social Investment Policy.

In 2016, the Social Investment Policy was reviewed and the focus remained on Health, Education, Social Inclusion, and Culture. This policy guides the analysis of projects in Brazil.

THE PROJECTS WILL BE SPONSORED BY WEG PROVIDED THAT THEY:

- Occur in cities where WEG keeps industrial operations;
- Derive from a private, non-profit entity, whose legislation enables the tax deduction and which has a recognized track record;
- Aim at a collective coverage;
- Bring social improvement and life quality for the population;
- Involve the WEG employees and/or their relatives;
- Are related to the necessities and interests of the community;
- Contribute to the sustainable development;
- Promote a positive image of WEG;
- Are kept by at least one more sponsor so as not to depend exclusively on WEG's resources;
- Are aligned with WEG Code of Ethics and Policy of Prevention and Fight against Corruption and Other Detrimental Acts.



HIGHLIGHTS 2016



In order to improve the management in the receipt of projects, in 2016 a single channel was created to apply the projects in Brazil, simplifying the access of the community. This format helped the project analysis logistics, which is managed by the Social Investment Group.

SUSTAINABLE GROWTH MEETING – COMMUNITY. (Maintained with Own Resources)

Concerned about sharing knowledge and helping the development of the entities of the third sector, WEG annually holds a meeting with those entities addressing relevant subjects for the sustainable development.

In 2016, the seventh meeting was held, approaching the tribute to volunteering, and the importance of the entities to learn about the actions of each other and to work in network. The subjects are always presented according to the community demand.



PROJECTS **AROUND THE WORLD**

Learn about some of the projects supported by WEG



PROJECTS AROUND THE WORLD



JA

JA (Junior Achievement) is a non-profit, educational organization. Created in 1919, it now benefits over 10 million youngsters in 121 countries. Maintained by private companies, its objective is to stimulate the entrepreneurship spirit of youngsters at school, fostering their personal development, providing a clear view of the business world, and facilitating the access to the job market.

WEG has had a partnership with JA since 2012, encouraging the business volunteering. The Volunteers teach Ethics, Sustainability, Finances, and Professional Qualification to students of public schools from Jaraguá do Sul-SC (where WEG is

headquartered). In 2016, we highlight the Minicompany program, applied for the first time in Jaraguá do Sul-SC, with WEG volunteering in partnership with JA in two state schools.

The program teaches youngsters of the second grade of High School and occur for 15 weeks. The meetings, called working hours, are held weekly and use the hands-on learning method.

It allows the youngster to create and manage a company from the adhesion of shareholders, going through the processes of production, payment of employees, product sale, financial closing, company closure and profit sharing among shareholders.



WEG HAS
187
VOLUNTEER EMPLOYEES
who are available to teach
the courses offered by the
Junior Achievement (JA) at
the schools.

Applicant	JA Santa Catarina
Beneficiary	Adolescents
Number of Beneficiaries	2.100 students
Investment	R\$ 24.000,00 – Own Resources
City	Jaraguá do Sul/SC
GOAL FOR 2017: Implant the JA Program in schools of the city of Linhares-ES	



The minicompany was a great chance that we all had. Because it broaden our horizons regarding what is to undertake a business. In addition, it made us responsible before each function and established goal. It was a kind of learning that we will take to the professional and personal life; it was really important to participate in this extraordinary project. The program made me think that what I want is possible, provided that I set the objective and work on that”

MILENA BOETTCHER
(Participant of the Minicompany project)

PROJECTS AROUND THE WORLD



SANTA CATARINA MUSIC FESTIVAL (FEMUSC)

Femusc is the biggest festival of its kind in Latin America, being a non-competitive school festival, supported by WEG since 2008.

It offers three programs, professional, advanced and intermediate. Beginners also are accepted. Children age 6 to 12 also participate by means of Femusckinho, a musical holiday camp with classes of string instruments, recorder, and choir. Young FEMUSC is also part of the festival, where students age 13 to 17 study orchestra instruments, resulting in the Young FEMUSC Orchestra.

The 11th edition of Femusc (Santa Catarina Music Festival), occurred in January 2016, drew students, teachers and conductors from 16 countries that delighted the public with concerts and recitals in different places of the city.



Applicant
FEMUSC Institute
Beneficiary
Community in General
Number of Beneficiaries
700 students of the different ages and 50 teachers
Investment
R\$ 420.000,00 - Rouanet Law
City
Jaraguá do Sul/SC

DR. THOMAS FOUNDATION

Dr. Thomas Foundation has the responsibility to coordinate and evaluate the execution of the City Elder's Policy by developing strategic actions able to guarantee the social rights of the elderly population in the city of Manaus and ensure the promotion of their autonomy, integration, and effective participation in the society.

The foundation keeps some programs intended to improve the life quality of the elders. The Long Permanence Program is a permanent action that shelters elderly people at social risk without family bonds; the Live Program with physical, labor, recreational, and cultural activities, associated with education for the citizenship; The Home Care for the Elderly is characterized by visits to the homes, giving initial care and developing a joint work between the elder and the family.



Applicant
Dr. Thomas Foundation
Beneficiary
Elders
Number of Beneficiaries
125 elderlies in the program of Long Permanence
Investment
R\$ 71.000,00 – Resources via the Elder's Fund
City
Manaus/AM

PROJECTS AROUND THE WORLD



FREE BOOK

Project supported by WEG since 2010, it is a campaign that enables the access of children to books and raises the environmental awareness, promoting a change in the behavior so as to make them transformers of their social reality. The campaign is composed of a process of: research, creation, preparation, execution and measurement along a period of 12 months.

The research listens to the teachers about the relevant subjects and stimulates the development of local authors to speak on the subject. The creation is the part in which the authors develop the subjects, and all the illustration, editing and printing process of the books occur. Preparation is the moment to launch the campaign, hold workshops with teachers and prepare them to work the subjects of the books and, together with the State Department of Education, plan the distribution of the books and the visits of the authors.

In the execution, the books are distributed, the evaluation is filled out, the authors visit the schools, and students’ works are exhibited with the books of the campaign. At the end of the campaign, the results are measured, and the impact report of each city and campaign video are presented.



IN 2016, “LET’S PLAY POETRY”. one of the six books published, stood out; the authors were the students of the sixth grade of the Luiz Gonzaga Ayroso school called “Writers of the Hope”.

Applicant	Evoluir Institute
Beneficiary	Children
Number of Beneficiaries	54 Schools, 12,906 Children and 364 teachers
Investment	R\$ 100,000.00 – Rouanet Law
Cities	Corupá/SC, Guaramirim/SC and Jaraguá do Sul/SC

PROJECTS AROUND THE WORLD



A BOLA DA VEZ

Project sponsored by WEG since 2002, initially with own resources, in 2010 it started to be supported through the Sports Incentive Law.

Its objective is to offer proper conditions for quality educational sports practice, using basketball as facilitator, to encourage sports practice, and to develop social values. The “Bola da Vez” project has the school as partner, interacting as the educational subsidy. It occurs after/before school.



The sport gave me many friendships and the possibility to study in a private school through a scholarship. Basketball was not only to participate to win, I don't know, I love it.

JEAN EDUARDO LIMA, 14 years old



Applicant	Associação Jaraguense de Basquete – AJAB
Beneficiary	Children and adolescents
Number of Beneficiaries	900
Investment	R\$ 120.000,00 – Sports Law
City	Jaraguá do Sul/SC

WEG SCIENCE AND TECHNOLOGY MUSEUM

The Museum is under the responsibility of WEG Recreational and Cultural Association.

It opened in 2003 in order to preserve WEG's history, and the culture of Jaraguá of the Sul/ SC. In 2013 it went through a great change in its structure, becoming an education center oriented to science and technology.

In 2016 it received 16,594 visitors, including 3,695 students of public schools who had the chance to participate in educational actions with the help of funds from a project via Rouanet Law.



Applicant	WEG Recreational and Cultural Association
Beneficiary	Community in General
Number of Beneficiaries	16.594
Investment	R\$ 897.854,00 – Own Resources and Rouanet Law
City	Jaraguá do Sul/SC

PROJECTS AROUND THE WORLD



LIFE STAGE

It fosters theater lessons, and then presentations with students of the eighth and ninth grade of secondary school, indicated by the City Department of Education together with the Social Development Department, which select adolescents exposed to risk factors regarding psychoactive substances.

The activities take place after/before school twice a week. The objective is to provide those students with a space and activities different from the daily routine, expanding their repertoire, allowing the understanding of the world out of their geographic and sociocultural space.

In a second stage, the students present the play at municipal schools, performing the prevention work at those schools.



Applicant
Blue Cross in Brazil
Beneficiary
Adolescents
Number of Beneficiaries
40 Adolescents
Investment
R\$ 50.000,00 - Childhood and Adolescence Fund
City
Blumenau/SC

ART FOR ALL

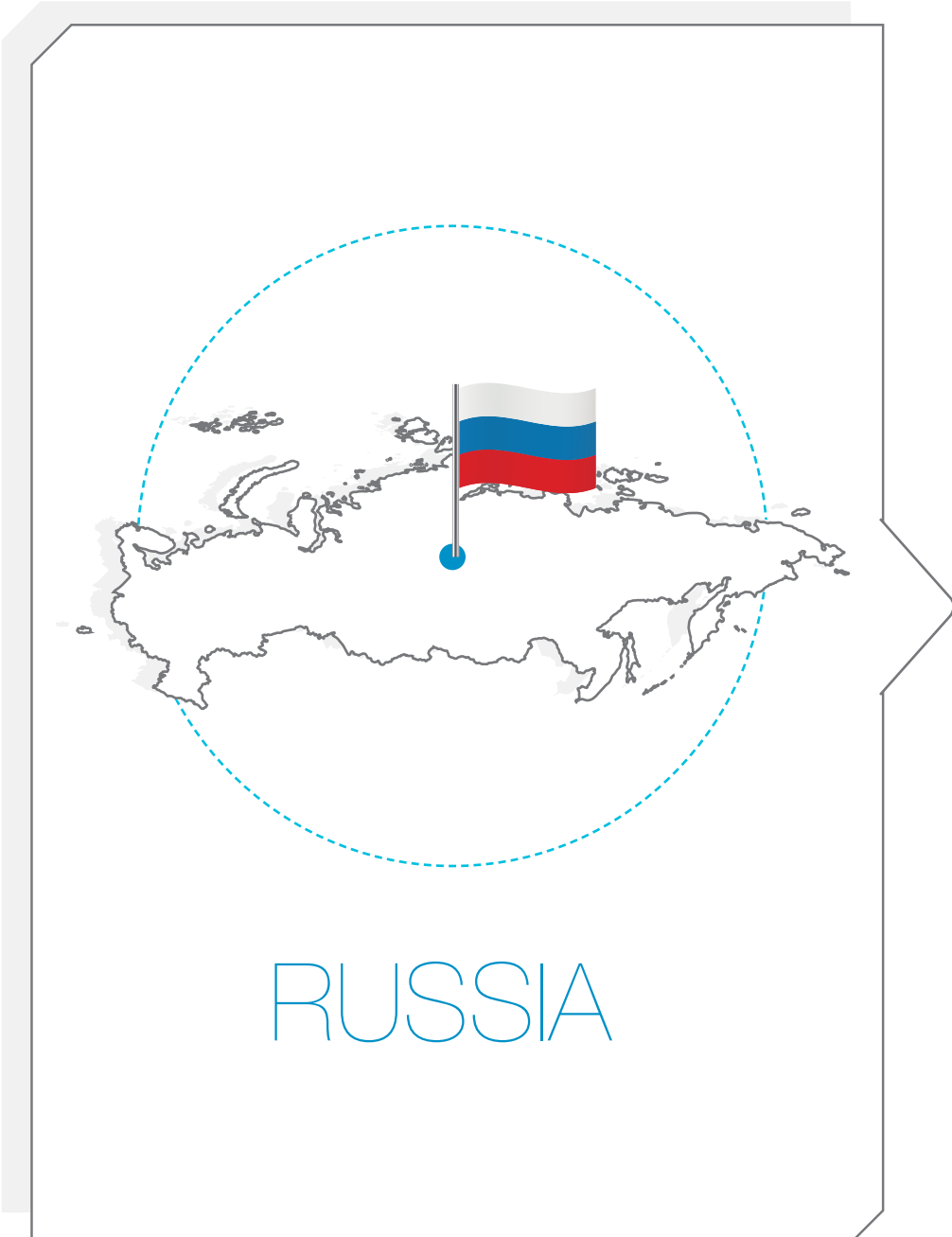
The Catarina von Bora Qualification and Sociability Center - an institution of the Martin Luther Communion - provides the children and adolescents with opportunities that contribute to their cultural development, and socioenvironmental responsibility by means of art workshops in different areas (theater, visual arts, instrumental music, singing, literature, etc.).

The ART FOR ALL project serves kids between ages 6 and 14. The proposal and the dynamics of the works do not intend to be just one more school. But the activities keep the qualification and educational function, working in a playful and interactive form.



Applicant
Martin Luther Communion
Beneficiary
Children and Adolescents
Number of Beneficiaries
120
Investment
R\$ 40.000.00 - Rouanet Law
City
Blumenau/SC

PROJECTS AROUND THE WORLD



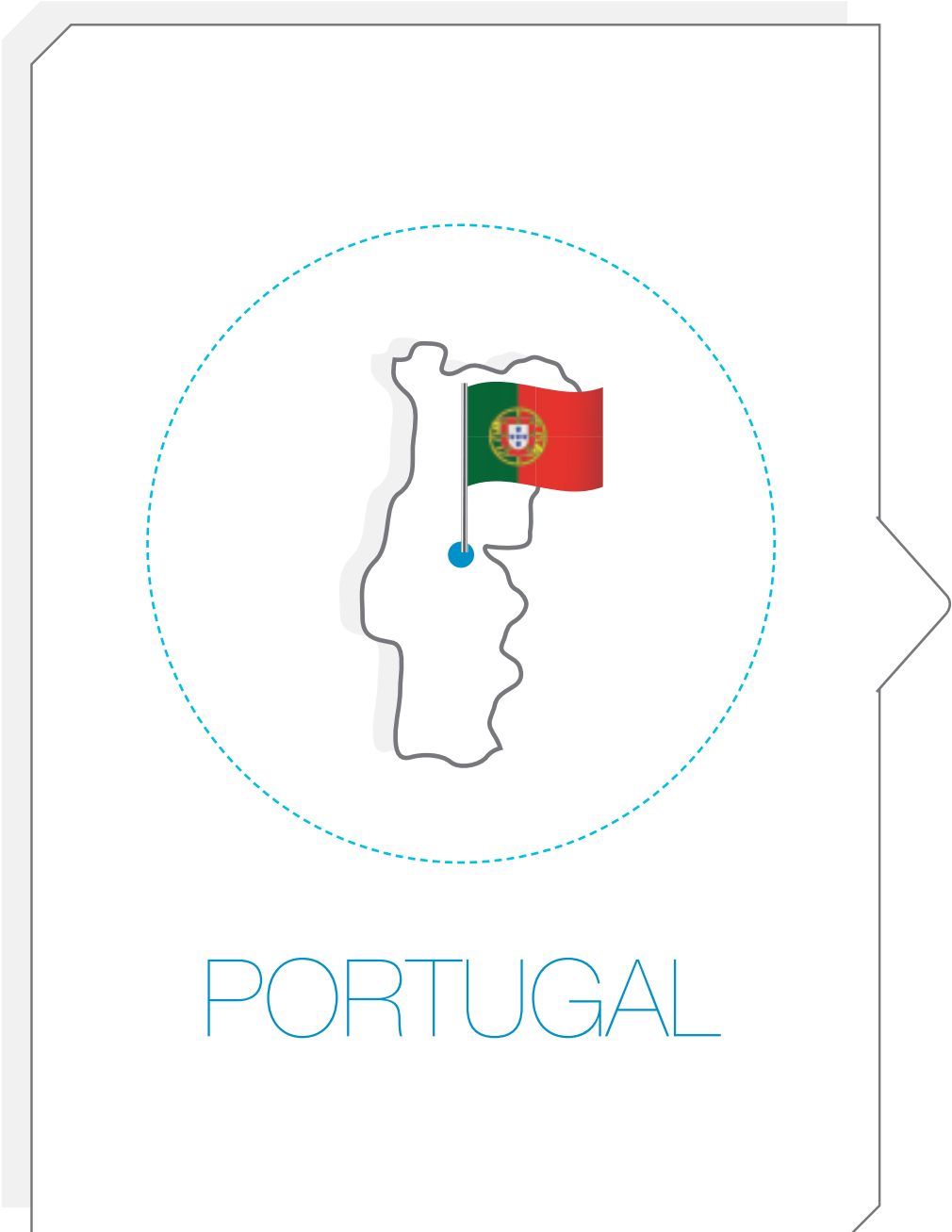
WORLDSKILLS RUSSIA

WorldSkills is the global center of excellence in skills and development. Through the international cooperation and development among the industry, government, organizations and institutions, the project promotes the benefits and the necessity of qualified professionals through community projects, skill competitions and exchange of knowledge. The project shows how important education and training is for youngsters, industries and society, challenging young professionals from all over the world to become the best in the ability they choose.



Applicant	Federal Government (RF) and Regional (Alania) Government and Electro-Zink Corp. company, of the UGMK Group.
Beneficiary	Adolescents
Number of Beneficiaries	20 adolescents of the regional JuniorSkills Team in the classification Electrical Installation.
Investment	Donation of WEG products of the automation area.
City	Regional capital Vladikavkaz

PROJECTS AROUND THE WORLD



CAMPAIGN TO RAISE AWARENESS OF BLOOD DONATION

The Portuguese Blood and Transplant Institute’s mission is to regulate the national activity of a Blood Center and transplants that ensure the donation, collection, analysis, processing, preservation, storage and distribution of human blood, blood components, organs, tissues and cells.

WEG together with the IPST developed an internal action to raise the awareness and urge the employee to donate blood. The action had 77 blood donations, which will serve around 230 lives.

Applicant
Portuguese Blood and Transplant Institute
Beneficiary
Community in General
City
Vila Nova de Gaia (Porto)

WE ARE WHO WE ARE - PIRILAMPO MÁGICO

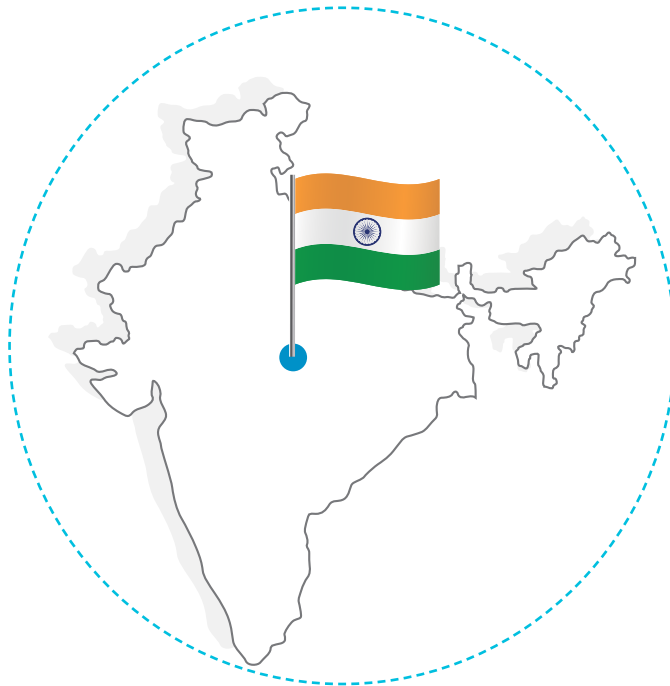
The objective of the Cooperative for Education and Rehabilitation of Unadapted Citizens is to raise funds in Portugal for the social cause of children and youngsters with intellectual impairment and/or multiple disabilities. Pirlampo is one of the greatest symbols of social solidarity in Portugal, involving about 100 non-profit organizations, and it mobilizes thousands of people, including relatives, technicians and anonymous citizens.

The organizations that benefit from the Campaign are private non-profit institutions that direct or indirectly serve people with intellectual impairment and/or multiple disabilities in different places, such as education centers, qualification and job support centers, job agencies, occupational activity centers intended to develop socially useful activities for people with great disability, homes, home support and early intervention. WEG joined this solidary cause, enabling the employees to purchase the Magical Pirlampo (2€) and the Magical Pirlampo Pin (1€).



Applicant	Cooperative for Education and Rehabilitation of Unadapted Citizens
Beneficiary	Community in General
City	Vila Nova de Gaia

PROJECTS AROUND THE WORLD



INDIA

COMMUNITY SUPPORT TO BUILD BATHROOMS

WEG helped the community by building 10 bathrooms for homes located in Village i, e., Hanumanthpuram

Beneficiary	Community in General
Number of Beneficiaries	10 families that live in the village
Investimento	Rs. 2,84,050/-
City	Hanumanthpuram

CONSTRUCTION OF 3 BLOCKS OF RESTROOMS FOR THE HOSUR & GOVT. SCHOOL.



Beneficiary	Students and Teachers
Number of Beneficiaries	1.500 beneficiaries
Investimento	Rs. 8,98,477.15/-
City	Samanapalli

FINANCIAL SUPPORT TO INSTALL THE AIR CONDITIONING SYSTEM OF THE PUBLIC HOSPITAL OF HOSUR.



Beneficiary	Patients of the Hospital
Investimento	Rs. 3,48,342.75/-
City	Husur

WEG SOCIAL INVESTMENT TRACK RECORD

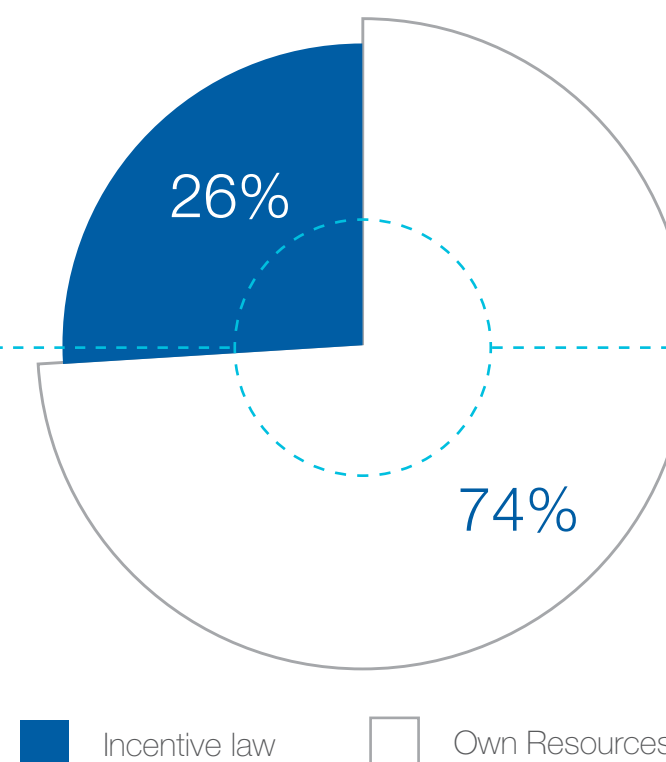
IN 2016 WEG **SPONSORED 48 PROJECTS**, NAMELY:



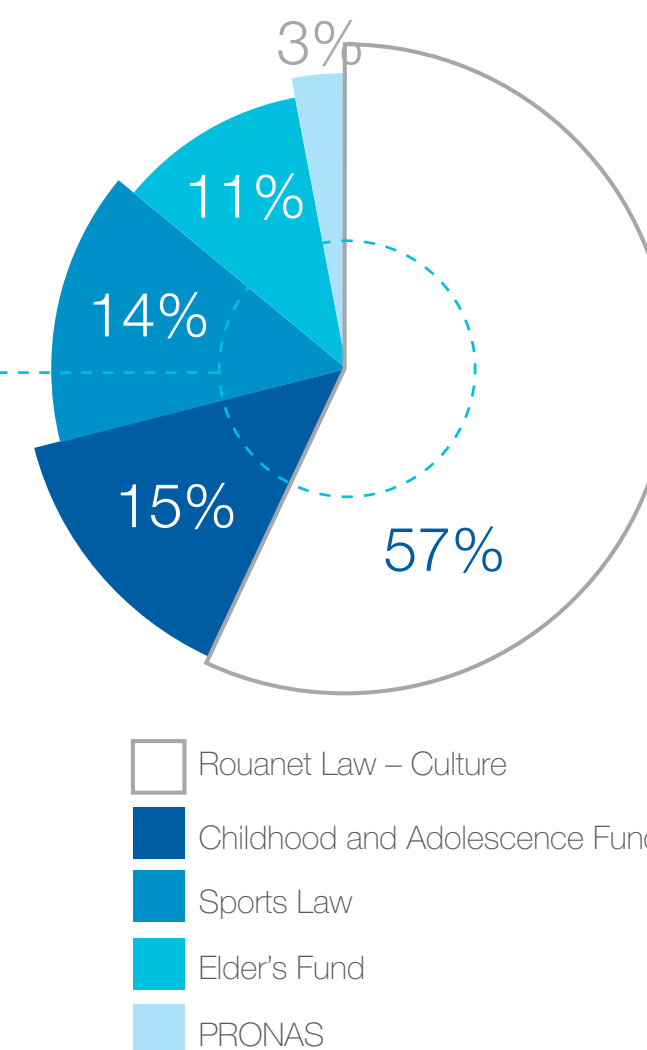
Total investment (R\$ thousand)
(Own resources and via incentive laws)



Source of the funds

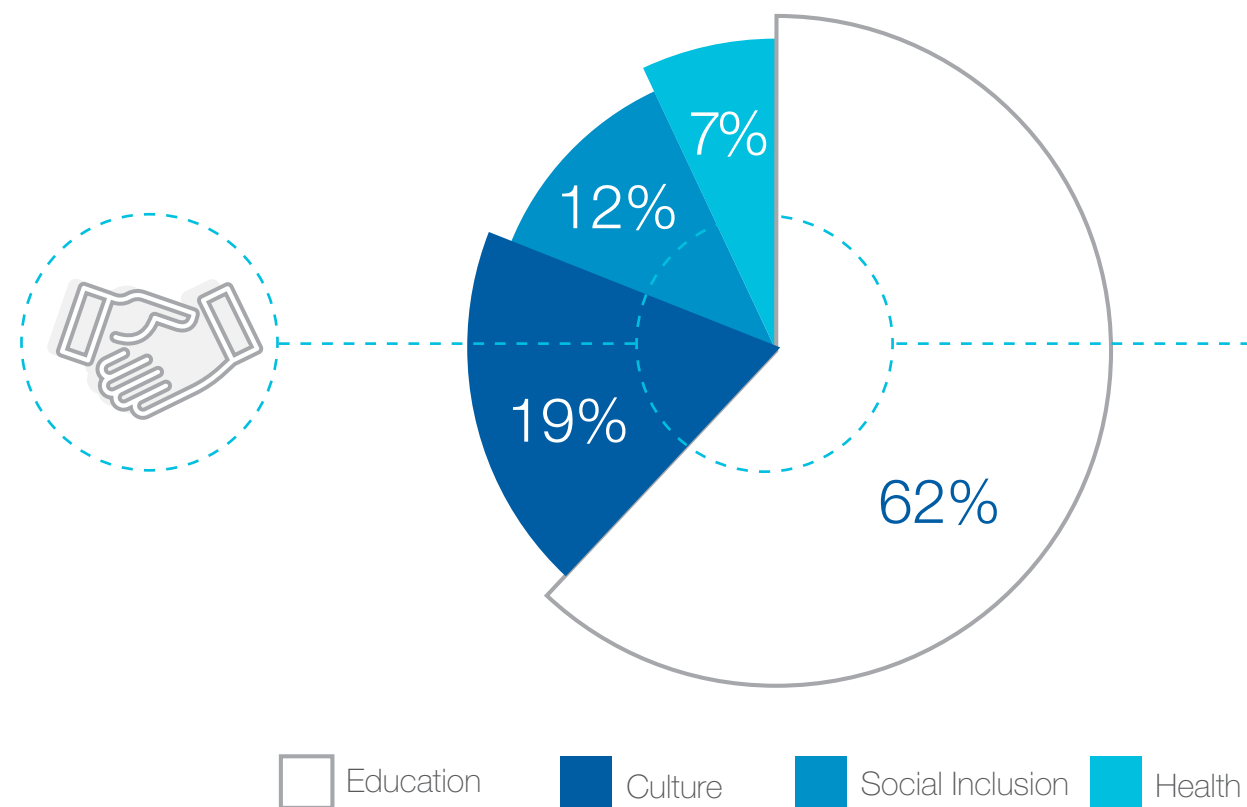


Investment via Incentive Law

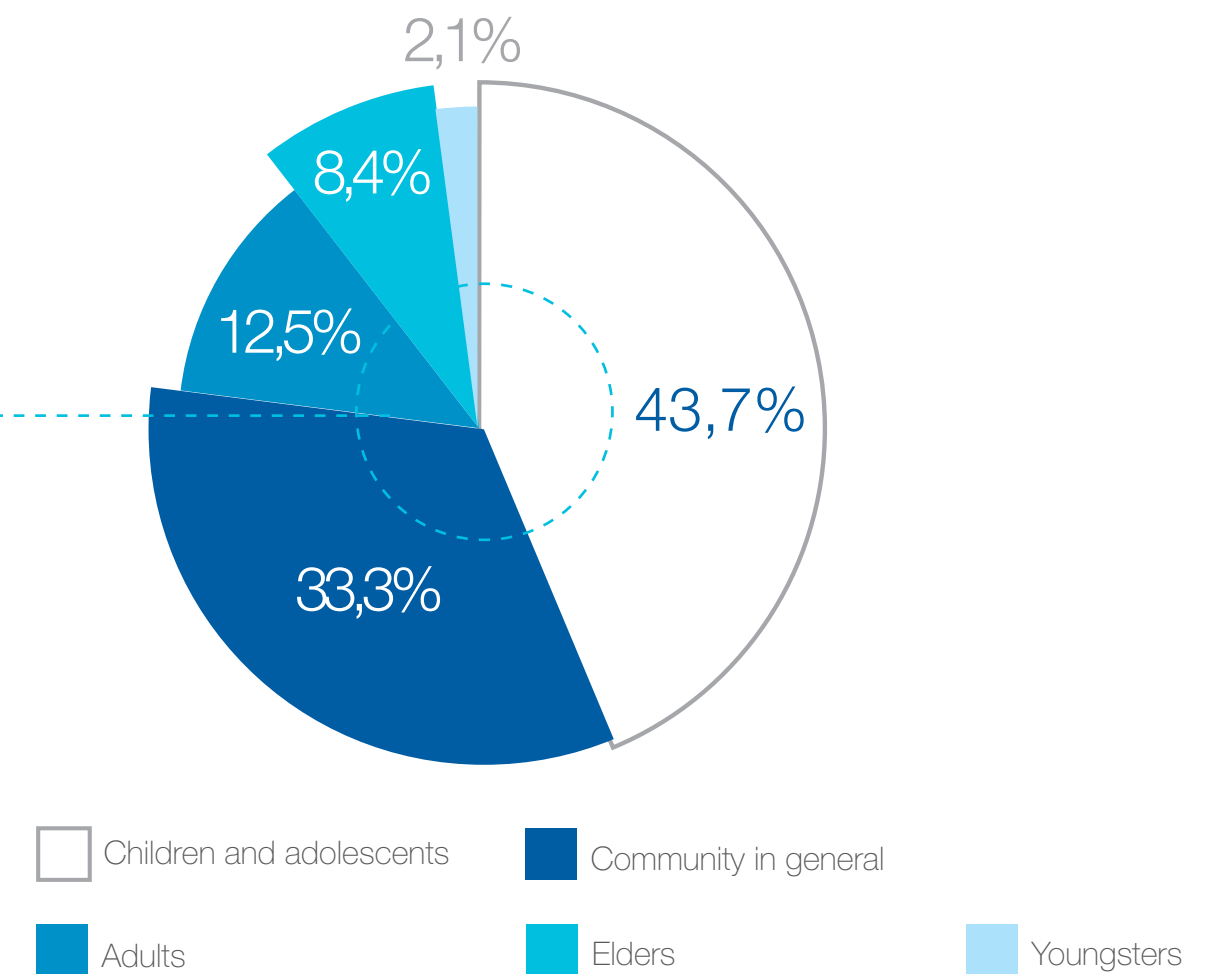


WEG SOCIAL INVESTMENT TRACK RECORD

Investment by area



Application of projects by public



FINANCIAL STATEMENTS 2016



OUTLOOK



The year of 2016 was marked by profound and significant changes in the global political and economic scenarios, with significant consequences to the business environment in which we operate. In Brazil, the change in the political arena was a deeper one, thus culminating in the president's removal from office and in the vice president assuming her office, in tandem with the further development of the corruption investigation process.

- According to estimates of the International Monetary Fund, the global output growth must reach approximately 3% in 2016, virtually a repeat of the same pace observed in 2015, which has been a feature of the low growth observed in the current decade. The developed economies contributed relatively less to the output growth in relation to the previous year, with the pace going from 2.6% to 1.6%, mostly justified by the decrease in the U.S. economy growth. The developing economies, also according to the IMF, must expand again by 4% on average in 2016, with China maintaining its growth rate, Russia showing a slowdown in its economy shrinkage, and Latin America witnessing a continuity in its low-growth scenario. This sluggish expansion scenario has significant consequences to demand, commodity prices, and the pace of industrial investment, thus directly and indirectly influencing the demand for our products.

- In Brazil, the economy performance can be divided into two different phases. Until May, there was a fast worsening in the macroeconomic conditions, including tax deterioration, increase in inflation rates, and a strong devaluation in the foreign exchange rate, in addition to a deepening strong recession. As from MAY, the new government in office promoted key changes to the team and guidance, thus aiming at providing an anchor to the economic expectations, and building the conditions required for a more consistent recovery. All in all, the performance of the key macroeconomic variables was still very poor in the year. The country's GDP is expected to have dropped by 3.5% in 2016, while the Brazilian industrial output, measured by IBGE (Brazilian Institute of Geography and Statistics) shows an approximate fall of 7.5%, and the year-to-date drop in the capital goods output neared 13%. After an extended economic slowdown period, the recovery has been gradual.

ECONOMIC AND FINANCIAL ASPECTS

REVENUE

In 2016, the consolidated Net Revenue reached R\$9,367 million, a 4% fall in relation to 2015, and a performance below the original expected figure, but, even so, satisfactory when considering the profoundly adverse situation in which we operated this year.

Virtually all business areas showed a slight decrease in revenue when compared to the prior year, mostly affected, in the local market, by adverse economic conditions, and in foreign markets, by the foreign exchange fluctuation, which decreases growth measured in Reais.

WE HIGHLIGHT THE FOLLOWING ASPECTS IN EACH OF THESE BUSINESS AREAS:

A) INDUSTRIAL ELECTRO ELECTRONIC EQUIPMENT.

This business area's 4.8% fall in net revenue in relation to 2015 was due to drops in sales, both domestically and abroad. In Brazil, the situation of political difficulties has spread its contagion to the economic environment, and virtually paralyzed investments in capacity expansion, thus impairing demand for our products and services. The consequent result was an 18% fall in revenue. Even if the institutional resolution found for the political difficulties has renewed hope in the economic recovery, the steps taken for correcting imbalances accumulated in the last few years, and the short-term limitations of the Brazilian economy, meant that the demand resumption has been quite gradual since then, with investments centered in maintaining the installed capacity.

The performance improvement in foreign markets has been better, although revenue shows a 1.8% fall in Reais. The global market growth has been showing lower figures, as a consequence of low prices in some commodities, and the consequent decrease in demand for industrial equipment used in their production. Yet, we maintained the execution of our expansion plan, seeking to enhance our competitiveness, our closeness to clients, and our brand's power. The first investment phase of our new unit in Mexico has been completed, and we must continue to increase production over the next years, in tandem with the expansion of our position in the North American market. The second phase of this project establishes the verticalization of our plant. We have already finalized the first phase of our expansion project in China, and our market presence, characterized by fragmentation, continues to strengthen.

B) EQUIPMENT FOR POWER GENERATION, TRANSMISSION AND DISTRIBUTION (GTD).

Subsequent to the strong growth observed in 2015, resulting from the beginning of the deliveries regarding wind power generation systems, the year of 2016 witnessed consolidation, with a small 3.6% decrease in revenue. The deep economic recession Brazil is going through has also reached our Company's business area, which is characterized by long-life cycle products, in which demand variations take a long time to be translated into variations of revenue, which ended falling by 2.8%. The fall in electricity consumption, both in 2016 and 2015, ended up decreasing the need for investments in generation capacity expansion. Few were the power auctions, and the volumes traded were low. In the T&D area, we can already note the first signs of a change in this trend. Encouraging results were obtained from the transmission line auctions, thus proving that there is the need for investments, and the will to do so, should the appropriate conditions be present. In foreign markets there was a 4.7% decrease in relation to 2015, figure which was affected by foreign exchange variations. Our production presence abroad, principally in the T&D area in North America, has enabled us the consistently advance in relation to our business plan.

ECONOMIC AND FINANCIAL ASPECTS

C) MOTORS FOR HOUSEHOLD USE.

We also noted a small 3.2% revenue decrease in relation to the prior year. In addition, this was a year in which we consolidated investments made in the last few years, mainly in the foreign markets, which had a 4.7% fall in revenue. Domestically, we noted that demand stood at the same level, subsequent to the sharp fall observed in the prior year. We reinforced our market leadership position in the electric motors market for white goods and commercial goods, initiative which resulted in a far less intense drop in revenue of just 1.2%.

D) PAINTS AND VARNISHES.

This was the business area that enjoyed the best relative performance, whose revenues stood almost the same as the ones observed in 2015. This outcome results from a number adjustment measures taken throughout the last few years, including optimization and modernization of the production infrastructure, development of new products and markets, and the search for a wider range of clients, thus mitigating the risks posed by a low demand in its main markets.

DOMESTIC MARKET

Net revenue in the domestic market reached R\$4,002.3 million, at a 5.3% fall in relation to the prior year, and accounting for 43% of the total net revenue. The aforementioned performance, even if poor in absolute terms, should be appreciated from the perspective of the Operations faced by the Company in Brazil in 2016, which endured one of the most difficult periods ever in the Company's history, and made even more difficult on account of its extended duration. The strong economic downturn, the drop in industrial production and investments, which had started in 2014, became even worse at least up to the mid-year. Changes as from May, however, even if they have not yet produced a clear change in trend, have already enhanced the confidence of economic agents in the economy.

FOREIGN MARKET

There was a 3% fall in net revenue in the foreign market, thus reaching R\$5,364.7 million and accounting for 57% of the total net revenue. Had it been measured in US\$ dollars, the fall in revenue would have been 6.9% over the previous year and 6.8% if adjusted using the acquisitions performed during the course of the period. The global market for industrial electro electronic equipment, our main global business, has been suffering as a result of the fall in commodity prices, which, consequently, affects the performance of significant investments such as the ones made in the mining and oil and gas industries. This situation has shrunk the electric motors market, and has made even more significant our efforts to expand in new markets and new products.



ECONOMIC AND FINANCIAL ASPECTS

COST OF GOODS SOLD

The Cost of Goods Sold (COGS) showed a 3.8% fall and reached R\$6,731.3 million, situation which meant a 28.1% gross margin in 2016. The principal negative factors influencing the gross margin throughout the year were the unfavorable market conditions, mainly in Brazil, with effect on the volume produced, and thus precluding a better dilution of the transformation cost. This gross margin is almost the same as the observed in 2015, of 28.3%. However, the falling trend was clearly reversed throughout the year, thus resulting in steadily better quarterly figures.

We have doubled our efforts to improve the production processes, searching for industrial competitiveness, and the technology innovation program, thus launching new products or redesigning for optimizing performance and costs to our clients. In addition, we have taken steps to adjust our production capacity to the market size. In this sense, it is worth stressing herein the huge active participation shown by our employees in Brazil, who, truly understanding the moment the Company was facing, embraced our working hours reduction program.

GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

Consolidate General, Administrative and Selling Expenses totaled R\$1,390.4 million, representing a 1.3% fall in relation to 2015, almost at the same level of the net revenue, of 14.8%. This is a satisfactory result, taking into consideration the context of fall in volumes, and the difficulties of maintaining the best dilution for these expenses, without benefiting from the scale economies.

EBITDA

EBITDA (Earnings before Interest, Tax, Depreciation and Amortization), which was calculated in accordance with the methodology established by the Brazilian Securities and Exchange Commission (CVM) Instruction 527/2012, reached R\$1,406.9 million, thus representing a 4.8% drop over the prior year, and an EBITDA margin of 15.0%. We could also note the inversion in the worsening trend throughout the year, as a result of the adjustment steps established. Thus, even if the EBITDA margin is virtually the same as the one observed in 2015, the dynamics was the one of a recovery.

FINANCIAL REVENUE AND FINANCIAL EXPENSES

Net financial result was positive, in R\$ 215.8 million in 2016, which is comparable with the net positive income of R\$145.5 million in 2015. This net income derives from Finance Income amounting to R\$816.1 million in 2016, (R\$1,345.6 million in 2015), and Finance Costs amounting to R\$600.2 million in 2016 (R\$1,200.2 million in 2015). In addition, the strategy of maintaining a sound capital structure favored us, as we noted an increase in the remuneration of liquid funds, and maintained access to the market financing lines, at very competitive costs.

ECONOMIC AND FINANCIAL ASPECTS



NET PROFIT

As a result of the aforementioned effects, the Consolidated Net Profit attributable to WEG S.A.'s shareholders reached R\$1,117.6 million, i.e. 3.3% below the R\$1,156.1 million obtained in 2015.

Return on equity was 18.5% in 2016 (22.9% in 2015), and the net margin reached 11.9% (11.8% in 2015).

CAPITALIZATION

One of WEG's business model pillars is the preservation of its financial flexibility, understood herein as the ability to identify and take advantage of investment opportunities showing attractive capital returns. Therefore, we believe that a sound capital structure enables us to obtain preferred access to competitive funds and financing sources, both with private and public financial institutions, located in Brazil and abroad.

The Brazilian credit market conditions also worsened throughout 2016, including a decrease in offering, shorter terms and higher costs. Accordingly, we have opted to decrease total indebtedness and increase liquidity. As of December 31, 2016, cash and cash equivalents and financial investments totaled R\$4,948.6 million, invested in first tier banks, mostly in local currency, while gross financial debt totaled R\$4,489.7 million, out of which 23% in short-term operations and 77% in long-term operations. At the end of 2016, the net cash position was R\$458.9 million.

(R\$ MIL)	DECEMBER 2016		DECEMBER 2015		DECEMBER 2014	
CASH AND EQUIVALENTS	4.948.613		4.813.700		4.194.224	
Current	4.779.392		4.442.278		4.158.203	
Non Current	169.221		371.422		36.021	
FINANCINGS	4.489.698	100%	5.170.654	100%	4.092.150	100%
Current	1.028.952	23%	1.286.071	25%	1.466.752	36%
In Reais	642.413		638.990		779.146	
In other currency	386.539		647.081		687.606	
Non Current	3.460.746	77%	3.884.583	75%	2.625.398	64%
In Reais	1.925.350		1.751.352		1.701.408	
In other currency	1.535.396		2.133.231		923.990	
NET CASH POSITION	458.915		(356.954)	-	102.074	

ECONOMIC AND FINANCIAL ASPECTS

INVESTMENTS

The investments program in fixed assets for expanding and modernizing the production capacity has been concentrated in two new production units of electric motors in Mexico and China. In the two cases, we have finished the investment phase. We have noted the gradual growth in production, in tandem with the growth in our sales presence. Investments in expansion and modernization of our production capacity totaled R\$325.5 million in 2016, out of which 71% aimed at industrial districts and other subsidiaries located abroad, and 29% in assets in Brazil. In addition to the organic investments, acquisitions performed throughout the year, principally the investment in Blufon, in the US, meant the merger of R\$52.8 million in fixed assets.

The total amount of the investments program in 2016 stood below the originally budgeted amount of R\$455 million. It is worth stressing our ability of adjusting the execution speed of our investments program to the effective market demand, always seeking to maximize the return on the invested capital.

The other essential program for sustaining our competitiveness is our investment in Research, Development and Innovation (RD&I), which reached R\$247.3 million in 2016, or approximately 2.6% of the net revenue. The focus of the RD&I program is on the development of new products, on the continuous enhancement of products already available, on application engineering and on the enhancement of industrial processes, always aiming at sustaining our technology leadership position in the market.

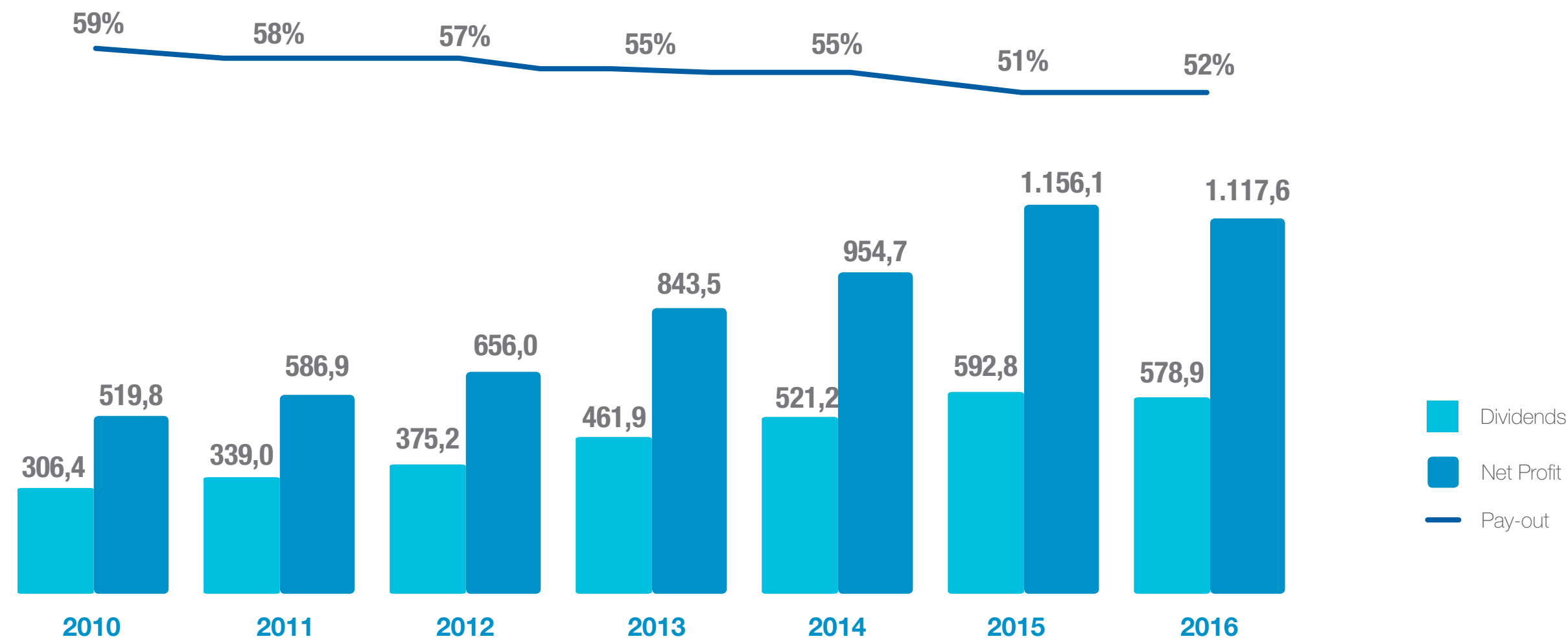
DIVIDENDS

Management will propose at the Ordinary General Meeting the allocation of R\$578.9 million for paying dividends and interest on shareholders' equity, as remuneration to shareholders on the results obtained in the year 2016, accounting for 51.8% of profit before statutory adjustments.

As from August 17, 2016, we performed the payment of cash dividends related to the remuneration to shareholders which were stated throughout the first half of the year (interim cash dividends), in the total amount of R\$255.4 million. The payment of cash dividends for the second half (supplementary ones), of R\$323.5 million, will take place as from March 15, 2017.

ECONOMIC AND FINANCIAL ASPECTS

NET PROFIT, DIVIDENDS AND PAY-OUT (%)



HIGHLIGHTS



ACQUISITION OF BLUFFTON MOTOR WORKS, FROM THE US

On March 28, we announced the acquisition of Bluffton Motor Works, LLC. (“Bluffton”), manufacturer of electric motors with head office located in the City of Bluffton, Indiana, US. Founded in 1944, Bluffton specializes in the manufacturing of fractionary electric motors (commercial or rolled steel) up to 5 HP, thus offering a series of customized products to clients in the US.

Among clients served, the industries of food and drink processing, industrial machinery manufacturers, equipment for retail and services, pumps and ventilation stand out. The head office of Bluffton occupies a 37,000 square meter area, and employs approximately 400 employees. Bluffton’s revenue in 2015 was US\$64 million.



ACQUISITION OF A WIND TURBINE BUSINESS UTILITY GRADE FROM NPS, IN THE US

On October 26, we announced the acquisition of the “utility scale” wind turbine business from Northern Power Systems (“Northern Power” or “NPS”), a company which designs, develops and manufactures wind generators and is a pioneer - and one of the technology leaders - in wind generators permanent magnet direct drive (“PM/DD” or permanent magnets and without speed multiplier box), in Barre, Vermont, EUA.

As a result of the agreement, WEG became the owner of the patents portfolio, assets, know-how and materials of the like, including all designs, projects, specifications and software used in connection with the project and maintenance of the wind generators with more than 1.5 megawatts in nominal capacity (“utility-scale”). WEG also retained the engineering team, which conducts research and development in wind energy in Barre, and took over the operation and maintenance contracts for a few existing wind turbines.

HIGHLIGHTS



ACQUISITION OF TGM IN BRAZIL

On December 15, we announced the acquisition of TGM Indústria e Comércio de Turbinas e Transmissões Ltda. (“TGM”), manufacturer of turbines and clutches with head office located in the city of Sertãozinho, São Paulo State.

Founded in 1991, TGM is a Brazilian leader in the supply of solutions and equipment for triggering electric power generators, focusing on renewable energy in thermoelectric power plant and wind farm, thus operating since the feasibility study up to its full operation, including industrial energy systems and planning studies. TGM also provides mechanical trigger systems for equipment such as exhausters, fans, defibrators, grinders, sugarcane levelers, turbo compressors and turbo blowers. In addition to its head office located in the City of Sertãozinho, São Paulo State, which occupies a 70,000 square meter area, TGM also has units in Maceió (State of Alagoas), São José dos Campos (State of São Paulo) and Nuremberg, in Germany, totaling approximately 1,000 employees. In 2015, the company’s net revenue was R\$238 million.

The transaction is still under analysis by the Brazilian authorities for competition defense.

PROSPECTS

Subsequent to some years of deep economic recession in our principal market, i.e. Brazil, we believe that there are good reasons for us to be cautiously optimistic about 2017.

The macroeconomic adjustments, required to put the country back on the recovery track, are underway. And even though there is no expectation that this recovery will occur at a fast pace, we believe that there are opportunities for growth.

IN 2017, OUR CAPITAL BUDGET ESTABLISHES THE FOLLOWING INVESTMENTS:

INVESTMENTS (R\$ MILLION)	2017
Property, Plant & Equipment (PP&E) (plant expansion/modernization)	334,5
Intangible Assets (software)	12,9
Current (working capital)	372,0
TOTAL INVESTMENTS	719,4

These investments will be supported by the use of the reserve for capital and fund budget to be raised with financial institutions in Brazil and abroad.

AUDIT SERVICES

In accordance with the CVM Instruction 381/03, we inform that the Company and its subsidiaries adopt the formal procedure of consulting auditors, i.e. KPMG Auditores Independentes (“KPMG”), in the sense of obtaining assurance that the use of other services may not affect the independence and objectivity of the latter, which are required for the performance of independent audit services. In this sense, KPMG issues on a yearly basis an independence statement, under the Federal Accounting Council (CFC) Brazilian Accounting Standard (NBC) TA 260 (R2), in which they declare that, as established by the independence rules adopted by the Brazilian Securities and Exchange Commission (CVM), there is no relationship between KPMG, its associated companies and affiliates and the Company that may affect independence. This statement is submitted to WEG’s Board of Directors.

The policy of the Company and its subsidiaries for engaging independent auditors’ services assures that there is no conflict of interests, loss of independence or objectivity.

During the course of the year 2016, KPMG provided, in addition to the audit service of the financial statements, occasional administrative consultancy services and services regarding the translation of the financial statements into the English language, as follows:

(R\$ THOUSAND)	2016	
Audit of financial statements	1.376,5	94,4%
Administrative Consultancy	81,5	5,6%
GRAND TOTAL	1.458,0	100,0%

ARBITRATION CHAMBER

The Company is subject to arbitration in the Court of Arbitration of the Market, pursuant to an arbitration clause contained in its bylaws.

Jaraguá do Sul (State of Santa Catarina - SC), February 2017.

THE MANAGEMENT.

WEG S.A. BALANCE SHEET

As of December 31, 2016 and 2015

In thousands of Reals

		PARENT COMPANY		CONSOLIDATED	
	Notas	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Assets					
Current assets					
Cash and cash equivalents	4	748.385	1.023.357	3.390.662	3.277.115
Financial investments	5	395.822	-	1.373.287	1.157.644
Derivative financial instruments	27	-	-	15.443	7.519
Trade receivables	6	-	-	2.251.922	2.545.927
Inventories	7	-	-	1.575.055	2.009.254
Recoverable taxes	8	19.952	17.926	269.626	266.944
Dividends and interest on own capital receivable		143.573	113.826	-	-
Other current assets		-	-	251.488	324.941
		1.307.732	1.155.109	9.127.483	9.589.344
Ativo não circulante					
Financial investments	5	-	-	-	214
Derivative financial instruments	27	-	-	169.221	371.208
Court deposits	15.d	4.338	8.240	48.476	55.810
Related parties	9	24	10	-	-
Deferred taxes	10	811	781	130.291	131.327
Recoverable taxes	8	-	-	10.296	16.640
Other noncurrent assets		-	-	39.099	44.007
Investments	11	4.871.610	5.046.381	223	1.379
Property, plant & equipment	12	4.479	4.596	3.032.716	3.264.898
Intangible assets	13	-	-	951.526	786.714
		4.881.262	5.060.008	4.381.848	4.672.197
Total assets		6.188.994	6.215.117	13.509.331	14.261.541

The notes are an integral part of these financial statements.

WEG S.A.
BALANCE SHEET

As of December 31,
2016 and 2015

In thousands of Reals

		PARENT COMPANY		CONSOLIDATED	
	Notes	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Liabilities					
Current liabilities					
Trade payables		-	-	562.851	566.769
Loans and financing	14	-	-	991.433	1.284.633
Derivative financial instruments	27	-	-	37.519	1.438
Payroll and tax charges		29.490	21.421	295.364	284.378
Income and social contribution taxes		92	145	29.241	28.160
Dividends and interest on own capital payable		191.022	158.209	191.365	172.484
Advances from clients		-	-	577.688	486.225
Profit sharing		-	-	124.764	143.897
Accounts payable - subsidiaries abroad		-	-	182.426	209.867
Other current liabilities		775	1.442	286.204	316.999
		221.379	181.217	3.278.855	3.494.850
Noncurrent liabilities					
Loans and financing	14	-	-	3.408.892	3.868.335
Derivative financial instruments	27	-	-	51.854	16.248
Tax liabilities		-	-	911	783
Provisions for contingencies	15	4.741	4.520	434.402	339.968
Deferred taxes	10	-	-	159.203	242.696
Other noncurrent liabilities		-	-	104.382	142.601
		4.741	4.520	4.159.644	4.610.631
Total liabilities		226.120	185.737	7.438.499	8.105.481
Equity					
Company's shareholders					
Share capital	17.a	3.533.973	3.533.973	3.533.973	3.533.973
Capital reserves		(54.509)	(55.888)	(54.509)	(55.888)
Stock all option plan	19	1.971	2.474	1.971	2.474
Treasury shares	17.d	(11.924)	(17.069)	(11.924)	(17.069)
Profit reserves		1.890.881	1.299.868	1.890.881	1.299.868
Equity valuation adjustments		442.032	493.106	442.032	493.106
Other comprehensive income		57.700	642.362	57.700	642.362
Additional dividends proposed		102.750	130.554	102.750	130.554
		5.962.874	6.029.380	5.962.874	6.029.380
Noncontrolling interest		-	-	107.958	126.680
Total equity		5.962.874	6.029.380	6.070.832	6.156.060
Total liabilities and equity		6.188.994	6.215.117	13.509.331	14.261.541

The notes are an integral part of these financial statements.

WEG S.A. INCOME STATEMENT

Years ended December 31,
2016 and 2015

*In thousands of Reais, unless
otherwise stated*

	Notes	PARENT COMPANY		CONSOLIDATED	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net Revenue	20	-	-	9.367.008	9.760.323
Cost of goods sold and services rendered	22	-	-	(6.731.229)	(6.994.735)
Gross profit		-	-	2.635.779	2.765.588
Selling expenses	22	-	-	(924.999)	(950.252)
Administrative expenses	22	(1.533)	(1.658)	(442.783)	(436.759)
Management fees	9	(2.219)	(2.225)	(22.600)	(22.194)
Other operating expenses	23	(2.401)	(3.978)	(181.723)	(198.138)
Share of profit of equity-accounted investee	11	1.016.056	1.065.058	-	-
Income before finance income		1.009.903	1.057.197	1.063.674	1.158.245
Finance income	24	108.889	99.855	816.087	1.345.633
Finance costs	24	(243)	(209)	(600.247)	(1.200.150)
Income before taxes		1.118.549	1.156.843	1.279.514	1.303.728
Current taxes	25	(954)	(1.003)	(245.415)	(234.116)
Deferred taxes	25	29	225	93.733	96.198
Net income for the year		1.117.624	1.156.065	1.127.832	1.165.810
Attributable to:					
The Company's shareholders				1.117.624	1.156.065
Noncontrolling interest				10.208	9.745
Earnings per share attributable to the Company's shareholders					
Basic earnings per share (in R\$)				0,69278	0,71669
Diluted earnings per share (in R\$)				0,69238	0,71615

The notes are an integral part of these financial statements.

WEG S.A. STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31,
2016 and 2015

In thousands of Reais

	Notes	PARENT COMPANY		CONSOLIDATED	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Net income for the year		1.117.624	1.156.065	1.127.832	1.165.810
Hedge accounting	31	(32.722)	5.774	(32.722)	5.774
Accumulated currency translation adjustments	31	(551.940)	445.186	(573.143)	459.681
Total comprehensive income attributable to:		532.962	1.607.025	521.967	1.631.265
The Company's shareholders				532.962	1.607.025
Noncontrolling interest				(10.995)	24.240

The notes are an integral part of these financial statements.

WEG S.A.**STATEMENT OF CHANGES IN EQUITY**

Years ended December 31, 2016 and 2015

In thousands of Reais

	Share Capital	Capital Reserve		Stock Call Option Plan	Treasury shares	Profit reserve		Equity valuation adjustment	Additional Dividends Proposed	Accumulated results	Other comprehensive income		Equity		
		Goodwill reserve	Revaluation of the Subsidiaries Assets			Statutory reserve	Reserve for Capital Budget	Deemed cost			Translation adjustment	Hedge Accounting	Company's shareholders	Noncontrolling interest	Total
At January 1, 2015	3.533.973	(60.956)	3.658	1.817	(8.418)	47.736	630.929	548.750	167.494	-	191.402	-	5.056.385	82.878	5.139.263
Payment of dividends	-	-	-	-	-	-	-	-	(167.494)	-	-	-	(167.494)	-	(167.494)
Treasury shares sold	-	1.438	-	-	1.572	-	-	-	-	-	-	-	3.010	-	3.010
Treasury shares acquired	-	-	-	-	(10.223)	-	-	-	-	-	-	-	(10.223)	-	(10.223)
Pricing of stock option (Note 19)	-	-	-	657	-	-	-	-	-	(628)	-	-	29	-	29
Capital transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	21.267	21.267
Realization of revaluation reserve	-	-	(28)	-	-	-	-	-	-	28	-	-	-	-	-
Reversal of prior year dividends	-	-	-	-	-	-	-	-	-	565	-	-	565	-	565
Equity valuation adjustment:															
Net taxes deemed cost	-	-	-	-	-	-	-	2.296	-	-	-	-	2.296	-	2.296
Realization of deemed cost, net of taxes	-	-	-	-	-	-	-	(57.940)	-	57.940	-	-	-	-	-
Accumulated translation adjustment	-	-	-	-	-	-	-	-	-	-	445.186	-	445.186	14.495	459.681
Hedge Accounting - Cash flow, net of taxes	-	-	-	-	-	-	-	-	-	-	-	5.774	5.774	-	5.774
Net income for the year	-	-	-	-	-	-	-	-	-	1.156.065	-	-	1.156.065	9.745	1.165.810
Proposed allocations:															
Statutory reserve (Note 17.c)	-	-	-	-	-	57.803	-	-	-	(57.803)	-	-	-	-	-
Dividends (Note 17.b)	-	-	-	-	-	-	-	-	130.554	(264.458)	-	-	(133.904)	(1.705)	(135.609)
Interest on own capital (Note 17.b)	-	-	-	-	-	-	-	-	-	(328.309)	-	-	(328.309)	-	(328.309)
Reserve for capital budget	-	-	-	-	-	-	563.400	-	-	(563.400)	-	-	-	-	-
At December 31, 2015	3.533.973	(59.518)	3.630	2.474	(17.069)	105.539	1.194.329	493.106	130.554	-	636.588	5.774	6.029.380	126.680	6.156.060
Payment of dividends	-	-	-	-	-	-	-	-	(130.554)	-	-	-	(130.554)	-	(130.554)
Treasury shares sold	-	1.385	-	-	5.145	-	-	-	-	-	-	-	6.530	-	6.530
Pricing of stock option (Note 19)	-	-	-	(503)	-	-	-	-	-	442	-	-	(61)	-	(61)
Capital transactions	-	(6)	-	-	-	-	-	-	-	-	-	-	(6)	(4.911)	(4.917)
Reversal of prior year dividends	-	-	-	-	-	-	-	-	-	766	-	-	766	-	766
Equity valuation adjustment:															
Realization of deemed cost, net of taxes	-	-	-	-	-	-	-	(51.074)	-	51.074	-	-	-	-	-
Accumulated translation adjustments	-	-	-	-	-	-	-	-	-	-	(551.940)	-	(551.940)	(21.203)	(573.143)
Hedge Accounting - Cash flow, net of taxes	-	-	-	-	-	-	-	-	-	-	-	(32.722)	(32.722)	-	(32.722)
Net income for the year	-	-	-	-	-	-	-	-	-	1.117.624	-	-	1.117.624	10.208	1.127.832
Proposed allocations:															
Statutory reserve (Note 17.c)	-	-	-	-	-	55.881	-	-	-	(55.881)	-	-	-	-	-
Dividends (Note 17.b)	-	-	-	-	-	-	-	-	102.750	(161.315)	-	-	(58.565)	(2.276)	(60.841)
Interest on own capital (Note 17.b)	-	-	-	-	-	-	-	-	-	(417.578)	-	-	(417.578)	(540)	(418.118)
Reserve for capital budget	-	-	-	-	-	-	535.132	-	-	(535.132)	-	-	-	-	-
At December 31, 2016	3.533.973	(58.139)	3.630	1.971	(11.924)	161.420	1.729.461	442.032	102.750	-	84.648	(26.948)	5.962.874	107.958	6.070.832

The notes are an integral part of these financial statements.

WEG S.A.
STATEMENT OF CASH FLOWS
- INDIRECT METHOD

Years ended December 31,
 2016 and 2015

In thousands of Reais

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Operating activities				
Income before taxes	1.118.549	1.156.843	1.279.514	1.303.728
Depreciation and amortization	117	117	343.257	319.358
Expenses on stock call option plan	1.469	1.215	1.469	1.215
Equity pickup	(1.016.056)	(1.065.058)	-	-
Allowance for doubtful accounts	-	-	(5.896)	16.203
Provision for tax, civil and labor liabilities	221	-	94.434	81.119
Provision for losses in inventories	-	-	(7.571)	48.884
Provision for goods warranty	-	-	21.011	19.187
Write-off of noncurrent assets	-	-	3.962	5.655
Interest provided for regarding loans and financing	-	-	191.238	149.774
Profit sharing - employees	-	-	168.060	194.959
	104.300	93.117	2.089.478	2.140.082
(Increase)/decrease in accounts receivable	(12.261)	(26.672)	89.449	(651.516)
(Increase)/decrease in inventories	-	-	276.537	(67.035)
Increase/(decrease) in accounts payable	6.716	5.772	219.710	(23.697)
Other changes in assets and liabilities	685	2.229	(110.036)	44.477
Income and social contribution taxes paid	(1.006)	(954)	(244.334)	(298.415)
Payment of profit sharing - employees	-	-	(189.892)	(161.454)
Net cash flow from operating activities	98.434	73.492	2.130.912	982.442
Investment activities				
Investments	(56.605)	-	-	-
Acquisition of property, plant & equipment	-	-	(325.504)	(468.146)
Acquisition of intangible	-	-	(37.121)	(38.922)
Acquisition of subsidiary	-	-	(292.301)	(129.678)
Cash acquired from subsidiary	-	-	4.014	6.260
Financial investment	(395.822)	57.699	(215.429)	(291.650)
Receipt from the sale of fixed asset	-	-	13.611	18.170
Receipt from dividends/interest on own capital	585.418	540.755	-	-
Net cash flow used in investment activities	132.991	598.454	(852.730)	(903.966)
Financing activities				
Loans and financing obtained	-	-	1.142.860	2.598.115
Payment of loans and financing	-	-	(1.279.654)	(1.961.274)
Interest paid on loans and financing	-	-	(405.540)	(265.876)
Treasury shares	5.145	(8.651)	5.145	(8.651)
Payment of dividends/interest on own capital	(511.542)	(526.638)	(526.730)	(519.895)
Net cash flow used in financing activities	(506.397)	(535.289)	(1.063.919)	(157.581)
Exchange variation on cash and cash equivalents	-	-	(100.716)	71.945
Net increase (decrease) in cash and cash equivalents	(274.972)	136.657	113.547	(7.160)
Cash and cash equivalents at January 1	1.023.357	886.700	3.277.115	3.284.275
Cash and cash equivalents at December 31	748.385	1.023.357	3.390.662	3.277.115

The notes are an integral part of these financial statements.

WEG S.A.
STATEMENT OF VALUE
ADDED

Years ended December 31,
 2016 and 2015

In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Revenues	-	-	10.526.086	10.998.900
Sale of goods, products and services	-	-	10.507.774	10.963.589
Other revenues	-	-	12.416	51.514
Loss/recovery of amounts receivable	-	-	5.896	(16.203)
Inputs purchased from third-parties	(2.167)	(2.199)	(5.914.233)	(6.317.427)
Materials, electricity, third party services and other	(450)	(446)	(5.892.018)	(6.282.110)
Others	(1.717)	(1.753)	(22.215)	(35.317)
Gross value added	(2.167)	(2.199)	4.611.853	4.681.473
Depreciation, amortization and depletion	(116)	(117)	(343.257)	(319.358)
Net value added generated by the entity	(2.283)	(2.316)	4.268.596	4.362.115
Value added received in transfers	1.124.944	1.164.913	816.087	1.345.633
Equity pickup	1.016.056	1.065.058	-	-
Financial income	108.888	99.855	816.087	1.345.633
Total value added to be distributed	1.122.661	1.162.597	5.084.683	5.707.748
Distribution of value added	1.122.661	1.162.597	5.084.683	5.707.748
Personel	3.317	4.990	2.051.066	2.050.734
Direct remuneration	3.159	4.815	1.769.084	1.775.473
Benefits	67	71	205.859	197.526
F.G.T.S.	91	104	76.123	77.735
Taxes, charges and contributions	1.509	1.340	1.261.944	1.251.098
Federal	1.509	1.340	1.156.060	1.152.138
State	-	-	91.852	88.138
Municipal	-	-	14.032	10.822
Remuneration of third party capital	211	202	643.841	1.240.106
Interest	211	202	597.008	1.197.468
Rents	-	-	46.833	42.638
Remuneration of own capital	1.117.624	1.156.065	1.127.832	1.165.810
Dividends	161.315	264.458	161.315	264.458
Interest on equity	417.578	328.309	417.578	328.309
Retained profit for the year	538.731	563.298	538.731	563.298
Retained profit for the year – non controlling	-	-	10.208	9.745

The notes are an integral part of these financial statements.

The statement of value added is not part of the consolidated financial statements in IFRS.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.



1. INFORMATION ON THE COMPANY

WEG S.A. (“Company”) is a publicly-held limited liability corporation headquartered at Avenida Prefeito Waldemar Grubba, 3300, in Jaraguá do Sul - State of Santa Catarina (SC), Brazil, holding company comprising the WEG Group (“Group”), whose main activity is the production and trade of capital goods such as electric motors, generators and transformers; gear units and geared motors; frequency converters; motor starters and maneuver devices; control and protection of electric circuits and industrial automation; electric traction solutions for urban and sea transportation; solutions for the generation of renewable and distributed energy, exploring all opportunities in small hydro, thermal biomass, wind and solar energy powerplants; no-breaks and alternators for groups of generators; electric substations; industrial electro electronic equipment systems; and industrial paint & varnish. The operations are performed through manufacturing facilities located in Brazil, Argentina, Colombia, Mexico, United States, Portugal, Spain, Austria, Germany, South Africa, India, and China.

The Company has shares traded on BM&F Bovespa under the code “WEGE3” and has been listed since June 2007 in the special segment of corporate governance called Novo Mercado. The Company has American Depositary Receipts (ADRs) - Level 1 that are traded on the over-the-counter (OTC) market in the United States under the symbol “WEGZY”.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated and company financial statements (“financial statements”) have been prepared taking into consideration all the Company’s significant information, which corresponds to that information used by the Management in its management, prepared in accordance with the International Financial Reporting Standards - “IFRS”, which have been implemented in Brazil by the Committee for Accounting Pronouncements (“CPC”), approved by the Brazilian Securities and Exchange Commission (“CVM”) and the Brazilian Federal Accounting Council (“CFC”).

The financial statements have been prepared on the historical cost basis and adjusted, except for the assessment at fair values of certain financial instruments, when required by the standard. These consolidated and company financial statements were authorized for issue at the Executive Board’s meeting held on February 3, 2017.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.1 BASIS OF CONSOLIDATION

The consolidated financial statements have been jointly prepared with the parent company's, using consistent accounting policies, and are comprised of the direct and indirect subsidiaries' financial statements.

All unrealized balances, revenues, expenses, gains and losses arising from intercompany transactions of the Group included in the consolidation are eliminated.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as transactions between shareholders in equity.

Profit and loss for the period and comprehensive income are attributable to the parent company's shareholders and noncontrolling interest of the consolidated companies. Losses are attributable to minority interest, even if they result in a negative balance.

The subsidiaries that comprise the consolidated financial statements are presented in Note 11.

2.2 BUSINESS COMBINATIONS

When the Company acquires a business, it assesses the assets and liabilities assumed aiming at classifying them and allocating them in accordance with the contractual terms, the economic circumstances, and the relevant conditions, in up to one year subsequent to the acquisition date. Should the business combination be performed in stages, the fair value as of the acquisition date of the equity interest previously held in the acquiree's capital is reassessed at fair value as of the acquisition date, and the impacts are recognized in the statement of profit or loss.

The goodwill is initially measured as the excess of the consideration transferred in relation to net assets acquired (identified assets and assumed liabilities). Should the consideration be lower than the fair value of the net assets acquired, the difference is recognized as gain in the income statement. Subsequent to the initial recognition, the goodwill is measure at cost, minus any accumulated losses of the recoverable value, which is tested on a yearly basis. For recoverable value testing purposes, the goodwill acquired in a business combination is, as from the date of acquisition, allocated to each one of the Company's cash generating units (CGUs) which are expected to benefit from the combination synergies, irrespective of other acquiree's assets or liabilities being attributable to those units. Should the goodwill be part of a cash generating unit and a portion of this unit be disposed, the goodwill related to the portion disposed is included in the operation cost on the determination of gain or loss. The goodwill of this operation is determined based on the amounts proportionate to the portion disposed in relation to the cash generating unit.

Financial information of subsidiaries is recognized in the individual financial statements of the parent company using the equity method.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.3 FOREIGN CURRENCY TRANSLATION

A) FUNCTIONAL CURRENCY OF THE GROUP'S COMPANIES

These consolidated financial statements are presented in Reais (R\$), which is the Company's and its located-in-Brazil subsidiaries' functional currency. The functional currency of subsidiaries located abroad is determined based on the principal economic environment in which they operate, and when the currency is different from the presentation currency of the financial statements, the former are translated into Real (R\$) as of the reporting date.

B) TRANSACTIONS AND BALANCES

Transactions in foreign currency are recognized using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency in force at the reporting date. All differences are recognized in the statement of profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate in force at the date of the initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate in force at the date on which the fair value was determined.

C) TRANSLATION OF BALANCE SHEETS REGARDING THE GROUP'S COMPANIES LOCATED ABROAD

Foreign currency assets and liabilities recognized by the foreign subsidiary are translated into Reais using the exchange rate of the reporting date, and the corresponding income statements are translated using monthly average exchange rates. Foreign exchange differences resulting from the aforementioned translation are separately recorded in the account cumulative translation adjustments in equity. At the time of sale of a subsidiary abroad, the cumulative translation amount recognized in equity, related to this subsidiary abroad, is recognized in the income statement.

2.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the balances in current account and short-term highly liquid financial investments which are recorded at cost value plus income earned up to the balance sheet closing date, in accordance with the rates agreed upon with the financial institutions, which do not exceed their market or realization value.

2.5 FINANCIAL INVESTMENTS

Financial investments are investments classified as held to maturity, and they are recorded at cost value plus income earned up to the balance sheet closing date, in accordance with the rates agreed upon with the financial institutions, which do not exceed their market or realization value.

2.6 TRADE RECEIVABLES

Trade receivables consist of cash receivable from clients for goods sold or services rendered over the normal course of the Company's activities, stated at present and realization value. Allowance for doubtful accounts is calculated based on the analysis of credit risk, which considers the percentage of trade notes overdue, the market liquidity and the credit level, and is sufficient to cover losses on cash receivable.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.7 INVENTORIES

Inventories are assessed and are stated at the average production or acquisition cost, considering the present value, when applicable. The Company and its subsidiaries determine the cost of their inventories using the absorption method, based upon the weighted moving average.

Provisions for inventories due to: (i) realization; (ii) low turnover; and (iii) obsolete inventories, are recorded in accordance with the Company's policies. Imports in progress are stated at the accumulated cost of each import.

2.8 PROPERTY, PLANT AND EQUIPMENT

Fixed assets are assessed at the cost of acquisition and/or construction, minus the corresponding depreciation, except for land which is not depreciated. Maintenance or repair expenditures which do not significantly increase the useful life of the assets are recorded as expenses, when incurred. Gains and losses on disposals are determined by comparing the sale amount and the residual amount, and are recognized in the income statement.

Depreciation is calculated using the straight-line method and it takes into account the economic useful life of assets, and it is reviewed periodically aiming at adapting the depreciation rates as required. The carrying amounts of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the Company recognizes a reduction in the carrying amount of this asset.

2.9 INTANGIBLE ASSETS

They are stated at cost of acquisition, minus amortization. Intangible assets with defined useful lives are amortized taking into account the estimated time of future economic benefit generation. Goodwill due to expectations of future profitability, without a definite useful life, was amortized up to December 31, 2008. As from 2009 goodwill is subject to recoverability testing on a yearly basis, or whenever there are signs of a possible loss of economic value.

2.10 RESEARCH, DEVELOPMENT AND INNOVATION

Research, development and innovation expenditures incurred on opportunities for gaining scientific and technological know-how, process improvement, and on meeting requirements of customized product projects, which are recognized as profit or loss as incurred.

2.11 PROVISIONS FOR CONTINGENCIES

Provisions are recognized when the Company and its subsidiaries have a current liability resulting from past events, and it is probable that an outflow of funds will be required to settle the obligation, and a reliable estimate of the value may be made. Provisions are reviewed periodically, respecting their nature and substantiated by the opinion of legal advisors.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.12 PROVISION FOR WARRANTIES

A provision for warranties is recognized when products are sold or services rendered based on historical data and warranty periods.

2.13 PROFIT SHARING

The Company and its subsidiaries provide profit sharing to the employees and the Management based on programs which establish operating goals, approved by the Board of Directors, on a yearly basis. The amount shared is recognized as profit or loss as goals are accomplished.

2.14 DIVIDENDS AND INTEREST ON SHAREHOLDERS' EQUITY

Dividends and interest on shareholders' equity are recognized as a liability based on the minimum dividends established by the Company's Bylaws. Any amount above the minimum non-discretionary dividends is only recognized as liability when approved by the Board of Directors and ad referendum at the Ordinary General Meeting. Dividends proposed for the Board of Directors remain recorded in equity in the caption Additional Dividends.

2.15 PRIVATE PENSION PLAN

The Company and its subsidiaries sponsor a supplementary private pension fund, which ensures risk benefits and programmed term benefits. Risk benefits (disability, death pension, sickness benefit, and monetary death reserve) are structured in the mode of defined benefit, and fully financed by the sponsor, by the financial allocation system.

The programmed term benefit (reversible monthly income for life and the permanent monthly financial income) are structured in the mode of variable contribution and financed by the participants and by the sponsor, by the financial capitalization system. The actuarial commitments to the benefit plan are recorded and provided for based on actuarial calculations, which are periodically prepared by an independent actuary, and they are covered by the benefit plan's guarantee assets.

Actuarial calculations are performed using actuarial, financial and economic assumptions such as the mortality chart, mortality chart for disabled persons, actual annual interest rate and historical data of events, death, disability and sickness, occurred in periods prior to the determination of the corresponding costs.

2.16 FINANCIAL INSTRUMENTS

The Company’s and its subsidiaries’ main financial instruments include the following ones:

- A) CASH AND CASH EQUIVALENTS:** Cash and cash equivalents are stated at market value, which is equivalent to their carrying value;
- B) LOANS AND FINANCING:** Fair value is reflected in the amounts recorded in the balance sheets. Financial investments are classified as securities held to maturity;
- C) EMPRÉSTIMOS E FINANCIAMENTOS:** OThe main purpose of this financial instrument is to generate funds to finance the Company’s and its subsidiaries’ expansion programs, and possibly cover the needs for its cash flow in the short term:
 - Loans and financing in local currency: are classified as financial liabilities not measured at fair value and are recorded at their corrected amounts, according to the contracted rates. The market values of these loans are equivalent to their carrying values, as they are financial instruments which have exclusive characteristics, resulting from specific financing sources.

- Loans and Financing in foreign currency: they are financially contracted to provide support to working capital of sales operations performed in Brazil, and of subsidiaries located abroad, and are corrected according to the rates contracted.
- D) DERIVATIVE FINANCIAL INSTRUMENTS:**
 - Operations with Non Deliverable Forwards (NDF) and SWAPs - recognized at fair value in assets and/or liabilities in contra-entry to the financial profit or loss in the income statement.
 - Hedge accounting - it aims at hedging against variation risk arising from foreign exchange rates. These operations are recognized at fair value in assets and/or liabilities against the financial profit or loss in the income statement.
 The amount recorded in equity is immediately transferred to the statement of profit or loss when the transaction subject to hedge affects profit or loss.

2.17 TREASURY SHARES

Treasury shares are recognized at cost, and deducted from equity. No gains or losses on the purchase, sale, issue or cancelation of the Company’s own equity instruments are recognized in the income statement. Any difference between the carrying amount and the compensation is recognized in capital reserves.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.18 STOCK CALL OPTION PLAN

The Company grants stock call options to its officers, who will only exercise the option subsequent to the vesting period. Options are measured at fair value based on the date of the grant, using the Black-Scholes-Merton pricing model, and recognized as expenses in the caption Other Income in the income statement for the year against the capital reserve in equity as the terms of the periods for exercising the options are performed.

Changes and reversals subsequent to the acquisition calculation are performed only when there is: (i) decrease in the exercise price of options granted; (ii) decrease in the number of options expected to be granted.

2.19 SUBSIDIES AND GOVERNMENT GRANTS

Government subsidies are recognized when there is reasonable assurance that they will be received and that the corresponding conditions associated with the subsidy have been met. When the benefit refers to an expense item, it is recognized as revenue during the course of the benefit period, on a systematic basis, in relation to the costs whose benefit aims at offsetting. When the benefit refers to an asset, it is recognized as deferred income and entered into profit or loss at equal amounts over the expected useful life of the corresponding asset.

When the Company and its subsidiaries receive non-monetary benefits, the benefit is recorded at nominal value and it is reflected in the income statement over the expected useful life of the asset, in equal annual installments.

2.20 REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that economic rewards will be generated in favor of the Company and its subsidiaries. It is measured at the fair value of the consideration received, excluding discounts, rebates and taxes or charges over sales.

Revenue from the sale of goods is recognized in profit or loss when all risks and rewards inherent in the product are transferred to the buyer. Service revenue is recognized in profit or loss as a result of its realization.

2.21 CONSTRUCTION CONTRACTS

When the results in a construction contract are accurately estimated, revenues and costs are recognized based on the completion stage of the contract at the end of the period, measured based on the proportion of costs incurred in relation to the total costs estimated in the contract.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.22 TAXES

A) CURRENT AND DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES

Current and deferred income and social contribution taxes of the Company and its subsidiaries in Brazil are calculated based on the 25% and 9% rates, respectively, and take into account tax losses and negative basis limited to 30% of the taxable profit, except for the subsidiaries located abroad, in which the tax rates valid in the countries where these subsidiaries are located are complied with.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the corresponding amounts used for taxation purposes.

B) OTHER TAXES

Revenues, expenses and assets are net of taxes on sales, except when the taxes on purchases of goods or services are not recoverable with the tax authorities, in which event the tax is recognized as part of the acquisition cost of the asset or expense item, as the case may be.

2.23 INFORMATION BY SEGMENT

Management determines the Company's and its subsidiaries' operating and geographic segments base on reports issued internally as business management and strategic information. The Company's management is structured, using the operations' information, taking into account the industry, energy, foreign and consolidated segments.

2.24 STATEMENT OF VALUE ADDED

The Company and its subsidiaries prepare the Statements of Value Added (DVAs), as required by the Brazilian legislation, as a part of its Company financial statements and supplementary information to the consolidated financial statements.

This statement aims at demonstrating the wealth generated by the Company and the other subsidiaries, and how it was spread over the period. The first part is represented by revenues (sales revenue, including taxes levied on it, the other revenues and effects of the allowance for doubtful accounts), by input acquired from third parties (sales cost and acquisition of materials, power and third party services, including taxes levied on acquisition, the effects of losses and recovery of asset amounts, depreciation and amortization) and the value added received from third parties (resulting from equity pick-up, finance income and other income). The second part is represented by the distribution of wealth among personnel, taxes, fees and contributions, third party capital remuneration and own capital remuneration.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

2.25 NEW PROCEDURES WHICH ARE NOT YET IN EFFECT

New standards, amendments to standards, and interpretations are effective for annual periods ended after December 31, 2016. Such standards and amendments are the following:

A) DISCLOSURE INITIATIVE (REVIEW OF TECHNICAL PRONOUNCEMENT 10 - CVM RESOLUTION 761/2016)

The aforementioned amendments require additional disclosures which enable the financial statements users to understand and assess the changes to liabilities deriving from financing activities, considering both changes deriving from cash flows and other changes.

These amendments are effective for annual periods beginning on or after January 1, 2017.

B) CPC 48 – FINANCIAL INSTRUMENTS – CVM RESOLUTION 763/2016 (IFRS 9)

CPC 48 supersedes the guidance existing in CPC 38 (IAS 39) Financial Instruments: Recognition and Measurement. CPC 48 includes new models for classifying and measuring financial instruments, and measuring expected loan losses for financial and contractual assets, and also new requirements on the hedge accounting. The new standard maintains the existing guidance about the recognition and derecognition of financial instruments described in CPC 38.

CPC 48 becomes effective for annual periods beginning on or after January 1, 2018.

C) CPC 47 – REVENUE FROM CONTRACTS WITH CLIENTS– CVM RESOLUTION 762/2016 (IFRS 15)

CPC 47 introduces a comprehensive framework to determine whether and when revenue is recognized, and how revenue is measured. CPC 47 supersedes the current standards for recognizing revenues, including CPC 30 (IAS 18) Revenues, CPC 17 (IAS 11) Construction Contracts and CPC 30 Interpretation A (IFRIC 13) Customer Loyalty Programs.

CPC 47 becomes effective for annual periods beginning on or after January 1, 2018.

D) IFRS 16 LEASES

IFRS 16 introduces a single model for the recording of leases for leaseholders to use in the balance sheet. The leaseholder recognizes a right-of-use asset which represents its right to use the leased asset and a lease liability which represents its obligation of performing the lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor's accounting remains similar to the current standard, i.e. the leaseholders continue to classify leases as financial or operational ones. IFRS 16 supersedes the existing lease standards, including CPC 06 (IAS 17) Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary Aspects of Leases.

This standard is effective for annual periods beginning on or after January 1, 2019.

WEG S.A.
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

Amounts in thousands of Reais, except otherwise stated.

3. ESTIMATIVAS CONTÁBEIS

The financial statements include the use of estimates that took into consideration the Management’s assessments and judgments, past and current event experiences, assumptions related to future events and other objective and subjective factors. The significant items subject to those estimates are:

A) CREDIT RISK ANALYSIS FOR THE DETERMINATION OF THE ALLOWANCE FOR DOUBTFUL ACCOUNTS;

B) REVIEW OF THE ECONOMIC USEFUL LIFE OF FIXED ASSETS AND THEIR RECOVERY IN OPERATIONS;

C) FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS;

D) COMMITMENTS TO EMPLOYEE BENEFIT PLAN;

E) TRANSACTIONS WITH STOCK CALL OPTION PLAN;

F) DEFERRED INCOME AND SOCIAL CONTRIBUTION TAXES; AND

G) PROVISIONS FOR CONTINGENCIES.

The settlement of transactions involving those estimates may lead to amounts significantly different from those recorded in the financial statements due to the inaccuracies inherent in the estimate process. The aforementioned estimates and assumptions are periodically reviewed.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

4. CASH AND CASH EQUIVALENTS

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
a) Cash and banks	18	29	223.267	477.710
b) Interest-earning bank deposits	748.367	1.023.328	3.167.395	2.799.405
In local currency:	748.367	1.023.328	3.091.597	2.694.786
Bank Deposit Certificate(CDB) and Repurchase Operations	748.367	1.023.328	3.091.597	2.694.786
In foreign currency:	-	-	75.798	104.619
Certificates of Deposits Abroad	-	-	66.892	100.038
Other investments abroad	-	-	8.906	4.581
TOTAL	748.385	1.023.357	3.390.662	3.277.115

INVESTMENTS IN BRAZIL:

Are remunerated at rates ranging between 100.0% and 105.0% of CDI (100% to 105.0% of CDI as of December 31, 2015).

INVESTMENTS ABROAD:

			CONSOLIDATED	
	Interest rate	Amounts in the original currency	12/31/2016	12/31/2015
In US Dollars	0,20% to 2,70% p.a.	9.029	29.450	4.212
In Euros	0,02% p.a.	233	802	13.693
In Argentine Pesos	25,00% p.a.	39.208	8.046	56.010
In Mexican Pesos	4,40% p.a.	19.356	3.057	8.161
In Rand (South Africa)	0,25% to 6,25% p.a.	20.538	4.886	10.384
In Indian Rupies	3,25% to 6,60% p.a.	430.000	20.651	7.578
In other currencies	0,52% to 8,27% p.a.	Sundry	8.906	4.581
TOTAL			75.798	104.619

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

5. FINANCIAL INVESTMENTS

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Bank Deposit Certificate(CDB) and Repurchase Operations	395.822	-	1.373.287	1.157.644
Other	-	-	-	214
TOTAL	395.822	-	1.373.287	1.157.858
Current assets	395.822	-	1.373.287	1.157.644
Non-current assets	-	-	-	214

Financial investments are remunerated at rates ranging between 14.8% and 16.4% p.a. (9.1% to 15.97%p.a. as of December 31, 2015).

6. TRADE RECEIVABLES

	CONSOLIDATED	
	12/31/2016	31/12/2015
a) Breakdown of balances:		
Domestic market	1.177.642	1.169.960
External markets	1.124.283	1.431.866
SUBTOTAL	2.301.925	2.601.826
Allowance for doubtful accounts	(50.003)	(55.899)
TOTAL	2.251.922	2.545.927
b) Effective losses on loans from clients for the year	13.333	21.408
c) Maturity of trade notes:		
Due	2.023.087	2.251.542
Overdue:	278.838	350.284
Up to 30 days	113.225	155.762
From 31 to 90 days	62.460	101.063
From 91 to 180 days	31.205	30.467
Over 180 days	71.948	62.992
TOTAL	2.301.925	2.601.826

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

The movement of the allowance for doubtful accounts is shown as follows:

Balance as of 01/01/2015	(39.696)
Losses written off for the year	21.408
Recording of provision for the year	(40.523)
Reversal of provision for the year	2.912
Balance as of 12/31/2015	(55.899)
Losses written off for the year	13.333
Recording of provision for the year	(20.206)
Reversal of provision for the year	12.769
Balance as of 12/31/2016	(50.003)

7. INVENTORIES

	CONSOLIDADO	
	12/31/2016	12/31/2015
Finished goods	268.469	303.093
Work in progress	222.270	293.077
Raw materials and other	275.085	315.038
Imports in progress	35.533	62.962
Provision for slow-moving inventory losses	(13.991)	(12.637)
Total inventories - domestic market	787.366	961.533
Finished goods	504.031	669.880
Work in progress	149.657	199.052
Raw materials and other	200.267	253.980
Provision for slow-moving inventory losses	(66.266)	(75.191)
Total inventories - external markets	787.689	1.047.721
GRAND TOTAL	1.575.055	2.009.254

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

The movement of the provision for slow-moving inventory losses is shown as follows:

Balance as of 01/01/2015	(38.944)
Recording of provision for the year	(51.828)
Reversal of provision for the year	2.944
Balance as of 12/31/2015	(87.828)
Recording of provision for the year	(13.541)
Reversal of provision for the year	21.112
Balance as of 12/31/2016	(80.257)

Inventories are insured and their coverage is determined considering the values and level of risk involved. The recording and reversal of provisions for slow-moving inventory losses are recorded in the costs of goods sold.

8. TAXES RECOVERABLE

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
State VAT (ICMS) on acquisitions of fixed asset items	-	-	21.256	29.824
IVA from foreign subsidiaries	-	-	80.785	109.712
ICMS (State VAT)	-	-	22.083	20.941
IPI (Federal VAT)	-	-	23.112	23.925
IRPJ/CSLL recoverable	19.952	17.926	87.184	63.254
PIS/COFINS	-	-	38.099	25.327
Other	-	-	7.403	10.601
TOTAL	19.952	17.926	279.922	283.584
Current assets	19.952	17.926	269.626	266.944
Non-current assets	-	-	10.296	16.640

Credits will be realized by the Company and its subsidiaries through regular tax collection, also including tax credits subject to refund and/or offsetting.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

9. RELATED PARTIES

Business transactions involving the sale and purchase of goods, raw materials and engagement of services, as well as financial transactions involving loans and the raising of funds between the Group companies, and the compensation of the Management, were carried out under the conditions described below.

AMOUNT OF EXISTING BALANCES:	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
EQUITY ACCOUNTS				
NON-CURRENT ASSETS	24	10	-	-
Management of financial resources WEG Equipamentos Elétricos S.A.	24	10	-	-
CURRENT LIABILITIES	427	1.442	7.703	16.761
Agreements with the Management	-	-	5.076	3.688
Profit sharing - Management	427	1.442	2.627	13.073

CONTAS DE RESULTADOa INCOME STATEMENT ACCOUNTS TADO	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
MANAGEMENT COMPENSATION:				
a) Management compensation:	2.219	2.225	22.600	22.194
Fixed (fees) Board of Directors	1.060	1.076	2.120	2.152
Executive Board	1.159	1.149	20.480	20.042
b) Variable (profit sharing)	685	2.225	3.862	19.373
Board of Direct	321	1.076	642	2.152
Executive Board	364	1.149	3.220	17.221

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

SUPPLEMENTARY INFORMATION:**A) BUSINESS TRANSACTIONS**

The purchase and sale transactions regarding inputs and goods are performed under the same conditions performed with unrelated third parties;

B) MANAGEMENT OF FINANCIAL RESOURCES

The financial and commercial operations performed between the Group companies are recorded and supported by the Group's convention. The credit/debit contracts executed with the Management are remunerated by interest between 95.0% and 100.0% of the CDI variation;

C) SERVICES AND OTHER COVENANTS

WEG Equipamentos Elétricos S.A. executed an agreement for "Guarantees and Other Covenants" with Hidráulica Industrial S.A. Ind. e Com. (HISA), for WEG to be the guarantor in loans and provide guarantee to customers (Performance Bond, guarantee insurance, etc.);

D) SURETIES AND GUARANTEES

WEG SA has sureties and guarantees to subsidiaries abroad, in the amount of US\$70.8 million (US\$ 164.0 million as of December 31, 2015);

E) MANAGEMENT'S COMPENSATION

The Board of Directors members were paid the amount of R\$2,120 (R\$ 2,152 as of December 31, 2015) and the executive board was paid the amount of R\$ 20,480 (R\$ 20,042 as of December 31, 2015), for their services, aggregating the total of R\$ 22,600 (R\$ 22,194 as of December 31, 2015).

It is expected the participation of 0% to 2.5% of consolidated profit to be paid to management provided the minimum operating performance goals are met. The performance goals refer to Return on Invested Capital (50% weight), net revenue growth (25% weight) and EBITDA growth (25% weight). The corresponding provision in the amount of R\$ 3,862 (R\$19,373 as of December 31, 2015) was recorded for the period under the caption other operating results. Management receives additional corporate benefits, as follows: Health and dental insurance, life insurance, supplementary private pension fund benefits, among others.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

10. DEFERRED TAXES

Deferred income and social contribution tax credits and debts were determined in accordance with the CVM Resolution 599/09 that approved the technical pronouncement CPC 32 - Taxes on income.

A) BREAKDOWN OF AMOUNTS:

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Corporate income tax (IRPJ) losses	-	-	74.181	73.712
Negative basis of CSLL calculation	-	-	12.018	8.692
Temporary differences:				
Provisions:				
Labor and civil contingencies	-	-	75.848	69.120
Taxes questioned in court	1.612	1.537	37.184	31.008
Losses on trade receivables	-	-	8.169	8.538
Losses on slow-moving inventories	-	-	11.840	13.553
Labor severance pay and contract termination fine	-	-	18.293	16.966
Freight and sales commissions	-	-	8.328	11.055
Third-party services	-	-	60.166	53.660
Employee profit sharing	-	-	37.961	8.842
Unrealized gains from derivatives	-	-	(30.168)	(34.294)
Derivatives held for hedge accounting	-	-	13.882	-
Acceleration depreciation incentive under Law 11196/05	-	-	(7.450)	(7.067)
Amortization difference between tax goodwill and accounting goodwill	-	-	(29.054)	(28.692)
Amortization difference between tax goodwill and accounting goodwill (useful life)	(15)	(52)	(149.343)	(142.717)
Other	654	765	41.139	44.973
PP&E deemed costs	(1.440)	(1.469)	(211.906)	(238.718)
TOTAL	811	781	(28.912)	(111.369)
Non-current assets	811	781	130.291	131.327
Non-current liabilities	-	-	(159.203)	(242.696)

B) ESTIMATED REALIZATION TERM

Management considers that the deferred assets resulting from temporary differences will be realized in proportion to the realization of contingencies, losses and forecast obligations.

In relation to deferred tax credits calculated on income and social contribution tax losses and negative basis of social contribution, management estimates that they will be realized within the next 5 years, taking into consideration the projection of future profits.

WEG S.A.

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

Amounts in thousands of Reais, except otherwise stated.

11 INVESTMENTS

11.1 INVESTMENTS IN SUBSIDIARIES

	Country	Shareholder's Equaty	Period Profit	Investment in the Capital (%)				Share of profit of equity-accounted investees		Investment book value	
				12/31/2016		12/31/2015		12/31/2016	12/31/2015	12/31/2016	12/31/2015
				Direct	Indirect	Direct	Indirect				
WEG Equipamentos Elétricos S.A. (*)	Brazil	4.082.588	888.473	100,00	-	100,00	-	900.971	986.769	4.082.588	4.360.941
RF Reflorestadora Ltda.		161.877	2.303	100,00	-	100,00	-	2.317	4.057	161.877	163.431
WEG Tintas Ltda.		148.488	36.444	99,91	0,09	99,91	0,09	36.413	16.704	148.350	122.014
WEG Amazônia S.A.		47.354	4.211	0,02	99,98	0,02	99,98	1	-	8	7
WEG Administradora de Bens Ltda.		67.008	5.133	79,97	20,03	3,53	96,47	5.785	(113)	53.589	1.120
WEG Logística Ltda.		132.698	17.235	-	100,00	-	100,00	-	-	-	-
WEG Linhares Equip. Elétricos S.A.		289.867	75.056	-	100,00	-	100,00	-	-	1	1
WEG Drives & Controls Aut. Ltda.		456.765	76.706	89,20	10,80	89,20	10,80	68.442	50.595	407.436	370.834
WEG Partner Aerogeradores S.A.		9	-	0,10	99,90	0,10	99,90	-	-	-	-
WEG-Cestari Redut. Motorredut. S.A.		36.130	(2.380)	-	50,00	-	50,00	-	-	-	-
Hidráulica Indl. S.A. Ind. e Com.		20.925	(18.013)	-	62,39	-	62,39	-	-	-	-
Agro Trafo Adm. de Bens S.A.		7.981	(638)	91,75	8,25	91,75	8,25	(585)	2.460	7.323	8.770
Injetel Ind. Com. Comp. Plásticos Ltda.		19.440	246	-	100,00	-	100,00	-	-	-	-
Paumar S/A Indústria e Comércio		114.419	(7.160)	-	100,00	-	100,00	-	-	-	-
WEG-Jelec Oil and Gas Sol. Aut. Ltda.		11	-	-	100,00	-	100,00	-	-	-	-
Transformadores do Nordeste Ltda.		4.490	(160)	0,01	99,99	0,01	99,99	-	-	-	-

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

11 INVESTMENTS**11.1 INVESTMENTS IN SUBSIDIARIES**

	Country	Shareholder's Equaty	Period Profit	Investment in the Capital (%)				Share of profit of equity-accounted investees		Investment book value	
				12/31/2016		12/31/2015		12/31/2016	12/31/2015	12/31/2016	12/31/2015
				Direct	Indirect	Direct	Indirect				
Zest WEG Group Africa (PTY) Ltd.	South Africa	168.224	(5.840)	-	100,00	-	100,00	-	-	-	-
Zest Energy (Pty) Ltd.		7.871	3.029	-	76,09	-	76,09	-	-	-	-
Zest WEG Manufacturing (Pty) Ltd.		(2.751)	(7.656)	-	100,00	-	100,00	-	-	-	-
Zest WEG Electric (Pty) Ltd.		112.189	8.156	-	74,90	-	74,90	-	-	-	-
Electric/Instrumentations Eng. Cont.(Pty)		19.227	(830)	-	86,67	-	86,67	-	-	-	-
Zest WEG Group Namibia Limited		1.228	932	-	100,00	-	100,00	-	-	-	-
WEG (Germany) GmbH	Germany	33.397	(7.499)	-	100,00	-	100,00	-	-	-	-
Watt Drive GmbH		4.105	(661)	-	100,00	-	100,00	-	-	-	-
Wurtembergische Elektromotoren GmbH		13.036	2.504	-	100,00	-	100,00	-	-	-	-
Antriebstechnik KATT Hessen GmbH		5.044	(3.204)	-	100,00	-	100,00	-	-	-	-
WEG Equipamientos Electricos S.A.	Argentina	74.978	32.445	10,45	89,55	10,45	89,55	2.679	3.201	7.843	10.386
Pulverlux S.A.		3.673	1.810	-	100,00	-	100,00	-	-	-	-
EPRIS Argentina S.R.L.		38	(2)	-	100,00	-	100,00	-	-	-	-
WEG Austrália Pty Ltd.	Australia	8.789	(5.172)	-	100,00	-	100,00	-	-	-	-
Watt Drive Antriebstechnik GmbH	Austria	16.798	(7.920)	-	100,00	-	100,00	-	-	-	-
WEG International Trade GmbH		433.481	427.851	-	100,00	-	100,00	-	-	-	-
WEG Holding GmbH		1.879.248	566.770	-	100,00	-	100,00	-	-	-	-
WEG Benelux S.A.	Belgium	37.158	3.676	-	100,00	-	100,00	-	-	-	-
WEG Chile S.A.	Chile	32.517	(4.007)	8,00	92,00	8,00	92,00	(360)	607	2.592	3.682

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

11 INVESTMENTS**11.1 INVESTMENTS IN SUBSIDIARIES**

	Country	Shareholder's Equaty	Period Profit	Investment in the Capital (%)				Share of profit of equity-accounted investees		Investment book value	
				12/31/2016		12/31/2015		12/31/2016	12/31/2015	12/31/2016	12/31/2015
				Direct	Indirect	Direct	Indirect				
WEG (Nantong) Electric Motor Co., Ltd.	China	158.099	19.049	-	100,00	-	100,00	-	-	-	-
Changzhou Machine Master Co., Ltd.		38.448	(202)	-	100,00	-	100,00	-	-	-	-
Changzhou Master Machinery Co., Ltd.		(1.687)	(661)	-	100,00	-	100,00	-	-	-	-
Changzhou Sinya Electromotor Co., Ltd.		31.097	(7.169)	-	100,00	-	100,00	-	-	-	-
Changzhou Yatong Jiwei Elect., Ltd.		30.532	(11.545)	-	100,00	-	100,00	-	-	-	-
Wuxi Ecovi Technology Co., Ltd.		5.040	5.508	-	100,00	-	100,00	-	-	-	-
Jiangsu Shiya Elect. Technolog. Co.,Ltd.		11.791	(432)	-	100,00	-	100,00	-	-	-	-
The First Drive Technology Co., Ltd.		16.485	(1)	-	100,00	-	100,00	-	-	-	-
WEG (Jiangsu) Electric Equip. Co., Ltd.		139.260	(4.182)	-	100,00	-	100,00	-	-	-	-
Watt Euro-Drive Far East Pte. Ltd.	Singapore	12.815	1.526	-	100,00	-	100,00	-	-	-	-
WEG Singapore Pte. Ltd.		3.279	(359)	-	100,00	-	100,00	-	-	-	-
WEG Colômbia S.A.S.	Colombia	53.100	4.550	-	100,00	-	100,00	-	(133)	-	-
FTC Energy Group S.A.		4.548	963	-	51,00	-	51,00	-	-	-	-
Transformadores Suntec S.A.S.		11.825	1.407	-	100,00	-	100,00	-	-	-	-
WEG Middle East Fze.	United Arab Emirates	(7.029)	(2.915)	-	100,00	-	100,00	-	-	-	-
WEG Ibéria Industrial S.L.	Spain	52.796	1.106	-	100,00	-	100,00	-	-	-	-
Autrial S.L.		(5.389)	1.029	-	51,00	-	51,00	-	-	-	-
WEG Electric Corp.	United States	427.689	19.472	-	100,00	-	100,00	-	-	-	-
Electric Machinery Company Inc.		27.206	4.139	-	100,00	-	100,00	-	-	-	-
FTC Energy Group Inc.		349	59	-	51,00	-	51,00	-	-	-	-
Bluffton Motor Works, LLC.		260.718	8.828	-	100,00	-	-	-	-	-	-

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

11 INVESTMENTS**11.1 INVESTMENTS IN SUBSIDIARIES**

	Country	Shareholder's Equity	Period Profit	Investment in the Capital (%)				Share of profit of equity-accounted investees		Investment book value	
				12/31/2016		12/31/2015		12/31/2016	12/31/2015	12/31/2016	12/31/2015
WEG France SAS	Franca	23.040	(2.706)	-	100,00	-	100,00	-	-	-	-
Zest Electric Ghana Ltd.	Ghana	(461)	(221)	-	100,00	-	100,00	-	-	-	-
E & I Electrical Ghana Ltd.		(605)	(500)	-	90,00	-	90,00	-	-	-	-
WEG Industries Índia Private Ltd.	India	170.087	8.048	-	100,00	-	100,00	-	-	-	-
WEG Electric (Índia) Private Ltd.		1.879	(738)	-	100,00	5,00	95,00	(8)	50	-	155
WEG (UK) Ltd.	England	16.981	(3.316)	-	100,00	-	100,00	-	-	-	-
WEG Itália S.R.L.	Italy	23.198	3.605	-	100,00	-	100,00	-	(8)	-	-
WEG Electric Motors Japan Co. Ltd.	Japan	2.186	242	-	95,00	-	95,00	-	-	-	-
WEG South East Asia SDN BHD	Malaysia	1.043	(653)	-	100,00	-	100,00	-	-	-	-
WEG México S.A. de C.V.	Mexico	189.665	30.192	-	100,00	-	100,00	-	-	1	1
WEG Transform. México S.A. de C.V.		55.612	12.573	-	60,00	-	60,00	-	-	-	-
Voltran S.A. de C.V.		69.501	22.988	-	60,00	-	60,00	-	-	-	-
ENI Eletrical Mozambique (Pty) Limited	Mozambique	9	(11)	-	66,67	-	66,67	-	-	-	-
WEG Peru S.A.	Peru	4.149	1.484	0,05	99,95	0,05	99,95	1	1	2	2
WEG Euro Ind. Electrica S.A.	Portugal	76.093	13.327	-	100,00	5,74	94,26	400	868	-	5.037
WEG Electric CIS	Russia	5.045	1.402	-	100,00	-	100,00	-	-	-	-
WEG Scandinavia AB	Sweden	10.207	(6.962)	-	100,00	-	100,00	-	-	-	-
ENI Eletrical Tanzania (Pty) Limited	Tanzania	382	(145)	-	100,00	-	100,00	-	-	-	-
WEG Indústrias Venezuela C.A.	Venezuela	3.414	(25.990)	-	100,00	-	100,00	-	-	-	-
E & I Zambia Ltd.	Zambia	(312)	(31)	-	50,00	-	50,00	-	-	-	-
TOTAL								1.016.056	1.065.058	4.871.610	5.046.381

(*) Equity pickup adjusted by unearned income between related parties.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

The Consolidated Financial Statements of the Company include the Company financial statements of WEG S.A. and all of its subsidiaries. The subsidiaries are fully consolidated as from the date on which the control is obtained. The Company does not hold companies which are not part of the Consolidated Financial Statements.

11.2 ACQUISITIONS IN 2016**(i) Bluffton Motor Works, LLC.**

The subsidiary WEG Electric Corp. acquired the company Bluffton Motor Works, LLC., which operates in the manufacture of electric motors in the United States. The goodwill in the amount of R\$145,256 was initially measured as the excess of the consideration transferred in relation to net assets acquired. The amount of R\$65,108 initially recognized as goodwill was recorded in intangible assets and property, plant and equipment according to their fair value. Included in the consolidated balance sheet as from March 2016.

(ii) TGM Indústria e Comercio de Turbinas e Transmissões Ltda.

On December 15, 2016, the Company announced the execution of an agreement for the acquisition of the share control of TGM Indústria e Comercio de Turbinas e Transmissões Ltda. (TGM”), company which manufactures turbines and energy transmission equipment. The acquisition is not part of the financial statements as of December 31, 2016 due to the awaited approval by the Administrative Council for Economic Defense (CADE).

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

12. PROPERTY, PLANT AND EQUIPMENT

		PARENT COMPANY		CONSOLIDATED	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
Land		1.440	1.440	367.566	394.311
Constructions and Facilities		5.639	5.639	1.184.070	1.125.488
Equipment		-	-	3.574.527	3.571.271
Furniture and fixtures		-	-	121.552	126.801
Hardware		-	-	103.962	107.294
Construction in progress		-	-	137.860	268.141
Reforestation		-	-	55.050	54.044
Other		-	-	125.418	99.698
TOTAL PROPERTY, PLANT AND EQUIPMENT		7.079	7.079	5.670.005	5.747.048
Accumulated depreciation/depletion	Annual depreciation rate (%)	(2.600)	(2.483)	(2.637.289)	(2.482.150)
Constructions and Facilities	02 a 03	(2.600)	(2.483)	(313.935)	(303.281)
Equipment	05 a 20	-	-	(2.125.086)	(1.991.669)
Furniture and fixtures	07 a 10	-	-	(75.093)	(73.780)
Hardware	20 a 50	-	-	(81.214)	(76.409)
Reforestation	-	-	-	(19.457)	(16.921)
Other	-	-	-	(22.504)	(20.090)
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET		4.479	4.596	3.032.716	3.264.898

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

A) SUMMARY OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT - CONSOLIDATED:

PP&E CLASSIFICATION	12/31/2015	TRANSFER BETWEEN CLASSES	ACQUISITIONS	WRITE-OFFS	DEPRECIATION AND DEPLETION	FOREIGN EXCHANGE EFFECT	12/31/2016
Land	394.311	(1.084)	4.525	(1.990)	-	(28.196)	367.566
Constructions and Facilities	822.207	88.715	51.212	(212)	(31.693)	(60.094)	870.135
Equipment	1.579.602	41.072	164.902	(13.278)	(260.916)	(61.941)	1.449.441
Furniture and fixtures	53.021	195	5.431	(500)	(8.385)	(3.303)	46.459
Hardware	30.885	1.266	5.087	(180)	(12.348)	(1.962)	22.748
Construction in progress	268.141	(127.654)	91.553	(14)	-	(94.166)	137.860
Reforestation	37.123	-	1.006	-	(2.536)	-	35.593
Advances to suppliers	71.902	(2.849)	41.873	-	-	(23.550)	87.376
Other	7.706	339	14.574	(1.399)	(4.046)	(1.636)	15.538
TOTAL	3.264.898	-	380.163	(17.573)	(319.924)	(274.848)	3.032.716

B) AMOUNTS OFFERED IN GUARANTEE

PP&E items were provided as guarantee for loans, financing, labor claims and tax suits in the consolidated amount of R\$25,940 (R\$24,145 as of December 31, 2015).

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

13. INTANGIBLE ASSETS - CONSOLIDATED

	Amortization / No. of Years	Cost	Accumulated amortization	12/31/2016	12/31/2015
Software license	5	118.698	(80.877)	37.821	36.964
Right to use property	50 – 99	66.105	(18.523)	47.582	51.051
Trademarks and patents	5	30.976	((7.419)	23.557	621
Other	5	234.549	(182.309)	52.240	28.758
Subtotal	-	450.328	(289.128)	161.200	117.394
Goodwill - Acquisition of subsidiaries	-	811.679	(21.353)	790.326	669.320
TOTAL		1.262.007	(310.481)	951.526	786.714

A) SUMMARY OF CHANGES IN INTANGIBLE ASSETS:

	12/31/2015	Additions	Write-offs	Transfer	Amortization	Foreign Exchange effect	12/31/2016
Software license	36.964	14.621	(55)	-	(11.142)	(2.567)	37.821
Right to use property	51.051	8.449	(64)	-	(699)	(11.155)	47.582
Trademarks and patents	621	26.565	-	-	(2.181)	(1.448)	23.557
Other	28.758	37.033	(387)	-	(9.311)	(3.853)	52.240
SUBTOTAL	117.394	86.668	(506)	-	(23.333)	(19.023)	161.200
Goodwill - Acquisition of subsidiaries	669.320	145.256	-	(1.845)	-	(22.405)	790.326
TOTAL	786.714	231.924	(506)	(1.845)	(23.333)	(41.428)	951.526

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

B) PURCHASE PRICE ALLOCATION – PPA:

In February 2016, the PPA (Purchase Price Allocation) report of the company Antriebstechnik KATT Hessen GmbH was finalized. As a result of the PPA the amount of R\$1,845 initially recognized as goodwill was recorded in property, plant and equipment according to their fair value. The PPA report did not identify other assets or liabilities at fair value to be recognized.

In April 2016, the PPA (Purchase Price Agreement) reports of the companies FTC Energy Group S.A. and Transformadores Suntec S.A. for valuing the amounts recognized as goodwill in the acquisitions, in the total amount of R\$61,840, were finalized. The PPA reports did not identify other assets or liabilities at fair value to be recognized.

In August 2016, the PPA (Purchase Price Agreement) of the company Autrial S.L. for assessing the amount recognized as goodwill in the acquisition of the company, in the total amount of R\$5,449, was finalized. The PPA reports did not identify other assets or liabilities at fair value to be recognized.

In October 2016, the PPA (Purchase Price Allocation) of the company Bluffton Motor Works, LLC., was finalized. As a result of the PPA the amount of R\$65,108 initially recognized as goodwill was recorded in intangible assets (R\$51,393) and in property, plant and equipment (R\$13,715) according to their fair value. The PPA report did not identify other assets or liabilities at fair value to be recognized.

C) BREAKDOWN OF THE GOODWILL BALANCE GENERATED IN THE ACQUISITION OF SUBSIDIARIES:

	12/31/2016	12/31/2015
Electric Machinery Company Inc.	159.732	159.732
Bluffton Motor Works, LLC.	133.067	-
Zest WEG Group Africa (PTY) Ltd.	71.992	71.992
Trafo Equipamentos Elétricos S.A. (Merged)	62.827	62.827
WEG-Cestari Redutores e Motorreductores S.A.	48.139	48.139
Transformadores Suntec S.A.S.	46.491	52.066
Changzhou Sinya Electromotor Co., Ltd.	46.107	46.107
Watt Drive Antriebstechnik GmbH	42.985	42.985
Other	178.986	185.472
TOTAL	790.326	669.320

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

D) IMPAIRMENT TESTING:

In 2016, the Company carried out the impairment testing of the goodwill balance totaling R\$790,326. The testing is carried out on a yearly basis, and it is early carried out should events or circumstances require so. For determining the recoverable value, the Company applies the discounted cash flow method, using as basis each unit's economic and financial forecasts, and assumptions, judgments and estimates of cash flows such as growth rates regarding revenues, costs and expenses (taking into account each market's specific GDP and inflation), estimates of future investments and working capital (based on the Management's strategic planning) and market discount rates.

Forecasts are updated taking into account changes noted in the economic scenario of the markets in which the Company operates, and the expectation assumptions for profit or loss or history of each unit's profitability. The valuation of the cash generating unit (CGU) is performed over a 10-year period due to the maturity of the acquisitions and strategic planning, and from then on the operation's perpetuity. The discount and growth rates used in the 2016 forecasts vary according to the markets in which each unit operates. The impairment testing regarding the Company's and its subsidiaries' goodwill balances did not result in the need for the recognition of loss for the year ended December 31, 2016.

E) AMORTIZATION SCHEDULE OF INTANGIBLE ASSETS (EXCEPT GOODWILL):

	12/31/2016	12/31/2015
2016	-	17.144
2017	41.509	17.120
2018	23.496	15.787
2019	17.855	11.878
2020	11.429	7.646
from 2021 onwards	66.911	47.819
TOTAL	161.200	117.394

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

14. LOANS AND FINANCING

Direct loans from BNDES and FINEP are guaranteed by the parent company WEG S.A.'s sureties. FINAME operations are guaranteed by sureties and fiduciary alienation. All covenant clauses related to indicators of capitalization, current liquidity and the relation between net debt/Ebitda included in the contracts entered into with BNDES are being met.

			CONSOLIDATED
Type	Annual charges at 12/31/16	12/31/2016	12/31/2015
IN LOCAL CURRENCY			
CURRENT		642.413	637.552
In Reais, prefixed rate			
Working capital	3,5% to 11,0% p.a.	576.770	573.271
Property, plant and equipment	2,5% to 8,7% p.a.	6.686	4.429
In Reais, floating rate			
Working capital	TJLP (+) 1,4% to 2,5% p.a.	44.863	45.959
Working capital	UFIR (+) 1,0% ato 4,0% p.a.	11.084	10.781
Other			
Other	Sundry	3.010	3.112
NON-CURRENT			
In Reais, prefixed rate		1.887.571	1.747.118
Working capital	3,5% to 11,0% p.a.	1.053.765	1.575.013
Property, plant and equipment	2,5% to 8,7% p.a.	16.405	23.018
In Reais, floating rate			
Working capital	TJLP (+) 1,4% to 2,5% p.a.	798.017	116.672
Working capital	UFIR (+) 1,0% to 4,0% p.a.	13.671	24.190
Other			
Other	Sundry	5.713	8.225

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

			CONSOLIDATED
Type	Annual charges at 12/31/16	12/31/2016	12/31/2015
IN FOREIGN CURRENCY			
CURRENT		349.020	647.081
In US Dollar			
Working capital (ACCs)	US\$ Variation (+) 1.2%p.a.	-	39.833
Prepayment of Export (PPE)	US\$ Variation (+) Libor (+) 1.0% to 1.5%p.a.	127.276	59.398
In US Dollar			
Working capital	Libor (+) 1.4% to 1.5%p.a.	68.349	128.911
In Euros			
Working capital	Euribor (+) 1.3%p.a.	2.831	210.066
In Mexican Pesos			
Working capital	TIIE (+) 1,1% p.a.	82.797	8.623
In Renmimbi (China)			
Working capital	3,9% to 5,4% p.a.	-	92.664
In Rand (South Africa)			
Working capital	10,5% p.a.	29.028	-
Other currencies			
Working capital	Local market rates	38.739	107.586
NON-CURRENT		1.521.321	2.121.217
In US Dollar			
Prepayment of Export (PPE)	US\$ Variation (+) Libor (+) 1.0% to 1.5%p.a.	1.311.003	1.717.848
In US Dollar			
Working capital	Libor (+) 1,5% p.a.	2.296	120.653
In Euros			
Working capital	Euribor (+) 2,0% to 3,8% p.a.	34.525	27.736
In Mexican Pesos			
Working capital	TIIE (+) 1,1% p.a.	119.351	169.825
In Rand (South Africa)			
Working capital	8,4% to 10,5% p.a.	53.852	84.291
Other currencies			
Working capital	Local market rates	294	864
TOTAL CURRENT		991.433	1.284.633
TOTAL NON-CURRENT		3.408.892	3.868.335

Maturity of long-term loans and financing:

	12/31/2016	12/31/2015
2017	-	747.392
2018	2.023.801	1.527.427
2019	990.660	1.155.849
2020	182.528	193.391
2021	51.875	48.074
from 2022 onwards	160.028	196.202
TOTAL	3.408.892	3.868.335

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

15. PROVISIONS FOR CONTINGENCIES

The Company and its subsidiaries are parties to administrative and judicial proceedings of labor, civil and tax nature arising from the normal activities of their businesses. The corresponding provisions were recorded for proceedings the likelihood of loss of which was rated as “probable” based on the estimate of value at risk determined by the Company’s legal counselors. The Company’s Management estimates that the provision for contingencies recorded is sufficient to cover any possible losses arising from the proceedings in progress.

A) BALANCE OF PROVISIONS FOR CONTINGENCIES:

		PARENT COMPANY		CONSOLIDATED	
		12/31/2016	12/31/2015	12/31/2016	12/31/2015
(i) Tax:		4.741	4.520	177.617	106.635
IRPJ and CSLL	(a.1)	-	-	71.293	18.363
INSS	(a.2)	4.265	4.044	61.311	49.513
PIS and COFINS	(a.3)	-	-	35.660	30.097
IRRF		476	476	476	476
Other		-	-	8.877	8.186
(ii) Labor		-	-	181.610	146.714
(iii) Civil		-	-	71.789	83.107
(iv) Other		-	-	3.386	3.512
TOTAL		4.741	4.520	434.402	339.968

B) CHANGES IN THE PROVISIONS FOR CONTINGENCIES FOR THE PERIOD - CONSOLIDATED:

	12/31/2015	Additions	Interest	Write-offs	Reversals	12/31/2016
a) Tax	106.635	64.741	6.241	-	-	177.617
b) Labor	146.714	47.153	3.079	(12.386)	(2.950)	181.610
c) Civil	83.107	10.873	(1.293)	(12.579)	(8.319)	71.789
d) Other	3.512	551	-	-	(677)	3.386
TOTAL	339.968	123.318	8.027	(24.965)	(11.946)	434.402

WEG S.A.
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

Amounts in thousands of Reais, except otherwise stated.

C) THE PROVISIONS RECORDED MAINLY REFER TO:

(i) Tax contingencies

(a.1) This refers to the proceeding regarding the Consumer Price Index (IPC) difference for January 1989 (Plano Verão) on the 16.24% monetary correction, and the proceeding regarding the calculation basis of expenditures on RD&I projects (“Lei do Bem” - Innovation Tax Incentive Law).

(a.2) This refers to social security contribution taxes payable. The litigation refers to social security charges levied on the private pension plan, profit sharing, education allowance, among others.

(a.3) Refers to non-homologation by the Brazilian Federal Revenue Department (RFB) about the request for offsetting the credit balance of PIS and COFINS with federal tax debts.

(ii) Labor contingencies

The Company and its subsidiaries are defendants in labor claims primarily involving health and risk exposure, among others.

(iii) Civil contingencies

These correspond primarily to civil lawsuits, including personal injury, aesthetic damage, occupational diseases and indemnities arising out of occupational accidents.

D) COURT DEPOSITS:

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Tax	4.338	3.913	35.281	31.718
Labor and civil	-	4.327	10.209	20.181
Other	-	-	440	991
TOTAL RESTRICTED JUDICIAL DEPOSITS	4.338	8.240	45.930	52.890
Non-restricted judicial deposits	-	-	2.546	2.920
TOTAL JUDICIAL DEPOSITS	4.338	8.240	48.476	55.810

The non-restricted judicial deposits related to contingencies are waiting authorization for withdrawal from court.

E) CONTINGENCIES ASSESSED AS POSSIBLE LOSSES:

The Company and its subsidiaries are parties to other suits, whose chances of loss are assessed as “possible”, for which no provision for contingencies was recorded.

The estimated amount of such litigation relates to the tax proceedings totalizes R\$97,187 (R\$86,498 as of December 31, 2015). The the main proceedings assessed as “possible” loss are the following:

- taxation on profits earned abroad in the total estimated amount of R\$ 48.2 million;
- Non-homologation of IPI credits in the amount of R\$10.6 million;
- Levy of ICMS-ST on purchase transactions of raw materials amounting to R\$ 15.8 million.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

16. PRIVATE PENSION PLAN

The Company and its subsidiaries are sponsors of WEG Social Security - Private Pension Plan, which primarily seeks to supplement the retirement benefits offered by the official social security system.

The Plan managed by WEG Seguridade Social includes monthly income benefits (retirement), annual bonus, supplemental sickness benefits, supplemental disability retirement, pension due to death, supplementation of the annual bonus and death benefit.

The number of participants is 19,335 participants (21,239 as of December 31, 2015). The Company and its subsidiaries made contributions in the amount of R\$27,188 (R\$ 27,746 as of December 31, 2015).

Based on actuarial calculations carried out by independent actuaries, aiming to define the taxable net value between the defined benefit obligation and the fair value of plan assets in accordance with the procedures established by the CVM Resolution 695/12 – technical pronouncement CPC 33 (R1) Employee Benefits, the Company maintains a provision recorded in the amount of R\$4,092 (R\$ 4,092 as of December 31, 2015).

17 SHAREHOLDERS' EQUITY**A) SHARE CAPITAL**

The Company's capital is R\$ 3,533,973 (R\$ 3,533,973 as of December 31, 2015) composed of 1,614,353,076 registered book-entry ordinary shares with no par value, all with voting rights, including 1,051,671 treasury shares pursuant to item "d".

B) DIVIDENDS AND INTEREST ON SHAREHOLDERS' EQUITY

The Bylaws establish the allocation of at least 25% of the adjusted profit, and Management proposed the following:

	12/31/2016	12/31/2015
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS.	1.117.624	1.156.065
(-) Statutory reserve	(55.881)	(57.803)
(-) Reversal/(Supplement) of provision for stock option plan	442	(628)
(+) Reversal of prior year dividends	766	565
(+) Realization of revaluation reserve (1989) and deemed cost (2010)	51.074	57.968
CALCULATION BASIS FOR DIVIDENDS	1.114.025	1.156.167
Dividends for the 1st. semester = R\$0.03630/share (R\$0.08302/share in 2015)	58.565	133.904
Interest on shareholders' equity for the 1st. semester = R\$0.10369/share (R\$0.07702/share in 2015), IRRF R\$29,521 (R\$21,922 in 2015)	196.808	146.149
Dividends for the 2nd. semester = R\$0.06369/share (R\$0.08095/share in 2015)	102.750	130.554
Interest on shareholders' equity for the 2nd. semester R\$0.11632/share (R\$0.09600/share in 2015), IRRF R\$33,115 (R\$27,324 in 2015)	220.770	182.160
TOTAL DIVIDENDS AND INTEREST ON SHAREHOLDERS' EQUITY	578.893	592.767

Under Article 37 of the Company's Bylaws and Article 9 of Law 9949/95 interest on shareholders' equity will be charged from mandatory dividends and will be paid as from March 15, 2017.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

C) RECORDING OF PROFIT RESERVES:

- **Statutory reserve** - it was recorded in the amount of R\$55,881 (R\$57,803 as of December 31, 2015) equivalent to 5% of the profit for the year, in compliance with the 20% limit of capital;
- **Reserve for capital budget** - it corresponds to the amount remaining from the profit for the year R\$482,850, plus the balance of retained earnings of R\$52,282 (deriving from the realization of the deemed cost (2010), reversal of exercised shares of the provision for stock options and reversal of prior year dividends) aimed at the reserve for capital budget for the 2017 investment plan.

D) TREASURY SHARES

The shares acquired by the Company will be held in treasury for use in connection with exercise of stock call options by the beneficiaries of the Company's Stock Call Option Plan or subsequently canceled or disposed of.

Up to December 31, 2016, the amount of 453,709 shares were exercised by the beneficiaries of the Stock Call Option Plan. The Company holds in treasury 1,051,671 shares at the average cost of R\$11.34 per share in the total amount of R\$11,924 (R\$17,069 as of December 31, 2015).

18 LONG-TERM INCENTIVE PLAN (LIP PLAN)

At an EGM held on June 28, 2016, the establishment of a share-based remuneration plan called Long-term incentive plan (LIP PLAN) in favor of its Management and managers, and the cancelation of the Company's Stock Call Option Plan which had been approved at an EGM held on February 22, 2011 and subsequent amendments, were approved, complying with the contracts already entered into and not yet completed.

19 STOCK CALL OPTION PLAN**(i) Plan description**

The Plan that was managed by the Board of Directors, sought to grant shares of the Stock Call Option Plans of WEG S.A. (Company) or its subsidiaries with head offices located in Brazil to its statutory officers so as to attract, motivate and retain them, as well as align their interests with those of the Company and its shareholders. Each option grants its bearer with the right to acquire 1 (one) ordinary Company-issued share (BM&FBOVESPA: "WEGE3"), strictly according to the terms and conditions established in the Plan ("Option").

Share purchase options to be granted are limited to the maximum of 2% (two percent) of the total shares representing the Company's capital. The participant should maintain the invested shares blocked for trading during the retention period, according to the minimum levels determined by the Plan. The Plan could be extinguished, suspended or altered at any moment, through a proposal approved by the Company's Board of Directors.

WEG S.A.
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(ii) Programs description

The Board of Directors could approve, semi-annually, a Stock Call Option Programs (“Programs”), which defined the participants, number of options, exercise price, option distribution, term and other rules specific to each Program. In order to participate in each Program, the participant should invest an amount of his/her variable compensation in each period in Company’s shares.

Program	Number of Stock Options	Average cash in Reais (R\$)				Cash to appropriate (R\$ thousand)
		Exercise price	IPCA Corrected Price	Option price	Option difference	
April/11	163.155	8,08	9,36	12,68	3,32	785
September/11	71.398	6,71	7,87	10,40	2,54	236
March/12	169.393	7,38	8,67	11,30	2,64	515
September/12	95.053	6,73	7,91	10,51	2,60	276
April/13	214.688	9,40	11,10	14,33	3,23	692
September/13	108.862	9,60	11,40	15,58	4,19	455
March/14	221.040	10,48	12,54	17,30	4,76	1.053
August/14	91.160	13,12	15,75	19,77	4,03	367
March/15	187.020	14,05	16,90	22,49	5,60	1.046
August/15	181.055	16,60	19,60	25,44	5,84	1.058
March/16	194.575	13,09	15,82	21,85	6,03	1.173
TOTAL	1.697.399					7.656

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The weighted average fair value was determined based on the Black-Scholes-Merton method, considering the following aspects:

Program	Option exercise price (R\$)	Option lifespan - in days	Current corresponding share price (R\$)	Expected volatility in share price (%)	Interest rate free of risk for the option lifespan (%)
April/11	8,08	755 – 1.260	8,50	13,17	12,79 – 12,83
September/11	6,71	756 – 1.259	6,95	14,94	10,90 – 11,22
March/12	7,38	755 – 1.257	7,62	14,93	9,76 – 10,33
September/12	6,73	753 – 1.257	7,73	12,25	8,32 – 8,78
April/13	9,40	760 – 1.260	9,89	14,27	8,67 – 9,24
September/13	9,60	756 – 1.258	10,68	14,13	11,29 – 11,81
March/14	10,48	753 – 1.257	12,16	10,26	12,28 – 12,58
August/14	13,12	754 – 1.257	13,45	10,02	11,26 – 11,28
March/15	14,05	751 – 1.254	15,21	19,73	13,26 – 13,43
August/15	16,60	752 – 1.255	16,62	21,25	13,74 – 13,78
March/16	13,09	753 – 1.256	14,01	33,44	13,79 – 13,93

Síntese da movimentação das ações do plano:

Number of shares

Program	12/31/2015	Granted	Expired / Canceled	Exercised	12/31/2016
April/11	60.156	-	-	(50.968)	9.188
September/11	38.412	-	-	(33.072)	5.340
March/12	114.576	-	-	(100.536)	14.040
September/12	71.362	-	-	(47.538)	23.824
April/13	171.576	-	-	(89.655)	81.921
September/13	95.038	-	-	(55.442)	39.596
March/14	221.040	-	-	(65.166)	155.874
August/14	91.160	-	(18.000)	(11.332)	61.828
March/15	187.020	-	(68.000)	-	119.020
August/15	181.055	-	-	-	181.055
March/16	-	194.575	-	-	194.575
TOTAL	1.231.395	194.575	(86.000)	(453.709)	886.261

The accounting of expenses on stock options is performed over the vesting period.

In 2016, the amount of R\$1,469 (R\$1,215 in 2015) was recorded in the caption of Other income of the income statement for the year, in contra-entry to the capital reserve in equity.

The exercised options in 2016 amounted to R\$1,530 (R\$1,187 in 2015), and the amount of R\$1,972 (R\$559 in 2015) was recorded in equity, in the caption Capital Reserve, and the amount of R\$442 (R\$628 in 2015 supplementing the amount provided for) regarding reversal of the amount provided for was recorded in the account Accumulated Results.

The accumulated amount recorded in equity as of December 31, 2016 is R\$1,971 (R\$2,474 as of December 31, 2015).

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

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20. NET REVENUE

	CONSOLIDATED	
BREAKDOWN OF NET REVENUE	12/31/2016	12/31/2015
Gross revenue	10.943.203	11.143.410
Domestic market	5.316.659	5.350.844
External markets	5.626.544	5.792.566
Deductions	(1.576.195)	(1.383.087)
Taxes	(1.140.764)	(1.203.267)
Returns and rebates	(435.431)	(179.820)
Net revenue	9.367.008	9.760.323
Domestic market	4.002.279	4.227.286
External markets	5.364.729	5.533.037

CONSTRUCTION CONTRACTS

Construction contract revenues and costs are recognized according to the execution of each project using the percentage-of-costs-incurred method (percentage-of-completion method).

	CONSOLIDATED	
	12/31/2016	312/31/2015
Recognized operational revenue	943.974	645.846
Incurred costs	(801.976)	(513.683)
	12/31/2016	12/31/2015
Advances received	846.037	187.853

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

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22. OPERATING EXPENSES BY NATURE AND FUNCTION

	CONSOLIDATED	
	12/31/2016	12/31/2015
EXPENSES BY NATURE	(8.303.334)	(8.602.078)
Depreciation, amortization and depletion	(343.257)	(319.358)
Personnel expenses	(2.148.008)	(2.060.170)
Raw materials, materials for use, and consumables	(4.362.612)	(4.639.812)
Freight expenses and insurance	(234.006)	(244.394)
Other expenses	(1.215.451)	(1.338.344)
FUNÇÃO DA DESPESA	(8.303.334)	(8.602.078)
Cost of goods sold and services rendered	(6.731.229)	(6.994.735)
Selling expenses	(924.999)	(950.252)
General and administrative expenses	(442.783)	(436.759)
Management fees	(22.600)	(22.194)
Other operating income (expenses)	(181.723)	(198.138)

23. OTHER OPERATING INCOME (EXPENSES)

The amounts recorded refer to profit sharing, reversal of/provision for tax suits and other, as shown below:

	CONSOLIDATED	
	12/31/2016	12/31/2015
OTHER OPERATING INCOME	15.526	28.351
Other	15.526	28.351
OTHER OPERATING EXPENSES	(197.249)	(226.489)
Employee profit sharing	(143.320)	(173.468)
Profit sharing - subsidiaries abroad	(24.740)	(21.491)
Management profit sharing	(3.862)	(19.373)
Provision for/reversal of tax lawsuits	(5.836)	(3.926)
Tax incentives of the Law for the Encouragement of Culture ("Rouanet Law")	(2.368)	(4.986)
Other	(17.123)	(3.245)
TOTAL NET	(181.723)	(198.138)

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

24. NET FINANCIAL EXPENSES

	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
FINANCIAL INCOME	108.889	99.855	816.087	1.345.633
Financial investment income	144.327	124.589	556.401	461.143
Exchange variation	-	-	342.811	411.179
Exchange variation - Trade payables	-	-	85.743	90.149
Exchange variation - Trade receivables	-	-	96.216	256.673
Exchange variation - Loans	-	-	126.269	60.766
Exchange variation - Other	-	-	34.583	3.591
Discounted present value of trade receivables	-	-	51.080	66.053
PIS/COFINS levied on interest on shareholders' equity	(29.344)	(21.921)	(29.500)	(22.081)
PIS/COFINS levied on finance income	(6.741)	(3.190)	(27.364)	(11.773)
Derivative financial instruments	-	-	(153.639)	386.901
PROEX – Equaliz. Interest rate	-	-	16.823	16.961
Other revenues	647	377	59.475	37.250
FINANCIAL EXPENSES	(243)	(209)	(600.247)	(1.200.150)
Interest applicable to Loans and financing	-	-	(267.651)	(207.544)
Exchange variation	-	-	(83.156)	(814.866)
Exchange variation - Trade payables	-	-	(43.016)	(93.738)
Exchange variation - Trade receivables	-	-	(164.597)	(103.028)
Exchange variation - Loans	-	-	175.377	(570.762)
Exchange variation - Other	-	-	(50.920)	(47.338)
Discounted present value of trade payables	-	-	(29.418)	(32.472)
Derivative financial instruments	-	-	(165.416)	(62.229)
Other expenses	(243)	(209)	(54.606)	(83.039)
NET FINANCIAL RESULT	108.646	99.646	215.840	145.483

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

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25. PROVISION FOR INCOME AND SOCIAL CONTRIBUTION TAXES

The Company and its subsidiaries in Brazil determine income and social contribution taxes through the taxable profit, with the exception of WEG Administradora de Bens Ltda. and Agro Trafo Miner., Agric., Pec. e Administradora de Bens S.A., which determine them using a taxation based on profit presumption. The provision for income tax is calculated at the rate of 15%, plus a surtax of 10%, and the social contribution tax at the rate of 9%. The taxes of subsidiaries abroad are recorded in accordance with the legislation of each country.

Reconciliation of income and social contribution taxes:	PARENT COMPANY		CONSOLIDATED	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Profit before taxes on income	1.118.549	1.156.843	1.279.514	1.303.728
Statutory nominal rate	34%	34%	34%	34%
IRPJ and CSLL calculated at nominal rate	(380.307)	(393.327)	(435.035)	(443.268)
Adjustments for determination of actual income and social contribution taxes:				
Income from investments in subsidiaries	345.459	362.120	5.310	(456)
Rate difference on profit or loss abroad	-	-	123.484	103.785
Tax incentives	-	-	59.251	84.135
Reintegra (Special Regime for the Reimbursement of Taxes paid by Export Companies)	-	-	596	8.279
Interest on shareholders' equity	34.116	31.051	142.071	111.714
Provision for income and social contribution taxes (Lei do Bem - Innovation Tax Incentive Law)	-	-	(52.968)	(3.053)
Other adjustments	(193)	(622)	5.609	946
IRPJ and CSLL in profit or loss	(925)	(778)	(151.682)	(137.918)
Current tax	(954)	(1.003)	(245.415)	(234.116)
Deferred tax	29	225	93.733	96.198
Effective rate - %	0,08%	0,07%	11,85%	10,58%

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26. INSURANCE COVERAGE

The Company in Brazil is responsible for managing the Group’s insurance portfolio in Brazil and abroad, thus establishing risk policies for the Group in order to protect its assets. The Company and its subsidiaries have taken out a Worldwide Insurance Program - WIP, in which the following established world policies stand out: Transportation Risk (Exports, Imports and Domestic), Civil Liability - Products, Civil Liability - Directors and Officers (D&O), Surety Bond, General Civil Liability, Properties, Environmental Pollution, Warranty, and Engineering Risk - Installation and Assembly. The insurance policies are written only by first tier multinational insurance companies which may serve the WEG Group in the countries in which it has operations. The financial and sustainability structure of those insurance companies is monitored on an ongoing basis by the company WEG Brasil.

Some of those policies and their insured capital which stand out are described below:

Operational risks (Property): US\$36 million;	Loss of profit: US\$11.7 million (for the Paint companies and just acquired companies for the first 12 months, including a 6-month period indemnification);	General Civil Liability: US\$10 million;	Civil Liability - Products: US\$40 million;	Local Transportation: R\$12 million for shipment/accumulation/trip and coastal shipping up to R\$40 million;
International Transportation - Exports and Imports: US\$5 million for shipment/accumulation/trip;	Environmental pollution: US\$20 million;	Warranty: As described in contract;	Engineering risk - Installation and Assembly: R\$150 million in Brazil, US\$30 million in Latin America (except for Cuba) and US\$5 million in the U.S.;	Directors and Officers liability (D&O): US\$30 million.

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27. FINANCIAL INSTRUMENTS

The Company and its subsidiaries performed the valuation of its financial instruments, including derivatives recorded in the financial statements, presenting the following values:

	CARRYING VALUE		FAIR VALUE	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash and cash equivalents	3.390.662	3.277.115	3.390.662	3.277.115
Cash and banks	223.267	477.710	223.267	477.710
Financial investments:	3.167.395	2.799.405	3.167.395	2.799.405
In local currency	3.091.597	2.694.786	3.091.597	2.694.786
In foreign currency	75.798	104.619	75.798	104.619
Financial investments:	1.373.287	1.157.858	1.373.287	1.157.858
Derivative financial instruments	184.664	378.727	184.664	378.727
Non Deliverable Forwards - NDF	15.425	6.259	15.425	6.259
SWAP Operations	169.221	365.892	169.221	365.892
Hedge accounting	18	6.576	18	6.576
Total Assets	4.948.613	4.813.700	4.948.613	4.813.700
Loans and financing	4.400.325	5.152.968	4.400.325	5.152.968
In local currency	2.529.984	2.384.671	2.529.984	2.384.671
In foreign currency	1.870.341	2.768.297	1.870.341	2.768.297
Derivative financial instruments	89.373	17.686	89.373	17.686
Non Deliverable Forwards - NDF operations	12.061	590	12.061	590
SWAP operations	47.105	16.295	47.105	16.295
Hedge accounting	30.207	801	30.207	801
TOTAL LIABILITIES	4.489.698	5.170.654	4.489.698	5.170.654

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27.1 RISK FACTORS

Risk factors regarding financial instruments are basically related to:

a) Credit risks

Those risks arise from the possibility of the Company's subsidiaries not receiving the amounts related to sales or not receiving credit from financial institutions regarding financial investments. To mitigate the risk from sales, the Company's subsidiaries analyze the financial situation of their clients, as well as establish a credit limit and permanently assess their debtor balance. As for financial investments, the Company and its subsidiaries make their investments in financial institutions with low credit risk according to the classification of credit rating agencies.

b) Foreign currency risks

The Company and its subsidiaries export and import in a number of currencies. They manage and monitor the foreign exchange exposure seeking to balance its assets and liabilities within limits established by Management. The limit of (net) foreign currency exposure sold may be equivalent up to 2 months of exports in foreign currencies, as determined by the Company's Board of Directors.

The Company and its subsidiaries performed exports amounting to US\$596.9 million (US\$716.2 million in 2015), thus representing a natural hedge for indebtedness and other costs attached to other currencies, mainly in US\$ dollars.

c) Debt charges Risks

Those risks arise from the possibility of the subsidiaries incurring losses on account of interest rate or other debt index fluctuations which increase financial expenses related loans and financing raised in the market, or decrease financial income related to the subsidiaries' financial investments. The Company and its subsidiaries continually monitor market interest rates aiming at assessing the possible need for hedging against the fluctuation of those rates.

27.2 DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its subsidiaries carry out the following transactions with derivative financial instruments:

a) Non Deliverable Forwards - NDF, in the notional amount of:

(i) US\$38.7 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging exports against the risks of foreign exchange rate fluctuations;

(ii) US\$3.1 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging its input purchasing operations and expenses in foreign currency against foreign exchange rate fluctuation risks;

(iii) US\$14.3 million, held by its subsidiary Zest WEG Group Africa (PTY) Ltd, aiming at hedging its import operations of goods against the risks of foreign exchange rate fluctuations;

(iv) EUR 27.5 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging exports against foreign exchange rate fluctuation risks;

(v) EUR 2.8 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging its input purchasing operations and expenses in foreign currency against foreign exchange rate fluctuation risks;

(vi) EUR 7.8 million, held by its subsidiary WEG Colômbia S.A.S., aiming at hedging its financing operations against the risks of a spike in the euro rates;

(vii) US\$10.0 million, held by its subsidiary WEG Holding GmbH, aiming at hedging its intercompany financing operations against the risks of a drop in the euro rates.

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b) Swap operations, in the notional amount of:

(i) EUR 10.0 million, held by its subsidiary Watt Drive Antriebstechnik GmbH, aiming at hedging its financing against the risk of fluctuations in the Euribor;

(ii) US\$400 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging financing operations against the risks of a spike in the US\$ dollar rates;

(iii) R\$80.0 million, held by its subsidiary WEG Equipamentos Elétricos S.A., aiming at hedging against a drop in the interest rates.

The Company's and its subsidiaries' Management performs an ongoing monitoring of the contracted derivative financial instruments, by means of its internal controls.

The sensitivity analysis statement chart (Item 27.3) must be read jointly with the other financial assets and liabilities expressed in foreign currency as of December 31, 2016, as the estimated impact of the foreign currency rate over NDFs and SWAPs presented below will be offset, if effective, in whole or in part, with the devaluation of all assets and liabilities.

Management has determined that, for the probable scenario (market value), the exchange rates used to mark to market the financial instruments, valid on December 31, 2016, should be considered. These rates represent the best estimate of the future behavior of prices and these represent the amount by which the positions could be settled at maturity.

The Company and its subsidiaries performed the accounting record based on their market prices as of December 31, 2016 at fair value on an accrual basis. These operations had a net negative impact of R\$319,055 in 2016 (R\$ 324,672 positive in 2015), which were recognized as financial income. The Company and its subsidiaries have no margins provided as guarantee for derivative financial instruments outstanding as of December 31, 2016.

c) Derivative financial instruments designated for hedge accounting:

The Company formally designated its transactions subject to hedge accounting for the derivative financial instruments that hedge the purchase of inputs and expenses denominated in foreign currency, thus documenting:

- Date of designation and identification of the hedge list;
- Description of the hedge and risk management strategy purpose;
- Statement of compliance regarding hedge and risk management ;
- Description and identification of the derivative instrument and the hedged item;
- Description of risks covered and risks excluded;
- Description of the method used to assess the actual effectiveness of the hedge;
- Frequency of the prospective and retrospective effectiveness assessment;
- Description of the hedge accounting policy.

The Company and its subsidiaries carried out operations including hedge accounting as of December 31, 2016 in the notional amount of US\$26.4 million and EUR 9.9 million held by its subsidiary WEG Equipamentos Elétricos S.A..

The Company and its subsidiaries performed the accounting record based on their fair value as of December 31, 2016, on an accrual basis. The net accumulated amount of taxes recorded in equity is R\$26,948 negative (R\$5,774 positive as of December 31, 2015). The Company and its subsidiaries have no margins provided as guarantee for derivative financial instruments outstanding as of December 31, 2016.

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NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

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27.3 SENSITIVITY ANALYSIS

The tables below present “cash and expense” effects deriving from the results of financial instruments in each one of the scenarios.

a) Financial investments and Financing:

Operation	Risk	Currency	National Value (In thousands)	Market Value in 12/31/2016		Possible Scenario 25%		Remote Scenario 50%	
				Average price	In R\$ Thousands	Average Price	In R\$ Thousands	Average Price	In R\$ Thousands
Short-term Investments	Decrease of CDI (*)	R\$	3.487.419	Rate 13,63% p.a	475.335	Rate 10,22% p.a	356.414	Rate 6,82% p.a	237.842
	TOTAL				475.335		356.414		237.842
Financing	Increase of TJLP (**)	R\$	842.880	Rate 7,50% p.a	(63.216)	Rate 9,38% p.a	(79.062)	Rate 11,25% p.a	(94.824)
	Increase of Dollar	US\$	440.000	3,2585	(193.708)	4,0731	(552.143)	4,8878	(910.578)
	TOTAL				(256.924)		(631.205)		(1.005.402)

(*) Sensitivity analysis of financial investment variations: risk posed to the Company in case of decrease in the interest rates, considering that the position of investments pegged to a percentage of the Interbank Deposit Certificate (CDI) as of December 31, 2016 remain static.

(**) Sensitivity analysis of financing variation: risk posed to the Company in case of increase in the interest rates, considering that the position of financing pegged to the Long-term Interest Rate (TJLP) as of December 31, 2016 remain static.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

b) Non Deliverable Forwards - NDF operations:

Operation	Risk	Currency	Natal Value (In thousands)	Market Value in 12/31/2016		Possible Scenario 25%		Remote Scenario 50%	
				Average Price	In R\$ Thousand	Average Price	In R\$ Thousand	Average Price	In R\$ Thousand
Non Deliverable Forwards - NDF	Increase of Dollar	US\$/R\$	38.700	3,3662	5.162	4,2077	(27.406)	5,0493	(59.974)
	Decrease of Dollar	US\$/R\$	3.092	3,5472	(3.161)	2,6604	(5.903)	1,7736	(8.645)
	Decrease of Dollar	US\$/ZAR	14.342	13,9528	(1.016)	10,4653	(12.918)	6,9769	(24.820)
	Decrease of Dollar	US\$/EUR	10.000	1,0560	278	0,7920	(10.576)	0,5280	(32.284)
	Total Dollar		66.134		1.263		(56.803)		(125.723)
	Increase of Euro	EUR/R\$	27.500	3,5712	9.953	4,4640	(14.599)	5,3568	(39.150)
	Decrease of Euro	EUR/R\$	2.846	3,7368	(3.773)	2,8026	(6.432)	1,8684	(9.091)
	Decrease of Euro	EUR/COP	7.772	3.123,4600	(4.077)	2.342,5950	(10.678)	1.561,7300	(17.278)
	Total Euro		38.118		2.103		(31.709)		(65.519)
	Decrease of Pound	GBP/ZAR	108	17,2563	(2)	12,9422	(113)	8,6282	(224)
	Total Pound		108		(2)		(113)		(224)
	TOTAL				3.364		(88.625)		(191.466)

c) SWAP Operations:

Operation	Risk	Currency	Natal Value (In thousands)	Market Value in 12/31/2016		Possible Scenario 25%		Remote Scenario 50%	
				Average Price	In R\$ Thousand	Average Price	In R\$ Thousand	Average Price	In R\$ Thousand
SWAP	Decrease of Euribor	EUR	10.000	Interest - 0,07% p.a.	(9.327)	Interest - 0,09% p.a.	(9.363)	Interest - 0,10% p.a.	(9.399)
	Decrease of Dollar	US\$	400.000	3,2591	128.834	2,4443	(174.144)	1,6296	(479.416)
	Increase of CDI	R\$	80.000	Rate 11,82%	2.609	Rate 14,77%	(2.988)	Rate 17,73%	(8.288)
	TOTAL				122.116		(186.495)		(497.103)

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

d) Hedge accounting operations:

Operation	Risk	Currency	Natal Value (In thousands)	Market Value in 12/31/2016		Possible Scenario 25%		Remote Scenario 50%	
				Average Price	In R\$ Thousand	Average Price	In R\$ Thousand	Average Price	In R\$ Thousand
Hedge Accounting	Decrease of Dollar	US\$/R\$	26.375	3,4538	(19.717)	2,5904	(42.491)	1,7269	(65.264)
	Decrease of Euro	EUR/R\$	9.873	3,6972	(10.472)	2,7729	(19.598)	1,8486	(28.724)
	TOTAL				(30.189)		(62.089)		(93.988)

28. SUBSIDIES AND GOVERNMENT GRANTS

The Company and its subsidiaries obtained subsidies in the amount of R\$52,176 (R\$45,363 as of December 31, 2015) deriving from tax incentives, recognized in the profit or loss for the period:

	CONSOLIDATED	
	12/31/2016	12/31/2016
Total subsidies and government grants	52.176	45.363
a) WEG Amazônia S.A.	810	287
ICMS incentive credit of 90.25%	378	287
Corporate Income Tax (IRPJ) 75.0% reduction	432	-
b) WEG Linhares Equipamentos Elétricos S.A.	40.844	31.636
ICMS incentive credit of 85.0%	31.935	27.848
Corporate Income Tax (IRPJ) 75.0% reduction	8.380	3.549
Corporate Income Tax (IRPJ) 30% reduction due to reinvestment	504	214
Municipal investment	25	25
c) WEG Logística Ltda.	10.522	13.440
ICMS incentive credit of 75.0%	10.522	13.440

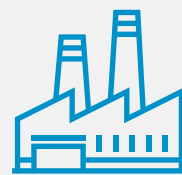
There are no contingencies related to the aforementioned subsidies, and all of the conditions for obtaining government subsidies have been met.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

29. INFORMATION BY SEGMENT

	BRAZIL				FOREIGN		ADJUSTMENTS		CONSOLIDATED	
	Industry		Energy							
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Revenue from sale of products/services	4.341.305	4.700.831	2.185.202	2.340.554	5.585.702	5.392.751	(2.745.201)	(2.673.813)	9.367.008	9.760.323
Earnings before income taxes	1.427.489	1.660.055	841.155	754.738	630.995	550.643	(1.620.125)	(1.661.708)	1.279.514	1.303.728
Depreciatin / Amortization / Depletion	182.700	178.146	64.237	57.880	96.320	83.332	-	-	343.257	319.358
	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Identifiable assets	2.967.103	3.060.016	1.735.504	1.932.281	3.871.977	4.473.753	(192.857)	(206.723)	8.381.727	9.259.327
Identifiable liabilities	867.463	786.328	614.173	455.813	1.317.424	1.568.739	(635.228)	(631.202)	2.163.832	2.179.678

**INDUSTRY:**

single phase and triple phase motors with low and medium tension, drives and controls, equipment and services for industrial automation, paints and varnishes.

**ENERGY:**

electricity generators for thermal and hydraulic power plants (biomass), hydraulic turbines (PCHs), transformers, substations, wind power generators, control dashboards, integration services of renewable and distributed energy systems and solutions.

**FOREIGN:**

composed of operations carried out by subsidiaries located in various countries.

The adjustment and elimination column includes the eliminations applicable to the Company in the context of the Consolidated Financial Statements.

All operating assets and liabilities are presented herein as identifiable assets and liabilities.

WEG S.A.**NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016**

Amounts in thousands of Reais, except otherwise stated.

30. EARNINGS PER SHARE

A) BASIC

The calculation of basic earnings per share is performed by means of dividing the net income for the year attributable to the holders of the Company's ordinary shares, by the weighted average number of ordinary outstanding shares for the year.

	12/31/2016	12/31/2015
Earnings attributable to the Company's shareholders.	1.117.624	1.156.065
Weighted average number of outstanding ordinary shares (adjusted including splitting) held by shareholders (shares/thousand)	1.613.245	1.613.063
Basic earnings per share - R\$	0,69278	0,71669

B) DILUTED

Net earnings per share is calculated by dividing the net earnings attributable to Company's holders of ordinary shares by the weighted average number of outstanding ordinary shares for the year plus the weighted average number of ordinary shares that would be issued upon the conversion of all potential diluted ordinary shares into ordinary shares.

	12/31/2016	12/31/2015
Earnings attributable to the Company's shareholders.	1.117.624	1.156.065
Weighted average number of outstanding ordinary shares (adjusted including splitting) potentially diluting held by shareholders (shares/thousand)	1.614.188	1.614.269
Diluted earnings per share - R\$	0,69238	0,71615

31. STATEMENT OF COMPREHENSIVE INCOME

The Company and its subsidiaries present as other comprehensive income the amounts of accumulated conversion adjustment and hedge accounting operations. These amounts are not taxable. The presentation of the statement of comprehensive income is required by means of CPC 26 - Presentation of Financial Statements (R1) – and it includes all other comprehensive income that correspond to revenue and expense items which are not recognized in the statement of profit or loss as required or authorized by the pronouncements, interpretations and guidance issued by the Committee for Accounting Pronouncements (CPC).

WEG S.A.
NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

Amounts in thousands of Reais, except otherwise stated.

BOARD OF DIRECTORS

Décio da Silva - Chairman
Nildemar Secches - Vice Chairman
Dan Ioschpe
Martin Werninghaus
Sérgio Luiz Silva Schwartz
Umberto Gobbato

EXECUTIVE BOARD

Harry Schmelzer Junior - CEO (Chief Executive Officer)
André Luis Rodrigues - CFAO (Chief Administrative and Financial Officer)
Carlos Diether Prinz - Officer - Transmission and Distribution
Eduardo de Nóbrega - Officer - Energy
Hilton José da Veiga Faria - CHRO (Chief Human Resources Officer)
Luis Alberto Tiefensee - Officer - Motors
Luis Gustavo Lopes Iensen - International Department Director
Manfred Peter Johann - Officer - Automation
Paulo Geraldo Polezi – Chief Finance and Investors Relations Officer
Reinaldo Richter - Officer - Paints
Wandair José Garcia - Chief Information Technology Officer
Wilson José Watzko - Chief Controlling Officer

ACCOUNTANT

Homero Fabiano Michelli
CRC/SC 025355/O-2
TAX ID No. 850.936.709-44

**STATUTORY AUDIT COMMITTEE
INCUMBENTS**

Alidor Lueders
Paulo Cesar Simplicio da Silva
Vanderlei Dominguez da Rosa

DEPUTIES

Aramis Sa de Andrade
Ilário Bruch
Paulo Roberto Franceschi



INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors and Management WEG S.A.
Jaraguá do Sul - Santa Catarina (SC)

OPINION

We have audited the individual and consolidated financial statements of WEG S.A. ("the Company"), respectively referred to as Parent and Consolidated, which comprise the statement of financial position as at December 31, 2016 the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the WEG S.A. as at December 31, 2016 and of its individual and consolidated financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

BASIS FOR OPINION

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

• VALUATION OF THE GOODWILL RECOVERABLE VALUE

As per notes 2.2, 11 and 13, the Company has a significant amounts of goodwill recognized in intangible assets, which originated in the various acquisitions performed by the Company. According to the accounting standard, whether it exists or not, at any sign of impairment, the Company should test, on a yearly basis, the goodwill paid as a result of expectation of future profitability.

The Company assesses on an ongoing basis the assumptions that provide support to the profitability estimates of the cash generating units (CGUs) to which the goodwill is allocated, as of discount rates, in addition to the revenue, costs and profit margin growth.

Due to the uncertainties inherent in the definition process of estimates used to determine the amount in use provided by the Cash Generating Units (CGUs) deriving from its future cash flows and discount at present value, which are the basis for valuing the recoverable value of the Cash Generating Units (CGUs), and the impact that possible changes in the assumptions used in those estimates might have on the financial statements, we consider that this is a significant matter for our audit.

INDEPENDENT AUDITORS’ REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors and Management WEG S.A.
Jaraguá do Sul - Santa Catarina (SC)

HOW OUR AUDIT ADDRESSED THIS MATTER

With the support provided by our specialists in corporate finance, we assessed the assumptions and methodologies used by the Company in the preparation of the studies that underpin the analyses of goodwill recoverable value, particularly those used in the preparation of cash flow forecasts such as revenue, costs and profit margin growth. We compared them with the data obtained from external sources, such as forecast economic growth, costs inflation and discount rates, and carried out a sensitivity analysis of those assumptions made by Company.

We also carried out the analysis of reasonableness of mathematical calculations and assessed the appropriateness of disclosures made by the Company.

• **BUSINESS COMBINATIONS**

As per notes 2.2 and 13, during the course of 2016, the Company recorded the business combination. The evaluation of the consideration requires judgment, due to the sensitivity of the assumptions, such as the fixed-line service life, the indicators of revenue growth, expenses and discount rates adopted in cash flow projections, among others. And liabilities. Due to the estimates and judgments used by the Company and its legal advisors to determine the fair values to be allocates in assets and liabilities, we understand that this is a significant matter for our audit in consolidated financial statements.

• **HOW OUR AUDIT ADDRESSED THIS MATTER**

Com o auxílio de nossos especialistas em finanças corporativas, avaliamos as principais premissas e metodologia With the assistance of our specialists in corporate finance, we assessed the assumptions and methodologies used by the Company and its legal advisors in the determination and appropriate recognition of the fair value of assets and liabilities acquired, based on our knowledge of the entity acquired and the industry in which it operates, and compared the estimates and judgments with the independent calculations performed based on external and historic data in order to analyze the reasonableness of the fair values determined. We also assessed the appropriateness of the disclosures made in the financial statements.

OTHER MATTERS

STATEMENTS OF VALUE ADDED

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company’s management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company’s financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

OTHER INFORMATION ACCOMPANYING THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT

Management is responsible for the other information comprising the management report. Our opinion on the individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Brazilian accounting practices and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and subsidiaries financial reporting process.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Joinville, February 03, 2017

KPMG Auditores Independentes
CRC SC-000071/F-8

Original report in Portuguese signed by
Marcelo Lima Tonini
Accountant CRC PR-045569/O-4 T-SC

WEG S.A. FINANCIAL STATEMENTS REPORT OF SUPERVISORY BOARD

The Supervisory Board of WEG S.A., performing its legal function, has examined the Management Report, Financial Statements as of 12/31/2016, and the proposals of the Management for: (a) allocation of Net Profit; and (b) Plan Investment / Capital Budget, based on the tests and clarifications offered by the Management, by the representatives of the Independent Auditors, and also based on the report of KPMG – Auditores Independentes on the non-qualified Financial Statements dated 02/03/2017, opines that these documents are in condition to be examined and voted at the Annual General Meeting.

Jaraguá do Sul (SC), February 21, 2017.

**ALIDOR LUEDERS
PAULO CESAR SIMPLICIO DA SILVA
VANDERLEI DOMINGUEZ DA ROSA**

STATEMENT

Through this instrument, the CEO and other Officers of WEG S.A., a publicly owned company, with head office at Avenida Prefeito Waldemar Grubba, 3300, registered under CNPJ (Brazilian IRS Registry of Legal Entities) No. 84.429.695/0001-11, for the purposes described in items V and VI of Article 25 of CVM instruction 480, of December 7, 2009, hereby state that:

- (i) Reviewed, discussed and agreed with the opinions expressed in the report of KPMG, dated February 3, 2017, regarding the financial statements of WEG SA and consolidated for the year ended December 31, 2016, and
- (ii) Reviewed, discussed and agreed with the financial statements of the WEG SA and consolidated for the year ended December 31, 2016.

Jaraguá do Sul (SC), February 3, 2017.

Harry Schmelzer Junior - CEO
André Luis Rodrigues - Vice-CEO and IRO
Antônio Cesar da Silva - Marketing Officer
Carlos Diether Prinz - Transmission and Distribution Officer
Eduardo de Nóbrega - Energy Officer
Hilton José da Veiga Faria - Human Resources Officer
Luis Alberto Tiefensee - Motors Officer
Luis Gustavo Lopes Iensen - International Department Officer
Manfred Peter Johann - Automation Officer
Paulo Geraldo Polezi – Finance and Investor Relations Officer
Reinaldo Richter - Paint Officer
Wandair José Garcia - Information Technology Officer
Wilson José Watzko - Controllershship Officer

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G4-31: Contact for frequently asked questions regarding the report	sustentabilidade@weg.net
G4-32: Inform the ‘I agree’ option chosen by the organization	In order to prepare this Report, we followed the guidelines of the Global Reporting Initiative (GRI), version G4, “Essential” option.
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GENERAL COORDINATION

Harry Schmelzer Jr. - CEO

INFORMATION ANALYSIS

Information Disclosure Committee

CONTENT AND PUBLISHING COORDINATION

Corporate Sustainability Team

COORDINATION OF PUBLISHING AND GRAPHIC PRODUCTION

Corporate Marketing Section

DIRECTION OF ART AND GRAPHIC DESIGN

Compreendo Comunicação

PICTURES

WEG Group Files

THANKS

To all employees and stakeholders who took part in the preparation of this report.



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