Operator:

Good afternoon. Welcome to PDG's 2Q16 results conference call and 1H as well. With us today we have Mr. Márcio Trigueiro, CEO, Mr. Maurício Teixeira, Finance and Investor Relations Vice-President Officer, and Mr. Antônio Guedes, Operations Vice-President Officer.

We would like to inform you that this presentation is being recorded and everybody is in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a Q&A session for analysts, when further instructions will be given. Should any participant need assistance during this call, please press *0.

We would like to inform you that questions will only be made through the telephone. If you are connected to the webcast, your question should be sent directly to the IR team, through the e-mail ir@pdg.com.br.

This presentation followed by slides will be simultaneously transmitted through the Internet at www.pdg.com.br/ri. A slide presentation for download is also available on the webcast platform.

Before proceeding, let me mention that forward-looking statements made during this conference call with respect to PDG's business perspective, as well as projections, operation and financial targets regarding its growth potential are forecasts based on the management's expectation. These statements may be subject to risks, uncertainties, as they refer to future events, therefore depend on circumstances that may or may not occur. Investors should bear in mind that the general economic scenario of the industry and other operating factors could also affect the future performance of PDG and cause the results to be materially different from the future results expressed in such forward-looking statements.

I would like now to turn the conference over to Mr. Marcio Trigueiro, CEO, who will start the presentation. Please, Mr. Trigueiro, you may proceed.

Marcio Trigueiro:

Good afternoon. Thank you everybody for your participation. I will talk about the highlights and then I will give the floor to Guedes and Mauricio.

A highlight of the 2Q, we continue the reduction of net debt, R$270 million, almost R$400 million during. We are reducing the G&A quarter after quarter, as we mentioned before. Sales were weaker than what we expected, they were around R$345 million, with net sales of R$77 billion in 2Q, and in the semester R$750 million approximately.

We also had a good performance in cash sales, R$64 million in the quarter, 20% of the sales, I believe this is a good margin and we will continue growing to have more sales in cash.

We also had a reduction of cancellations, and in our understanding this is due to the management job of the Company, and also because of perhaps more difficulties in executing some of the cancellations. We believe that we will see an improvement over time. Nevertheless, not necessarily we are in a stabilized route of cancellations.

Now, leveraging of the Company, we are reducing it, we had a sale of REP that relevantly reduced the indebtedness of the Company, and we have two companies that we sold and reduced the debt, and reduced R$52 million in cost to be incurred.

Regarding the restructuring, on page five, we practically concluded all the debt restructuring process, including documents that were signed yesterday, and with this we have five great creditors, Banco do Brasil, Bradesco, Itaú and Caixa, and Votorantim bank, with which we already totaled our corporate debt renegotiation and extended it for four years. And we have concluded a negotiation, but we are formalizing a number of contracts regarding our production.

So, we concluded the renegotiation of 74% of the debt of the Company, but there are a number of negotiations that have been carried out from the beginning of the process since last year with other creditors, extending the debt. So, the debt restructuring as a whole, it is in the final stage.

As a highlight in the restructuring, we also have the support from the banks and Vinci for a 12-month period to give support to the Company in general and administrative expenses. We have a financing line about R$100 million from Vinci, of which R$50 million have already been disembursed in the Company's account, and we have the possibility to have more R$50 million.

On page six we have the reduction of the net debt of the Company that continuously takes place for eight quarters, and within this quarter we also had a very important impact of the sale of REP that was very good for us, because this isn't one of the Company's businesses that has another dynamic of performance, as well as other creditors, and wanted to pull out of business to simplify the Company and operation.

At last, on page seven, this is an update of the NAV of the Company, which is R$2.8 billion, and therefore we have an asset, R$9 billion, in stock R$2.7 billion, receivables of R$5 billion and lands R$1.3 billion. Guedes will show you in details what our stock is made of.

And at last we would like to highlight the incurring cost of the Company, that in a given moment in history was R$7 billion, and today is lower than R$700 million for all the projects of the Company.

Now, I give the floor to Guedes, who will talk about asset management and sales performance.

Antonio Guedes:

Good afternoon. So, we are going to start on slide seven. Adding to what Marcio said, gross sales, R$345 million, a drop of 33% vis-à-vis the same period last year, and 14% in the quarter, R$748 million in gross sales.

The highlight here is that 87% of gross sales approximately, R$650 million are of delivered units. This creates immediate cash inflow. This is very important.

Regarding cancellations amount, there was a reduction during the 2Q16 vis-à-vis the same period last year of 40%. The net sales totaled R$77 million, up by 8% against the same period last year.

On slide eight, regarding the VSO, we see a drop of VSO during the 1Q and the 2Q. This is aligned with what the market has been suffering. Despite this, we believe our sales market is highly resilient, and we will be able to maintain ourselves within what is expected. 60% of the sales of the Company were by the PDG team.

Now, regarding cash sales on slide nine, we are aligned with last year. We had during the 1H15, R$156 million sales cash, and now we have R$150 million this year.

Now, on page ten, here we have resale of cancellations. We have an average resale of 21% in the 2Q, but the important fact is that we maintained in the last 12 months, 80% of resale of cancellations, which is something very positive.

Now, on slide 11, our accounts receivable, there was a R$590 million received and a reduction of R$470 million in accounts receivable in the quarter, from R$5.6 billion in the end of the 1Q16 to R$5.1 billion in the end of 2Q16, and there is a reduction of R$780 million in accounts receivable.

Now, in the quarter, summed of accounts receivable and inventory down by R$577 million in 1Q and R$1.2 billion in the 1S16. This reduction showed that the Company has been monetizing its assets overtime. We will continue to focus on inventory sales and on transfer in order to speed the monetization of our assets.

Here we have the quality of our inventory. Inventory in the end of the 2Q was R$2.7 billion, and here what we would like to highlight, the 67% in residential products, excluding Minha Casa, Minha Vida, land slots and commercial, 49% is concluded, inventory immediate cash generation. 66% are in São Paulo and in Rio de Janeiro, 92% of the concluded inventory corresponds to projects with more than 60% of units sold.

The other slide, we talk about the quality of our inventory. Here we have 58% of total inventory excluding commercial units located in São Paulo and Rio de Janeiro. Now, the average sales speed of the inventory outside of Rio de Janeiro and São Paulo, was 18%. This means it has good liquidity.

Mauricio Teixeira:

Good afternoon. As Marcio mentioned in the beginning, this has been the eighth consecutive quarter where we have been lowering our net debt. We reduced R$270 million, and R$214 million in the deconsolidation after we sold our shopping center company and R$56 million in current operations.

With this we can see that the accumulated period, we have been reducing our liabilities and debt. And we have reduced over R$2 billion in net debt, and considering this period I believe our cash position was superior. We have reduced R$2 billion, a very important nominal value.

On the next slide, we can see our expanded leverage that includes cost to be incurred. Here we can see that we reduced, in the first moment, the cost to be incurred, after the end of the works, today it is around R$700 million; the SFH is the first served after the work, and in the corporate debt that in nominal terms is very stable, and that it will be served after we pay the SFH.

The deleverage since 2012 of R$13 billion, we have already reduced R$7.6 billion, now it is R$5.9 billion.

Another initiative, in addition to asset monetization, slide 17, is the G&A expenses. We can see that the G&A of the Company dropped 16% year over year, and quarter over quarter, 19%. We are adapting the size of the operation to the size of the Company. Also we reduced 11% of our headcount in 2Q. If we compare one year ago, our headcount was reduced 60%.

Commercial expenses fell, so the SG&A regarding commercial expenses went down 26% year over year.

Here we can see ongoing projects and costs to be incurred. Here we have reduced only in the last quarter 7 projects, two were sold and the other ones were concluded. Today, we have 35 ongoing projects, and we have also an incurring cost of R$697 million.

Here we are talking about sales assets and debt restructuring. We have sale of our entire stake of 58% of REP, paid with 26 real estate units located in the city of São Paulo, at a value of R$34 million, and we reduced R$214 million in PDG net debt. There is also an accounting write-off of R$120 million and other operational expenses.

In addition to this, the sale of two projects to BVEP, there were a number of projects that we had an agreement to sell with BVEP. We sold two projects for R$10 million, we reduced the debt in R$10 million, reduction of the Company's costs to be incurred of R$52 million, and as in the relevant fact, we are not going to sell any more projects, so we can negotiate with other creditors with a value that we believe is proper.

Now, debt restructuring. We concluded yesterday the debt renegotiation after one year, when we started this process. We concluded this renegotiation with two parts. One would be the rollover of the debt, with the four great creditors that had an MOU of R$2.3 billion of corporative debt, and R$1.1 billion is related to the construction financing agreement. And, in addition, the R$565 million of the 11th debenture issued, with Votorantim bank.

So, we have renegotiated R$4 billion with our creditor, and in addition to extending our debt, we reached two targets: a new financing for the G&A of the Company. So, we signed with the four creditors, banks, a financing agreement that we calculate that will be reimbursed in the next 12 months, R$200 million. And with Vinci Partners, one of our shareholders, a financing of R$100 million. R$50 million have already been disembursed.

On page 22 we can see that here we have our debt restructuring, the amortization schedule, so as that goes up to 2020, and there are debts that some are being negotiated, some will be self-liquidated selling the assets. Therefore, we will have a long-term flow and we will not have as much pressure as we had one year ago.

On slide 24, the income statement, there was a net loss of R$740 million. We suffered a lot with cancellations, and with the cost of the debt.

And this quarter, something that draws our attention is other operating expenses. Our shareholders have a question that we want to clarify. We had R$120 million write-off of REP, the difference between the value of the sales. In it, we had, R$120 million accounted, R$130 million of contingencies provisioned, and R$70 million of readjustments of write-offs participation, something that we sold to some partners, with total of R$391 million compared to R$46 million, which was what we had in 2015.

On the upcoming slide, Marcio already talked about this. We would like to say that this is a Company that has R$9 billion in assets and R$6.3 billion, the current NAV is R$2,750 billion, that is the net assets regarding our liability.

So I thank everybody and we are now open for questions.

Marcelo Motta, JPMorgan:

Good afternoon, everyone. Two questions. The first question is if you could talk more about the debt renegotiation. I do understand it is going to be very important in terms of interest rate. What are the average interest rates, the conditions, is there possibility to pre pay?

I would like to better understand if the conditions are the same for all the banks, and what has been the cost of the new debt, the new debentures, if you are expecting something different. If with the Selic drop you will have more space for refinancing the leverage.

Also, if you could talk about your operating expenses to see if we understood all the R$120 millions of write-off from REP, R$130 million from provisions, and also more of adjustments of SPEs, I think they were R$70 million. I think this is more or less what you said.

Mauricio Teixeira:

Marcelo, the conditions of the banks are the same in terms of rates and deadlines. They are self-monetized, because as the guarantees that were given for each one of the banks. As soon as we sell and receive this guarantee, this will self-monetize and self-liquidate the debts of the bank.

So, if during four years it does not have the right to receive anything beforehand. If the bank has stock or landplot, as this comes into our cash, we can transfer this directly to the bank, and we amortize the debts. So there are banks that will perhaps receive this before the four years.

Now, regarding the adjustments, R$130 million in contingencies. We had R$120 million write-off of REP, the difference between the value of the sales. In it, we had, R$120 million accounted, R$130 million of contingencies provisioned, and R$70 million of readjustments of write-offs participation, something that we sold to some partners.

Marcelo Motta:

Thank you very much.

Luis Mauricio Garcia, Bradesco:

Good afternoon, everyone. My first question regarding the cost to be incurred. Between the 1Q and 2Q, we believe that the ratio when discount, the effect of the sale, you were talking about R$52 million, it was very low. If you could make comments on this. I would like to know why the execution level was flat between 1Q and 2Q.

And the second point would be from the strategic point of view, how does the Company see the future? What is the Company's agenda like? Is it monetization of assets and liquidation or will the Company have an agenda of resuming activities in development and to be a strong player in the market? What is your agenda from here on?

Mauricio Teixeira:

I will answer your first question and Marcio will answer your second question. Regarding the evolution of incurred costs, during the renegotiations with banks, we need SFH. And there was retention in order to continue working at the pace we wanted to work in.

This is being normalized and now with the conclusion of the renegotiations of the banks, we will be able to see a quick development and the evolution of our construction work.

So we have concluded construction work where the licensing was very close to being approved. So now we are accelerating in order to reduce this amount. Now I give the floor to Marcio for the strategic part.

Marcio Trigueiro:

Good afternoon. Now, regarding our future, what we have is one thing at time. For example, we had to carry out the Company's restructuring. We added the negotiation. We started and it ended in May. From there on, we have not renegotiated anything relevant, but documents with hundreds of pages with number of banks.

Well, this took a long period of time, but I believe this is a crucial stage that we had to fulfill. But now, for example, we have a very important stage that we have to complete, which is to reassure the financing of the construction work that we have. Some have been interrupted. We have to complete and deliver them, go back to normal life in business as usual and also monetizing our assets.

Now when we see the long-term, I believe this is something that we will have to do throughout the upcoming months. As we conclude the missing part that I just mentioned, and then we will continue talking to banks, shareholders, the board of the Company to see what would be the most correct path to follow.

This is not something we can see clearly right now, because we are focused on restructuring and monetizing our assets and I believe we still have some months to complete this cycle.

Luis Mauricio Garcia:

Thank you very much.

Operator:

The Q&A session has come to an end. I would like to give the floor to Mr. Marcio Trigueiro, for his final statement.

Marcio Trigueiro:

Well, I would like to thank everybody for their participation and our IR department is at your disposal to answer any questions. Thank you very much.

Operator:

Thank you very much. PDG's 2Q16 and 1H16 conference call has come to an end. Please disconnect your lines right now and have a very good day. Thank you very much.

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