Operator:

Good morning. Welcome to the PDG teleconference concerning the results of Q4 and year 2017. We have Mr. Vladimir Ranevsky, Chief Executive Officer, Finance Executive Vice-President and Chief Investor Relations Officer with us today.

Please note that this teleconference is being recorded and all members will only hear during the Company presentation. Then we will start the questions and answers session for analysts, when additional instructions will be supplied. If anyone needs any assistance during the conference, please request the support of an operator by typing *0.

We'd like to inform that questions may be only asked by telephone. If you are connected via webcast, your question should be sent directly to the RI team of PDG via email ri@pdg.com.br.

The audio and the slides of this teleconference are being simultaneously transmitted over the Internet, at the address www.pdg.com.br/ri, and on the MZiQ platform, www.mzip.com. The corresponding presentation is available at this address for download on the webcast platform.

Before we proceed, we'd like to clarify that any statements that may be made during this teleconference in relation to the PDG business prospects, operating and financial projections and goals reflect beliefs and assumptions of the Company's Executive Board and currently available information. They involve risks, uncertainties and assumptions, because they pertain to future events and, therefore, they depend on circumstances that may or may not materialize. Investors should understand that general economic and industry conditions and other operating factors may affect the future performance of PDG and lead to results that materially differ from those expressed in such future considerations.

Now we'd like to give the floor to Mr. Vladimir Ranevsky, Chief Executive Officer, who will start the presentation. Mr. Vladimir, you may proceed, please.

Vladimir Ranevsky:

Thank you. Good morning everyone, and thank you for your interest in our teleconference.

Last year, 2017, was undoubtedly the most important and challenging period in the PDG restructuring process. As everyone remembers, in February 2017 the Company filed for court-supervised reorganization, for the purpose of continuing to advance in the restructuring proceeding in an orderly manner and with previously defined terms and procedures.

After the petition for court-supervised reorganization was granted early in March, the Company, together with its advisors, started the process of the plan development with long negotiation rounds and meetings with major creditors in order to deliver a plan capable of accommodating the requirements of said creditors, while enabling the balance and continuation of PDG.

Accordingly, on November 30, 2017, only nine months after the petition for court-supervised reorganization was filed, the plan was approved at a creditors' meeting and was ratified on December 18, 2017. The approved plan addresses the recovery means whereby we believe it will be possible to equate the cash flow mismatches, keep operating normality, and enable continuation of the momentarily stopped works.

We remind that the means established for the Company's recovery include: resizing of the business of the PDG Group, restructuring of the debts subject to court-supervised reorganization, raise of new funds, and disposal of assets in accordance with the dynamic presented in the plan.

There is no doubt that the court-supervised reorganization proceeding of PDG has represented since the beginning an unparalleled milestone, because it involved unprecedented terms and amounts in the recent history, considering the following aspects: the plan was developed, negotiated, approved and ratified in little more than nine months after the petition for the Company's reorganization was filed.

Overall, the petition for reorganization encompasses approximately 512 companies of the PDG Group, a significant number of companies. The plan was approved by the creditors in all credit classes; overall, more than 20,000 creditors had their credits renegotiated, and the amount of the restructured credit exceeded R$4.6 billion.

Therefore, we will start now our agenda for today with a summary of the operating highlights. Then I will provide you with an update on the Company's court-supervised reorganization proceeding and its impacts, and I will also talk about the tax regularization programs and finally I will present the main financial and operating results of the Company.

Moving to slide four, we will present the main facts occurred this quarter. As I said before, on November 30, 2017 PDG approved its Court-Supervised Reorganization Plan at the creditors' meeting and restructured R$4.6 billion in debts.

As a result of the approval of the reorganization plan, there was a reduction of R$818 million in the gross debt, in addition to its extension to up to 25 years. Considering the fair value adjustment, FVA, the Company's debt was reduced by R$3.1 billion. We will discuss these figures in more details during the presentation on the court-supervised reorganization.

As a result of the adhesion to the tax regularization programs, PERT and PRT, the Company achieved an additional reduction of R$323 million in taxes payable.

In the operating area, the general and administrative expenses decreased by 35% compared to Q4/16 and Q4/17. In the comparison between years 2016 and 2017, the reduction was 34%. Regarding the commercial expenses, they fell 72% compared to Q4/16, and 79% compared to years 2016 and 2017.

Moving to slide six, we will show the status of the court-supervised reorganization. Only as a reminder, we filed the reorganization petition on February 22 and it was granted on March 2. After the plan representation in September, we started the works to prepare the creditors' meeting, which was held on November 30, 2017.

As a result of the meeting, little after nine months after the petition for court-supervised reorganization had been filed, the plan was approved by creditors in all credit classes, with more than 20,000 creditors having their credits renegotiated, and the amount of restructured credit exceeded R$4.6 billion.

In slide seven, we present the new debt structure of PDG. In the chart of the slide, it is possible to note that the Company's banking debt was reduced by R$3.1 billion between Q3/17 and Q4/17. Out of the total of R$4.6 billion in debts restructured as part of the reorganization plan, which considers the pre-bankruptcy debts, R$3.3 billion correspond to banking debts, i.e., debts which were being classified in the Company's gross debt.

As a result, the gross debt, not considering labor debts, suppliers and other non-banking debts, was reduced from R$5.8 billion in Q3/17 to R$2.7 billion in Q4/17.

This portion of the remaining debt, i.e., the portion of the plan that was not restructured and that totalizes R$2.7 billion, which we refer to as first-priority debts, is being negotiated with each creditor individually. We will talk about this debt portion in next slide.

In slide eight, we show how the pre-bankruptcy debts are structured. If we observe the first column of the chart, we will see the total restructured debts in the Company's Court-Supervised Reorganization Plan, i.e., the R$4.6 billion, which we refer to as pre-bankruptcy debt, like I said. This amount includes the banking debts, in the amount of R$3.3 billion, and the other debts, in the amount of R$1.3 billion, such as, for example, debts with suppliers, contingencies and other.

The recovery of fines and interest relating to previous periods totalized R$818.5 million. As a result, the restructured debt now totalizes R$3.8 billion.

Now I will explain the amount of R$2.9 billion showed before, which significantly reduced the Company's debt and had a considerable impact on our result. According to the definition of the CPC 38 on financial instruments, acknowledgement and measurement, when there is a substantial change in the terms of existing financial liabilities or part of them, the Company must record the extinction of the original financial liabilities and acknowledge the new liabilities at fair value. The difference ascertained between these liabilities must be recorded in the result of the ascertainment period.

As a result, after the Company calculated the fair value of its debt at present value, it recorded this result with a positive adjustment of R$2.9 billion. The calculation methodology, as well as the original debt balance and the debt balance at fair value, are included in note 13 of our financial statements.

After the debt adjustment at fair value, interest accrued in the period, in the amount of R$12.9 million. As a result, considering all effects previously mentioned, the fair value of the pre-bankruptcy debts was R$837.7 million at the end of December 2017.

I want to emphasize that the debt reduction relating to the debt conversion into equity, in the amount of R$74.2 million, has not been recorded yet and is not shown on the chart or in the financial statements. The impact of the conversion will only take place after ratification of the capital increase, which is expected to occur in May.

Moving to slide nine, we will talk a little about the first-priority debts, i.e., the debts not subject to the reorganization plan. If we consider all effects arising out of the approval of the Company's reorganization plan, the pre-bankruptcy debts ended the year in the amount of R$2.7 billion. These debts are being renegotiated with each creditor individually.

I want to highlight that practically all these first-priority debts have guarantees, either by means of fiduciary sale, assignment of credit rights, mortgage or equipment, as may be noticed in the table on the right of the slide. These debts will be amortized to the extent that the assets as guarantee are monetized.

Now moving to slide ten, I will comment on the impact of the provision for litigation, resulting from the approval and implementation of the Company's reorganization plan. By the end of 2016, the total provisions for probable contingencies totalized R$1.057 billion. After the adjustments arising out of the plan approval, R$735 million were reclassified to the account of obligations payable of the Court-Supervised Reorganization Plan.

As a result, the remaining balance of the provisions totalized R$575 million by the end of 2017, because new actions were filed. Out of this total, R$328 million, if materialized, are subject to the conditions established in the Company's reorganization plan, which provides for payment in up to 20 years. The same rationale applies to the possible contingencies, recorded on the right side of the table, of which R$390 million are also subject to the plan.

I will now comment on the adoption by the Company of the tax regularization programs PRT and PERT last year. In slide 12, we see the impact of adoption of the regularization programs, whereby the Company achieved cash savings of R$323 million in taxes payable. So far there was the payment of R$19.5 million, and the amount payable is R$8.1 million.

Now talking about financial and operating results, in slide 14 we see the sales result. Since the petition for court-supervised reorganization, the Company adopted a sales strategy focused on sales in cash, on sales of units free of burden and units the funds of which may be used for payment in the specific-purpose company (SPE) itself. The gross sales achieved R$94 million in Q4/17, 154% more than in Q3/17 and 72% less than in Q4/16. In year to date, the gross sales totalized R$275 million, a reduction of 81% compared to 2016.

The increase in gross sales during Q4/17 occurred mainly to the sales effort of our own team. In Q4/17 R$14 million were terminated, 82% less than in Q3/17 and 92% less than in Q4/16. In 2017, the mutual rescissions totalized R$344 million, 69% smaller than 2016.

The net sales totalized R$80 million in Q4/17, reversing the negative net sale presented during the 9M17. In year to date, the net sales were R$-69 million.

In slide 15, we talk about the Company's G&A, which showed a reduction of 35% between Q4/16 and Q4/17, and a reduction of 34% compared to 2016 and 2017. In Q4/17, we reduced the total number of employees by 28% compared to Q3/17, and by 69% compared to Q4/16.

Over Q4/17, the general and administrative expenses together with commercial expenses, which we refer to as SG&A, showed a decrease of 56% compared to Q4/16. In the comparison between 2016 and 2017, the fall was 52%. For the purpose of continuing with the deleveraging process and adjustment to the operation size structure, we continued to endeavor efforts in cost reduction and productivity gains.

Now talking about inventories, in slide 16 we ended 2017 with a total inventory assessed as R$2.2 billion. Out of this total, 61% are residential products, excluding “Minha Casa Minha Vida”, allotments and commercial properties. 44% out of the total inventory are already completed and, therefore, are immediate cash generators for the Company. Out of the total inventory ready, 60% are located in São Paulo and Rio de Janeiro, and 90% are concentrated in projects with sales ranges in excess of 60%.

In slide 17, we have the income statement, in which I highlight the main variations. The improvement in the real estate sale line reflects the improvement in sales recorded during Q4/17, in addition to the result of the sale of some plots of land over the year.

The line of positive financial result by R$3.4 billion reflects mainly the recovery of fine and interest in the amount of R$818 million and the fair value adjustment of the debts, as previously discussed, in the amount of R$2.9 million.

The line of income tax and social contribution reflects the impacts of the adhesion to the tax regularization programs by the Company's and the deferred tax on the fair value adjustment of the debt.

Finally, the Company's result, considering all impacts arising out of the implementation of the reorganization plan, was R$1.3 billion in Q4/17 and R$173 million in year 2017 to date.

I want to emphasize that our focus this year will be the implementation of the court-supervised reorganization plan, which is an extremely important step for our Company, and the gradual resumption of the regular activities of our PDG Group.

This is all for today. I want to thank the participation of everyone in the teleconference and wish you a nice day. I’m open for questions, if anyone has any.

Marcelo Mota, JPMorgan:

Good morning. I have two questions. The first one, if you could comment a little bit on the line of other operating expenses during the quarter, which was almost R$1.1 billion, and we see in note 28 of your DFP that, in fact, there is something of impairment, of intangible there. If you could talk about the amount that represented almost a half of this line, which is other balance sheet accounts, if it is something a little more specific. Just to help us understand what happened.

And the second question is: could you talk about the cash generation outlook? This was a quarter which, not considering the debt renegotiation adjustment, the cash flow was still negative. How do you see this line for 2018? What are the measures to accelerate this generation?

Vladimir Ranevsky:

Good morning, Marcelo. In relation to your first question, basically what we had was the inclusion of PDD, of provision for doubtful debtors, and actually impairment, which comprise this line.

In relation to cash generation, our focus, evidently, as we are implementing the plan, is to accelerate that as soon as possible, the sales of the assets which were authorized now; so that we may carry out the sales of what is evidently the assets of the banks.

This is a started process for us, but which always requires the support of the institutions and approval, in many cases of some plots of land or and other type of asset that we need to sell.

But this is our focus. Today we have the things very clear, the definitions and releases have already been made, and we should significantly accelerate our sales of PDG, effectively reinforcing our cash.

Simultaneously, we are also seeking some type of credit to accelerate this cash reinforcement process. I believe that we will be able to achieve that within a reasonable term in the near future. I hope I answered your questions.

Marcelo Mota:

Perfect. Thank you very much.

Operator:

The questions and answers session is closed. I'd like to give the floor to Mr. Vladimir Ranevsky for his final considerations.

Vladimir Ranevsky:

I want to thank everyone again for their participation. And say that we are all very motivated and happy with what we managed to do in 2017, and we are very optimistic and positive in relation to the development of our activities now in 2018.

Best regards everyone, and thank you once again.

Operator:

Thank you. The teleconference of the results of Q4 and year 2017 of PDG is closed. Please, disconnect your lines now.