Operator:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to PDG's 2Q12 earnings conference call. We would like to inform all participants that this conference call and slides are being broadcasted on the website of the Company, www.pdg.com.br/ri, and the presentation is also available for download at the Investor's Information section.

I would also like to inform you that all participants will be in listen-only mode during the Company's presentation. After the Company's remarks, we will start our Q&A session, when further instructions will be provided. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that any forward-looking statements are based on the belief and assumptions of the Company's management and on currently available information to the Company. They involve risk and uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that the general economic conditions, industry conditions, and other operating factors could also affect the future result of the Company and therefore could lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. José Grabowsky, CEO. Mr. Grabowsky, you have the floor.

José Antonio Grabowsky:

Thank you very much and good morning. Thank you very much for attending this call. I am here with Julia Martins, the IR team, and the controllers, to present the earnings result for the 2Q12.

I will start on page three of this presentation, referring to our main problem in the 2Q and the half year as a whole, which were delays in the delivery of units that we had the possibility of receiving the occupancy permit of 39,000 unit which was a 20% raise on the number of units delivered in 2011.

In the 1Q, we were below the forecast, and then if you look at the chart on the right, we only had 3,800 units delivered against a forecast of 33,000, and that is why now the reviewed figures are between 34,000 to 35,000 units throughout the next quarter.

In the 2Q, we improved our performance vis-à-vis the 1Q, delivering 6,400 units. But again, we are below the expectation we had for the quarter, which was to reach 9,700 units and then to be close to the target of 10,000 that we needed to reach the 34,000 to 35,000 in the year period. Therefore, we had to review our delivery plan concerning the 10,000 units that were delivered in the 1Q.

On page four, we can see the new delivery plan that is feasible for 2012, between 28,000 to 30,000 units delivered in the year, which will also represent something on average of around 10,000 units per quarter in the 2H of the year, according to today's expectations; as we can see down below, it will be mostly concentrated in the 3Q and a little bit less in the 4Q.

So this is a more realistic forecast as of today. And for 2013 we will then review the previous number which was between 32,000 to 35,000 units delivered into 2013. And this number is then due to all the units that would be delivered in 2012, but are now going to be delivered in 2013. These delays were due to a certain number of problems. First, because the delays in the works and problems related to documentation and other requirements that we have to comply with in some municipalities that did not allow us to conclude the work and receive the occupancy permit.

And also there were other impacts related to cost that impacted client transfers, that is impacting our cash burn as we will report further on.

On page five, we see the consequences of that review in our plan in all the budgets that we concluded at the end of the quarter. Some 315 job sites in addition to INPC, we had operations in 108 firms, which was R$478 million in our cost, and the bulk of it comes from third-party and partners' work.

On page six, we give you more details about the projects that were reviewed. Most of them refer to launches prior to 2012 and some others were more recent jobs related to third-party and partners' works. In terms of deliveries, the bulk of them will be still delivered in 2012 and there are still some that we will post them from 2012 to 2013.

They are also included in this list. In addition, I have an important piece of information which is the completion of a project. The project is around 71%. They are almost close to completion, all of these works. And the total PSV of the project was R$8.2 billion.

In the next page, we will let you have some information about what we have been doing to minimize the problems in the future. There are some of the things that we mentioned before, but now I have more information for you. This month, in terms of our own work at PDG, has increased and this has already began in 2010, as you can see on the chart below, launches go from 67% of our own works to 80% in 2011 and 92% now in the 1H12.

At the end it is obvious that we have better control of our own work. And it has been easier for us to identify deviations in budget during the construction and not only close to the end of the work, as it happens in the case of third-party work. The second point is the reduction in the number of residential units launched, because that certainly decreases our expectation challenges and delivery challenges.

So as of 2012, we were less exposed to low-income segments in percentage terms and higher share in the mid-income segment. With that we were able to make it more feasible in terms of PSV to increase our launches in 2011. And there was a 13% reduction in the number of units launched when we compare that to 2010.

So, this was a very important thing that happened from 2010 to 2011. In 2012, certainly due to changes in our strategy now because we are focusing more in our internal efficiency in the Company, and also due to further integration and internal improvement. And we are now more concerned with sales rather than launches, which we will refer to later on. The number of units launched in 2012 will certainly be lower when compared to 2011, probably at the most 15,000 units in the total for the year.

Another aspect that we believe will still remain the same is higher concentration in the Southeast region. In the 1Q12, 97% of our launches were concentrated in the Southeast region, but on average in the past few years, this number has increased consistently.

And in the 1H of the year it was 75%, certainly this gives more visibility, all of our projects in the Southeast are our own works, and this gives us tighter control over our projects and also control to improve our concentrated locations where we are more needs to working for a longer period of time.

The other aspect that has already been announced, we are just revisiting the subject because we reviewed our launch guidance at the end of the 2Q when we noticed that in some locations the demand was lower than expected, but we still wanted to keep a good sales level with higher concentration in the Southeast.

So in the 1H of the year we just launched R$1.5 million. So, certainly the guidance for the whole year was revised. And then we also saw that we could get to the end of the year with R$4 billion to R$5 billion. And so, R$1.3 billion, R$1.5 billion in the 2H of the year will be mostly concentrated in the 4Q rather than in the 3Q.

The last aspect or the last point that we talked about before is that in addition to having more work executed by our own engineering team, we also increased our own headcount in all of the works that were conducted by our own team, so as to ensure less turnover of the labor force, so we can also provide further training in a moment where the civil construction industry, I think that the worst phase has already passed in terms of higher demand for labor. But we still experiencing a phase where most companies like PDG, even though we are decreasing the number of launches this year, certainly in terms of execution of the works, we will still experience some peak between 2012 and 2013.

Now I will give the floor to João. And then I will get back to you during our Q&A session.

João Mallet:

Good morning. On slide nine. Due to the results we had a previous negotiation with debentures, the first, the third and the fifth on slide 15. We explain what we did, but basically due to impact in EBITDA caused by the review of the budget, we were not able to comply with some financial covenants.

We negotiated the covenants with possibly everything in compliance. And the other negotiation was well conducted, there were no problems. And today we have adequate debenture conditions and the maturity program is unchanged. The first debenture is R$250 million, the next R$300 million, and then R$600 million. All of that was negotiated, so the pipeline is unchanged.

Next slide, I will give the floor to Julia Martins.

Julia Martins:

Good morning. In this quarter, as we already mentioned during our previous result, we wanted R$404 million. This reduction environment is aligned with the Company's new strategy. And so, we will focus on execution and the delivery of units, and particularly, as Zeca already mentioned, we reviewed our launch guidance to R$4 billion to R$5 billion. And in the 1H of the year we reached R$1.5 billion in launches.

With this new guidance, R$1.5 billion account for 34%, which is a comfortable level if we want to reach the remaining part of it throughout the 2H of the year, aligned with the new strategy with sales and if we want to keep a good pace of sales and also sustainable sales, particularly sales of inventory, we showed R$1.24 billion, and in the half year R$3 billion.

In the quarter, R$1.2 billion or R$1.1 billion referred to the sales from inventories. We began the year, just as a remainder, we started the year with R$5.7 billion in inventory. And by the end of the half year, we had R$4.1 billion. This inventory in construction, only 8% is already performed. So, this a very sound inventory and mostly concentrated, as you can see, 42% refers to delivery by 2014. So, we are in a very comfortable level in terms of absorbing that inventory throughout this quarter and half year.

Going to the next slide, we see the evolution of client transfers. In this quarter, we transferred 2,000 units, and this is a very good number. The scope of our plan of transfers is moving along well. And with all of the new recent developments in delivery did not evolve as expected, this area of client transfers was heavily impacted and it will be again impacted in the next half of the year, with this new pipeline, which will also be impacted with shortages of raw material. But the levels are consistent with what was presented in the 1H of the year and the 2Q.

So, now I will give the floor to João, who will refer to our financial results.

João Mallet:

I am on page 14. Now, as we see with other companies, the idea is that, on the right-hand side, we reported some specific adjustment, and this will allow us to make comparisons with the previous quarter or the same quarter of the year before. And this will allow us to have an idea of all of the impact.

Starting with the right-hand side column, our net income was R$1.062 billion and then R$1.48 million. This was a bit higher than what the past was. There were other impacts, which was provisioned for contingencies and increases in the collateral provisions and maintenance. And this also had implications in the cost.

So 23:1 and 24:1 also impacted our numbers. In terms of margins, the margin reported, it is difficult for me to use it as an analysis because there was a gross negative margin of -19.4% and adjusted -1%, and when we go back to the impact to P&L, it could be more comparable with a gross margin of 17.8%, close to the margin we had in the previous quarter and gross adjusted margin of 26%.

And then there was another adjustment, except both income tax of the adjusted margin in the revenue was negative, here the figure shows positive numbers. So the result was in fact impacted by our budget review, in the rest of the period the result was not very satisfactory, but the major figure was close to budget review.

And one other thing in terms of contingency. Going to the next slide, on page 15. What do we have here? Here we have our indebtedness level and cash position. We have cash burden down below as well.

In terms of cash, what do I think that should not further mention? Everything that relates to delays in deliveries and work reviews do not have an immediate impact on our cash position. Since the 4Q of last year, it was R$1.7 billion and now we are close to R$2 billion. This dynamic of losses in delivery time lines impact in the cash burn but in terms of cash position, if you look at this dynamic, the way it works, this can work as a buffer for that. So, our cash position is even stronger.

And for cash burn I will refer to that in a few moments. In addition to the attrition of the impact, we also experienced reductions throughout the quarter. And I would like to highlight that the volume was driven within R$50 million, with a full-year final term, and the rate was 1.45 to 1.50 a year, which was a reasonable rate for the market according to what we described in the 2Q in terms of our net equity, and that there was an impact because of the negative result in the quarter.

And I would like also to say that we already had a capital rate that has been approved for R$199 million. And this cash rate, the first part will, will be available in this 1H of the year, there was a cash position of R$799 million, and this impacts the shareholders' equity and also our cash position, and this shows what the position of the debt level is.

Our net-debt/equity was 65%. And if we exclude some items, the growth is close to zero. Now if we go back to capital rates, it should be 91%, it is important to say that once we talk to banks and customers, we do not anticipate any bottleneck if we grow growth, we will be able to guarantee the number, as you can see down below in terms of cash burn.

In this quarter, the result was higher when compared to previous quarters. We had approximately R$200 million of additional work invested in this quarter, but also due to the performance in the delivery of units, our cash burn was impacted and it will be negatively impacted throughout the 2H12. So at the end, the number was R$410.3 million, excluding almost R$19 million of investment that we had. Well, which is not an investment factor per se. There is another figure that has to do with delays and more difficulty in terms delivering units. But this is not a figure that refers to our cash position, especially because of the dynamics of SFH.

Now we will go to our Q&A session. So, thank you, ladies and gentlemen.

David Lawant, Itaú:

Good morning, everyone. I have two questions, in fact, two questions about the budget review you had in this quarter. First question, as you mentioned in your release that you have reviewed all the 315 active worksite, I would like to have some more detail from you.

I mean, how comfortable do you feel, how assertive have you been? And to what extent are you sure that all the budget review has already been conducted and we will not have further corrections from now on? This is the first question.

Now the second question is whether you could give us some more information about the future trends for gross margin. Adjusted gross margin about 26%, which would be the number of forward adjustment, if we look at the figures for the 2H12, would this be reasonable, yes or no?

José Antonio Grabowsky:

Yes. Good morning. I will start by the second question, just to make sure that we do not have any gross margin guidance, let alone on a quarterly basis. We had some problems, when we talk about expectations without having the guidance. So unfortunately I will not be able to give you that number.

But I would just like to say that, in terms of a long-term view of certain considering all variations that we have on a quarterly basis in terms of which work moves along faster and what projects are selling better or giving more or less revenues, we would say that as for the rest, the KPIs are very good in the long-term view for PDG.

So, it is a downward adjustment due to the budget in the quarter that I think that is the number that is there, and certainly adjustment will have to be made so that we do not have to look at the numbers in my balance sheet in the quarter. But in terms of the long run, the rest is still a very good indicator, but on a quarterly basis we are not giving short-term guidance.

Now going back to your first question, unfortunately on the everyday we are seeing, sometimes we believe that we have a more adjusted figure, but we have to make adjustments and correction as we are moving along in that more detailed review that was performed for every single worksite in view of the difficulties that we experienced in the 1Q, not only with our own work, but third parties and all other problems that we experienced through our two 1Qs.

So the cost review was conducted by our own team considering the recent parameters and the recent observations of problems and delays in the delivery of units. We were very conservative and when we consider the deliveries and we did it ourselves, we did not have third parties doing this budget review.

In addition, we could see that the review was much more relevant in third-party work, so we see the budget that are going to be delivered now are precisely the third-party works. So we do see a more comfortable that the new works, the most recent launches will not have the same kind of problem. That is why we feel comfortable that we will not need any more budget reviews. That is, the problems were concentrated in the projects that will be delivered now. And the problems are clearly explained. So we do feel comfortable.

In terms of the impact on cash, obviously the delay in deliveries will have a relevant impact, if we had 1Q and 2Qs, we actually lost 61,000 units or 3,100 units that have to be delivered. So, what will be delivered from now on, we have to wait for transferring these client credits to banks, talking about 1,1000 units and they will make adjustments on our cash burn along 2012.

However, I believe that because of the capital raise that has been approved and our current cash position, despite the cash burn in the 1Q and 2Q, the cash position today is higher than in the past. So I believe we will not face any liquidity problems because of it. And obviously there is a delay that we will surely deliver these units. Also we have taken a few measures in terms of reorganizing ourselves internally and reschedule deliveries. We have some G&A reduction, which will already produce benefit, so the situation will be different in 2013.

David Lawant:

With all that reduction in the launches of the Company, because you are not going to launch anything of this year, how are you considering SG&A for the new size of the Company? Because you still had projects as part of the budget of 2008 or 2009. So, has there been any changes now in that plan?

PDG:

No, we may have a change in the future, depending on strategic decisions that we will make from now onwards because, in fact, as I mentioned, in terms of client service and unit deliveries, which is most of the back-office work, we still have in 2012 and 2013 periods of peak. As I said 2013, we aim to deliver 32,000 to 35,000 units. So yes, if we have any reduction in terms of our back-office, it is going to happen after 2014.

In the short-term, we are going to continue the integration effort, and perhaps reposition ourselves in terms of the new level of launches and sales. And so the discussion will take place late 2012, when we talk about our expectations for 2013. We still do not have a clear understanding of our guidance for launches in 2013.

David Lawant:

Thank you.

Felipe Rodrigues, HSBC:

Good morning. Now considering this new sizing, just as you said, in 2013 you do not know exactly what is coming. But considering that size of R$4 billion to R$5 billion in your budget and R$26 billion in land, does not even seem a lot as you are mostly concentrated in the Southeast region.

The second question, I mean, is considering hypothetically the capital raise of R$779 million and excluding short-term debt payment. Is there another priority that this capital raise or this new funding will do, like expediting deliveries or will that also improve the delivery in your pipeline? Thank you.

PDG:

All right. First question I believe that and the strategic review that I mentioned, after the approval of our capital raise, if it is going to happen now in the beginning of September. Again, we will try to observe the market for 2013 and see how we can prepare ourselves better. I believe that if we reach the conclusion that we will be around R$5 billion a year in terms of launches, obviously there may be some opportunities in specific regions where we can have a lower level of activities and try to do something with the land bank. But in the long term our land bank is quite adequate. So, it is quite well aligned with our future plans.

We have partner agreements with some of the owners. And that will develop according to the level of market sales. However, we still have not guided to discuss about that, the renegotiation we conducted so far was for the current scenario. So, we actually changed our land bank. We did not really sell land, it may happen in the future, it has not happened yet.

Now your second question I believe that in the short-term, we do not have short-term debt or very expensive debt that we should prepay, obviously when you have a more comfortable cash position, you have this option. But if you have the capacity to negotiate. So if we have a debt renegotiation or a credit renewal, if we have a good rate than fine, otherwise we can prepay.

But actually this cash position is going to be a buffer, if we have to face a more adverse scenario in the future and also a problem of delays in unit delivery. But we do not have any plans of using this fresh cash to pay for debt or do different investments.

The problem was a problem of execution and not really a market problem. So, I believe that now, when we will have a more comfortable cash position, we will try to deliver on time and not meet deadline.

Felipe Rodrigues:

You talked about a situation versus demand, what we have seen is that the primary market is moving along slower and the other players also review their launches expectation. In terms of demand, do you think that is lower or it is just related to a secondary demand issue? How do you see the demand issue at the moment?

PDG:

Well, I believe that in the 2Q, especially as of May-June, we did see a reduction, we would like to wait for the 3Q. We believe the 3Q will have a better outlook. Now of course there are differences from one segment to the other or different locations. In some locations, we had, not an over supply as the Americans would say, because most of our projects have not yet been delivered, but perhaps in some locations we had too many launches for the size of the market.

So the smaller cities do not have the same capacity as São Paulo or Rio de Janeiro, to absorb new launches. And so perhaps we had a weaker performance in these regions, away from São Paulo and Rio de Janeiro. But the demand is still there, real estate credit is available actually with increasingly more favorable conditions, Caixa Econômica has fund for real estate credit, private banks are operating some pressure from the authorities to do the same as Caixa Econômica and provide a higher level of mortgage loans.

In terms of payment capacity, I believe that we have the very same situation we had last year. So, I believe the next quarters will be more favorable. However, right now you see that we will have higher rate, higher spreads and we read that in the media. So, even though the income is up and we have nearly full employment, today people can buy, but not exactly the size or the standard that he would like, specially that his wife would like or in the neighborhood that he or his wife would like.

Now since we have a relevant volume of delivery and sometimes we do have delays in these deliveries, we do see units being sold at a discount. Sometimes it is just marketing, the psychological effect of a rebate. However, today buyers are not feeling any urgency to buy because the price will not continue to hike. And buyers can now continue to search for a place and to pick different options, they actually offer a much lower amount for the apartments, they make lower offers.

So we do see the demand. But the decision is no longer urgent; that is we have come to a more normal situation. In 2010 and 2011 we had sales above average. And now we are going back to a normal situation, since the best we can do as developers is to find a balance with the market. This is what we are doing, I believe that in the 2H12 – and something else I forgot to say, we have had lots of bad news in terms of macroeconomics. Not only in Brazil, where our growth is below expectations, but obviously with the international problems. Everybody is wondering whether the international crisis will affect Brazil or not. So, I believe the 2H12 will be more optimistic in macroeconomic terms, and some people will be more prone to make a decision. It is a very big decision, one of the most important decisions in life, to buy your home. So, this is what we expect and that is the explanation why we have lower sales.

Felipe Rodrigues:

Thank you.

Marcello Milman, BTG Pactual:

OK. The question is, regarding the issue of the cash position, it is not very clear to me that cash burn was much higher. I understand that you made accounting adjustments, but this does not impact the cash outflow. And even taking into account delivery delays, we probably see that there is a lot of difference when compared to previous quarters. Could you give me more details about your cash position? This is the first part of my question.

The second part of the question relates to budget adjustments. And speaking about the analysis of the 315 job sites, you made adjustments in 108 job sites, between 10% and 11%, which was a large adjustment. And those 108 job sites represent about 34% of incurred costs. Regarded to them, did you arrive to the conclusion that you do not need to make any further adjustments?

João Mallet:

Hello. Cash burn was R$180 million, R$170 million, and R$200 million more in construction expenses. It has nothing to do with deliveries that will be executed itself. Like I said, funding is not the problem, we invested more. And it generated more cash burn in this quarter, R$200 million more in the execution. Now in terms of the 315 work sites that I have already mentioned, we have conducted all the necessary adjustments in the 108, because they needed these adjustments, that is what we identified.

Marcello Milman:

Now, could you please answer another question, just as a follow-on to the previous one, that data about 51% of effective 51% of the adjustment is done and the works to be delivered this year. And if you take it into account that delays incur in further cost, so projects that would be delivered in the next six months, we should have had incurred costs.

I mean, in terms of costs to be incurred, it seems to be a major move. Why is that these projects was part of the difference than that the 207 projects, what was the difference? Is it related to the region or were you able to map the profile of that 108 that were reviewed?

PDG:

At the end of the construction work, especially when you have a third-party work, you may have cost overruns, which you did not capture before. That is why you have a bigger adjustments in these projects that are closer to delivery. If we knew about that before, then the adjustment would not be so relevant.

Also at the time of delivery, sometimes we have to pay something additional for the building expenses or improvement with the city, so this is a relevant amount.

Now, if you look at our cash position, we believe that in the 2H12 this volume 51%, the remainder will be 49%. So we do not expect any further adjustment.

Marcello Milman:

Thank you.

Marcelo Motta, JP Morgan:

Good morning. I also have two questions. The first, referring to debentures. I just want to understand whether there was anything that suffered the impact of the cash burn and what is the position of debentures?

And in terms of cost overrun, I want to know what you have for contingencies. Could you please give me more details about of what makes up that figure, if it is a six-month delay, 12-month delay, the number of units? I just want to understand what is part of that figure.

João Mallet:

Hello. Well, nothing here well impact cash burn, nothing of the kind. About contingency provisions, because of a higher volume of our own construction sites or our own construction work, we decided to increase division for maintenance. And this is the amount already pondered by the POC, the percentage of completion. So, it depends on what stage of construction we are.

Nowadays, in terms of contingency provisions, also because of our volume of operations, we had some projects where we had delays, other projects where we had some difficulties to deliver. So, we decided to increase this division too. So, we already have positions, and in the future we may have to both accord in some cases.

Marcelo Motta:

Contingency is 1.5% additional cost vis-à-vis the budget. How do you make this provision for contingencies?

PDG:

Now contingency provision has nothing to do with cost. I mean, it does not have to do with the construction work itself. It is always related to delays or difficulties or because of land we bought or issues with the public prosecutor. It does not have to do with the construction work itself.

What has to do with construction work is the provision for maintenance, which we keep for five years after delivery. This is the one that we have R$24 million, that is the impact of R$24 million in the result.

Caimi Reis, Deutsche Bank:

Good morning, all. Still referring to the budget review, could you please tell me how many of the subsidiaries contributed to that among Agre and Goldfarb? Thank you.

PDG:

Caimi, we cannot really provide this information. It is more and more limited to PDG as a whole, so there is more in third-party work, it is more in projects that had big delays, but we would rather not talk about where these projects came from.

Luiz Mauricio Garcia, Bradesco BBI:

Good morning to all. I have three questions. My first question refers to a chart on page eight of the release that shows the number of people, of headcount in the job sites, and I think that the strategy is very clear. And we see that happening not only in PDG but in other companies in the industry.

But what caught my attention was the fact that one of the main negative impacts that occurred in the industry was decrease in marginal productivity of the labor force. And how comfortable you are with that increase in your headcount in the quarter, and how do people find themselves? Are they in the same level of culture and productivity levels to avoid impacting productivity, given the increase that almost doubled in the 1H12?

Now my second question has to do with the PSV of 2011, which was low. I just want to understand what was the main impact in addition to everything that was mentioned? What led you to review recent projects as those from 2011 and also 2010?

And the third question is that we see a very strong decline in financial expenses. Even considering increases in the indebtedness level of the Company, what was then recognized in the quarter, and then there was an increase in the capitalized figures, even because of CAGR. I just want to understand what led you to this increase in capital rates? Those are my questions.

PDG:

All right. Let us see if I can answer all of them. If I forget something, you can remind me. On the first question, about labor, we have a strategy, which has been to have more launches where you have a standard decision not only as the product but also the construction method, and in some cases you have a more standardized construction map. And this is where you can train yourself. If you have this kind of framework, then you have more efficiency, better yields of your labor, and also continuity, because your staff will work in these projects here. And after this is delivered, the same person will continue to work at a different construction site following the same standards.

So, this is our strategy, to try and have people who really care the PDG had to, are trained by the Company and who stay with us not only for one project but someone who can go from one project to the next. So, that is the training, and that use of technology and methods will be reinforced one projects after the next. Until now it has made sense, we will continue to follow up on it. And in time, provide information.

Let me now give the floor to João; he will also answer your question.

João Mallet:

So, in 2011 this is when we will begin to see fewer deviations now we have one or two years of execution to be able to make the necessary adjustments and recover our margins. Now in terms of interest or financial income, we have the same level, 113, 114. So, it was very close to previous quarters.

In addition let me add that we had a higher cost of execution. We had higher costs in some projects, but the execution went quite well. In terms of financial expenses that you see at the lower line we had a reduction.

Now regarding interest rates, we had an increase 299, 193, and cost recognition 239. So you have a 63 million delta. And, it is higher now in the 2Q. But this increase is followed by the number of projects, we do not see any impacts in cost and we believe that we will remain at this level.

Well, we are seeing an impact quarter-on-quarter, R$111 million this quarter. And it will continue to be recognized also in the next quarters. This quarter we had a lot of execution. And so we did have an impact on inventory

Luiz Mauricio Garcia:

What about projects which are not in construction, such as land for example?

PDG:

No, then we have not included that.

Luiz Mauricio Garcia:

Thank you.

Nicole Hirakawa, Morgan Stanley:

Good morning. My first question is about the margin in the quarter. I thought it was going to go up, because you had a lower margin in the quarter. And 17% of overruns did not have an impact. When we look at the backlog move, there is R$1 billion revenue that came in, because the negative margin that maybe cause that drop. Could you please comment on that?

And the second question is, when we look at ABP, you had a positive impact of R$50 million. I Imagine that there was something that causes variation, maybe the discounts were lower? Thank you.

João Mallet:

Hello Nicole. About the REF margin, we have had some effects of contract termination in the quarter. And we sold, I mean we have had an effect similar to previous quarters, except for a bigger buffer.

Now the change in the REF margin, I mean the way we account for that you do not see a direct impact, really. So, our sales level is normal and the margin is quite similar to what we had in the last quarter. But when we had the budget reviews, and as we recognize that it is going to impact our accounting margins. And the REF margin will probably go back to the previous level.

Nicole Hirakawa:

You have had a lot of inventories, so the margins that were reviewed when you sell something from the inventory, that margin is a little bit higher when compared to other launches.

PDG:

Now, about your other question, could you please repeat the question?

Nicole Hirakawa:

It is about the margin comparing it on a quarterly basis. It came down because of all of the inventories, and the impact was positive by R$50 million. So what causes this variation? Could you please elaborate a little bit on that?

PDG:

Well, we did not have any relevant change in the discount rate but we have had three more months. So, it makes the result more positive because it was three months shorter, but nothing else in terms of ABP, nothing relevant.

Nicole Hirakawa:

Could you please tell me what would be the gross margin of the projects that you have in the inventory that is impacting the average margin?

PDG:

Yes, I can show you the breakdown of sales. And I can provide that to you later on today.

Nicole Hirakawa:

Thank you.

Adrian Huerta, JPMorgan:

Hi. Thank you. My question is regarding the margin that you have. You mentioned that, for instance, the cost overrun, I mean there seems to be another R$1.5 billion to be recognized over the coming quarters. And we have around that R$6.5 billion in total revenues to be recognized on your numbers. What can you tell us a little bit the breakdown on margins between these two, the low-margin projects and other projects? Thanks.

PDG:

Mr. Adrian, can you repeat your question?

Adrian Huerta:

Sure. I just wanted to understand a decrease in margins between the appraised running with low margins and the rest. According to what you mentioned in the press release, there is another R$1.5 billion to be recognized out of those projects that are running with low margins. What is the margin on those projects and what is the margin on the remaining projects as well?

PDG:

In terms of the margins of the projects that we are just concluding, the margin is lower particularly in terms of budget and average-size projects. Our gross margin is around 10%, between 5% and 10% in terms of the projects that are being concluded now. It is still a productive margin, but much lower than what we expected.

Adrian Huerta:

Perfect. Then if I can just follow up. Out of the R$5.1 billion on PSV on those projects that had the cost overruns, how much of that is inventory that is still available for sale?

PDG:

Please, Mr. Adrian, can you repeat the follow-up?

Adrian Huerta:

Sure. Of the projects that have potential sales value of R$5.1 billion, what percent of this R$5.1 billion is still inventory that is for sale?

PDG:

Probably less than 10% of inventory that we have for these units. The projects are selling very well.

Adrian Huerta:

Perfect. Thank you very much.

Operator:

We now conclude the Q&A session of the call. I would like to give the floor back to Mr. Grabowsky for his final remarks. Mr. Grabowsky, you may proceed.

José Antonio Grabowsky:

Thank you very much for attending this call. And I hope I was able to clarify a few points that if you still have any questions, please call our Investor Relations department. And so, thank you again for your attention, and I will see you in the next call.

Operator:

PDG's conference call is now concluded. I would like to thank you all very much for participating. And I wish you a very good day.