Operator:

Good afternoon, ladies and gentlemen. Welcome to the audioconference call of PDG Realty. Thank you for standing by.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and instructions to participate will be given at that time. If you should require assistance during the call, please press *0.

I would now like to turn the conference over to Mr. José Antonio Grabowsky, CEO of the Company. Please, go ahead, sir.

José Antonio Grabowsky:

Thank you. Hi, everybody. Thanks for your presence here in our conference call. For sure, this has been a very busy week for us, starting last Thursday with our first General Meeting after the transformation of the Company in a true corporation. So, it was an important meeting for us. Everything happened as expected, with the election and reelection of the Board Members and the approvals, etc.

And for sure the beginning of this week, with the announcement of the deal that we did with Agre, that we believe is very positive for PDG going forward. For sure, we talked about the deal; probably most of you were in the conference call that we did. And now we are finalizing the week releasing these 1Q results that we consider, as usual, let us say, very consistent, very good results, in line with the growth pattern of the Company. Benefits of scale continuing to appear in our numbers, Michel will go through the numbers with his IR team later during this call, but for sure very strong results. So, we are very positive, and for sure I think those results show our capacity to really continue to focus in profitability, return on equity, net income, things that will be helping Agre go in the same direction. So, we think that the benefits of a bigger platform for us will be enormous going forward. We are very positive about that.

I will talk a little bit about some more general things of the Company before I pass to Michel, to talk about the numbers. Other things that we are doing recently: the intensification of our JV with a company called LN for Paraná and Santa Catarina states. We have been doing, on a project-by-project basis, deals with that company; it has been very successful so far. So, we are structuring with them a stronger alliance through a JV company, where PDG will have 80% and they will have 20%. We will continue to do a series of projects through this company, and depending on future performance and some other benchmarks, we will have already established an agreement that we can, in the future, acquire the 20% stake that they will have through a share-swap scheme with PDG shares, the same way we did with CHL and Goldfarb, very successfully in the past. So, I think it is another important alliance that we enhanced, and the idea is to continue to pay attention in other deals to keep expanding our platform throughout the Country and throughout the different income segments.

This platform, this JV will continue to focus in the middle-income market in those regions, at the same time Goldfarb is already operating in those areas in the low-income.

We are on page three of the presentation now. The other important point related is the increased rate on major indexes. So, since January, PDG is participating in the Ibovespa and the other major indexes. In the first revision happened for the Ibovespa in the beginning of May, PDG's stake was the highest increase in the index, going up to 1.10%, and together with the stake of Agre that entered the index exactly in the beginning of May with another 1%, PDG and Agre, together, will be the largest company inside the index, not only Ibovespa but the other indexes as well, and for sure we will probably be the largest liquidity in the sector. PDG is already a very liquid share, and with the help of this new move, for sure we will increase again our liquidity. We are already, and will continue to be the largest free float in market cap, so I think all those news are very positive for our shareholders.

The other important thing that we have been increasing relates to this partnership with LN company technology. It is a company that has operated with Goldfarb for some time now. Goldfarb is its largest client. This company has a technique already approved by Caixa Econômica Federal of pre-fab houses, not concrete, with molds but not using concrete; using bricks. So, it is better in terms of thermal comfort for the buyers, especially in the very humid and hot areas of the West of the Country. Goldfarb is already using it in various different cities. We have now established three plants, let us call it this because it looks like a factory. We have three plants, one in Goiânia, one in Cuiabá, and one in Campinas, in the State of São Paulo. And we are probably using it in 2010 for 10,000 homes that will be launched during this year.

The plants are operating very well, achieving a very good efficiency standard, as expected, and for sure it is something very important in our growth in those types of projects, low-rise houses, condominiums, where we are able to get the lowest price points in our product line, houses starting from R$80 thousand per unit. And this technique, in our opinion, is the most adequate in terms of economy and efficiency of use for houses up until two floors. It is not possible for low-rise buildings; it is just for houses.

And together with the increase of usage, we are structuring with them an agreement where we will get a stake of the company to make sure that we secure our position with them as their major client, or maybe in the future their only client in Brazil.

The other thing that we were able to do in our General Meeting of last Thursday, we approved the fourth issuance of non-convertible debentures, the same type of debentures that we did recently, of R$300 million. Now, we are doing an extra round of R$600 million, the same kind of cost, the same kind of terms, very adequate in our opinion. And lastly, the Board of Directors increased the number of members in the Board to eight members. The six members were reelected, and we elected two new ones, very well known persons here in Brazil, Alexandre Silva and Paulo Guedes. For sure, they will be contributing a lot to our Company going forward.

Now, I will pass to Michel, to talk about the operation.

Michel Wurman:

Hi, everybody. In the quarter we did R$842 million in sales, more than 100% growth compared to the previous quarter. An important thing: revenues reached R$613 million, up roughly 100% compared to the same quarter of last year. Gross margin came in 34%, Janer will speak later what went well, why we had this gross margin overall into the operation. EBITDA was R$157 million, and adjusted net income R$136 million, with a return on equity of 18.1%. And PDG standalone, we expect to have higher than 20% this year. And consolidating Agre balance sheet and everything in the operation, probably we will have between 17% and 19% of return on equity on our structure in the mid term.

As Zeca mentioned, also the joint ventures that we did, the technology. Just some points from the Agre deal, we are in discussion with the lawyers right now exactly to have the timetable of the operation. We expect to have everything set by June, probably in the first half of June, and we expect to have in the second half of June the shares already traded under PDG consolidated basis.

So, going also to page six, another important thing on Agre, still the consolidated launches for this year, the new guidance will be between 6.5% and 7.5%, and we expect to have out of that guidance, a lot of (...) that is aggressive, we expect to have between 30% and 40% of that guidance already launched during this semester.

And another question that we had in the Portuguese meeting was when we expect to start having common releases, we expect to have the operational figures from the 2Q already integrated by the second week or third week of July.

Now I will pass to Julia, who will mention some points, then to Janer to continue the presentation.

Julia Martins:

Good morning. I will talk about the 1Q10 operational highlights. We reached in the 1Q10 R$846 million in PSV launches, and if you compare it with the 1Q09 launches, we increased 79%. The graphic of evolution of launches proved our consistent number of launches quarter on quarter.

On the next page we present the breakdown of launches, so we had 87% in the low-income segment and 56% of units under R$130 thousand on low-income segment.

Page nine shows that we reached record sales in the 1Q10, with R$842 million. Comparing with the 1Q09, we increased roughly 101%. And also we presented again the consistent number of contracted sales evolution quarter on quarter.

And now I will call Gustavo Janer to present more details about sales.

Gustavo Janer:

Good morning, everyone. Thanks for joining us. We are on slide ten now. There are a couple of charts we have been using for several quarters now that are very important for us to show consistency in terms of launches and sales on every quarter we have been having. So, if you look at the historical figures coming from the 1Q08 to the 1Q10, we have seen that from this quarter, on the chart on the left here, basically from the R$846 million of launches we were able to pre-sell within the same quarter 26% of that.

This is actually a lower figure when compared to the quarters before, but at the same time we can see from the R$842 million in the chart on the right, that 74% of that came from sales of inventory.

This is a metric that we have been using a lot and should be more recurrent now on PDG sales coming much more from inventories than from launches themselves. And that is basically due to the fact that we have been launching much more the mid to mid low segment, and with higher number of volume of launches, meaning that it is very common for us to have on the mid, mid high segment pre-sales that are very strong on the launching side, on the first weekend, while the mid, mid-low segment should be producing a lot every weekend and selling a lot every weekend. So, for us inventory management is a very key factor and it has been an issue for some time.

One point that we have to tell that the chart to the left here, that should justify a very low number of pre-sales from the launches that we had roughly 2/3 of the launches coming in the month of March, by the end of the quarter. So, that should reflect on the last number of pre-sales coming from launches.

Now, slide ten, this is also a very well-known chart from our side, what we have pointed out here is that from everything PDG has launched in its history, 80% of that has already been pre-sold in terms of units. From everything we have launched in 2009, 77% of that has already been pre-sold. If you look at the percentage of inventory by the ageing of years of launches, if you sum up the number of 2009 and the numbers of 2010, basically we have 68% of our total inventory coming from those years, so it is a very young inventory and very easy to sell out.

The number we reached of inventory by the end of the 1Q10 was roughly R$1.9 billion, so we became even number of inventory quarter after quarter. If you look at the numbers run rate of sales we have been having on each month on PDG, that represents something around 7 to 7.5 months of sales to sell out the whole inventory we have today. So, again it is a very easy inventory to control.

The number of sales over to supply reached 31%, coming at very high levels. This is a number that when you analyze that it should be looking at something around 50% to 60%, this is what have been introducing inside PDG, we do think that we are pretty comfortable on maintaining the level of sales we have been looking inside PDG in the last quarters.

Now, on slide 12, we are looking basically at land bank. We have a very strong number of buyers of land bank this quarter. We had by the end of the 1Q09 roughly R$10.3 billion of land bank. Remember we launched R$0.85 billion of land bank in the 1Q, and we were able to buy R$3.75 billion of land bank within the 1Q10, reaching by the end of the 1Q10 R$13.2 billion of land bank.

We are very much comfortable with the level of land bank we have today. This was probably the last quarter, very high number of acquisition of land bank within PDG, so we will probably maintain the level buying of land bank, just to maintain the level of two to three years of operation in terms of launches we have inside PDG.

Looking at the breakdown of this land bank on the chart below, you are going to see that we have 55,000 units basically focused in the *Minha Casa, Minha Vida* housing program, which should represent from the residential side of PDG something around 60%. Another very important data is if you sum up all the number of units we have up to R$500 thousand, basically meaning it is eligible to the housing program and to the SFH funding system in Brazil, we have roughly 96% of all of our residential units going to those types of funding.

Another very important point on the land bank side is that we have already bought within the 1Q land bank in the Northeast region in Brazil, roughly around R$150 million to R$200 million already in two states in the Northeast region in Brazil.

Now, going to slide 13, we can see some of our financial figures there. We were able to reach R$613 million in terms of net revenues for the 1Q10, 96% growth when compared to the 1Q09. Gross profit reached R$206 million, 125% growth when compared to the 1Q09. We reached a gross margin there of 33.6%. Again on this margin, like Michel mentioned in the beginning, this is not a recurrent margin for PDG for the full year 2010. This is a very important point that we need to point out here.

We do believe that the recurring margin of PDG for the year should be something around 29% to 31% for the full year. One of the main reasons we have a very strong margin this quarter is that we have been seeing in PDG, especially comparing the 1Q09 and the 4Q09, that we had some initial costs for some construction sites from our side that went over their initial costs.

So, we had these issues in the past, several other quarters in the past, but we did not have this issue in this quarter. We gained some efficiency there on that side while we had some seasonality, a very good margin right in the beginning of the year, but again, this is not a recurrent margin for PDG for the full year.

On the EBITDA side, we had a 26% margin, reaching R$157 million EBITDA in the 1Q10, 81% growth when compared to the R$87 million on the 1Q09. In the adjusted net income, we are just adjusting a non-cash advance of the stock option, which should be something around R$10.5 million.

So, we reached R$136 million of adjusted net income, 153% growth when compared to the R$54 million we did in the 1Q09, and like Michel said, with our ROE over 18%, a very big increase in comparison to the ROE we had in the 1Q, it was 14%.

Going to slide 14, basically looking at the indebtedness of PDG for the end of the 1Q10, we reached R$1.575 billion of total indebtedness. It is important to point out that 36% of that is going to the CDI in Brazil, while 65% of that goes to the TR. With that, we had a net debt of R$685 million, with a net debt/equity of 22.6%.

This net debt/equity level does not reflect the debenture Zeca mentioned in the beginning, that was going to the TR with R$600 million, which we do think should reflect now in the 2Q for PDG, and we are very comfortable maintaining the levels of net debt/equity for PDG of 40%, and somewhat even over that, reaching 50%.

Going to slide 15, the last slide here, it is basically looking at the schedule of debt payments, excluding the SFH funding for PDG up to the 1Q15. So, it is basically working capital for PDG. We have some payments to do until the 1Q11, it is already fully contemplated in our cash flow, we are pretty comfortable in doing that.

Now, we are going to open for Q&A. Thank you very much.

Rodrigo Monteiro, BTG Pactual:

Hi, good morning. Congratulations on the results. I have a couple of questions. First, I think Janer just mentioned that you are comfortable with the balance sheet in order to deliver the new guidance, including Agre. I am just wondering if that is really the case, and if you are comfortable with 2010 and 2011 growth in the context of the current balance sheet.

On that basis, I am not sure if you mentioned, the current PDG net debt/equity position is at 23%; where could we expect this number going forward or normalizing at what levels?

Finally, on the Agre deal, what can we expect in terms of timing for the conversion of shares, or to have more details on the integration itself? Thank you.

José Antonio Grabowsky:

Hi, Rodrigo. Thanks for your congratulations. So, in terms of balance sheet, PDG and Agre together will probably have a net debt close to 40%. I think that level is very comfortable, and you can see that number going up to somewhere around 50% going forward.

I think the balance sheet is more than enough to continue delivering the guidance for 2010, the combined guidance will be from 6.5% to 7.5%, and for sure some growth on top of that for 2011.

What we will be doing in the case of Agre, I think we will try to get a more efficient debt in their side compared to what they have today. By what we saw so far, they have a large room for increasing their construction financing coming from SFH, from the private banks.

I think they have a big room for that, a lot of projects that they have not gotten construction finance yet, even though they already launched, sold, and started construction. So, we have a lot of room for that in their balance sheet.

For sure, we also have room to do as we have been doing in PDG securitization with the receivables that they have for mid income projects, they have a huge amount of receivables in the company as well, bigger than ours. So, for sure we will be very active in that front together.

So, those are the two main sources of new funding or debt that we will be using for Agre in replacement of some of the debt that they have today in their balance sheet that are not adequate in our opinion in terms of costs for the company, and for sure the financial costs are hurting a lot their numbers at this moment. Talking about the consolidation, Michel has more details on the timeline.

Michel Wurman:

So, as I said during the call, we expect to have all of the Board meetings, all of the approvals, general Board, by the first half of June, and the (…)will probably be together by the second half of June, between the 15th and 20th of June.

Regarding the integration, this week we had several meetings together, so we already sat down with the management from CHL, Goldfarb, and Agre. We already established together each one where we have synergies, and which are areas we are crossing each other and where we are going to leave each one.

The other thing we also did, we started talking about the branding together this week, and on the PDG side, we also started to have some conversation with several banks regarding discussion about cost of capital into Agre business model.

Rodrigo Monteiro:

OK, great. And then, just to confirm, before the announcement, Agre had an expectation to lower their G&A, following the integration of the three other companies, they had an expectation of a 40% cut in G&A. Does this still stand? Any changes to these expectations or not?

José Antonio Grabowsky:

I think that is the number they have in their budget, coming down from close to R$180 million in 2009 to R$100 million in 2010. This does not include any help or any synergies from the two companies together, and I believe we will be able to have some benefits even though we will start operating together close to the beginning of the 2H of the year.

But I think there is room for positive surprises on that number as well.

Rodrigo Monteiro:

OK, great. Thank you, guys.

Marcello Milman, Credit Suisse:

Hi, guys. Good morning. Congratulations for the results. My questions are on the same line as that of Rodrigo. As you have said, your annualized ROE in this quarter was around 18%. We do not have Agre figures yet, but judging from that trend is it likely to be something considerably lower?

In addition to what Zeca just mentioned, what are the main sources of potential profitability improvement that you hope to extract from Agre? To converge profitabilities towards the same level.

Michel Wurman:

We expect to have this average of 17% on the combined in the mid term. What are the synergies? On the financial side, we see three important things that we can leverage very fast.

First of all, regarding construction financing, they have a lot of developments that they do not have construction financing, so they have to use their own equity to do it. So, we believe that we can have probably between R$150 million to R$200 million that we can put to work from construction finance within a six-month period.

The second one is securitization, so far they did no securitization, we have a good experience on that. So, we believe that on that side we can also save some money or find some money inside the operation to go to the third part, that is not the renegotiation of the debt they have, but regarding their debenture, we have the option of repaying some of them, the cost of covenants will be reached.

So, we have the option to repay or to put in other terms for the future. On that regard, we will probably have R$20 million to R$40 million of efficiency in the short term on their balance sheet. Besides that, we are not counting on any kind of G&A costs and any kind of synergies in the operation, but for sure we have synergies and we have potential of increasing that.

The way we are dealing is 'let us attack very fast the financial side'. On the operational side, the Company started to launch a lot, probably on the second part of this year we will be alone record launches for them, and I believe that they will have this trend, so we should take care in the first moment in the integration, but not on the operational side, mainly on the financial side.

Marcello Milman:

OK. Thank you.

Dan McGoey, Citibank:

Good morning, gentlemen. Just a quick follow-up question on the comment you made, Zeca, about the securitization of receivables. Can you walk us through the cost difference between receivables, securitization, performed and not yet performed receivables? And what the cost differential you are seeing is, especially if you have a larger portfolio to work with Agre?

Michel Wurman:

Hi, Dan. What we are trying to do is a blend of projects close to being delivered, and over this period of time we continue to give guarantee, and after that, once we deliver, we are trying to do within the same operation, a true sale.

So, the cost of debt, we have arranged to arbitrate between 2% and 3% on the receivable on that. So, we are talking about probably in one side we have inflation +1 a month, probably we can sell debt at inflation between 10% or 11%, with some guarantees we can give, or even lower than that.

Dan McGoey:

OK. And what sort of size do you expect to do on that in 2010?

Michel Wurman:

We do not have that number yet, but we are doing all of the analysis on that. On our side alone, we are doing an operation on that regard that will be more than R$200 million during May. So, we see that if we need to do two or three operations like that, we have room to do that in the 2H of the year.

José Antonio Grabowsky:

The demand from the investors coming from the wealth management side of the banks continues to be very big. So, I think more and more as they get accustomed to those types of deals, there will be plenty of demand, as long as we have the receivables ready to be packaged, I think that is a very good source of funding for us.

Dan McGoey:

Great. Just another follow-up question on funding, since obviously it is critical, and you are looking at it closely. Now that your business is going to change to a lower percentage with Caixa Econômica because of the incorporation of Agre, can you just comment on some of the trends you are seeing in receivables collection?

Whether the receivables turnover from Caixa is in line with what you expected, better or worse, and I guess, overall, the receivables collection on the mid-high business through the banks, whether it is performing in accordance with your timeline and expectations.

Michel Wurman:

On all of the segments, we are seeing according to schedule. So, let me give you an example: the delinquency rate today is lower than 3%, this range is between 3% and 5%. Caixa Econômica money is flowing into Goldfarb operation, construction financing is passing, is coming on the balance sheet and going to the construction costs. So, everything is the same as it was.

Dan McGoey:

OK, thanks. Congratulations on a good quarter.

Operator:

This concludes today's question and answer session. I would like to invite Mr. José Grabowsky to proceed with his closing statements. Please, go ahead sir.

José Antonio Grabowsky:

Thank you. Thanks a lot for your attention, for sure we are very positive about 2010 and the next coming years. There are a lot of challenges in front of us, but for sure a lot of room for us to keep doing good things in a much bigger platform from now on.

So, I think that is something very exciting for all of us here inside PDG. We see that we can continue to deliver good results in a much bigger scale now, and the benefits of scale more and more, we are feeling that coming from all fronts. I think that is going to be very positive for us.

As usual, please, keep in touch; we are at your disposal here in the IR side for your comments, your ideas, your questions, and for sure we will be meeting you a lot in the conferences and events throughout the year.

This month is very busy already, next week we will be in London in Goldman Sachs conference, the BRICs conference; PDG is the only Company in the real estate sector in Brazil to be included in the index that they created for the BRICs, so we are very proud to be there. And after that we will be in New York for two subsequent events in May.

We will be very active on that front, as usual, and available for you whenever you need. Thanks a lot for your support.

Operator:

That does conclude the PDG Realty audioconference for today. Thank you very much for your participation and have a good day.