Operator:

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to PDG's 1Q11 earnings conference call.

We would like to inform you that this call and the slides are being broadcast on the Internet at the Company's website www.pdg.com.br, and that a presentation is available for download at the investor information section.

Also, this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of PDG management and on information currently available to the Company. They involve risks, 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 general economic conditions, industry conditions, and other operating factors could also affect the future results of PDG and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Zeca Grabowsky, CEO. Mr. Grabowsky, you may begin your conference.

José Antonio Grabowsky:

Thank you. Good morning, everybody. As usual, it is a pleasure for us to be here presenting our quarterly results to you. The 1Q11 was very good for PDG. The operational numbers already released were very strong, and have given us a lot of comfort to our full-year guidance being achieved as in the previous years. For sure, especially the speed of sales, which we will be talking in more detail later, was a good surprise for the 1Q.

The financial numbers released today are also very solid and consistent with our expectations, especially when you consider the very high level of activity that we have been operating in the last three to four quarters. Michel and the rest of the team who are here with me today will go through the numbers in more detail soon.

I would like to spend some minutes to talk about the General Shareholders' Meeting that occurred in April 26th and clarify a misunderstanding that is creating some noise in the market since then. The Shareholders' Meeting approved the financial statements for 2010, the reelection of our Board of Directors, the same exact names including myself and Michel, the reelection of the Fiscal Counsel, and the distribution of dividends in an amount close to R$187 million that will be paid in July 1st.

At the same time, the Shareholders' Meeting did not approve the annual maximum compensation for the management for 2011, which looked to be a very problematic issue between the management and the shareholders. In reality, it is not such a big issue, and I want to explain it to you to avoid the continuation of this misunderstanding and the rumors that came together with it.

As you know, PDG is a full corporation with 75% to 80% of its shareholders being foreign institutional investors. There is a consulting company, Institutional Shareholders' Services, ISS, that provides guidance for voting to investors of all the major listed companies in Brazil including PDG. Their recommendation in this specific item of the Shareholders' Meeting was against the approval exclusively because PDG decided not to disclose the individual compensation of its management in 2010, as required by CVM, and used the benefit of a legal class action, which granted us and many other companies the right not to disclose the individual numbers for security reasons of the officers.

In reality we released the total number and of course the average number, but not the individual maximum and minimum numbers. The amount proposed for 2011, the annual maximum compensation is, by the way, the exact same number approved for 2010. So, the number was not in discussion and the ISS did not come with an alternative number as a proposal. It was more like a question of going against the fact that we were not releasing all the information asked by CVM.

We decided to do so because last year we disclosed all the numbers and, as many other big companies in different sectors decided not to do, with the benefit of this class action, our numbers got a lot of publicity from newspapers and magazines with a very big personal discomfort for our officers. So, this year we decided that we could use the same class action to provide more security for our officers.

After the Shareholders' Meeting, with the advice of the legal counsel and discussions during the Board meeting that happened last Friday, we decided to solve this issue in the following way: to call a new Shareholders' Meeting that will probably take place in the next 45 days, to deliberate specifically about this, and in the meantime talk to our main foreign shareholders and to this company ISS, to try to explain and convince them to change their votes.

In case we see that this continues to be a problem for them or the shareholders, we will disclose the numbers and finish with this pending issue in this next Shareholders' Meeting. So far, the feedback we received from some investors to whom we already talked about were very positive, and as soon as they understand exactly what the point is, they got comfortable and said to us that they would change their recommendations of vote.

Anyway, there is no big problem between the management and the Company, and its shareholders, and the rumors that myself and Michel could be leaving the Company because of that are totally absurd. So, it is a minor issue, more like a bureaucratic issue than anything else, and will be solved within the next 45 to 60 days, no big problem.

Besides that, and continuing with the recent events, there were some good news in the branding front. We believe that the integration of the brand names into PDG only is already producing effects, and the total amount spent in institutional campaigns was less than R$2 million, and there is no more money to be spent exclusively on institutional investments on the branding. For sure, the amount of advertising that will be produced during the year through the launchings will keep creating a very positive effect for the new brand.

In terms of market share in Rio de Janeiro and Bahia, we were once again recognized in Rio de Janeiro as the leading company by ADEMI, and in Salvador, for the first time in 2010 we received the news recently that we were the company of the year by ADEMI Bahia.

Other things that we have been doing that are starting to create positive results on the online advertising, the new website of PDG integrated for all companies is already producing a lot of visits, a lot of leads for the sales team to convert into sales. So, we are very positive about all these benefits, and recently we launched the new customer relationship portal. For sure this year we are paying a lot of attention with delivering the units, finalizing all the construction as much as possible on schedule. For sure we have a lot of past-due projects that came from AGRE that will be delivered through this year, as you know, and we are continuing to pay a lot of attention to make it happen. We will be talking in more detail about that during the presentation as well.

Thanks again. And I will pass on to Michel.

Michel Wurman:

Hi, everybody. Continuing on page three of the presentation, I am going to talk about operational highlights and financial highlights. So, straight to operational we launched R$1.76 billion, we sold R$1.7 billion. So, we started the year very strong. 1H will continue to be strong overall in PDG. In the 1Q we did 29% from sales over total supply, or our VSO, as we call it in Portuguese. Our target continues to be between 25% and 30%. We are working in the higher range of this level in the 2Q of this year, so the 2Q so far is coming very well, as we consider.

And I believe the other very important information that happened from January up to April was the number of units delivered under PDG. We delivered so far 8,500 units. I think that number is extremely important, because most of it came from the digesting period that we have from AGRE.

Remember that when we bought AGRE we knew that in 2011 the main challenge of the year was exactly to highlight and to keep tracking the delivering of the units and Julia will mention later during the presentation the specific numbers about this growth, but it is very clear to us that the point of digesting and delivering so far, since 2005, when all of the large companies became public in the home builders, so far none of those companies delivered that amount of units in a period like that. And we know that our challenge for the year is to deliver 35,000 and we are on track of that.

One important thing we will get into the financial highlight, but as we have been growing, the conversations that I have been having with the investors over the last three or four months, I think we have two main highlights. The first one is the capacity of digesting or delivering units for that amount of units. And the second one is if so, can we do that with controlled cost continuing to have margins without exploding or without creating one (12:35) of that budget process.

What is important is that since we acquired AGRE, we took all of the budget, we aligned alongside the curve exactly to address that. That is why our gross margin came down and overtime this will go up. We will continue to have one or two more quarters of this channel of 28% to 30% approximate margin. Again, we do not have the very fine tuning if this is 1% more or 1% less, but we do not believe that we are going to get out of this channel in the short term, then overtime the new development from AGRE will contribute with a much higher margin.

So, what we have today in terms of financials, we have net revenue of R$1.5 billion, one important thing to mention is that that number could be a little bit over that, probably we could have something around R$80 million to R$90 million in sales this quarter. But remember that, as we mentioned before in our previous conference calls, one of the things that we had to do in AGRE was really taking care of the sales that were booked but people were not paying day by day.

So, we updated the cancellation and this quarter will be roughly R$150 million in cancellation, and that is extremely important because we believe that we are going to sell higher, and more than that we will continue to have a very good portfolio of receivables we did in PDG. And we believe that one more quarter of probably R$80 million to R$90 million; with that we cease all of the products from the portfolio in terms of clients within AGRE and with that we will be able to have higher margins.

But with that, because of the POC, when we cancel something we have to recognize back all of the revenues recognized. So, that is why we believe we could have a little bit more revenues.

In terms of margins, we had 28.9% and adjusted gross margin we had 35.2%, again very healthy margins. And more important than that, coming to the EBITDA level we are already in the 24% EBITDA margin, and net income and return on equity we are back to the 60% ratio. As time passes, as we get the new projects from AGRE, we believe that we are going to recover that 100 to 300 b.p. alongside the year.

So, what we feel today, what we really see is that the old developments from AGRE mainly happened because of Klabin-Segall, and we knew that, that is the most important part, that projects are going out during this year, and these projects are 25% below gross margins.

The new projects launched from AGRE since August last year have margins around 23% to 28%. The bad side is that we have recognized very little of these very good sales from these projects, and this will start to be recognized in terms of critical mass mainly in the 2H11, when we start the constructions in terms of full construction power into these projects.

So, the most important thing, I think we believe that here we are used overall to plan a lot and to really concentrate in what we should execute. I think the two important tasks for this year are really capacity of delivering, and this number of 8,500 units every quarter, we will continue to see that on the day by day. Particularly Zeca is looking on the day by day on the engineering side. It is a task that he has been handling perfectly, and also on the client level.

So, one target is this, and I believe that we are really on track for that. And the second target is that since the beginning of PDG is really the profitability level of the Company that will continue to enhance quarter over quarter to come back to the levels we had before AGRE, but with a much higher critical mass. So, we are very happy with the numbers that we are getting.

I think overall these numbers reflect right decisions that we took in the past. The problem of the real estate sector is that bad or good decisions take a long time to pass through the results. I think the right decision that we took last year when we acquired AGRE and aided them in the past, mainly targeting profitability, are appearing and making the difference in the day by day.

Now I will pass to Julia and then to Pedro to continue the discussion on the numbers.

Julia Martins:

Hi everyone. Good morning. I am going to talk about the operational data, but I will try to be as brief as possible, since these numbers were released last month. Regarding the launches, on page four, we launched R$1.76 billion this quarter, an increase of 67% over the 1Q10. Once again, this is an indication of a consistent level of quarterly launches. So, we reached 19% of the yearly guidance and we are very comfortable to achieve 40% to 45% of the midpoint of the guidance in the 1H11.

On the next slide we show the evolution of our sales in the quarter, which was R$1.7 billion, 26% higher than in the 1Q10. Of this total, R$705 million were sales launched in the same period, and almost R$1 billion were sales of inventory, which resulted in a 29% of VSO. Despite this quarter already showing a very good level of sales, we are still expecting 25% to 30% of VSO for the quarter.

In the next slide you can see the segmentations of the income and the geographic distribution. We launched more in the mid in this quarter, one reason was that in the first two months we did not launch units eligible for My House, My Life program, because the price reviewed was not yet in fact. So, the important here is that we continued to focus on the units below R$500 thousand, as you can see in the graph in the right, where we show that 80% of our sales were between mid to low income.

In the geographic distribution of PDG it is important to emphasize that the Company's strategy is to gain efficiency in the market that we already are, in order to gain scale. Today we are in the 12 leading markets in Brazil that have critical mass and enough demand to absorb the level of launches to justify a very high quality of management team, an outstanding management team like we have in São Paulo, Rio de Janeiro, Bahia and other areas.

Slide seven shows the units delivered, like Michel said. Today we have an estimate of 15,000 units to be delivered in the 1H; with a monthly number closed until April, we have reached 56% of the estimate, delivering 8,500 units. This is extremely relevant to PDG, especially considering the annual growth rate that was 321% compared to the same period of last year.

That is why this is very important to us because we need to monitor this data closely, in order to meet the agreements with the clients and also to monitor the cash flow of the Company.

On slide eight, we can see the final position of the land bank that was R$29.3 billion. And please note that that we do not make any adjustments to fair value and we only review the feasibility in the pre-launch period. Today, 93% of our land bank is units below R$500 thousand, showing again our focus on mid and low-income segments, with SFH and My House, My Life fundings being the main source of our funding.

Another important point is our policy of maintaining 2.5 to 3 years of operation in our land bank, which today our position leaves us very comfortable to just look at the best projects and prioritize the land swap deals.

Now I will pass over to Pedro Thompson to discuss a little bit about the financial indicators.

Pedro Thompson:

Thank you, Julia. Hi, everyone. The net revenue increased 35% compared with the 1Q10, also we can observe a consistency in gross margin compared with the 4Q last year. Adjusted EBITDA is R$350 million, with 24% of margin, one of the best in the industry. Net revenue is R$239 million, with 15% of net margin.

In the next slide, we can see the SG&A structure, which we have efficiency in these expenses and launches amount.

Julia Martins:

And to close the presentation, I am going to highlight the main points of the indebtedness. Today, we have a position of debt of R$4.87 billion on debt that is based on debt linked to TR, basically in our debt is SFH and INCC debenture. And today, we have 67% of our debt in this profile, with an average rate of TR + 10%. In addition, 28% is working capital, with a rate between CDI, CDI + 2.5%.

Another point here that is really important is the net debt/equity ratio that is 52%, and last quarter was 51%. Because of the duration of the debt that is longer, we have a longer term, allowing us to be a little bit more leveraged. And of course, because of the SFH, it makes us comfortable with this leverage.

So now, we can open for the Q&A.

Carlos Peyrelongue, ADC:

Thank you for the call, gentlemen. Two questions, if I may. First one related to profitability, as you mentioned you increased your ROE to 16%. Can you give us some idea as to how you expect that to progress throughout the year? And what is the target that you are aiming for next year?

And the second question is related to margins. You mentioned that you expect EBITDA margins to expand between 100 to 300 b.p. as the year progresses. Should we expect the 2Q to be similar to the 1Q and then the expansion more on the 2H, is that correct? Thank you.

Michel Wurman:

Hi, Carlos. Starting with the second question, it is correct. We believe that in the 2Q we will continue to have pressure in terms of delivering units with very low margins, for sure that 80% of the total units that we have to deliver from the old AGRE will be delivered this year. So, alongside the year we will be recovering margins. So, the 2H continued the same level that we are today. Then the new projects will come to the balance sheet from AGRE, so we have this 100 to 300 b.p. to gain alongside the year, and mainly in the 4Q of the year with these units.

So, overall, the ROE and net income will be around 16% to 17%, and then ending the year with something around 18%. This is what we expect. And for next year, having this plan, this number should be between 19% and 20%. So at the end, we are working this year to be between 16% and 18% with chances to surprise on the upside and next year starting with the 20% ratio.

Carlos Peyrelongue:

Great.

Michel Wurman:

But what we are planning today, we will probably get into a company in the last quarter of the year or alongside the next year with something around R$300 million to R$350 million of earnings on a quarterly basis. That is we believe we can have excluding bonus, and that is why it is a good shape for next year, starting at the beginning of next year.

Carlos Peyrelongue:

OK. Thank you, Michel.

Marcelo Motta, JPMorgan:

Hi. Good morning. Congratulations for the results. Two quick questions, the first is if the Company could provide a quick update on the Marriott partnership? And the second one is related to cash burn expectations. What should we expect going forward? I mean, for 2012, we do expect a strong cash generation, but what could be the level of this cash and how it be used in 2012?

Michel Wurman:

On the Marriott, we have today six to eight projects under analysis. Marriott has to come back with answers within the next 90 days, which one of them they will desire to do.

We expect to have approved in between two to four in this first wave of projects. So, for sure, next call we will have a better update, but like so far it has been well. So, now we have the real proof if it is working or not with this approval of the projects.

And the second one, in terms of cash flow, we will continue to have negative cash flow within the next quarters. We expect to have on the 4Q a neutral cash flow, and next year a positive cash flow.

For sure, the idea is to enhance the payout dividend with something around 35% to 40% because we also will not expect to grow much more, probably we will also be getting into a growth of 10% to 15 % per year. We are thinking of the next year, but, if you ask me today, probably what we seen in-house is something around 10% to 15% growth, not much more than that.

So, we will have a lot of excess cash flow coming from that. We continue to expect to have a very high level of debt inside the Company. So, we prefer to distribute cash flow on the shareholders' level as dividends.

Marcelo Motta:

Perfect. Very clear. Thank you very much.

Adrian Huerta, JPMorgan:

Hi, good morning. And thank you for the call and congratulations on the results. Two questions, just if you can clarify a bit, I mean, there were some speculation there that the compensation for management was not approved. Could you elaborate a little bit on that and especially on any chances that we could see any of the top management leaving the Company?

Then my second question is, if you can just tell us what the main risks are that you are seeing over the next 12 months? And what is that you are focusing most of your attention on from now until the end of the year? Thank you so much to all of you.

José Antonio Grabowsky:

Hi, Adrian. So, regarding the problem in the Shareholders' Meeting, I hope I had clarified, for sure, it was not a big issue, it was much more a technical, bureaucratic issue with the voting system and the voting recommendation. So, we believe that will be clarified in the next 45 to 60 days.

So, for sure this was a non-event for us, myself and Michel and the rest of the team here, in terms of this agreement with the Board or between the Board and the shareholders. So, you can see that the Board was totally reelected, so there was no issue in that direction.

Regarding the two of us or any other senior guy from PDG leaving PDG, there is no such discussion at this moment. We do not see that happening in the near future. The way we run PDG, the way all of us have alignment of interests through stock options, through the bonus system that we have here, we believe that we will continue to have more and more people growing internally in the Company and continuing to be with us in the long run instead of, let us say, losing any of our directors, any of our senior officers to a competitor or something like this.

In my case and Michel's, even more clear in that regard. We created this Company, so for sure there is no way that we will be thinking about leaving in the short term, or even worst, thinking about leaving to work for a competitor. There is no way that we would be doing that.

But anyway, if anybody has any doubts, let us know.

Adrian Huerta:

Very clear. Thank you.

José Antonio Grabowsky:

We can talk openly. Regarding the risk, not only exactly the risk, but what I am focusing on a lot today, and I think it will be the trend throughout the year, is execution and delivery. I have been having much more than usual, meetings with our guys from the engineering side of the Company, making sure to help them in all possible ways to be according to their plans, even hiring more people in the engineering side of the Company to make sure that we are according to plan, and also in the delivery of units front.

This is a big task for sure this year; we are in good shape so far with the 8,500 units already delivered in the first four months. And the goal for the year is a strong one, 35,000 units, so we are trying to keep that on track, and trying as much as possible to have a good relationship with the clients.

For sure we have a lot of problems with past due projects coming from AGRE, and the level of stress in some cases with the clients is very high. In some cases, let us say, around 20% of the cases, they are totally right in their claims, in their perception that they have some rights against us, and we are trying to take care of that.

In the majority of the cases is just the question of stress, which is caused by a construction that is delivered with delay. We are trying to handle that the best way possible, but for sure there is a big activity down here in the customer service area of the companies inside PDG, especially in AGRE.

Just a good number regarding the engineering, the construction side of the Group, we have now 750 engineers, including the on-training, the interns that will become engineers soon. So, it is a big number of people that give us comfort that we will have good teams working for us in the future. But for sure this is our challenge for the year.

Adrian Huerta:

How many projects do you have right now under construction? Just to have an idea of engineers per project number.

José Antonio Grabowsky:

We probably have a total close to 400, or a little bit over 400 construction sites going on.

Adrian Huerta:

Excellent.

Julia Martins:

One intern and one senior engineer in average.

Adrian Huerta:

Perfect. Very clear. And if I may, just one final question: can you just give us your view on the outlook for the medium high income segments and low income segments with regard to demand and with regard to prices?

Michel Wurman:

All of the segments are actually doing very well. This has been a good conversation that actually I have been having with the investors, because what we like is that we have a platform. Mid-low income is doing very well in terms of sales, although margins are compressed. When we have higher inflation, that makes the results come much lower. So, that is why we are launching much less in the Minha Casa, Minha Vida, exactly only in places where we see profitability for us.

In the other case, people would ask on our side if we are not launching that much there, will we probably launch less? The answer is 'no'. Why? The mid class is doing very well. Remember that the benefit of the saving accounts for mid class, where you have a fixed rate plus TR that is zero related to inflation, makes a very good buying opportunity for the individuals.

So, mid class is doing very well, and also high end. So, at the end all of the segments are doing great. In our case we are approaching more than mid class, because in the mid low we are not seeing a lot of return in all of the segments of the Minha Casa, Minha Vida. In some of them we are doing well, in some of them where we do not see returns we are out.

Adrian Huerta:

Excellent. And how do you see the prices on the middle income, and also on the high income for this year on a m² basis relative to last year, increasing somewhere around 10%, 15%?

Michel Wurman:

In our feasibility studies we are considering zero growth in terms of prices to compare to net revenues.

José Antonio Grabowsky:

It keeps up with inflation. That is our main assumption.

Adrian Huerta:

With zero inflation, Zeca?

José Antonio Grabowsky:

No. Keeping up with inflation. I see somewhere around 6% to 8% growth during the year. But in reality, I believe that in some specific areas, Rio de Janeiro, for example, and some neighborhoods of São Paulo we will see real growth above inflation again this year, not in the same levels of 2010, for sure, but we still see a lot of demand for some specific areas in the market place.

Adrian Huerta:

Thank you so much to all of you.

Operator:

This concludes the question and answer session. At this time I would like to turn the floor back to Mr. Grabowski for any closing remarks.

José Antonio Grabowski:

Thank you everybody for the attention. As we said, 2011 is looking to be a very promising year for PDG. We are very happy with the results so far, and we believe we will continue to deliver good and positive surprises throughout the year.

In general we expect the 2H for sure to be better, as usual. So, in the full year the total numbers of PDG will be very good, for sure.

As usual, we will keep having as much contact as possible with you. We have many conferences in front of us throughout the year. Next week Michel will be in Europe in the beginning of the week, and New York in the end of the week at the Itaú conference; in the beginning of the week in London, at Santander and Goldman Sachs events.

So, for sure we will have a lot of opportunities to get in touch with you, but please feel free to call us. All the IR team is here at your disposal, as usual, for questions, discussions, whatever.

Thank you very much. Bye-bye.

Operator:

Thank you. This thus concludes today's presentation. You may disconnect your line at this time, and have a nice day.