**Transcription of Teleconference of results 2Q10**

**Operator:** Good afternoon ladies and gentlemen and welcome to the 2nd Quarter conference 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 the time. If you should require assistance during the call, please press the start key, followed by 0. I will now like to turn the conference over to Mr. José Antônio Grabowsky, CEO of the Company. Please go ahead Sir.

**Mr. José Antônio Grabowsky:** Thank you. Good morning this is Zeca speaking. Thanks for your attention. It is a pleasure for us to be here today. Every quarter in PDG, there is always plenty of activity, lots of new things going on, but this 2nd quarter of 2010 was really special for us. Besides the strong numbers that I expect that you also liked a lot, we had many events that really changed the company and consolidated PDG as the leading real estate player in Brazil. It is clear now that our business model and corporate culture are totally different from the other traditional players of the sector and this has been very positive for our growth with consistent profitability, professionalized management, meritocracy and compensation attached to performance, coupled with that, being a full corporation instead of a family owned company, with the largest free float and the highest liquidity of the sector, it is very important and is helping us a lot, more and more to attract the best management in the market, and that's in our view, what makes a difference, and what's making PDG keep on going, growing with consistent results.

If we go to page 2 of the presentation, talking about the recent highlights, for sure the completion of acquisition of AGRE was fundamental in this quarter. It was the biggest news of which we were already aware. The formalities finally took place on June 10 and the exchange of shares happened by June 17, when AGRE was delisted and PDG started to be the only share trading in the market. Since the deal was announced we started to work together with AGRE management and for sure the first thing that we decided to go after was the renegotiation of AGRE indebtedness, which was very big, and with the working capital part of it, with terms totally different then PDG terms, very expensive and with short tenures. We were able, since then, in a very short time, with the sponsorship and the help of the major banks of the country, because of PDG's strong balance sheet and track record, we've been able to accomplish a very successful renegotiation of this indebtedness. We have already completed the prepayments or "swaps" of part of the debt, reaching in excess of 600 million reais. We already prepaid some debentures from Klabin Segall, and we are prepaying the other one today, the one that was very famous in the market because it was very expensive, with IPCA plus 13.4 % as the interest cost of the debenture. With that in place, we obtained a reduction of approximately 400 bips of costs of the renegotiated debt, together with an increase in the average tenure of close to 20 months, from 29 months of average tenure to 48 months. On top of that we already contracted 1 billion reais in new Asset Age Financing Contracts for AGRE, for launched projects that were not already with construction finance approved. With that we had an immediate release of 150 million reais, according to construction already done on those projects. On top of that, we also have 300 million in securitization of receivables already agreed to happen in August and September. With all that together, if you go to page 3, you can see the change that we were able to produce in AGRE's Working Capital Debt Profile, excluding construction financing. We were able to reduce the debt from 1.3 to 1 billion, increasing the amount of construction financing and other better debts. On top of that, we were able to almost finish with all the very expensive part of it, that used to have CDI + 4 or above in interest rates, which was the black portion of it on the left column. So, all that together, we will start to produce benefits in the 3rd quarter and full benefits after the 4th quarter, in terms of reduction of interest expenses in our balance sheet. Besides the renegotiation of the debts, we already started to do a lot of things in the day to day with AGRE, to integrate AGRE with the other companies of the PDG platform. Basically, CHL and Goldfarb, and we've been able to already make some changes and benefits for the company, with synergies already appearing in all the three companies below PDG. One small thing together with the restructure of the debt, with every paid debenture of Klabin Segall, we will be able to take Klabin Segall and AGRE out of the public market. So they will become private companies, so we will reduce a lot of small expenses related to being a public company. On top of the changed capital structure, with more SFH construction financing, which is more adequate for the company, we changed the day-to-day of the Financial Treasury and controlling benchmarks inside AGRE, adjusting them and adapting them to PDG's standards. We were able to reduce, immediately since the deal was announced, between 10 and 15% in AGRE's payroll, finalizing the process that they've been doing themselves with the integration/merger of Fabriada, Klabin Segall and AGRE together. In terms of land bank, which was very big asset in AGRE, we were able to optimize the use of Land Bank, making agreements between AGRE, CHL and Goldfarb, in order to develop the projects with the best possible team according to location and income segments. So for example in Rio de Janeiro, all the new projects, from AGRE's Land Bank, will be developed by CHL, and as to AGRE's structure in Rio, we were able to diminish a lot, and we will move the remaining people to CHL's office in the near future. In terms of mid-low income, all the sites that were inside AGRE's Land Bank, in the State of Sao Paulo, were directed to Goldfarb, to be developed by Goldfarb's team. So that type of thing, we were already able to do since June. In terms of IT, we are already integrating the IT structure in order to prepare AGRE to be integrated with our SAP system in the future, probably by the first half of 2011. Another important point, we have been adjusting all the financial contracts and insurance contracts from AGRE's to PDG's standards and using the number of contracts in AGRE to leverage our own negotiations. So we were able to reduce the insurance cost for the entire PDG in 10%, and in the case of AGRE, the reduction was even bigger, compared to the previous contracts that they had. Another thing that relates to Land Bank and Geographic: the definition. We renegotiated our agreement with LN, which was our local partner for Parana and Santa Catarina. We had a joint venture with them, 80% PDG, 20% LN. That would have some overlap with AGRE, and we would be having to companies or two structures operating in the same geography, so we decided to integrate them. We renegotiated our agreement with LN. We acquired /agreed to acquire in the future, the 20%, by a system very similar to what we did in the past with CHL and Goldfarb: Exchange of Shares based on future results. In this case, it will be a 3 year process based on 2012, 2013 and 2014 results, with a bigger 40% discount and with a cap of a maximum number of VGV's launches that will be used to calculate the profits of the company. We integrated the structure of PDG-LN, together with AGRE, so the guys from LN will be responsible for origins, project definition, and AGRE will be responsible for construction, sales etc. So with that we optimize our vertical indebt geography.

Going to page 5, we continue to be very active in securitization, with another two issues this year, and we will do more in the second half of the year, at least the 300 that I already agreed for AGRE, and probably more than that. The conditions/terms are getting better and better so this is something that we pay a lot of attention to, and that we consider will be important for the company going forward. In terms of liquidity of the shares, we continue to be increasing our presence inside Bovespa. So by the numbers we have today, in the next revision, which will happen at the beginning of September, I will wait inside Bovespa will reach somewhere between 2.5 – 2.6 %. For sure it is going to be the largest one in the real estate sector in Brazil.

Another important thing that happened last week: On Friday, Standard & Poors announced PDG's rating to "A", a two-notch increase from the past rating, which is surely related to the scale of our business now, to the largest presence and footprint of our platform, and the flexibility that it gives to us in the country. Go Live Sap happened in the quarter as well. It will surely be very important for us in the future. The idea is to stabilize the system inside PDG by the end of the year, and to start next year thinking about coupling AGRE inside the same system, which will surely create more synergies and more games of scale.

Last but not least, very importantly, we were able to sign with Caixa Economica, our first project in the 0-3 minimum wages bracket. This is a very difficult bracket to operate in. The margins are certainly lower, but on the other hand, the cash flow and the return on our capital is stronger, because you are really totally adjusted with Caixa Economica's disbursements, because you pre-sell 100% of the units to Caixa Economica Federal but it is certainly not something we will be able to replicate a lot, because it depends on 1) the cost of the site. This was a very large site in Campinas. We had a very good price on it, and we selected a portion of the site in partnership with the local authorities and Caixa Economica Federal to develop those 15 condominiums directed to the 0-3 bracket. Besides that, the local municipality will be responsible for an important part of the infrastructure, in terms of water, sewerage, roads. So, that will help diminish our construction costs in order to be profitable, selling units at 52,000 reais per unit, which is a very low price. So, this is something important in terms of our partnership with Caixa Economica Federal. We have a very strong relationship with them, and for sure it is certainly in their interest and ours to be doing some projects in the 2-3 income bracket. But, it will be on a case by case basis, because you have to have a lot of conditions together, to be able to make money with that type of unit price. Those units comprise 136 million in sales. We signed the contract in the first week of July, and the units will be delivered in phases up until May 2012.

Now I'll pass to Michel, to talk about the numbers and the costs.

**Mr. Michel Wurman:** Hi everybody, this is Michel speaking. So going straight to page 7, we tried show the highlights of the operational and financial performance. So, first I want to highlight, that I believe we have been able to grow the operation with sustainable profitability. Another important thing is that all these things that we have been doing in AGRE of the merger, the integration, the debt renegotiation, the new contract at low prices. These will only start to appear in the second half of the third quarter and everything will start to appear in the fourth quarter and so on. So we expect to have, on that side, between 15-20 million reais more in income, just from the debt renegotiation, the lower G&A, and these other contracts.

Another important thing on AGRE also, is that, originally, as I said in the last call, we were expected to have full integration of the operations probably within between 6-8 quarters. Currently, we believe that in a further 2 or 3 quarters, we will be 100% integrated. An important thing is that as to the three main managers of the company, Beto, Fernando and Rique, it seems like they were from PDG since the beginning. So the integration has been very easy; we are really pushing that forward on bet. So, the merger of culture and the processes of PDG have been very easy to fit within AGRE, and are also growing to other regions where they weren't before, such as the operation that we did with LN, for them to take care of the south region.

Another important thing is that we expect in the new term, to start hiring senior professionals from the market, exactly to fulfill our needs from the growth of the market. Another important thing is that regarding cash burn in the first quarter. All the numbers are mentioned in the performance numbers but in the first quarter, we had 426 million reais of cash burn. In this quarter we had 272 million. We expect to have one more quarter of around 250 million reais, exactly because we are pushing some of the constructions from AGRE to deploy them/deliver them on the date. They had a lot of delays in their construction and we are starting to push that forward to decrease these delays that appeared, so in the short term, we are investing cash in that. But on the other side, as we expected, we were able to get some very good Land Bank from AGRE. So let's state the position. We are only actually doing that in some specific regions, and mainly in the low-end segment, implementing “Minha Casa, Minha Vida”. So with what we have today, probably one more part of 250 million reais, around that, of cash burn. Then the first half of this next year will have something around 100 million reais. Then we reach cash-flow positive as everything goes as expected, in the second half of next year. The last point of that is - we have a very good cash position today: 1.1 billion reais, and we also have other debts coming to the company at lower costs. So on the debt side, our challenge today is exactly to increase the terms of the debt we have today and actually have other very good terms; we believe that we have another 5 years in new less debts for the company.

So, going straight to the numbers, the majority of them were released, but in sales, we had around 1.6 billion reais in the quarter. The important thing is that for the 3rd quarter, sales were expected to be higher. So far July was a very good month, so as we will be launching more; we launched 1.8 billion in the second part, so we expect to launch around 2.0 or even more than that, and in sales, surely higher than in the 2nd quarter. We will probably have higher launches and sales within the 3rd quarter, as we are seeing today, in the operation. So, with that, the strategy is exactly to reach something around 5 billion or a bit more than that, to have a strong 3rd quarter, in order to leave the 4th quarter with a lower amount of sales, exactly to avoid more competition in some specific places and launches actually, as we believe that it will be very strong in Rio de Janeiro and the Sao Paulo municipality, and also in order to exactly concentrate a lot on the plan of 2011. So as we are expected to do, we always leave December with very few launches and we concentrate on doing the perfect year, next year. So to have the 16% of launches in the 1st quarter, and then finalize the 1st quarter with something like 40% of launches, then having a comfortable schedule for the year.

Regarding the financial numbers, we reached revenues of roughly 1.4 billion, and the important thing here is that in mid and mid-high income segments, we've been able to experience higher growth and higher prices. That is off-setting part of the higher cost of construction. This is very good, because when you are in the mid to high income segment, you don't have a cap on the prices. Although we have 40% and we like our mid-low income a lot, the mid-low income in our case, the "Minha Casa, Minha Vida" is 40% of the operations and we have a cap under 130 thousand reais. So on that, it is very difficult to improve margins of that size. You can improve a lot with return on equity as we have experienced. Regarding EBITDA, we reached 372 and regarding net income, we did 220 million, with a 17 net-income margin. In that regard, we did sector admission before, as we have been able to increase prices, and in the mid to high, we have been able to also improve the profitability of the operation. What we expect is to average the year with something for the next quarter to have between 17-19% consolidated on 2010, and for 2011, we expect to experience around the 20% net-income margin. We will also see the same thing for the return on equity and why, because if you separate the PDG operational loan, we worked to that target; and if you separate the AGRE operational loan, prior to PDG, they were in the 10% net income and return on equity margins. Now they are experiencing fast growth and they will quickly reach between 15 and 17%. That's why, we believe that shortly we will improve net-income margins within the next quarters, and for next year, it's important to highlight that it will be a fully consolidated operation, with the construction costs at the same prices, with the costs of capital at the same prices, with the land bank on AGRE being acquired in a better situation than we had acquired. Remember that the majority of the land Bank AGRE came from 2005 to 2006, so the prices were cheaper. They will experience the same kind of margins on a consolidated basis. We can reach this 20% of return on equity and margins.

Other important thing are which are the challenges for the next quarter to broaden operations, to integrate, but to also believe that we have a lot of things to generate more EVA more economic value added into the corporation. So we still have something to do on the Q&A, and we will also mention later about branding and where are all the things that we can also expect to generate some cost savings in the operation.

Now I will pass to Julia to discuss about the operational performance, and then Janer will continue.

**Mrs. Julia Martins:** Hi everyone, this is Julia. Now I will talk about the operational performance. PDG launches 1.8 billion reais in TSV in the 2nd quarter of 2010. Comparing it with the 2nd quarter of 2009, we grew 145%, and in the first quarter of 2010, we grew 72%. In the first half of 2010, we launched 41% of the total yearly guidance and great news for us. As Michel said, and according to 2010 segmentation of launches, we see 82% of the launches with the average unit price below 500 thousand reais. In the next table, we show the geographic diversity of the launches, with no regions launches more than 20% of the total launch, of the company. The next slide shows the growth of contract sales in the quarter; we sold 1.6 billion reais. Comparing this with the 2nd quarter of 2009, we grew 53%, and in the first semester we reached 2.9 billion reais in contracted sales, 76 greater than the same period in 2009, and in the same level of 2008 yearly sales. The graph on the right shows that the 53% of sales is in the low-income segment and this indicates that we remain strong in the segment. The chart on the left shows the geographical diversity similar to the launches, with sales in 12 states in more than 25 cities.

In the next, we can see that the inventory is very new, with 43% of the inventory from the last semester of launch. As we see in the table below, the companies VSO remains stable at 30%. That's really important for us that the inventory corresponds to 7 months of contract sales considering the historical average.

Now I will pass to Gustavo Janer.

**Mr. Gustavo Janer:** Good morning everyone. Thank you for joining us, this is Gustavo. We are going to slide 11, where we are basically breaking down the land-bank. Our Land Bank in the second quarter reached 30 bidding highs, is distributed in 568 products around 190 thousand units. This chart is basically showing the breakdown of our residential units, excluding what's commercial and then parceling. We would like to highlight here that it's basically a lot of exposure to the funding structure, you would recall the "Minha Casa, Minha Vida", as a bench funding around 94 % of our units are basically diversified in those 2 segments and when regarding the PSV or VGV, its 82% of our whole Land-Bank, it's either "Minha Casa, Minha Vida", or as a bench fund?..that's where we want to be. That should represent, I feel, further launches. Actually Land Bank today is something like 4.5 years of operation, coming from 2 to 3 years, which we had last quarter. Another important data here, is that our average unit in "Minha casa, Minha Vida" is somewhere around 95 – 100 000 reais, so we still have a lot of room to grow these numbers of average unit price inside "Minha Casa, Minha Vida".

Another important point: several companies have been experiencing a lot of approval issues in many of the states in Brazil. We have not been facing those problems, especially because our geographic diversification, and also because of the fact that AGRE has not been launching that much for the full year of 2009. They have a lot of pipe-lines, in terms of Brazilian pipelines, in terms of approval pipelines. So we will not be having any issues of approval for the next quarter. That's a given for us, and has already been shown in 2nd quarter launches. AGRE came from 200 launches from 200 million reais in the first quarter of the year, to around 600 million reais in the second quarter of the year.

The next slide, slide 12, is basically again, the geographical diversification point that we have been trying to emphasize a lot. We do think that confidence with a lot of geographical diversification should have somewhat of a premium of operations, and actually our results have been showing that already. When we have low concentration in most of the six cities, there is less dependence on cost pressures and approval processes. So, that's what we have seen today. If you look at what we had in terms of operations of geographical proportions in 2007, we had actually on the Southeast of Brazil something around 95% operation, a lot of exposure in Rio de Janeiro, Sao Paulo, basically, and we were able to change and shift the big concentration in the Southeast, something around 50% of the whole operation. No specific or clear concentration of cities in Brazil. We think that's a very strong call to have and that should allow us a lot of growth with little exports to no specific region, and again operating in 101 different cities in Brazil.

Slide 13, we have a little more colors our financial figures for the second quarter in terms of revenues that Michel covered, we reached 1.3 billion reais. The first half of the year has already reached 2.4 billion reais. In terms of growth compared to the 2nd quarter of 2009, 49% growth. In terms of gross profit, we reached 438 million reais in the 2nd quarter, 65% growth, which gave us about 33.2 % gross margins, coming from 33.6% gross margins in the 1st quarter of the year. As Michel mentioned before, we are facing increasing prices in the mid and mid-high segments and we have been able to attend to better prices, and that has been reflected in our margins too. Another point that was not mentioned before, we have something around 84 million reais in debt interest going through the gross margins, so if you exclude the fact of the debt margin, it should go something around 39% in the quarter. Another point is that we are able to do a very big sale of commercial property in Sao Paulo on Faria Lima, which is basically the biggest well-known street in Brazil in terms of commercial development today. So we did a forced sale there on the Faria Lima project, which came to around 20 million reais of revenue recognition for us, with very good margins. So that impacted positively on our margins to 0.7 % of gross margin.

Coming to EBITDA we did 371 million reais in a quarter, 122% growth on the first half of the year. We have already reached something around 662 million reais in terms of EBITDA. Again, very strong margins at 28%, coming from something around 26% on the first quarter of the year. That adjusted basically with the stock option program that is a non cash advantage for us. That is something around 10.6 million reais. In the next slide, we will give a little more color on the SG&A dilution coming from the EBITDA, and coming from that profit we have reached 220 million reais in the second quarter of the year, 178% growth in comparison with the second quarter 2009, already reaching 400 million reais of net profit on the first half of the year. That is also adjusted, for stock option program, again 10.6 million reais, which came from net margins of 16.7% of net margin and ROE close to 17% already. Michel mentioned that in the beginning but I will just emphasize that most of the debt renegotiation process we have been doing in AGRE, most of that has already been done after the second quarter of the year. They are going to see much more issues of better net margins and better financial expenses going in our income statements in the 3rd and even 4th quarter of the year. Now, on slide 14 we basically see here a very good issue on the SG&A dilution which should help us a lot on reporting 20% of EBITDA margin which we did this quarter. What is important to highlight here, if we see the 14.2% of SG&A over gross revenue of first half 2009 coming from 14.3 actually coming down to 330 basis points to something around 11% gave us the ability on having a lot of SG&A dilution on the first half of the year. And just to wrap up, on this last slide, slide 15, this is the well known chart for us that shows basically our debts pre payment schedule which are been doing now on the

PDG that is actually much longer than what we have seen in the past. This Michel has covered in the beginning but the blue color line we see right in the beginning that is basically Klabin-Segall, the benchers, which we are pre paying right now. Actually today we are pre paying a very big debenture to Klabin Segall. It is very well known debenture in Brazil the cost of debts IPCA, which is the inflation in Brazil, of +13.4%, that's 230 million reais of debentures we're prepaying today with another 42 million reais of CDI+3% and we have already paid in July another 254 million reais of CDI+3%, so, again, Michel mentioned that in the beginning a lot of pre payments are very high costs of debts which should ease up a lot our short time and even long time debt payment. The cost of our total working capital on the PDG has come down to CDI+2% 4.9%. Another point here net debt to equity has reached 46% if that's increasing probably in the next 2 quarters it will only come through more SFH funding, which is construction finance in our balance sheet. That reflects already on the consolidated basis when you look by index here the PR should represent SFH funding which is already 48% in the balance sheets and that should increase even more. Just remember that before the acquisition of AGRE, AGRE has something around 2/3 of the working capital which was very high in terms of cost. That is already something around on de PDG side combined with AGRE, 15% and should even increase more. Now we wrap up and go to our Q&A

**Operator**: Excuse me ladies and gentlemen we will now begin the question and answer session. If you have a question, please press *1. If at any time you would like to remove yourself from the question queue, press *2. Our first question comes from Mr. Gordon Lee with UBS.

**Mr.Gordon Lee - UBS**: Hi, good morning. Just two quick questions. The first is if you could just remind or repeat what you think the annualized savings or all the different initiatives including the refinancing on AGRE that you commented on, maybe thinking in 2011. What do you think the annualized figure saving is? And the second question, just looking at the net debt to equity, what do you consider a steady statement at that equity ratio you would be comfortable with. Let's say one that you would be targeting in 2011 once integration has been taken place. Thank you.

**Mr. Michel Wurman**: Hi Gordon, this is Michel speaking. Regarding your first question, regarding the savings, the cost of debts is around 10 to 12 million reais a quarter and in other savings we are expecting to have more 10 million reais. So, on a fully consolidated basis we expect to have AGRE having between 60 to 80 million reais in cost savings for full 011 numbers. Regarding the… what was your second question? Net debt to equity… probably we will reach with that first stage something around 50 to 60%. It´s important that by the covenants, SFH debts are not included in the covenants, so that´s a line that actually is like a project finance, you don´t mind increasing a lot, it´s just related to unspecific source of money, and when we reach cash flow positive probably ideal is to have around 40% of Net Debt to Equity in the long term because it´s important that we improve a lot our net income margins by having debt in the balance sheet. We prefer to shoot for distributing more cash as dividends than decreasing a lot the debt in the company that we feel is a comfortable level to hold the operation in the long term.

**Mr. Gordon Lee - UBS**: Perfect. That's very clear. And if I can just have one follow up on the 0 to 3 times minimum wage project that you announced. Obviously you said that is a very specific project and it requires a lot of support from the local authorities, etc. What would you say, what percentage of your existing land bank you think it would be suitable for that type of project?

**Mr. José Antônio Grabowsky**: Hi Gordon this is Zeca. I would say it very minor, I would say from the existing land bank, there are might be one other case also in Campinas that we are talking with the municipality and I think that is it. We are sourcing others areas, we are talking about in Rio de Janeiro with the municipality, but is not easy for sure not in Rio, it would be in the state of Rio, but not in the city of Rio, and in the north and northeast we don't have an existing site, but as we increase our presence there in the mid/low, low income we will probably try to find something to do, but it is a very specific case by case situation, really.

**Mr. Gordon Lee - UBS**: Perfect thanks very much.

**Mr. José Antônio Grabowsky**: Thank you

**Operator**: Excuse me, our next question comes from Mr Ajan Witha with JP Morgan.

**Mr.Ajan- JP Morgan**: Hi, Good morning, everyone. Just comeback to that 0 to 3 minimum wage segment what are the minimum returns that you are expecting when you are analyzing a potential project for this and then what are the differences except what the Government has already acquire of units rather than selling them out to the potential buyers. What is the difference between that thing and the efeito sucetivo where you also pay during construction? Thank you.

**Mr. José Antônio Grabowsky**: Hi Andrew this is Zeca again, we for sure in terms of margins it will depend on the forecast of inflation going forward in the 18 to 24 months period that we will do the construction but it is somewhere around 12 to 16 % margin but the IRRs are much higher because the working capital is very minimal because Caixa Economica as you sell a 100% upfront, when you start construction you get a 100% of the unit price disbursement, in reality we receive in advance the value of the land that Caixa Economica attributes usually from 5 to 10 % of the unit price and the rest of the unit price you will receive as you do the construction. So in terms of cash flow it is better than the usual Crédito Associativo because you sold 100% at the same time you start construction already 100% pre-sold. On top of that you have a lot of small advantages on the fiscal side, the taxes are reduced to 1% of sales, you don't need brokers, so you don't pay sales brokerage fee, so you have some other minor advantages that explains how you can sell for 52.000 and still have some margins but the bigger benefit is on the cash flow that translates into a higher internal rate of return for the project.

**Mr. Ajan- JP Morgan**: If I could just ask one more question. Given what you have seen already so far in the potential opportunities on this segment. How big could this segment be for you, in let´s say 3 to 5 years? What percentage of your volume, total revenues?

**Mr. José Antônio Grabowsky**: To be honest with that limit of price that we have today, very minimal. Because you really need a lot of support from the local authorities in terms of infrastructure. There are some talks in general about Minha Casa, Minha Vida of raising the price limits of all the segments, so depending on how much they increase, we might be a little bit more interest in doing some other projects but with today´s condition, as I mentioned to Gordon´s question, it´s a very specific case by case situation that will not be very meaningful to us.

**Mr. Michel Wurman**: I think the important thing, the target of having this 0 to 3 is exactly to have in-house the knowledge and technology to invest in Goldfarb, so it´s more to the challenge if that ramps up in the future, we have an in-house experience of doing that, so if that can become one day, if the price increases into that segment, we have the knowledge on that, then a question of being important today in the segment. So it´s more like probably to be opportunistic as it stays today, but I really believe is important to have this in-house knowledge of doing that.

**Mr.Ajan- JP Morgan**: Thank you very much to all of you.

**Operator**: Excuse me. Our next question comes from Mr. Paul Pictunas with Narisi

**Mr. Paul** : Good Morning. I´ve got a quick question on tax, the gross revenue tax. It´s used to 3,5% in the quarter and the corporation tax despite of that is about 21%. We all see that the gross revenue tax is influenced by the product mix, but could you give as an idea of how you expect the deadlines to move going forward?

**Mr. Gustavo Janer**: Paul, can you just repeat the question please? It was not clear for us, the call is very low. Please. Thank you.

**Mr. Paul** :Oh sorry. My question is on the taxes, on the gross revenue tax which decreased on the quarter and the corporation tax increased. I was just wondering if you could give us guidance on how you expect those to move for the rest of the year and from 2011 onwards?

**Mr. Michel Wurman**: Hi Paul, this is Michel speaking. One important thing is like how we do the planning on the taxes on PDG? We are like a holding operation, so sometimes we have several special profitable companies and some of them they pay taxes directly under the equity level and some of them they pay directly under the holding level, so all of the time we are planning to have maximum efficiency on that so probably, in the case that happened is that we generated a higher income in one side and we offset that with probably past taxes that we paid in excess in the past. So this is very difficult to keep track in that on quarterly basis. When you analyze that you see that you have a common shape on the payment.

**Mr. Paul**: Ok though, would you expect it to be lower if you look it on a yearly basis on the 21% on the corporation tax?

**Mr. Michel Wurman**: We expect to continue to have the same trend.

**Mr. José Antônio Grabowsky**: The number for the year is going to be around 3 % more than 3% is the trend.

**Mr. Paul**: Ok, thank you.

**Operator**: Excuse me. Our next question comes from Mr. Daniel Agoy with Citigroup.

**Mr. Daniel Agoy- Citigroup**: Good morning gentlemen. Just a question on the gross margins, they are significantly up year on year, running, excluding financial expenses, close to 40%, which is obviously a really high level. Can you recap some of the extraordinary events that helped the margin, I think you commented on one that was the land sell that affected it by 70 base points, but where there any other items in the first quarter, including first half that are giving such a higher gross margin and I guess would you look for the remainder of the year and into 2011?

**Mr. Michel Wurman**: Hi Dan, this is Michel. I think it´s a mix of several things. First of all regarding cost, that is a negative side but in the other side we´ve been able to increase a lot prices. The third important fact is that under the cancellations that we had of debt sales, these sales, all of them we´ve been able to put higher prices on that, so it´s a blend of that. At the end, instead of having 80 to 90% of the operation into the low income, this is an operation that is coming more to the mid income shape, so low income is going to be 40% of the operation, then you have around 40% into the mid income. In the past that was roughly 100% of the operation. So other important thing is that also in the AGRE side the land bank position compared to us is very cheap, so it´s easier also to face higher gross margins. But at the end you don´t have one specific thing, it´s more of a product mix than one specific fact. One important thing again, I also believe the trend is not to increase that overtime, for sure the trend will be decreasing overtime, but not to 28 to 30% of gross margin that we expected to have in the beginning of the year, more to trend of being between 30 to 33% of gross margin overtime.

**Mr. Daniel Agoy- Citigroup**: Great. Just a follow up if I may, because some of your competitors for instance in the mid and higher incomes are struggling to get price increases to match rising costs. Do you see in the market place yourselves being more aggressive on price increases and is clearly doesn´t look like it´s affecting yourselves´ velocity and all, but, I guess, is there anything in particular that it´s allowing PDG more effective in getting price increases through?

**Mr. José Antônio Grabowsky**: Hi Dan, this is Zeca. No. I think in price increases, maybe our advantage is the geographic diversification that allows us to be in some places that maybe are less competitive, but I don´t see us doing anything much different than the other big players that have diversification throughout the country. I think one other point that might be happening, although some companies might not be talking about them, in the low income as you have less room for price increases I think that the companies that are new to that market might be having some margin compressions due to their inexperience in doing construction at such a tight cost control as it is in the low income and I think our advantage having Goldfarb with a very long term track record in experience in doing that type of construction is starting to make the difference. I think you can see that the companies that have the long term track record like ourselves and MRV are not having problems for margins but I think the others that are entering the low income, they might be starting to suffer in the cost control for the low income projects as well.

**Mr. Daniel Agoy- Citigroup**: Great. Thanks for the answers.

**Operator**: Excuse me Ladies and Gentlemen, as a reminder to post a question please press *1. Our next question comes from Mr. Gordon Lee with UBS.

**Mr. Gordon Lee - UBS**: Hi, just a quick follow up on cash burn. I was wondering if you could tell us what share of your quarterly cash burn was attributable to the change in policy required by Caixa in terms of requiring the contracts to be notarized which that has affected some of your peers and I was wondering if you could tell us roughly speaking what the amount of cash burn from the quarter came from that. Thanks.

**Sra. Julia Martins**: Hi Gordon, this is Julie speaking. We didn´t have any impact for that because the change that occurred in the Caixa process didn´t affect Goldfarb, because this change is only for the companies that do the client turnover to Caixa after the project is delivered and Goldfarb usually does before the delivery.

**Mr. José Antônio Grabowsky**: Did you get that, Gordon? The change in Caixa was only for the "repasses" in Portuguese, the client turnover after completion. OK? The system didn´t change for the companies that operates delivering the clients to Caixa, approving the clients during construction, which is our case. I think the problem is that the other companies, they send to do all or the majority of their clients turned into Caixa after completion, because they don´t have the experience in operating in Caixa in the "crédito associativo" system as we have through Goldfarb. So we were not affected by that.

**Mr. Gordon Lee - UBS**: OK, perfect. That´s clear. Thank you.

**Mr. José Antônio Grabowsky**: Thank you, bye bye.

**Operator**: We just concluded today this question and answer session. I would like to invite Mr. José Grabowsky to proceed with his closing statements. Please go ahead sir.

**Mr. José Antônio Grabowsky**: So, thanks again for your attention. I think that was a very good call as usual. We are very optimistic for the rest of the year and for the coming years in Brazil. I think the market place for real estate macroeconomic environment is very favorable and specifically to the sector, all the funding conditions through Caixa Economica Federal and the private banks are in the best time ever. So I think that will continue to feel the growth of the sector. As Michel mentioned, we will have a very strong third quarter for sure. July has been very good, August is on the way and for sure we will have probably, let´s say, record launches, record sales for the third quarter, in order to have, let´s say, a fourth quarter without too much pressure. Every year for sure there is Christmas, and Christmas this year will be strong again, will be a great competitor in December and on top of that, this year we have elections in

October and potentially a two-fold election so 2 weekends of October will be occupied by elections so we don't  want to be in too much pressure for the fourth quarter in terms of launches. So, thank you very much. As usual we are at your disposal, our IR team will be for sure travelling a lot the remaining portion of the year. A lot of events, we are as usual attending as much as possible all of them to be in constant interaction with you and if you have any doubts, please feel free to call us with questions, comments, ideas as usual. Thank you very much.

**Operator**: That just concluded the PDG Realty audio-conference for today. Thank you very much for your participation and have a good day. Thank you.