

Gafisa S.A.  
Form 20-F  
April 29, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from                      to                      .

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-33356

GAFISA S.A.  
(Exact name of Registrant as specified in its charter)

GAFISA S.A.  
(Translation of Registrant's name into English)

The Federative Republic of Brazil  
(Jurisdiction of incorporation or organization)

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Attn: Andre Bergstein – Chief Financial Officer and Investor Relations Officer  
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, without par value*	New York Stock Exchange

\* Traded only in the form of American Depositary Shares (as evidenced by American Depositary Receipts), each representing two common shares which are registered under the Securities Act of 1933.

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Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares as of December 31, 2013 was:

Title of Class	Number of Shares Outstanding
Common Stock	433,559,201

\* Includes 19,099,486 common shares that are held in treasury.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Accelerated Filer

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Large Accelerated  
Filer

Non-accelerated  
Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International  
Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item Item  
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If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

In this annual report, references to “Gafisa,” “we,” “our,” “us,” “our company” and “the Company” are to Gafisa S.A. and its consolidated subsidiaries (unless the context otherwise requires). In addition, the term “Brazil” refers to the Federative Republic of Brazil, and the phrase “Brazilian government” refers to the federal government of Brazil. All references to “real,” “reais” or “R\$” are to the Brazilian real, the official currency of Brazil, and all references to “U.S. dollar,” “U.S. dollars” or “US\$” are to U.S. dollars, the official currency of the United States. References to “Brazilian GAAP” or “BR GAAP” are to accounting practices adopted in Brazil and references to “U.S. GAAP” are to generally accepted accounting principles in the United States. Any reference to “financial statement” is related to our consolidated financial statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

We maintain our books and records in reais. Our financial statements were prepared in accordance with Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, Brazilian Law No. 11,638/07 and Brazilian Law No. 12,431/11, which we refer to hereinafter as “Brazilian corporate law;”
- the rules and regulations of the Brazilian Securities Commission (Comissão de Valores Mobiliários), or the “CVM;” and
- the accounting standards issued by the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade), or the “CFC” and the Accounting Standards Committee (Comitê de Pronunciamentos Contábeis), or the “CPC.”

Brazilian corporate law was amended by Law No. 11,638 dated December 28, 2007 in order to facilitate the convergence of Brazilian GAAP with International Financial Reporting Standards, or “IFRS,” and thereafter, the CPC issued new accounting standards that generally converged Brazilian GAAP with IFRS. Our Brazilian GAAP financial statements as of and for the year ended December 31, 2008 reflect changes introduced by Law 11,638/07 and the new accounting standards issued by the CPC in 2008, which we retroactively applied beginning on January 1, 2006.

Through December 31, 2009, our financial statements were prepared in accordance with Brazilian GAAP in effect at that time. We elected January 1, 2009 as a transition date to full adoption of the new accounting standards (“new CPCs”). Our financial statements as of and for the year ended December 31, 2009 and as of January 1, 2009 have been restated to reflect these adjustments. In preparing our financial statements, we have applied: (1) Guideline OCPC 04 – Application of the Technical Interpretation of ICPC 02 to the Brazilian Real Estate Development Entities – regarding revenue recognition, and the respective costs and expenses arising from real estate development operations over the course of the construction period (percentage of completion method), and (2) CPC 37 (R1), which requires that an entity develops accounting policies based on the standards and interpretations of the CPC. We have adopted all pronouncements, guidelines and interpretations of the CPC issued through December 31, 2013. As a result, our financial statements are prepared in accordance with Brazilian GAAP, which allows revenue recognition on a percentage of completion basis for construction companies (i.e., revenue is recorded in accordance with the percentage of financial evolution of the construction project), and are therefore not compliant with IFRS as issued by the International Accounting Standards Board (“IASB”), which require revenue recognition on a delivery basis (i.e., revenue is recorded upon transferring the ownership risks and benefits to the purchaser of real estate, usually after the construction is completed and the unit is delivered). We understand that the IASB continues to consider alternatives to its current revenue recognition principles applicable to construction companies and we continue to follow

developments as proposed by the CPC and other accounting standards bodies in other jurisdictions.

Reconciliations and descriptions of the effect of the transition to the newly adopted Brazilian GAAP are provided in Note 2.1.3 to our 2010 audited financial statements not included in this annual report.

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Brazilian GAAP differs in significant respects from U.S. GAAP and IFRS. The notes to our financial statements included elsewhere in this annual report contain a reconciliation of equity and net income (loss) from Brazilian GAAP to U.S. GAAP. Unless otherwise indicated, all financial information of our company included in this annual report is derived from our Brazilian GAAP financial statements.

Our consolidated financial statements reflect statement of income (loss) and balance sheet information for all of our subsidiaries, and also separately disclose the interest of non-controlling shareholders. Since January 1, 2013 and applicable retrospectively to the comparative periods of 2012 and 2011, the proportional consolidation method for investments in jointly-controlled investees previously applied by the Company, is no longer allowed under Brazilian GAAP as a result these jointly controlled investments are now accounted for through the equity method. In accordance with the transition provisions provided by these new accounting standards, we were not required to retrospectively restate our 2010 and 2009 Brazilian GAAP consolidated financial statements. Accordingly, Brazilian GAAP selected financial data for 2010 and 2009 included herein, is not comparable to those for later periods.

As set forth in “Item 4. Information on the Company—A. History and Development of the Company”, we completed the sale of a controlling stake in Alphaville Urbanismo S.A., or “Alphaville”, the leading residential community development company in Brazil, on December 9, 2013. The transaction involved the sale of 50% interest by Gafisa and 20% interest by our subsidiary Construtora Tenda S.A., or “Tenda”, with Gafisa retaining the remaining 30% of Alphaville capital stock. As a result, Alphaville was no longer consolidated in the financial statements of the Company since November 30, 2013. In this annual report, while financial information related to Alphaville is treated as discontinued operations, all operating information related to our business includes full operating information for Alphaville through December 9, 2013.

Effective January 1, 2013, with the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), the proportional consolidation method for investments in jointly-controlled investees, which was previously applied by the Company, is no longer allowed under Brazilian GAAP. Consequently, our jointly controlled investments are now accounted for through the equity method. While our financial statements and the financial information presented in this annual report have been restated to apply this change retrospectively to the comparative periods of December 31, 2012 and 2011, the operating information presented in this annual report has not been restated and reflects our percentage interest in such jointly-controlled investees as management believes it provides a better view of our operating performance.

## Market Information

Certain industry, demographic, market and competitive data, including market forecasts, used in this annual report were obtained from internal surveys, market research, publicly available information and industry publications. We have made these statements on the basis of information from third-party sources that we believe are reliable, such as the Brazilian Property Studies Company (Empresa Brasileira de Estudos de Patrimônio), or the “EMBRAESP,” the Association of Managers of Real Estate Companies (Associação de Dirigentes de Empresas do Mercado Imobiliário), or the “ADEMI,” the Getulio Vargas Foundation (Fundação Getulio Vargas), or the “FGV,” the National Bank of Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social), or “BNDES,” the Real Estate Companies’ Union (Sindicato das Empresas de Compra, Venda, Locação e Administração de Imóveis Residenciais e Comerciais), or the “SECOVI,” the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística), or the “IBGE” and the Brazilian Central Bank (Banco Central do Brasil), or the “Central Bank,” among others. Industry and government publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Although we have no reason to believe that any of this information or these reports are inaccurate in any material respect, such information has not been independently verified by us. Accordingly, we do not make any representation as to the accuracy of such information.

## Rounding and Other Information

Some percentages and certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables in this annual report may not be an arithmetic aggregation of the figures that precede them.

In this annual report, all references to “contracted sales” are to the aggregate amount of sales resulting from all agreements for the sale of units (including residential communities and land subdivisions) entered into during a certain period, including new units and units in inventory. Further, in this annual report we use the term “value of

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launches” as a measure of our performance. Value of launches is not a GAAP measurement. Value of launches, as used in this annual report, is calculated by multiplying the total numbers of units in a real estate development by the average unit sales price.

All references to “potential sales value” are to our estimates of the total amount obtained or that can be obtained from the sale of all launched units of a certain real estate development, calculated by multiplying the number of units in a development by the sale price of the unit. Investors should be aware that our potential sales value may not be realized or may significantly differ from the amount of contracted sales, since the total number of units actually sold may be lower than the number of units launched and/or the contracted sales price of each unit may be lower than the launching price.

In addition, we present information in square meters in this annual report. One square meter is equal to approximately 10.76 square feet.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this annual report in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several uncertainties and are made in light of information currently available to us. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- changes in the overall economic conditions, including employment levels, population growth and consumer confidence;
- changes in real estate market prices and demand, estimated budgeted costs and the preferences and financial condition of our customers;
  - demographic factors and available income;
- our ability to repay our indebtedness and comply with our financial obligations;
  - our ability to arrange financing and implement our expansion plan;
  - our ability to compete and conduct our businesses in the future;
    - changes in our business;
  - inflation and interest rate fluctuations;
- changes in the laws and regulations applicable to the real estate market;
- government interventions, resulting in changes in the economy, taxes, rates or regulatory environment;
- other factors that may affect our financial condition, liquidity and results of our operations; and

- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to indicate estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this annual report might not occur and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive of, but not limited to, the factors mentioned above.

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## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## A. Selected Financial Data

The following selected financial data for 2013, 2012 and 2011 has been derived from our audited consolidated financial statements presented herein. As explained in footnote 9 below, our selected Brazilian GAAP financial data for 2010 and 2009 was derived from our previously issued consolidated financial statement for such years, not presented herein, after adjusting such previously reported amounts for certain recently issued Brazilian GAAP accounting standards.

Our financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these consolidated financial statements and a reconciliation of net income (loss) and equity from Brazilian GAAP to U.S. GAAP, see notes to our consolidated financial statements included elsewhere in this annual report. See also “Presentation of Financial and Other Information.”

This financial information should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report.

The following table sets forth financial information as of and for the years ended December 31, 2013, 2012, and 2011, which has been prepared in accordance with Brazilian GAAP in effect as of December 31, 2013. Certain information below is presented in accordance with U.S. GAAP.

	2013	As of and for the year ended December 31,					2009	(8)(9)
		2012	2011	(10)	2010	(8)(9)		(8)(9)
		(restated)	(restated)					
		(in thousands except per share, per ADS and operating data)						
Consolidated Income Statement Data:								
Brazilian GAAP:								
Net operating revenue	2,481,211	2,805,086	1,846,902		2,956,087			2,745,638
Operating costs	(1,863,766)	(2,276,804)	(1,927,874)		(2,209,742)			(1,968,665)
Gross profit (loss)	617,445	528,282	(80,972)	)	746,345			776,973
Operating expenses, net	(215,574)	(609,604)	(719,232)	)	(469,448)	)		(541,255)
Financial expenses, net	(162,503)	(180,263)	(166,728)	)	(68,038)	)		(102,617)
Income (loss) before income and social	239,368	(261,585)	(966,932)	)	208,859			133,101

contribution taxes					
Income and social contribution taxes	(2,812 )	(20,222 )	(105,850 )	(7,102 )	(29,749 )
Net income (loss) from continuing operations	236,556	(281,807 )	(1,072,782)	201,757	103,352
Net income from discontinued operations	631,122	204,128	167,759	86,727	39,610
Net income for the year attributable to non-controlling interest	235	49,364	39,845	23,919	41,222
Net income (loss) for the year attributable to owners of Gafisa	R\$867,443	R\$(127,043 )	R\$(944,868 )	R\$264,565	R\$101,740
Share and ADS data(1):					
Per common share data—R\$ per share:					
Earnings (loss) per share—Basic	2.0348	(0.2939 )	(2.1893 )	0.6415	0.3808
From continuing operations	0.7358	(0.6717 )	(2.5003 )	0.4732	0.2918
From discontinued operations .	1.2990	0.3778	0.3110	0.1682	0.0890
Earnings (loss) per share—Diluted	2.0226	(0.2939 )	(2.1893 )	0.6109	0.3242

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	2013	As of and for the year ended December 31,			
		2012	2011	2010(8)(9)	2009(8)(9)
		(restated)	(restated)		
		(in thousands except per share, per ADS and operating data)			
From continuing operations	0.7315	(0.6717 )	(2.5003 )	0.4658	0.3294
From discontinued operations	1.2911	0.3778	0.3110	0.1602	0.0757
Weighted average number of shares outstanding—in thousands	426,300	432,246	431,586	412,434	267,174
Dividends and interest on shareholders' equity declared—in thousands of reais	163,112	-	-	98,812	50,716
Earnings (loss) per share—R\$ per share	2.0829	(0.2937 )	(2.1867 )	0.6140	0.6100
Number of common shares outstanding as at end of period—in thousands*	416,460	432,630	432,099	430,915	166,778
Earnings (loss) per ADS—R\$ per ADS(2)	4.1658	(0.5873 )	(4.3734 )	1.2279	1.2200
U.S. GAAP:					
Net operating revenue	2,565,988	3,930,729	3,250,227	1,929,130	1,700,940
Operating costs	(1,955,158)	(3,008,345)	(2,743,144)	(1,472,085)	(1,256,317)
Gross profit	570,830	922,384	507,083	457,045	444,623
Operating expenses, net	(202,025 )	(859,657 )	(862,975 )	(575,776 )	(575,024 )
Financial expenses, net	(187,298 )	(191,414 )	(97,370 )	(97,810 )	(102,925 )
Income from disposal on controlling interests	1,228,429	-	-	-	-
Income (loss) before income and social contribution taxes and income from equity method investments	1,409,936	(128,687 )	(453,262 )	(216,541 )	(233,326 )
Income and social contribution taxes	(52,211 )	(68,733 )	(334,410 )	100,811	40,367
Equity pick-up	(21,795 )	108,265	59,687	42,161	88,913
Net income (loss) for the year	1,335,930	(89,155 )	(727,985 )	(73,569 )	(104,046 )
Net income attributable to non-controlling interests	13,462	32,048	27,784	21,214	30,333
Net income (loss) attributable to owners of Gafisa	1,322,468	(121,203 )	(755,769 )	(94,783 )	(134,379 )
Per share and ADS data(1):					
Per common share data—R\$ per share:					
Earnings (loss) per share—Basic	3.1022	(0.2804 )	(1.7511 )	(0.2298 )	(0.5030 )
Earnings (loss) per share—Diluted	3.0835	(0.2804 )	(1.7511 )	(0.2298 )	(0.5030 )
Weighted average number of shares outstanding — in thousands	426,300	432,246	431,586	412,434	267,174
Dividends declared and interest on equity	163,112	-	-	98,812	50,716
Per ADS data—R\$ per ADS(2):					
Profit (loss) per ADS —Basic(2)	6.2044	(0.5608 )	(3.5023 )	(0.4596 )	(1.006 )
Profit (loss) per ADS —Diluted(2)	6.1670	(0.5608 )	(3.5023 )	(0.4596 )	(1.006 )
Weighted average number of ADSs outstanding—in thousands	213,150	216,123	215,793	206,217	133,587
Dividends and interest on equity declared	163,112	-	-	98,812	50,716
Consolidated Balance Sheet Data:					
Brazilian GAAP:					
	2,024,163	1,567,755	858,351	1,201,148	1,424,053

## Cash, cash equivalents and short-term investments

Current and non-current properties for sale	2,094,414	2,166,424	2,463,374	2,206,072	1,748,457
Working capital(3)	2,996,884	3,764,756	1,848,311	4,808,337	3,195,413
Total assets	8,183,030	8,712,569	9,164,783	9,040,791	7,455,421
Total debt(4)	3,059,528	3,640,437	3,437,929	3,290,109	3,122,132
Total equity	3,214,483	2,685,829	2,743,576	3,632,172	2,384,181

## U.S. GAAP:

## Cash and cash equivalents, short-term investments and restricted short-term investments

Current and non-current properties for sale	2,024,163	1,566,042	858,351	1,127,382	1,395,668
Working capital(3)	2,816,204	3,260,711	3,847,858	3,690,328	3,068,738
Total assets	2,755,836	3,419,171	3,353,108	3,940,576	2,762,165
Total debt(4)	8,477,587	8,694,612	8,861,145	8,482,267	7,320,057
Total Gafisa equity	3,067,703	3,642,920	3,444,478	3,081,276	3,057,792
Equity of non-controlling interests	2,799,171	1,619,276	1,719,948	2,611,844	1,679,418
Total equity	23,074	53,222	21,174	20,833	18,426
Total equity	2,822,245	1,672,498	1,741,122	2,632,677	1,697,844

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	2013	As of and for the year ended December 31,				
		2012	2011	2010	(8)(9)	2009
		(restated)	(restated)			(8)(9)
		(in thousands except per share, per ADS and operating data)				
Consolidated cash flow provided by (used in):						
Brazilian GAAP						
Operating activities	297,652	644,288	(790,145 )	(1,079,643)		(692,084 )
Investing activities	53,464	(287,960 )	(31,641 )	122,888		(762,164 )
Financing activities	(568,124 )	162,080	634,952	920,197		1,555,745
Operating data (10):						
Number of new developments	37	35	49	127		69
Potential sales value(5)	2,886,204	2,951,961	3,526,298	4,491,835		2,301,224
Number of units launched(6)	11,072	8,947	12,224	22,233		10,810
Launched usable area (m2)(7)	2,893,541	3,153,251	2,250,725	3,008,648		1,415,110
Units sold	10,187	7,157	9,844	20,744		21,952

\* Common shares held in Treasury are not included.

(1) On February 22, 2010, a stock split of our common shares was approved, giving effect to the split of one existing share into two new issued shares, increasing the number of shares from 167,077,137 to 334,154,274. All Brazilian GAAP and U.S. GAAP information relating to the numbers of shares and ADSs have been adjusted retroactively to reflect the share split on February 22, 2010. All Brazilian GAAP and U.S. GAAP earnings per share and ADS amounts have been adjusted retroactively to reflect the share split on February 22, 2010.

(2) Earnings (loss) per ADS is calculated based on each ADS representing two common shares.

(3) Working capital equals current assets less current liabilities.

(4) Total debt comprises short-term and long-term of loans, financings and debentures.

(5) Potential sales value is calculated by multiplying the number of units in a development by the sales price of the unit.

(6) The units delivered in exchange for land pursuant to swap agreements are not included.

(7) One square meter is equal to approximately 10.76 square feet.

(8) The financial information as of and for the years ended December 31, 2010 and 2009 have been prepared in accordance with Brazilian GAAP in effect at such time. Since January 1, 2013 and applicable retrospectively to the comparative periods of December 31, 2012 and 2011, the proportional consolidation method for investments in jointly-controlled investees, previously applied by the Company is no longer allowed under Brazilian GAAP. Considering the unreasonable timing and expense effort to restate 2010 and 2009 Brazilian GAAP consolidated financial statements and consistent with the transition provisions provided by these new accounting standards we were not required to retrospectively restate our 2010 and our 2009 Brazilian GAAP consolidated financial statements for these new accounting standards. As a result, these jointly controlled investments are now accounted for through the equity method and, therefore, results for the years ended December 31, 2010 and 2009 are not comparable to those for subsequent periods.

- (9) As explained in Note 8.2 to our consolidated financial statements for the year ended December 31, 2013, the results of operations of Alphaville have been presented as discontinued operations under Brazilian GAAP in the Company's 2013, 2012 and 2011 consolidated statements of operations given its disposal during 2013. Under Brazilian GAAP, previous period balance sheet information is not retrospectively adjusted. Brazilian GAAP selected consolidated statement of operations financial data for the years ended December 31, 2010 and 2009 has also been retrospectively adjusted to also reflect discontinued operations for comparability purposes. Previously reported U.S. GAAP selected financial information is not impacted by this matter as Alphaville is reflected as a component of continuing operations for all periods presented, given the Company's significant continuing involvement in those operations via its 30% retained ownership interest.
- (10) While our financial statements and the financial information presented in this annual report have been restated to apply this change retrospectively to the comparative periods of December 31, 2012 and 2011, the operating information presented in this annual report has not been restated and reflects our percentage interest in such jointly-controlled investees as management believes it provides a better view of our operating performance.

#### Exchange Rates

All transactions involving foreign currency in the Brazilian market, whether carried out by investors resident or domiciled in Brazil or investors resident or domiciled abroad, must now be conducted on the consolidated exchange market through institutions authorized by the Central Bank and subject to the rules of the Central Bank.

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The Central Bank has allowed the real to float freely against the U.S. dollar since January 15, 1999. Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the real declined relative to the U.S. dollar, primarily due to financial and political instability in Brazil and Argentina. According to the Central Bank, in 2005, 2006 and 2007, however, the period-end value of the real appreciated in relation to the U.S. dollar 13.4%, 9.5% and 20.7%, respectively. In 2008, the period-end value of the real depreciated in relation to the U.S. dollar by 24.2%. In 2009 and 2010, the period-end value of the real appreciated in relation to the U.S. dollar by 34.2% and 4.3%. In 2011, the real depreciated against the U.S. dollar by 11.2%. In 2013 and 2012, the real depreciated by 13.2% and 8.9% against the U.S. dollar, respectively. On December 31, 2012, the period-end real/U.S. dollar exchange rate was R\$2.0435 per U.S. \$1.00, and on December 31, 2013 it was R\$2.3420 per U.S.\$1.00. Although the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of this instability or other factors, and, therefore, the real may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

The following table shows the selling rate, expressed in reais per U.S. dollar (R\$/US\$), for the periods and dates indicated.

	Period-end	Average for period(1) (per U.S. dollar)	Low	High
Year Ended:				
December 31, 2009	1.741	2.062	1.702	2.422
December 31, 2010	1.665	1.759	1.655	1.880
December 31, 2011	1.876	1.718	1.535	1.902
December 31, 2012	2.044	1.907	1.702	2.112
December 31, 2013	2.362	2.199	1.925	2.445
Month Ended:				
October 2013	2.202	2.186	2.161	2.212
November 2013	2.325	2.289	2.242	2.336
December 2013	2.342	2.345	2.310	2.381
January 2014	2.426	2.386	2.333	2.439
February 2014	2.333	2.378	2.333	2.423
March 2014	2.263	2.313	2.260	2.365
April 2014 (through April 24, 2014)	2.223	2.239	2.197	2.281

(1) Average of the lowest and highest rates in the periods presented.

Source: Central Bank.

On April 24, 2014, the selling rate was R\$2.223 to US\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at April 24, 2014 may not be indicative of future exchange rates.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to foresee such imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. For approximately six months in 1989, and early 1990, for example, the Federal Government froze all dividend and capital repatriations that were owed to foreign equity investors. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that similar measures will not be taken by the Federal Government in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of the more detailed discussion included elsewhere in this annual report. Our business, results of operations, financial condition or prospects could be adversely affected if any of

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these risks occurs, and as a result, the trading price of our common shares and ADSs could decline. The risks described below are those known to us and those that we currently believe may materially affect us.

Risks Relating to Our Business and to the Brazilian Real Estate Industry

Our business, results of operations, financial condition and the market price of our common shares or the ADSs may be adversely affected by weaknesses in general economic, real estate and other conditions.

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as:

- employment levels;
- population growth;
- consumer demand, confidence, stability of income levels and interest rates;
- availability of financing for land home site acquisitions and the availability of construction and permanent mortgages;
  - inventory levels of both new and existing homes;
  - supply of rental properties; and
  - conditions in the housing resale market.

Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we will have to sell homes at a loss or hold land in inventory longer than planned.

For example, in 2008, the global financial crisis adversely impacted Brazil's gross domestic product, or "GDP," resulting in a decrease in both the number of developments launched and the rate of sales of our units. Worldwide financial market volatility may also adversely impact government plans for the Brazilian real estate industry, which may have a material adverse effect on our business, our financial condition and results of operations.

We operate in a highly competitive industry and our failure to compete effectively could adversely affect our business.

The Brazilian real estate industry is highly competitive and fragmented. We compete with several developers on the basis of land availability and location, price, funding, design, quality, and reputation as well as for partnerships with other developers. Because our industry does not have high barriers to entry, new competitors, including international companies working in partnership with Brazilian developers, may enter into the industry, further intensifying this competition. Some of our current potential competitors may have greater financial and other resources than we do. Furthermore, a significant portion of our real estate development and construction activity is conducted in the states of São Paulo, Rio de Janeiro, Minas Gerais and Bahia, areas where the real estate market is highly competitive due to a scarcity of properties in desirable locations and the relatively large number of local competitors. If we are not able to compete effectively, our business, our financial condition and the results of our operations could be adversely affected.

Problems with the construction and timely completion of our real estate projects, as well as third party projects for which we have been hired as a contractor, may damage our reputation, expose us to civil liability and decrease our profitability.

The quality of work in the construction of our real estate projects and the timely completion of these projects are major factors that affect our reputation, and therefore our sales and growth. We may experience delays in the construction of our projects or there may be defects in materials and/or workmanship. Any defects could delay the completion of our real estate projects, or, if such defects are discovered after completion, expose us to civil lawsuits by purchasers or tenants. These factors may also adversely affect our reputation as a contractor for third party projects, since we are responsible for our construction services and the building itself for five years. Construction projects often involve delays in obtaining, or the inability to obtain, permits or approvals from the relevant

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authorities. In addition, construction projects may also encounter delays due to adverse weather conditions, natural disasters, fires, delays in the provision of materials or labor, accidents, labor disputes, unforeseen engineering, environmental or geological problems, disputes with contractors and subcontractors, unforeseen conditions at construction sites, disputes with surrounding landowners, or other events. In addition, we may encounter previously unknown conditions at or near our construction sites that may delay or prevent construction of a particular project. If we encounter a previously unknown condition at or near a site, we may be required to correct the condition prior to continuing construction and there may be a delay in the construction of a particular project. The occurrence of any one or more of these problems in our real estate projects could adversely affect our reputation and our future sales.

We may incur construction and other development costs for a project that exceeds our original estimates due to increases over time in interest rates, real estate taxes or costs associated with materials and labor, among others. We may not be able to pass these increased costs on to purchasers. Construction delays, scarcity of skilled workers, default and or bankruptcy of third party contractors, cost overruns and adverse conditions may also increase project development costs. In addition, delays in the completion of a project may result in a delay in the commencement of cash flow, which would increase our capital needs.

Our inability to acquire adequate capital to finance our projects could delay the launch of new projects and adversely affect our business.

We expect that the continued expansion and development of our business will require significant capital, including working capital, which we may be unable to obtain on acceptable terms, or at all, to fund our capital expenditures and operating expenses, including working capital needs. We may fail to generate sufficient cash flow from our operations to meet our cash requirements. Furthermore, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated, or we may have to delay some of our new development and expansion plans or otherwise forgo market opportunities. Future borrowing instruments such as credit facilities are likely to contain restrictive covenants, particularly in light of the recent economic downturn and unavailability of credit, and/or may require us to pledge assets as security for borrowings under those facilities. Our inability to obtain additional capital on satisfactory terms may delay or prevent the expansion of our business, which would have an adverse effect on our business. As of December 31, 2013, our net debt plus payable to venture partners (indebtedness from debentures, loans and financing, project financing and payables to venture partners balance, net of our cash and short term investments position) was R\$1,159 million: our cash and cash equivalents and short-term investments were R\$2,024 million and our total debt was R\$3,183 million including obligations to venture partners of R\$124 million.

Changing market conditions may adversely affect our ability to sell our property inventories at expected prices, which could reduce our margins and adversely affect the market price of our common shares or the ADSs.

We must constantly locate and acquire new tracts of land for development and development home sites to support our homebuilding operations. There is a lag between the time we acquire land for development or development home sites and the time that we can bring the properties to market and sell homes. As a result, we face the risk that demand for housing may decline, costs of labor or materials may increase, interest rates may increase, currencies may fluctuate and political uncertainties may occur during this period and that we will not be able to dispose of developed properties at expected prices or profit margins or within anticipated time frames or at all. Significant expenditures associated with investments in real estate, such as maintenance costs, construction costs and debt payments, cannot generally be reduced if changes in the economy cause a decrease in revenues from our properties. The market value of property inventories, undeveloped tracts of land and desirable locations can fluctuate significantly because of changing market conditions. In addition, inventory carrying costs (including interest on funds unused to acquire land or build homes) can be significant and can adversely affect our performance. Because of these factors, we may be forced to sell homes

and other real properties at a loss or for prices that generate lower profit margins than we anticipate. We may also be required to make material write-downs of the book value of our real estate assets in accordance with Brazilian and U.S. GAAP if values decline. The occurrence of any of these factors may adversely affect our business and results of operations.

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We are subject to risks normally associated with permitting our purchasers to make payments in installments; if there are higher than anticipated defaults or if our costs of providing such financing increase, then our profitability could be adversely affected.

As is common in our industry, we and the special purpose entities, or “SPEs,” in which we participate permit some purchasers of the units in our projects to make payments in installments. As a result, we are subject to the risks associated with this financing, including the risk of default in the payment of principal or interest on the loans we make as well as the risk of increased costs for the funds raised by us. In addition, our term sales agreements usually bear interest and provide for an inflation adjustment. If the rate of inflation increases, the loan payments under these term sales agreements may increase, which may lead to a higher rate of payment default. If the default rate among our purchasers increases, our cash generation and, therefore, our profitability could be adversely affected.

In the case of a payment default after the delivery of financed units, Brazilian law provides for the filing of a collection claim to recover the amount owed or to repossess the unit following specified procedures. The collection of overdue amounts or the repossession of the property is a lengthy process and involves additional costs. It is uncertain that we can recover the full amount owed to us or that if we repossess a unit, we can re-sell the unit at favorable terms or at all.

The affordable entry-level segment is strongly dependent on the availability of financing, including from the Minha Casa, Minha Vida program and from Caixa Econômica Federal, or the “CEF.” The scarcity of financing, the increase in interest rates, the reduction in financing terms, share of financing per unit and subsidies or any other modification in other financing terms and conditions may adversely affect the performance of the affordable entry-level segment.

If we or the SPEs in which we participate fail to comply with or become subject to more onerous government regulations, our business could be adversely affected.

We and the SPEs in which we participate are subject to various federal, state and municipal laws and regulations, including those relating to construction, zoning, soil use, urban regulations, environmental protection, historical sites, consumer protection and antitrust. We are required to obtain, maintain and renew on a regular basis permits, licenses and authorizations from various governmental authorities in order to carry out our projects. We strive to maintain compliance with these laws and regulations, as well as with conditions of permits, licenses and authorizations. If we are unable to achieve or maintain compliance with these laws, regulations and conditions, we could be subject to fines, project shutdowns, cancellation of licenses and revocation of authorizations or other restrictions on our ability to develop our projects, which could have an adverse impact on our business, financial condition and results of operations. In addition, our contractors and subcontractors are required to comply with various labor and environmental regulations and tax and other regulatory obligations. Because we are secondary obligors to these contractors and subcontractors, if they fail to comply with these regulations or obligations, we may be subject to penalties by the relevant regulatory bodies, and to indemnification claims from affected third parties.

Regulations governing the Brazilian real estate industry as well as environmental laws have tended to become more restrictive over time. We cannot assure that new and stricter standards will not be passed or become applicable to us, or that stricter interpretations of existing laws and regulations will not be adopted. Furthermore, we cannot assure that any such more onerous regulations would not cause delays in our projects or that we would be able to secure the relevant permits and licenses. Any such event may require us to spend additional funds to achieve compliance with such new rules and therefore make the development of our projects more costly, which can adversely affect our business and the market price of our common shares or the ADSs.

Scarcity of financing and/or increased interest rates could cause a decrease in the demand for real estate properties, which could negatively affect our results of operations, financial condition and the market price of our common shares

or the ADSs.

The scarcity of financing and/or an increase in interest rates or in other indirect financing costs may adversely affect the ability or willingness of prospective buyers to purchase our products and services, especially prospective low income buyers. A majority of the bank financing obtained by prospective buyers comes from the Housing Financial System (Sistema Financeiro de Habitação), or the “SFH,” which is financed by funds raised from savings account deposits. The Brazilian Monetary Council (Conselho Monetário Nacional), or the “CMN,” often changes the amount of such funds that banks are required to make available for real estate financing. If the CMN restricts the amount of available funds that can be used to finance the purchase of real estate properties, or if there is an increase in interest rates, there may be a decrease in the demand for our residential and commercial properties and for the development of lots of land, which may adversely affect our business, financial condition and results of operations.

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We and other companies in the real estate industry frequently extend credit to our clients. As a result, we are subject to risks associated with providing financing, including the risk of default on amounts owed to us, as well as the risk of increased costs of funding our operations. An increase in inflation would raise the nominal amounts due from our clients, pursuant to their sales agreements, which may increase their rates of default. If this were to occur, our cash generation and, therefore, our operating results may be adversely affected. In addition, we obtain financings from financial institutions at different rates and subject to different indexes and may be unable to match our debt service requirements with the terms of the financings we grant to our clients. The mismatch of rates and terms between the funds we obtain and the financings we grant may adversely affect us.

Some of our subsidiaries use significant funding from the home financing programs of the CEF, including the Minha Casa, Minha Vida program, and, as a result, are subject to institutional and operating changes in the CEF and enhance customer risk profiles associated with clients eligible for these programs.

The CEF has several home financing programs for the low-income segment, which are used by Construtora Tenda S.A., or “Tenda,” to fund its activities. The CEF is a state-owned financial institution and is subject to political influence, which may change the availability or the terms of the home financing programs. The cancellation, suspension, interruption or a significant change in such programs may affect our growth estimates and our business. Furthermore, the suspension, interruption or slowdown in the CEF’s activities to approve projects, grant financing to our clients and evaluate construction process, among other activities, may adversely impact our business, financial position, results of operations and the market price of our common shares and ADSs.

Also, in March 2009, the Brazilian government announced the creation of a public housing program called “Minha Casa, Minha Vida,” with an announcement in 2010 of a second phase of the program from 2011 until 2014, that aims to finance two million houses, twice as much as was financed in the first phase of the program. The program aims to reduce the housing deficit in Brazil, which as of 2010 was estimated to be 5.5 million houses. The program calls for government investment of more than R\$30 billion in the first phase and more than R\$72 billion during the second phase, to be made available through financing from the “CEF,” and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. During the second phase of this program, 800 thousand houses will be built for families with monthly incomes of three to ten times the minimum wage, which make up our target clients under our Tenda brand. This program offers, among other things, long-term financing, lower interest rates, greater share of the property financed to the client, subsidies based on income level, lower insurance costs and the creation of a guarantor fund to refinance debt in case of unemployment. Financing to the affordable entry-level segment is primarily made available through the CEF. Any changes in such financing would force us to seek new sources of financing and the availability of funds under similar conditions is limited, which would have an adverse effect on our results of operations.

We may sell portions of our landbank located in nonstrategic regions, which is in line with our future strategies. As a result, we will prepare an annual analysis for impairment of our landbank.

As part of our strategy to focus our future operations on regions where our developments have historically been successful, and where we believe there is homebuilding potential based on market opportunities, we may sell portions of our landbank located outside of these regions. As a result, we will prepare an annual impairment analysis of our landbank based on the acquisition cost of the land in our portfolio. Starting in 2011, we have decided to sell a portion of our landbank and our evaluation of impairment on landbank and properties for sale resulted in provisions for impairment in the amount of R\$68.5 million in 2013, R\$53.8 million in 2012 and R\$92.1 million in 2011.

The real estate industry is dependent on the availability of credit, especially in the affordable entry-level segment.

One of our main strategies is to expand our operations to the affordable entry-level segment in which clients are strongly dependent on bank financing to purchase homes. This financing may not be available on favorable terms to our clients, or at all. Changes in the Real Estate Financing System (Sistema de Financiamento Imobiliário), or the “SFI,” and in the SFH rules, the scarcity of available resources or an increase in interest rates may affect the ability or desire of such clients to purchase homes, consequently affecting the demand for homes. These factors would have a material adverse effect on our business, financial condition and results of operations.

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Because we recognize sales revenue from our real estate properties under the percentage of completion method of accounting under Brazilian GAAP as generally adopted by construction companies and under U.S. GAAP, when we meet the conditions specified by the respective accounting standards, an adjustment in the cost of a development project may reduce or eliminate previously reported revenue and income.

We recognize revenue from the sale of units in our properties based on the percentage of completion method of accounting, which requires us to recognize revenue as we incur the cost of construction. Total cost estimates are revised on a regular basis as the work progresses, and adjustments based upon such revisions are reflected in our results of operations in accordance with the method of accounting used. To the extent that these adjustments result in an increase, a reduction or an elimination of previously reported income, we will recognize a credit to or a charge against income, which could have an adverse effect on our previously reported revenue and income.

Our participation in SPEs creates additional risks, including potential problems in our financial and business relationships with our partners.

We invest in SPEs with other real estate developers and construction companies in Brazil. The risks involved with SPEs include the potential bankruptcy of our SPE partners and the possibility of diverging or inconsistent economic or business interests between us and our partners. If an SPE partner fails to perform or is financially unable to bear its portion of the required capital contributions, we could be required to make additional investments and provide additional services in order to make up for our partner's shortfall. In addition, under Brazilian law, the partners of an SPE may be liable for certain obligations of an SPE, including with respect to tax, labor, environmental and consumer protection laws and regulations. These risks could have an adverse effect on us.

We may experience difficulties in finding desirable land tracts and increases in the price of land may increase our cost of sales and decrease our earnings.

Our continued growth depends in large part on our ability to continue to acquire land and to do so at a reasonable cost. As more developers enter or expand their operations in the Brazilian home building industry, land prices could rise significantly and suitable land could become scarce due to increased demand, decreased supply or both. A resulting rise in land prices may increase our cost of sales and decrease our earnings. We may not be able to continue to acquire suitable land at reasonable prices in the future, which could adversely affect our business.

The market value of our inventory of undeveloped land may decrease, thus adversely affecting our results of operations.

We own tracts of undeveloped land that are part of our inventory for future developments. We also intend to increase our inventory and acquire larger tracts of land. The market value of these properties may significantly decrease from the acquisition date to the development of the project as a result of economic downturns or market conditions, which would have an adverse effect on our results of operations.

Increases in the price of raw materials and fixtures may increase our cost of sales and reduce our earnings.

The basic raw materials and fixtures used in the construction of our homes include concrete, concrete block, steel, aluminum, bricks, windows, doors, roof tiles and plumbing fixtures. Increases in the price of these and other raw materials, including increases that may occur as a result of shortages, duties, restrictions, or fluctuations in exchange rates, could increase our cost of sales. Any such cost increases could reduce our earnings and adversely affect our business.

If we are not able to implement our growth strategy as planned, or at all, our business, financial condition and results of operations could be adversely affected.

We plan to grow our business by selectively expanding to meet the growth potential of the Brazilian residential market. We believe that there is increasing competition for suitable real estate development sites. We may not find suitable additional sites for development of new projects or other suitable expansion opportunities.

We anticipate that we will need additional financing to implement our expansion strategy and we may not have access to the funding required for the expansion of our business or such funding may not be available to us on acceptable terms. We may finance the expansion of our business with additional indebtedness or by issuing additional debt or equity securities. For example, in 2012, we issued R\$360.0 million in subordinated indebtedness, including: (1) R\$150 million in bank credit certificates, or CCBs, on September 5, 2012, (2) R\$80 million in our third restricted public issuance of commercial paper in a single series in December 2012 and (3) R\$130 million in

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CCBs issued by Alphaville secured by a pledge of sales receivables and certain ventures. In addition, on October 31, 2012, we amended the terms of certain CCBs in the amount of R\$100 million to provide additional security, including a first-priority mortgage of certain real estate ventures, a pledge of sales receivables and to adjust the payment terms of the CCB.

The SFH financing is used for covering costs related to the development of real estate ventures of the Company and its subsidiaries, and count on secured guarantee by the first-grade mortgage of real estate ventures and the fiduciary assignment of receivables.

On October 7, 2013, we entered into a loan of the Real Estate Finance System (SFI) in the amount of R\$300 million and final maturity in July 2017, guaranteed by first-grade mortgage of select real estate ventures of the Company and fiduciary assignment of real estate receivables of these ventures to provide funds for housing projects only. This contract has restrictive covenants which trigger early redemption upon the occurrence of certain events of default. As of December 31, 2013, the Company is compliant with all of its contractual obligations.

We could face financial risks, covenant restrictions and restrictions on our ability to employ assets associated with incurring additional indebtedness, such as reducing our liquidity and access to financial markets and increasing the amount of cash flow required to service such indebtedness, or associated with issuing additional stock, such as dilution of ownership and earnings.

There are risks for which we do not have insurance coverage or the insurance coverage we have in place may not be sufficient to cover damages that we may suffer.

We maintain insurance policies with coverage for certain risks, including damages arising from engineering defects, fire, landslides, storms, gas explosions and civil liabilities stemming from construction errors. We believe that the level of insurance we have contracted for accidents is consistent with market practice. However, there can be no assurance that such policies will always be available or provide sufficient coverage for certain damages. In addition, there are certain risks that may not be covered by such policies, such as damages resulting from war, force majeure or the interruption of certain activities and, therefore any requirement to pay amounts not covered by our insurance may have a negative impact on our business and our results of operations. Furthermore, we are required to pay penalties and other fines whenever there is delay in the delivery of our units, and such penalties and fines are not covered by our insurance policies.

Moreover, we cannot guarantee that we will be able to renew our current insurance policies under favorable terms, or at all. As a result, insufficient insurance coverage or our inability to renew existing insurance policies could have an adverse effect on our financial condition and results of operations.

Our level of indebtedness could have an adverse effect on our financial health, diminish our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or the real estate industry.

As of December 31, 2013, our total debt (loans, financing and debentures) and payables to venture partners was R\$3,183 million and our short-term debt and payables to venture partners was R\$1,267 million. In addition, as of December 31, 2013 our cash and cash equivalents and short-term investments available was R\$2,024 million and our net debt represented 36.1% of our shareholders' equity including the non-controlling interest. Our indebtedness has variable interest rates. Our level of indebtedness could have important negative consequences for us. For example, it could:

- require us to dedicate a large portion of our cash flow from operations to fund payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate

purposes;

- increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
- restrict us from making strategic acquisitions or exploring business opportunities; and

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- place us at a competitive disadvantage compared to our competitors that have less debt.

Certain of our debt agreements contain financial and other covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain of our existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios, ratings and tests. Our ability to meet these financial ratios, ratings and tests can be affected by events beyond our control and we cannot assure that we will meet those tests, especially given the lower yield environment in which the industry currently operates. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these and other agreements, as a result of cross-default provisions. If we are unable to comply with our debt covenants, we could be forced to seek waivers.

If we are unable to obtain waivers, a large portion of our debt could be subject to acceleration. We do not believe such occurrence to be likely; however, if it were to happen, we could be required to renegotiate, restructure or refinance our indebtedness, seek additional equity capital or sell assets, which could materially and adversely affect us.

We cannot guarantee that we will be successful in obtaining any waivers. As of December 31, 2013, the Company and its subsidiaries were in compliance with the contractual covenants provided for in our debentures and other credit instruments.

We may not be successful in managing and integrating the businesses and activities Cipesa and Tenda.

We have acquired controlling stakes in two Brazilian real estate companies: (1) Cipesa Empreendimentos Imobiliários S.A., one of the leading homebuilders in the State of Alagoas; and (2) Construtora Tenda S.A., a residential homebuilder with a focus on the affordable entry-level segment. However, we may not be successful in managing and integrating these companies, which could adversely affect our business.

Failures or delays by our third party contractors may adversely affect our reputation and business and expose us to civil liability.

We engage third party contractors to provide services for our projects. Therefore, the quality of work in the construction of our real estate projects and the timely completion of these projects may depend on factors that are beyond our control, including the quality and timely delivery of building materials and the technical skills of the outsourced professionals. Such outsourcing may delay the identification of construction problems and, as a result, the correction of such problems. Any failures, delays or defects in the services provided by our third party contractors may adversely affect our reputation and relationship with our clients, which would adversely affect our business and results of operations.

We may be unable to successfully implement our strategy of reorganizing our operational organization and performance.

We intend to carry out a strategy seeking to reorganize our operational organization and promote performance. This strategy includes the implementation of a new management structure that, among other things, assigns each brand manager direct responsibility for the operating performance of each brand, and implementing a corporate culture shift within our Tenda brand focused on aligning incentives to improve project execution. As a result, we established a new operating structure organized by brand (Gafisa and Tenda) and appointed divisional executive officers responsible for the profit and loss of each business unit. This strategy is intended to pursue the goal of helping to produce more stable cash flow and contributing toward a return to sustainable growth. However, there can be no assurance that we will be able to successfully implement such strategy, and therefore we may also be unsuccessful in achieving such goals

behind such strategy, which could result in a material adverse effect with respect to our business, financial condition or results of operations.

Unfavorable judicial, administrative or arbitration decisions may adversely affect us.

We currently are, and may be in the future, defendants in several judicial, administrative proceedings related to civil, labor and tax matters. We cannot assure you that we will obtain favorable decisions in such proceedings, that such proceedings will be dismissed, or that our provisions for such proceedings are sufficient in the event of an unfavorable decision. Unfavorable decisions that impede our operations, as initially planned, or that result in a claim amount that is not adequately covered by provisions in our balance sheet, may adversely affect our business and financial condition.

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We may be held responsible for labor liabilities of our third party contractors.

We may be held responsible for the labor liabilities of our third party contractors and obligated to pay for fines imposed by the relevant authorities in the event that our third party contractors do not comply with applicable legislation. As of December 31, 2013, R\$55.6 million of our R\$193.3 million of total labor liabilities and provisions were for such liabilities. Approximately 65% of the labor claims were commenced by employees of our third party contractors. An adverse result in such claims would cause an adverse effect on our business.

Failure to keep members of our senior management and/or our ability to recruit and retain qualified professionals may have a material adverse effect on our business, financial condition and results of operations.

Our future success depends on the continued service and performance of our senior management and our ability to recruit and retain qualified professionals. None of the members of our senior management are bound to long-term labor contracts or non-compete agreements and there can be no assurance that we will successfully recruit and retain qualified professionals to our management as our business grows. The loss of any key professionals or our inability to recruit or retain qualified professionals may have an adverse effect on our business, financial condition and results of operations.

Changes in Brazilian GAAP due to its migration towards IFRS may adversely affect our results.

Brazilian corporate law was amended by Law No. 11,638 dated December 28, 2007 in order to facilitate the convergence of Brazilian GAAP with IFRS, and thereafter, the CPC issued new accounting standards that generally converged Brazilian GAAP to IFRS.

Through December 31, 2009, our financial statements were prepared in accordance with Brazilian GAAP in effect at the time. We elected January 1, 2009 as a transition date for full adoption of the new Brazilian GAAP as generally adopted by construction companies in Brazil, and amended certain accounting practices in the Brazilian GAAP financial statements. Our financial statements as of and for the year ended December 31, 2009 have been restated to reflect these adjustments.

With the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), since January 1, 2013 and applicable retrospectively to the comparative periods of December 31, 2012 and 2011, the proportional consolidation method for investments in jointly-controlled investees, which was previously applied by the Company, is no longer allowed under Brazilian GAAP. Consequently these jointly-controlled investments are now accounted for through the equity method.

Under U.S. GAAP, because such investments provide substantive voting rights granted to minority shareholders, they preclude the Company from consolidating these entities. Accordingly, for purposes of U.S. GAAP these investments are also accounted for based on the equity method of accounting.

### Risks Relating to Brazil

Brazilian economic, political and other conditions, and Brazilian government policies or actions in response to these conditions, may negatively affect our business and results of operations and the market price of our common shares or the ADSs.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the Brazilian economy. For example, the government's actions to control inflation have at times involved setting wage and price controls, blocking access to bank accounts, imposing

exchange controls and limiting imports into Brazil. We have no control over, and cannot predict, what policies or actions the Brazilian government may take in the future.

Our business, results of operations, financial condition and prospects, as well as the market prices of our common shares or the ADSs, may be adversely affected by, among others, the following factors:

- exchange rate movements;
- exchange control policies;
- expansion or contraction of the Brazilian economy, as measured by rates of GDP;

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- inflation;
- tax policies;
- other economic, political, diplomatic and social developments in or affecting Brazil;
- interest rates;
- energy shortages;
- liquidity of domestic capital and lending markets; and
- social and political instability.

Uncertainty over whether the Brazilian government may implement changes in policy or regulations may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets as well as securities issued abroad by Brazilian issuers. As a result, these uncertainties and other future developments in the Brazilian economy may adversely affect us and our business and results of operations and the market price of our common shares and the ADSs.

Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and the market prices of our common shares or the ADSs.

At times in the past, Brazil has experienced high rates of inflation. According to the General Market Price Index (Índice Geral de Preços—Mercado), or “IGP-M”, inflation rates in Brazil were 3.8% in 2006, 7.8% in 2007, 9.8% in 2008, (1.7)% in 2009, 11.3% in 2010, 5.1% in 2011, 7.8% in 2012, 5.5% in 2013 and 0.9% in the two month period ended February 28, 2014. In addition, according to the Expanded Consumer Price Index (Índice de Preços ao Consumidor Ampliado), or “IPCA,” Brazilian consumer price inflation rates were 3.1% in 2006, 4.5% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012, 5.9% in 2013 and 0.55% in the one month period ended January 31, 2014. Our term sales agreements usually provide for an inflation adjustment linked to the National Construction Cost Index (Índice Nacional de Custo de Construção), or “INCC”. The INCC increased by 6.2% in 2007, 11.9% in 2008, 3.14% in 2009, 7.77% in 2010, 7.49% in 2011, 7.12% in 2012 and 8.1% in 2013. The Brazilian government’s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our reais-denominated debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. In addition, increases in inflation rates would increase the outstanding debt of our customers, which could increase default levels and affect our cash flows. Any decline in our net operating revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our common shares and the ADSs.

Social, political and economic events and the perception of risks, especially in other emerging economies, may adversely affect the Brazilian economy, and consequently, our business, financial condition, results of operations and the market price of our securities.

The Brazilian capital markets are influenced by the Brazilian market and economic conditions and, to a certain extent, by the conditions in other Latin American countries and other emerging market countries. Investors' reactions to developments in certain countries may have an adverse effect on the market value of the securities of Brazilian issuers. Crises in other Latin American and emerging market countries normally trigger a significant outflow of funds and the reduction of foreign investment in Brazil. For example, in 2001 Argentina announced a moratorium on its public debt after a recession and a period of political instability, which affected investor perceptions towards the Brazilian capital markets for many years. Crises in other Latin American and emerging

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market countries may diminish investor interest in the securities of Brazilian issuers, including ours, which could negatively affect the market price of our common shares.

The market for securities issued by Brazilian companies is influenced, to a varying degree, by international economic and market conditions generally, especially in the United States. The prices of shares traded on the São Paulo Stock Exchange (BM&F Bovespa S.A. — Bolsa de Valores Mercadorias e Futuros), or the “BM&FBOVESPA,” have been historically affected by the fluctuation of interest rates and stock exchange indexes in the United States. Events in other countries or capital markets could have an adverse effect on the price of our shares, which could make it more difficult for us to access the capital markets and obtain financing on acceptable terms in the future, or at all.

Fluctuations in interest rates may have an adverse effect on our business and the market prices of our common shares and the ADSs.

The Central Bank establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. Debts of companies in the real estate industry, including ours, are subject to the fluctuation of market interest rates, as established by the Central Bank. Should such interest rates increase, the costs relating to the service of our debt obligations would also increase.

As of December 31, 2013, our indebtedness was denominated in reais and subject to Brazilian floating interest rates, such as the Reference Interest Rate (Taxa Referencial), or “TR,” and the Interbank Deposit Certificate Rate (Certificado de Depósito Interbancário), or “CDI rate.” Any increase in the TR rate or the CDI rate may have an adverse impact on our financial expenses, our results of operations and on the market price of our common shares or the ADSs. We are not a party to any hedging instruments with respect to our indebtedness.

Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on the ADSs and on our common shares, or the proceeds of any sale of our common shares.

Brazilian law permits the Brazilian government to impose temporary restrictions on conversions of Brazilian currency into foreign currencies and on remittances to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance in Brazil’s balance of payments or there are reasons to expect a pending serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The Brazilian government may take similar measures in the future. Any imposition of restrictions on conversions and remittances could hinder or prevent holders of our common shares or the ADSs from converting into U.S. dollars or other foreign currencies and remitting abroad dividends, distributions or the proceeds from any sale in Brazil of our common shares. Exchange controls could also prevent us from making payments on our U.S. dollar-denominated debt obligations and hinder our ability to access the international capital markets. As a result, exchange controls restrictions could reduce the market prices of our common shares and the ADSs.

Changes in tax laws may increase our tax burden and, as a result, adversely affect our profitability.

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers’ tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In April 2003, the Brazilian government presented a tax reform proposal, which was mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposal provided for changes in the rules governing the federal Social Integration Program (Programa de Integração Social), or “PIS,” the federal Contribution for Social Security Financing (Contribuição para Financiamento da Seguridade Social), or “COFINS,” the state Tax on the Circulation of Merchandise and Services (Imposto Sobre a

Circulação de Mercadorias e Serviços), or “ICMS,” and other taxes. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

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Risks Relating to Our Common Shares and the ADSs

International economic and market conditions, especially in the United States, may adversely affect the market price of the ADSs.

The market for securities issued by Brazilian companies is influenced, to a varying degree, by international economic and market conditions generally. Because our ADSs are listed on the New York Stock Exchange, or the “NYSE,” adverse market conditions and economic and/or political crises, especially in the United States, such as the subprime mortgage lending crisis in 2007 and 2008 and the financial and credit crises in 2008, have at times resulted in significant negative impacts on the market price of our ADSs. Despite the fact that our clients, whether financed by us or by Brazilian banks through resources obtained in the local market, are not directly exposed to the mortgage lending crisis in the United States, there are still uncertainties as to whether such crisis may indirectly affect homebuilders worldwide. The uncertainties generated by the subprime crisis may affect the market prices of our ADSs and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

Developments and the perception of risks in other countries, especially emerging market countries, may adversely affect the market prices of our common shares and the ADSs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in other emerging market countries, especially other Latin American countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign currency invested in, Brazil. For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. The economic crisis in Argentina negatively affected investors’ perceptions of Brazilian securities for several years. Economic or political crises in Latin America or other emerging markets may significantly affect perceptions of the risk inherent in investing in the region, including Brazil.

The Brazilian economy is also affected by international economic and general market conditions, especially economic and market conditions in the United States. Share prices on the BM&FBOVESPA, for example, have historically been sensitive to fluctuations in U.S. interest rates as well as movements of the major U.S. stock indexes, particularly in the current worldwide economic downturn. Developments in other countries and securities markets could adversely affect the market prices of our common shares and the ADSs and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

The relative volatility and the lack of liquidity of the Brazilian securities market may adversely affect you.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may limit your ability to sell our common shares and the common shares underlying your ADSs at the price and time at which you wish to do so. The BM&FBOVESPA, the only Brazilian stock exchange, had a market capitalization of US\$1.04 trillion as of December 31, 2013 and an average daily trading volume of US\$2.26 billion for 2013. In comparison, the NYSE had a domestic market capitalization of US\$16,613 trillion (excluding funds and non-U.S. companies) as of February, 2014 and an average daily trading volume of approximately US\$169 billion for 2013.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented 21,2% of the aggregate market capitalization of the BM&FBOVESPA as of December 31,

2013. The top ten stocks in terms of trading volume accounted for 60% of all shares traded on the BM&FBOVESPA in 2013. Gafisa's average daily trading volume on the BM&FBOVESPA and in the NYSE in 2013 was US\$39.0 million and US\$6.5 million, respectively.

Shares eligible for future sale may adversely affect the market value of our common shares and the ADSs.

Certain of our shareholders have the ability, subject to applicable Brazilian laws and regulations and applicable securities laws in the relevant jurisdictions, to sell our shares and the ADSs. We cannot predict what effect future sales of our shares or ADSs may have on the market price of our shares or the ADSs. Future sales of substantial amounts of such shares or the ADSs, or the perception that such sales could occur, could adversely affect the market prices of our shares or the ADSs.

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The economic value of your investment in our company may be diluted.

We may need additional funds in the future, in order to expand more rapidly, develop new markets, respond to competitive pressures or make acquisitions. Any necessary additional financing may not be available on terms favorable to us. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If additional funds are raised by our issuing new equity securities existing shareholders may be diluted. See “Item 4. Information on the Company—A. History and Development of the Company.”

Holders of our common shares or the ADSs may not receive any dividends or interest on shareholders’ equity.

According to our bylaws, we must generally pay our shareholders at least 25% of our annual net profit as dividends or interest on shareholders’ equity, as calculated and adjusted under the Brazilian corporate law method. This adjusted net profit may be used to absorb losses or for the payment of statutory participation on profits to debenture holders, employees or members of our management, which would ultimately reduce the amount available to be paid as dividends or interest on shareholders’ equity. Additionally, the Brazilian corporate law allows a publicly traded company like us to suspend the mandatory distribution of dividends in any particular year if our board of directors informs our shareholders that such distributions would be inadvisable in view of our financial condition or cash availability. For 2003, 2004 and 2005, we did not distribute dividends. We distributed dividends in each of 2007, 2008, 2009 and 2010 with respect to the prior respective fiscal year. Based on the negative results of the fiscal year 2012, on April 19, 2013, our shareholders did not approve any distribution of dividends. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy.

On December 20, 2013, with the completion of the sale of the Alphaville interest, as fully detailed in item “4. Information on the Company—A. History and Development of the Company”, our shareholders approved the payment of interest on equity in the amount of R\$130.2 million, representing R\$0.31112217224 per share. Such payment was effective February 12, 2014.

Holders of ADSs may find it difficult to exercise voting rights at our shareholders’ meetings.

Holders of ADSs may exercise voting rights with respect to our common shares represented by ADSs only in accordance with the terms of the deposit agreement governing the ADSs. Holders of ADSs will face practical limitations in exercising their voting rights because of the additional steps involved in our communications with ADS holders. For example, we are required to publish a notice of our shareholders’ meetings in specified newspapers in Brazil. Holders of our common shares will be able to exercise their voting rights by attending a shareholders’ meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders’ meeting from the ADR depository following our notice to the depository requesting the depository to do so. To exercise their voting rights, holders of ADSs must instruct the ADR depository on a timely basis. This voting process necessarily will take longer for holders of ADSs than for holders of our common shares. Common shares represented by ADSs for which no timely voting instructions are received by the ADR depository from the holders of ADSs shall not be voted.

Holders of ADSs also may not receive the voting materials in time to instruct the depository to vote the common shares underlying their ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions of the holders of ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the common shares underlying their ADSs are not voted as requested.

No single shareholder or group of shareholders holds more than 50% of our capital stock, which may increase the opportunity for alliances between shareholders as well as conflicts between them.

No single shareholder or group of shareholders holds more than 50% of our capital stock. There is no guidance in Brazilian corporate law for publicly-held companies without an identified controlling shareholder. Due to the absence of a controlling shareholder, we may be subject to future alliances or agreements between our shareholders, which may result in the exercise of a controlling power over our company by them. In the event a controlling group is formed and decides to exercise its controlling power over our company, we may be subject to unexpected changes in our corporate governance and strategies, including the replacement of key executive officers. Additionally, we may be more vulnerable to a hostile takeover bid. The absence of a controlling group may also jeopardize our decision-making process as the minimum quorum required by law for certain decisions by shareholders may not be reached and, as a result, we cannot guarantee that our business plan will be affected. Any unexpected change in our

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management team, business policy or strategy, any dispute between our shareholders, or any attempt to acquire control of our company may have an adverse impact on our business and result of operations.

Holders of ADSs will not be able to enforce the rights of shareholders under our bylaws and Brazilian corporate law and may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company.

Holders of ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our bylaws and Brazilian corporate law.

Our corporate affairs are governed by our bylaws and Brazilian corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of the ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Holders of ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are a corporation organized under the laws of Brazil, and all of our directors and executive officers and our independent public accountants reside or are based in Brazil. Most of the assets of our company and of these other persons are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may be enforced in Brazil only if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs.

According to Law No. 10,833 of December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. Thus, gains arising from a disposition of our common shares by a non-resident of Brazil to another non-resident of Brazil are subject to income tax.

Our interpretation of Law No. 10,833 is that ADSs should not be regarded as assets located in Brazil. Accordingly, the disposition of our ADSs by a non-resident to either a Brazilian resident or a non-resident should not be subject to taxation in Brazil. However, in the event that a disposition of our ADSs is considered a disposition of assets located in Brazil, this tax law could result in the imposition of withholding taxes on the disposition of our ADSs by a non-resident of Brazil. We are not aware of precedents on the application of Law No. 10,833 to ADSs and, accordingly, we are unable to predict whether Brazilian courts would apply it to a disposition of our ADSs by a non-resident of Brazil. See “Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations—Gains.”

Any gain or loss recognized by a U.S. Holder (as defined in “Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations”) would be treated as U.S. source gain or loss for all foreign tax credit purposes. U.S. Holders should consult their tax advisers as to whether the Brazilian tax on gain would be creditable against the holder’s U.S. federal income tax on foreign-source income from other sources.

Judgments of Brazilian courts with respect to our common shares will be payable only in reais.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of the common shares, we will not be required to discharge our obligations in a currency other than reais. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than reais may be satisfied in Brazilian currency only at the exchange rate, as determined by the Central Bank, in effect on the date of payment. The exchange rate may not afford non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under our common shares or the ADSs.

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Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares underlying the ADSs.

Holders of ADSs will be unable to exercise the preemptive rights relating to our common shares underlying ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the “Securities Act,” is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights or to take any other action to make preemptive rights available to holders of ADSs. We may decide, in our discretion, not to file any such registration statement. If we do not file a registration statement or if we, after consultation with the ADR depository, decide not to make preemptive rights available to holders of ADSs, those holders may receive only the net proceeds from the sale of their preemptive rights by the depository, or if they are not sold, their preemptive rights will be allowed to lapse.

An exchange of ADSs for common shares risks loss of certain foreign currency remittance and Brazilian tax advantages.

The ADSs benefit from the certificate of foreign capital registration, which permits Citibank N.A., as depository, to convert dividends and other distributions with respect to our common shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for common shares will then be entitled to rely on the depository’s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit the proceeds abroad unless they obtain their own certificate of foreign capital registration under the terms of Law No. 4,131/62, or unless they qualify under Resolution CMN 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges or organized over-the-counter market and benefit from the certificate of foreign capital registration managed by their authorized representatives in Brazil. See “Item 9. The Offering and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil.”

If holders of ADSs do not qualify under Resolution CMN 2,689, they will generally be subject to less favorable tax treatment on distributions with respect to our common shares. There can be no assurance that the depository’s certificate of registration or any certificate of foreign capital registration obtained by holders of ADSs will not be affected by future legislative or regulatory changes, or that additional Brazilian law restrictions applicable to their investment in the ADSs may not be imposed in the future.

A portion of the compensation of our officers and members of the senior management is paid in form of stock options, which could tie their interest to the market price of our shares and ADSs.

We have established stock option plans for our officers and members of our senior management. Potential benefits under the stock option plans are tied to the appreciation of the market price of our shares and ADSs.

As a result, our compensation policy may influence our officers and members of the senior management and their interest to the market price of our shares and ADSs, which may conflict with the interests of our shareholders. Our officers and members of the senior management may be influenced to focus on short-term rather than long-term results because a significant portion of their compensation is tied to our results and the market price of our shares and ADSs. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership—Stock Option Plans” in this annual report.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

General

Gafisa S.A. is a corporation organized under the laws of Brazil. We were incorporated on November 12, 1996 for an indefinite term. Our registered and principal executive offices are located at Av. Nações Unidas No. 8.501, 19th floor, 05425-070, São Paulo, SP, Brazil, and our general telephone and fax numbers are + 55 (11) 3025-9000 and + 55 (11) 3025-9242, respectively.

We are a leading diversified national homebuilder serving all demographic segments of the Brazilian market. Established over 60 years ago, we have completed and sold more than 1,000 developments and constructed over 12 million square meters of housing under the Gafisa brand, which we believe is more than any other homebuilder in Brazil. Recognized as one of the foremost professionally-managed homebuilders, we are also one of the best-known

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brands in the real estate development market, enjoying a reputation among potential homebuyers, brokers, lenders, landowners, and competitors for quality, consistency and professionalism. Our brands include Tenda, which serves the affordable entry-level housing segments, Gafisa, which offers a variety of residential options to the mid to higher income segments and Alphaville (equity method investment), which focuses on the identification, development and sale of high quality residential communities. In addition, we provide construction services to third parties.

Our core business is the development of high-quality residential units in attractive locations. For the year ended December 31, 2013, approximately 38% of the value of our launches was derived from high and mid high-level residential developments under the Gafisa brand. We are also engaged in the development of land subdivisions, also known as residential communities, representing approximately 51% of the value of our launches under the Alphaville brand. As fully detailed below, in 2013 we sold 70% of our controlling interest in Alphaville and retained the remaining 30% interest.

In addition, we provide construction services to third parties. In 2013, total units in our affordable entry-level housing brand, Tenda represented 12% of the value of our launches.

We currently operate in several cities, including São Paulo, Rio de Janeiro, Salvador, Fortaleza, Natal, Curitiba, Belo Horizonte, Manaus, Porto Alegre and Belém. Many of these developments are located in markets where few large competitors currently operate. For the year ended December 31, 2013, approximately 37.4% of the value of our launches was derived from our operations outside the states of São Paulo and Rio de Janeiro.

In the fourth quarter of 2011, we conducted an extensive review of our operations and the operations of our subsidiaries, and our combined business strategy. As a result of this review, the following changes were made: temporary reductions of the activities of the Tenda segment, increase in investments in the Alphaville segment and focus the Gafisa segment on the markets of Sao Paulo and Rio de Janeiro.

The closing of 2013 marks the completion of Gafisa's strategic repositioning, which commenced in early 2012. Our goal at the time was clear: we needed to reduce the level of debt and restrict the Company's exposure to unprofitable businesses and markets. This process evolved positively throughout the last two years in several fronts - including improvement in margins and cash generation, and culminated with the sale of a 70% interest in Alphaville, which unlocked significant value and contributed to a reduction in the Company's leverage, adjusting its capital structure. At the end of 2013 we finalized the development of our five-year business plan for the period from 2014 to 2018. During the planning process, we set guidelines for the development of our business for the upcoming years, including the expected size of Gafisa and Tenda operations, appropriate leverage, profitability guidelines, and more importantly, our commitment to capital discipline and shareholder value generation, which are reflected in the guidance released to the market at the end of 2013. Gafisa S.A. completed the sale of a majority interest in Alphaville Urbanismo S.A. ("Alphaville"), the leading residential community development company in Brazil, to Private Equity AE Investimentos e Participações ("Fundo AE"), which has as shareholders Pátria Investimentos and Blackstone Real Estate Advisor, which was announced on June 7, 2013. The transaction values Alphaville at an equity value of R\$2.0 billion. The cash sale to Pátria and Blackstone resulted in Fundo AE owning 70% of Alphaville, with Gafisa retaining the remaining 30%. All precedent conditions were met including governmental approval, to the completion of the transaction. The transaction was concluded with a sale of 50% interest by Gafisa and 20% interest by Construtora Tenda S.A. ("Tenda"), with Gafisa retaining the remaining 30% of Alphaville capital stock. After this transaction Alphaville was no longer consolidated in the financial statements of the Company since November 2013.

The Company's results of operations reflect the results of operations of Alphaville for the period January 1 to November, 30 2013 which are presented in the line item "Results from discontinued operations".

For the year ended December 31, 2013, the Company held two business combination transactions, as follows:

On February 27, 2013, the Company implemented a business combination through an asset swap in which the Company swapped its 50% interest in the jointly-controlled entity SPE Reserva Ecoville in exchange for a 50% controlling interest in SPE Parque Ecoville at a R\$59.9 million fair value. As a result, we recorded an adjustment to inventory of R\$22.6 million.

On September 12, 2013, the company implemented a business combination through which it obtained control of Manhattan Square Empreendimentos Imobiliarios Comercial 02 (“MC 02”) and Manhattan Square Empreendimentos Imobiliarios Residencial 02 (“MR 02”). These two entities were previously jointly controlled and the Company held a 50% interest in both entities. As a result of this acquisition, the company now holds a 100%

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interest. The combined purchase price was R\$64.7 million and was paid on September 12, 2013. As a result of this transaction, the Company allocated the amount of R\$62.3 million recorded as fair value adjustment to inventory.

Our common shares are listed on the BM&FBOVESPA under the symbol “GFSA3” and the ADSs are listed on the NYSE under the symbol “GFA.”

Our agent for service of process in the United States is National Corporate Research, Ltd. located at 10 East 40th Street, 10th floor, New York, NY 10016.

## Historical Background and Recent Developments

Gomes de Almeida Fernandes Ltda., or “GAF,” was established in 1954 in the city of Rio de Janeiro with operations in the real estate markets in the cities of Rio de Janeiro and São Paulo. In December 1997, GP Investimentos S.A. and its affiliates, or “GP,” entered into a partnership with the shareholders of GAF to create Gafisa S.A. In 2004, as a result of a corporate restructuring, GP assumed a controlling position in our company. In 2005, an affiliate of Equity International Management, LLC, or “Equity International,” acquired approximately 32% of our company through a capital contribution. In February 2006, we concluded our initial public offering in Brazil, resulting in a public float of approximately 47% of our total share capital at the conclusion of the offering.

In September 2006, we created Gafisa Vendas Intermediação Imobiliária Ltda., or “Gafisa Vendas,” to function as our internal sales division in the state of São Paulo and in February 2007, we created a branch of Gafisa Vendas in Rio de Janeiro, or “Gafisa Vendas Rio,” to function as our internal sales division in the metropolitan region of Rio de Janeiro.

In October 2006, we entered into an agreement with Alphaville Participações S.A. to acquire 100% of Alphaville, one of the largest residential community development companies in Brazil in terms of units and square meters, focused on the identification, development and sale of high quality residential communities in the metropolitan regions throughout Brazil targeted at upper and upper-middle income families. On January 8, 2007, we successfully completed the acquisition of 60% of Alphaville’s shares for R\$198.4 million, of which R\$20 million was paid in cash and the remaining R\$178.4 million was paid in exchange for R\$6.4 million common shares of Gafisa. On May 27, 2010, the shareholders of Gafisa approved the acquisition of 20% of Alphaville’s shares for the total amount of R\$126.5 million, through the merger of Shertis Empreendimentos e Participações S.A. or “Shertis”, which main asset were 20% of Alphaville’s shares. As a consequence of such merger, Gafisa issued 9,797,792 common shares, paid to the former shareholders of Shertis.

On March 17, 2007, we concluded our initial public offering of common shares in the United States, resulting in a public float of 78.6% of our total share capital at the conclusion of the offering. Upon completion of the offering, entities related to Equity International and GP controlled 14.2% and 7.3% of our total capital stock, respectively. In June 2007, Brazil Development Equity Investments, LLC, a company affiliated with GP, sold its remaining interest in our company (7.1% of our capital stock at the time).

On March 15, 2007, we created a new wholly-owned subsidiary, Fit Residencial Empreendimentos Imobiliários Ltda., or “FIT,” for the development, construction and management of lower and lower-middle income residential projects. On October 21, 2008, Gafisa and Tenda concluded a business combination in which FIT was merged into Tenda. The purpose of the merger was to consolidate the activities of FIT and Tenda in the lower-income segment in Brazil focused on developing real estate units with an average price of less than R\$200.0 thousand. As a result of the business combination, Gafisa became the owner of 60.0% of the total and voting capital stock of Tenda. On December 30, 2009, the shareholders of Gafisa and Tenda approved a corporate restructuring to consolidate Gafisa’s non-controlling share ownership in Tenda. The restructuring was accomplished by exchanging all of the remaining Tenda shares not held by Gafisa into Gafisa shares. As a result of the restructuring, Tenda became a wholly-owned

subsidiary of Gafisa. On October 26, 2007, Gafisa acquired 70% of Cipesa Engenharia S.A., a leading homebuilder in the State of Alagoas at the time.

On October 1, 2010, Equity International sold its remaining interest in our company. As of December 31, 2013, Fundação dos Economizadores Federais (“FUNCEF”), Polo and Skagen, were the shareholders holding more than 5.0% of our shares.

On June 8, 2012, according to the material fact then disclosed, the third phase of the Investment Agreement and Other Covenants entered into on October 2, 2006 (“Investment Agreement”), established the rules and conditions for Gafisa related to the acquisition of the remaining 20% interest in the capital stock of Alphaville not held by the Company. While the valuation of the capital stock has been agreed by both parties, the number of shares that shall

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be issued by the Company to settle this transaction is being decided in arbitration proceedings initiated by the minority shareholders of Alphaville, according to the material fact we released on July 3, 2012. There is an embedded derivative component to the Investment Agreement, relating to the Company's obligation to purchase the Alphaville shares held by the non-controlling interest. As the fair value of this embedded derivative for all reporting periods has no significant value, since the future settlement of the derivative will be based on the fair value of Alphaville's capital stock, no derivative asset or liability has been recorded. The future settlement to be made in cash or shares represented an amount of R\$359.0 million as at December 31, 2012 and 2011. If 70,251,551 common shares of Gafisa are issued to the other shareholders of Alphaville, these shareholders will receive 13.96% of Gafisa's total capital stock. On June 7, 2013, according to the material fact then disclosed, Gafisa entered into an agreement to sell a 70% interest in Alphaville to Blackstone and Patria and also agreed to complete the purchase of the outstanding 20% interest in Alphaville, finalizing the arbitration process.

On July 3, 2013, Gafisa completed the purchase of the outstanding 20% interest in Alphaville, belonging to Alphapar, resulting in the Company holding 100% of Alphaville's capital stock. This transaction resulted in a temporary increase in the Company's leverage to 126% (Net Debt/Equity) and it was financed partially through Company' cash in addition to funding of R\$250 million in June. The total disbursement was made in July in the amount of R\$366.6 million.

On December 9, 2013, Gafisa announced the completion of the agreement to sell a 70% interest in Alphaville to private equity firms Blackstone and Pátria. Gafisa retained a 30% interest. The sale valued Alphaville at R\$2.0 billion. The proceeds from the transaction totaled R\$1.54 billion, of which R\$1.25 billion was received through the sale of shares, and R\$290 million was received as a dividend distributed by Alphaville.

On February 2, 2014, according to the material fact then disclosed, Gafisa's board of directors authorized management to initiate studies for a potential spin-off of Gafisa and Tenda business units into two independent publicly traded companies.

## Capital Expenditures

In 2011, we invested R\$95.6 million in machinery and equipment, information technology equipment, software, project planning, technology information projects, and the refurbishment of new office facilities in Minas Gerais. Our main investments during the period were related to software and hardware acquisitions, which amounted to R\$33.2 million and R\$7.9 million, respectively.

In 2012, we invested R\$97.0 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to software and hardware acquisitions, which amounted to R\$30.7 million and R\$2.6 million, respectively.

In 2013, we invested R\$81.0 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to software and hardware acquisitions, which amounted to R\$34.1 million and R\$9.8 million, respectively.

Our capital expenditures are all made in Brazil and are usually funded by financings through local debt capital markets. We currently do not have any significant capital expenditures in progress.

## B. Business Overview

### General Overview

We believe we are one of Brazil's leading homebuilders. For over more than 50 years, Gafisa has been recognized as one of the foremost professionally-managed homebuilders, having completed and sold more than 1,000 developments and constructed over 12 million square meters of housing, which we believe is more than any other residential development company in Brazil. We believe our brands "Gafisa," "and "Tenda" are well-known brands in the Brazilian real estate development market, enjoying a reputation among potential homebuyers, brokers, lenders, landowners and competitors for quality, consistency and professionalism.

Our core business is the development of high-quality residential units in attractive locations. For the year ended December 31, 2013, approximately 38% of the value of our launches was derived from high and mid high-level residential developments under the Gafisa brand, and 4.6% of our launches were derived from commercial developments under the Gafisa brand. We are also engaged in the development of land subdivisions, also known as residential communities, representing approximately 51% of the value of our launches under the Alphaville brand

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(an equity method investment). In addition, we provide construction services to third parties. In 2013, approximately 11.7% of our launches were derived from our affordable entry-level brand, Tenda, under the new business model concept. We are currently operating in several cities, including São Paulo, Rio de Janeiro, Salvador, Fortaleza, Natal, Curitiba, Belo Horizonte, Manaus, Porto Alegre and Belém which represents approximately 70% of the national population and approximately 77% of the gross domestic product as of December 31, 2013. Many of these developments are located in markets where few large competitors currently operate. For the year ended December 31, 2013, approximately 37.4% of our launches were derived from our operations outside the states of São Paulo and Rio de Janeiro.

Our Markets

We are present in 113 municipalities throughout Brazil, including Abatia, Águas Lindas de Goiás, Ananindeua, Anápolis, Aparecida de Goiânia, Aracajú, Barbacena, Barra dos Coqueiros, Barreiro, Barueri, Belém, Belford Roxo, Belo Horizonte, Betim, Brasília, Cabo Frio, Cachoeirinha, Cajamar, Camaçari, Campinas, Campo Grande, Campos dos Goytacazes, Canoas, Caruaru, Caxias, Contagem, Cotia, Cuiabá, Curitiba, Diadema, Duque de Caxias, Eusébio, Feira de Santana, Ferraz de Vasconcelos, Fortaleza, Foz do Iguaçu, Goiânia, Governador Valadares, Gramado, Gravataí, Guarujá, Guarulhos, Iguaraçu, Itaboraí, Itanhaém, Itapevi, Itaquaquecetuba, Itu, Jabotão dos Guararapes, Jandira, Jardim Primavera, João Pessoa, Juiz de Fora, Jundiaí, Lauro de Freitas, Londrina, Macaé, Maceió, Manaus, Maricá, Mauá, Mirante Campina Grande, Mogi das Cruzes, Montes Claros, Mossoró, Natal, Niterói, Nova Iguaçu, Nova Lima, Novo Gama, Novo Hamburgo, Osasco, Paço do Lumiar, Parnamirim, Petrolina, Pinhais, Piracicaba, Poá, Porto Alegre, Porto Velho, Recife, Resende, Ribeirão das Neves, Ribeirão Preto, Rio das Ostras, Rio de Janeiro, Salvador, Samambaia, Santa Luzia, Santana de Parnaíba, Santo André, Santos, São Bernardo do Campo, São Caetano do Sul, São Gonçalo, São José dos Campos, São Leopoldo, São Luis, São Paulo, São Vicente, Sapucaia do Sul, Serra, Sete Lagoas, Sorocaba, Suzano, Taboão da Serra, Teresina, Valência, Valparaíso, Vespasiano, Vitória da Conquista and Volta Redonda.

Our Real Estate Activities

Our real estate business includes the following activities:

- developments for sale of;
- residential units;
- land subdivisions (also known as residential communities);
- commercial buildings;
- construction services to third parties; and
- sale of units through our brokerage subsidiaries, Gafisa Vendas and Gafisa Vendas Rio, jointly referred to as “Gafisa Vendas.”

The table below sets forth our potential sales value, generated from new developments for each of our real estate activities and as a percentage of total real estate amount generated during the periods presented:

For year ended December 31,		
2013	2012	2011
(% of total)	(% of total)	(% of total)

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	(in thousands of reais)		(in thousands of reais)		(in thousands of reais)	
Residential buildings	1,292,271	44.8	1,314,041	44.5	1,401,666	39.7
Land subdivisions	1,462,087	50.6	1,343,313	45.5	1,040,071	29.5
Commercial	131,846	4.6	294,607	10.0	1,085,099	30.8
Potential sales	2,886,204	100.0	2,951,961	100.0	3,526,836	100.0

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The table below sets forth our actual sales value from new developments generated for each of our real estate activities and as a percentage of total real estate amount generated during the periods presented:

	For year ended December 31,					
	2013		2012		2011	
	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)
Residential buildings	603,809	40.2	753,733	43.7	885,124	40.0
Land subdivisions	857,330	57.0	894,176	51.9	706,573	32.0
Commercial	41,728	2.8	75,976	4.4	618,538	28.0
Actual sales	1,502,867	100.0	1,723,885	100.0	2,210,235	100.0

## Developments for Sale

The table below provides information on our developments for sale activities during the periods presented:

	As of and for the year ended December 31,		
	2013	2012 (8)	2011(8)
	(in thousands of reais, unless otherwise stated)		
<b>São Paulo</b>			
Potential sales value of units launched(1)	1,054,359	1,338,281	1,611,510
Developments launched(2)	10	13	16
Usable area (m2)(3)	154,959	203,636	298,133
Units launched(4)	1,935	2,361	3,808
Average sales price (R\$/m2)(3)	6,804	6,572	5,405
<b>Rio de Janeiro</b>			
Potential sales value of units launched(1)	30,982	270,367	557,562
Developments launched(2)	1	2	4
Usable area (m2)(3)	4,101	33,987	134,968
Units launched(4)	63	260	1,742
Average sales price (R\$/m2)(3)(5)	7,554	7,955	4,131
<b>Other States(6)</b>			
Potential sales value of units launched(1)	-	-	(12,354 )
Developments launched(2)	-	-	1
Usable area (m2)(3)	-	-	(2,898 )
Units launched(4)	-	-	(70 )
Average sales price (R\$/m2)(3)(5)	-	-	1,716
<b>Total Gafisa</b>			
Potential sales value of units launched(1)	1,085,341	1,608,648	2,156,718
Developments launched(2)	11	15	21
Usable area (m2)(3)	159,060	237,624	430,203
Units launched(4)	1,998	2,621	5,479
Average sales price (R\$/m2)(3)(5)	6,820	6,770	5,013
<b>Alphaville (7)</b>			

Potential sales value of units launched(1)	1,462,087	1,343,313	972,385
Developments launched(2)	18	20	12
Usable area (m2)(3)	2,620,224	2,915,627	1,655,927
Units launched(4)	6,414	6,326	3,714
Average sales price (R\$/m2)(3)(5)	558	460	526
Tenda			
Potential sales value of units launched(1)	338,776	-	397,733
Developments launched(2)	8	-	16
Usable area (m2)(3)	114,197	-	164,595
Units launched(4)	2,660	-	3,030
Average sales price (R\$/m2)(3)(5)	2,996	-	2,416

(1) Potential sales value is calculated by multiplying the number of units in a development by the expected sales price of the unit.

(2) Does not consider acquisitions of additional ownership interests in projects or cancelled projects.

(3) One square meter is equal to approximately 10.76 square feet. For Gafisa, it includes the usable area of the projects acquired in 2010, Anauá and Igloo Alphaville.

(4) The units delivered in exchange for land pursuant to barter transactions are not included.

(5) Average sales price per square meter excludes the land subdivisions. Average sales price per square meter (including land subdivisions and excluding Tenda's ventures) was R\$916, R\$936 and R\$1,373 in 2013, 2012 and 2011, respectively.

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- (6) In 2011, Gafisa launched one project outside São Paulo and Rio de Janeiro and cancelled another which had higher potential sales value, usable area and number of units than the new launch.
- (7) This information is presented for comparison purposes only, as we sold our controlling interest on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.
- (8) Operating information has not been restated to reflect the consolidation method in jointly-controlled investees pursuant to CPCs 19 (R2) (or IFRS 11) and 36 (R3).

Our developments for sale are divided into three broad categories: (1) residential buildings, (2) land subdivisions, and (3) commercial buildings.

## Overview of Residential Buildings

In the residential buildings category, we develop three main types of products: (1) luxury buildings targeted at upper-income customers; (2) buildings targeted at middle-income customers; and (3) affordable entry-level housing targeted at lower-income customers. Quality residential buildings for middle- and upper-income customers are our core products and we have developed them since our inception. A significant portion of our residential developments is located in São Paulo and Rio de Janeiro where we have held a leading position over the past five years based upon area of total construction. In 2006, we began our national expansion to pursue opportunities in residential buildings outside these cities. However in 2012, as a result of the difficulties to manage these projects and to achieve reasonable profits, we focused our efforts back to São Paulo and Rio de Janeiro

## Luxury Buildings

Luxury buildings are a high margin niche. Units usually have over 180 square meters of private area, at least four bedrooms and three parking spaces. Typically, this product is fitted with modern, top-quality materials designed by brand-name manufacturers. The development usually includes swimming pools, gyms, visitor parking, and other amenities. Average price per square meter generally is higher than approximately R\$8,000. Luxury building developments are targeted to families with monthly household incomes in excess of approximately R\$30,000.

The table below sets forth our luxury building developments launched between January 1, 2011 and December 31, 2013:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m <sup>2</sup> ) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (As of December 31, 2013)
Delux	2013	100	9,751	2016	44	34
Follow	2013	100	15,800	2016	240	79
Duquesa-Lorian Qd2B	2012	100	34,429	2015	130	86
Like Brooklin	2012	100	13,298	2015	146	95
ECLAT (Ferreira de Araujo)	2012	100	13,017	2015	49	76
Energy	2012	100	9,666	2015	156	94
Scena Laguna	2012	80	13,728	2015	62.5	52
Like Saúde	2012	100	14,850	2015	144	74
Scena Santana	2012	100	17,548	2015	76	48

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Alpha Land	2012	100	23,005	2015	210	60
Easy Vila Romana	2011	100	61,100	2014	73	94
Riservatto	2011	100	32,553	2014	174	92

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- (1) One square meter is equal to approximately 10.76 square feet.
- (2) Values for 100% of the building development, except on projects with partial interest.

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## Middle Income Buildings

Buildings targeted at middle-income customers have accounted for the majority of our sales since our inception. Units usually have between 90 and 180 square meters of private area, three or four bedrooms and two to three underground parking spaces. Buildings are usually developed in large tracts of land as part of multi-building developments and, to a lesser extent, in smaller lots in attractive neighborhoods. Average price per square meter ranges from approximately R\$4,500 to R\$8,000. Developments in Rio de Janeiro tend to be larger due to the large tracts of land available in Barra da Tijuca. Middle-income building developments are tailored to customers with monthly household incomes between approximately R\$10,000 and R\$30,000.

The table below sets forth our middle-income building developments launched between January 1, 2011 and December 31, 2013:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (As of December 31, 2012)
Today Santana	2013	100	11,290	2015	165	27
Go Maracá	2013	100	11,274	2016	129	47
Axis	2013	100	12,616	2016	215	31
Easy Tatuapé	2013	100	9,142	2017	144	63
Laguna Mall	2013	100	4,161	2015	63	67
Square Santo Amaro	2013	100	27,330	2016	362	31
Wide Cambuí	2013	100	19,833	2016	244	30
EQ Jardim Prudência	2013	100	10,525	2016	97	20
Square Osasco	2013	100	27,397	2017	295	75
Maraville (Ana Maria Lote A)	2012	100	16,956	2015	280	88
Colorato	2012	100	19,731	2015	192	75
Mistral	2012	100	6,837	2014	112	83
Smart Santana	2012	100	7,619	2015	84	73
Easy Maracá	2012	100	17,113	2015	147	98
Fantastique (Angá - F1)	2011	100	26,248	2014	378	79
Avant Garde	2011	100	21,020	2015	168	84
Alegria - Fase 4	2011	100	14,599	2014	139	100
Smart Vila Mascote – Lacedemonia	2011	100	10,200	2014	156	96
Alegria - Fase 5	2011	100	14,599	2014	139	99
Smart Maracá	2011	100	11,071	2014	156	100
Royal - Vila Nova São José QC1	2011	100	10,075	2013	68	89
Vision Anália Franco	2011	100	12,280	2014	200	87
Station Parada Inglesa (André Campale)	2011	100	13,224	2014	173	98
Mundi - Residencial Ceramica - Fase I	2011	100	28,749	2014	192	76

(1) One square meter is equal to approximately 10.76 square feet.

(2) Values for 100% of the building development, except on projects with partial interest.

### Affordable Entry-Level Developments

Affordable entry-level housing consists of building and house units. Units usually have between 42 to 60 square meters of indoor private area and two to three bedrooms. Average price per square meter ranges from approximately R\$2,400 to R\$4,500. Affordable entry-level housing developments are tailored to families with monthly household incomes between approximately R\$1,600 and R\$5,000.

As part of our strategy of expanding our foothold in the affordable entry-level residential market, on March 15, 2007 we incorporated a wholly-owned subsidiary, FIT, to focus exclusively on this market. The principal emphasis of FIT was on five standardized residential developments in the peripheries of large metropolitan regions. Financing for FIT's developments primarily came from the CEF, and such financing was structured so that customers paid low monthly installments without increasing our credit risk.

On October 21, 2008, Gafisa and Tenda concluded a business combination in which Gafisa's wholly-owned subsidiary FIT was merged into Tenda. The purpose of the merger was to consolidate the activities of FIT and Tenda in the lower-income sector in Brazil and to develop real estate units with an average value of less than R\$200,000. As a result of the business combination, Gafisa received 60.0% of the total and voting capital stock of Tenda and FIT was merged into Tenda. Because Tenda launched very few units in 2008, we believe the full impact of the merger was not reflected in Gafisa's results of operations until 2009.

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On December 30, 2009, the shareholders of Gafisa and Tenda approved a corporate restructuring to consolidate Gafisa's non-controlling share ownership in Tenda. The restructuring was accomplished by exchanging all of the remaining Tenda shares not held by Gafisa into Gafisa shares. As a result of the restructuring, Tenda became a wholly-owned subsidiary of Gafisa.

As a result of Tenda's and Gafisa's underperformance in 2011 due to high cost overruns and customer dissolutions, our management and the board of directors have undertaken widespread structural and operational changes to avert future losses and strains on the business. Tenda is now operating under a new strategy whereby pre-sales recognition and the remuneration of the sales force is based on the ability to immediately pass mortgages on to financial institutions and the number of third party construction partners has been reduced to a group that has been thoroughly vetted for quality and sustainability. The strategy also consists of a reduction in the number of launches, and in 2012, we suspended the launch of additional Tenda units. Moreover, our management has decided to focus its low- to middle-income businesses in São Paulo, Rio de Janeiro, Minas Gerais and Bahia, where it has historically, had a better supply chain structure and stronger customer demand. As part of our new organizational strategy to manage further risks, our management has assigned a chief executive for each segment pursuant to which, our former CFO, Rodrigo Osmo assumed the position as Tenda CEO during the second half of 2011.

The table below sets forth our affordable entry-level housing developments launched by us between January 1, 2011 and December 31, 2013:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (As of December 31, 2013)
<b>Novo Horizonte – Turíbio</b>	2013	100	25,732	2014	580	99
<b>Vila Cantuária Itaim Paulista</b>	2013	100	17,085	2014	440	60
<b>Itaim Paulista Life I</b>	2013	100	9,293	2015	240	70
<b>Residencial Germania Life - Fase 2</b>	2013	100	12,367	2014	200	62
<b>Verde Vida - Fase 1</b>	2013	100	13,617	2015	340	80
<b>Jaguará Life</b>	2013	100	11,371	2015	260	75
<b>Viva Mais Campo Grande (b)</b>	2013	100	13,116	2015	300	28
<b>Chacara Campo Limpo (c)</b>	2013	100	11,616	2015	300	8
<b>Parque Lumier</b>	2011	100	4,521	2012	100	99
<b>Araçagy F3</b>	2011	50	19,292	2014	372	99
<b>Parama Life</b>	2011	100	3,876	2013	60	67
<b>Parque Arvoredo F3</b>	2011	100	15,490	2013	210	97
<b>Vale Verde Cotia - Fase 7</b>	2011	100	3,509	2013	80	76
<b>Residencial Atenas</b>	2011	100	10,829	2014	260	90
<b>Vista Flamboyant F2</b>	2011	100	7,268	2013	132	96
<b>Cheverny F4 + F5 (a)</b>	2011	100	14,107	2014	192	77

(1) One square meter is equal to approximately 10.76 square feet.

(2) Values for 100% of the building development, except on projects with partial interest acquisition.

(a) Phases 4 and 5 of this project were launched in 2011, however, during 2012 its project sales were suspended by the Company until phases 1 to 3 are 100% sold (as of December 31, 2012, it presents 71% of units sold). We expect to resume sales for this project in 2014.

(b) Project was launched in November 2013.

(c) Project was launched in December 2013.

#### Land Subdivisions under our Gafisa Brand

In 2001, we started developing residential land subdivisions for sale upon which residential buildings can be developed. Land subdivisions under our Gafisa brand are usually smaller than Alphaville residential communities and do not include some of the facilities available in Alphaville residential communities, such as various amenities, shopping centers and schools. We usually provide the infrastructure for a given land subdivision planning such as the electric, water and sewage systems, paved streets, and common recreational areas. Our land subdivisions are typically located in affluent suburban areas close to major highways leading to the states of São Paulo and Rio de Janeiro. A typical lot has between 250 and 1,500 square meters. Average price per square meter ranges from approximately R\$150 to R\$800. We target clients with monthly household incomes in excess of approximately

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R\$5,000 for these land subdivisions. Since 2011, our only land subdivisions project was the development project of Barra da Tijuca, in partnership with Alphaville, for which our share is 65%.

The table below sets forth our finished entry-level housing developments under Gafisa's Brand, launched between January 1, 2011 and December 31, 2013 with percentage of units sold less than 90%.

Project Description	As of December 31,
	2013
	Units Sold (%)
Beach Park Living (1)	81
Riv. Ponta Negra Ed. Nice (2)	87
Pontal Beach Resort (3)	85
VP F.1 - Amadryas - Thamyris (4)	89
Fit Maceio (5)	88
Verdemar - Fase 1 (6)	83
Reserva do Bosque (7)	79
Canto dos Passaros (8)	87
Alta Vista Maceio (9)	82
Gafisa SPE-72 Emp. Imob.Ltda/PA 11 Quadra de t�nis (10)	83
Jatiuca Trade Residence (11)	88
Canto dos Passaros Fase 2 (12)	44
Royal VNSJ QC1 (13)	89
API SPE 29 - Plan. e Desen/CWB 34 - Parque Ecoville Fase1 (14)	84
Manhattan Square - Soho (16)	81
Manhattan Square - Wall Street (17)	67

(1)Beach Park Living This development was 100% completed at December 31, 2012 at which time 81% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(2)Riv. Ponta Negra Ed. Nice This development was 100% completed at December 31, 2012 at which time 87% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(3)Pontal Beach Resort This development was 100% completed at December 31, 2012 at which time 85% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(4)VP F.1 - Amadryas - Thamyris This development was 100% completed at December 31, 2012 at which time 89% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(5)Fit Maceio This development was 100% completed at December 31, 2010 at which time 88% of the units had been sold. The sales speed for inventory outside of core markets remains lower than that of sales within core markets. The sale of this inventory and the run-off of legacy projects are on schedule and expected to be concluded in 2014.

- (6)Verdemar - Fase 1 This development was 100% completed at December 31, 2012 at which time 83% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (7)Reserva do Bosque This development was 100% completed at December 31, 2012 at which time 79% of the units had been sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (8)Canto dos Passaros This development was 100% completed at December 31, 2011 at which time 87% of the units had been sold. The sales speed for inventory outside of core markets remains lower than that of sales within core markets. The sale of this inventory and the run-off of legacy projects are on schedule and expected to be concluded in 2014.
- (9)Alta Vista Maceio This development was 100% completed at December 31, 2011 at which time 82% of the units had been sold. The sales speed for inventory outside of core markets remains lower than that of sales within core markets. The sale of this inventory and the run-off of legacy projects are on schedule and expected to be concluded in 2014.

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- (10)Gafisa SPE-72 Emp. Imob.Ltda/PA 11 Quadra de t nis This development was 100% completed at December 31, 2012 at which time 83% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.
- (11)Jatiuca Trade Residence This development was 100% completed at December 31, 2011 at which time 88% of the units had been sold. The sales speed for inventory outside of core markets remains lower than that of sales within core markets. The sale of this inventory and the run-off of legacy projects are on schedule and expected to be concluded in 2014. The remaining units would be sold
- (12)Canto dos Passaros Fase 2 This development was 100% completed at December 31, 2013 at which time only 44% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.
- (13)Royal VNSJ QC1 This development was 100% completed at December 31, 2013 at which time 89% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.
- (14)API SPE 29 - Plan. e Desen/CWB 34 - Parque Ecoville Fase1 This development was 100% completed at December 31, 2013 at which time 84% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.
- (16)Manhattan Square - Soho This development was 100% completed at December 31, 2013 at which time 81% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.
- (17)Manhattan Square - Wall Street This development was 100% completed at December 31, 2013 at which time 67% of the units had been sold. According to the Company’s existing business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.

We have evaluated all of our developments for impairment and we identified cases of impairment for Espa o Alpha, Parque Barueri Condominio Club, Verdemar Fase 2, Secret Garden, Quintas do Pontal and Altavista Fase 2 and impairment provisions have been recorded.

Land Subdivisions under Alphaville Brand

As set forth in item “4. Information on the Company—A.History and Development of the Company”, we completed the sale of a controlling interest in Alphaville, on December 9, 2013. As a result, Alphaville was no longer consolidated in the financial statements of the Company since then. In this annual report, while financial information related to Alphaville is treated as discontinued operations, all operating information related to our business includes full operating information for Alphaville through December 9, 2013.

The Alphaville brand was created in the 1970s when the first Alphaville community was developed in the cities of Barueri and Santana do Parana ba in the metropolitan region of S o Paulo. Beginning in the 1990s, Alphaville developed residential communities in several other cities in Brazil, such as Campinas, Goi nia, Curitiba, Londrina, Maring , Salvador, Fortaleza, Belo Horizonte, Natal, Gramado, Manaus, Cuiab , Campo Grande, S o Luis and Rio de Janeiro.

Whenever Alphaville develops a new community, it is provided all the basic civil works for supporting the construction on the lots, such as electrical, telephone and data communications cabling, hydraulic (water and sewer)

mains and treatment facilities, landscaping and gardening, lighting and paving of the streets and driveways and security fencing. In most Alphaville communities, there is also the building of a social and sports club for the residents, with soccer, golf and tennis fields, jogging and bicycle tracks, saunas, swimming pools, ballrooms, restaurants and bars, and other facilities. In addition, most Alphaville projects have a shopping center where residents can shop for clothes and groceries. Additionally, whenever Alphaville develops a new community far from large urban centers, it seeks to assist in establishing schools near the community by forming partnerships with renowned educational institutions. Throughout Alphaville communities, it also seeks to stimulate the local economy by drawing new businesses to that area.

Alphaville believes that the maintenance of a development's quality is essential. For this reason, it is imposed on every Alphaville community a series of building and occupancy standards that are more rigorous than those required by applicable local legislation. Every Alphaville community has an Alphaville association formed by us before delivery of the community starts, and is funded by maintenance fees paid by the residents. The purpose of the association is to allow community involvement in the management and maintenance of the premises and to ensure orderly and harmonious relationships among the residents.

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Upon completion of a sale, a purchaser of an Alphaville property will receive, along with the purchase and sale contract, documentation that sets out the regulations on land use and occupancy, and these will serve as private zoning regulations that are binding on the resident. These regulations set forth, among other things, the maximum number of floors allowed in an Alphaville building, the minimum number of meters between buildings and land coverage limits, thereby maintaining the uniformity and quality of the Alphaville properties.

The table below sets forth our residential communities launched between January 1, 2011 and December 31, 2013:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1)(2)	Completion Year	Number of Units(2)	As of
						December 31, 2013
						Units Sold (%)
Alphaville Castello	2013	69	80,475	2015	222	92%
Terras Alphaville Maricá 2	2013	47	107,594	2014	596	68%
Terras Alphaville Ponta Grossa	2013	77	183,413	2014	742	91%
Terras Alphaville Vitória da Conquista F2	2013	75	158,001	2014	565	27%
Terras Alphaville Sergipe F2	2013	88	168,129	2014	614	40%
Alphaville Feira de Santana F2	2013	72	172,713	2015	545	8%
Alphaville Ribeirão Preto F3	2013	60	193,058	2015	584	17%
Terras Alphaville Camaçari F2	2013	74	141,955	2015	616	85%
Alphaville Volta Redonda	2013	72	133,286	2015	427	97%
Terras Alphaville Dourados	2013	74	152,007	2015	604	54%
Alphaville Anápolis	2013	67	106,165	2015	336	93%
Terras Alphaville Linhares	2013	46	111,547	2015	576	24%
Terras Alphaville Belém 3	2013	71	251,819	2015	976	15%
Alphaville Dias Branco	2013	59	293,897	2015	1020	74%
Alphaville Litoral Norte 3	2013	68	145,443	2015	434	58%
Alphaville Nova Esplanada F4	2013	30	68,216	2015	473	71%
Alphaville D. Pedro 2	2013	58	75,803	2015	265	91%
Alphaville D. Pedro 3	2013	58	76,704	2015	233	91%
Alphaville Juiz de Fora (i)	2012	65	350,649	2014	564	69%
Alphaville Sergipe	2012	74	257,565	2014	693	97%
Alphaville Mossoró F2 (a)	2012	52	33,764	2013	170	62%
Terras Alphaville Anápolis	2012	73	169,15	2013	601	100%
Alphaville Minas Gerais	2012	61	186,336	2014	557	96%
Alphaville Brasília Residencial 2 (b)	2012	47	95,044	2014	426	15%
Brasília Alpha Mall(h)	2012	50	5,740	2014	26	4%
Terras Alphaville Sergipe	2012	88	151,033	2014	546	98%
Nova Esplanada 3	2012	30	94,806	2014	660	99%
Terras Alphaville Teresina (c)	2012	79	296,627	2014	1075	94%
Alphaville Pelotas (d)	2012	74	183,370	2014	577	22%
Alphaville Porto Velho (e)	2012	76	73,126	2013	215	41%
Terras Alphaville Vitória da Conquista	2012	75	160,195	2014	547	95%
Terras Alphaville Resende F2	2012	76	129,818	2014	414	100%

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Alphaville Juiz de Fora 2 (g)	2012	65	99,646	2014	305	64%
Alphaville Campo Grande 3	2012	64	152,549	2014	608	98%
Alphaville Araçatuba (e)	2012	42	92,722	2014	427	48%
Alphaville Bauru	2012	65	155,335	2014	467	97%

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Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1)(2)	Completion Year	Number of Units(2)	As of
						December 31, 2013
						Units Sold (%)
Terras Alphaville Camaçari	2012	74	139,819	2014	634	99%
Alphaville Pernambuco F2	2011	70	340,288	2013	602	92%
Alphaville Manaus F3	2011	100	120,242	2013	249	99%
Alphaville Feira de Santana	2011	72	211,820	2013	422	93%
Alphaville Campina Grande F2	2011	53	68,941	2011	158	54%
Barra da Tijuca	2011	35	51,360	2012(h)	75	100%
Petrolina F2(f)	2011	76	117,365	2012(h)	377	47%
São José dos Campos F1 + F2	2011	57	559,766	2014	1,009	99%
Terras Alpha Maricá	2011	48	243,213	2013	615	98%
Terras Alpha Resende	2011	77	183,093	2013	419	100%
Alphaville Campo Grande F2	2011	66	233,539	2012(h)	594	100%
Alphaville Pernambuco	2011	83	323,525	2013	551	96%

(1) One square meter is equal to approximately 10.76 square feet.

(2) Values for 100% of the building development.

(a) Project launched in June 2012. Our selling forecasts indicate the remaining units will be sold within a short period of time (within two years).

(b) Project launched in August 2012. It refers to the 2nd phase of the development in a new market. We are developing other projects in this area to strengthen this market region and therefore to increase this project demand.

(c) Project launched in October 2012. Our selling forecasts indicate the remaining units will be sold within a short period of time (within two years).

(d) Project launched in November 2012. This project is located in a new market area with a lower sales velocity.

(e) Project launched in December 2012. Our selling forecasts indicate the remaining units will be sold within a short period of time (within two years).

(f) Project launched in September 2011, its low % of units sold is mainly due to a lower sales velocity in this market. Our selling forecasts indicate the remaining units will be sold within a short period of time (within two years).

(g) Project launched in September 2012. It refers to a pilot project of small retail stores. Our selling forecasts indicate the remaining units will be sold within a short period of time (within two years).

(h) Project delivered.

(i) Project launched in September 2012, its low % of units sold is mainly due to a lower sales velocity in this market. The sale of this inventory units are on schedule.

We have evaluated impairment for all of our residential community developments and have identified no impairment for any of our properties for sale and no impairment provisions have been recorded.

The table below sets forth our finished entry-level housing developments under Tenda's Brand, launched between January 1, 2011 and December 31, 2013 with less than 90% of units sold.

Project Description	As of December 31, 2013
	Units Sold (%)
Residencial Cordoba (1)	62
Residencial Portal de Valenca (2)	36
Res Figueiredo II (3)	86
Res Parque das Aroeiras Life (4)	89

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As of December 31, 2013

Project Description	Units Sold (%)
Residencial Morada de Ferraz (5)	78
Arsenal Life II (6)	87
Res Santo Andre Life I (7)	87
Res Parque Lousa (8)	79
Aeroclube B (9)	83
Fit 16 SPE Emp. Imob./Mirante do Lago F1 (10)	75
Fit 16 SPE Emp. Imob./Mirante do Lago F2 (11)	47
Res Napoli I (12)	65
Parque Baviera Life F3 (13)	80
Residencial Villaggio do Jockey (14)	50
Fit SPE 10 Emp. Imob./Fit Mirante do Parque. (15)	83
Fit 25 SPE Emp. Imob./Icoaraci (16)	79
Fit 31 SPE Emp. Imob./Fit Giardino (17)	28
Fit 32 SPE Emp. Imob./Vista Flamboyant (18)	73
Fit 32 SPE Emp. Imob./Vista Flamboyant F2 (19)	77
Fit 26 SPE Emp. Imob./Parque Arvoredo - F1 (20)	88
Fit 26 SPE Emp. Imob./Cassol F2 A (21)	87
Fit 26 SPE Emp. Imob./Cassol F2 B (22)	83
Res Brisa do Parque III (23)	86
Citta Ville SPE e Im Ltda/Vila Allegro (24)	78
Bosque dos Pinheiros Life (25)	88
Residencial Michelangelo (26)	88
Positano Garden II (27)	75
Positano Garden IV (28)	75
Fit Roland Garros Emp./Fit Jacana (29)	81

- (1)Residencial Cordoba This development was previously completed and has 62% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold until 2015.
- (2)Residencial Portal de Valenca This development was previously completed and has 36% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold until 2015.
- (3)Residencial Figueiredo II This development was previously completed and has 86% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (4)Residencial Parque das Aroeiras Life This development was previously completed and has 89% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (5)Residencial Morada de Ferraz This development was previously completed and has 78% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

- (6) Arsenal Life II This development was previously completed and has 87% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (7) Res Santo Andre Life I This development was previously completed and has 87% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

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- (8)Res Parque Lousa This development was previously completed and has 79% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (9)Aeroclube B This development was previously completed and has 83% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (10)Fit 16 SPE Emp. Imob./Mirante do Lago F1 This development was previously completed and has 75% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (11)Fit 16 SPE Emp. Imob./Mirante do Lago F2 This development was previously completed and has 47% of its units sold. The sales speed for inventory outside of core markets remains lower than that of sales within core markets. The sale of this inventory and the run-off of legacy projects are on schedule and the remaining units will be sold within a short time of period.
- (12)Res Napoli I This development was previously completed and has 65% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold units in 2014.
- (13)Pq Baviera Life F3 This development was previously completed and has 80% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (14)Residencial Villaggio do Jockey This development was previously completed and has 50% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold units in 2014.
- (15)Fit SPE 10 Emp. Imob./Fit Mirante do Pq. This development was previously completed and has 83% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (16)Fit 25 SPE Emp. Imob./Icoaraci This development was previously completed and has 79% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (17)Fit 31 SPE Emp. Imob./Fit Giardino This development was previously completed and has 28% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold units until 2015.
- (18)Fit 32 SPE Emp. Imob./Vista Flamboyant This development was previously completed and has 73% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (19)Fit 32 SPE Emp. Imob./Vista Flamboyant F2 This development was previously completed and has 77% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

- (20) Fit 26 SPE Emp. Imob./Parque Arvoredo - F1 This development was previously completed and has 88% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (21) Fit 26 Spe Emp. Imob./Cassol F2 A This development was previously completed and has 87% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (22) Fit 26 SPE Emp. Imob./Cassol F2 B This development was previously completed and has 83% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (23) Res Brisa do Parque III This development was previously completed and has 86% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (24) Citta Ville SPE e Im Ltda/Vila Allegro This development was previously completed and has 78% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

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- (25) Bosque dos Pinheiros Life This development was previously completed and has 88% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (26) Residencial Michelangelo This development was previously completed and has 88% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (27) Positano Garden II This development was previously completed and has 75% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (28) Positano Garden IV This development was previously completed and has 75% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (29) Fit Roland Garros Emp./Fit Jacana This development was previously completed and has 81% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

We have evaluated all of our developments for impairment and we identified cases of impairment for these projects and impairment provisions have been recorded:

- Res Pedra Bela
- Novo Horizonte - cond
- Res Reserva dos Passaros f2
- Arsenal Life ii
- Pendotiba Life
- Res Villa Esplendore
- Duo Valverde
- Res Villa Verde.
- Portal do Sol Life I
- Res Jardim Girassol ii F1
- Res Santa Luzia Life
- Res Jardim Girassol ii F2
- Res Betim Life
- Res Portal de Valenca
- Res Engenhos de NovaGarden Cintra F1
- Fit Coqueiro ii
- Res Curuca F1
- Icoaraci
- Cond Res Cube Garden.
- Res Santa Luzia Life
- Bairro Novo Cotia ii
- Fit Jacanã

- Lago dos Patos

#### Commercial Buildings

In 2011, we launched seven commercial buildings: Comercial Icon, Target – Comercial Capenha, Network Business Tower Phase 1, Network Business Tower Phase 2, Americas Avenue Consolidado, Golden Office and AlphaGreen.

In 2012, we launched two commercial buildings: SAO Square - Way and SAO Square – Gafisa.

In 2013, we launched two commercial buildings: Axis Business Tower and Laguna Mall.

#### Construction Service

We provide construction services to third parties, building residential and commercial projects for some of the most well-known developers in Brazil. This practice allows us to benchmark our construction costs, facilitates our access to new constructions materials, techniques and service providers such as architects and sub-contractors, and provides larger economies of scale. Third-party construction services are a significant, less volatile source of revenues, which does not require us to allocate capital. Our main construction services clients are large companies, many of them developers that do not build their own projects. As of December 31, 2013, our main construction

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services clients were Fibra Empreendimentos Imobiliários S.A., Helbor LM Investimentos Imobiliários Ltda., Incons Champagnat Empreendimento Imobiliário SPE Ltda., Incons Curitiba Empreendimento Imobiliário SPE Ltda., MBigucci Villa Reggio Empreendimentos Imobiliários Ltda., SDI Desenvolvimento Imobiliário Ltda., Tanguá Patrimonial Ltda., Concivil Construtora e Incorporadora Ltda., STAN Portugal Empreendimento Imobiliário SPE Ltda., PP II SPE Empreendimentos Imobiliários Ltda. Reitzfeld Empreendimento Imobiliário Botânico SPE Ltda and KINO Empreendimento Imobiliário SPE S.A. We also provide construction services on certain developments where we retain an equity interest.

The table below sets forth the real estate building developments we have constructed exclusively for third parties between January 1, 2011 and December 31, 2013:

Project	First Year of Construction	Client	Type of Project
Viverde	2012	Reitzfeld Empreendimento Imobiliário Botânico SPE Ltda	Residencial
One	2011	Portugal Empreendimentos Imobiliário SPE Ltda.	Residencial
Veranda	2011	Concivil Construtora e Incorporadora Ltda.	Residencial/ Commercial
Status	2011	Villa Reggio Empreendimentos Imobiliários Ltda.	Residencial
Panamérica Green Park	2011	PP II SPE Empreendimentos Imobiliários Ltda.	Commercial
Kino	2011	Kino Empreendimento Imobiliário SPE S.A.	Commercial

The table below sets forth the real estate developments we have constructed for third parties, in which we also have an equity interest, between January 1, 2011 and December 31, 2013:

Project	G a f i s a		Partner	Type of Project
	First Year of Construction	Participation (%)		
Adamas	2013	50	GTIS Partners	Residencial
Costa Araçagy	2011	60	Franere	Residencial
Target	2011	60	Comasa/Polo	Commercial

#### Sale of Units Through Our Brokerage Subsidiaries

In September 2006, we created a new subsidiary, Gafisa Vendas, to function as our internal sales division in the state of São Paulo. In February 2007, we created another new subsidiary, Gafisa Vendas Rio, to function as our internal sales division in the metropolitan region of Rio de Janeiro. These wholly-owned subsidiaries promote sales of our projects in the states of São Paulo and Rio de Janeiro and focus their efforts on: (1) launches — our internal sales force focuses on promoting launches of our developments; however, we also use outside brokers, thus creating what we believe to be a healthy competition between our sales force and outside brokers; (2) inventory — Gafisa Vendas and Gafisa Vendas Rio each have a team focused on selling units launched in prior years; and (3) web sales — Gafisa

Vendas and Gafisa Vendas Rio each have a sales team dedicated to internet sales as an alternative source of revenues with lower costs.

#### Our Clients

Our clients consist of development and construction service clients. Development clients are those who purchase units in our developments. As of December 31, 2013, our development-client database was comprised of more than 125,500 individuals. We currently have approximately 75,000 active clients.

Our construction-services clients are large companies, many of them developers that do not build their own projects. As of December 31, 2012 our main construction services clients were Fibra Empreendimentos Imobiliários S.A., Helbor LM Investimentos Imobiliários Ltda., Incons Champagnat Empreendimento Imobiliário SPE Ltda., Incons Curitiba Empreendimento Imobiliário SPE Ltda., MBigucci Villa Reggio Empreendimentos Imobiliários Ltda., SDI Desenvolvimento Imobiliário Ltda., Tanguá Patrimonial Ltda., Concivil Construtora e Incorporadora Ltda., STAN Portugal Empreendimento Imobiliário SPE Ltda., PP II SPE Empreendimentos Imobiliários Ltda. Reitzfeld Empreendimento Imobiliário Botânico SPE Ltda and KINO Empreendimento Imobiliário SPE S.A. We also provide construction services to certain developments where we retain an equity interest. No individual client represents more than 5% of our revenues from residential developments or construction services.

#### Our Operations

The stages of our development process are summarized in the diagrams below:

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## Land Acquisition

We use results from our extensive market research to guide our land reserves strategy and process. Our marketing and development teams monitor market fundamentals and trends. We have developed a sophisticated database to support our search for and analysis of new investment opportunities. Key decision factors used by our management for land acquisition and new developments include location, type of product to be developed, expected demand for the new developments, current inventory of units in the region and acquisition cost of the land.

Whenever we identify an attractive tract of land, we first conduct a study of the project to define the most appropriate use of the space. Afterwards, the basic design of the project enters the economic feasibility study stage, where we consider preliminary revenues and expenses associated with the project. This study will determine project profitability. We collect and analyze information on demand, competition, construction budget, sales policy and funding structure to ensure economic viability of the new development. We then initiate a legal due diligence of the property to identify liens, encumbrances and restrictions, potential solutions to such issues and the relevant costs. Before acquiring the land, we conduct a thorough due diligence process including an environmental review. Each decision to acquire land is analyzed and approved by our investment committee. See “Item 6. Directors, Senior Management and Employees—C. Board Practices” elsewhere in this annual report for further information on the activities of our committees and boards.

We seek to finance land acquisition through barter transactions, in which we grant the seller a certain number of units to be built on the land or a percentage of the proceeds from the sale of units in such development. As a result, we reduce our cash requirements and increase our returns. In the event we cannot do so or in order to obtain better terms or prices, we acquire land for cash, alone or in partnership with other developers. We purchase land both for immediate development and for inventory.

As a new strategy defined by the end of 2011, the Company is selling landbank located in cities and places where there is no intention to run operations with new developments.

As of December 31, 2013, we had an inventory of 153 land parcels in which we estimate we could develop a total of 121,404 residential units with a sales value of R\$25.8 billion, of which 37.0% represents land acquired through barter transactions. The table below sets forth the breakdown of our land reserves by location and by the type of development.

	Gafisa		Alphaville (2)			Tenda	
	Future Sales (% Gafisa)(1) (in thousands of reais)	% Bartered	Future Sales (% Alphaville) (in thousands of reais)	% Bartered	Future Sales (% Gafisa) (in thousands of reais)	% Bartered	
São Paulo	4,867,242	27.4 %	2,291,833	100 %	310,942	14.7 %	
Rio de Janeiro	1,610,940	69.5 %	1,478,282	100 %	83,660	-	
Other states	-	-	13,151,151	100 %	2,033,002	29.3 %	
Total	6,478,182	38.5 %	16,921,266	100 %	2,427,604	25.8 %	

(1) Information reflects our interest.

(2) This information is presented for comparison purposes only, as we sold our controlling interest on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.



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### Project Design

In order to meet evolving preferences of our customers, we invest considerable resources in creating an appropriate design and marketing strategy for each new development, which includes determining the size, style and price range of units. Our staff, including engineers and marketing and sales professionals, works with recognized independent architects on the planning and design of our developments. Their activities include designing the interior and exterior, drafting plans for the execution of the project, and choosing the finishing construction materials. A team responsible for preparing the business plan and budget and assessing the financial viability for each of our projects is also involved. Simultaneously with the planning and design of our developments, we seek to obtain all the necessary licenses and regulatory approvals from local authorities, which usually take three to twelve months in the case of our residential buildings and three years in the case of our residential communities.

### Marketing and Sales

Our marketing efforts are coordinated by our internal staff of approximately 16 professionals. Our specialized team generally coordinates with several outsourced brokerage companies with a combined sales force of more than 80 representatives, monitoring such sales representatives in order to promote loyalty and ensure performance. Our marketing intelligence team is also responsible for gathering information on the needs and preferences of potential customers to provide guidance on our land acquisition and project design activities. Gafisa Vendas was created as our internal sales division and it currently consists of 583 independent Gafisa Vendas brokers, 32 sales consultants and 7 sales managers.

The creation of Gafisa Vendas was intended to establish a strategic channel for us to access our clients and to reduce our dependence on outside brokers for marketing. Because the sales force at Gafisa Vendas is trained to sell our products exclusively, we believe that it is able to focus on the sale of our developments, articulate the unique features of our development, manage our current customers and capture new customers more effectively. Gafisa Vendas was initially established in São Paulo in 2006 and opened a branch in Rio de Janeiro in 2007. In 2008 and 2009, Gafisa Vendas was our most successful sales team, responsible for approximately 34% and 40% of our sales in the states of São Paulo and Rio de Janeiro, respectively. In 2010, Gafisa Vendas was responsible for approximately 37% and 53% of our sales in the states of São Paulo and Rio de Janeiro, respectively. In 2011, Gafisa Vendas was responsible for approximately 34% and 52% of our sales in the states of São Paulo and Rio de Janeiro, respectively. In 2012, Gafisa Vendas was responsible for approximately 47% and 52% of our sales in the states of São Paulo and Rio de Janeiro, respectively. In 2013, Gafisa Vendas was responsible for approximately 51% and 45% of our sales in the states of São Paulo and Rio de Janeiro, respectively.

We will continue to utilize independent real estate brokerage firms as we believe this provides a healthy competition between our internal sales force and outside brokers. Independent brokers provide us with a broad reach, access to a specialized and rich database of prospective customers, and flexibility to accommodate the needs of our diverse offering and clientele. In line with our results-oriented culture, we compensate brokers based on their profit contribution rather than on sales. Brokers are required to attend periodic specialized training sessions where they are updated on customer service and marketing techniques, competing developments, construction schedules, and marketing and advertising plans. We emphasize a highly transparent sales approach, as opposed to the traditional high-pressure techniques, in order to build customer loyalty and to develop a sense of trust between customers and us. At our showrooms, brokers explain the project and financing plans, answer questions and encourage customers to purchase or sign on to receive a visit or additional information.

We typically initiate our marketing efforts 30 days before the launch of a development. We normally have a showroom on or near the construction site, which includes a model unit furnished with appliances and furniture. We leverage our reputation for quality, consistency, on-time delivery and professionalism to increase sales velocity. We

have been successful with this strategy, usually selling approximately 60% of the units before construction starts.

Alphaville has also been successful in its sales and marketing efforts. For example, in Campinas, Alphaville D. Pedro II & III development sold all the 498 lots in just a few hours on the first day; in Volta Redonda, Rio de Janeiro, the sales team needed only three hours to sell all of its residential lots; in Fortaleza, Ceará, 90% of the Alphaville lots were sold during the first day of launch, and Alphaville Anápolis in Goiás, 100% were sold in just a few hours in the same day of their launch.

We market our developments through newspapers, direct mail advertising and by distributing leaflets in neighboring areas, as well as through telemarketing and websites. In addition, on a quarterly basis, we publish the magazine “Gafisa Way” which is distributed to our customers and offers news on our most recent developments and

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progress updates on buildings under construction. The Alphaville developments also publish special magazines geared to their specific communities.

Tenda's sales and marketing efforts are coordinated through 15 store fronts located across the principal metropolitan areas of the country. A direct sales force is trained to offer advice to first-time home buyers and to assist these buyers in finding the best financing solution. In addition, this sales force provides information on the benefits under the public housing program "Minha Casa, Minha Vida", including the process of obtaining a mortgage through the CEF and BB. Because the Tenda sales force is specially trained to provide information on the affordable entry-level segment, we believe that they are uniquely positioned to provide us with an advantage in this segment.

In addition to direct sales, Tenda markets its developments through telemarketing, which generates more than 28,000 calls and 15,000 chats per month and results in over 4,000 visits per month to its store fronts. Tenda also gathers information on its customers' preferences to better tailor its marketing efforts and has implemented a customer relationship management department in order to improve its client satisfaction. Finally, Tenda focuses on improving its sales during the launch of a development using a specific strategy for each type of development. For example, with large developments, Tenda has successfully combined its direct sales force with independent real estate brokerage firms, and the increase in cost associated with such combined efforts was offset by the significant increase in sales during the initial months after launch.

Under Brazilian law, we may establish a term within and the conditions under which we are entitled to cancel the development. According to our regular purchase contracts, if we are not able to sell at least 60% of the units within 180 days of launching, we can cancel the development. In the low income segment we need to have the project with at least 60% of the units sold (sales includes customers who are eligible for mortgages and that can be immediately transferred to financial institutions) and the project needs to be contracted with financial institutions prior to the launching phase, or we can cancel the development. Under those circumstances, we usually consider changing the project or selling the land, but, in any of those cases, we have to return the cash payment made by our customers adjusted for inflation but with no interest. Customers, however, are not entitled to other remedies.

## Construction

Gafisa has been engaged in the construction business for over 50 years. Our experience spans across the entire construction chain. Before engaging in each new project, we develop sketches and research and develop projects and plans to create the most appropriate product possible. Our standardized construction techniques and unique control system are designed to optimize productivity and minimize raw material losses. Our monitoring tools are available on our intranet where all employees regularly review costs and key performance indicators of each development such as actual versus budget comparisons, volume consumption for each raw material, and construction schedule.

We use strict quality control methods. We have developed proprietary procedure manuals that describe in significant detail each task of each stage of the construction project. These manuals are also used for the training sessions that we require all of our workers to attend. In addition, we keep quarterly records of projects delivered.

The reviews focus on identifying problems in order to take corrective and preventive actions in projects underway and thus avoid costly repetition. We have adopted a quality management system that was certified for ISO 9002 by Fundação Bureau Veritas, from Universidade de São Paulo. In 2007, we received a certification from Programa Brasileiro de Qualidade e Produtividade do Habitat (PBQP-H), which is part of the Ministry of Cities. In addition, the Eldorado Business Tower building was certified as a Green Building, category Platinum, by the U.S. Green Building Council, which attests that it is environmentally sustainable, through the rational use of energy, natural lighting and pollution control and recycling. Eldorado Business Tower was the first building in Latin America to achieve this category.

We invest in technology. Our research and development costs amounted to R\$1.0 million in each of 2013 and 2012 and R\$2.9 million in 2011. We believe that we have pioneered the adoption of advanced construction techniques in Brazil such as dry wall and plane pre-stressed slabs, which present numerous advantages over traditional techniques. We also optimize costs by synchronizing our projects' progress so as to coordinate the purchase of raw material and benefit from economies of scale. We have long-term arrangements with a number of suppliers which allow us to build our developments with quality, using brand name construction materials and equipment, and advanced technology. Moreover, our centralized procurement center enables us to achieve significant economies of scale in the purchase of materials and retention of services.

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We do not own heavy construction equipment and we employ directly only a small fraction of the labor working on our sites. We generally act as a contractor, supervising construction while subcontracting more labor-intensive activities. Substantially all on-site construction is performed for a fixed price by independent subcontractors. We have policies in place in order to hire reputable, cost-oriented and reliable service providers that are in compliance with labor laws and have performed their work diligently and on time in the past. Hiring subcontractors instead of employing workers directly has some financial and logistical advantages. For instance, we do not need to incur fixed costs to maintain a specialized labor force even when they are not actively working at a construction site and we do not need to pay for frequent transfers of labor to different construction locations.

Our construction engineering group coordinates the activities of service providers and suppliers, monitors compliance with safety and zoning codes, and monitors completion of the project on a timely basis. We provide a five-year limited warranty covering structural defects in all our developments.

**Risk Control**

Our risk control procedures require that all of our projects be approved by our investment committee, which meets on a monthly basis, or more frequently on an as-needed basis, and consists of our chief executive officer and two members of our board of directors. Our investment committee carefully reviews the various studies conducted by us and described above. In addition, we have a board of officers, which meets monthly, and is in charge of overseeing and approving major decisions. See “Item 6. Directors, Senior Management and Employees—E. Share Ownership” in this annual report.

**Customer Financing**

The table below sets forth the percentage of each type of customer financing we provide for each type of our developments as of December 31, 2013:

Sales Term	Luxury	Middle Income	Affordable Entry-Level(1)	Land Subdivisions (2)
Mortgage lending (delivery)	77 %	84 %	-	-
Caixa Econômica Federal	-	-	100 %	-
Gafisa 36 months	22 %	15 %	-	45 %
Gafisa 60 months	-	-	-	-
Gafisa 120 months	1 %	1 %	-	55 %

(1) Includes Tenda developments. We do not provide any customer financing for these developments.

(2) Includes both Gafisa and Alphaville land subdivisions.

Mortgages. In 2013, 84% of our sales value was financed by bank mortgages, where the customer paid us approximately 25% to 60% of the sales price of the property during the period of construction, and upon delivery of the property paid the balance of the sales price through a bank mortgage. We analyze the credit history of each customer at the time of sale to see if the customer would qualify for a bank mortgage based on banks’ standard credit rating policies. Although there is no assurance that the customer will qualify for a mortgage at the time of delivery, our analyses have been fairly successful in predicting whether the customer would qualify for a mortgage. The following table sets forth the credit limits established by mortgage sources available in Brazil:

Credit Lines	Typical Interest rate	Maximum Home Value	Maximum Loan Value
Mortgage portfolio (Carteira Hipotecária) or CH	% annually + TR(1)	No limit	No limit
Housing Finance System (Sistema Financeiro da Habitação) or SFH	% annually + TR	R\$ 500,000	R\$ 450,000
Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviços) or FGTS	16% annually + TR	R\$ 130,000	R\$ 130,000

(1) TR refers to the daily reference rate.

Mortgage financing for Tenda's developments primarily comes from CEF. The financing is structured so that customers with monthly income of up to ten times the Brazilian minimum wage pay low monthly installments without increasing our credit risk because CEF assumes the credit risk of each customer. Additionally, Tenda is currently working with certain private banks in addition to the CEF to provide financing for homebuyers with

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monthly income between three and seven times the Brazilian minimum wage which was approximately R\$678,00 as of December 31, 2013 with similar terms as the financing provided by the CEF.

Financing by Gafisa during construction. We finance some of our own sales during the construction period, with a down payment of 20-30% and financing of the balance through monthly installments up to the delivery of the unit.

Financing by Gafisa after delivery. In addition, we offer financing plans to prospective customers using our own capital, where we finance purchases for up to 120 months after the completion of the construction. For completed units we require a down payment of 30% and financing of the remaining balance with up to 120 monthly installments. For units under construction we require a down payment of 10% and provide financing of 25-35% with up to 30 monthly installments until the delivery of the unit and financing of the remaining 75-65%, respectively, with up to 120 additional monthly installments. All of our financing plans are guaranteed by a conditional sale of the unit, with the transfer of the full property rights of the unit to the customer upon the full payment of the outstanding installments.

We have developed a strict credit policy in order to minimize risks. We take the following steps whenever we conduct a credit review process:

- trained independent brokers interview each potential customer to collect personal and financial information and fill out a registration form;
- registration forms are delivered, along with a copy of the property deed, to us and, if the bank providing the financing requests, to an independent company specialized in real estate credit scoring;
- credit is automatically extended by us to the customer if his or her credit analysis is favorable. However, if the credit analysis report raises concerns, we will carefully review the issues and accept or reject the customer's application depending on the degree of risk. To the extent financing is provided by a bank, such financial institution will follow their own credit review procedures; and
- after approving the application, our staff accepts the down payment which is given as a deposit on the purchase of the unit.

Sales contracts. Our sales contracts generally provide for adjustment of the sales price according to the INCC during construction and at an annual interest rate of 12% plus IGP-M over the receivables balance after a stated date in our sales contracts. We have historically experienced a low rate of customer default on our sales. On February 28, 2014, our clients' default level was 6.73% of our accounts receivable for Gafisa, 12.52% for Tenda and 2.76% for Alphaville.

We attribute our low default rate to the fact that: (1) we conduct database research on the socio-economic background of our prospective customers; (2) our agreements discourage default and cancellation of the purchase by imposing immediate penalty fees, interest and liquidated damages which are adjusted for inflation, and we retain approximately 60-65% (Gafisa), 20% (Tenda) and 20% (Alphaville) of the total purchase price plus expenses incurred by us, which in general represents all or a substantial portion of the amount that the defaulted clients have already paid us; and (3) we offer several options to our customers if they experience financial difficulties, such as offering them a greater number of installment payments or exchanging the unit bought for a less expensive one. When a default occurs, we endeavor to renegotiate the outstanding loan with our customers before taking any legal action.

We will only transfer title of the unit to a buyer after the release of the certificate of acceptance of occupancy by local authority and the full payment of all outstanding installments. We have increased the percentage of mortgages that our customers obtain from commercial banks from approximately 33% in 2006 to 56% in February, 2014. This increase reflects the growing interest of commercial banks in financing the Brazilian housing industry. See "Item 5".

Operating and Financial Review and Prospects—A. “Operating Results—Launches and Contracted Sales—Contracted Sales” for a discussion of the sales value of contracts cancelled by our customers and penalties paid in connection with such cancellations.

The table below sets forth the client’s default level breakdown by segment, as of December 31, 2013:

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	Gafisa		Alphaville(1)		Tenda	
Default level by segment	5.13	%	2.24	%	15.57	%

(1) This information is presented for comparison purposes only, as we sold our controlling interest on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.

Cancelation of sales contracts. Gafisa and Tenda sales contracts are irrevocable under Brazilian law. That means that a customer does not have the unilateral ability to terminate a contract once it is executed, nor does the customer have an ability to require a refund of amounts previously paid unless we agree. To the extent that a customer is not in compliance with its obligations under a contract, we may at our option either force compliance through the Brazilian courts, or agree to a “default” by the customer. Should we agree at our sole discretion to refund part of the amounts paid to the defaulting party, we will normally apply the penalty set forth in the contract.

In the event either we or the customer do not agree to enter into a commercial negotiation following a customer default there are two courses of action available:

(1) the first option is that we may seek to enforce the agreement in Court to collect the amount outstanding and effectively transfer ownership of the unit to the buyer; or

(2) as provided in the contract and contemplated in Brazilian law we have the right to force the unit to be auctioned. When the unit is purchased in auction by a third party the proceeds from the auction are used in part to settle in full (including interest and penalties for late payments) the amount owed by the customer to Gafisa and the remaining balance is paid to the customer. When no third party is willing to acquire the unit in the auction, the title to the unit returns to Gafisa or Tenda without any disbursement, except for the auctioneers fees. Provisions in the Gafisa contract indicate that when such auction occurs it is without prejudice of the penalties set forth in this contract (meaning that the penalty provisions survive). Upon consultation, our legal counsel advised us that the customer has a right to request that amounts paid by him be returned after the contractual “penalty” has been deducted.

The table below provides the number and sales value of contracts terminated by customers for the periods presented:

Year Segment	As of December 31, 2013		As of December 31, 2012(3)		As of December 31, 2011 (3)	
	Number of contracts	Sales value (in thousands of reais)	Number of contracts	Sales value (in thousands of reais)	Number of contracts	Sales value (in thousands of reais)
Gafisa						
Contracted sales	3,671	1,416,939	4,031	2,040,575	5,871	2,530,372
Volume/Sales value of terminations	(1,292 )	(455,738 )	(1,074 )	(441,047 )	(753 )	(350,284 )
Percentage	35.2 %	32.1 %	26.6 %	21.6 %	12.8 %	13.8 %
Sales value, net of termination	2,379	961,201	2,957	1,599,528	5,118	2,180,088
Tenda						
Contracted sales	8,292	1,089,301	9,990	1,175,733	15,725	1,737,721
Volume/Sales value of terminations(1)	(4,278 )	(598,897 )	(10,852 )	(1,250,051 )	(14,284 )	(1,407,511 )
Percentage(1)	51.6 %	55.0 %	108.6 %	106.3 %	90.8 %	81.0 %
	4,014	490,403	(862 )	(74,318 )	1,441	330,210

Sales value net of terminations												
Alphaville (2)												
Contracted sales	7,955		1,295,260		5,654		1,293,526		3,584		910,425	
Volume/Sales value of terminations	(1,307	)	(233,005	)	(591	)	(185,633	)	(299	)	(68,435	)
Percentage	16.4	%	18.0	%	10.5	%	14.4	%	8.3	%	7.5	%
Sales value net of termination	6,648		1,062,260		5,063		1,107,893		3,285		841,991	
Total sales value net of termination	13,041		2,513,860		7,158		2,633,103		9,844		3,352,289	

(1)After a detailed analysis of Tenda receivables portfolio, we identified clients who no longer qualified for the mortgage because their contracts had terminated. In 2013, we had R\$419 million in sales value of termination

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and R\$1.2 billion in 2012. As of the fourth quarter of 2011, we adopted a new sales policy for Tenda units to avoid contract terminations. The new terms of the contracts increased security in the client's transfer of their contracts to financial agents. This change led to a longer time period for new sales and for resale of units under contracts entered into during that period.

- (2) This information is presented for comparison purposes only, as we sold our controlling interest on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.
- (3) Operating information has not been restated to reflect the consolidation method in jointly-controlled investees pursuant to CPCs 19 (R2) (or IFRS 11) and 36 (R3).

### Receivables securitization.

We release capital for new projects by seeking not to maintain receivables after our projects are completed. We have been active in the securitization market and we are capitalizing on an increasing investor demand for mortgage-backed securities. The securitization (mortgage-backed securities) market in Brazil is relatively new but we believe it is rapidly expanding. This expansion is helped significantly by recent development in Brazilian foreclosure laws.

With the growing availability of mortgages from commercial banks and the increasing liquidity of mortgage-backed securities (CRIs), we expect to further reduce our role as a financing provider to our customers. Our goal is to optimize our working capital by transferring the financing activities to securitization companies and banks.

### Main Raw Materials and Suppliers

We purchase a wide variety of raw materials for our operations. Even though these raw materials have represented on average, over the last three years, approximately 41% of our total costs of development, aside from land, the only raw material that represents more than approximately 5.1% of our total costs is steel. Prices of some raw materials have significantly increased over the last two years at a rate higher than inflation. The index that measures the fluctuation of construction costs, the INCC, increased 22.7% during the three year period ended December 31, 2013. During that same period, the IGP-M increased 18.4%, resulting in an increase in unit prices. We have been working on the development of new construction techniques and the utilization of alternative materials in order to reduce costs and improve our construction process with advanced technology.

We contract with major suppliers for the materials used in the construction of the buildings. We receive general pricing proposals from various suppliers of raw materials and select the proposal with the best terms and conditions for each development. In addition to pricing, we select our suppliers by the quality of their materials. We set forth specific minimum quality requirements for each construction project, and the chosen supplier must meet this quality requirement. The materials for our developments are readily available from multiple sources and, accordingly, we do not rely on any one supplier for our raw materials.

Our five largest suppliers in terms of volume are Gerdau Aços Longos S.A., Votorantim Cimentos Brasil Ltda., Supermix Concreto S.A., Intercement Brasil S.A., Ibrap Industria Brasileira de Alumínio and Elevadores Atlas Schindler S. A., In general terms, we purchase products for our construction based on the scheduled requirements, and we are given approximately 28 days to pay. The products we purchase generally come with a five-year warranty. We do not have any exclusive arrangements with our suppliers. We work closely with suppliers, enabling them to schedule their production in order to meet our demand or notify us in advance in the event they anticipate delays. We have good relationships with our suppliers and have experienced no significant construction delays due to shortages of materials in recent years. We do not maintain inventories of construction materials.

We achieve significant economies of scale in our purchases because we:

- use standard construction techniques,
- engage in a large number of projects simultaneously, and
- have long-term relationships with our suppliers. We periodically evaluate our suppliers. In the event of problems, we generally replace the supplier or work closely with them to solve the problems.

#### Customer Service

In our industry, customer satisfaction is based in large part on our ability to respond promptly and courteously to buyers before, during and after the sale of our properties, including providing an owner's guide. We use

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innovative and personalized customer service techniques beginning with the initial encounter with a potential customer. We believe we were one of the first homebuilders in Brazil to introduce services such as breakfast for customers at construction sites and providing monthly photos to customers on the progress of the construction. These services are provided with the objective of educating customers on the progress of the construction and improving customers' experience with the purchase of our units. Other customer service efforts include:

- a dedicated outsourced call center with consultants and specialists trained to answer our customers' inquiries;
- the development of the "Gafisa Viver Bem" web portal, through which our customers can, for example, follow the project's progress, alter their registration information, simulate unit designs and check their outstanding balances;
- relationship events to engage the customer with the "Gafisa Viver Bem" program, like the "Open House" (inauguration party in the unit) and the "House UP" (refurbish one room of the unit);
  - the development of the "Alphaville Viver a Vida" web portal, through which our customers have easy and fast and easy access to all financial services related to Alphaville; and
- the development of the "Gafisa Personal Line," through which buyers of certain units are able to customize their units in accordance with plans and finishing touches offered by Gafisa. Such options vary by development.

As part of our customer service program in our residential developments, we conduct pre-delivery inspections to promptly address any outstanding construction issues. Prior to the delivery of each unit, we maintain regular contact with the customer by sending the customer our magazine "Gafisa Way." We also conduct monitored inspections of our developments to allow buyers to gather more information from our technical personnel. In addition, we send a monthly status report on the construction of the unit. We conduct another evaluation of the customer's satisfaction with his or her unit, as well as the customer's experience with our sales personnel and our various departments (customer services, construction and title services) 18 months after the release of the certificate of acceptance of occupancy by the relevant local authority. We also provide a five-year limited warranty covering structural defects, which is required by Brazilian law.

Alphaville also promotes several Relationship Programs during the construction period, for example:

"Plantando Raízes", customers and their families are invited by Alphaville Foundation to plant a seed which will become the family's trees;

In "Visita Monitorada" customers are invited to visit and follow the progress of the Alphaville construction which include a presentation of the engineering team on the construction status;

Next construction's delivery, owners of lots and their architects are invited to a presentation given by Alphaville on project design, tips on hiring professionals in the industry, as well as the construction regulations;

"Test Life" - customers and their families enjoy a day at the club house, promoting the use of the common areas, such as the club, courts and swimming pool;

"Alphaville Clubes – Lazer Brasil," membership entitles the use of all Alphaville health and fitness clubs throughout the country; and

Alphaville's website-news, on our Alphaville communities documents and information related to each developments are posted.

In 2014, we plan to continue to engage with our customers by creating positive experiences with the brand Gafisa.

#### Competition

The real estate market in Brazil is highly fragmented and competitive with low barriers to entry. The main competitive factors include price, financing, design, quality, reputation, reliability, meeting delivery expectations, partnerships with developers and the availability and location of land. Certain of our competitors have greater financial resources than we do, which could provide them an advantage over us in the acquisition of land using cash.

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In addition, some of our competitors have better brand recognition in certain regions, which could give them a competitive advantage in increasing the velocity of their sales. Because of our geographic diversification, we believe that we have access to different markets within Brazil that have different demand drivers.

Because of the high fragmentation of the markets in which we operate, no single developer or construction company is likely to obtain a significant market share. With the exception of São Paulo and Rio de Janeiro, where we face competition from major publicly-traded competitors, in other regions we generally face competition from small and medium-sized local competitors that are not as well-capitalized. We expect additional entrants, including foreign companies in partnership with Brazilian entities, into the real estate industry in Brazil, particularly the São Paulo and Rio de Janeiro markets.

The table below sets forth the most recent data available on our market share in the São Paulo and Rio de Janeiro markets:

## São Paulo (1) — Gafisa's Market Share

Year	Year ended December 31,					
	2013		2012		2011	
	(Launches in R\$ million)					
Local market	32,367		28,288		30,311	
Gafisa(2)	1,125		1,306		2,227	
Gafisa's market share	3.5	%	4.6	%	7.3	%

Source: EMBRAESP and SECOVI.

## Rio de Janeiro (1) — Gafisa's Market Share

Year	Year ended December 31,					
	2013		2012		2011	
	(Launches in R\$ million)					
Local market	12,590		12,252		11,544	
Gafisa(2)	51,534		347		962	
Gafisa's market share	0.4	%	2.8	%	8.3	%

Source: ADEMI.

(1) Metropolitan region.

(2) Gafisa interest.

## Seasonality

Although the Brazilian real estate market is not generally seasonal, there are a few months of the year when the market slows down (January, February and July) each year. These months coincide with school vacations and result in the postponement of investment decisions. We are impacted similarly as the rest of the market during such periods.

## Subsidiaries

We carry out our real estate developments directly or through our subsidiaries or our jointly-controlled entities in partnership with third parties. As of December 31, 2013, we had 222 subsidiaries and 85 jointly-controlled entities under operations, all of such subsidiaries and jointly-controlled entities are incorporated as special purpose entities and headquartered in Brazil. Our subsidiaries and jointly-controlled entities operate exclusively in the real estate sector.

Many of our subsidiaries and joint-ventures are SPEs, many of which have been incorporated by us as joint ventures together with other real estate and construction companies in Brazil. Of our 307 SPEs, 73% are wholly-owned by us and 13% are majority-owned by us, and we hold an interest of 50% or less in the remaining 14%.

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### Intellectual Property

#### Trademarks

Our trademarks are filed or registered in Brazil with the Brazilian Institute of Industrial Property (Instituto Nacional de Propriedade Industrial), or the “INPI,” which is the competent body for, among others, trademarks’ and patents’ registries in Brazil. Besides, the trademark “Gafisa” is also registered before the competent agency for registering trademarks in the United States.

Currently, the registration process of a trademark takes approximately 30 to 36 months from the date of filing of the application until the definitive registration. From the date of filing of the application to the date of the definitive registration, the applicant has an expectation of right for the use of the trademark in connection with the products and services for which the trademark was applied for.

Each trademark registration is effective for a 10-year period and is renewable for equal and successive periods. The renewal of a trademark registration is granted upon request accompanied by payment of renewal fees during the final year of the trademark’s registration period or within the 6-month waiting period after its expiration. In case of non-payment, the registration is cancelled by INPI.

A trademark registration may be terminated in case (1) of expiration of its validity term; (2) the trademark owner or holder waives in whole or in part the rights granted by registration; (3) of forfeiture, or the applicant’s or the holder’s failure to use a registered trademark in connection with related goods or services for a period longer than five years; or (4) failure to appoint a Brazilian resident with powers to represent the applicant or holder in administrative or judicial proceedings, in cases where the applicant or the holder resides abroad.

As of the date of this annual report, we had approximately 119 pending trademark applications and 130 trademarks registered in Brazil with the INPI of which approximately (a) 97 pending applications and 117 registered trademarks refer to Gafisa, and (b) 22 pending applications and 13 registered trademarks refer to Tenda.

Our most significant trademark is “Gafisa,” which is duly registered with the INPI in the relevant market segment. Other relevant trademark we own, such as “Tenda,” are also registered with the INPI in several classes in connection with our daily activities.

#### Domain Name

As of the date of this annual report, we, together with our subsidiaries, were the owners of approximately 103 domain names including our and our subsidiaries’ principal websites. The term of each domain name registration is one year and is renewable for equal and successive periods. An annual fee payment is necessary for the maintenance of the domain name registrations. Other than non-payment of the annual fee, domain name registration may be cancelled by: (1) express waiver of the owner; (2) irregularities in the data form as requested by the respective agency; (3) non-compliance with applicable regulations; (4) judicial order; or (5) in the case of foreign companies, non-compliance with the obligation to initiate the company’s activities in Brazil. Our domain names will, unless renewed, expire between April 2014 and April 2021. We will seek to renew our domain names expiring in 2014, after evaluating their continuing applicability.

#### Patents

We have no patents registered in our name.

## Software Licenses

Most of the software we use in our daily business refers to common computer programs, such as Windows, SAP and AutoCAD. Additionally, we own all required licenses of use in connection with such software. The use of computer software without the acquisition of proper licenses is considered a felony subject to both criminal and civil liabilities, including the payment of fines and restrictions of future use of the applicable software.

## Licenses

Under Brazilian laws, we are required to obtain a variety of licenses for each of our new developments. As of the date of this annual report, we have obtained all necessary licenses and permits to operate our business.

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### Insurance

We maintain insurance policies with leading Brazilian insurance companies, such as Allianz Seguros S.A., Itaú Unibanco Seguros, ACE Seguradora S.A., Zurich Brasil Seguros S.A., Chubb do Brasil Companhia de Seguros, Caixa Seguradora and J. Malluceli Seguros S.A., with coverage for, among others, (1) potential risks arising from the commencement of construction, including property damages, business interruption, engineering risks, fire, falls, collapse, lightning, and gas explosion; (2) construction errors; (3) performance bonds; and (4) losses arising from damages or defense costs associated with litigation resulting from misconduct of directors and officer. Such insurance policies contain customary specifications, limits and deductibles. Additionally, we do not maintain any insurance policy for our properties after construction is completed.

According to Brazilian Federal Law, it is mandatory that homebuilders have insurance policies in force with coverage for, among others, damages and losses related to civil liabilities and performance bonds. Failure or default in contracting any compulsory insurance required by applicable legislation is subject to a penalty amounting to the higher amount between (1) twice the premium price of the insurance that should have been contracted; and (2) ten percent of the insured property value. Additionally, no operating authorization or license (or the renewal of any existing license) shall be granted to companies subject to compulsory insurance in default of the aforementioned obligations.

Our management believes that the insurance coverage for our properties is adequate and that our insurance policies are customary for our industry in Brazil and adequate for applicable regulations.

### Regulatory Framework

#### Brazilian Government and Real Estate Sector Regulations.

The real estate sector is directly regulated by the Brazilian government and is indirectly impacted by the government's regulations on the availability of credit. Regulations include development policies, zoning restrictions and environmental laws which can determine the availability of different products offered in the market. For example, city master plans restrict the types of real estate developments that can be constructed in a given area.

As a general rule, the NBCC requires that the transfer of title of real estate properties, as well as the assignment, transfer, change or waiver of rights on real estate properties, be carried out by means of a public deed, except in certain cases, such as when the Real Estate Finance System (Sistema Financeiro Imobiliário), or SFI, or the SFH, are involved. The intent of this rule is to increase the security of property transfers.

According to applicable law, transfer of real estate title is only deemed effective upon the registration of the transfer with the relevant Real Estate Registry Office. The procedure for the execution of public deeds and also the respective registration with the Real Estate Registry Office (Registro Imobiliário) is regulated by the Brazilian Law of Public Registers (Lei de Registros Públicos).

### Real estate development

Real estate development activities are regulated by Law No. 4,591 of December 16, 1964, as amended, or Law No. 4,591. The main duties of a developer are to: (1) obtain all required construction approvals and authorizations from the proper authorities; (2) register the development with the Real Estate Registry Office (without registration, the developed units cannot be sold); (3) indicate in the preliminary documents the deadline for the developer to withdraw from the development; (4) indicate in all advertisements and sales contracts the registration number of the development with the Real Estate Registry Office; (5) oversee the construction of the project established by the

contract which must be in accordance with the approval granted by the authorities; (6) deliver to the final owner the completed units, in accordance with the contractual specifications, and transfer to the final owner the title of the unit by signing the final sale deed; (7) assume sole responsibility for the delivery of the developed units to the respective purchasers; (8) assume sole responsibility in the event the construction of the unit is not in accordance with the advertisements and sale contracts; and (9) provide construction blueprints and specifications along with the joint ownership agreement to the proper Real Estate Registry Office. The final owner is obligated, in turn, to pay the price related to the cost of the land and the construction.

The construction of the real estate units may be contracted and paid for by the developer or by the final owners of the units. Brazilian law provides for two pricing methods in real estate development: (1) construction under contract and (2) construction under a system of management. In construction under contract, the contracting parties will either set a fixed price, stipulated before the construction begins, or agree on an adjustable price pegged to an

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index determined by the contracting parties. In construction under a system of management, an estimated price is agreed upon by the contracting parties, but no fixed final price is provided at the beginning of the construction process. The actual amount that purchasers of the units pay depends on the monthly costs of the developer or contractor.

### Urban land subdivisions

Urban land subdivisions consist of subdivisions of urban land parcels into building lots and the construction of new roads and other infrastructure, and are regulated by Law No. 6,766 of December 19, 1979, as amended, or Law No. 6,766. The Urban Land Subdivision Act governs urban land subdivisions and establishes, among other things, the planning and technical requirements for this form of land parceling and the obligations of the developers, and also provides for fines and sanctions in the event of violation of its provisions.

Under the Urban Land Subdivision Act, land subdivisions are intended for the creation of lots in urban areas or urban expansion zones, as defined by the planning director or approved by municipal law, and must comply with Law No. 6,766.

For the construction of land subdivisions, the developer must proceed through the following steps: (1) prior to developing the land subdivision plan, it must request the municipality in which the development will be located to issue directives on use policies specifically to the land, such as the delineation of lots, road and street systems and areas reserved for municipal or community properties; (2) pursuant to the directives issued by the municipality, it must develop a plan for the proposed land subdivision and present it to the municipality for approval, including the plans, designs, descriptions, and schedule for performance of the work, among other documents; and (3) after approval for the land subdivision project is obtained, it must be submitted for recording in the property registry of the appropriate Real Estate Registry Office within 180 days.

In addition to the approval of the project by the municipality in which the development will be located, the approval of other governmental bodies may be necessary in cases where the land subdivision: (1) is located in an area of particular interest, such as a protected cultural heritage site as defined by state or federal legislation; (2) is located in the boundary area of a city, belongs to more than one municipality, or is in a metropolitan region as defined in state or federal law; or (3) has an area greater than 1 million square meters, in which case the state where the development will be located will be responsible for reviewing and approving it prior to the approval by the municipality, and will also determine the regulations to which the development must be subject.

The legal requirements for the approval of the land subdivision by a municipality include: (1) the developer must preserve a percentage of the land used for residential communities as open spaces for public use and for municipal or community properties with the percentage determined by each municipal zoning code; (2) each lot must have a minimum area of 125 square meters and the distance between the building and the street must be at least five meters; and (3) the developer must reserve 15 meters of land on either side of running or still water and of strips of public domain land for roads and highways.

The Urban Land Subdivision Act also sets forth locations where subdivisions are not permitted, such as: (1) on wetlands and lands subject to flooding, until measures have been taken to assure water drainage; (2) on land that has been filled with material that is a public health hazard, unless previously cleaned up; (3) on land that has a slope equal to or greater than 30 degrees, unless the requirements of the appropriate authorities have been met; (4) on lands where geological conditions make buildings inadvisable; and (5) in ecological preserves or areas where pollution creates unacceptable sanitary conditions, until corrected.

In order to offer greater security to the property market, the Urban Land Subdivision Act prohibits the sale or promise of sale of any lot that is the result of a subdivision where the developer has not previously obtained approval by the appropriate municipality and the development has not been recorded with the respective Real Estate Registry Office. If any such lot is sold or contracted to be sold, the developer and any person or legal entity benefiting from such sale or promise of sale shall be jointly liable for the resulting damages to the purchaser and the public authorities.

#### Assets for Appropriation

Law No. 10,931 of August 2, 2004, as amended, provides for certain protection of real estate assets. Accordingly, such protected assets are segregated from other properties, rights and obligations of the developer, including other assets previously appropriated, and such appropriated assets can only be used to guarantee debts and obligations related to the respective development. The appropriated assets are considered bankruptcy free and will

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not be affected in the event of bankruptcy or insolvency of the developer. In the event of a bankruptcy or insolvency of the developer, joint ownership of the construction may be instituted by a resolution of the purchasers of the units or by judicial decision. The joint owners of the construction will decide whether the project will proceed or the assets appropriated will be liquidated. Developers may also opt to submit a project to appropriation in order to benefit from a special tax system. Under this system, land and objects built on the land, financial investments in the land, and any other assets and rights with respect to the land are considered to be protected for the benefit of the construction of that development and the delivery of the units to the final owners, and are thus separate from the remaining assets of the developer.

In addition, in order to encourage the use of the appropriation system, Laws No. 11,977 of July 7, 2009 (amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011 and Law No. 12,693 enacted on July 24, 2012) and No. 12,024 of August 27, 2009, which granted tax benefits for the adoption of the system by reducing tax rates on appropriated assets from 7% to 6% and, in the case of the appropriated assets under the public housing program “Minha Casa, Minha Vida,” from 7% to 1%.

We have not yet utilized the appropriation system for any of our real estate developments. We prefer to use our subsidiaries and our jointly-controlled entities for each specific real estate development. Our subsidiaries and jointly-controlled entities allow us to borrow funds by segregating the credit risk taken on by the financial institutions.

### Credit Policy Regulations

The real estate sector is highly dependent on the availability of credit in the market, and the Brazilian government’s credit policy significantly affects the availability of funds for real estate financing, thus influencing the supply of and demand for properties.

### Housing Finance System, or “SFH”

Law No. 4,380 of August 21, 1964, as amended, created the SFH to promote the construction and ownership of private homes, especially for low income earners. Financing resources under the SFH’s control are provided by the Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviço), or “FGTS,” and from savings account deposits. The FGTS, created by Law No. 5,107 of September 13, 1966 and regulated by Law No. 8,036 of May 11, 1990, imposes a mandatory 8% employee payroll deduction on all employees in Brazil. Employees maintain FGTS accounts, which are similar to pension funds, and are allowed, among other things, to use the funds deposited in the accounts for the acquisition of real estate property under certain circumstances, as set forth by applicable law. The CEF is the agency responsible for managing the funds deposited in the FGTS. In order to be eligible for the financing, the beneficiary must purchase a completed unit or unit under construction priced at up to R\$750,000 (price applicable to the States of Rio de Janeiro, São Paulo, Minas Gerais and Distrito Federal) or R\$650,000 (price applicable to other Brazilian States). In addition, the beneficiary shall (1) not own or be the committed purchaser of any residential real estate financed by the SFH within Brazil; (2) not own or be the committed purchaser of, any real estate property built or under construction in both his or her current city of residence and the city where the beneficiary conducts his or her main activities; (3) reside for at least one year in the city where the property is located; (4) pay the FGTS; and (5) be registered for at least three years with the FGTS regime. The unemployed also have access to the FGTS to purchase real estate property provided that he still has funds on the FGTS account (where the 8% payroll deduction was deposited while employed).

Financings that originate from savings account deposits in the entities comprising the Brazilian Saving and Loan System (Sistema Brasileiro de Poupança e Empréstimo), or “SBPE,” are regulated by the Central Bank. Such financings can be obtained through the SFH, which is strictly regulated by the Brazilian government, or through the mortgage portfolio system, where banks are free to set the financing conditions. SFH financing offers fixed interest rates lower

than the market rates, capped at around 12% per year, and SFH financing contract terms vary, in general, between 15 and 30 years. The mortgage portfolio system financing offers market interest rates as determined by the financial institutions, generally varying between 18.5% and 12% per year.

CMN Resolution No. 3,932/2010 provides for the allocation of the funds deposited in savings accounts in the entities comprising SBPE and states that the following conditions must be met for SFH financing: (1) the maximum amount of the financing is 80% of the appraisal price of the property, as a general rule; (2) the maximum appraisal price for the financed unit is R\$750,000 (applicable to the States of Rio de Janeiro, São Paulo, Minas Gerais and Distrito Federal) or R\$650,000 (applicable to other Brazilian States); (3) the maximum actual cost to the borrower,

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which includes charges such as interest, fees and other financial costs, except insurance, may not exceed 12% per year; and (4) the borrower is responsible for the potential outstanding balance verified at the end of the financing term, (such term might be extended by half of the initial term).

SFH financings need to be secured by at least one of the following: (1) a first mortgage over the unit that is being financed; (2) a conditional sale over the unit that is being financed, as prescribed by Law No. 9,514 of November 20, 1997, as amended by Law No. 10,931 of August 2, 2004, Law No. 11,076 of December 30, 2004, Law No. 11,481 of May 31, 2007, Law No. 12,703 of August 07, 2012 and Law No. 12,810 of May 15, 2013 (“Law No. 9,514”); or (3) a first mortgage or conditional sale, as determined by Law No. 9,514, of other property owned by the borrower or by a third party; or (4) other guarantees, as established by the financing agent. SFH funds are only released upon the formalization of one of these methods of guaranteeing the loan.

The federal government has announced changes in the regulations on financing and construction in order to promote growth in the real estate market. Among the measures announced are: (1) financial institutions have the option to grant financing with previously fixed rates; (2) lenders have the option of excluding the TR index (Taxa Referencial) from the financing and applying only the limit of 12% per year; (3) allowing financing installment payments to be directly deducted from a borrower’s wage; (4) establishing a new credit program from the CEF to real estate developers; and (5) reducing the Tax on Manufactured Products (Imposto sobre Produtos Industrializados), or “IPI,” for products utilized in the construction segment.

### Mortgage portfolio

While a large portion of the funds in the deposits in saving accounts are allocated to the SFH, some of the funds are allocated to loans granted at market rates. CMN Resolution No. 3,932/10 established that at least 65% of these deposits should be used for real estate financing, with a minimum of 80% of the financing going to housing loans under the SFH and the remaining balance for loans granted at market rates which are usually higher than in SFH loans, including mortgage portfolio used by banks for the concession of housing loans.

In early 2005 the Brazilian government took a number of measures to better regulate the use of the funds raised in savings account deposits in order to promote growth of the real estate sector, these measures included: (1) cancellation of payment to the Central Bank of funds not invested in real estate financing in January, February and March; (2) creation of a real estate interbank deposit market to allow financial institutions with excessive investments in real estate to trade with financial institutions that have capacity for more real estate credits; (3) review of the factors used in the calculation guidelines of the SFH in order to stimulate financing for the acquisition of new real estate properties at a low cost, applicable as of January 1, 2005; and (4) authorization for the SFH to provide financing to legal entities for the construction of development projects for their employees, provided that such entities follow all SFH guidelines,(5) in 2013 increase of the operating limits of the SFH to units with a maximum sales price of R\$750,000 These changes have significantly increased the funds available for investments in the Brazilian real estate sector.

### Real Estate Finance System, or “SFI”

The SFI was created by Law No. 9,514 to establish assignment, acquisition and securitization criteria for real estate credits. The system seeks to develop primary (loans) and secondary (trading of securities backed by receivables) markets for the financing of real estate properties by creating advantageous payment conditions and special protection of creditors’ rights. The SFI supervises real estate financing transactions carried out by savings banks, commercial banks, investment banks, real estate credit portfolio banks, housing loan associations, savings and loan associations, mortgage companies and other entities authorized by the CMN to provide such financing. SFI real estate credits may be freely negotiated by the parties, under the following conditions: (1) the amount loaned and the related adjustments must be fully reimbursed; (2) interest must be paid at the rates established by the contract; (3) interest must be

capitalized; and (4) borrowers must purchase life and permanent disability insurance.

Real estate sales, rental, or other real estate property financing in general, can be negotiated with non-financial institutions under the same conditions permitted by authorized entities under the SFI. In these cases, non-financial entities are authorized to charge capitalized interest rates greater than 12% per year.

The following types of guarantees are applicable to loans approved by the SFI: (1) mortgages; (2) fiduciary assignment of credit rights resulting from sales contracts; (3) guarantee of credit rights resulting from contracts of sale or promise of sale of property; and (4) conditional sale of real estate property.

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Law No. 9,514 also reformed securitizations of real estate assets provisions, making them less expensive and more attractive. The securitization of credits in the context of the SFI is made through real estate securitization companies, non-financial institutions formed as joint stock companies whose objective is to acquire and securitize real estate credits. Funds raised by the securitizing companies can be made through the issuance of debentures or notes, or the creation of a new type of Real Estate Receivable Certificates (Certificados de Recebíveis Imobiliários), or “CRIs.” According to applicable law, CRIs are nominative credit securities issued exclusively by securitizing companies, backed by real estate credits, freely negotiated, and payable in cash. CRIs tend to have, among others, the following characteristics: they are issued in book-entry form, they may have fixed or floating interest rates and can be paid in installments, they may contain adjustment provisions, they are registered and traded through centralized systems of custody and financial settlement of private securities and they can be secured by the assets of the issuing company.

### Minha Casa, Minha Vida program

Provisional Measure No. 459 enacted on March 25, 2009, converted into Law No. 11,977 enacted on July 7, 2009, amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011 and Law No. 12,693 enacted on July 24, 2012 created a public housing program called “Minha Casa, Minha Vida.” Provisional Measure No. 514 enacted on December 1, 2010, converted into Law No. 12,424 of June 16, 2011, modified the aforementioned legislation, which calls for government investment of more than R\$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R\$80,000 and R\$170,000. Law No. 12,686 enacted on October 15, 2013, released resources for "Minha Casa Melhor", in which CEF provides to each beneficiary of the program "Minha Casa Minha Vida" subsidized credit up to R\$5,000 for the purchase of furniture and appliances, with interest rate of 5% per year and repayable in 48 months.

### Municipal Legislation

Municipal planning is regulated by articles 182 and 183 of the Federal Constitution and by Law No. 10,257 of July 10, 2001 (Estatuto da Cidade), as amended, or Law No. 10,257. Law No. 10,257 provides, among other things, for the establishment of (1) rules for the parceling, use and occupation of urban tracts of land in each municipality for the collective welfare and environmental balance of the community; and (2) a master plan, which shall be reviewed every 10 years. The master plan is the guiding tool used to plan developments in the urban areas of each municipality and is used as a reference by all public and private agents acting within the municipality. It establishes the strategic goals and general guidelines for urban construction, the objectives and guidelines for differentiated areas of planning and the instruments for their deployment.

We set out below certain details of the laws governing the municipal planning of the two major cities in which we operate, São Paulo and Rio de Janeiro:

#### São Paulo municipality

City laws govern the zoning, construction, parceling, use and occupation of land in the municipality of São Paulo. They set forth technical and urban planning requirements for parceling, and provide that the division, subdivision or segregation of urban tracts of land are subject to the prior approval of the São Paulo municipal government. Moreover, the zoning laws describe the types of permissible uses for the land and their respective characteristics, by dividing São Paulo into areas of use with fixed locations, limits and boundaries. They also provide for fines and sanctions for noncompliance.

Municipal Law No. 13,430 of September 13, 2002, approved the master plan and created the Planning System of the municipality of São Paulo. In addition, Municipal Law No. 11,228 of June 25, 1992, as amended, approved the Code

of Works and Construction, regulated by Decree 32,329 of September 23, 1992, as amended, which governs administrative and executive procedures and sets forth the rules to be followed in the planning, licensing, execution, maintenance and use of public works and construction within properties in the municipality of São Paulo, and provides for sanctions and fines applicable in cases of non-compliance with these rules.

Rio de Janeiro municipality

Decree 322 of March 3, 1976, as amended, of the municipality of Rio de Janeiro, and Decree “E” 3,800 of April 20, 1970, as amended, of the then State of Guanabara, jointly created the municipality’s Zoning Regulation, Land Parceling Regulation and Construction Regulation. These regulations control the use of the municipality land,

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including urban zoning, use of properties, development of construction sites and conditions for the use of each zone in the municipality. The Ten-Year Master Plan of the municipality, approved pursuant to Supplementary Law No. 111 of January 1, 2011, establishes rules and procedures related to urban policy of the municipality, determines guidelines, provides instruments for its execution and defines area policies and their related programs, aiming at meeting the social needs of the city.

### Environmental Issues

We are subject to a variety of Brazilian federal, state and local laws and regulations concerning the protection of the environment, as well as urban regulations and zoning restrictions, as described below. Applicable environmental laws may vary according to the development's location, the site's environmental conditions and the present and former uses of the site. Compliance with these environmental laws may result in delays, cause us to incur in substantial costs, and prohibit or severely restrict project development. Before we purchase any real estate, we conduct investigations of all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, as well as any inadequately disposed waste substances. During the investigations we also identify the existence of water wells and protected vegetation, observing the proximity of the real estate property to permanent preservation areas. We generally condition the real estate property acquisitions on obtaining the required regulatory approvals prior to closing.

We have adopted certain practices to further our commitment to environmental protection and landscape development. Through our Selective Collection Project, we have partnered in environmental education initiatives with private and governmental entities, including non-governmental organizations. We provide training to all of our outsourced workers (before we begin work on any particular project), that focuses on the importance of preserving the environment and how to effectively collect, store and control materials for recycling. Alphaville was given the "ECO Award" in 2006 and 2007 (by the American Chamber of Commerce), the "Top Ambiental Award" (Top Environmental Award) in 2007 and 2008 (by the Brazilian Association of Marketing and Sales Agents, in recognition for its environmentally responsible practices) and the "Top Social Award" in 2008 and 2009 (by the Brazilian Association of Marketing and Sales Agents, in recognition for its socially responsible practices). Our Eldorado Business Tower building is the first building in Latin American, to be pre-certified by the U.S. Green Building Council as a Leed CS 2.0 Platinum building for leadership in energy and environmental design.

### Environmental licenses and authorizations

Brazilian environmental policy requires environmental licenses and permits for the construction of real estate projects. Environmental licensing is required for both initial construction and alteration in existing developments, and the licenses must be periodically renewed. The Brazilian Institute of Environment and Renewable Natural Resources (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis), or the IBAMA, is responsible for granting such licenses for projects with regional or national impact on the environment. In other cases, state or municipal environmental agencies are responsible for granting such environmental licenses, depending on the extent of environmental impacts caused by certain projects.

The environmental licensing process is comprised of three stages: preliminary license, installation license and operational license. The preliminary license, issued during the preliminary planning phase of the project, authorizes the location and basic development, and establishes the conditions and technical requirements to be observed in further stages of development. The installation license authorizes the facility's construction. The operating license authorizes the commencement and continuation of operational activities. Operating licenses are subject to compulsory renewal depending on their validity. The licensing of activities that may impact the environment as determined by the competent environmental agency and according to the Environmental Impact Study and Environmental Impact Report ("EIA/RIMA"), requires environmental offset payments, to be invested in conservation units (e.g. national parks,

biological reserves etc.), pursuant to Article 36 of Law No. 9,985/00. The value of the environmental offset is established by the environmental agency conducting the licensing proceeding, according to the “ecosystem impact level” of the proposed activity, pursuant to Article 31-A of Federal Decree No. 6,848/09.

The installation, operation or alteration of projects without proper and valid environmental licensing or the non-compliance with the conditions or technical requirements of the respective environmental licenses, may subject the violator to administrative sanctions that may range from fines (R\$500 to R\$10 million), as well as the suspension of activities and, depending on the specific circumstances, criminal liability (of individuals and companies), pursuant to Federal Law No. 9,605/98.

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The construction, maintenance and sale of our projects may be hampered or halted by delays in the issuance of applicable licenses or even by failure to obtaining such licenses.

The construction of real estate developments often requires land moving activities, and in many cases, the cutting down of trees. In addition to environmental licenses and permits, Brazilian legislation requires specific environmental authorizations for the development of projects, based on the characteristics of the project, its location and the natural features inherent to the area. The development of projects that require the cutting trees or removing vegetation must receive specific authorizations from environmental agencies. Companies that apply for an authorization for vegetation removal are required to perform the reforestation of other areas as a compensatory measure, such as reforestation or to repair the affected areas, which may imply additional expenses. Brazilian legislation also requires special protections for certain specific types of flora and areas with special ecological purpose, imposing additional legal requirements to removal of such vegetation.

The removal of vegetation without proper and valid authorization, or non-compliance with the authorization requirements, may subject the transgressor to civil liability (in case environmental damage occurs), administrative sanctions (such as fines) and, according to specific circumstances, criminal liability (of individuals and/or companies), pursuant to Federal Law No. 9,605/98.

The licensing of projects with relevant environmental impacts located in a conservation unit or within its buffer zone will depend on prior authorization from the conservation unit's managing office. In addition, the development of projects that require water abstraction from bodies of water or groundwater, as well as the discharge of effluents into water bodies, are subject to specific water use grants, to be issued by the relevant authorities. Water use grants are subject to certain conditions and technical requirements, including maximum capacity requirements and effluent treatment standards.

### Waste disposal

Brazilian legislation relies on several standards and procedures for waste management. All waste must be properly stored, treated, transported and disposed of, in order to avoid the occurrence of environmental damages – and as a result, environmental liability.

The Brazilian “National Waste Management Policy” and CONAMA Resolution 307/2002 specifically regulates the handling of solid waste generated by the construction sector. Companies are required to present and have a solid waste management plan approved by state environmental agency and must comply with the conditions and obligations set forth in such plan. Failure to comply with such obligations may lead to civil (obligation to repair/indemnify in case of pollution), administrative (e.g. fines, suspension of activities etc.) and, according to specific circumstances, criminal liability.

Regarding civil liability, because Brazilian legislation imposes strict, joint and several liability for environmental damages, companies may be held liable for any environmental damages that may arise as a result of its activities, including waste generated thereof, which must be properly stored, treated, transported and disposed of. Likewise, the hiring of third parties for management of waste generated from our activities does not exempt us from civil environmental liability.

### Contaminated areas

We develop and construct projects in several states within Brazil. Each state has its Environmental Secretary and/or Environmental Agency. The São Paulo State Secretary of Environment (Secretaria de Estado do Meio Ambiente de São Paulo), or the “SMA,” and the State Environmental Agency of São Paulo (Companhia Ambiental do Estado de São

Paulo), or “CETESB,” are the principal environmental regulatory entities of the State of São Paulo, and they have adopted procedures with regard to the management of contaminated areas, including the creation of environmental standards to preserve the quality of land and underground water, as well as procedures to be complied with if contamination is confirmed. The standards established by CETESB are used as reference by most Brazilian states that have no specific regulation on contaminated land management.

In addition, the Rio de Janeiro State Secretary of Environment (Secretaria de Estado do Meio Ambiente e Desenvolvimento Urbano do Rio de Janeiro) and the Rio de Janeiro State Environmental Agency, or “INEA,” also maintain their own quality standards, in combination with those established by the National Environmental Council (Conselho Nacional do Meio Ambiente), or “CONAMA”. Other states have similar requirements.

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If contaminated areas are identified in the development of our projects, we must provide proper disclosure to environmental authorities and registration before real estate property records. Given the strict liability regime, we may be required to proceed with the remedial actions deemed necessary by environmental agencies in order to comply with technical standards set forth for each kind of project, even if we have not caused the contamination, and may result in delays for the project development's completion. Prior approval from environmental agencies before engaging in remedial actions may be necessary. All emergency actions to prevent and mitigate risks to the environment and public health, if required, must be adopted promptly and at our expense.

Non-compliance with the guidelines established by the environmental and health entities may result in criminal, as well as administrative penalties. Moreover, the owners of properties may be required to pay for costs relating to the clean-up of any contaminated soil or groundwater located in their properties, even if they did not cause the contamination.

If there are contaminated areas in the properties where our projects will be developed, this must be disclosed to our clients.

### Environmental liability

Article 225 of the Brazilian Federal Constitution, provides that “activities that are harmful to the environment shall subject violators, whether individuals or companies, to criminal and administrative sanctions, regardless of the obligation to repair the damage caused.” Therefore, the Brazilian Federal Constitution provided for environmental liability in three distinct fields: civil, administrative and criminal. As an example, payment of an administrative fine does not offer exemption from the duty to make reparations or indemnify for damages that might be caused by harmful conduct, nor does it offer exemption from possible criminal charges prompted by the event.

Civil environmental liability in Brazil is considered by case law as *propter rem*, that is, liability attaches to the real estate property. Therefore, whoever buys environmentally damaged land will succeed in the liability for the clean-up or recovery and for reparation of potential damage to third parties. Although this liability can be contractually allocated between the parties, it cannot be opposed either administratively or before third parties.

In addition, Federal Law No. 6,938/81 establishes strict liability for the recovery of environmental damages or, if not possible, compensation or indemnity for such damages, with joint and several liability established among all those directly or indirectly contributing to environmental degradation, regardless of the degree of participation in the damage. Each of those involved may be held liable for the full amount of the damages.

At the administrative level, environmental liability may be assigned through administrative sanctions imposed by the competent environmental entities, pursuant to Law No. 9,605/98 which “rules on the criminal and administrative sanctions deriving from conduct and activities that are harmful to the environment” and pursuant to Federal Decree No. 6,514/08. These sanctions may include, among others: (1) fines of up to R\$50 million, tailored to the economic capacity and track record of the offender, in addition to the severity of the facts and past performance, with the possibility of these fines being imposed at double or triple rates for repeated offenses; (2) suspension or interdiction of the activities of the respective enterprise; and (3) withdrawal of tax incentives and benefits. Administrative liability falls on the person engaged in the conduct described as an administrative offense.

Criminal liability is personal, arising directly from the unlawful conduct of the agent, with the crimes necessarily being specifically addressed in the law. Brazilian law allows criminal liability to be assigned to individual persons as well as corporate entities. When liability is assigned to the latter, the individual persons taking the decision that resulted in the criminal conduct (such as directors, officers, administrators, board members, members of technical entities, auditors, managers, agents or representatives) may also be penalized to the extent of their culpability.

Moreover, Brazilian environmental legislation determines that the corporate veil may be pierced whenever the veil is considered to be an obstacle to recovery for environmental damages. As a result the controlling legal entity can be found liable despite a limited liability legal status.

Although administrative and criminal liability require a direct connection with the action or omission that resulted in breach of environmental legislation or environmental damage, financial penalties may be imposed may pierce the corporate veil under the disregard of legal entity doctrine. Article 4 of Federal Law No. 9,605/1998 expressly provides for the possibility of piercing the corporate veil if necessary for the recovery or compensation of environmental damages.

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C. Organizational Structure

The following chart shows our organizational structure for our principal subsidiaries, including our now affiliate Alphaville, all of them incorporated in Brazil, as of December 31, 2013:

(\*) At December 31, 2012 we held 80% of this entity and 30% at December 31, 2013.

For more information on our remaining subsidiaries and jointly-controlled entities, see “Item 4. Information on the Company—B. Business Overview—Subsidiaries.” A list of our significant subsidiaries as determined in accordance with Rule 1-02(w) of Regulation S-X is being filed as Exhibit 8.1 to this annual report.

D. Property and Equipment

We lease our headquarters located at Av. Nações Unidas No. 8,501, 19th floor, São Paulo, SP — Brazil. We also lease our branch office located at Av. Dr. Marcos Penteado de Ulhôa Rodrigues, 939, 11th floor – Jatobá Tower, Barueri, SP — Brazil. Currently, we and our main subsidiaries leased approximately 16,094 square meters. We believe our current facilities are adequate for the full development of our operations.

As of December 31, 2013, our property and equipment recorded on our balance sheet mainly consisted of sales stands, facilities, model apartments, computer equipment, vehicles and leasehold improvements, among others, the balance of which was R\$36.4 million.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

In 2010, we retrospectively applied new Brazilian GAAP accounting pronouncements (new CPCs) as from January 1, 2009. All periods presented from January 1, 2009 reflect such new accounting practices. The financial statements for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities Commission (CVM), and the standards, interpretations and guidelines of the Accounting Standards Pronouncements Committee (CPC), and are in compliance with the International Financial Reporting Standards (IFRS) adopted in Brazil, including the Guideline OCPC 04—Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities—regarding the revenue recognition, and the respective costs and expenses arising from real estate

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development operations over the construction progress (percentage of completion method). The new Brazilian GAAP applied by us is not in compliance with IFRS as issued by IASB.

Following the acquisition, formation and incorporation of the entities Alphaville, FIT and Bairro Novo in 2007 and following the merger of FIT into Tenda in 2008, our financial results for 2007 and 2008 included the results of the following segments: Gafisa S.A., Alphaville, Tenda, FIT (merged with Tenda in October 2008) and Bairro Novo. Further, following Gafisa's withdrawal from Bairro Novo and the exchange of all the remaining Tenda shares not held by Gafisa into Gafisa shares, our financial results for 2013, 2012, 2011 and 2010 included the results of the following segments" Gafisa S.A., Alphaville and Tenda. On December 9, 2013, we completed the sale of a majority interest in Alphaville to Private Equity AE Investimentos e Participações ("Fundo AE"), a company controlled by Pátria Investimentos Ltda. and Blackstone Real Estate Advisor L.P., which was previously announced on June 7, 2013. All conditions precedent to the completion of the transaction were met, including governmental approval. The transaction was concluded with a sale of 50% interest by Gafisa and 20% interest by Tenda, with Gafisa retaining the remaining 30% of Alphaville capital stock. As a result, since November 30, 2013, Alphaville results are no longer consolidated in our financial statements.

The Company's results of operations contain the results of operations of Alphaville for the period January 1 to November, 30 2013 which are presented in the line item "Results from discontinued operations".

See "Item 4. Information on the Company—A. History and Development of the Company—Historical Background and Recent Developments." Our chief executive officer, who is responsible for allocating resources among these businesses and monitoring their progress, uses economic present value data, which is derived from a combination of historical operating results and forecasted operating results, to assess segment information primarily on the basis of different business segments.

### Overview

We generate our revenues mainly from the development and sale of real estate developments. We recognize revenues from the sale of real estate developments over the course of their construction periods, based on a financial measure of completion and not at the time that the sales agreements are executed. To a lesser extent, we also generate revenues from real estate services such as construction, technical and real estate management we render to third parties. We structure some of our projects through either our subsidiaries or jointly-controlled entities organized as special purpose vehicles.

### Brazilian Economic Environment

Our business and results of operations are significantly affected by changes in the Brazilian economic environment, including changes in employment levels, population growth, consumer confidence, stability of income levels and availability of financing for land home site acquisitions.

At the end of 2010 and in the beginning of 2011, the Central Bank began implementing more restrictive monetary policies as a precaution against unsustainable economic growth. In the second half of 2011, with growing uncertainty in economic conditions, due in part to ongoing volatility in global financial markets, particularly in Europe, the Central Bank began to implement an easing process. As of December 31, 2011, the Central Bank had set the basic interest rate at 11% and the real depreciated by 12.6% relative to the U.S. dollar in 2011. As of December 31, 2011, the real/U.S. dollar exchange rate was R\$1.87 per US\$1.00. During this period, inflation according to the INPC was 6.50%.

By the second half of 2011, the Brazilian economy faced growing uncertainty and economic conditions began to deteriorate, due in part to ongoing volatility in global financial markets, particularly in Europe. In order to avoid a contraction in economic growth, the Central Bank began to implement easing measures combining macroeconomic policies and interest rate decreases in order to stimulate demand.

As of December 31, 2012, the Central Bank had set the basic interest rate (SELIC) at 7.25%. As a result, the real depreciated 8.8% relative to the U.S. dollar in 2012. As of December 31, 2012, the real/U.S. dollar exchange rate was R\$2.048 per US\$1.00. During this period, inflation according to the IPCA was 5.8%.

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As of December 31, 2013, the Central Bank set the basic interest rate (SELIC) at 10%. As a result, the real depreciated 13.2% relative to the U.S. dollar in 2013. As of December 31, 2013, the real/U.S. dollar exchange rate was R\$2.3575 per US\$1.00. During this period, inflation according to the IPCA was 5.9%.

The table below shows the actual growth of the Brazilian GDP, inflation, interest rates and dollar exchange rates for the periods indicated:

	Year ended December 31,		
	2013	2012	2011
	(% , unless otherwise stated)		
Real growth in GDP	n/a	0.9	3.7
Inflation rate (INPC)(1)	5.5	5.1	6.5
Inflation rate (IGP—M)(2)	5.5	7.8	5.1
National Construction Cost Index (INCC)(3)	8.1	7.1	7.3
TJLP rate(4)	5.0	5.5	6.0
CDI rate(5)	8.1	8.4	11.6
Appreciation (devaluation) of the real vs. US\$	(13.2 )	9.9	12.6
Exchange rate (closing) — US\$1.00	R\$2.35	R\$2.05	R\$1.87
Exchange rate (average)(6) — US\$1.00	R\$2.18	R\$1.96	R\$1.84

- (1) INPC: consumer price index measured by the IBGE.
- (2) General Market Price Index (Índice Geral de Preços-Mercado) measured by the FGV.
- (3) National Index of Construction Cost (Índice Nacional de Custo da Construção) measured by the FGV.
- (4) Represents the interest rate used by BNDES for long-term financing (end of period).
- (5) Represents an average of interbank overnight rates in Brazil (accumulated for period-end month, annualized).
- (6) Average exchange rate for the last day of each month in the period indicated.

#### Brazilian Real Estate Sector

The Brazilian real estate sector is characterized by cyclical performance influenced by various macroeconomic factors. Demand for housing, the availability of financing and growth in population and incomes are, among others, factors that influence the performance of the real estate market.

Since 1994, Brazil's ability to control inflation has contributed to the country's economic recovery (particularly at the lower income level) and allowed Brazil to assert itself more effectively into the global economic context. For example, during the second half of the 1990s, policies that promoted economic liberalization and privatization of public services facilitated a significant influx of foreign investment. This environment generated pressure among the Brazilian financial and business communities to encourage responsible and transparent public management, promoting economic stability. In general, the current and previous presidential administrations have adopted comparatively austere economic policies, characterized by increased independence of the Central Bank, transparency and control over public accounts. Another significant effect of Brazil's heightened international profile and economic stability was an increase in the competitiveness of various economic sectors, with a notable improvement in standards of corporate administration and governance. This pattern, along with favorable conditions in the global economy, has contributed to improved economic indicators in Brazil.

In addition, since 2006, the Brazilian government has enacted incentives in the real estate sector, including the following:

- Provisional Measure No. 321 enacted on September 12, 2006, later converted into Law No. 11,434 enacted on December 28, 2006 and amended by Law No. 12599 enacted on March 23, 2012, gave banks the option to charge fixed interest rates on mortgages;
- Law No. 10,820 enacted on December 17, 2003, amended by Law No. 10,953 enacted on September 27, 2004, regulated by Decree No. 5,892 enacted on September 12, 2006, as amended by Decree No. 4,840 enacted on September 17, 2003, allowed payroll deductible mortgage loans to employees of both public and private entities;

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- Decree No. 6,006 enacted on December 28, 2006, replaced by Decree No. 7,660 enacted on December 23, 2011, implemented a 50% tax cut on Tax on Manufactured Products (Imposto sobre Produtos Industrializados), or IPI, levied on the acquisition of important construction products, including certain types of tubes, ceilings, walls, doors, toilets and other materials. In 2009, other decrees eliminated the IPI levied on the acquisition of similar products, but were implemented for a limited term only and were set to expire in March 2010, but were extended until December 31, 2012;
- Provisional Measure No. 459 enacted on March 25, 2009, converted into Law No. 11,977 enacted on July 7, 2009, amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011 and Law No. 12,693 enacted on July 24, 2012 created a public housing program called “Minha Casa, Minha Vida,” which calls for government investment of more than R\$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R\$80,000 and R\$170,000;
- Provisional Measure No. 514 enacted on December 1, 2010, converted into Law No. 12,424 enacted on June 16, 2011 confirmed the extension of “Minha Casa, Minha Vida” through 2014, and a total investment of R\$72 billion, more than doubled the R\$34 billion allocated to the initial program. The goal of the second phase of the “Minha Casa, Minha Vida” program is to deliver two million homes in four years encompassing an even lower income segment than previously targeted, but also expanded the current resources available to 40% of the total new amount to be destined to the lower-income segments; and
- Law No. 12,686 enacted on October 15, 2013, which released resources for "Minha Casa Melhor", in which CEF provides to each beneficiary of the program "Minha Casa Minha Vida" subsidized credit up to R\$5,000 for the purchase of furniture and appliances, with interest rate of 5% per year and repayable in 48 months.

## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with Brazilian GAAP requires management to make judgments, estimates and adopts assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent liabilities, at the balance sheet date. Assets and liabilities subject to estimates and assumptions include the useful life of property plant and equipment, impairment of assets, deferred tax assets, provision for uncertainty tax positions, labor and civil risks, and the measurement of the estimated cost of ventures and financial instruments. Estimates are used for, among other things, impairment of non-financial assets, transactions with share-based payment, provisions for tax, labor and civil risks, fair value of financial instruments, estimated costs of ventures and other similar charges. Although we believe that our judgments and estimates are based on reasonable assumptions that are subject to several risks and uncertainties and are made in light of information available to us, our actual results may differ from these judgments and estimates.

In this sense, we set forth below summarized information related to our critical accounting policies. See the note 2.2 to our consolidated financial statements, included elsewhere in this annual report for further information on these and other accounting policies we adopt.

### Impairment of non-financial assets

We annually review the carrying amount of assets with the objective of evaluating events or changes in the economic, operational or technological circumstances that may indicate a decrease or loss of its recoverable amount. Should such evidences exist, and the carrying amount exceeds the recoverable amount, a provision for impairment loss is recognized in the income statement by adjusting the carrying amount to the recoverable amount. A test for impairment

of intangible assets with indefinite useful lives and goodwill is performed at least annually or when circumstances indicate a decrease in the carrying amount. As of December 31, 2013, the Company has recorded a provision for impairment for land and goodwill related to the Cipesa acquisition.

The recoverable amount of an asset or of a certain cash-generating unit is defined as the highest between its value in use and its fair value less costs to sell. When estimating the value in use of an asset, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Cash flows are derived from the budget for the following five years, and do not include restructuring activities for which the Company has not yet committed or future significant investments that will improve the asset basis of the cash-generating unit being tested. The

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recoverable amount is sensitive to the discount rate adopted under the discounted cash flow method, as well as the estimated future cash inflows and to the growth rate used. The fair value less costs to sell is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between the knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset, or, in the absence of a binding sale agreement, based on the market price in an active market, or on a recent transaction with similar assets.

The main assumptions used in the estimate of value in use are the following: Revenue – revenues were projected between 2014 and 2018 considering the growth in sales and client base of the different cash-generating units. Operating costs and expenses – costs and expenses were projected in line with the Company's historical performance, as well as the historical growth of revenues. The key assumptions were based on the Company's historical performance and on reasonable macroeconomic assumptions, and supported by the financial market projections, documented and approved by the Company's management.

### Properties for sale

Our properties for sale are stated at construction cost, which cannot exceed its net realizable value. In the case of real estate developments in progress, the portion in inventory corresponds to the cost incurred for units that have not yet been sold.

The cost of properties for sale includes expenditures incurred in the acquisition of the land and in construction (including foundation, structure, finishing and the respective costs of construction materials), costs of own and outsourced labor, and financial costs directly related to the ventures.

Land is recorded at acquisition cost. See "Item 4. Information on the Company—B. Business Overview—Our Operations—Land Acquisition". Land can be acquired in cash, in installments, bartered for units that are completed or in construction of other ventures, or bartered for receivables from future sales of ventures. The cost of land related to bartered units is formed by the estimated sale price in cash, this fair value being recorded as contra-entry to the advances from customers-barter.

The interests of loans and financing directly related to ventures financed by the National Housing System (SFH) and other credit facilities which funds are used to finance the construction and acquisition of land are capitalized over the development and construction stage, and appropriated to statement of operations in the proportion to the units sold.

We adopt the policy of annually conducting tests on the units in construction and completed units, comparing the unit construction cost with the sale value of units in inventory. The assumptions that usually underlie the calculation of the recoverable value of assets are based on expected cash flows, economic viability studies of real estate ventures that show the recoverability of assets or its market value, all discounted to present value.

The classification of land into current or non-current assets is carried out by the Management based on the schedule of the real estate venture launches. Management periodically reviews the estimates of real estate venture launches.

We have evaluated all of our developments for impairment and have not identified any cases of impairment for any of our properties for sale and no impairment provisions have been recorded for any of our developments for the years ended December 31, 2010 and 2009. In accordance with our internal policy, each individual project launched has been internally evaluated taking into consideration the following: (1) assumptions for market, sales forecast, economics and operation conditions; (2) cash flow analysis using the discounted cash flow method; (3) approval by an investment committee; and (4) inclusion in the business plan regarding the timetable and backlog for development releases. This process is part of our corporate governance practices. We update the assumptions on an annual basis and consider the continuing viability for each project for impairment test purposes. In 2011, we made a decision to sell a portion of our

landbank given our narrowed geographic focus and our evaluation of impairment resulted in recording a provision for impairment on landbank and properties for sale in the amount of R\$92.1 million. In December 2012, we had R\$53.8 million recorded as a provision for impairment on landbank and properties for sale. As of December 31, 2013, we had R\$68.5 million recorded as a provision for impairment on landbank and properties for sale.

#### Transactions with share-based payment

We measure the cost of transactions with employees to be settled with shares based on the fair value of equity instruments on the grant date. The estimate of the fair value of share-based payments requires the determination of

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the most adequate pricing model to grant equity instruments, which depends on the grant terms and conditions. It also requires the determination of the most adequate data for the pricing model, including the expected option life, volatility and dividend income, and the corresponding assumptions.

### Provisions for legal claims

We recognize a provision for tax, labor and civil claims. The assessment of the probability of a loss includes the evaluation of the available evidences, the hierarchy of Laws, existing case laws, the latest court decisions and their significance in the judicial system, as well as the opinion of external legal counsel. The provisions are reviewed and adjusted to take into account the changes in circumstances, such as the applicable expiration term, findings of tax inspections, or additional exposures found based on new court issues or decisions. The settlement of transactions involving these estimates may result in amounts different from those estimated in view of the inaccuracies inherent in the process of estimating them. The Company reviews its estimates and assumptions at least annually.

### Taxes on income

#### Current income tax and social contribution

Current income tax is the expected tax payable or receivable/to be offset in relation to taxable profit or loss for the year. To calculate the current income tax and social contribution on income, we adopt the Brazilian Transition Tax Regime (RTT), which permits for exclusion of the effect from the changes, to Brazilian accounting standards introduced by Laws No. 16,638/2007 and No. 11,941/2009, from the tax basis of such taxes.

Taxes on income in Brazil comprise income tax (25%) and social contribution (9%), for entities on the standard profit regime, for which the composite statutory rate is 34%. Deferred taxes for these entities are provided on all temporary tax differences at the balance sheet date between the tax bases of assets and liabilities, and their carrying amounts.

As permitted by tax legislation, certain subsidiaries opted for the presumed profit regime, a method under which taxable profit is calculated as a percentage of gross sales. For these companies, income tax is calculated on presumed profits of 8% of gross revenues and social contribution on presumed profits of 12% on gross revenues, to which income tax and social contribution rates of 25% and 9%, respectively, are applied.

As permitted by tax legislation, the development of certain ventures are subject to the “afetação” regime, based on which the land and its features where a real estate will be developed, as well as other binding assets and rights, are separated from the assets of the developer and comprise the “patrimônio de afetação” (detached assets) of the corresponding development and which real estate units will be delivered to the buyers. In addition, certain subsidiaries made the irrevocable option for the Special Taxation Regime (RET), adopting the “patrimônio de afetação”, according to which the income and social contribution taxes are calculated at 3.34% on gross revenues (6%, also levying PIS and COFINS on revenues).

#### Deferred income tax and social contribution

Deferred tax is recognized in relation to tax losses and temporary differences between the carrying amount of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. It is recognized to the extent that it is probable that future taxable income will be available to be used to offset deferred tax assets, based on profit projections made using internal assumptions and considering future economic scenarios that estimate their full or partial use. The recognized amounts are periodically reviewed and the impacts of realization or settlement are reflected in compliance with tax legislation provisions. Tax credits on accumulated tax losses do not have an expiration date, however, they can only be offset against up to 30% of the taxable profit for each year. Companies that

opt for the presumed profit tax regime do not record tax losses and do not have temporary differences, and for this reason, deferred taxes are not recognized.

To the extent that the realization of deferred tax assets is not considered to be probable, this amount is not recorded. We record deferred tax on a net basis, determined by a legal entity and same jurisdiction. For entities with cumulative tax losses for the last three years, the Company and its subsidiaries recognized deferred tax assets and liabilities based on the following assumptions:

- 100% of deferred tax liabilities on temporary differences;

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- Deferred tax assets on temporary differences that have realization terms similar to deferred tax liabilities, and relate to the same legal entity, are recorded up to the limit of the deferred tax liabilities; and
- In situations where recent losses indicate that future taxable income is uncertain, deferred tax assets are not recognized on deductible temporary differences in excess of deferred tax liabilities recorded on taxable temporary difference liabilities nor is an asset recognized for the carry forward of unused tax losses.

### Provision for non-recognition of the deferred tax asset balance

Our projections assume that a significant portion of our business will be conducted in our principal holding companies, and this enables the recovery of a substantial portion of our accumulated tax losses.

However, several external factors, beyond our control, may affect such tax calculations, in addition to possible requirements to segregate ventures in their own development entities (SPEs, for example) to a greater extent than we intend. There is also the possibility that taxation rulings relating to new ventures or even ventures that have already been developed within the principal holding companies, may require the exclusion of such businesses and for such businesses to file their own tax returns separate from that of the Company.

A reduction in the concentration of projects in holding companies with tax losses carried forward may, therefore, compromise the expected recovery of losses carried forward, which is the reason we partially recognized a deferred income tax asset.

### Fair value of financial instruments

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained in the active market, it is determined using valuation techniques, including the discounted cash flow method. The data for such methods is based on those practiced in the market, when possible; however, when it is not viable, a certain level of judgment is required to establish the fair value. The judgment includes considerations on the data used, such as liquidity risk, credit risk, and volatility. Changes in the assumptions about these factors may affect the presented fair value of financial instruments.

### Estimated cost of construction

Total estimated costs, mainly comprising the incurred and future costs for completing the construction works, were reviewed in the preparation of these financial statements, and changes to estimates are possible.

### Development and sale of real estate

#### Real estate development and sales

Revenues, as well as costs and expenses directly relating to real estate development units sold and not yet finished, are allocated to the income statement over the construction period and the following procedures are adopted:

(a) For the sales of completed units, revenues are recorded when the sale is completed and the transfer of significant risks and benefits has occurred, regardless of the receipt from the customer of the contracted amount;

(b) For the sales of units under construction, the following applies:

-

The incurred cost, including the cost of land, and other directly related expenditure, that correspond to the units sold is fully recorded into the consolidated statement of operations;

- Incurred costs of units sold (including land) is measured as a percentage of total estimated cost, and this percentage is applied to the total revenues of the units sold, adjusted in accordance with the terms established in the sales contracts, thus determining the amount of revenues to be recognized in direct proportion to cost;
- Any amount of revenue recognized that exceeds the amount actually received from customers is recorded as either a current or non-current asset in the account "Trade accounts receivable". Any amount received in connection with the sales of units that exceeds the amount of revenues recognized is recorded as "Payables for purchase of land and advances from customers;"

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- Interest and inflation-indexation charges on accounts receivable as from the time the units are delivered, as well as the adjustment to present value of accounts receivable, are appropriated to the income statement on a pro rata basis using the accruals basis of accounting;
- The financial charges on accounts payable for acquisition of land and those directly associated with the financing of construction are recorded in properties for sale and recorded in the incurred cost of finished units until their completion, and follow the same recognition criteria as for the recognition of the cost of real estate units sold while under construction;
- The taxes due on the difference between real estate revenues recognized for accounting purposes and those revenues subject to tax are calculated and recognized when the difference in revenues is recognized; and
  - Advertising and publicity expenses are recorded in the consolidated income statement as accrual basis.

### Construction services

Revenues from real estate services are recognized as services are rendered and consist primarily of amounts received in connection with construction management activities for third parties, and technical advisory services.

### Barter transactions

Barter transactions have the objective of receiving land from third parties that are settled with the delivery of apartments. The value of land acquired by the Company is calculated based on the fair value of real estate units to be delivered. The fair value of the land is recorded as a component of inventories of properties for sale against advances from customers, at the time the income from the respective venture is initially recognized. Revenues and costs incurred from barter transactions are appropriated to the statement of operations over the course of construction period of the projects, as described in item (b).

### ICPC 02 – Paragraphs 20 and 21

In compliance with the aforementioned ICPC requirements, the amounts of recognized revenues and incurred costs are presented in the statements of operations, and the advances received in the account “payables for purchase of land and advances from customers”.

### Allowance for doubtful accounts and cancelled contracts

We annually review its assumptions to set up an allowance for doubtful account and cancelled contracts, in view of the review of the histories of its current operations and improvement of estimates.

We record an allowance for doubtful accounts and cancelled contracts for customer whose installments are over 90 days past due, in several types of construction work: construction works on time, construction works delayed (within the grace period), works that are late (out of the grace period) and for delivered completed units. This allowance is calculated based on the percentage of the construction work completion, a methodology adopted for recognizing income for the year.

### Launches and Contracted Sales

#### Launches

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The table below presents detailed information on our launches for the periods presented, including developments launched by our jointly-controlled entities in partnership with third parties:

	As of and for the year ended December		
	2013	2012	2011
Launches (in millions of reais)	2,886	2,952	3,526
Number of projects launched	37	35	49
Number of units launched(1)	11,072	8,947	12,223
Launched usable area (m2)(2)(3)	2,893,541	3,153,251	