

Gafisa S.A.
Form 20-F
April 28, 2015

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, 2014

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)

Av. Nações Unidas No. 8,501, 19th Floor
05425-070 – São Paulo, SP – Brazil
phone: + 55 (11) 3025-9000
fax: + 55 (11) 3025-9348
e mail: ri@gafisa.com

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

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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.

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, 2014 was:

Title of Class	Number of Shares Outstanding
Common Stock	408,066,162*

* Includes 29,881,286 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

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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):

Large Accelerated Filer 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 17 Item 18

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, Brazilian Law No. 12,431/11 and Brazilian Law No. 12,973/14, 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, 2014. 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).

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.

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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.

As required by Rule 3-09 of Regulation S-X, we have attached the consolidated financial statements of Alphaville Urbanismo S.A. as of and for the year ended December 31, 2014 and as of and for the twenty-two-day period ended December 31, 2013 to this annual report, beginning on page F-119.

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 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.

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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 describe forward-looking 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 2014, 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 was derived from our previously issued consolidated financial statements for such year, 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 (i) as of and for the years ended December 31, 2014, 2013, 2012 and 2011, which has been prepared in accordance with Brazilian GAAP in effect as of December 31, 2014 and (ii) as of and for the year ended December 31, 2010, which was derived from our previously issued consolidated financial statements for such year, not presented herein, after adjusting such previously reported amounts for certain recently issued Brazilian GAAP accounting standards. Certain information below is presented in accordance with U.S. GAAP.

As of and for the year ended December 31,
2014 2013 2012 2011 2010(8)(9)

(in thousands, except per share, per ADS and operating data)

Consolidated Income Statement

Data:

Brazilian GAAP:

Net operating revenue	2,150,998	2,481,211	2,805,086	1,846,902	2,956,087
Operating costs	(1,609,246)	(1,863,766)	(2,276,804)	(1,927,874)	(2,209,742)
Gross profit (loss)	541,752	617,445	528,282	(80,972)	746,345
Operating expenses, net	(561,284)	(215,574)	(609,604)	(719,232)	(469,448)
Financial expenses, net	(8,918)	(162,503)	(180,263)	(166,728)	(68,038)
Income (loss) before income and social contribution taxes	(28,450)	239,368	(261,585)	(966,932)	208,859
Income and social contribution taxes	(15,275)	(2,812)	(20,222)	(105,850)	(7,102)

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Net income (loss) from continuing operations	(43,725)	236,556	(281,807)	(1,072,782)	201,757
Net income from discontinued operations .	—	631,122	204,128	167,759	86,727
Net income for the year attributable to non-controlling interest	(1,176)	235	49,364	39,845	23,919
Net income (loss) for the year attributable to owners of Gafisa	R\$(42,549)	R\$867,443	R\$(127,043)	R\$(944,868)	R\$264,565
Share and ADS data(1):					
Per common share data—R\$ per share:					
Earnings (loss) per share—Basic	(0.1059)	2.0348	(0.2939)	(2.1893)	0.6415
From continuing operations	(0.1059)	0.7358	(0.6717)	(2.5003)	0.4732
From discontinued operations .	—	1.2990	0.3778	0.3110	0.1682

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	As of and for the year ended December 31,				
	2014	2013	2012	2011	2010(8)(9)
	(in thousands, except per share, per ADS and operating data)				
Earnings (loss) per share—Diluted	(0.1059)	2.0226	(0.2939)	(2.1893)	0.6109
From continuing operations	(0.1059)	0.7315	(0.6717)	(2.5003)	0.4658
From discontinued operations	—	1.2911	0.3778	0.3110	0.1602
Weighted average number of shares outstanding—in thousands	401,905	426,300	432,246	431,586	412,434
Dividends and interest on shareholders' equity declared—					
in thousands of reais	—	163,112	—	—	98,812
Earnings (loss) per share—R\$ per share	(0.1125)	2.0829	(0.2937)	(2.1867)	0.6140
Number of common shares outstanding as at end of period—					
in thousands*	378,185	416,460	432,630	432,099	430,915
Earnings (loss) per ADS—R\$ per ADS(2)	(0.2250)	4.1658	(0.5873)	(4.3734)	1.2279
U.S. GAAP:					
Net operating revenue	2,446,548	2,565,988	3,930,729	3,250,227	1,929,130
Operating costs	(1,819,612)	(1,955,158)	(3,008,345)	(2,743,144)	(1,472,085)
Gross profit	626,936	570,830	922,384	507,083	457,045
Operating expenses, net	(551,800)	(202,025)	(859,657)	(862,975)	(575,776)
Financial expenses, net	(31,924)	(187,298)	(191,414)	(97,370)	(97,810)
Income from disposal on controlling interests	—	1,228,429	—	—	—
Income (loss) before income and social contribution taxes and income from equity method investments	43,212	1,409,936	(128,687)	(453,262)	(216,541)
Income and social contribution taxes	(20,339)	(52,211)	(68,733)	(334,410)	100,811
Equity pick-up	17,361	(21,795)	108,265	59,687	42,161
Net income (loss) for the year	40,234	1,335,930	(89,155)	(727,985)	(73,569)
Net income (loss) attributable to non-controlling interests	(2,071)	13,462	32,048	27,784	21,214
Net income (loss) attributable to owners of Gafisa	42,305	1,322,468	(121,203)	(755,769)	(94,783)
Per share and ADS data(1):					
Per common share data—R\$ per share:					
Earnings (loss) per share—Basic	0.1053	3.1022	(0.2804)	(1.7511)	(0.2298)
Earnings (loss) per share—Diluted	0.1053	3.0835	(0.2804)	(1.7511)	(0.2298)
Weighted average number of shares outstanding—					
in thousands	401,905	426,300	432,246	431,586	412,434
Dividends declared and interest on equity	—	163,112	—	—	98,812
Per ADS data—R\$ per ADS(2):					
Profit (loss) per ADS —Basic(2)	0.2106	6.2044	(0.5608)	(3.5023)	(0.4596)
Profit (loss) per ADS —Diluted(2)	0.2106	6.1670	(0.5608)	(3.5023)	(0.4596)
Weighted average number of ADSs outstanding—					
in thousands	200,548	213,150	216,123	215,793	206,217

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Dividends and interest on equity declared	—	163,112	—	—	98,812
Consolidated Balance Sheet Data:					
Brazilian GAAP:					
Cash, cash equivalents and short-term investments					
	1,157,254	2,024,163	1,567,755	858,351	1,201,148
Current and non-current properties for sale	2,512,342	2,094,414	2,166,424	2,463,374	2,206,072
Working capital(3)	2,420,342	2,996,884	3,764,756	1,848,311	4,808,337
Total assets	7,205,852	8,183,030	8,712,569	9,164,783	9,040,791
Total debt(4)	2,586,524	3,059,528	3,640,437	3,437,929	3,290,109
Total equity	3,058,403	3,214,483	2,685,829	2,743,576	3,632,172
U.S. GAAP:					
Cash and cash equivalents, short-term investments and restricted short-term investments					
	1,157,254	2,024,163	1,566,042	858,351	1,127,382
Current and non-current properties for sale	3,023,765	2,816,204	3,260,711	3,847,858	3,690,328
Working capital(3)	2,295,951	2,755,836	3,419,171	3,353,108	3,940,576
Total assets	7,233,212	8,477,587	8,694,612	8,861,145	8,482,267
Total debt(4)	2,594,624	3,067,703	3,642,920	3,444,478	3,081,276
Total Gafisa equity	2,747,532	2,799,171	1,619,276	1,719,948	2,611,844
Equity of non-controlling interests	3,339	23,074	53,222	21,174	20,833
Total equity	2,750,871	2,822,245	1,672,498	1,741,122	2,632,677

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	As of and for the year ended December 31,				
	2014	2013	2012	2011	2010(8)(9)
(in thousands, except per share, per ADS and operating data)					
Consolidated cash flow provided by (used in):					
Brazilian GAAP					
Operating activities	41,891	297,652	644,288	(790,145)	(1,079,643)
Investing activities	751,953	53,464	(287,960)	(31,641)	122,888
Financing activities	(899,143)	(568,124)	162,080	634,952	920,197
Operating data (10):					
Number of new developments	23	37	35	49	127
Potential sales value(5)	1,636,311	2,886,204	2,951,961	3,526,298	4,491,835
Number of units launched(6)	6,104	11,072	8,947	12,224	22,233
Launched usable area (m2)(7)	326,421	2,893,541	3,153,251	2,250,725	3,008,648
Units sold	4,294	10,187	7,157	9,844	20,744

* 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 year ended December 31, 2010 has been prepared in accordance with Brazilian GAAP in effect at such time. Since January 1, 2013 and applicable retrospectively to the comparative period 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 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 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 year ended December 31, 2010 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, 2014, the results of operations of Alphaville have been presented as discontinued operations under Brazilian GAAP in the Company's 2013 and 2012 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, 2011 and 2010 have 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. In 2014, the period-end value of the real depreciated in relation to the U.S. dollar by 13.4%. On December 31, 2014, the period-end real/U.S. dollar exchange rate was R\$2.6562 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)	Low	High
	(per U.S. dollar)			
Year Ended:				
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	2.342	2.199	1.925	2.445
December 31, 2014	2.656	2.469	2.197	2.740
Month Ended:				
October 2014	2.444	2.463	2.391	2.534
November 2014	2.560	2.549	2.484	2.614
December 2014	2.656	2.651	2.561	2.740
January 2015	2.662	2.643	2.575	2.711
February 2015	2.878	2.785	2.689	2.881
March 2015	3.208	3.067	2.866	3.268
April 2015 (through April 24, 2015)	2.975	3.065	2.975	3.156

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

Source: Central Bank.

On April 24, 2015, the selling rate was R\$2.975 to US\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at April 24, 2015 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 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.

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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, 2014, 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\$1,440 million: our cash and cash equivalents and short-term investments were R\$1,157 million and our total debt was R\$2,597 million including obligations to venture partners of R\$11 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. As of the date of this annual report, the potential implementation of a third phase of the program is under review by the Brazilian government.

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 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\$63.5 million in 2014, 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 special purpose entities (Sociedade de Propósito Específico or “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 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 CCBs.

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On October 7, 2013, we entered into a Real Estate Finance System (SFI) loan in the amount of R\$300 million. The loan is scheduled to mature in July 2017. The loan is secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. The purpose of the loan is to provide funding for housing projects only. The loan agreement contains restrictive covenants which trigger early redemption upon the occurrence of certain events of default.

In July 2014, we issued R\$130 million in non-convertible debentures on a private placement basis. The debentures are secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. The proceeds of the debentures will be used to fund the development of such real estate ventures only. The debentures holders assigned their fiduciary rights in the real estate receivables in favor of a real estate securitization SPE, which issued Certificates of Real Estate Receivables (Certificados de Recebíveis Imobiliários) or “CRIs”, backed by such real estate receivables.

In September 2014, the Company entered into a Real Estate Finance System (SFI) loan in the amount of R\$194 million. The loan is scheduled to mature in October 2018. The loan is secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. The purpose of the loan is to provide funding for housing projects only.

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, 2014, our total debt (loans, financing and debentures) and payables to venture partners was R\$2,597 million and our short-term debt and payables to venture partners was R\$1,061 million. In addition, as of December 31, 2014 our cash and cash equivalents and short-term investments available was R\$1,157 million and our net debt represented 47.1% 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;

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- 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
 - 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, 2014, 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.

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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.

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, 2014, R\$36.1 million of our R\$81.3 million of total labor liabilities and provisions were for such liabilities. Approximately 44% 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.

On May 28, 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”), which establishes principles that will apply to the recognition of revenue under IFRS and U.S. GAAP. IFRS 15 will require

entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. When adopted, IFRS 15 will supersede most of the detailed guidance on the recognition of revenue that currently applies under IFRS and U.S. GAAP. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, and earlier application of IFRS 15 will be permitted for IFRS purposes. In Brazil, earlier application of IFRS 15 will be subject to the implementation of IFRS 15 in Brazil and the prior approval of the CPC and the CVM.

In July 2014, the IASB published IFRS 9 – Financial Instruments (“IFRS 9”), which establishes, among other principles, principles that will apply to the classification, measurement and recognition of financial assets and liabilities. IFRS 9 will replace (i) earlier versions of IFRS 9 and (ii) IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 is comprised of three phases:

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Phase 1 - Classification and measurement of financial assets and liabilities: Phase 1 introduces an approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach will replace existing rule-based requirements. The new model will also result in a single impairment model being applied to all financial instruments.

Phase 2 - Impairment: Phase 2 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. It will require entities to account for expected credit losses (as opposed to incurred credit losses) from when financial instruments are first recognized. It will also lower the threshold for recognition of full lifetime expected losses.

Phase 3 - Hedge Accounting: Phase 3 replaces the rule-based hedge accounting requirements in IAS 39. It will introduce a reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model will align the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. Earlier application of IFRS 9 will be permitted for IFRS purposes. In Brazil, earlier application of IFRS 9 will be subject to the implementation of IFRS 9 in Brazil and the prior approval of the CPC and the CVM.

We are in the process of evaluating the impact of IFRS 15 and IFRS 9 on our financial statements. As of the date of this annual report, we have not completed our analysis of IFRS 15 and IFRS 9 and we have not determined the extent to which IFRS 15 and IFRS 9 will impact our financial statements once they are adopted.

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;
- 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.

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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, 3.7% in 2014 and 0.8% in the one month period ended January 31, 2015. 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, 6.4% in 2014 and 1.2% in the one month period ended January 31, 2015. 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, 8.1% in 2013 and 6.9% in 2014. 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 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.

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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, through the Monetary Policy Committee (Comitê de Política Monetária), or the “COPOM,” establishes the Special Clearance and Escrow System rate (Sistema Especial de Liquidação e Custódia), or the “SELIC rate,” which is the basic interest rate 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. The SELIC rate is also an important policy instrument used by the Brazilian government to achieve inflation targets it established on June 21, 1999 (Decree No. 3,088).

As of December 31, 2011, the SELIC rate was 11%. As of December 31, 2012, the Central Bank had significantly reduced the SELIC rate to 7.25%. As of December 31, 2013, the Central Bank had increased the SELIC rate to 10%. As of December 31, 2014, the Central Bank had further increased the SELIC rate to 11.75%. As of the date of this annual report, the SELIC rate is 12.75%, its highest level since July 2011. Debts of companies in the real estate industry, including ours, are subject to the fluctuation of the SELIC rate. Should the SELIC rate continue to increase, the costs relating to the service of our debt obligations may also increase.

As of December 31, 2014, 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. Since April 2003, the Brazilian government has presented several tax reform proposals, which were 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 proposals 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.

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.

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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\$844.5 billion as of December 31, 2014 and an average daily trading volume of US\$3.5 billion for 2014. In comparison, the NYSE had a domestic market capitalization of US\$20.2 trillion (excluding funds and non-U.S. companies) as of December 31, 2014 and an average daily trading volume of approximately US\$40.5 billion for 2014.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented 50.7% of the aggregate market capitalization of the BM&FBOVESPA as of December 31, 2014. The top ten stocks in terms of trading volume accounted for 45.7% of all shares traded on the BM&FBOVESPA in 2014. Gafisa's average daily trading volume on the BM&FBOVESPA and in the NYSE in 2014 was US\$8.1 million and US\$3.2 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.

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.”

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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. 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 board of directors 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. On April 25, 2014, our shareholders approved a distribution of dividends in the amount of R\$32.9 million, representing R\$0.082486835998 per share. Based on the negative results of the fiscal year 2014, our shareholders did not approve any distribution of dividends at the shareholders meeting held on April 16, 2015. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy."

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 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.

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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 4,373, which superseded Resolution CMN No. 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 4,373, 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 1,100 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 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.

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Our core business is the development of high-quality residential units in attractive locations. For the year ended December 31, 2014, 100% of the value of our launches was derived from high and mid high-level residential developments under the Gafisa brand.

In addition, we provide construction services to third parties. For the year ended December 31, 2014, approximately 37% of the value of our launches was derived from Tenda, our affordable entry-level housing brand.

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, 2014, approximately 20% of the value of our launches was derived from our operations outside the states of São Paulo and Rio de Janeiro and from developments related to the “Minha Casa Minha Vida” program under the Tenda brand.

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 marked 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 on December 9, 2013, with a sale of a 50% interest by Gafisa and a 20% interest by Construtora Tenda S.A. (“Tenda”), with Gafisa retaining the remaining 30% of Alphaville capital stock. Following this transaction and since December 2013, Alphaville is no longer consolidated in the financial statements of the Company.

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% 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.

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On February 2, 2014, 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. Our management initiated the studies in the first quarter of 2014. As part of the studies, we (i) separated several joint departments of Gafisa and Tenda, including, among others, the services, personnel and management department and the legal department, (ii) converted Tenda's issuer registration with the CVM from category B to category A, (iii) entered into negotiations with several banks and insurance companies to open lines of credit for Tenda that are independent of Gafisa, and (iv) reviewed our contracts with our third party counterparties and evaluated the potential impact of a spin-off on those contracts. In parallel, we continue to assess separation alternatives for the Gafisa and Tenda business units.

During 2014, we revised our 2014 launch guidance for the Gafisa segment as a result of weakening economic conditions in Brazil. This revision in the projected volume of launches affected guidance for the Administrative Expenses to Launch Volumes ratio for the Gafisa segment, as well as projected consolidated launches.

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 Empreendimentos Imobiliários S.A., a leading homebuilder in the State of Alagoas at the time.

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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 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, 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. Our management initiated the studies in the first quarter of 2014. During 2014, we also revised our 2014 launch guidance for the Gafisa segment as a result of weakening economic conditions in Brazil. See “Item 4. Information on the Company—A. History and Development of the Company—General” for further information.

Capital Expenditures

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.

In 2014, we invested R\$88.5 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to sales stands and software acquisitions, which amounted to R\$19.3 million and R\$10.9 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.

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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 1,100 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, 2014, 100% of the value of our launches was derived from high and mid high-level residential developments under the Gafisa brand. In addition, we provide construction services to third parties. For the year ended December 31, 2014, approximately 37% of the value of our consolidated launches was derived from the Tenda brand, our affordable entry-level housing brand. 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 16.8% of the national population and approximately 24.0% of the gross domestic product as of December 31, 2014. Many of these developments are located in markets where few large competitors currently operate. For the year ended December 31, 2014, approximately 20% of our launches were derived from our operations outside the states of São Paulo and Rio de Janeiro and from developments related to the "Minha Casa Minha Vida" program under the Tenda brand.

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, Estrada do Coco, 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.”

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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,					
	2014		2013		2012	
	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)
Residential buildings	1,636,311	100.0	1,292,271	44.8	1,314,041	44.5
Land subdivisions(1)	—	N/A	1,462,087	50.6	1,343,313	45.5
Commercial	—	N/A	131,846	4.6	294,607	10.0
Potential sales	1,636,311	100.0	2,886,204	100.0	2,951,961	100.0

(1) This information is presented for comparison purposes and for the years ended December 31, 2013 and 2012 only, as we sold our controlling interest in Alphaville on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.

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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,					
	2014		2013		2012	
	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)	(in thousands of reais)	(% of total)
Residential buildings	519,210	100.0	603,809	40.2	753,733	43.7
Land subdivisions(1)	N/A	N/A	857,330	57.0	894,176	51.9
Commercial	N/A	N/A	41,728	2.8	75,976	4.4
Actual sales	519,210	100.0	1,502,867	100.0	1,723,885	100.0

(1) This information is presented for comparison purposes and for the years ended December 31, 2013 and 2012 only, as we sold our controlling interest in Alphaville on December 9, 2013 and currently hold a 30% non-controlling interest in Alphaville.

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,		
	2014	2013	2012 (8)
	(in thousands of reais, unless otherwise stated)		
São Paulo			
Potential sales value of units launched(1)	770,269	1,054,359	1,338,281
Developments launched(2)	7	10	13
Usable area (m2)(3)	107,156	154,959	203,636
Units launched(4)	1,474	1,935	2,361
Average sales price (R\$/m2)(3) (5)	7,188	6,804	6,572
Rio de Janeiro			
Potential sales value of units launched(1)	252,742	30,982	270,367
Developments launched(2)	2	1	2
Usable area (m2)(3)	27,827	4,101	33,987
Units launched(4)	315	63	260
Average sales price (R\$/m2)(3)(5)	9,083	7,554	7,955
Other States(6)			
Potential sales value of units launched(1)	—	—	—
Developments launched(2)	—	—	—
Usable area (m2)(3)	—	—	—
Units launched(4)	—	—	—
Average sales price (R\$/m2)(3)(5)	—	—	—
Total Gafisa			
Potential sales value of units launched(1)	1,023,012	1,085,341	1,608,648
Developments launched(2)	9	11	15

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Usable area (m2)(3)	134,983	159,060	237,624
Units launched(4)	1,789	1,998	2,621
Average sales price (R\$/m2)(3)(5)	7,579	6,820	6,770
Alphaville (7)			
Potential sales value of units launched(1)	—	1,462,087	1,343,313
Developments launched(2)	—	18	20
Usable area (m2)(3)	—	2,620,224	2,915,627
Units launched(4)	—	6,414	6,326
Average sales price (R\$/m2)(3)(5)	—	558	460
Tenda			
Potential sales value of units launched(1)	613,299	338,776	—
Developments launched(2)	14	8	—
Usable area (m2)(3)	191,438	114,197	—
Units launched(4)	4,315	2,660	—
Average sales price (R\$/m2)(3)(5)	3,203	2,996	—

(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.

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- (4) The units delivered in exchange for land pursuant to barter transactions are not included.
- (5) Average sales price per square meter was R\$7,579, R\$6,820 and R\$6,770 in 2014, 2013 and 2012, respectively, for Gafisa's ventures only, and R\$558 and R\$460 in 2013 and 2012, respectively, for Alphaville ventures. Average sales price per square meter was R\$916 and R\$936 in 2013 and 2012, respectively, for the combined ventures of Gafisa and Alphaville.
- (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 and for the years ended December 31, 2013 and 2012 only, as we sold our controlling interest in Alphaville 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, 2012 and December 31, 2014:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m ²) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%)
						(As of December 31, 2014)
Delux	2013	100	9,751	2016	44	54 %

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Follow	2013	100	15,800	2016	240	73	%
Duquesa-Lorian Qd2B	2012	100	34,429	2015	130	90	%
Like Brooklin	2012	100	13,298	2015	146	100	%
ECLAT (Ferreira de Araujo)	2012	100	13,017	2015	49	86	%
Energy	2012	100	9,666	2015	156	99	%
Scena Laguna	2012	80	13,728	2015	62.5	57	%
Like Saúde	2012	100	14,850	2015	144	70	%
Scena Santana	2012	100	17,548	2015	76	60	%
Alpha Land	2012	100	23,005	2015	210	63	%

(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, 2012 and December 31, 2014:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m ²) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (As of December 31, 2014)
Hi Centro	2014	100	15,343	2016	271	27%
Alphagreen	2014	100	18,170	2016	207	29%
D.O.C. Quatá	2014	100	4,437	2016	78	26%
Lorian Qd3B	2014	100	27,276	2017	271	56%
Itaboraí	2014	100	7,725	2016	80	35%
Today Modern Residences	2014	100	9,657	2017	108	16%
Guacá	2014	100	9,702	2017	182	17%
SCS Cerâmica QI Fase 1 (Home)	2014	100	28,794	2017	256	37%
Eiras Garcia	2014	100	23,878	2017	336	39%
Today Santana	2013	100	11,290	2015	165	36%
Go Maracá	2013	100	11,274	2016	129	48%
Axis	2013	100	12,616	2016	215	30%
Easy Tatuapé	2013	100	9,142	2017	144	63%
Laguna Mall	2013	100	4,161	2015	63	76%
Square Santo Amaro	2013	100	27,330	2016	362	57%
Wide Cambuí	2013	100	19,833	2016	244	31%
EQ Jardim Prudência	2013	100	10,525	2016	97	35%
Square Osasco	2013	100	27,397	2017	295	87%
Maraville (Ana Maria Lote A)	2012	100	16,956	2015	280	100%
Colorato	2012	100	19,731	2015	192	100%
Mistral	2012	100	6,837	2014	112	87%
Smart Santana	2012	100	7,619	2015	84	87%
Easy Maracá	2012	100	17,113	2015	147	100%

(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.

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.

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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, 2012 and December 31, 2014:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m ²) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (As of December 31, 2014)
Parque Das Flores Guaianazes	2014	100	4,437	2015	100	92.0%
Parque Rio Maravilha	2014	100	19,521	2015	440	45.9%
Verde Vida - F2	2014	100	15,084	2015	340	63.2%
Renascença Candeias	2014	100	19,166	2015	432	47.7%
Vila Florida - F1	2014	100	19,166	2016	432	31.3%
Palácio Imperial - F1	2014	100	11,491	2016	259	12.4%
Rio Da Prata	2014	100	13,842	2015	312	32.4%
Recanto De Abrantes - F1	2014	100	15,084	2015	340	28.5%
Monte Alegre	2014	100	8,873	2015	200	23.0%
Parque Santo André	2014	100	7,098	2015	160	9.4%
Residencial Das Palmeiras	2014	100	11,535	2016	260	24.6%
Terra Brasilis - F1	2014	100	13,310	2016	300	13.7%
Vila Atlântica - F1	2014	100	10,648	2017	240	2.1%
Reserva Das Árvores - F1	2014	100	22,183	2015	500	3.2%
Novo Horizonte	2013	100	25,732	2014	580	99.7%
Vila Cantuária	2013	100	19,521	2014	440	99.3%
Itaim Paulista	2013	100	10,648	2014	240	98.8%
Verde Vida - F1	2013	100	15,084	2015	340	94.1%
Germania - F2	2013	100	8,873	2014	200	98.0%
Jaraguá	2013	100	11,535	2014	260	98.5%
Viva Mais Campo Grande	2013	100	13,310	2014	300	82.3%
Chacara Campo Limpo	2013	100	13,310	2015	300	99.3%

(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.

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 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%.

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The table below sets forth our luxury and middle income housing developments under Gafisa's Brand, launched between January 1, 2012 and December 31, 2014 with percentage of units sold less than 90%:

Project Description	As of December 31, 2014 Units Sold (%)
Alta Vista (1)	89
Canto dos Passaros (2)	87
Gran Park Árvores F2 (3)	86
Gran Park Árvores F4 (4)	79
Gran Park Árvores F5 (5)	87
Gran Park Árvores F6 (6)	65
Gran Park Varandas F1 (7)	79
Gran Park Varandas F2 (8)	80
ICON (9)	78
Manhattan Square - Wall Street (10)	75
Mistral (11)	87
Mundi (12)	85
O Bosque (13)	55
Reserva do Bosque (14)	77
Scena Laguna (15)	57
Zenith (16)	84

(1) Alta Vista. This development was 100% completed at December 31, 2014 at which time 89% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(2) Canto dos Passaros. This development was 100% completed at December 31, 2014 at which time 87% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(3) Gran Park Árvores F2. This development was 100% completed at December 31, 2014 at which time 86% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(4) Gran Park Árvores F4. This development was 100% completed at December 31, 2014 at which time only 79% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(5) Gran Park Árvores F5. This development was 100% completed at December 31, 2014 at which time 87% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(6) Gran Park Árvores F6. This development was 100% completed at December 31, 2014 at which time 65% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

- (7) Gran Park Varandas F1. This development was 100% completed at December 31, 2014 at which time 79% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (8) Gran Park Varandas F2. This development was 100% completed at December 31, 2014 at which time 80% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (9) ICON. This development was 100% completed at December 31, 2014 at which time 78% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (10) Manhattan Square - Wall Street. This development was 100% completed at December 31, 2014 at which time 75% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

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- (11)Mistral. This development was 100% completed at December 31, 2014 at which time 87% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (12)Mundi. This development was 100% completed at December 31, 2014 at which time 85% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (13)O Bosque. This development was 100% completed at December 31, 2014 at which time 55% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (14)Reserva do Bosque. This development was 100% completed at December 31, 2014 at which time 77% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period
- (15)Scena Laguna. This development was 100% completed at December 31, 2014 at which time 57% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.
- (16)Zenith. This development was 100% completed at December 31, 2014 at which time 84% of the units had been sold. According to the Company's 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 Gafisa brand developments for impairment and we identified cases of impairment, and impairment provisions have been recorded for the following projects: Alta Vista, Canto dos Passaros, Carpe Diem, Icaraí Corporate, Jatiuca Trade Residence, Mistral, Parque Barueri Condominio Clube, Quintas do Pontal and Reserva do Bosque.

The table below sets forth our finished affordable entry-level housing developments under Tenda's Brand, launched between January 1, 2012 and December 31, 2014 with less than 90% of units sold:

Project Description	As of December
	31, 2014 Units Sold (%)
Residencial Cordoba (1)	61
Res Figueiredo II (2)	87
Residencial Morada de Ferraz (3)	83
Fit 16 SPE Emp. Imob./Mirante do Lago F2 (4)	53
Res Napoli I (5)	80
Fit 31 SPE Emp. Imob./Fit Giardino (6)	54
Fit 32 SPE Emp. Imob./Vista Flamboyant (7)	74
Fit 32 SPE Emp. Imob./Vista Flamboyant F2 (8)	69
Res Brisa do Parque III (9)	85
Residencial Michelangelo (10)	88
Positano Garden II (11)	75
Positano Garden IV (12)	50
Boulevard Das Palmeiras (13)	84
Viva Mais Campo Grande (14)	82

Res Vila Coimbra (15)	75
Nova Marica Life (16)	74
Residencial Da Vinci – Allegro (17)	72
Duo Valverde (18)	71
Residencial Vitale Tower (19)	39
Residencial Da Vinci – Giardino (20)	1

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- (1)Residencial Cordoba. This development was previously completed and has 61% of its units sold. According to the Company's existing business plan, this development's selling forecast indicates the remaining units will be sold in 2015.
- (2)Residencial Figueiredo 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.
- (3)Residencial Morada de Ferraz. 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.
- (4)Fit 16 SPE Emp. Imob./Mirante do Lago F2. This development was previously completed and has 53% 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 this development's selling forecast indicates the remaining units will be sold within a short time of period.
- (5)Res Napoli I. 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 in 2015.
- (6)Fit 31 SPE Emp. Imob./Fit Giardino. This development was previously completed and has 54% 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 2015.
- (7)Fit 32 SPE Emp. Imob./Vista Flamboyant. This development was previously completed and has 74% 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.
- (8)Fit 32 SPE Emp. Imob./Vista Flamboyant F2. This development was previously completed and has 69% 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)Res Brisa do Parque III. This development was previously completed and has 85% 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)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.
- (11)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.
- (12)Positano Garden IV. 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 within a short time period.

- (13) Boulevard Das Palmeiras. This development was previously completed and has 84% 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) Viva Mais Campo Grande. This development was previously completed and has 82% 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.
- (15) Res Vila Coimbra. 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.
- (16) Nova Marica Life. This development was previously completed and has 74% 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) Residencial Da Vinci – Allegro. This development was previously completed and has 72% 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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(18) Duo Valverde. This development was previously completed and has 71% 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) Residencial Vitale Tower. This development was previously completed and has 39% 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) Residencial Da Vinci – Giardino. This development was previously completed and has 1% 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 Tenda brand developments for impairment and we identified cases of impairment for these projects and impairment provisions have been recorded:

- Bairro Novo Cotia I and II
- Duo Valverde
- Fit Mirante do Parque
- Icoaraci
- Nova Marica Life
- Parque Arvoredo F2
- Pendotiba Life
- Piemonte
- Res Curuca F1
- Res. Green Park Life
- Res. Vila Coimbra
- Res. Villa Verde
- Res. Atenas
- Res. Da Vinci
- Res. Flor do Anani
- Res. Vitale Tower
- Res Betim Life
- Res. Reserva dos Pássaros F2
- Res. Pedra Bela
- Res. Jardim Girassol II F1

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 Paranaíba in the metropolitan region of São Paulo. Beginning in the 1990s, Alphaville developed residential communities in several other cities in Brazil, such as Campinas, Goiânia, Curitiba, Londrina, Maringá, Salvador, Fortaleza, Belo Horizonte, Natal, Gramado, Manaus, Cuiabá, Campo Grande, São 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 by us under the Alphaville brand between January 1, 2012 and December 31, 2013. As a result of the sale of the 70% interest in Alphaville on December 9, 2013, we were not involved in the launch of any residential communities under the Alphaville brand in 2014:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m ²) (1)(2)	Completion Year	Number of Units(2)
Alphaville Castello	2013	69	80,475	2015	222
Terras Alphaville Maricá 2	2013	47	107,594	2014	596
Terras Alphaville Ponta Grossa	2013	77	183,413	2014	742
Terras Alphaville Vitória da Conquista F2	2013	75	158,001	2014	565
Terras Alphaville Sergipe F2	2013	88	168,129	2014	614
Alphaville Feira de Santana F2	2013	72	172,713	2015	545
Alphaville Ribeirão Preto F3	2013	60	193,058	2015	584
Terras Alphaville Camaçari F2	2013	74	141,955	2015	616
Alphaville Volta Redonda	2013	72	133,286	2015	427
Terras Alphaville Dourados	2013	74	152,007	2015	604
Alphaville Anápolis	2013	67	106,165	2015	336
Terras Alphaville Linhares	2013	46	111,547	2015	576
Terras Alphaville Belém 3	2013	71	251,819	2015	976
Alphaville Dias Branco	2013	59	293,897	2015	1,020
Alphaville Litoral Norte 3	2013	68	145,443	2015	434
Alphaville Nova Esplanada F4	2013	30	68,216	2015	473
Alphaville D. Pedro 2	2013	58	75,803	2015	265
Alphaville D. Pedro 3	2013	58	76,704	2015	233
Alphaville Juiz de Fora	2012	65	350,649	2014	564
Alphaville Sergipe	2012	74	257,565	2014	693
Alphaville Mossoró F2	2012	52	33,764	2013	170
Terras Alphaville Anápolis	2012	73	169,15	2013	601
Alphaville Minas Gerais	2012	61	186,336	2014	557
Alphaville Brasília Residencial 2	2012	47	95,044	2014	426
Brasília Alpha Mall	2012	50	5,740	2014	26
Terras Alphaville Sergipe	2012	88	151,033	2014	546
Nova Esplanada 3	2012	30	94,806	2014	660
Terras Alphaville Teresina	2012	79	296,627	2014	1,075
Alphaville Pelotas	2012	74	183,370	2014	577
Alphaville Porto Velho	2012	76	73,126	2013	215
Terras Alphaville Vitória da Conquista	2012	75	160,195	2014	547
Terras Alphaville Resende F2	2012	76	129,818	2014	414
Alphaville Juiz de Fora 2	2012	65	99,646	2014	305
Alphaville Campo Grande 3	2012	64	152,549	2014	608

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Alphaville Araçatuba	2012	42	92,722	2014	427
Alphaville Bauru	2012	65	155,335	2014	467
Terras Alphaville Camaçari	2012	74	139,819	2014	634

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

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

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Commercial Buildings

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

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

In 2014, we did not launch any commercial buildings.

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, 2014, our main construction services clients were Villa Reggio Empreendimentos Imobiliários 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, 2012 and December 31, 2014:

Project	First Year of Construction	Client	Type of Project
Viverde	2012	Reitzfeld Empreendimento Imobiliário Botânico SPE Ltda	Residential

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, 2012 and December 31, 2014:

Project	First Year of Construction	Gafisa Participation (%)	Partner	Type of Project
Adamas	2013	50	GTIS Partners	Residential

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.

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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, 2014, 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, 2014, our main construction services clients were Villa Reggio Empreendimentos Imobiliários 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:

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.

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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, 2014, we had a combined inventory of 163 land parcels under both Gafisa and Tenda, in which we estimate we could develop a combined total of 40,664 residential units with a combined sales value of R\$10.1 billion, of which 70.9% 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			Tenda		
	Future Sales (% Gafisa) (1)	% Bartered	(in millions of reais)	Future Sales (% Gafisa)	% Bartered	(in millions of reais)
São Paulo	4,876	42.9 %		665	3.1 %	
Rio de Janeiro	1,301	89.0 %		1,091	7.5 %	
Other states	—	—		2,199	78.0 %	
Total	6,177	57.0 %		3,955	13.9 %	

(1) Information reflects our interest.

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. In 2014, Gafisa Vendas was responsible for approximately 61% and 23.4% 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.

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Under our Gafisa brand, we typically initiate our marketing efforts 60 days before the launch of a development. We typically 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 30% 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 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 16,000 calls and 11,700 chats per month and results in over 2,700 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.

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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\$1.2 million in 2014, 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.

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 development as of December 31, 2014:

Sales Term	Luxury	Middle Income	Affordable Entry—Level(1)
Mortgage lending (delivery)	77 %	88 %	—
Caixa Econômica Federal	—	—	100 %
Gafisa 36 months	22 %	12 %	—
Gafisa 60 months	—	—	—
Gafisa 120 months	1 %	—	—

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

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Mortgages. In 2014, 85% 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 monthly income between three and seven times the Brazilian minimum wage which was approximately R\$724 as of December 31, 2014 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.

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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, 2015, our clients' default level was 6.19% of our accounts receivable for Gafisa and 7.43% for Tenda.

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 2015. 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, 2014:

	Gafisa		Tenda	
Default level by segment	6.19	%	7.43	%

Cancellation 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.

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

Year Segment	As of December 31, 2014		As of December 31, 2013		As of December 31, 2012 (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	2,836	1,246,996	3,671	1,416,939	4,031	2,040,575
Volume/Sales value of terminations	(1,014)	(435,964)	(1,292)	(455,738)	(1,074)	(441,047)
Percentage	35.8 %	35.0 %	35.2 %	32.1 %	26.6 %	21.6 %
Sales value, net of termination	1,822	811,032	2,379	961,201	2,957	1,599,528
Tenda						
Contracted sales	6,248	919,381	8,292	1,089,301	9,990	1,175,733
Volume/Sales value of terminations(1)	(3,561)	(523,400)	(4,278)	(598,897)	(10,852)	(1,250,051)
Percentage(1)	57.0 %	56.9 %	51.6 %	55.0 %	108.6 %	106.3 %
Sales value net of terminations	2,687	395,981	4,014	490,403	(862)	(74,318)
Alphaville (2)						
Contracted sales	—	—	7,955	1,295,260	5,654	1,293,526
Volume/Sales value of terminations	—	—	(1,307)	(233,005)	(591)	(185,633)
Percentage	—	—	16.4 %	18.0 %	10.5 %	14.4 %
Sales value net of termination	—	—	6,648	1,062,260	5,063	1,107,893
Total sales value net of termination	4,509	1,207,013	13,041	2,513,860	7,158	2,633,103

(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 2014, we had R\$523.4 million in sales value of termination and R\$419 million in 2013. 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 and for the years ended December 31, 2013 and 2012 only, as we sold our controlling interest in Alphaville 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. The securitization (mortgage-backed securities) market in Brazil is 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 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 materials that represent more than approximately 5.1% of our total costs are steel and concrete. Prices of some raw materials have significantly increased over the last three years at a rate higher than inflation. The index that measures the fluctuation of construction costs, the INCC, increased 23.8% during the three year period ended December 31, 2014, resulting in a 22.7% increase in the construction costs of Gafisa and a 23.8% increase in the construction costs of Tenda over that period. During the three year period ended December 31, 2014, the IGP-M increased 18.0%, resulting in an 18.4% increase in unit prices for Gafisa and a 17.1% increase in unit prices for Tenda over that period. 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.

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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 nine largest suppliers in terms of volume are Gerdau Aços Longos S.A., Votorantim Cimentos Brasil Ltda., Thyssen Krupp Elevadores S.A., Alumni Esquadrias de Alumínio Ltda., RCI Esquadrias de Alumínio S/C Ltda., Supermix Concreto SA, InterCement Brasil SA, Ibrap Industria Brasileira de Alumínio and Cortesia Serviços de Concretagem Ltda. 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 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.

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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. 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,			
	2014	2013		2012
	(Launches in R\$ million)			
Local market	26,359	32,367		28,288
Gafisa(2)	770	1,125		1,306
Gafisa's market share	2.9 %	3.5 %		4.6 %

Source: EMBRAESP and SECOVI.

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

Year	Year ended December 31,			
	2014	2013		2012
	(Launches in R\$ million)			
Local market	11,796	12,590		12,252
Gafisa(2)	253	51		347
Gafisa's market share	2.1 %	0.4 %		2.8 %

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, 2014, Gafisa had 105 subsidiaries, 22 jointly-controlled entities under operations and 4 entities in which it had minority stakes. The majority of such subsidiaries, jointly-controlled entities and entities in which Gafisa has a minority stake are incorporated as special purpose entities, are headquartered in Brazil and operate exclusively in the real estate sector. Gafisa also holds a 30% interest in the capital stock of Alphaville.

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Many of Gafisa's 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 131 SPEs, 72.52% are wholly-owned by us and 7.63% are majority-owned by us, and we hold an interest of 50% or less in the remaining 19.85%.

Tenda is a wholly-owned subsidiary of Gafisa. As of December 31, 2014, Tenda had 80 subsidiaries, 9 jointly-controlled entities under operations and 5 entities in which it had minority stakes. The majority of such subsidiaries, jointly-controlled entities and entities in which Tenda has a minority stake are incorporated as special purpose entities, are headquartered in Brazil and operate exclusively in the real estate sector.

Many of Tenda's 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 Tenda's 80 SPEs, 84% are wholly-owned by us and 11% are majority-owned by us, and we hold an interest of 50% or less in the remaining 5%.

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 91 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 June 2015 and April 2023. We will seek to renew our domain names expiring in 2015, after evaluating their continuing applicability.

Patents

We have no patents registered in our name.

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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.

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 Imobiliario), 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), in particular Law No. 6,015 of December 13, 1973.

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

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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 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 - the Brazilian Law of Urban Land Subdivision (Lei de Parcelamento do Solo), as amended, or Law No. 6,766. Law No. 6,766 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 Law No. 6,766, 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 special interest, such as a protected cultural, historical, landscape and archeological heritages 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 or urban agglomeration as defined in state or federal law; or (3) has an area greater than 1 million square meters. In the case of land subdivisions located in a municipality area that is within a metropolitan area, the examination and prior consent to the approval of such project will be subject to the metropolitan authority.

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;

(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; and (4) the allotment procedures must be coordinated with the official adjacent tracks, existing or projected, and harmonized with the local topography.

Law No. 6,766 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.

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In order to offer greater security to the property market, Law No. 6,766 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 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, Law No. 12,693 enacted on July 24, 2012, Law No. 12,722 enacted on October 3, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015) and No. 12,844 of July 13, 2013, which granted tax benefits for the adoption of the system by reducing tax rates on appropriated assets from 7% to 4% and, in the case of the appropriated assets under the public housing program “Minha Casa, Minha Vida,” the rates were reduced from 7% to 1%, until December 31, 2018, by Law No. 13,097, enacted January 19, 2015.

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).

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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, 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; or (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, Law No. 12,810 of May 15, 2013, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015 (“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, in 2014, changes in the regulations on financing and construction in order to promote growth in the real estate market. Among the measures announced are: (1) all the acts involving immovable property will be entered on the property’s record in the land registry office, i.e., unregistered acts and actions enforceable against third parties in good faith, even if the unregistered act or action challenges ownership to the property; (2) the buyer of a real estate property will be able to give property as guarantee to finance another, or to purchase other assets with funds raised in savings accounts; (3) banks will be able to issue a new type of security, the Secured Real Estate Note (LIG – Letras Imobiliárias Garantidas), which is exempt from income tax to raise more funds and borrow to finance the purchase of real estate; (4) banks may grant payroll loans, in which the parcels will be charged to the worker's salary in the private sector with more facilities, resulting in lower interests; and (5) the Brazilian government will create a type of credit that will be easier for the bank to recapture the property in case of default.

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) the cancellation of payments to the Central Bank of funds not invested in real estate financing in January, February and

March; (2) the 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) a 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; (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, the increase in the operating limits of the SFH to units with a maximum sales price of R\$750,000 and (6) in 2014, measures to facilitate the purchase of financed properties, as discussed in “Housing Finance System, or “SFH”” above. These changes have significantly increased the funds available for investments in the Brazilian real estate sector.

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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.

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 CRI. 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, Law No. 12,693 enacted on July 24, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015, 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 enacted on 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\$90,000 and R\$190,000. Law No. 12,868 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:

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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. 11,228 of June 25, 1992, approved the Code of Works and Construction, regulated by Decree 32,329 of September 23, 1992, 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.

On July 31, 2014, Municipal Law No. 16,050 was published, replacing Municipal Law No. 13,430 of September 13, 2002, approving the master plan and creating the Planning System of the municipality of São Paulo and regulating the new master plan of the municipality. The new master plan provides a series of guidelines for the development and growth of the city of São Paulo for the next 16 years, in order to (i) incentivize the use of public and non-motorized forms of transport; (ii) reduce the housing deficit; (iii) improve the access of residential areas to commercial areas of the city; and (iv) incentivize the development of urban areas already equipped with with public transportation infrastructure, among other guidelines.

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, 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.

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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.

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.

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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.

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, meaning the concept of a *bona fide* prospective purchaser does not exist in civil environmental liability in Brazil.

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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 that may pierce the corporate veil and disregard the 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.

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, 2014:

(*) At December 31, 2012 we held 80% of this entity and 30% at December 31, 2013 and December 31, 2014.

(**) At December 31, 2013 we held 70% of this entity and acquired the 30% remaining in November 21, 2014.

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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, 2014, 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\$48.7 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, 2014, 2013, 2012, 2011 and 2010 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 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.

In October 2014, Shertis Empreendimentos e Participações S.A. or “Shertis”, which held a 20% interest in the capital stock of Alphaville, was merged into Gafisa. As a result and as of the date of this annual report, we hold a 30%

interest in the capital stock of Alphaville.

On November 21, 2014, we acquired the remaining shares of Cipesa Empreendimentos Imobiliários S.A. in the amount of R\$6,354. As a result of this transaction, the Company recorded a net effect of the write-off of goodwill, in the amount of R\$17,604.

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.

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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 SELIC rate 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%.

As of December 31, 2013, the Central Bank set the SELIC rate 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%.

As of December 31, 2014, the Central Bank set the SELIC rate at 11.75%. As a result, the real depreciated 12.7% relative to the U.S. dollar in 2014. As of December 31, 2014, the real/U.S. dollar exchange rate was R\$2.6550 per US\$1.00. During this period, inflation according to the IPCA was 6.4%.

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,		
	2014	2013	2012
	(%, unless otherwise stated)		
Real growth in GDP	n/a	2.3	0.9
Inflation rate (INPC)(1)	6.2	5.5	5.1
Inflation rate (IGP—M)(2)	3.7	5.5	7.8

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National Construction Cost Index (INCC)(3)	6.9	8.1	7.1
TJLP rate(4)	5.0	5.0	5.5
CDI rate(5)	10.8	8.1	8.4
Appreciation (devaluation) of the real vs. US\$	(12.7)	(13.2)	9.9
Exchange rate (closing) — US\$1.00	R\$2.65	R\$2.35	R\$2.05
Exchange rate (average)(6) — US\$1.00	R\$2.35	R\$2.18	R\$1.96

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- (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.

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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. 12,599 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, as amended by Law No. 13,097 enacted on January 19, 2015, allowed payroll deductible mortgage loans to employees of both public and private entities;
- 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, Law No. 12,722 enacted on October 3, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015 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\$90,000 and R\$190,000;
- 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;

- Provisional Measure No. 620 enacted on June 12, 2013, converted into 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; and

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- Provisional Measure No. 656 enacted on October 7, 2014, converted into Law No. 13,097 enacted on January 19, 2015, which establishes mechanisms for protecting purchasers and recipients of in rem rights which enter into legal transactions based on the information contained in the real estate records. In addition, deals with payroll loans, establishing the concentration of acts in the real estate property registration and creates the Real Estate Covered Bonds (LIG - Letras Imobiliárias Garantidas).

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, 2014, the Company has recorded a provision for impairment for land and goodwill related to the acquisition of Cipesa Empreendimentos Imobiliários S.A.

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 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 2015 and 2019 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.

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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 year ended December 31, 2010. 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. As of December 31, 2014, we had R\$63.5 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 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.

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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 net profits, we adopt the regime set forth by Law No. 12,973 enacted on May 13, 2014 and in force as of January 1, 2015. The new regime is based on the Brazilian accounting standards introduced by Laws No. 16,638/2007 and No. 11,941/2009, from the tax basis of such taxes, thus revoking the RTT.

Taxes on income in Brazil comprise income tax (25%) and social contribution on net profits (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 tax and social contribution on net profits are calculated at 1.92% on monthly gross revenues (4%, also levying PIS and COFINS on revenues).

On May 13, 2014, Provisional Measure No. 627 was converted into Law No. 12,973/14, revoking the RTT and bringing significant changes to Brazilian tax legislation. The new rules came into effect on January 1, 2015, with an option to adhere to the new rules from January 1, 2014. During 2014, we analyzed the potential impact of the new rules on our consolidated financial statements and internal controls structure. Based on our analysis, we concluded that the new rules would not have a material impact on how we account for taxes in 2014 and we therefore opted not to adopt them from January 1, 2014.

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;
- 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.

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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;
 - Sales revenues are appropriated to profit or loss, using the percentage-of-completion method for each venture, this percentage being measured in view of the incurred cost in relation to the total estimated cost of the respective ventures
 -

Revenue recognized in excess of actual payments received from customers is recorded as either a current or non-current asset in "Trade accounts receivable". Any payment received in connection with the sales of units that exceeds the amount of revenue recognized is recorded as "Payables for purchase of land and advances from customers";

- 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;

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- Taxes levied and deferred on the difference between real estate development revenues and the cumulative revenue subject to tax are calculated and recognized when this difference in revenue 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 and are settled with the delivery of real estate units or transfer of portions of the revenue from the sale of real estate units of ventures. The value of the land acquired is determined based on the fair value, as a component of inventory of properties for sale, with a corresponding entry to advances from customers' liabilities. Revenues and costs incurred from barter transactions are included in profit or loss over the course of construction period of ventures, as described in item (b).

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

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 31,		
	2014	2013	2012
Launches (in millions of reais)	1,636	2,886	2,952
Number of projects launched	23	37	35
Number of units launched(1)	6,104	11,072	8,947
Launched usable area (m2)(2)(3)	326,421	2,893,541	3,153,251
Percentage of Gafisa investment	100%	76%	79%

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

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

(3) Does not include Terreno Cajamar Alphaville (approximately 5,420,927m²).

In 2014, we launched 23 residential developments with a total potential sales value of R\$1.6 billion, with Gafisa accounting for 62.5% of launches and Tenda for 37.5% in terms of potential sales value. 11 of the developments we launched were located in the state of São Paulo, 6 developments were located in the state of Rio de Janeiro and the remaining 6 developments were located in Camaçari, Salvador and Lauro de Freitas, in the state of Bahia, Vespasiano, in the state of Minas Gerais and Jaboatão dos Guararapes, in the state of Pernambuco.

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In 2013, we launched 37 residential developments with a total potential sales value of R\$2.9 billion, with Gafisa accounting for 38% of launches, Tenda for 12% and Alphaville the remaining 51% in terms of potential sales value. The total sales value for 2013 was approximately 2% lower than the total sales value of R\$3.0 billion for 35 residential developments launched in 2012. In 2013, 18 of the 37 developments we launched were located in the state of São Paulo, while another four developments were located in the state of Rio de Janeiro. The remaining 15 residential developments launched were located in cities of Camaçari, in the state of Bahia, Porto Alegre, in the state of Rio Grande do Sul, Salvador, in the state of Bahia, Ponta Grossa, in the state of Paraná, Vitória da Conquista, in the state of Bahia, Barra dos Coqueiros, in the state of Sergipe, Feira de Santana, in the state of Bahia, Dourados, in the state of Mato Grosso do Sul, Anápolis, in the state of Goiás, Linhares, in the state of Espírito Santo and Belém in state of Pará. In 2012, we launched 35 residential developments with a total potential sales value of R\$3.0 billion, with Gafisa accounting for 54% of launches and Alphaville the remaining 46% in terms of potential sales values (compared to a 28% share in 2011). This sales value was approximately 21% lower than that achieved in 2011, during which we launched 49 residential developments totaling R\$3.5 billion. We refocused our business operations in 2012 to prioritize cash flow and reduction of net debt reduction, restructuring the debt profile and reducing launches of new units, while still generating what we consider to be an appropriate volume of business of R\$3.0 billion. In 2012, 17 of the 35 developments we launched were located in the state of São Paulo, while another three developments were located in the state of Rio de Janeiro. The remaining 15 residential developments launched were located in the cities of Juiz de Fora, in the state of Minas Gerais, Aracaju, in the state of Sergipe, Anápolis, in the state of Goiás, Mossoró, in the state of Rio Grande do Norte, Vespasiano, in the state of Minas Gerais, Brasília, in the state of Distrito Federal, Barra dos Coqueiros, in the state of Sergipe, Teresina, in the state of Piauí, Pelotas, in the state of Rio Grande do Sul, Porto Velho, in the state of Roraima, Vitória da Conquista, in the state of Bahia, Resende, Campo Grande, in the state of Mato Grosso do Sul and Camaçari, in the state of Bahia.

During 2014, approximately 16.6% of our launches in terms of potential sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. The affordable entry-level business accounted for approximately 37.5% of our total sales value for the year ended December 31, 2014, of which 44.2% was generated from launches outside the states of São Paulo and Rio de Janeiro.

During 2013, approximately 37.4% of our launches in terms of potential sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. The affordable entry-level business accounted for approximately 20% of our total sales value for the year ended December 31, 2013. During 2012, approximately 37.8% of our total sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. The affordable entry-level business accounted for approximately 3% of our total sales value for the year ended December 31, 2012. For the year ended December 31, 2011, the affordable entry-level business represented approximately 10% of our total sales value.

In 2014, Gafisa launches totaled R\$1.0 billion, a 6% decrease compared with 2013.

Contracted sales for the year totaled R\$811 million, down 16% from 2013. Sales of units launched over the year accounted for 42.2%, while sales of inventories accounted for the remaining 57.8%.

In 2013, Gafisa launches totaled R\$1.1 billion, a 32.5% decrease compared with 2012, with the Gafisa segment accounting for 38% of the consolidated launches for the period.

Contracted sales for the year totaled R\$981 million, down 39.9% from 2012. Sales of units launched over the year accounted for 60%, while sales of inventories accounted for the remaining 40%.

In 2012, Gafisa delivered 22 ventures/stages and 4,315 units, reaching 102% of the average of the guidance (3,500 – 5,000) for the year.

The market value of Gafisa inventories reached R\$3.2 billion at the end of 2014.

The market value of Gafisa inventories at the end of 2013, represented for 52% of total inventories, reaching R\$2.1 billion and Gafisa segment reached R\$1.6 billion in net sales.

Full-year Tenda launches in 2011 totaled R\$398 million, a 75% reduction compared to 2010, and included 17 projects/phases across 8 states and the cancellation in the fourth quarter of 2011 of R\$103 million of projects no longer feasible under the Company's new criteria adopted in the third quarter of 2011. No more than 30% of these projects had been completed. This more conservative approach to Tenda's operations led to full-year sales of R\$330 million, a 77% reduction compared to 2010, in line with the reduced volume of launches. In 2012, Tenda worked to reduce the complexity of its operations and master the fundamentals of its new operating model suspending launches. Tenda resumed the launch of new ventures in 2013, reaching R\$338.8 million in the launches of 8 new developments, totaling 12% of the consolidated launches for 2013.

In 2014, Tenda launches totaled R\$ 613.3 million. Contracted sales for the year totaled R\$396.0 million, a 19% decrease compared with 2013. Sales of units launched over the year accounted for 44.2%, while sales of inventories accounted for the remaining 55.8%.

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Cancellation levels decreased significantly in 2014 mainly due to Tenda's increased efficiency and improved controls. The primary driver of the reduction in cancellations was the implementation of a sales process by which potential customers were required to obtain approved financing with CEF as part of the purchase process, which significantly decreases the probability of cancellation. Out of R\$613.3 million in property launches during 2014, we recorded sales of R\$176.8.4 million in which financing had already been obtained. In 2013, out of R\$338.8 million in property launches, we recorded sales of R\$217.4 million. Of the R\$217.4 million, R\$122.0 million is related to sales in which financing had already been obtained, with the remaining R\$95.4 million relating to sales in which financing was being finalized at the end of 2013.

In 2014, The Tenda segment delivered 41 ventures/stages, and 7,027 units, reaching 101% of the average of the guidance (6,500 – 7,500) on deliveries for the year.

The market value of Tenda inventories was R\$828.7 million at the end of 2014, compared to R\$618.4 million at the end of 2013.

In 2014, Tenda reached R\$396.0 million in net sales.

Contracted sales

The following table shows the development of our contracted sales by the type of development, according to units sold during the same year that they were launched and the units sold in the years after they were launched, as well as their respective percentages in relation to total sales for the periods presented:

	As of and for the year ended December 31,		
	2014	2013	2012 (3)
	(in millions of reais, unless otherwise stated)		
Type of development			
Luxury buildings	108.8	367.7	753.6
Middle-income buildings	650.0	431.9	633.3
Affordable entry-level housing (2)	396.0	490.4	(74.3)
Commercial	52.2	161.5	173.7
Land(1)	N/A	1,062.2	1,146.8
Total contracted sales	1,207.0	2,513.8	2,633.1
Sale of units launched in the year	519.2	1,502.8	1,723.9
Percentage of total contracted sales	43%	60%	65%
Sale of units launched during prior years	687.8	1,010.9	909.2
Percentage of total contracted sales	57%	40%	35%

(1) Includes Gafisa's participation on the Alphaville Barra da Tijuca project.

(2) Amount net of sales cancellation.

(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).

The following table shows our and our main subsidiaries and our current affiliate Alphaville, contracted sales for the periods presented:

	As of and for the year ended December 31,		
	2014	2013	2012 (3)
	(in millions of reais, unless otherwise stated)		
Contracted sales			
Gafisa	811.0	961.2	1,599.5
Tenda (1)	396.0	490.4	(74.3)
Alphaville (2)	—	1,062.2	1,107.9
Total contracted sales	1,207.0	2,513.8	2,633.1
(-) Discontinued operations	—	(1,062.2)	(1,107.9)
Total contracted sales	1,207.0	1,451.6	1,525.2

(1) Amount net of sales cancellation.

(2) This information is presented for comparison purposes and for the years ended December 31, 2013 and 2012 only, as we sold our controlling interest in Alphaville 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).

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In 2014 we sold 42.2% of the launched units, which combined with the sales of units launched during prior periods, resulted in total contracted sales of R\$1,207.0 million, a decrease of approximately 16.9% compared to 2013, net of discontinued operations.

In 2013, we sold 60% of the launched units, which combined with the sales of units launched during prior periods, resulted in total contracted sales of R\$2,513.8 million, a decrease of approximately 5% compared to 2012.

In 2012, we sold 59% of the units launched during that year, which together with the sales of units launched during prior periods, resulted in total contracted sales of R\$2,633.1 million, a decrease of approximately 21% compared to 2011. As a result of our corrective measures taken with respect to Tenda and due to a focus on execution and delivery, no projects were launched during 2012. The Tenda brand resumed launches in 2013. In 2013, we sold 44% of units launched during that year, which together with the sales of units launched during prior periods, resulted in total contracted sales of R\$490.4 million. In 2014, we sold 29.6% of units launched during that year, which together with the sales of units launched during prior periods, resulted in total contracted sales of R\$396.0 million.

Our sales contracts are irrevocable under Brazilian law, which means a customer does not have a unilateral ability to terminate a contract once it is executed, or require a refund of amounts previously unpaid unless we agree. To the extent that a customer is not in compliance with its obligations under a contract, we have the option to either force compliance through the Brazilian courts, or agree to “default” by the customer. Should we agree to such default, the customer is then charged penalties as defined in the contracts with any remaining amounts remitted to the customer. Penalties charged by Tenda have historically been 20% of amounts paid, while penalties charged by Gafisa have historically been significantly higher (average about 60-65% of amounts paid).

We provide a limited amount of post-construction client financing, although this financing is not available to Tenda clients. Our default rate was 7.4%, 9.3% and 4.1% as of December 31, 2014, 2013 and 2012, respectively, which represents charge-offs for both these financings and also the remainder of our percentage of completion receivables.

The table below shows the penalties charged to customers that have defaulted and had their contracts cancelled for the periods presented:

	As of and for the year ended December 31,		
	2014	2013	2012 (2)
	(in millions of reais)		
Gafisa	16.4	13.3	9.3
Tenda	1.1	2.3	10.5
Alphaville (1)	—	5.9	5.3

(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.

(2) 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).

The following table sets forth the growth of our contracted sales expected to be recognized, as well as the amount corresponding to the expected cost of units sold, and the expected margin, all of them to be recognized in future periods, for the periods presented:

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	As of and for the year ended December 31,		
	2014	2013	2012
	(4)		
	(in millions of reais, unless otherwise stated)		
Sales to be recognized	1,064.0	1,863.4	3,815.5
Net sales(1)	1,025.2	1,795.4	3,676.3
Cost of units sold to be recognized(2)	(628.8)	(1,181.3)	(2,226.6)
Expected gross margin—yet to be recognized(3)	396.4	614.3	1,449.7
Expected margin percentage	38.7%	34.2%	39.4%

(1) Excludes indirect PIS and COFINS taxes of 3.65%. This information includes ventures that are subject to restriction due to a contractual clause, which defines the legal period of 180 days in which the Company can cancel a development.

(2) The estimated gross profit shown does not consider the tax effects or the present value adjustment, and the costs of lands, financial charges and guarantees, which will be carried out as at the extent they are realized.

(3) Based on management's estimates.

(4) With the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), starting from 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.

Gross Operating Revenues

Our revenues are derived mainly from the development and sale of real estate and, to a lesser extent, the rendering of construction services to third parties.

Real estate development and sales

Real estate development revenues, including inflation adjustments and interest from credit sales, make up revenues from the sales of units in the residential buildings we develop, and to a lesser extent, the sales of lots and commercial buildings.

Construction services rendered

Our revenues generated by real estate services consist substantially of amounts received in connection with construction management activities for third parties, technical management and real estate management.

Operating Costs

Our operating costs consist of real estate development costs and, to a lesser extent, costs of services rendered.

Real estate development costs

Real estate development costs consist of costs of land, construction (which includes costs for a broad variety of raw materials and labor), capitalized interest (financial costs) from project specific financing, projects, foundations, structuring and furnishing, as well as costs for outsourced labor. The items making up our costs, as a percentage of our total cost, were as set forth for the periods presented:

	For the year ended December 31,					
	2014		2013		2012	
Land	15.1	%	14.2	%	17.4	%
Construction costs	68.6	%	70.6	%	70.5	%
Financial costs	10.0	%	8.2	%	6.6	%
Development costs	6.3	%	7.0	%	5.5	%
Total	100.0	%	100.0	%	100.0	%

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One of our principal real estate development costs is the cost of land. Over the last five years, land represented, on average, 13% of our total cost of development. However, this is an extremely volatile component, varying according to characteristics of the land, the region where the land is located, the type of development to be launched and market conditions. Land can be acquired for cash, through the exchange of units once the building is constructed, through a financial swaps (whereby a portion of sales is given to the owner of land as a form of financing for the land), or through a combination of the three options.

No single raw material alone represents a significant portion of our total costs of development, but over the last five fiscal years, raw materials represented, on average, 35% of our total cost of development. The index that measures construction cost variation, the INCC, increased by 7.0%, 8.1% and 7.1% in 2014, 2013 and 2012, respectively. Although some of the principal raw materials, such as steel, have experienced significant price increases well above the level of inflation over the last four years, we have reduced our raw materials costs by developing and using new construction techniques and materials.

Over the last five years, we have incurred most of our construction costs from the 1st to the 18th month of construction of a development, as shown in the table below:

Period of construction	Percentage of costs incurred(1)
1st to 6th month	16 %
7th to 12th month	25 %
13th to 18th month	31 %
19th to 24th month	20 %
25th to 30th month	8 %

(1) Including cost of land.

Real estate services

Our costs of real estate services consist of direct and indirect labor fees and outsourced services.

Operating Expenses

Our operating expenses include selling, general and administrative expenses, depreciation and amortization expenses and revenues and revaluation of investment in affiliates.

Selling expenses

Selling expenses include advertising, promotion, brokerage fees and similar expenses.

General and administrative expenses

General and administrative expenses principally include the following:

- employee compensation and related expenses;
- fees for outsourced services, such as legal, auditing, consulting and others;

- management fees and expenses;
- stock option plan expenses;
- overhead corporate expenses;
- expenses related to legal claims and commitments; and
- legal expenses related to public notaries and commercial registers, among others.

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Depreciation and amortization

Depreciation expenses consist of depreciation of our property and equipment. Since January 1, 2009, goodwill is no longer amortized under Brazilian GAAP.

Revaluation of investment in affiliates

Revaluation of investment, in line with the definition provided for in the paragraph 25 of CPC 36 (R3) – Consolidated Statements, consists in recognizing the addition related to the revaluation of the portion of the remaining investment of 30% with the sale of and cease of control over Alphaville.

Financial Income and Expenses

Financial income includes income from financial investments. Interest revenues are recognized at the time the effective profit accrues from the asset, based on the accrual method. Financial expenses generally consist of interest payable on loans, financings and debentures.

Taxes on Income

In general, taxes on income in Brazil consist of federal income tax (25%) and social contribution on net profits (9%); for a composite statutory tax rate of 34%. We calculate income and social contribution taxes according to the “taxable profit” regime. Our subsidiaries and jointly-controlled entities, however, with annual billings lower than a specified amount, may calculate their respective income and social contribution taxes through either this “taxable profit” regime or through the “presumed profit” regime, depending on our tax planning. For the companies that opt for the “presumed profit” regime, the income tax basis is calculated as 8% of gross revenues and the social contribution basis is calculated as 12% of 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 on net profits are calculated at 1.92% monthly on gross revenues (for a total of 4% considering PIS and COFINS taxes on revenues).

Net profit from discontinued operations

The profit from discontinued operations represents the results of operations of Alphaville over the period January 1, 2013 to November 30, 2013, as well as the results of operations for this entity for the comparative periods. This line item also contains the gain on disposal of our 70% controlling interest in this entity, which occurred in December 2013.

In accordance with CPC 31 – Non-current Asset Held for Sale and Discontinued Operations, the profit of discontinued operations is presented at a single amount in statement of operations, which includes the total after-tax-income of these operations, less any impairment-related loss.

Results of Operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with Brazilian GAAP. References to increases or decreases in any given period relate to the corresponding preceding period, except unless otherwise indicated.

As explained in Note 8.2 to the Company's 2013 consolidated financial statements, the results of operations of Alphaville have been retrospectively presented as discontinued operations under Brazilian GAAP in the Company's 2013, 2012 and 2011 consolidated statements of operations given its disposal during 2013. In addition, with the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), starting from 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.

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Results of Operations for the Years Ended December 31, 2014 and 2013

Net operating revenue

On a consolidated basis, net operating revenue for the year ended December 31, 2014, recognized by the Percentage of Completion (“PoC”) method, was R\$2.15 billion, a decrease of 13.3% from R\$2.5 billion for the year ended December 31, 2013, as a result of a lower level of launches in Gafisa in the last 2 years. During 2014, the Gafisa and Tenda brands accounted for 73% and 27% of net operating revenue, respectively.

The gross revenue generated from the sale of property and barter transactions, net of the cancellation provision (reversal) totaled R\$2.3 billion for the year ended December 31, 2014, a decrease of R\$374.1 million or 13.8% compared with the same period in 2013 of R\$2.7 billion. The tax deductions from gross revenue reached R\$174.7 million in 2014 from R\$218.6 million in 2013, representing a decrease of 20.1%, which was mainly impacted by the lower launch volumes in Gafisa and Tenda’s net revenue reduction from the delivery of Tenda legacy projects.

Operating costs

Operating costs in 2014 totaled R\$1.6 billion, a decrease of 14% as compared to R\$1.9 billion in 2013. Costs related to construction is the main component of operating cost, totaling R\$1.2 billion, equivalent to 76.3% of the original total cost base of projects. Operating costs, as a percentage of net operating revenue, decreased from 75.1% in 2013 to 74.8% in 2014, mainly due to better performance on construction projects.

Gross profit

Gross profit in 2014 totaled R\$541.7 million, representing a decrease of 12.3%, from R\$617.4 million in 2013. The improvement of gross margin resulted from the replacement of Gafisa and Tenda segment legacy projects by projects launched in core markets and under the new Tenda business model, which contain higher margins.

In 2014, the gross margin generated from our activities increased to 25.2% as compared to 24.9% in 2013. This increase was due to the recognition of higher margins from recent projects, which offset the recognition of lower margins in connection with prior year projects.

Selling expenses

Selling expenses in 2014 totaled R\$148.0 million, representing a decrease of 31.3% as compared to R\$215.6 million in 2013, mainly due to the effectiveness of the sales process through its own Tenda stores, allowing greater control and efficiency in this line, and due to a decrease in marketing expenses and a decrease in sales commissions expenses resulting from the lower volume of sales in 2014 under both Gafisa and Tenda brands. Selling expenses in 2014 represented 6.9% of our net operating revenue compared to 8.7% in 2013.

General and administrative expenses

Administrative expenses were R\$211.9 million in 2014, a 9.4% decrease over the R\$234.0 million recorded in 2013, reflecting our strategy of realigning costs to our current size and the phase of our business cycle. General expenses decreased to R\$13.1 million in 2014 from R\$17.3 million in 2013. This decrease is mainly due to a decrease in our payroll liability as a result of the reduction in the total number of employees.

Depreciation and amortization

Depreciation and amortization in 2014 was R\$79.3 million, an increase of R\$16.3 million when compared to the R\$63.0 million recorded in 2013, mainly due to the incorporation of a subsidiary, which generated a goodwill impairment of R\$14.5 million.

Financial income and expenses, net

Net financial expenses totaled R\$8.9 million in 2014, compared to net financial expenses of R\$162.5million in 2013. The difference is mainly due to an increase in financial revenues of 93.4% and to the the reduction of total debt during the period.

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Taxes on income

Income, social contribution and deferred taxes for 2014 amounted to R\$15.3 million, compared to R\$2.8 million in 2013.

The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. The Company assesses whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with respect to whether deferred tax assets will be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. Judgment is required in determining the future tax consequences of events that have been recognized in the Company’s consolidated financial statements and/or tax returns.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interests increased from a gain of R\$235 thousand in 2013 to a loss of R\$1.2 million in 2014, due to the overall negative financial results of our subsidiaries for the year ended December 31, 2014.

Net income attributable to owners of Gafisa

Net income attributable to owners of Gafisa decreased to a net loss of R\$42.5 million in 2014, compared to a net income of R\$867.4 million in 2013. This decrease is due to the decrease in income resulting from the discontinuation of our operations in Alphaville following the sale of our 70% interest in Alphaville in December 2013.

Results of Operations for the Years Ended December 31, 2013 and 2012

Net operating revenue

On a consolidated basis, net operating revenue for the full year 2013, recognized by the Percentage of Completion (“PoC”) method, was R\$2.5 billion, a 11.5% decline from R\$2.8 billion for the year ended December 31, 2012. During 2013, the Gafisa brand accounted for 67.1% of net operating revenue and Tenda the remaining 32.9%.

The gross revenue generated from the sale of property and barter transactions, net of the cancellation provision (reversal) totaled R\$2.7 billion for the year ended December 31, 2013, a decrease of R\$340 million or 11.2% compared with the same period in 2012 of R\$3.0 billion. The tax deductions from gross revenue reached R\$218.6 million in 2013, representing a decrease of 7.1% of R\$235.4 million, for the year ended December 31, 2012.

Operating costs

Operating costs in 2013 totaled R\$1.9 billion, a decrease of 18.1% as compared to R\$2.3 billion in 2012. Cost related to construction is the main component of operating cost (R\$1.4 billion, equivalent to 74.6% of the original total cost base of projects). Operating costs, as a percentage of net operating revenue, decreased from 81.2% in 2012 to 75.1% in 2013, mainly due to better performance on construction projects.

Gross profit

Gross profit in 2013 totaled R\$617.4 million, representing an increase of 16.9% as compared to R\$528.3 million in 2012, as a result from the replacement of Gafisa and Tenda segment legacy projects by projects launched in core markets and under the new Tenda business model, wich contain higher margins.

In 2013, the gross margin generated from our activities increased to 24.9% as compared to 18.8% in 2012. This increase was due to the recognition of higher margins from recent projects, wich offset the recognition of lower margins in connection with prior year projects.

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Selling expenses

Selling expenses in 2013 totaled R\$215.6 million, representing a decrease of 6.9% as compared to R\$231.7 million in 2012, mainly due to the effectiveness of the sales process through its own Tenda stores, allowing greater control and efficiency in this line. Selling expenses in 2013 represented 8.7% of our net operating revenue compared to 8.3% in 2012.

General and administrative expenses

Administrative expenses were R\$234.0 million in 2013, a 7.2% decrease over the R\$252.2 million recorded in 2012, reflecting our strategy of realigning costs to our current size and the phase of our business cycle. General expenses decreased to R\$17.3 million in 2013 from R\$29.1 million in 2012, related to services. This decrease is mainly related to nonrecurring fees mainly to auditing and consulting fees in 2012.

Depreciation and amortization

Depreciation and amortization in 2013 was R\$63.0 million, a decrease of R\$17.2 million when compared to the R\$80.2 million recorded in 2012, mainly due to lower sales stands depreciation. Depreciation of sales stands accounted for 0.03% of the expenses during the period.

Financial income and expenses, net

Net financial expenses totaled R\$162.5 million in 2013, compared to net financial expenses of R\$180.3 million in 2012. The difference is mainly due to an increase in financial revenues of 45.3% and to better cash position during the period.

Taxes on income

Income, social contribution and deferred taxes for 2013 amounted to R\$2.8 million, compared to R\$20.2 million in 2012.

The revaluation at fair value of the remaining interest in Alphaville resulted in the recording of deferred income tax liability attributable to the income from the revaluation totaling R\$127.8 million. Still, taking into consideration the result in 2013, the new future profitability and the Company's taxable income for years to come, a deferred income tax asset in the amount of R\$180.6 million was recorded in last quarter of 2013, which was offset by the deferred income tax liability, resulting in a net effect in the result of approximately R\$20.9 million.

The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are evaluated on a quarterly basis to determine if adjustments to the valuation allowance are required. The Company assesses whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard with respect to whether deferred tax assets will be realized. The ultimate realization of deferred tax assets depends primarily on the generation of future taxable income during the periods in which the differences become deductible. Judgment is required in determining the future tax consequences of events that have been recognized in the Company's consolidated financial statements and/or tax returns.

Net income for the year attributable to noncontrolling interest

Net income attributable to non-controlling interests decreased from R\$49.4 million in 2012 to R\$235 thousand in 2013, a decrease of 99.5% when compared to the previous year, as a result of the reclassification of Alphaville as asset held for sale during 2013.

Net loss for the year attributable to owners of Gafisa

Net income attributable to owners of Gafisa increased to a net income of R\$867.4 million in 2013, compared to a net loss of R\$127.0 million in 2012. This increase is due to the gain of R\$631.1 million recorded from the sale of 70% of our controlling interest in Alphaville.

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Business Segments

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 data derived from a combination of historical operating results and forecasted operating results, to assess segment information primarily on the basis of different business segments.

We provide below a measure of historical results, selected segment assets and other related information for each reporting segment. The information below is derived from our statutory accounting records which are maintained in accordance with Brazilian GAAP. No individual customer represented more than 10% of our net operating revenue.

	For Year Ended December 31, 2014		
	Gafisa	Tenda	Total
	(millions of reais except for percentages)		
Net operating revenue	1,580.9	570.1	2,150.8
Operating costs	(1,165.0)	(444.2)	(1,609.2)
Gross profit	415.9	125.9	541.6
Gross margin	26.3%	22.1%	25.2%
Net income (loss) from continuing operations	66.9	(109.4)	(42.5)

	For Year Ended December 31, 2013		
	Gafisa (1)	Tenda	Total
	(millions of reais except for percentages)		
Net operating revenue	1,663.7	817.5	2,481.2
Operating costs	(1,111.6)	(752.2)	(1,863.8)
Gross profit	552.2	65.2	617.4
Gross margin	33.2%	8.0%	24.9%
Net income (loss) from continuing operations	363.7	(127.1)	236.6
Net income from discontinued operations	588.6	42.5	631.1

(1) Includes all subsidiaries except Tenda.

	For Year Ended December 31, 2012 (2)				
	(-)				
	Gafisa (1)	Tenda	Alphaville (3)	Discontinued operation (3)	Total
	(millions of reais except for percentages)				
Net operating revenue	1,735.9	1,069.1	785.2	(785.2)	2,805.0
Operating costs	(1,338.1)	(938.7)	(377.1)	377.1	(2,276.8)
Gross profit (loss)	397.8	130.4	408.1	(408.1)	528.2
Gross margin	22.9%	12.2%	52.0%	—	18.8%
Net loss from continuing operations	(158.2)	(123.6)	—	—	(281.8)
Net income from discontinued operations	—	—	204.1	—	204.1

(1) Includes all subsidiaries, except Alphaville and Tenda.

- (2) With the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), starting from 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.
- (3) As explained in Note 8.2 to the Company's 2013 consolidated financial statements, the results of operations of Alphaville have been retrospectively presented as discontinued operations under Brazilian GAAP in the Company's 2013, 2012 and 2011 consolidated income statements given its disposal during 2013.

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Gafisa Segment

Years Ended December 31, 2014 and 2013

Net operating revenue

Net operating revenue for the Gafisa segment was R\$1,580.9 million in 2014 compared to the net operating revenue of R\$1,663.7 million in 2013, which represents a decrease of 5.0%. This decrease was primarily due to the lower volume of launches during 2014 (a decrease of 6% compared to 2013).

Operating costs

The costs of the sale and barter transactions in 2014 totaled R\$1.2 billion, an increase of 4.8% compared with the R\$1.1 billion reported in 2013. This increase was mainly due to the increase in construction costs in 2014.

Gross profit

The gross profit in 2014 was R\$415.9 million, representing an decrease of 24.7% compared with the R\$552.2 million reported in 2013. The gross margin in 2014 generated by our projects sales decreased to 26.3% compared to 33.2% in the same period of 2013. This decrease was primarily due to the lower volume of launches during 2014 and certain non-recurring events such as (i) the recording of a provision for impairment on landbank and properties for sale and (ii) adjustments in the five-year limited warranties we provide to cover structural defects.

Net income (loss) from continuing operations

Net income for the Gafisa segment was R\$66.9 million in 2014, compared to a net income of R\$369.8 million in 2013. The decrease in net income is primarily a result of the sale of the 70% interest in Alphaville in the amount of R\$375.8 million in December 2013. Net income (loss) from continuing operations as a percentage of net operating revenues was positive 4.2% in 2014 as compared to positive 21.8% in 2013.

Tenda Segment

Years Ended December 31, 2014 and 2013

Net operating revenue

Net operating revenue of sales and/or services during 2014 totaled R\$570.1 million, compared to R\$817.5 million in 2013, a decrease of 30.3%, when compared to the previous year. In 2014, Construtora Tenda S.A accounted for 26.5% of the consolidated net operating revenue. This decrease was mainly due to the decrease in the delivery of legacy projects in 2014, which was higher in 2013.

Operating costs

The costs of development and sale of property and barter transactions in 2014 totaled R\$444.2 million, compared to R\$752.2 million in 2013. This decrease was mainly due to Tenda's efficient control over the construction process and focus on the completion and the run-off of legacy projects. The final phase of Tenda legacy projects ended in 2014 with around 2,593 units to be delivered. In addition, Tenda recorded a reversal of the cancellation provision in the amount of R\$68.0 million.

Gross profit

Gross profit in 2014 was R\$125.9 million, compared to gross profit in 2013 of R\$65.2 million. In 2014, gross margins increased from 8.0% in 2013 to 22.1% in 2014.

Net income (loss) from continuing operations

Net loss for Tenda segment was R\$109.4 million in 2014, compared to a net loss of R\$127.1 million in 2013. This decrease of net loss in 2014 when compared to 2013 is a result of Tenda's better performance reflecting its new strategy of Tenda launches under a new business model, based on three basic pillars: operating efficiency, risk management and capital discipline. Currently, the Company operates in 5 macro regions: São Paulo, Rio de Janeiro, Minas Gerais, Northeast (Bahia and Pernambuco) and South (Rio Grande do Sul).

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Gafisa Segment

Years Ended December 31, 2013 and 2012

Net operating revenue

Net operating revenue for the Gafisa segment was R\$1.6 billion in 2013 compared to the net operating revenue of R\$1.7 billion in 2012, which represents a decrease of 4.2%. This decrease was primarily due to lower volume of launches during 2013 (a decrease of 32.5% compared to 2012).

Operating costs

The costs of the sale and barter transactions in 2013 totaled R\$1.1 billion, a decrease of 16.9% compared with the R\$1.3 billion reported in 2012. This decrease was mainly due to efficient control over the construction process.

Gross profit

The gross profit in 2013 was R\$552.2 million, representing an increase of 38.8% compared with the R\$397.8 million reported in 2012. The gross profit in 2013 generated by our projects sales increased to 33.2% compared to 22.9% in the same period of 2012. This increase was due to the focus and performance of the Company in strategic markets.

Net (loss) from continuing operations

Net income for the Gafisa segment was R\$363.7 million in 2013, compared to a net loss of R\$158.2 million in 2012. The increase in net income is a result of conclusion of legacy projects, concentration in São Paulo and Rio de Janeiro and the recognition of the addition related to the revaluation of the portion of the remaining investment of 30% with the sale of and cease of control over Alphaville in the amount of R\$375.8 million. Net income (loss) from continuing operations as a percentage of net operating revenues was positive 21.8% in 2013 as compared to negative 9.1% in 2012.

Tenda Segment

Years Ended December 31, 2013 and 2012

Net operating revenue

Net operating revenue of sales/or services during 2013 totaled R\$817.5 million, compared to R\$1,069.1 million in 2012, a decrease of 23.5%, when compared to the previous year. In 2013, Construtora Tenda S.A accounted for 32.9% of the consolidated net operating revenue. The main reason for the decrease was the reduction of revenue recognition from sales contracted in prior years due to the delivery of projects and thus lower volume of construction developments in 2013.

Operating costs

The costs of development and sale of property and barter transactions in 2013 totaled R\$752.2 million, compared to R\$938.7 million in 2012. This decrease was mainly due to Tenda's efficient control over the construction process and focus on the completion and delivery of its remaining projects. The run-off of legacy projects is on schedule and we expect it to be substantially concluded in 2014. The final phase of Tenda legacy projects ended 2013 with around 7,000 units to be delivered. In addition, Tenda recorded a reversal of the cancellation provision in the amount of

R\$73.2 million.

Gross profit (loss)

Gross profit in 2013 was R\$65.2 million, compared to gross profit in 2012 of R\$130.4 million. In 2013, gross margins fell from 12.2% in 2012 to 8.0% in 2013.

Net income (loss)

Net loss for Tenda segment was R\$127.2 million or -53.7% of our total net income from continuing operations in 2013, compared to a net loss of R\$123.6 million or 43.9% of total net loss from continuing operations for 2012. This decrease of net loss in 2013 when compared to 2012 is a result of Tenda's better performance reflecting its new strategy of Tenda launches under a new business model, based on three basic pillars: operating efficiency, risk management and capital discipline. Currently, the Company continues to operate in 4 macro regions: São Paulo, Rio de Janeiro, Minas Gerais and Northeast (Bahia and Pernambuco).

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B. Liquidity and Capital Resources

Our transactions are financed mainly through the contracting of real estate financing and securitization of receivables. When necessary and in accordance with market demands, we carry out long-term financing for the sale of our developments. In order to turn over our capital and accelerate its return, we try to transfer to banks and sell to the market the receivables portfolio of our units.

In 2014, we carried out the following receivables sales:

On November 25, 2014, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivable from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$15.2 million in exchange for cash at the transfer date, discounted to present value, for R\$12.4 million.

In 2013, we carried out the following receivables sales with recourse:

On May 28, 2013 after selling all the subordinated series of Gafisa FIDC, the remaining receivable portfolio of the initial sales, was transferred to investors and the Company was still required to grant the guarantee to its holders.

On November 29, 2013, a selected portfolio of sales receivables from us and our subsidiaries was transferred to investors. The assigned portfolio amounts to R\$23.8 million in exchange of cash at the transfer data, discounted to present value, by R\$18.9 million.

In 2012, we carried out the following receivables sales:

On May 9, 2012, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivable from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$64.9 million in exchange for cash at the transfer date, discounted to present value, by R\$45.2 million.

On July 6, 2012, Gafisa and its subsidiaries enter into a CCI transaction relating to a portfolio comprising select residential real estate receivable from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$18.2 million in exchange for cash at the transfer date, discounted to present value, for R\$11.5 million.

On November 24, 2012, Alphaville entered into a CCI transaction related to a portfolio comprising selected select residential real estate receivables from Alphaville and its subsidiaries. The assigned gross portfolio of receivables amounts to R\$134.6 million in cash exchange as of the date of transfer, discounted to its present value for R\$110.7 million.

On December 27, 2012, Gafisa and its subsidiaries enter into a CCI transaction relating to a portfolio comprising select residential real estate receivable from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$72.0 million in exchange for cash at the transfer date, discounted to present value, by R\$61.6 million.

Construction financing lines of credit are available and we have fulfilled substantially all of our construction financing needs for 2014 and 2013 at consolidated rates similar to the CDI rate. In order to mitigate the effects of the 2008 global credit crisis, the Brazilian government has announced additional lines of credit to assist the construction industry and its customers, including R\$6 billion from the FGTS (a Government Severance Indemnity Fund for Employees). In 2009 we approved the issue of two series of debentures for Gafisa and Tenda in the total amount of R\$1.2 billion. In addition, local financial institutions are financing up to 80% of construction costs, through the Brazilian Saving and Loan System (Sistema Brasileiro de Poupança e Empréstimo — SBPE) indexed to TR (Taxa Referencial) and a fixed rate spread.

During 2014, our customers' ability to obtain bank mortgage loans continued to improve, with interest rates in the range of 6%+TR (affordable entry level) to 10%+TR, depending on family income and credit score. Delinquency rates among our customers did not have significant changes from 2013 to 2014.

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The following table shows the balance of our receivables from clients for the development and sale of properties for the periods presented:

	As of December 31,		
	2014	2013	2012 (1)
	(in millions of reais)		
Real estate development receivables:			
Current	1,440.5	1,909.9	2,493.2
Long-term	384.8	313.8	820.8
Total	1,825.3	2,223.7	3,314.0
Receivables to be recognized on our balance sheet according to percentage of completion method:			
Current	—	—	—
Long-term	1,064.0	1,863.4	3,815.6
Total	1,064.0	1,863.4	3,815.6
Total receivables from clients	2,889.3	4,087.1	7,130.0

(1) With the adoption of CPCs 19 (R2) (or IFRS 11) and 36 (R3) (or IFRS 10), starting from 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.

The total balance of receivables to be recognized on the balance sheet has the following maturity profile:

	As of December 31, 2014 (in millions reais)
Maturity	
2015	1,440.5
2016	706.8
2017	422.4
2018	71.4
2019 onwards	248.2
Total	2,889.30

Loans made to our clients are generally adjusted on a monthly basis as follows: (1) during construction, by the INCC in São Paulo, Rio de Janeiro and other Brazilian cities; and (2) after delivery set forth in the contract, by the IGP-M plus 12% per annum in all markets.

We limit our exposure to credit risk by selling to a broad customer base and by continuously analyzing the credit of our clients. As of February 28, 2015, our clients' default level was 6.19% of our accounts receivable for Gafisa and 7.43% for Tenda. We review annually our assumptions to set up an allowance for doubtful accounts and cancelled contracts, in view of the review of the histories of our current operations and improvement of estimates. The Company records an allowance for doubtful accounts and cancelled contracts for customer whose installments are over 90 past

due. This allowance is calculated based on the percentage of the construction work completion, a methodology adopted for recognizing income for the year. The allowance for doubtful accounts and cancelled contracts totaled R\$57.6 million as of December 31, 2014 and is considered sufficient by our management to cover expected future losses on the realization of accounts receivable.

Cash Flows

Operating activities

Net cash generated from operating activities totaled R\$41.9 million in 2014 compared to R\$297.6 million in 2013. The R\$41.9 million was primarily composed of: (1) a decrease in expenses (income) not affecting working capital, totaling R\$305.0 million in 2014; (2) an increase in properties for sale of R\$462.4 million attributable to landbank and construction; (3) a decrease in trade accounts receivable of R\$391.6 million; and (4) other less significant increases and decreases in other operating categories.

Net cash generated from operating activities totaled R\$297.6 million in 2013 compared to R\$644.3 million in 2012. The R\$297.6 million was primarily composed of: (1) a decrease in expenses (income) not affecting working capital, totaling R\$173.4 million in 2013; (2) a decrease in properties for sale of R\$530.6 million attributable to landbank and construction; (3) an increase in other accounts payable of R\$450.3 million; and (4) other less significant increases and decreases in other operating categories.

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Investing activities

Net cash generated in investing activities, including the acquisition of property, equipment and new investments, was R\$752.0 million in 2014 compared to a net cash used in investing activities of R\$53.5 million in 2013. Our cash used in 2014 was mainly related to investments in property and equipment in the amount of R\$88.5 million, and investments in marketable securities, restricted securities and loans in the amount of R\$761.6 million.

Net cash used in investing activities, including the acquisition of property, equipment and new investments, was R\$53.5 million in 2013 compared to a net cash used in investing activities of R\$288.0 million in 2012. Our cash used in 2013 was mainly related to investments in property and equipment in the amount of R\$81.0 million, and investments in marketable securities, restricted securities and loans in the amount of R\$993.0 million. In addition, we acquired a 20% interest in Alphaville in the amount of R\$366.7 million and the R\$1,254.5 million for the sale of 70% interest of Alphaville.

Financing activities

Net cash used from financing activities in 2014 totaled R\$899.1 million, compared to the net cash generated from financing activities in 2013 of R\$568.1 million. The cash used in 2014 was mainly attributable to: repayment of loans and financing, net of the increase of new contracts, totaling R\$541.7 million, payment of dividends and interest on equity in the amount of R\$150.0 million and the purchase of treasury shares totaling R\$115.3 million.

Net cash used from financing activities in 2013 totaled R\$568.1 million, an increase of 351%, compared to the net cash generated from financing activities in 2012 of R\$162.0 million. The cash used in 2013 was mainly attributable to: repayment of loans and financing, net of the increase of new contracts, totaling R\$351.4 million, and the purchase of treasury shares totaling R\$71.3 million. The cash generated in 2012 was mainly attributable to: (1) increase of loans and financing other debt totaling R\$ 1,110.8 million, which was partially offset by amortizations of loans and interests in the amount of R\$1,016.8 million, (2) capital increase in the amount R\$1.6 million, and (3) cash inflow due to the CCI transaction in the amount of R\$229.1 million.

Pledged mortgage receivables and short-term investments

As of December 31, 2014, substantially all of our mortgage receivables totaling R\$2,564.6 million are pledged. In addition, R\$248.3 million of our short-term investments and collaterals are restricted as they have been pledged.

Capital Expenditures

In 2014, we invested R\$88.5 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and office facilities in São Paulo. Our main investments during the period were the construction of sales stands, which totaled R\$19.3 million, investments in information technology equipment and software, which totaled R\$17.6 million, in third party leasehold improvements and facilities, which totaled R\$6.7 million.

In 2013, we invested R\$81.0 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and office facilities in São Paulo. Our main investments during the period were the construction of sales stands, which totaled R\$9.9 million, investments in information technology equipment and software, which totaled R\$43.9 million, and third party leasehold improvements and facilities, which totaled R\$12.2 million.

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

Indebtedness

When we consider appropriate, we have incurred indebtedness within SFH, which offers lower interest rates than the private market. When our customers obtain a mortgage, we use the proceeds to redeem our SFH indebtedness. We intend to continue our strategy of maintaining low levels of debt comprised mainly of transactions within SFH or long-term transactions.

As of December 31, 2014, we had outstanding debt in the total amount of R\$2,598 million, a decrease of 15.5% as compared to December 31, 2013. Our indebtedness principally consists of: (1) debentures totaling R\$1,189 million, (2) working capital loans in the total amount of R\$269 million and (3) other loans (mainly SFH) in the total amount of R\$1,129 million. In addition, we had outstanding payables to venture partners in the amount of R\$11 million.

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As of December 31, 2013, we had outstanding debt in the total amount of R\$3,060 million, a decrease of 15.9% as compared to December 31, 2012. Our indebtedness principally consists of: (1) debentures totaling R\$1,421.2 million, (2) working capital loans in the total amount of R\$550.1 million and (3) other loans (mainly SFH) in the total amount of R\$1,088.3 million. In addition, we had outstanding payables to venture partners in the amount of R\$124 million.

As of December 31, 2012, we had outstanding debt in the total amount of R\$3,640.4 million, an increase of 5.9% as compared to December 31, 2011. Our indebtedness principally consists of: (1) debentures totaling R\$1,735.9 million, (2) working capital loans in the total amount of R\$1,199.7 million and (3) other loans (mainly SFH) in the total amount of R\$704.8 million. In addition, we had outstanding payables to venture partners in the amount of R\$323.7 million.

	Total	Maturity			2018 and thereafter
		2015	2016	2017	
		(in millions of reais)			
Debentures (Project Finance)	892	343	350	199	0
Debentures (Working Capital)	297	162	26	45	64
Other Working Capital	269	151	97	20	0
Housing Finance System (SFH)	1,129	399	409	232	88
Payables to venture partners	11	0.2	6	4	1
Total	2,598	1,055	887	501	154

Payables to venture partners refer to contributions received from venture partners of R\$45.0 million in 2011, which will be fully redeemed by us until 2017.

On June 27, 2011, eight certificates of bank credit (CCBs) were issued in the Company, totaling R\$65.0 million. CCBs are guaranteed by 30,485,608 shares issued by Gafisa SPE-89 Empreendimentos Imobiliários S.A. Funds from the aforementioned CCBs were allocated to develop residential projects.

As part of the funding through issuance of Certificates of Bank Credit– CCB, the Company entered into a paid usufruct agreement in connection with 100% of the preferred shares in SPE-89 Empreendimentos Imobiliários S.A for a period of six years, having raised R\$45.0 million recorded based on the effective interest method of amortization in the consolidated income statement.

On May 9, 2013, we issued a Certificate of Bank Credit (CCB) in a total amount of R\$217 million due in 2017. The CCB is guaranteed by pledge of to be performed units of selected ventures and real estate receivables. This issuance was fully redeemed by October 7, 2013.

On October 7, 2013, the Company entered into a loan agreement in a total amount of R\$300 million due in July 2017. This agreement was guaranteed by a pledge of to be performed units of selected ventures and real estate receivables.

On September 29, 2014 the Company entered into a loan agreement of R\$194 million due in October 2018. This agreement was guaranteed by a pledge of to be performed units of selected ventures and real estate receivables.

Debenture program

On May 16, 2008, the CVM approved our third debenture program under which we can issue up to R\$1.0 billion in non-convertible debentures. The first issuance under the third debenture program consisted of 25,000 nominal,

non-convertible debentures with a face value of R\$10,000, which were issued in two series totaling R\$250.0 million. The debentures provide for the payment of annual interest corresponding to 107.2% of the CDI rate, which, on March, was renegotiated to 120.0% of the CDI rate, calculated from the subscription date, with a maturity of 5 years. On December 31, 2013, the issuance was bought back in accordance with its instruments and canceled afterwards. The issuance had certain covenants which would restrict Company's ability to take certain actions, including incurring additional debt, and may require us to repay or refinance our indebtedness if we are unable to meet certain ratios. The ratios, its parameters and our performance are no longer applicable for the Company.

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In April 2009, Tenda's first debenture program was approved, under which we issued R\$600.0 million in non-convertible debentures. The debentures provide for payment of annual interest at a rate of 8.0% + TR per annum, calculated from the subscription date, with a maturity of five years. Proceeds from the issuance of the debentures will be used solely to finance real estate ventures focused exclusively on the affordable entry-level segment that meet certain eligibility criteria. Guarantees are comprised of assignments of receivables and bank accounts.

Additionally, certain covenants contained in the agreement governing Tenda's debenture program restrict its ability to take certain actions, including incurring additional debt, and may require Tenda to repay or refinance the debenture if it is unable to meet certain financial ratios. The ratios, its parameters and our performance against them are summarized below.

In August 2009, the CVM approved our sixth issuance, which consisted of non-convertible simple debentures in two series, secured by a general guarantee, maturing in four years and unit face value at the issuance date of R\$10,000, totaling R\$250 million. The debentures provide for the payment of annual interest corresponding to the CDI rate plus 2.00 to 3.25% per annum, calculated from the subscription date. Under the sixth issuance, we are obligated to acquire all outstanding debentures upon the request of debenture holders whenever we raise money through the issuance of non-debt securities in excess of R\$500.0 million. We also have the right to repurchase the debentures in the occurrence of a liquidity event. In October 2010, the Company carried out the early redemption of the first series of this placement in the amount of R\$150.0 million. On June 2, 2014, the Company redeemed all outstanding debentures under the sixth issuance in the amount of R\$100.0 million.

In November 2009, the CVM approved our seventh issuance under which we received R\$600 million in non-convertible debentures. The debentures provide for payment of annual interest at a rate of 8.25% to 10.25% plus TR per annum, calculated from the subscription date, with a maturity of five years. Proceeds from the issuance of the debentures will be used solely to finance real estate ventures.

In September 2010, the CVM approved our eighth issuance which consisted of non-convertible debentures in two series maturing in five and six years, respectively the first and the second series, with a unit face value at the issuance date of R\$1,000, for an aggregate of R\$300 million. The debentures provide for the payment of annual interest corresponding to the CDI rate plus 1.95% in the first series and IPCA plus 7.96% in the second series, calculated from the subscription date.

In July 2014, the CVM approved the private placement of our ninth issuance which consisted of non-convertible debentures in a single series maturing in July 2018. The debentures provide for the payment of semi annual interest corresponding to the CDI rate plus 1.90%. The issuance is guaranteed by real estate receivables and a pledge of units of selected real estate ventures. Proceeds from the issuance will be used solely to finance such selected real estate ventures. The debentures holders assigned their fiduciary rights in the real estate receivables in favor of a real estate securitization SPE, which issued CRIs backed by such real estate receivables.

We have various covenants relating to our debentures issuances described above. These mainly consist of (i) cross default provisions, whereby outstanding indebtedness will become immediately due and payable in the event that the Company or its subsidiaries do not comply with their obligations under any other credit facility for a value in excess of the amounts set forth therein; (ii) restrictions on transfer of control and merger and acquisition transactions; (iii) limitations on our ability to incur debt; (iv) limitations on creating liens on assets; (v) limitations on the distribution of dividends if we are under default and (vi) the following ratios and limits to be calculated on a quarterly basis. The table below sets forth these ratios and limits as amended.

The actual ratios and minimum and maximum amounts stipulated by these restrictive covenants at December 31, 2014 are as follows:

At December 31, 2014

Seventh placement

Total account receivable plus inventory required to be below zero or 2.0 times over net debt less venture debt (3)	9.33 times
Total debt less venture debt (3), less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interests	(19.3)%
Total account receivable plus unappropriated income plus total inventory of finished units required to be 1.5 time over the net debt plus payable for purchase of properties plus unappropriated cost	2.10 times

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Eighth placement — first and second series, second issuance of Promissory Notes, first and second series

Total accounts receivable plus inventory of finished units required to be below zero or 2.0 times over net debt less venture debt	(5.32) times
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Total debt less venture debt, less cash and cash equivalents and short—term investments (1), cannot exceed 75% of equity plus non-controlling interests	(19.3)%
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Ninth placement

Total accounts receivable plus total inventory required to be below zero or greater than 2.0 times over net debt	3.86 times
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Net debt cannot exceed 100% of equity plus non-controlling interests	46.7%
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First placement – Tenda

Total accounts receivable plus inventory required to be equal to or 2.0 times over net debt less debt with secured guarantee (3) or below zero, considering that TR(2) plus TE(4) is always above zero	(2.75) times
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Net debt less debt with secured guarantee (3) shall not be in excess of 50% of equity	(46.7)%
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Total account receivable plus unappropriated income plus total inventory of finished units required to be 1.5 times the net debt plus payable for purchase of properties plus unappropriated cost	2.89 times
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(1) Cash and cash equivalents and short-term investments refer to cash and cash equivalents and marketable securities.

(2) Total receivables, whenever mentioned, refers to the amount reflected in the Balance Sheet plus the amount to be recognized according to the PoC and not yet shown in the Balance Sheet

(3) Venture debt and general guarantee debt refer to SFH debts, defined as the sum of all disbursed borrowing contracts which funds were provided by SFH, as well as the debt related to the seventh placement.

(4) Total inventory.

We expect to comply with the covenants in the agreements governing our outstanding indebtedness which may limit our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See “Item 3. Key Information—D. Risk Factors—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.”

On December 31, 2014, the Company was in compliance with all of its covenants.

Financing through the Housing Finance System (SFH)

Most of our financing is incurred directly or through our subsidiaries or jointly-controlled entities from the principal banks that operate within SFH. As of December 31, 2014, the interest rates on these loans generally varied between 8.3% and 11.0% per annum, plus TR, and the loans generally mature through January 2015 and December 2018. This financing is secured by mortgages on property and by security interests on the receivables from clients. As of December 31, 2014, we had 62 loan agreements in effect, with a balance of R\$1,129 million. At the same date we also had R\$665 million in aggregate principal amount of financing agreements with SFH, the funds of which will be released through the date of completion as construction of the corresponding development’s progress.

Securitization deals and Fund — FIDC

On March 31, 2009, we entered into a securitized receivables transaction, whereby we assigned a portfolio of select residential and commercial real estate receivables to “Gafisa FIDC” which issued senior and subordinated quotas. This first issuance of senior quotas was made through an offering restricted to qualified investors. Subordinated quotas were subscribed exclusively by Gafisa S.A. Gafisa FIDC acquired the present value of the portfolio based on an agreed discount rate. We provide Gafisa FIDC with administrative and accounting services including the reconciliation and analysis of receivables and collections and can be replaced by another collection agent in the event of non-fulfillment with contractual parameters. The senior and subordinated quotas are remunerated based on the IGP-M index plus interest of 12% per year. Because the subordinated quotas have a disproportional percentage of the expected losses, Gafisa FIDC was considered a variable interest entity and was fully consolidated in our financial statements as of December 31, 2012, 2011 and 2010. On May 28, 2013, the Company entered into an agreement to sell the subordinated quotas to seniors investors in exchange for R\$5 million in cash and R\$3 million of real estate receivables. The Company remained obligated to fully register the real estate pledge to investors.

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In June 2009, we issued debt securities backed by real estate sales receivables (Cédula de Crédito Imobiliário), or CCI. The transaction consists of an assignment of a portfolio comprised of select residential real estate receivables from Gafisa and its subsidiaries. We assigned a receivables portfolio in the amount of R\$89.1 million in exchange for cash at the transfer date, discounted to present value, totaling R\$69.3 million, recorded as “Other accounts payable—Credit Assignments”. Eight book CCIs were issued in this transaction, which are backed by receivables which installments fall due on and up to June 2014.

On June 27, 2011, the Company and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$203.9 million (R\$185.2 million – Gafisa’s interest) in exchange for cash, at the transfer date, discounted to present value, for R\$171.7 million (R\$155.9 million – Gafisa’s interest), recorded under “Obligations assumed on assignment of receivables”.

On September 29, 2011, the Company and its subsidiaries entered into a Private Instrument for Assignment of Real Estate Receivables and Other Covenants which consist of an assignment of a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The amount of real estate receivables assignment paid by the Assignee amounts to R\$238.4 million (R\$221.4 million - Gafisa’s interest). The assignment amount will be settled by the Assignee by offsetting the Housing Financial System (SFH) debt balance of the own bank. On July 6, 2012, the remaining balance was settled by issuance of Bank Deposit Certificate (CDB) guaranteed in favor of the Company.

On December 22, 2011, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$72.4 million in exchange for cash at the transfer date, discounted to present value, by R\$60.1 million, classified as “Obligations with assignment of receivables”.

On May 9, 2012, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$64.9 million in exchange for cash at the transfer date, discounted to present value, by R\$45.2 million.

On July 6, 2012, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$18.2 million in exchange for cash at the transfer date, discounted to present value, for R\$11.5 million.

On December 27, 2012, Gafisa and its subsidiaries enter into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R\$72.0 million in exchange for cash at the transfer date, discounted to present value, by R\$61.6 million.

On November 29, 2013, a selected portfolio of sales receivables from Gafisa and its subsidiary was transferred to investors. The assigned portfolio amounts to R\$23.8 million in exchange of cash at the transfer date, discounted to present value, by R\$18.9 million.

On November 25, 2014, a selected portfolio of sales receivables from Gafisa and its subsidiary was transferred to investors. The assigned portfolio amounts to R\$15.2 million in exchange of cash at the transfer date, discounted to present value, by R\$12.4 million.

Pursuant to Article 125 of the Brazilian Civil Code, the CCI-Investor carries general guarantees represented by statutory liens on real estate units, effective as soon as the conditional restrictions included in the registration are lifted, as reflected in the real estate deed on (i) the assignment of receivables from the assignors to SPEs, as provided for in Article 167, item II, (21) of Law No. 6,015, of December 31, 1973; and (ii) the issue of CCI-Investor by SPEs,

as provided for in Article 18, paragraph 5 of Law No. 10,931/04.

We will be compensated for, among other things, the reconciliation of the receipt of receivables, guarantee the CCIs, and the collection of past due receivables. The transaction structure provides for the substitution of us as collection agent in the event of non-fulfillment of the responsibilities described in the collection service contract.

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Working Capital

We believe that our current working capital is sufficient for our present requirements and that our sources of funds from financing activities are sufficient to meet the financing of our activities and cover our need for funds for at least the next twelve months.

U.S. GAAP Reconciliation

We prepare our consolidated financial statements in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Our net income attributable to owners of Gafisa, in accordance with Brazilian GAAP, was a net loss of R\$42.5 million, a net income of R\$867.4 million and a net loss of R\$127.0 million in 2014, 2013 and 2012, respectively. Under U.S. GAAP, our net income was R\$42.3 million, our net income was R\$1,322.5 million and our net loss was R\$121.2 million in 2014, 2013 and 2012, respectively.

Our equity, in accordance with Brazilian GAAP, was R\$3,058.4 million, R\$3,214.5 million and R\$2,685.2 million, as of December 31, 2014, 2013 and 2012, respectively. Under U.S. GAAP, we recorded total equity of R\$2,750.9 million, R\$2,822.2 million and R\$1,672.5 million as of December 31, 2014, 2013 and 2012, respectively.

The following items generated the most significant differences between Brazilian GAAP and U.S. GAAP in determining net income and shareholders' equity:

- revenue recognition;
- business combinations;
- temporary equity;
- effects of deferred taxes on the differences above; and
- non-controlling interest.

For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements and a reconciliation of net income and equity see Note 33 to our consolidated financial statements included elsewhere in this annual report and "Item 3.A. Key Information—Selected Financial Data."

New Accounting Pronouncements, Interpretations and Guidance

Pronouncements (new or revised) and interpretation applicable to years beginning January 1, 2014

The pronouncements (new or revised) and the interpretation listed below, issued by CPC and approved by CVM, are mandatory for the years beginning January 1, 2014 or later. They are the following:

- OCPC 07 – Providing Evidence in the Disclosure of General Purpose Financial and Accounting Reports – CVM Resolution 727 of November 11, 2014. This standard aims at addressing the basic requirements for preparing and providing evidence to be observed when disclosing general purpose financial and accounting reports. It specifically addresses the provision of evidence about information of annual and interim financial and accounting statements, particularly those contained in the accompanying notes. The standard establishes that the evidenced information shall be information relevant to external users and comprised of information that could influence investors' and creditors' decisionmaking process. Consequently, the non-relevant ones shall not be disclosed.

- ICPC 09 (R2) – Individual, Separate and Consolidated Financial Statements and the Equity Method of Accounting – CVM Resolution 729 of November 27, 2014. The objective of the ICPC 09 revision is substantially derived from the issue of the technical pronouncements CPC 18 (R2), CPC 19 (R2) and CPC 36 (R3), in view of the changes made by the IASB in international accounting standards IAS 28, IFRS 10 and IFRS 11. Other items were also revised and aimed at adjusting the text to current needs and converging them to international standards.
- ICPC 19 – Levies – CVM Resolution 730 of November 27, 2014. This interpretation is correlated with the IFRIC Interpretation 21 – Levies, issued by the IASB. The interpretation provides for the accounting for a liability for a levy, if the liability is in the scope of the Technical Pronouncement CPC 25, and also deals with the accounting for the liability for levy which timing and amount are not certain.

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- The amendment to CPC 01/IAS 36 – Impairment of Assets addresses the disclosure of the recoverable amount of non-financial assets. This amendment eliminates certain disclosures of the recoverable amount of cash generating units that had been included in the IAS 36 with the issue of the IFRS 13.
- The amendment to CPC 39/IAS 32 – Financial Instruments: Presentation, addresses the offsetting of financial assets and liabilities. This amendment clarifies that the right to offset shall not be contingent on a future event. It also shall be legally applicable to all counterparties in the normal course of business, as well as in the case of default, insolvency or bankruptcy. The amendment also considers liquidation mechanisms.
- The revision of Technical Pronouncement 7 – Equity Method in Separate Financial Statements, amends the wording of the CPC 35 – Separate Financial Statements to incorporate the modifications made by the IASB to IAS 27 - Separate Financial Statements, which now permits the adoption of the equity method for subsidiaries in the separate financial statements, thus aligning the accounting practices adopted in Brazil with the international accounting standards. Especially for the IFRS purposes, the modifications to IAS 27 were early adopted.

The Company adopted all of the pronouncements (new or revised) and interpretations issued by the CPC applicable to its operations which were effective as of December 31, 2014.

There are no other standards or interpretations that were issued and not yet adopted that could, in the opinion of our management, have a significant impact on the profit, loss or equity disclosed by the Company.

In order to be comparable, the corresponding balances as of December 31, 2012, the opening balance as of January 1, 2012, the opening equity as of January 1, 2011 and statement of operations as of December 31, 2012 and 2011 were adjusted considering the changes introduced by CPC 23 – Accounting Practices, Changes in Accounting Estimates and Errors (“CPC 23”). As required by CPC 23, the retrospective effects of the adoption of CPCs 18(R2), 19 (R2) and 36 (R3) are as follows:

	Balances reported in December 31, 2012	Impact of the adoption of CPC 19 (R2) and CPC 36 (R3)	2012 balances, after the adoption of CPC 19 (R2) and CPC 36 (R3)
	(in thousands of reais)		
Balance sheet			
Current assets	7,218,690	(812,650)	6,406,040
Non-current assets	1,575,371	(191,886)	1,383,485
Investments	-	646,812	646,812
Property and equipment and intangible assets	276,933	(701)	276,232
Total assets	9,070,994	(358,425)	8,712,569
Current liabilities	2,879,590	(238,306)	2,641,284
Non-current liabilities	3,499,037	(113,581)	3,385,456
Total liabilities	6,378,627	(351,887)	6,026,740
Equity	2,692,367	(6,538)	2,685,829
Total liabilities and equity	9,070,994	(358,425)	8,712,569

	Balances reported in year ended December 31, 2012	Impact of the adoption of CPC 19 (R2) and CPC 36 (R3)	Impact of the adoption of CPC 31	2012 balances, after the adoption of CPC 19 (R2) and CPC 36 (R3)
		(in thousands of reais)		
Statement of operations				
Net operating revenue	3,953,282	(363,014)	(785,182)	2,805,086
Operating costs	(2,941,025)	287,150	377,071	(2,276,804)
Operating (expenses) / income	(840,452)	13,535	161,710	(665,207)
Equity pick-up	—	63,335	(7,732)	55,603
Financial income	(206,940)	(8,911)	35,588	(180,263)
Income and social contribution taxes	(41,228)	6,589	14,417	(20,222)
Non-controlling interests	(48,141)	(1,223)	—	(49,364)
Income from discontinued operation.	—	—	204,128	204,128
Net loss for the year	(124,504)	(2,539)	—	(127,043)
Cash flow				
Operating activities	650,945	(6,627)	—	644,288
Financing activities	161,488	592	—	162,080
Investing activities	(322,894)	34,934	—	(287,960)
Summary statement of value added information				
Net value added produced by the Company	1,020,761	(227,655)	—	793,106
Value added received on transfer	80,629	30,793	—	111,422
Value added to be distributed	1,101,390	(196,862)	—	904,528

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	Balances originally reported in year ended December 31, 2011	Impact of the adoption of CPC 18(R2), 19(R2) and 36(R3)	Impact of the adoption of CPC 18(R2), 19(R2) and 36(R3)	Restated balances, after the adoption of CPC 18(R2), 19(R2) and 36(R3) as of 01/01/2012
Summary balance sheet information				
(in thousands of reais)				
Current assets	7,314,358	(790,798)		6,523,560
Non-current assets	1,909,989	(177,932)		1,732,057
Investments	—	629,323		629,323
Property and equipment and intangible assets	282,277	(2,434)		279,843
Total assets	9,506,624	(341,841)		9,164,783
Current liabilities	4,815,939	(140,690)		4,675,249
Non-current liabilities	1,943,591	(197,633)		1,745,958
Total liabilities	6,759,530	(338,323)		6,421,207
Equity	2,747,094	(3,518)		2,743,576
Total liabilities and equity	9,506,624	(341,841)		9,164,783
	Balances originally reported in year ended December 31, 2011	Impact of the adoption of CPC 18(R2), 19(R2) and 36(R3)	Impact of the adoption of CPC 31	Restated balances, after the adoption of CPC 18(R2), 19(R2) and 36(R3)
(in thousands of reais)				
Summary income statement information				
Net operating revenue	2,940,506	(487,893)	(605,711)	1,846,902
Operating costs	(2,678,338)	426,430	324,034	(1,927,874)
Operating (expenses) / income	(865,092)	16,438	110,289	(738,365)
Income from equity method investments	—	53,102	(33,969)	19,133
Financial income (expenses)	(159,903)	(24,195)	17,370	(166,728)
Income tax and social contribution	(142,362)	16,284	20,228	(105,850)
Non-controlling interests	39,679	166	—	39,845
Net income from discontinued operation	—	—	167,759	167,759
Net loss for the year	(944,868)	—	—	(944,868)
Summary statement of cash flow information				
Operating activities	(808,711)	18,566	—	(790,145)
Financing activities	696,848	(61,896)	—	634,952
Investing activities	(6,921)	(24,720)	—	(31,641)
Summary statement of value added information				
Net value added produced by the Company	175,261	(215,469)	—	(40,208)

Value added received on transfer	92,973	(4,282)	—	88,691
Value added to be distributed	268,234	(219,751)	—	48,483
				Restated balances, after the adoption of
	Balances originally reported in year ended December 31, 2010	Impact of the adoption of CPC 18(R2), 19(R2) and 36(R3)		CPC 18(R2), 19(R2) and 36(R3) as of 01/01/2011
Summary equity information	(in thousands of reais)			
Equity	3,570,750	(6,520)		3,564,230
Non-controlling interests	61,422	7,574		68,996
Total equity	3,632,172	1,054		3,633,226

On May 28, 2014, the IASB published IFRS 15, which establishes principles that will apply to the recognition of revenue under IFRS and U.S. GAAP. IFRS 15 will require entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. When adopted, IFRS 15 will supersede most of the detailed guidance on the recognition of revenue that currently applies under IFRS and U.S. GAAP. IFRS 15 will be effective for annual periods beginning on or after January 1, 2017, and earlier application of IFRS 15 will be permitted for IFRS purposes. In Brazil, earlier application of IFRS 15 will be subject to the implementation of IFRS 15 in Brazil and the prior approval of the CPC and the CVM.

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In July 2014, the IASB published IFRS 9, which establishes, among other principles, principles that will apply to the classification, measurement and recognition of financial assets and liabilities. IFRS 9 will replace (i) earlier versions of IFRS 9 and (ii) IAS 39. IFRS 9 is comprised of three phases:

Phase 1 - Classification and measurement of financial assets and liabilities: Phase 1 introduces an approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach will replace existing rule-based requirements. The new model will also result in a single impairment model being applied to all financial instruments.

Phase 2 - Impairment: Phase 2 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. It will require entities to account for expected credit losses (as opposed to incurred credit losses) from when financial instruments are first recognized. It will also lower the threshold for recognition of full lifetime expected losses.

Phase 3 - Hedge Accounting: Phase 3 replaces the rule-based hedge accounting requirements in IAS 39. It will introduce a reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model will align the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. Earlier application of IFRS 9 will be permitted for IFRS purposes. In Brazil, earlier application of IFRS 9 will be subject to the implementation of IFRS 9 in Brazil and the prior approval of the CPC and the CVM.

We are in the process of evaluating the impact of IFRS 15 and IFRS 9 on our financial statements. As of the date of this annual report, we have not completed our analysis of IFRS 15 and IFRS 9 and we have not determined the extent to which IFRS 15 and IFRS 9 will impact our financial statements once they are adopted.

Recently Issued U.S. GAAP Accounting Standards

In July 2012, the FASB issued ASU 2012-02, “Intangible – Goodwill and Other” – Topic 350, which provides the option to perform a qualitative, rather than quantitative, assessment to determine whether it is more likely than not an indefinite-lived intangible asset is impaired. If the asset is considered impaired, an entity is required to perform the quantitative assessment under the existing guidance. The guidance is effective for our fiscal year beginning on January 1, 2013. The adoption of ASU 2012-02, which is intended to simplify the impairment testing, did not have a material impact on our consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in ASU 2013-01 to Topic 210, Balance Sheet, clarify that the scope of Update 2011-11, Disclosures about Offsetting Assets and Liabilities, applies to derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments were effective for the Company on January 01, 2013 and the disclosures are required to be retrospectively applied for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. The adoption of ASU 2013-01, which is related to disclosure only, did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in ASU 2013-02 to Topic 220, Other Comprehensive Income, update, supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12. ASU 2013-02 requires either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The new guidance was effective prospectively for the Company on January 01, 2013. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

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In February 2013, the FASB issued ASU 2013-04, Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The amendments in ASU 2013-04 to Topic 405, Liabilities, provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the update is fixed at the reporting date, except for obligations addressed with existing U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation, as well as other information about those obligations. The amendment is effective retrospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of ASU 2013-04 did not have a material impact on our consolidated financial statements.

In April 2013, the FASB issued ASU 2013-07, Liquidation Basis of Accounting. The amendments in ASU 2013-07 to Topic 205, Presentation of Financial Statements, clarify when an entity should apply the liquidation basis of accounting and provide principles for the recognition and measurement of associated assets and liabilities. In accordance with the amendments, an entity is required to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is considered imminent when the likelihood is remote that the organization will return from liquidation and either: (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties; or (b) a plan for liquidation is being imposed by other forces. The amendments in ASU 2013-07 are effective prospectively for entities that determine liquidation is imminent for reporting periods beginning after December 15, 2013, with early adoption permitted. The adoption of ASU 2013-07 did not have a material impact on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in ASU 2013-11 to Topic 740, Income Taxes, clarify that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations where a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets.

The amendments in ASU 2013-11 are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. We are currently evaluating the impacts of the adoption of ASU 2013-11 on our consolidated financial statements.

In January 2014, the FASB issued ASU 2014-01 - Investments - Equity Method and Joint Ventures (Topic 323). The amendments in ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The amendments in ASU 2014-01 should be applied retrospectively to all periods presented and are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-01 is not expected to have a material impact on our consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08 - Presentation of financial statements (topic 205) and property, plant, and equipment (Topic 360). The amendments in ASU 2014-08 change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when some criteria occurs. Examples of a strategic shift that has (or will have) a major effect on an entity's operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity. The amendments in ASU 2014-08 require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position. The amendments in ASU 2014-08 require additional disclosures about discontinued operations. The amendments in ASU 2014-08 are effective to all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of ASU 2014-08, which is related to disclosure only, is not expected to have a material impact on our consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09 - Revenue from contracts with customers (Topic 606). The amendments in ASU 2014-09 create revenue from contracts with customers (Topic 606), and supersede the revenue recognition requirements in revenue recognition (topic 605), including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in revenue recognition—construction-type and production-type contracts (subtopic 605-35), and create new subtopic 340-40, other assets and deferred costs—Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impacts of the adoption of ASU 2014-09 on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12 - Compensation—stock compensation (Topic 718). Some share-based payment awards that require a specific performance target to be achieved before the employee can benefit from the award, also require an employee to render service until the performance target is achieved. In some cases, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. That is, the employee would be entitled to benefit from the award regardless of whether the employee is rendering service on the date the performance target is achieved. Some entities account for those performance targets as performance conditions that affect the vesting of the award and, therefore, do not reflect the performance target in the estimate of the grant-date fair value. Others treat them as nonvesting conditions that affect the grant-date fair value of the award. The amendments apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. We are currently evaluating the impacts of the adoption of ASU 2014-12 on our consolidated financial statements.

In November 2014, the FASB issued ASU 2014-16 - Derivatives and hedging (Topic 815) - Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Certain classes of shares include features that entitle the holders to preferences and rights (such as conversion rights, redemption rights, voting powers, and liquidation and dividend payment preferences) over the other shareholders. Shares that include embedded derivative features are referred to as hybrid financial instruments, which must be separated from the host contract and accounted for as a derivative if certain criteria are met under Subtopic 815-10. One criterion requires evaluating whether the nature of the host contract is more akin to debt or to equity and whether the economic characteristics and risks of the embedded derivative feature are “clearly and closely related” to the host contract. In making that evaluation, an issuer or investor may consider all terms and features in a hybrid financial instrument including the embedded derivative feature that is being evaluated for separate accounting or may consider all terms and features in the hybrid financial instrument except for the embedded derivative feature that is being evaluated for separate accounting. The use of different methods can result in different accounting outcomes for economically similar hybrid financial instruments. Additionally, there is diversity in practice with respect to the consideration of redemption features in relation to other features when determining whether the nature of a host contract is more akin to debt or to equity. The amendments apply to all reporting entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. The amendments in ASU 2014-16 are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. We are currently evaluating the impacts of the adoption of ASU 2014-16 on our consolidated financial statements.

In November 2014, the FASB issued ASU 2014-17 - Business combinations (Topic 805) - Pushdown Accounting. The objective of ASU 2014-17 is to provide guidance for determining whether and at what threshold an acquiree (acquired entity) that is a business or nonprofit activity can reflect the acquirer's accounting and reporting basis

(pushdown accounting) in its separate financial statements. Paragraphs 805-50-S99-1 through S99-4 of the Codification provide limited guidance for SEC registrants for determining whether and when a new accounting and reporting basis should be established in an acquiree's separate financial statements. However, because diversity in practice exists with respect to the application of pushdown accounting among entities that are not SEC registrants, the amendments provide guidance for entities that are SEC registrants and for those that are not. The amendments in ASU 2014-17 are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. The adoption of ASU 2014-17 is not expected to have a material impact on our consolidated financial statements.

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In December 2014, the FASB issued ASU 2014-18 Business combinations (Topic 805) - Accounting for Identifiable Intangible Assets in a Business Combination. The objective of ASU 2014-18 is to address the concerns of private company stakeholders that the benefits of the current accounting for identifiable intangible assets acquired in a business combination do not justify the related costs. The amendments provide guidance about an accounting alternative for recognizing or otherwise considering the fair value of identifiable intangible assets acquired as a result of certain specified transactions, including business combinations. The decision to adopt the accounting alternative in ASU 2014-18 must be made upon the occurrence of the first transaction within the scope of this accounting alternative in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first in-scope transaction. Early application is permitted for any interim and annual financial statements that have not yet been made available for issuance. The adoption of ASU 2014-18 is not expected to have a material impact on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income statement - Extraordinary and unusual items (Subtopic 225-20). The objective of ASU 2015-01 is to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The amendments in ASU 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively and also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of ASU 2015-01 is not expected to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis. ASU 2015-02 affects the following areas: (i) Limited partnerships and similar legal entities, (ii) Evaluating fees paid to a decision maker or a service provider as a variable interest, (iii) The effect of fee arrangements on the primary beneficiary determination, (iv) The effect of related parties on the primary beneficiary determination and (v) Certain investment funds. The amendments in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Overall, the amendments in ASU 2015-02 are an improvement to current GAAP because they simplify the Codification and reduce the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and because they place more emphasis on risk of loss when determining a controlling financial interest. The amendments in ASU 2015-02 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 – Interest - Imputation of Interest (Subtopic 835-30). To simplify the presentation of debt issuance costs, ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected by ASU 2015-03. For public business entities, ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of ASU 2015-03 is permitted for financial statements that have not been previously issued. The adoption of ASU 2015-03 is not expected to have a material impact on our consolidated financial statements.

C. Research and Development, Patents and Licenses, etc.

We have a research and development department for new products, processes and methodologies focused on reducing the construction cycle. As of December 31, 2014, 2013 and 2012, we had 10, 10 and 7 employees engaged in research

and development activities, respectively. Our research and development expenditures in 2014, 2013 and 2012 were immaterial.

D. Trend Information

Elsewhere in this annual report, including under “Item 3. Key Information—D. Risk Factors” and “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Brazilian Real Estate Sector,” we discuss trends, uncertainties, demands, commitments or events which could have a material effect upon our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that could cause reported financial information to not necessarily be indicative of future operating results or financial condition.

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In addition, while we believe the long term prospects for the Brazilian housing market have not changed, during 2012, 2013 and 2014, we recognized that we needed to adjust how we have approached the demand for high growth and diversification in the market in order to achieve sustainable, profitable growth. In the Brazilian housing market, demand has outstripped supply on all fronts, from units and availability of skilled labor, to reliable and experienced suppliers and building partners, to financing, and to the ability to rapidly issue permits and obtain the necessary approvals to deliver units under the Minha Casa Minha Vida program.

In the second half of 2011, our management team conducted a detailed analysis of our operations and profitability by project, region and brand and has developed certain strategies to address the market trends that we have identified. As part of our revised strategies, we plan to continue to simplify and streamline our organizational and operational structure to reinforce the fundamental strengths of each of our brands. In particular, we determined the specific geographic markets where each of our brands has the strongest prospects for performance and where we enjoy supply chain efficiencies, and will focus our efforts for each brand in its respective geographic markets. We also implemented a new management structure that, among other things, assigns each brand manager direct responsibility for the operating performance of each brand. In addition, we are implementing a corporate culture shift within our Tenda brand focused on the transfer of receivables and on aligning incentives across the organization (including from senior management to individual project engineers) to encourage project execution based on high-quality, on-time, under-budget performance.

In 2013 Gafisa completed its strategic repositioning, which commenced in early 2012. Our goal was to reduce the level of debt, restrict the Company's exposure to unprofitable businesses and markets and improve margins and cash generation. One of the several initiatives we adopted to achieve this goal was the sale of a 70% interest in Alphaville, which contributed to a decrease in our leverage.

By the end of 2013 we finalized our five-year business plan for the period from 2014 to 2018. We set guidelines for our business including the expected size of Gafisa and Tenda operations, appropriate leverage, profitability guidelines, and our commitment to capital discipline and shareholder value generation, which are reflected in the guidance released to the market at the end of 2013.

We also expect to continue to build on the progress we have made in consolidating our back office and establishing shared operations among our three brands. With the implementation of the SAP enterprise application software platform across all of our divisions, we believe we will have the appropriate tools and data to make more effective management and supply decisions. We believe the successful implementation of these initiatives will help produce more stable cash flow and contribute toward a return to sustainable growth.

On February 2, 2014, 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. Our management initiated the studies in the first quarter of 2014. The main objectives of the proposed spin-off are to:

- enable shareholders to allocate resources between Gafisa and Tenda in line with their interests and investment strategies;
- enable Gafisa and Tenda to respond faster to the opportunities in their target markets;
- establish sustainable capital structures for each of Gafisa and Tenda, based on each company's risk profile and strategic priorities;
- give greater visibility to the market on the individual performance of each of Gafisa and Tenda, enabling better assessment of intrinsic value; and

- increase the ability of Gafisa and Tenda to attract and retain talent, through the development of appropriate cultures and compensation structures consistent with the specific results of each business.

As part of the studies, we (i) separated several joint departments of Gafisa and Tenda, including, among others, the services, personnel and management department and the legal department, (ii) converted Tenda's issuer registration with the CVM from category B to category A, (iii) entered into negotiations with several banks and insurance companies to open lines of credit for Tenda that are independent of Gafisa, and (iv) reviewed our contracts with our third party counterparties and evaluated the potential impact of a spin-off on those contracts. In parallel, we continue to assess separation alternatives for the Gafisa and Tenda business units.

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The implementation of these strategic initiatives could have a material effect upon our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or could cause reported financial information to not necessarily be indicative of future operating results or financial condition.

E. Off Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements or significant transactions with unconsolidated entities not reflected in our consolidated financial statements. All of our interests in and/or relationships with our subsidiaries or jointly-controlled entities are recorded in our consolidated financial statements.

F. Tabular Disclosure of Contractual Obligations

The table below presents the maturity of our significant contractual obligations as of December 31, 2014. The table does not include deferred income tax liability.

	Total	Maturity Schedule			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
		(in millions of reais)			
Loans and financing	1,397.5	550.1	758.8	88.6	—
Debentures	1,189.1	504.4	620.5	64.2	—
Interest (1)	503.0	263.0	255.0	33.0	—
Real estate development obligations (2)	1,639.2	1,247.1	391.9	0.2	—
Obligations for land purchase	570.5	469.3	101.2	—	—
Payables to venture partners (3)	11.0	6.0	5.0	—	—
Credit assignments	56.1	24.1	23.8	8.2	—
Obligations from operating leases	80.6	13.6	29.5	37.5	—
Acquisition of investments	2.4	2.4	—	—	—
Other accounts payable	186.0	155.5	30.5	—	—
Total	5,635.4	3,235.5	2,216.2	231.7	—

(1) Estimated interest payments are determined using the interest rate as of December 31, 2014. However, our long-term debt is subject to variable interest rates and inflation indices, and these estimated payments may differ significantly from payments actually made.

(2) Including commitments not reflected in the balance—CFC Resolution No. 963. Pursuant to Brazilian GAAP, and since the adoption of CFC Resolution No. 963, the total costs to be incurred on the units launched but not sold are not recorded on our balance sheet. As of December 31, 2014, the amount of “real estate development obligations” related to units launched but not sold was R\$880.0 million.

(3) Payables to venture partners accrue a minimum annual dividend equivalent to the variation in CDI, which is not included in the table above.

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 had been agreed by both parties, the number of shares that should be issued by the Company to settle this transaction was being decided in arbitration proceedings initiated by the noncontrolling

holders of Alphaville, which was concluded in July 2013. Therefore, there was 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 had no significant value, since the settlement of the derivative would be based on the fair value of Alphaville's capital stock, no derivative asset or liability had been recorded. The settlement that was to be made in cash or shares represented an amount of R\$359.0 million as of December 31, 2012. In case of issuance of 70,251,551 common shares of Gafisa to the other shareholders of Alphaville, these shareholders of Alphaville would receive 13.96% of Gafisa's total capital stock and would become relevant shareholders of Gafisa.

We also recorded provisions for contingencies in relation to labor, tax and civil lawsuits in the amounts of R\$103.0 million and R\$66.8 million in current and non-current liabilities, respectively, as of December 31, 2014.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management Board of Directors

The table below shows the names, positions, and terms of office of the members of our board of directors:

Name	Age	Position	Election Date	Term of Office(1)
Odair Garcia Senra	68	Chairman	April 25, 2014	Annual Shareholders' General Meeting in 2016
Guilherme Affonso Ferreira(2)(3)	64	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016
Maurício Marcellini Pereira(2)(3)	41	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016
Cláudio José Carvalho de Andrade(2)(3)	43	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016
José Écio Pereira da Costa Junior(2)(3)	63	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016
Rodolpho Amboss(2)(3)	51	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016
Francisco Vidal Luna (2)(3)	68	Director	April 25, 2014	Annual Shareholders' General Meeting in 2016

(1) Under Brazilian corporate law, an annual general shareholders' meeting must take place within the first four months of the calendar year.

(2) Independent member pursuant to NYSE rules.

(3) Independent member pursuant to Brazilian Law. According to Brazilian Law, a director is considered independent when: (1) he/she has no relationship with the company, except for holding shares; (2) he/she is not a controlling shareholder, spouse or relative of the controlling shareholder, has not been in the past three years linked to any company or entity related to the controlling shareholder; (3) he/she has not been in the past three years an employee nor an executive of the company, of the controlling shareholder or of any subsidiary of the company; (4) he/she is not a supplier or buyer, direct or indirect, of the company where the arrangement exceeds a certain amount; (5) he/she is not an employee or manager of any company which renders services to the company or which uses services or products from the company; (6) he/she is not a spouse or relative of any member of the company's management; and (7) he/she does not receive any compensation from the company, except for the compensation related to its position as a board member.

Our directors are not subject to mandatory retirement due to age.

The following is a summary of the business experience and principal outside business interests of the current members of our board of directors.

Odair Garcia Senra. Mr. Garcia Senra is currently the chairman of our board of directors. He started as an intern at former Gomes de Almeida Fernandes and occupied positions in the Company as construction engineer, general manager of construction, construction officer, and institutional relations officer. In the past, he has held, among others, the following positions: Operational Officer of Construtora Tenda S.A.; member of the Board of Directors of

Alphaville Urbanismo S.A.; Officer of SECOVI SP – Sindicato das Empresas de Compra, Venda, Locação e Administração de Imóveis Residenciais e Comerciais de São Paulo, union for the companies involved in buying, selling and administrating Real Estate in São Paulo; Vice President of SINDUSCON SP – Sindicato da Indústria da Construção Civil do Estado de São Paulo, union for the construction companies in São Paulo; and member of the Board of Directors of São Carlos Empreendimentos e Participações S.A., a company specialized in asset management of commercial Real Estate. He holds a bachelor's degree in civil engineering from the Civil Engineering School of Mauá and was also a professor at the Civil Engineering School of Mauá in 1972.

Guilherme Affonso Ferreira. Mr. Ferreira is currently a member of our board of directors and the CEO of Bahema Participações S.A., a financial investment company. He is also a member of the board of directors of: Companhia Brasileira de Distribuição (Pão de Açúcar), a retail company; SulAmérica S.A., an insurance company Valid Soluções e Serviços de Segurança em Meios de Pagamento e Identificação S.A.; a company that specializes in payment facilitation program, system identification and telecommunication; Tavex Algodonera S.A., a textile company; Arezzo Indústria e Comércio S.A., a shoes retailer; Ideiasnet S.A., a technology, media and telecommunications company and Banco Indusval, a financial institution. He holds a production engineering degree from the University of São Paulo and a master's degree in economics and political science from Macalester College.

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Maurício Marcellini Pereira. Mr. Pereira is currently a member of our board of directors and has also been a member of the board of directors of Elo Serviços S.A., a debit and credit card administrator and Telemar Participações S.A., a telecommunication company. He has also been Investment Officer of Fundação dos Economistas Federais – FUNCEF, a pension fund for the employees of Caixa Econômica Federal; Executive Officer of New Business of Caixa Participações S.A. – CAIXAPAR, a company specialized in strategic corporate stakes; member of the Investment Committee of Fundo de Investimentos em Participações Infra Brasil, an investment fund created by the IDB, which offers credit to private companies to invest in infra-structure; and Finance and Administrative Officer of Grupo Posadas Caesar Park and Executive Partner of Ria Hotelaria Sustentável, both tourism companies. He holds a degree in business administration from Minas Gerais Federal University, an MBA in Finance from Ibmec Business School and is getting his master’s degree in pension economics from Brasília University (UnB).

Cláudio José Carvalho de Andrade. Mr. Andrade is currently a member of our board of directors, has been a member of the board of directors of Telefônica Data Holding, a telecommunication company and is currently an alternate member of the fiscal councils of Banco Panamericano S.A., a financial institution, Banco Sofisa S.A., a financial institution, and Copel – Companhia Paranaense de Energia, an energy development company. He is also a partner in various real estate management companies. He holds a degree in Business Administration from EAESP Getulio Vargas Foundation University.

José Écio Pereira da Costa Júnior. Mr. Pereira da Costa is a member of our board of directors. He has also been a member of the board of directors of BRMALLS S.A., a shopping mall management company, Princecampos Participações S.A., a public transportation company and also a member of the audit committees of Votorantim Cimentos S.A., Votorantim Metais S.A and Fibria S.A. He has also been an auditing partner of Deloitte Touche Tohmatsu Auditores Independentes S/C Ltda. and a partner at JEPereira Consultoria em Gestão de Negócios S/S Ltda., a consulting company. He holds a bachelor’s degree in business administration from Fundação Getúlio Vargas and a bachelor’s degree in accounting from Faculdade São Judas Tadeu.

Rodolpho Amboss. Mr. Amboss is a member of our board of directors. He is also on the board of directors of BR Properties, a construction company specializing in industrial sheds and large commercial buildings and has been an officer in various companies in the real estate sector, such as the Real Estate Private Equity Group of Lehman Brothers and Silverpeak Real Estate Partners LP. He holds a degree in civil engineering from Rio de Janeiro Federal University and an MBA from the Booth School of Business of the University of Chicago.

Francisco Vidal Luna. Mr. Luna is a member of our board of directors. He currently is on the board of directors of several Municipal owned or related companies and foundations, such as Sabesp, Desenvolve São Paulo, Museu da Língua Portuguesa, Museu do Futebol, Museu Afro Brasil, Fundação Faculdade de Medicina – FFM and he has been member of Board of Directors of several others such as SP Urbanismo, SP Obras, SP Tur, SP Trans, CET and Prodam. He is also currently member of board of officers of Banco Tokyo-Mitsubishi UFJ do Brasil and he has been a member of management of other banks, such as Banco InterAmerican Express (former Banco SRL), Banco Nossa Caixa Desenvolvimento and Banco Nacional de Desenvolvimento Econômico – BNDES. Mr. Luna has an economics degree and post-graduate degree from the University of São Paulo.

The table below shows the names, positions, and terms of office of our executive officers:

Name	Age	Position	Election Date	Term of Office
Sandro Rogério da Silva Gamba	39	Chief Executive Officer	May 05, 2014	May 04, 2017
Andre Bergstein	44	Chief Financial Officer and Investor Relations Officer	May 05, 2014	May 04, 2017
Luiz Carlos Siciliano	50	Operational Executive Officer	May 05, 2014	May 04, 2017

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Octavio Marques Flores	40	Operational Executive Officer	May 05, 2014	May 04, 2017
Katia Varalla Levy	41	Operational Executive Officer	May 05, 2014	May 04, 2017

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The business address of each of our executive officers is Av. Nações Unidas No. 8,501, 19th floor , 05425-070 – São Paulo, SP – Brazil.

The following is a summary of the business experience and principal outside business interests of the current members of our board of executive officers.

Sandro Rogério da Silva Gamba. Mr. Gamba is currently our chief executive officer and his current term commenced in May 2014, with a term of office through May 4, 2017. With over 15 years at Gafisa, having worked as head of business development for Gafisa and Tenda in the São Paulo region, he has significant institutional knowledge and oversaw the growth of our business in São Paulo, our largest region. Previously, he served us in a number of senior roles in the São Paulo region, including head of business development for Gafisa and director and manager of land prospecting. Mr. Gamba holds a degree in civil engineering from Mackenzie University, advanced degrees in engineering and real estate management from the University of São Paulo and Fundação Armando Alvares Penteado, and an executive master's in business administration from IBMEC.

Andre Bergstein. Mr. Bergstein is currently our chief financial officer and investor relations officer, and his current term commenced in May 2014, with a term of office through May 4, 2017. He is also a member of the board of directors of Alphaville Urbanismo S.A. In the past five years he has also occupied the following positions: (i) Real Estate Executive of Plural Capital Gestora de Recursos Ltda., an asset management company; (ii) CFO of Brazilian Securities Cia de Securitização S.A., a securitization of financial credits company; (iii) CFO and Investor Relations Officer of Brazilian Finance & Real Estate S.A., holding company of Brazilian Securities Cia de Securitização S.A.

Luiz Carlos Siciliano. Mr. Siciliano is currently one of our operational executive officers, responsible internally for business development in the state of Rio de Janeiro, and his current term commenced in May 2014, with a term of office through May 04, 2017. Mr. Siciliano brings considerable sales and marketing managerial expertise to his newly expanded role from both his tenure at Gafisa as well as from his prior professional experience. He has worked for us since 2005 and, previously, he was director of sales and marketing and head of the supply chain, IT, legal department and shared services center. Prior to joining us, Mr. Siciliano worked at AmBev from 1992 to 2004 in positions of increasing responsibility, and he holds a master's degree in business administration degrees from IBMEC and Pontifícia Universidade Católica (PUC) in Rio de Janeiro.

Octavio Marques Flores. Mr. Flores is currently one of our operational executive officers, responsible internally for several development and construction departments. Mr. Flores joined us in 2007 and in the last five years he served as prospection manager, business owner and business officer.

Katia Varalla Levy. Mrs. Levy is currently one of our operational executive officers, responsible internally for responsible internally for several development and construction departments. Mrs. Levy joined us in 1992 as intern, and in the last five years she served as product development manager and product development officer.

Our Relationship with our Executive Officers and Directors

As of December 31, 2014, our board of officers in the aggregate held 0.2% of our share capital and our board of directors in the aggregate held a 0.4% direct or indirect interest in our share capital. As of December 31, 2014, there were no contracts of any type or any other material agreements entered into by us with the members of our board of directors and our board of officers. As of December 31, 2014, some of our executive officers held interests in our subsidiaries as directors and/or executive officers. In none of these cases, as of the referenced date, were the interests held material.

As of December 31, 2013, our board of officers in the aggregate held 0.3% of our share capital and our board of directors in the aggregate held less than a 0.1% direct or indirect interest in our share capital.

As of December 31, 2012, our board of officers in the aggregate held 0.3% of our share capital and our board of directors in the aggregate held less than a 0.1% direct or indirect interest in our share capital.

B. Compensation

For each of 2014, 2013 and 2012

Under Brazilian corporate law, the company's shareholders are responsible for establishing the aggregate amount paid to members of the board of directors, the executive officers and the members of the fiscal council. Once the shareholders establish an aggregate amount of compensation, the members of the board of directors are then responsible for setting individual compensation levels.

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For each of 2014, 2013 and 2012, the aggregate compensation we paid to the members of the board of directors was R\$1.7 million, R\$1.9 million and R\$2.2 million, respectively, considering Gafisa and Tenda for the year ended December 31, 2014 and Gafisa, Tenda and Alphaville for the years ended December 31, 2013 and 2012.

For each of 2014, 2013 and 2012, the aggregate compensation we paid to the members of the fiscal council was R\$189 thousand, R\$55.3 thousand and R\$249.9 thousand, respectively, considering Gafisa and Tenda for the year ended December 31, 2014 and Gafisa, Tenda and Alphaville for the years ended December 31, 2013 and 2012.

For each of 2014, 2013 and 2012, the aggregate compensation we paid to the executive officers was R\$16.8 million (net of bonuses for Gafisa executive officers), R\$49.6 million and R\$37.5 million, respectively, which includes, unless otherwise indicated, fixed compensation, annual bonus amounts and the costs related to Stock Options Programs, considering Gafisa and Tenda for the year ended December 31, 2014 and Gafisa, Tenda and Alphaville for the years ended December 31, 2013 and 2012.

Approximately 70% of the total compensation paid to Gafisa officers and 42% of the total compensation paid to Tenda officers is variable. The amounts related to short-term bonuses paid for our officers were, for each of 2014, 2013 and 2012, R\$3.4 million, R\$4.7 million and R\$18.9 million, respectively.

For each of 2014, 2013 and 2012, the individual compensation we paid to members of our board of directors (fixed compensation and costs related to Stock Options Programs in 2012, fixed compensation in 2013 and fixed compensation in 2014), fiscal council (fixed compensation) and officers (fixed compensation, short-term bonus and costs related to Stock Options Programs) is set forth in the tables below.

Gafisa

	2014	Board of Directors	Fiscal Council	Executive Officers
Number of members (1)		7.67	3.00	5.17
Annual highest individual compensation (in R\$)		308,868	63,500	3,732,593
Annual lowest individual compensation (in R\$)(2)		185,778	63,500	2,691,098
Annual average individual compensation (in R\$)		226,852	63,007	3,321,336

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

	2013	Board of Directors	Fiscal Council	Executive Officers
Number of members (1)		9.00	3.00	6.00
Annual highest individual compensation (in R\$)		316,079	55,200	5,957,562
Annual lowest individual compensation (in R\$)(2)		172,800	55,200	2,681,366
Annual average individual compensation (in R\$)		210,992	55,200	3,632,792

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a

member is an executive officer, he or she is paid as an executive officer).

2012	Board of Directors	Fiscal Council	Executive Officers
Number of members (1)	9.00	3.00	5.83
Annual highest individual compensation (in R\$)	320,824	45,600	6,123,879
Annual lowest individual compensation (in R\$)(2)	224,056	45,600	3,165,013
Annual average individual compensation (in R\$)	244,561	45,980	3,575,601

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

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Tenda

2014	Board of Directors	Fiscal Council	Executive Officers
Number of members (1)	5.75	3.00	8.83
Annual highest individual compensation (in R\$)	126,324	38,400	2,821,951
Annual lowest individual compensation (in R\$)(2)	—	8,688	886,515
Annual average individual compensation (in R\$)	126,324	13,829	924,046

- (1) Based on the average number of members during the period.
- (2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).
- (3) Members of the Board of Directors at Tenda were also Executive Officers at Gafisa and therefore received compensation for this position.

2013	Board of Directors (3)	Fiscal Council	Executive Officers
Number of members(1)	4.00	3.00	8.58
Annual highest individual compensation (in R\$)	—	38,400	3,763,649
Annual lowest individual compensation (in R\$)(2)	—	8,136	524,867
Annual average individual compensation (in R\$)	—	18,224	1,299,961

- (1) Based on the average number of members during the period.
- (2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).
- (3) Members of the Board of Directors at Tenda were also Executive Officers at Gafisa and therefore received compensation for this position.

2012	Board of Directors (3)	Fiscal Council	Executive Officers (3)
Number of members (1)	3.67	3.00	7.67
Annual highest individual compensation (in R\$)	—	38,400	3,918,356
Annual lowest individual compensation (in R\$)(2)	—	7,464	3,918,356
Annual average individual compensation (in R\$)	—	17,776	1,460,677

- (1) Based on the average number of members during the period.
- (2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

(3) Members of the Board of Directors and Executive Officers at Tenda were Executive Officers at Gafisa and therefore received compensation for this position.

Alphaville

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 as of that date. 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.

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2013	Board of Directors (3)	Fiscal Council(4)	Executive Officers
Number of members (1)	5.00	1.25	6.00
Annual highest individual compensation (in R\$) (5)	—	16,300	9,741,730
Annual lowest individual compensation (in R\$)(2)	—	16,300	540,229
Annual average individual compensation (in R\$)(5)	—	16,300	3,232,127

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

(3) Members of the Board of Directors at Alphaville were also Executive Officers at Gafisa and do not received compensation for this position.

(4) The Fiscal Council was dissolved in June 2013.

(5) This amount includes the stock options consideration related to the sale of 70% of Alphaville.

2012	Board of Directors (3)	Fiscal Council (4)	Executive Officers
Number of members (1)	5.00	3.00	4.17
Annual highest individual compensation (in R\$)	—	19,560	2,506,438
Annual lowest individual compensation (in R\$)(2)	—	19,560	1,326,440
Annual average individual compensation (in R\$)	—	19,560	1,354,882

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

(3) Members of the Board of Directors at Alphaville were also Executive Officers at Gafisa and therefore received compensation for this position.

(4) The Fiscal Council was installed in 2012.

C. Board Practices

General Information

We are managed by a board of directors consisting of at least five and up to nine directors and at least two and up to eight executive officers. Our directors are elected for a two-year term and our executive officers are elected for a three-year term. Reelection of officers and directors is permitted. We also have (1) a fiscal council, which under Brazilian Law is not a permanent body, although currently installed; (2) permanent advisory committees created in accordance with our bylaws, namely: an audit committee, a compensation committee and a nominating and corporate

governance committee; and (iii) executive committees established by the Board of Directors, namely: an investment executive committee, a finance executive committee, and an ethics executive committee. See “—A. Directors and Senior Management.”

Board of Directors

Our board of directors is our decision-making body responsible for formulating general guidelines and policies for our business, including our long term strategies. Among other things, our board of directors is responsible for appointing and supervising our executive officers.

Our board of directors meets at least once every two months and at any other time when a meeting is called by its chairman or by at least two other effective members. The decisions of our board of directors are taken by the majority vote of those members present at the respective meeting and constituting a quorum of at least four members. In the event of a tie vote, the chairman of our board of directors has, in addition to his personal vote, the right to cast a tie-breaking vote. In addition, pursuant to Brazilian corporate law, a member of our board of directors is prevented from voting in any shareholders’ or board of directors’ meeting, or from acting in any business or transaction, in which he may have a conflict of interest with our company.

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Under Brazilian corporate law, a company's board of directors must have at least three members. Our bylaws provide for a board of directors of up to nine members, from which at least 20% shall be independent members, as determined by the Listing Rules of the Novo Mercado. Our directors are elected at our annual general shareholders' meeting for a two-year term of office, with reelection permitted, and are subject to removal at any time by our shareholders at a shareholders' general meeting. Although the Listing Rules of the Novo Mercado require at least 20% independent members, our board of directors currently has six independent members, out of a total of seven members.

Article 141 of Brazilian corporate law provides that shareholders with at least 10% of a company's total capital stock may request the adoption of the multiple voting procedure for the election of the board of directors, even where there is no provision for this in the company's bylaws. The multiple voting procedure grants each share as many votes as the number of board members, and allows shareholders to allocate either all of their votes to a single candidate or to distribute their votes among several candidates.

All the voting proceedings discussed in the previous paragraphs currently apply to our company.

As prescribed by CVM Instruction No. 282, of June 26, 1998, the minimum voting capital percentage required for the adoption of the multiple voting procedure in publicly-held companies may be reduced as a result of the amount of its capital stock. Based on the current amount of our capital stock, shareholders representing 5% of our total capital stock may request the adoption of the multiple voting procedure in order to elect the members to our board of directors. The referred minimum percentage may vary from 5% to 10% depending on the amount of our capital stock, as prescribed in the aforementioned CVM Instruction No. 282, of June 26, 1998. If the adoption of the multiple voting procedure is not requested, directors are elected by a majority vote of our shareholders, and such shareholders who, individually or collectively, represent at least 10% of our shares, are entitled to appoint, in a separate vote, a director and its alternate.

The Listing Rules of the Novo Mercado also provide that all members of our board of directors and our board of officers must comply, by means of the execution of a management compliance statement, with obligations set forth under the Novo Mercado Listing Agreement, the Market Arbitration Chamber Rules and the Listing Rules of the Novo Mercado, including, but not limited, to: (1) any shareholder that becomes our controlling shareholder, or becomes part of our controlling group, must comply, by means of executing of the controlling shareholder compliance statement, with the obligations set forth under the Novo Mercado Listing Agreement, the Market Arbitration Chamber Rules and the Listing Rules of the Novo Mercado; (2) any indirect controlling shareholder of our company must fully comply with the obligations established in the Novo Mercado Listing Agreement, the Market Arbitration Chamber Rules, the Listing Rules of the Novo Mercado, Brazilian corporate law, Brazilian Securities Regulations and our bylaws; (3) use best efforts to ensure that our shares are widely held through public share offerings; (4) re-establish the minimum percentage of outstanding floating stock, in case additional shares are issued or the controlling power over our company is transferred; (5) inform BM&FBOVESPA with respect to the trading of the securities held by our controlling shareholders; (4) comply with the rules imposed on our directors in the event our public company registration with the CVM is cancelled; and (7) comply with rules and regulations applicable in the event of the delisting of our company from the Novo Mercado.

Executive Officers

Under Brazilian corporate law, a company's board of executive officers must have at least two members, and each of such members must be a resident in Brazil. Furthermore, no more than one-third of our directors may serve as members of our board of officers at any given time. In addition, under the Listing Rules of the Novo Mercado, the chief executive officer of our company shall not serve as the chairman of the board of directors.

Our executive officers are our legal representatives and are primarily responsible for managing our day-to-day operations and implementing the general policies and guidelines set forth in our shareholders' general meetings and by

our board of directors. Our bylaws require that our board of officers be composed of at least two members and a maximum of eight members. The members of our board of officers are appointed by our board of directors for a term of three-years, and may be reelected or removed by our board of directors at any time. Our bylaws and our board of directors determine the role of our executive officers. Currently, we have a board of officers comprised of four members: (1) Mr. Sandro Rogerio da Silva Gamba, who is the chief executive officer, (2) Mr. Andre Bergstein, who is the chief financial officer and investor relations officer, (3) Mr. Luiz Carlos Siciliano, who is an operational executive officer, (4) Mr. Octavio Marques Flores, who is an operational executive officer, and (4) Mrs. Katia Varalla Levy, who is an operational executive officer.

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The chief executive officer submits the business plan, annual budget, investment plans and new expansion plans for Gafisa and our subsidiaries to the approval of the board of directors. The chief executive officer enacts these plans and develops our strategy and operational plan, including the manner in which we will execute the resolutions approved at the shareholders' meeting and by the board of directors. Together with the other officers, he also supervises and coordinates our activities. The officer in charge of investor relations supplies our financial information to investors, the CVM and the BM&FBOVESPA, and is also responsible for keeping an updated register based on the applicable regulations.

Fiscal Council

Under Brazilian corporate law, the fiscal council is a corporate body independent from the management of the company and its external auditors. The fiscal council is not a permanent body, and whenever installed, must consist of no less than three and no more than five members. The primary responsibility of the fiscal council is to review management's activities and the company's financial statements and to report its findings to the shareholders of the company. The fiscal council is not equivalent to an audit committee as contemplated by the Securities Exchange Act, as amended. Under Brazilian corporate law, a fiscal council must be established at a shareholders' general meeting upon request of shareholders representing at least 10% of the shares with voting rights, or 5% of the shares with no voting rights, and its members shall remain in office until the annual general shareholders' meeting of the year following their election. Each member of the fiscal council is entitled to receive compensation in an amount equal to at least 10% of the average amount paid to each executive officer (excluding benefits and profit sharing).

As prescribed by CVM Instruction No. 324, of January 19, 2000, the minimum voting capital percentage required to request the fiscal council to be installed may be reduced as a result of the amount of the company's capital stock. Based on the current amount of our capital stock, shareholders representing 2% of our voting capital stock may request the fiscal council to be installed. The referred minimum percentage may vary from 2% to 8% depending on the amount of our capital stock, as prescribed in the aforementioned CVM instruction.

Individuals who are also employees or members of the administrative bodies of our company, of companies controlled by us, or of companies forming a group of companies with us (pursuant to Chapter XXI of Law No. 6,404/76), as well as spouses or parents of our management, cannot serve on the fiscal council.

Our by-laws provide for a non-permanent fiscal council composed of at least three and up to five members, which can be formed and have its members elected at the shareholders' general meeting, as requested by the shareholders, in the events set forth by Brazilian corporate law. When in operation, the compensation of our fiscal council is set at the shareholders' general meeting that elects it.

Our fiscal council has three members (Olavo Fortes Campos Rodrigues Junior, Peter Edward Cortes Marsden Wilson and Luis Fernando Brum de Melo) and three alternates (Marcello Mascotto Iannalfo, Marcelo Martins Louro and Laiza Fabiola Martins de Santa Rosa).

We also have established a permanent audit committee. See "Item 6.C. Directors, Senior Management and Employees—Board Practices—Audit Committee."

Audit Committee

Our bylaws provide for an Audit Committee that convenes regularly, as often as it determines is appropriate to carry out its responsibilities. The Audit Committee must be comprised of at least three members, all of which must be independent members of our Board of Directors. The Audit Committee is currently comprised by Jose Ecio Pereira da Costa Junior, who is also the chairman, Maurício Marcellini Pereira and Francisco Vidal Luna, each of whom is a

director of our company. Our board of directors has determined that Jose Ecio Pereira da Costa Junior, Maurício Marcellini Pereira and Francisco Vidal Luna are each independent as set forth in the NYSE Listed Companies Manual as well as being independent for the purpose of Rule 10A-3 of the Exchange Act. Our board of directors has determined that Jose Ecio Pereira da Costa Junior is an audit committee financial expert within the meaning of the regulations promulgated by the United States Securities and Exchange Commission.

This committee has responsibility for, among others, planning and reviewing our annual and quarterly reports and accounts with the involvement of our auditors, focusing particularly on compliance with legal requirements and accounting standards, and ensuring that an effective system of internal financial controls is maintained, as set forth in the Company's by-laws. The ultimate responsibility for reviewing and approving our annual and quarterly reports and accounts remains with our directors.

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Compensation Committee

Our bylaws provide for a Compensation Committee that convenes regularly, as often as it determines is appropriate to carry out its responsibilities. The Compensation Committee must be comprised of at least three members, all of which must be independent members of our Board of Directors. The Compensation Committee is currently comprised by Cláudio José Carvalho de Andrade, who is also the chairman, Guilherme Affonso Ferreira and Rodolpho Amboss. This committee, among other things, reviews and makes recommendations to our directors regarding its compensation policies and all forms of compensation to be provided to our executive officers and other employees.

Nominating and Corporate Governance Committee

Our bylaws provide for a Nominating and Corporate Governance Committee that convenes regularly, as often as it determines is appropriate to carry out its responsibilities. The Nominating and Corporate Governance Committee must be comprised of at least three members, all of which must be independent members of our Board of Directors. The Nominating and Corporate Governance Committee is currently comprised by Cláudio José Carvalho de Andrade, who is also the chairman, Guilherme Affonso Ferreira and Rodolpho Amboss. This committee, among other things, considers and periodically reports on matters relating to the size, identification, selection and qualification of the board of directors, executive officers and candidates nominated for the board of directors and its committees and is responsible for overseeing compliance with the corporate governance principles applicable to us under our bylaws and other policies, as well as for proposing improvements and changes to such applicable principles.

Investment Executive Committee

On January 13, 2006, our board of directors modified the structure of our incorporation and new businesses committee, renaming it the Investment Committee and on September 9, 2010 it was renamed to Investment Executive Committee, in order to clarify that this is a collegiate body to provide advice and guidance to the Board of Directors, composed solely by members of the Board of Officers (statutory or otherwise). Our Investment Executive Committee is a non-permanent body and its duties are, among others, to: (1) analyze, discuss and recommend land acquisitions and new real estate developments; (2) advise our executive officers during the negotiation of new deals and the structuring of new developments; (3) supervise the beginning of new projects and their related cash flows; and (4) in special cases, assist in the negotiation and structuring of new types of business. Each decision by our investment committee to acquire land is made by ensuring that the investment meets the minimum return threshold set by us and comparing it with other potential investments. Such decision is made independent of the geographical location of the investment in order to maximize return on our capital allocation as a whole.

Currently, our Investment Executive Committee is in operation and is comprised by Sandro Rogério da Silva Gamba (also the Coordinator of the Committee), Andre Bergstein, Luiz Carlos Siciliano, Octavio Marques Flores and Katia Varalla Levy.

Finance Executive Committee

Our directors have established a Finance Executive Committee composed by André Bergstein (also the Coordinator of the Committee), Sandro Rogério da Silva Gamba, Rodrigo Osmo and Gustavo Moscatelli. This committee, among others, evaluates and makes periodic recommendations to our board of directors regarding risk and financial investments policies.

Ethics Executive Committee

On September 9, 2010, our board of directors renamed the Ethics Committee, created on February 17, 2006, the Ethics Executive Committee. The Ethics Executive Committee is a collegiate body tasked with providing advice and guidance to the board of directors, elected by the board of directors, and is composed primarily of members of the board of officers (statutory or otherwise). Currently, it is composed of the following members: Sandro Rogério da Silva Gamba (Coordinator of the Committee), André Bergstein, Luiz Carlos Siciliano, Norival Zanata Junior and Adriana Farhat. This committee is responsible, among others, for the actions related to violation of our Code of Business Conduct and Ethics, solving ethics conflicts and evaluating the adequacy of amendments to the Code of Business Conduct and Ethics and proposing them to the board of directors.

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Summary of Significant Differences of Corporate Governance Practices

NYSE Corporate Governance Rules provide that we are required to disclose any significant differences on our corporate governance practices from those required to be followed by U.S. companies under NYSE listing standard. We have summarized these significant differences below.

We are permitted to follow practice in Brazil in lieu of the provisions of the NYSE Corporate Governance Rules, except that we will be required to have a qualifying audit committee under Section 303A.06 of the Rules, or avail ourselves of an appropriate exemption. In addition, Section 303A.12(b) provides that our chief executive officer is obligated to promptly notify the NYSE in writing after any of our executive officers becomes aware of any material non-compliance with any applicable provisions of the NYSE Corporate Governance Rules.

Majority of Independent Directors

NYSE Rule 303A.01 provides that each NYSE-listed company must have a majority of independent directors. Neither Brazilian corporate law nor our by-laws require that we have a majority of independent members. Notwithstanding this, the majority of our board members qualify as independent directors under NYSE rules.

Separate Meetings of Non-Management Directors

NYSE Rule 303A.03 provides that the non-management directors of each NYSE-listed company must meet at regularly scheduled executive sessions without management. According to the Listing Rules of the Novo Mercado, the chief executive officer may not serve as the chairman of the Board of Directors. In addition, under Brazilian corporate law, up to one-third of the members of the board of directors can also hold management positions. Under Brazilian corporate law, there is no specific requirement that non-management directors meet regularly without management. Notwithstanding the foregoing, our board of directors consists entirely of non-management directors and holds regular meetings without the management and as such we believe we are in compliance with the NYSE Rule 303A.03.

Nominating and Corporate Governance Committee

NYSE Rule 303A.04 provides that each U.S. listed company must have a nominating and corporate governance committee composed entirely of independent directors. We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have a Nominating and Corporate Governance Committee responsible for considering and periodically reporting on matters relating to the size, identification, selection and qualification of the board of directors and candidates nominated for the board of directors and its committees; and for overseeing compliance with the corporate governance principles applicable to us under our bylaws and other policies, as well as for proposing improvements and changes to such applicable principles.

Compensation Committee

NYSE Rule 303A.05 provides that each U.S. listed company must have a compensation committee composed entirely of independent directors. We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have a Compensation Committee responsible for reviewing and making recommendations to our directors regarding our compensation policies and all forms of compensation to be provided to our executive officers and other employees. With respect to compensation, under Brazilian corporate law, the shareholders determine the total or individual compensation of our board members and executive officers, including benefits and allowances, at a general shareholders' meeting. If the shareholders only determine the total compensation, it is incumbent upon the board of directors to establish the individual amounts. The Compensation Committee, is responsible for advising the board of directors in such task. See "Item 6.B. Directors, Senior Management and

Employees—Compensation.”

Audit Committee

NYSE Rule 303A.06 and the requirements of Rule 10A-3 of the SEC provide that each U.S. listed company is required to have an audit committee consisting entirely of independent members that comply with the requirements of Rule 10A-3. In addition, the audit committee must have a written charter compliant with the requirements of NYSE Rule 303.A.07(c), have an internal audit position and otherwise fulfill all other requirements of the NYSE and Rule 10A-3. The SEC recognized that due to the local legislation for foreign private issuers, some of the responsibilities of the audit committee could be subordinated by local laws to our other bodies.

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We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have an Audit Committee with the following responsibilities:

- Pre-approving services to be provided by our independent auditor;
- Choosing and overseeing the work of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing any other service;
 - Reviewing auditor independence issues and rotation policy;
 - Supervising the appointment of our independent auditors;
 - Discussing with management and auditors major audit issues;
- Reviewing financial statements prior to their publication, including the related notes, management's report and auditor's opinion;
 - Reviewing our annual report and financial statements;
 - Providing recommendations to the board of directors on the audit committee's policies and practices;
- Reviewing recommendations given by our independent auditor and internal audits and management's responses;
- Evaluating the performance, responsibilities, budget and staffing of our internal audit function and review the internal audit plan;
 - Providing recommendations on the audit committee's bylaws; and
- Reviewing our Code of Business Conduct and Ethics and the procedures for monitoring compliance with it.

Equity Compensation Plans

NYSE Rule 303A.08 provides that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, with certain limited exemptions as described in the rule. Under Brazilian corporate law, shareholder pre-approval is required for the adoption of equity compensation plans and any material revision thereto.

Corporate Governance Guidelines

NYSE Rule 303A.09 provides that each U.S. listed company must adopt and disclose their corporate governance guidelines. Although we do not have a similar requirement under Brazilian law, our bylaws contain a comprehensive list of principles that must be complied with at all times by all of our directors and officers. Our Nominating and Corporate Governance Committee may also propose new principles and amendments to existing principles. In addition, we have listed our common shares in the Novo Mercado (New Market) of the São Paulo Stock Exchange (BM&FBOVESPA), which requires adherence to the corporate governance standards established under the Listing Rules of the Novo Mercado, as described under "Item 10. Additional Information—B. Memorandum and Bylaws." Finally, we have adopted a written policy of trading of securities and disclosure matters.

Code of Business Conduct and Ethics

NYSE Rule 303A.10 provides that each U.S. listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. We are required to have a Code of Business Conduct and Ethics under our bylaws and under the Listing Rules of the Novo Mercado. We have adopted such a Code on July 10, 2007 See “Item 16B. Code of Business Conduct and Ethics.”

D. Employees

As of December 31, 2014, we had 2,162 employees at Gafisa Group across the following states:

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States	Number of Employees
Bahia	163
Distrito Federal	19
Goiás	10
Maranhão	12
Minas Gerais	102
Pará	33
Paraná	15
Pernambuco	72
Rio de Janeiro	336
Rio Grande do Sul	36
São Paulo	1,364
Total	2,162

The table below shows the number of employees for the period presented, within the macro areas of the company:

Period	Administration		Business		Total
	Operations	& Finance	Development	Sales	
2014	1,134	527	191	310	2,162
2013(1)	2,008	722	404	212	3,346
2012	2,551	811	395	267	4,024
2011	3,459	695	301	332	4,787
2010	3,202	699	331	394	4,626
2009	4,721	734	234	464	6,153

Note: The numbers presented in the tables above for the year of 2013 refer to the employees of Gafisa Group (Gafisa's Business Unit, Tenda's Business Unit, Alphaville's Business Unit as well as the corporate areas, including the shared services center).

(1) Total number includes 529 Alphaville's employees, of which 290 are allocated in Operations, 95 in Administration and Finance, 135 in Business Development and 9 in Sales.

Our administrative employees carry out management, finance, information technology, legal and human resources activities among others. Our construction site employees focus on management and oversight of our construction workers, the majority being outsourced. The outsourced professionals are hired by the contractors to carry out various tasks on the construction sites. As of the date of this annual report, we estimate that around 9,000 outsourced professionals are providing services to Gafisa, Tenda and Alphaville across the following regions:

Region	Outsourced Professionals
North/Central West	—
Northeast	642
South	—
Southeast	8,791
Total	9,433

We offer training programs to our employees, subcontractors and outsourced employees. All of our professionals involved in the construction of our developments are trained prior to the beginning of their work and are supervised directly by our engineers.

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The majority of our employees and outsourced professionals of the State of São Paulo are enrolled with the Civil Construction Industries Workers' Union (SINTRACON). As a rule, the Civil Construction of Large Building Industry in the State of São Paulo (SINDUSCON-SP) annually negotiates with SINTRACON collective bargaining agreements applicable to our employees. The most recent collective bargaining agreement for our employees and outsourced professionals in the State of São Paulo was executed in May 2014, establishing a salary adjustment of 7.32% as of May 2014. This collective bargaining agreement became effective in May 2014 and will expire in April 2015.

The majority of our employees and outsourced professionals of the State of Rio de Janeiro are members of the Civil Construction, Tiles, Cement, Marble and Granite Products, Road Construction, Paving, and Land Moving and Industrial Maintenance and Assembly Industries' Workers Union of the Rio de Janeiro Municipality (SINTRACONST-RIO). As a rule, the Civil Construction of Large Building Industry in the State of Rio de Janeiro (SINDUSCON-RIO) annually negotiates with SINTRACONST-RIO the collective bargaining agreements applicable to our employees. The most recent collective bargaining agreement for our employees and outsourced professionals in the State of Rio de Janeiro was executed in March 2014, establishing a salary adjustment of 9% as of March 2014. This collective bargaining agreement became effective in March 2014 and will expire in February 2015.

We believe that our relationship with our employees and workers' unions is good. In all the regions where we operate, we maintain a stable relationship with the workers unions, which generally decreases the risk of strikes.

The benefits we offer to our permanent employees include life insurance, dental plan, health insurance, meal tickets and profit sharing.

Health and Safety

We are committed to preventing work-related accidents and diseases. Accordingly, we maintain a risk prevention program which seeks to maintain and enhance the health and physical conditions of our employees, by anticipating, recognizing, evaluating and controlling any existing or potential environmental risks in the workplace.

In addition, we have an internal committee for the avoidance of accidents, which seeks to prevent diseases and accidents from occurring in the workplace. We make significant investments in this area, providing frequent training programs for our construction employees as well as for our subcontractors' employees, and we require our subcontractors to follow strict guidelines.

E. Share Ownership

As of the date of this annual report, our directors and executive officers do not hold, on an aggregate basis, any direct or indirect interest of greater than 0.842% of our total share capital or of the share capital of any of our subsidiaries or jointly-controlled entities. As of December 31, 2013, some of our executive officers held interests in our subsidiaries and jointly-controlled entities as directors and executive officers. In none of these cases, as of the date of this annual report, were the interests held material.

The table below sets forth the number of our total shares beneficially owned by each of our directors and executive officers as of the date of this annual report:

Name	Position	Number of Shares Owned
Sandro Rogério da Silva Gamba	Chief Executive Officer	539,326
Andre Bergstein	Chief Financial Officer and Investor Relations Officer	456,331
Luiz Carlos Siciliano	Officer	396,708

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Cláudio José Carvalho de Andrade	Director	349,000
Odair Garcia Senra	Director	243,505
Katia Varalla Ley	Officer	121,028
Octavio Marques Flores	Officer	59,752
Guilherme Affonso Ferreira	Director	102
José Écio Pereira da Costa Junior	Director	2
Francisco Vidal Lunda	Director	—
Maurício Marcellini Pereira	Director	—
Rodolpho Amboss	Director	—
Total		2,165,754

As previously mentioned, in line with the announced strategy to separate the administrative structures of Gafisa and Tenda, executive officers Fernando Calamita and Rodrigo Pádua stepped down from the Company on April 4, 2014. In addition, Alceu Duilio Calciolari, who is leading the initial phase of this transition process, left his position as chief executive officer after this period and was replaced by Sandro Rogério da Silva Gamba.

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Stock Option Plans

The Gafisa stock option plans seek to: (1) encourage our expansion and success by allowing our executives and key employees to acquire shares of our capital stock in order to encourage their integration with the company; (2) allow us to obtain and retain the services of executives and key employees by offering them the benefit of becoming one of our shareholders; and (3) align the interests of our executives and key employees with the interests of our shareholders.

The Tenda stock option plans seek to: (1) allow Tenda to hire and retain the services of executives and key employees by offering them the benefit of becoming one of our shareholders; and (2) align the interests of Tenda executives and key employees with the interests of our shareholders.

We have individual agreements with our key employees and executives for both Gafisa and Tenda, under which they are entitled to purchase shares of our capital stock pursuant to the terms and conditions of the stock option plans and the specific conditions set forth in their agreements.

In 2002, our shareholders ratified the terms and conditions of our stock option plan. A standard stock option program to grant subscription rights related to our preferred shares was approved by our board of directors at a meeting held on April 3, 2000. As a result of our entry in the Novo Mercado segment of BM&FBOVESPA, our preferred shares were converted into common shares, and therefore all options relating to this plan grant subscription rights related to our common shares. Currently, we do not have any stock option grants related to this plan.

On February 3, 2006, our shareholders approved a new stock option plan. Under the 2006 stock option plan, our board of directors may release further programs on a regular basis of options to purchase up to 5% of the total outstanding shares of our company, as set forth in the 2006 stock option plan. Such new programs would grant our executives and key employees the right to subscribe and/or acquire our shares for a set price, under terms and conditions according to the agreements set for each participant. Currently, we do not have any stock option grants related to this plan.

Our most recent stock option plan was approved on May 18, 2008 during a special shareholders' general meeting. Under this new stock option plan, our board of directors may create additional programs on a regular basis for options to purchase up to 5% of the total outstanding shares of our company, as set forth in the 2008 stock option plan.

Under this stock option plan, the board of directors may also grant different types of options to certain beneficiaries, namely "A options", which are regular options, and "B options," for the exercise price of R\$0.01. The exercise of B options, if granted, is subject to the proportional purchase of common shares or exercise of a regular option under this 2008 plan, according to the terms and conditions set forth in each program, and to lapse two years from the common share purchase date.

On August 11, 2014, our shareholders approved Tenda's first stock option plan. Under this stock option plan, our board of directors may release further programs on a regular basis of options to purchase up to 10% of the total outstanding shares of our company. Such new programs would grant our executives and key employees the right to subscribe and/or acquire our shares for a set price, under terms and conditions according to the agreements set for each participant.

As of December 31, 2014, all active stock option Programs follow the Plan approved in 2008.

2011 Programs

Two stock option programs were approved in 2011 for the board of directors, executives and key employees. As of the date of this annual report, only the second program is active.

Under the second program, the board of directors may grant different types of B options for the exercise price of R\$0.01 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this second program, according to the terms and conditions set forth in the second program, and to lapse one year from the grant date.

As of December 31, 2014, options to purchase 2,940,000 shares of our common shares have been granted to employees and executives pursuant to this second program. The options granted included 2,166,250 “B” options. Out of the total options granted, 2,602,170 have been acquired or expired pursuant to such second program.

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2012 Programs

Two stock option programs were approved in 2012 for executives and key employees.

The first is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of December 31, 2014, 3,560,000 options to purchase shares of our common shares have been granted to executive officers pursuant to this program. Out of the amount granted, 2,141,372 have been acquired pursuant to such program.

Under the second program, the board of directors may grant different types of B options for the exercise price of R\$0.01 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this second program, according to the terms and conditions set forth in such second program, and to lapse one year from the grant date.

As of December 31, 2014, options to purchase 4,079,048 shares of our common shares have been granted to employees and executives pursuant to this second program. The options granted included 3,005,532 "B" options. Out of the total options granted, 3,278,948 have been acquired or expired pursuant to such second program.

2013 Programs

Two stock option programs were approved in 2013 for executives and key employees.

The first is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of December 31, 2014, 1,370,037 options to purchase shares of our common shares have been granted to executive officers pursuant to this agreement and none has been acquired. Out of the amount granted, 692,099 have been acquired or expired pursuant to such agreements.

Under the second program, the board of directors may grant different types of B options for the exercise price of R\$0.01 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this program, according to the terms and conditions set forth in this second program, and to lapse one year from the grant date.

As of December 31, 2014, options to purchase 4,013,590 shares of our common shares have been granted to employees and executives pursuant to this second program. The options granted included 2,928,810 "B" options. Out of the total options granted, 2,067,206 have been acquired or expired pursuant to such second program.

2014 Programs

One stock option program was approved in 2014 for executives and key employees.

Under this program, the board of directors may grant different types of B options for the exercise price of R\$0.01 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price,

granted under this program, according to the terms and conditions set forth in each program, and to lapse one year from the grant date.

As of the date of this annual report, options to purchase 4,361,763 shares of our common shares have been granted to employees and executives pursuant to this agreement. The options granted included 1,680,670 "B" options. Out of the total options granted, none have been acquired or expired pursuant to such agreement.

Tenda program

One stock option program was approved in 2014 by the board of directors of Tenda for executives and key employees of Tenda.

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The program is a standard stock option program granting subscription rights related to Tenda's common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire Tenda's shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of December 31, 2014, options to purchase 42,259,687 shares of Tenda's common shares have been granted to employees and executives pursuant to this agreement. Out of the total options granted, none have been acquired or expired pursuant to such agreement.

Active Programs	Number of Stock Options granted	Number of Stock Options Outstanding (Not Expired or exercised) as of the date of this annual report	Exercise Price per Stock Option	Expiration
March 2011 (Restricted Type B) (1)	906,250	97,830	R\$ 0.01	March 2015
July 2011 (Restricted Type B) (1)	1,260,000	240,000	R\$ 0.01	July 2015
August 2012 (Standard SOP) (1)	3,560,000	1,418,628	R\$ 2.73	August 2025
August 2012 (Restricted Type B) (1)	3,005,532	800,100	R\$ 0.01	August 2016
May 2013 (Standard SOP) (1)	1,370,037	677,938	R\$ 3.66	May 2017
May 2013 (Restricted Type B) (1)	2,928,810	1,946,38	R\$ 0.01	May 2017
March 2014 (Restricted Type A) (1)	2,681,093	2,681,093	R\$ 3.13	March 2020
March 2014 (Restricted Type B) (1)	1,680,670	1,680,670	R\$ 0.01	March 2020
August 2014 (Standard SOP) (Tenda)	42,259,687	42,259,687	R\$ 0.77	March 2024
Total		51,802,328		

(1) Options unvested or vested and not yet exercised.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of the date of this annual report, the following shareholder held more than 5.0% of our common shares. The following table sets forth information of our directors and officers as a group, as well as common shares held in treasury and other shares in the public float. Each holder of common shares has the same rights.

Shareholders	Shares	(%)
Fundação dos Economizadores Federais ("FUNCEF")	23,835,800	5.84
Polo Capital Gestão de Recursos Ltda. and Polo Capital Internacional Gestão de Recursos Ltda.	52,547,486	12.88
Public Float	301,851,590	73.96
Treasury shares	29,881,286	7.32
Total	408,066,162	100.0

We had a total of 97 record shareholders located in the United States, 73% of which hold shares traded at BM&FBOVESPA and 27% of which hold ADSs traded on the NYSE. We are not aware of any shareholders' agreement currently in force with our main shareholder.

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. The proceeds from the transaction, post adjustments agreed to in the Share and Purchase Agreement, were R\$1.54 billion, consisting of R\$1.25 billion from Fundo AE for the acquisition of Alphaville shares, and an R\$290 million dividend distribution by Alphaville.

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B. Related Party Transactions

Other than arrangements which are described in “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management— Our Relationship with our Executive Officers and Directors” and the transaction described below, since January 1, 2007, there has not been, and there is not currently proposed, any material transaction or series of similar transactions to which we were or will be a party in which any director, executive officer, holder of 5% of our capital stock or any member of their immediate family had or will have a direct or indirect interest.

Under Brazilian corporate law, our directors and executive officers cannot vote on any matter in which they have a conflict of interest and such transactions can only be approved on reasonable and fair terms and under conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties.

We participate in the development of real estate ventures with other partners, directly or through related parties, based on the constitutive documents of condominiums and/or consortia. The management structure of these enterprises and the cash management are centralized in the lead partner of the enterprise, which manages the construction schedule and budgets. Thus, the lead partner ensures that the investments of the necessary funds are made and allocated as planned. The sources and uses of resources of the venture are reflected in the balance sheet of the ventures, reflecting the respective participation percentages of the partners, which are not subject to inflation adjustments or financial charges and do not have a predetermined maturity date. The average term for the development and completion of the projects in which the resources are invested is between 24 and 30 months. As of December 31, 2014, 2013 and 2012, we had current accounts receivable from related parties related to real estate ventures of R\$142.7 million, R\$82.5 million and R\$164.9 million, respectively. And we had current accounts payable from related parties related to real estate ventures of R\$156.5 million, R\$133.7 million and R\$138.2 million, respectively.

As of and for the years ended December 31, 2014, 2013 and 2012, we have not entered into any loan or other type of financing agreement with our directors or executive officers.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

For our consolidated financial statements and notes thereto see “Item 18. Financial Statements.”

Legal Proceedings

We are currently party to several legal and administrative proceedings arising from the normal course of our business, principally relating to civil, environmental, tax and labor claims. We establish provisions in our balance sheets relating to potential losses from litigation based on estimates of probable losses. Brazilian GAAP requires us to establish provisions in connection with probable losses and we record a provision when, in the opinion of our management, we feel that an adverse outcome in a litigation is probable and a loss can be estimated. The determination of the amounts provisioned is based on the amounts involved in the claims and the opinion of our management.

Civil Claims

As of December 31, 2014, we were a party to 11,495 civil actions, totaling R\$970 million. Of these actions, we were the plaintiff in 345 actions and the defendant in 11,150 actions, with aggregate amounts of R\$158 million and R\$812 million, respectively.

Most of these civil claims involve ordinary course matters relating to the development of our properties, including annulment of contractual clauses and termination of agreements with the reimbursement of the amounts paid. We also have a few civil claims where we discuss the resolution of the construction partnership.

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As of December 31, 2014, the provisions related to civil claims include R\$65.0 million related to lawsuits in which the Company is included as successor in enforcement actions for judicial and extrajudicial debts, in which the original debtor is a former shareholder of Gafisa, Cimob Companhia Imobiliária (“Cimob”) or companies that are part of the economic group of Cimob. The plaintiff alleges that the Company should be liable for the debts of Cimob. We have made judicial deposits amounting to R\$62 million in connection with these claims. The Company is filing appeals against all decisions, as it considers that the inclusion of Gafisa in the claims to be legally unreasonable; these appeals aim at releasing amounts and obtaining the recognition that it cannot be held liable for the debt of a company that does not have any relationship with Gafisa. The Company has obtained both favourable and unfavourable decisions on appeal, and the final decision of each pending appeal cannot be predicted at present.

The Company is a plaintiff in proceedings against Cimob and its former and current controlling shareholders. The Company is seeking (i) restitution of amounts already paid by the Company in connection with the lawsuits in which the Company is included as successor in enforcement actions for judicial and extrajudicial debts proceedings in which the original debtor is Cimob and (ii) the recognition of the court that it does not have any relationship with Cimob and cannot therefore be held liable for the debt of Cimob. The final decision is on appeal, and cannot be predicted at present.

As of December 31, 2014, the provision for our civil claims amounted to R\$157.8 million.

Environmental Claims

As of December 31, 2014, we were the defendants in certain environmental claims alleging damage to a permanent conservation area and we are currently not able to estimate the aggregate amount of such claims.

In addition, we are occasionally party to other administrative environmental inquiries or claims by the Public Prosecution Offices or by other governmental agencies or third parties. These inquiries may result in public environmental claims against us and the findings in these inquiries may give rise to other administrative and criminal claims. However, based on currently available information, we do not believe these matters are, or are likely to be in the future, material to our business or financial condition.

In Case No. 0022897-84.2010.4.03.6100, federal prosecutors (Ministério Público Federal) argue that due to restrictions on urban and landscape rights it would have been unduly issued by the authorities the approval of project Paulista Corporate Building. This process was intended to prevent the conclusion of construction, but the judiciary, according to our defense, denied the request and the building has already been finalized. There is still an appeal filed by the federal prosecutors awaiting judgment but, we believe, it is unlikely to overturn that judgment. The value attributed to the case by federal prosecutors is R\$320.0 million. Based on currently available information, we believe chances of loss for this claim are remote.

In Case No. 20654-60.2011.4.01.3200, federal prosecutors (Ministério Público Federal) argue that the company has built one of the towers of “Riviera da Ponta Building” on Federal Government property, next to a riverbank. The federal prosecutors claimed R\$88.3 million in damages, comprising both environmental liability for construction in an allegedly “protected area” and payoff for the property. We estimate the probability of the company to be sentenced to pay R\$88.3 million as remote because we believe that the federal prosecutors’ computations to get this number are unreasonable, since they neither the value nor the extension of the area supposedly invaded are accurate. Nevertheless, at this point we cannot estimate what the correct amount would be if we lose this case, as there has been no expert appraisal yet.

As of December 31, 2014, we have made no provisions for environmental claims.

Tax Claims

As of December 31, 2014, we were party to several tax proceedings involving tax liabilities in the aggregate amount of R\$105.0 million. As of December 31, 2014, the provision for tax liabilities amounted to R\$0.4 million. In addition, we have deposited R\$12.3 million with the court in connection with some of these proceedings. These amounts take into consideration the tax liabilities of our subsidiaries, in proportion to our interest in their share capital. The main tax proceedings to which we are a party are described below.

On November 30, 2009, we and our subsidiaries Tenda, Alphaville and Gafisa Vendas joined the program for cash and installment payment of debits with the Federal Revenue Service and the Attorney-General Office of the National Treasury. The Company joined the tax amnesty and refinancing program and opted for the cash payment of tax debits amounting to R\$17.3 million, of which R\$10.4 million was in cash and R\$6.9 million offset tax losses. Tenda, Alphaville and Gafisa Vendas opted for the installment payment of tax debits amounting to R\$6.6 million, R\$980 thousand and R\$192 thousand, respectively, recognizing gains of R\$568 thousand, R\$360 thousand and R\$70 thousand, respectively, relating to the offset of tax losses.

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Alphaville is a party to legal and administrative claims related to Federal VAT (IPI) and State VAT (ICMS) on two imports of aircraft in 2001 and 2005, respectively, under leasing agreements without purchase options. The likelihood of loss in the ICMS case is rated by legal counsel as (1) possible in regard to the principal and interest, and (2) remote in regard to the fine for noncompliance with accessory liabilities. The amount of the contingency considered by our legal counsel as a possible loss totaled R\$16.3 million. According to the negotiation of the sale of controlling interest of 70% in Alphaville, it was agreed in the purchase and sale contract that Gafisa is responsible in the event of unfavorable decision.

Several municipalities charge a municipal tax on construction services on an arbitrated basis, which varies depending on the characteristic of the construction. We have filed lawsuits against the municipalities of São Paulo and São Caetano do Sul to challenge the calculation of the arbitrated basis on several of our developments under construction. In these proceedings, we deposited R\$11.3 million with the courts and we are awaiting the final decision. In addition, the municipalities of Rio de Janeiro, Niterói, São Paulo and Santo Andre have issued tax assessments against us. We have filed administrative defenses and are awaiting the final administrative decisions. The total amount involved in these proceedings is R\$11.3 million.

Labor Claims

As of December 31, 2014, we were a defendant in 4,867 labor claims resulting from our ordinary course of business, of which approximately 44% were filed by outsourced workers and approximately 24.1% were filed by our former employees. The alleged legal bases for these claims mainly relate to termination benefits, overtime hours, employee relationship and dismissal rights. As of December 31, 2014, the total value involved in the labor claims filed against us was approximately R\$181.0 million. As of December 31, 2014, the provision for labor claims amounted to R\$81.3 million.

In addition, we are periodically party to other administrative labor inquiries or claims by the Public Prosecution Offices or by other governmental agencies or third parties. These inquiries may result in public labor claims against us and the findings in these inquiries may give rise to other claims. However, based on currently available information, we do not believe these matters are, or are likely to be in the future, material to our business or financial condition.

Arbitration

We are also involved in 6 arbitrations proceedings: three of them by partners seeking to discuss and terminate the partnership to develop a few real estate projects. The remaining three cases are pending final decisions as of year-end.

As of December 31, 2014, we have made no provisions for arbitration claims.

Other Developments

On June 14, 2012, we received a subpoena from the SEC Division of Enforcement related to the Matter of Certain 20-F Filer Home Builders (HO-11760). The subpoena requests that we produce all documents from January 1, 2010 to the present related to the preparation of our financial statements, including, among other things, copies of our financial policies and procedures, board and audit committee and operations committee minutes, monthly closing reports and financial packages, any documents relating to possible financial or accounting irregularities or improprieties and internal audit reports. The SEC's investigation is a non-public, fact-finding inquiry and it is not clear what action, if any, the SEC intends to take with respect to the information it gathers. The SEC subpoena does not specify any charges. The Company has already submitted all the information requested by SEC, which as of the publication of these financial statements has not issued any opinion. We have not received any further notice from the SEC after

delivering the requested information in the first half of 2012.

On July 31, 2012, we received a letter from the CVM: CVM/SEP/GEA-5/ Letter No. 208/2012, requesting information related to criteria for measurement and recognition of revenue and enhancement in the disclosure of some notes to our financial information. We have already provided all the information requested by the CVM. In addition, on February 19, 2013, we received a letter from the CVM: CVM/SEP/GEA-5/ Letter No. 040/2013 recommending enhancements to the notes to our financial statements regarding the percentage of assets by venture that is included in the structures of equity segregation of the purchase.

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On July 11, 2013, the Company received CVM/SEP/GEA-5 Letter No. 240/2013, which requested information on the criteria for measuring and recognizing revenues. The Company has already provided all the information requested by CVM. On November 2013, we received a letter from the CVM: SEP/GEA-5/no 362/2013, requesting information related to some control deficiencies. We have already provided all the information requested by the CVM.

Dividend Policy

The amount of any of our distributions of dividends and/or interest on shareholders' equity will depend on a series of factors, such as our financial conditions, prospects, macroeconomic conditions, tariff adjustments, regulatory changes, growth strategies and other issues our board of directors and our shareholders may consider relevant, as discussed below.

Amounts Available for Distribution

At each annual general shareholders' meeting, our board of directors is required to propose to our shareholders how our earnings of the preceding fiscal year are to be allocated. For purposes of Brazilian corporate law, a company's income after federal income tax for such fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to debentures, employees' and management's participation in earnings and founders' shares, represents its "net income" for such fiscal year. In accordance with Brazilian corporate law, an amount equal to the company's "net income" may be affected by the following:

- reduced by amounts allocated to the legal reserve;
- reduced by amounts allocated to any statutory reserve;
- reduced by amounts allocated to the contingency reserve, if any;
- reduced by amounts allocated to the tax incentives reserve;
- reduced by amounts allocated to the investment reserve;
- increased by reversals of contingency reserves recorded in prior years; and
- increased by amounts allocated to the investment reserve, when realized and if not absorbed by losses.

Our calculation of net income and allocation of funds to our reserves for any fiscal year are determined on the basis of our audited unconsolidated financial statements for the immediately preceding fiscal year.

Allocation of Net Income

According to Brazilian corporate law, we have two types of reserve accounts: (1) profit reserves and (2) capital reserve.

Profit Reserves

Our profit reserves consist of the following:

- **Legal Reserve.** Under Brazilian corporate law and our by-laws, we are required to maintain a legal reserve to which we must allocate 5% of our net income for each fiscal year until the aggregate amount of such reserve equals 20%

of our share capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which the legal reserve, when added to our other established capital reserves, exceeds 30% of our total share capital. The portion of our net income allocated to our legal reserve must be approved by our annual general shareholders' meeting and the balance of such reserve may only be used to increase our share capital or to absorb losses, but is unavailable for the payment of dividends. As of December 31, 2014, our legal reserve amounted to R\$31.6 million.

- **Statutory Reserve.** Under Brazilian corporate law, we are permitted to provide for the allocation of part of our net income to discretionary reserve accounts that may be established in accordance with our bylaws. The allocation of our net income to discretionary reserve accounts may not be made if it serves to prevent distribution of the mandatory distributable amount. According to our bylaws, up to 71.25% of our net income may be allocated to an investment reserve to finance the expansion of our activities and the activities of our controlled companies by subscribing for capital increases, creating new projects or participating in consortia or any other type of association to achieve our corporate purpose. This investment reserve may not exceed 80% of our share capital. As of December 31, 2014, there was no amount allocated to a statutory reserve.

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- **Contingency Reserve.** Under Brazilian corporate law, a percentage of our net income may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Management must indicate the cause of the anticipated loss and justify the establishment of the reserve for allocation of a percentage of our net income. Any amount so allocated in a prior year either must be reversed in the year in which the justification for the loss ceases to exist or charged off in the event that the anticipated loss occurs. The allocations to the contingency reserve are subject to the approval of our shareholders in a general shareholders' meeting. As of December 31, 2014, there was no amount allocated to a contingency reserve.
- **Investment Reserve.** Under Brazilian corporate law, the amount by which the mandatory distributable amount exceeds the "realized" net income in a given fiscal year, as proposed by the board of directors, may be allocated to the investment reserve. Brazilian corporate law defines "realized" net profits as the amount by which net profits exceed the sum of (1) the net positive results, if any, from the equity method of accounting and (2) the net profits, net gains or net returns resulting from transactions or the accounting of assets and liabilities based on their market value, to be received after the end of the following fiscal year. All amounts allocated to the investment reserve must be paid as mandatory dividends when those "unrealized" profits are realized if they have not been designated to absorb losses in subsequent periods. As of December 31, 2014, our investment reserve amounted to R\$292.3 million.
- **Retained Earnings Reserve.** Under Brazilian corporate law, a portion of our net income may be reserved for investment projects in an amount based on a capital expenditure budget approved by our shareholders. If such budget covers more than one fiscal year, it might be reviewed annually at the general shareholders' meeting. The allocation of this reserve cannot jeopardize the payment of the mandatory dividends. As of December 31, 2013, there was no amount allocated to our retained earnings reserve.

Capital Reserves

The capital reserve is formed by (a) amounts received by shareholders in excess of the par value of shares issued (premium on capital stock), as well as the part of the issue price of the shares with no par value that exceeds the amount intended to form the capital stock; and (b) proceeds from the sale of founders' shares and warrants. Under Brazilian corporate law, capital reserve may only be applied to: (1) absorb losses that exceed accumulated earnings and revenue reserves; (2) redeem, reimburse or buy our own shares; and (3) increase our share capital.

Mandatory Distribution of Dividends

Brazilian corporate law generally requires that the bylaws of each Brazilian company specify a minimum percentage of the amounts available for distribution by such company for each fiscal year that must be distributed to shareholders as dividends or as interest on shareholders' equity, also known as the mandatory dividend.