NATIONAL HEALTH INVESTORS INC
Form 10-Q
November 04, 2013

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

FORM 10-Q
(Mark One)
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

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

For the transition period from _____________ to _____________

Commission File Number 001-10822
National Health Investors, Inc.
(Exact name of registrant as specified in its charter)

Maryland	62-1470956
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 Robert Rose Drive, Murfreesboro, Tennessee	37129
(Address of principal executive offices)	(Zip Code)

(615) 890-9100
(Registrant's telephone number, including area code)

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 [x] 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	[x]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

There were 27,876,176 shares of common stock outstanding of the registrant as of November 1, 2013.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012
Assets:		
Real estate properties:		
Land	$70,844	$58,869
Buildings and improvements	854,915	636,994
Construction in progress	19,469	2,673
	945,228	698,536
Less accumulated depreciation	(177,820)	(163,146)
Real estate properties, net	767,408	535,390
Mortgage and other notes receivable, net	59,367	84,250
Investment in preferred stock, at cost	38,132	38,132
Cash and cash equivalents	7,450	9,172
Marketable securities	13,577	12,884
Straight-line rent receivable	16,778	12,370
Equity-method investment and other assets	14,402	12,172
Assets held for sale, net	—	1,611
Total Assets	$917,114	$705,981
Liabilities and Equity:		
Debt	$391,362	$203,250
Real estate purchase liabilities	5,856	4,256
Accounts payable and accrued expenses	7,809	4,301
Dividends payable	20,489	24,793
Deferred income	1,185	1,334
Total Liabilities	426,701	237,934
Commitments and Contingencies		
National Health Investors Stockholders' Equity:		
Common stock, $.01 par value; 40,000,000 shares authorized; 27,876,176 and 27,857,217 shares issued and outstanding, respectively	279	279
Capital in excess of par value	470,892	467,843
Cumulative dividends in excess of net income	(439)	(18,495)
Accumulated other comprehensive income	8,970	7,555
Total National Health Investors Stockholders' Equity	479,702	457,182
Noncontrolling interest	10,711	10,865
Total Equity	490,413	468,047
Total Liabilities and Equity	$917,114	$705,981

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements. The Condensed Consolidated Balance Sheet at December 31, 2012 was derived from the audited consolidated financial statements at that date.

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NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Revenues:				
Rental income	$28,817	$21,116	$78,879	$61,333
Interest income from mortgage and other notes	1,936	1,879	5,877	5,428
Investment income and other	1,040	1,348	3,156	3,462
	31,793	24,343	87,912	70,223
Expenses:				
Depreciation	5,732	5,791	14,705	12,350
Interest	3,290	854	6,011	2,176
Legal	55	205	621	424
Franchise, excise and other taxes	80	271	316	626
General and administrative	1,757	1,639	7,171	6,018
Loan and realty (recoveries) losses, net	(2,061)	2,300	1,976	2,300
	8,853	11,060	30,800	23,894
Income before equity-method investee, investment and other gains, discontinued operations and noncontrolling interest	22,940	13,283	57,112	46,329
Income from equity-method investee	178	—	269	—
Investment and other gains	—	—	—	30
Income from continuing operations	23,118	13,283	57,381	46,359
Discontinued operations				
Income from operations - discontinued	562	1,068	2,321	3,269
Gain on sale of real estate	19,370	—	19,370	—
Income from discontinued operations	19,932	1,068	21,691	3,269
Net income	43,050	14,351	79,072	49,628
Less: net income attributable to noncontrolling interest	(306)	—	(664)	—
Net income attributable to common stockholders	$42,744	$14,351	$78,408	$49,628
Weighted average common shares outstanding:				
Basic	27,876,176	27,830,311	27,872,805	27,799,750
Diluted	27,905,545	27,862,582	27,906,914	27,828,879
Earnings per common share:				
Basic:				
Income from continuing operations attributable to common stockholders	$.82	$.48	$2.03	$1.66
Discontinued operations	.71	.04	.78	.12
Net income per common share attributable to common stockholders	$1.53	$.52	$2.81	$1.78
Diluted:				
Income from continuing operations attributable to common stockholders	$.82	$.48	$2.03	$1.66
Discontinued operations	.71	.04	.78	.12

Net income per common share attributable to common stockholders	$1.53	$.52	$2.81	$1.78

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net income	$43,050	$14,351	$79,072	$49,628
Other comprehensive income:				
Change in unrealized gains on securities	(627)	(1,336)	693	567
Less: reclassification adjustment for gains in net income	—	—	—	(30)
Increase (decrease) in fair value of cash flow hedge	(384)	(436)	722	(1,343)
Total other comprehensive income (loss)	(1,011)	(1,772)	1,415	(806)
Comprehensive income	42,039	12,579	80,487	48,822
Less: comprehensive income attributable to noncontrolling interest	(306)	—	(664)	—
Comprehensive income attributable to common stockholders	$41,733	$12,579	$79,823	$48,822

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2013	2012
	(unaudited)	
Cash flows from operating activities:		
Net income	$79,072	$49,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,705	12,653
Amortization	226	238
Straight-line rental income	(4,408)	(2,325)
Write-off of debt issuance costs	353	—
Loan and realty (recoveries) losses, net	1,976	2,300
Gain on sale of real estate	(19,370)	—
Net realized gains on sales of marketable securities	—	(30)
Share-based compensation	2,086	1,924
Income from equity-method investee	(269)	—
Change in operating assets and liabilities:		
Equity-method investment and other assets	(307)	358
Accounts payable and accrued expenses	498	(712)
Deferred income	(149)	(299)
Net cash provided by operating activities	74,413	63,735
Cash flows from investing activities:		
Investment in mortgage and other notes receivable	(9,713)	(5,797)
Collection of mortgage and other notes receivable	18,879	2,844
Investment in real estate	(134,074)	(77,740)
Investment in real estate development	(7,883)	—
Investment in renovations of existing real estate	(5,323)	—
Investment in unconsolidated entity	—	(8,309)
Payment of real estate purchase liability	—	(3,000)
Proceeds from disposition of real estate properties	20,981	—
Proceeds from sales of marketable securities	—	125
Net cash used in investing activities	(117,133)	(91,877)
Cash flows from financing activities:		
Net change in borrowings under revolving credit facilities	127,000	(42,300)
Borrowings on term loan	80,000	120,000
Repayment of term loan	(80,000)	—
Debt issuance costs	(1,275)	(753)
Principal payments on term loan	(19,399)	—
Proceeds from exercise of stock options	146	(2)
Distributions to noncontrolling interest	(818)	—
Dividends paid to stockholders	(64,656)	(60,279)
Net cash provided by financing activities	40,998	16,666
Decrease in cash and cash equivalents	(1,722)	(11,476)

Cash and cash equivalents, beginning of period	9,172	15,886
Cash and cash equivalents, end of period	$7,450	$4,410

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	Nine Months Ended September 30,	
	2013	2012
	(unaudited)	
Supplemental disclosure of cash flow information:		
Interest paid	$ 5,225	$ 2,214
Supplemental disclosure of non-cash investing and financing activities:		
Settlement of mortgage note by real estate acquisition	$ 13,741	$ —
Conditional consideration in asset acquisition	$ 1,600	$ —
Accounts payable increase due to investments in real estate	$ 3,453	$ —
Assumption of debt in real estate acquisition (at fair value)	$ 80,528	$ 19,250
Increase (decrease) in fair value of cash flow hedge	$ 722	$ (1,343)
Assignment of net assets in equity-method investee	$ 817	$ —

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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NATIONAL HEALTH INVESTORS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited, in thousands except share and per share amounts)

	Common Stock							
	Shares	Amount	Capital in Excess of Par Value	Cumulative Dividends in Excess of Net Income	Accumulated Other Comprehensive Income	Total National Health Investors Stockholders' Equity	Noncontrolling Interest	Total Equity
Balances at December 31, 2012	27,857,217	$ 279	$ 467,843	$ (18,495)	$ 7,555	$ 457,182	$ 10,865	$ 468,047
Total comprehensive income	—	—	—	78,408	1,415	79,823	664	80,487
Distributions to noncontrolling interest	—	—	—	—	—	—	(818)	(818)
Shares issued on stock options exercised	18,959	—	146	—	—	146	—	146
Share-based compensation	—	—	2,086	—	—	2,086	—	2,086
Assignment of net assets in equity-method investee	—	—	817	—	—	817	—	817
Dividends declared, $2.165 per share	—	—	—	(60,352)	—	(60,352)	—	(60,352)
Balances at September 30, 2013	27,876,176	$ 279	$ 470,892	$ (439)	$ 8,970	$ 479,702	$ 10,711	$ 490,413

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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NATIONAL HEALTH INVESTORS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

We, the management of National Health Investors, Inc., ("NHI" or the "Company") believe that the unaudited condensed consolidated financial statements of which these notes are an integral part include all normal, recurring adjustments which are necessary to fairly present the condensed consolidated financial position, results of operations and cash flows of NHI in all material respects. The Condensed Consolidated Balance Sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date. We assume that users of these condensed consolidated financial statements have read or have access to the audited December 31, 2012 consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate those contained in our most recent Annual Report on Form 10-K for the year ended December 31, 2012 have been omitted. This condensed consolidated financial information is not necessarily indicative of the results that may be expected for a full year for a variety of reasons including, but not limited to, acquisitions and dispositions, changes in interest rates, rents and the timing of debt and equity financings. For a better understanding of NHI and its condensed consolidated financial statements, we recommend reading these condensed consolidated financial statements in conjunction with the audited consolidated financial statements for the year ended December 31, 2012, which are included in our 2012 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, a copy of which is available at our web site: www.nhireit.com.

Principles of Consolidation - The accompanying condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries and the joint venture entity over which we exercise control. All inter-company transactions and balances have been eliminated in consolidation. Net income is reduced by the portion of net income attributable to noncontrolling interests.

We apply Financial Accounting Standards Board ("FASB") guidance for our arrangements with variable interest entities ("VIEs") which requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of the VIE. A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. We consolidate investments in VIEs when we are determined to be the primary beneficiary of the VIE. We may change our original assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity's equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.

We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis. At September 30, 2013, we held an interest in one unconsolidated VIE, of which we were not the primary beneficiary.

We also apply FASB guidance related to investments in joint ventures based on the type of controlling rights held by the members' interests in limited liability companies that may preclude consolidation by the majority equity owner in certain circumstances in which the majority equity owner would otherwise consolidate the joint venture.

We structure our joint ventures to be compliant with the provisions of the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA") which permits NHI to receive rent payments through a triple-net lease between a property company and an operating company, and is designed to give NHI the opportunity to capture additional value on the improving performance of the operating company through distributions to a taxable REIT subsidiary ("TRS"). Accordingly, the TRS holds our equity interest in an unconsolidated operating company, which we do not control, and provides an organizational structure that will allow the TRS to engage in a broad range of activities and share in revenues that would otherwise be non-qualifying income under the REIT gross income tests.

Equity-Method Investment - We report our TRS investment in an unconsolidated entity, over whose operating and financial policies we have the ability to exercise significant influence but not control, under the equity method of accounting. Under this method of accounting, our pro rata share of the entity's earnings or losses is included in our Condensed Consolidated Statements of Income. Additionally, we adjust our investment carrying amount to reflect our share of changes in an equity-method investee's capital resulting from its capital transactions.

The initial carrying value of our equity-method investments is based on the fair value of the net assets of the entity at the time we acquired our interest. We estimate fair values of the net assets of our equity-method investees based on discounted cash flow models. The inputs we use in these models are based on assumptions that we believe to be within a reasonable range of current market rates for the respective investments.

We evaluate our equity-method investments for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may exceed the fair value. If it is determined that a decline in the fair value of our investment is not temporary, and if such reduced fair value is below its carrying value, an impairment is recorded. The determination of the fair value of our equity-method investments involve significant judgment. Our estimates consider all available evidence including the present value of the expected future cash flows discounted at market rates, general economic conditions and other relevant factors.

Noncontrolling Interests - We present the portion of any equity that we do not own in entities that we control (and thus consolidate) as noncontrolling interests and classify such interests as a component of consolidated equity, separate from total NHI stockholders' equity, in our Condensed Consolidated Balance Sheets. In addition, we include net income attributable to the noncontrolling interests in net income in our Condensed Consolidated Statements of Income.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy is required to prioritize the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

If the fair value measurement is based on inputs from different levels of the hierarchy, the level within which the entire fair value measurement falls is the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. When an event or circumstance alters our assessment of the observability and thus the appropriate classification of an input to a fair value measurement which we deem to be significant to the fair value measurement as a whole, we will transfer that fair value measurement to the appropriate level within the fair value hierarchy.

Real Estate Properties - Real estate properties are recorded at cost or, if acquired through business combination, at fair value. Cost or fair value at the time of acquisition is allocated among land, buildings, tenant improvements, lease and other intangibles, and personal property. For properties acquired in transactions accounted for as asset purchases, the purchase price allocation is based on the relative fair values of the assets acquired. Cost includes capitalized interest during construction periods. We use the straight-line method of depreciation for buildings over their estimated useful lives of 40 years, and improvements over their estimated useful lives ranging from 3 to 25 years.

We evaluate the recoverability of the carrying value of our real estate properties on a property-by-property basis. On a quarterly basis, we review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

We have reclassified for all periods presented the operations of facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in the Condensed Consolidated Statements of Income. Long-lived assets classified as held for sale are reported separately in the Condensed Consolidated Balance Sheets. When assets previously classified as being held for sale no longer meet the accounting criteria for such classification, we reclassify those assets as held and used, measured at the lower of their carrying amount before the assets were classified as held for sale (adjusted in the period in which the decision not to sell was made for any depreciation expense that would have been recognized had the assets been continuously classified as held and used) or their fair value at the date of the subsequent decision not to sell. Results of operations of the facilities previously disclosed in our Condensed Consolidated Statements of Income as discontinued operations which no longer meet the accounting criteria as held for sale are reclassified into continuing operations for all periods presented. There is no change to reported net income for the prior periods as a result of this reclassification.

Mortgage and Other Notes Receivable - Each quarter, we evaluate the carrying values of our notes receivable on an instrument-by-instrument basis for recoverability when events or circumstances, including the non-receipt of contractual principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If a note receivable becomes more than 30 days delinquent as to contractual principal or interest payments, the loan is classified as non-performing, and thereafter we recognize all amounts due when received. If necessary, an impairment is measured as the amount by which the carrying amount exceeds the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable.

New Accounting Pronouncements - In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends FASB Topic 220, Comprehensive Income, which requires entities to provide information about amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have a material impact on our condensed consolidated financial statements.

In July 2013 the FASB issued ASU 2013-10, Derivatives and Hedging, which amends Topic 815. ASU 2013-10 permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to U.S. Treasury and LIBOR. ASU 2013-10 also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material impact on our financial statements.

NOTE 2. REAL ESTATE

As of September 30, 2013, we owned 135 health care real estate properties located in 27 states and consisting of 66 senior housing communities, 64 skilled nursing facilities, 3 hospitals and 2 medical office buildings. Our senior housing properties include assisted living facilities, senior living campuses, and independent living facilities. These investments (excluding our corporate office of $882,000) consisted of properties with an original cost of approximately $944,346,000, rented under triple-net leases to 23 lessees.

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Acquisitions and New Leases of Real Estate

During the nine months ended September 30, 2013, we made the following real estate investments and commitments as described below (in thousands):

Operator	Properties	Asset Class	Amount
Bickford Senior Living/RIDEA Structure	17	Senior Housing	$137,459
Fundamental Long Term Care Holdings, LLC	2	Skilled Nursing	27,750
National Healthcare Corporation	7	Skilled Nursing	37,417
Emeritus Senior Living	1	Senior Housing	15,300
Discovery Senior Living	1	Senior Housing	12,000
			$229,926

NHC

Our revenue from continuing operations was $87,912,000 and $70,223,000 for the nine months ended September 30, 2013 and 2012, respectively. Of these amounts, $25,650,000 (29%) and $25,041,000 (36%), respectively, were derived from National Healthcare Corporation ("NHC"), a publicly-held company and our largest tenant. At September 30, 2013, we leased 42 health care facilities to NHC consisting of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). The master lease agreement with NHC originally dated October 17, 1991, has since been amended to extend the lease expiration 5 years to December 31, 2026. There are two additional 5-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as "percentage rent."

The following table summarizes the percentage rent received and recognized from NHC (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current year	$570	$382	$1,706	$1,148
Prior year final certification[1]	—	—	746	997
Total percentage rent	$570	$382	$2,452	$2,145

[1] For purposes of the percentage rent calculation described in the Master Lease Agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

As previously disclosed, in December 2012, NHI entered into an agreement with NHC to sell six skilled nursing facilities for $21,000,000 in cash. The properties had a carrying value of $1,611,000. The sale was completed on August 31, 2013, and resulted in a gain for financial statement purposes of $19,370,000 after transaction costs of $19,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. The results of operation of the facilities sold were classified as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. Upon the sale of these facilities and prior to the acquisition described below, NHI's annual base rent of $33,700,000 was reduced to $30,750,000.

On August 30, 2013, NHI acquired seven skilled nursing facilities (and one vacant assisted living facility) in Massachusetts and New Hampshire from former not-for-profit borrower ElderTrust of Florida, Inc. ("ElderTrust") for consideration of $37,417,000 consisting of $23,676,000 in cash, inclusive of closing costs, and the cancellation of notes receivable from ElderTrust with a principal balance of $13,741,000. Beginning September 1, 2013, the facilities

were placed under a new triple net lease to the current manager, NHC, for a period of 15 years commencing with a lease amount of $350,000 for the remainder of 2013. In 2014, the lease provides for a base annual rental of $3,450,000. Under the terms of the lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. Because ElderTrust was the owner and operator of the facilities, we accounted for the transaction as an asset acquisition. During the last three years of the lease, NHC will have the option to purchase the facilities for $49,000,000.

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Bickford

As of September 30, 2013, we owned an 85% equity interest and an affiliate of Bickford Senior Living ("Bickford") owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 27 assisted living/memory care facilities and also has 3 facilities under construction. The facilities are leased to an operating company, ("OpCo"), in which we also retain an 85% ownership interest, but do not control. Our joint venture is structured to comply with the provisions of RIDEA.

On June 28, 2013, PropCo purchased 17 assisted living and memory care facilities which were managed by Bickford. The facilities total 750 units and are located in Illinois, Indiana, Iowa and Nebraska. Of these facilities, 14 were acquired from a subsidiary of Care Investment Trust, Inc. ("Care") for $124,549,000, consisting of $44,021,000 in cash and assumption of secured debt with a fair value of $80,528,000. PropCo accounted for acquisition of the 100% interest in the real estate operations of these facilities using the acquisition method as prescribed by ASC Topic 805. As part of this transaction, we recognized all identifiable tangible assets and liabilities assumed at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed $4,360,000 to the fair value of the land, $120,189,000 to the fair value of the buildings and improvements and expensed $63,000 in transaction costs at closing. The 14 newly-acquired facilities have been leased to OpCo for an initial term of 5 years at an aggregate annual lease amount of $9,750,000 plus annual fixed escalators commencing on July 1 of each succeeding year.

Concurrent with this acquisition, PropCo also completed a $12,910,000 purchase and leaseback of three assisted living facilities located in Iowa, Nebraska and Indiana totaling 107 units from affiliates of Bickford. The acquisition was accounted for as an asset purchase. PropCo's previous master lease with Bickford was amended to include these three properties and the annual lease amount was increased from $7,750,000 to $9,086,000, plus annual fixed escalators beginning January 1 of each succeeding year. All other significant terms of the existing master lease remain unchanged.

In total, the 27 operating facilities in the joint venture have aggregate annual contractual rent due from OpCo to Propco of $18,836,000, plus fixed annual escalators. Of our total revenue from continuing operations, $5,209,000 (16%) and $9,383,000 (11%) were recorded by PropCo from OpCo for the three and nine months ended September 30, 2013, respectively.

NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions. At September 30, 2013, PropCo had purchased land and begun construction on three assisted living/memory care facilities having a maximum cost of $27,000,000. Our costs incurred to date, including land, were $14,252,000.

For the 14 Care properties acquired in a business combination and discussed above, the pro forma revenue, net income and net income available to common stockholders of the combined entity is provided below had the acquisition date been January 1, 2012 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	$34,381	$26,931	$95,677	$77,988
Net income	$43,490	$14,791	$80,391	$50,947
Net income available to common stockholders	$43,118	$14,725	$79,529	$50,749
Basic earnings per share	$1.55	$.53	$2.85	$1.83
Diluted earnings per share	$1.55	$.53	$2.85	$1.82

Supplemental pro forma information above includes revenues from the newly executed lease with OpCo, recognized on a straight-line basis, depreciation, and appropriate interest costs.

Emeritus

In July 2013 we completed a $15,300,000 acquisition of The Inn at Halcyon Village in Marysville, Ohio ("Halcyon"). The 76-unit assisted living and memory care community is leased to Emeritus Senior Living for an initial term of 15 years with an option to extend. Rent in the first year of the lease will be $1,140,000. Annual fixed escalators begin in the third lease year. Because Halcyon was owner-operated at the time of acquisition, we accounted for the purchase as an asset acquisition.

Discovery

In September 2013 we completed a $12,000,000 acquisition of Regency Pointe Retirement Community in Rainbow City, Alabama. The 120-unit senior housing community is leased to Discovery Senior Living ("Discovery") for an initial term of 15

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years, with three 5-year renewal options. Rent in the first year of the lease is $942,000 plus annual fixed escalators thereafter. As a lease inducement, upon achieving certain operating metrics, Discovery will be eligible over years two, three and four of the lease for contingent payments totaling up to $2,500,000 which, if paid, will be amortized as an adjustment to rental income over the remaining lease term. Because Regency Pointe was owner-operated at acquisition, we accounted for the purchase as an asset purchase.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of $26,150,000 in cash, plus consideration related to the Corinth facility of $1,600,000 conditional upon the achievement of certain operating metrics, which is probable. The facilities, which total 254 beds, have been leased to affiliates of Fundamental Long Term Care Holdings, LLC ("Fundamental") for an initial term of 10 years at a lease rate of 9% plus annual fixed escalators. The lease includes three 5-year renewal options at the terms which exist upon renewal. Because the Corinth facility was owner-operated, the acquisition of the Corinth facility was accounted for as an asset purchase.

Because Fundamental was the current lessee, we accounted for acquisition of the 100% interest in the real estate operation of the Canton facility using the acquisition method as prescribed by FASB Accounting Standards Codification Topic 805, Business Combinations ("ASC Topic 805"). As part of this transaction, we recognized all identifiable tangible assets at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed $420,000 of the purchase price to the fair value of the land, $11,659,000 to the fair value of building and improvements, $671,000 to the fair value of equipment and expensed $147,000 in transaction costs which were paid at closing.

As disclosed in Note 13, in October 2013, we entered into an agreement to sell three skilled nursing facilities with an aggregate carrying value of $17,115,000 to our current tenant, Fundamental, for $18,500,000 in cash. Completion of this transaction is expected to occur by December 31, 2013.

NOTE 3. EQUITY-METHOD INVESTMENT AND OTHER ASSETS

Our equity-method investment in OpCo and other assets consist of the following (in thousands):

	September 30, 2013	December 31, 2012
Equity-method investment in OpCo	$9,439	$8,353
Loan costs and prepaid expenses, net	2,981	1,837
Accounts receivable and other assets	1,429	1,816
Replacement reserve and tax escrows - Fannie Mae	553	—
Escrow deposit for real estate purchase	—	166
	$14,402	$12,172

In June 2013, we recorded escrow deposits for replacement reserves and taxes in connection with our assumption of Fannie Mae secured debt described in Note 7. These loans currently require monthly deposits into escrow of $111,000, which are subject to reimbursement by our lessee, OpCo. Upon reimbursement, we record an equal liability to our lessee. Accordingly, the balance in the related liability account at September 30, 2013, was $553,000.

In connection with the acquisition of the Care and Bickford properties in June 2013, a sale and assignment was entered into whereby the operations of the 17 facilities were conveyed by an affiliate of Bickford to OpCo. As provided for under the agreements, the transaction resulted in the effective cut-off of operating revenues and expenses and the settlement of operating assets and liabilities as of the acquisition date. Specified remaining net tangible assets

were assigned to OpCo at the transferor's carryover basis, resulting in an adjustment of $817,000 to NHI's equity-method investment in OpCo and to our capital in excess of par value.

OpCo is intended to be self-financing, and aside from initial investments therein, no direct support has been provided by NHI to OpCo since inception on September 30, 2012. While PropCo's rental revenues associated with the related properties are sourced from OpCo, a decision to furnish additional direct support would be at our discretion and not obligatory. As a result, NHI believes its maximum exposure to loss at September 30, 2013, due to its involvement with OpCo, would be limited to its equity interest. We have concluded that OpCo meets the accounting criteria to be considered a VIE. However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the entity, and we account for our investment using the equity method. There have been no distributions declared during the nine months ended September 30, 2013.

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At inception, we valued our equity interest in OpCo based on the total consideration for the underlying assets at their estimated relative fair values. During the measurement period granted under provisions of ASC Topic 805, we have ascertained and ascribed value to all identifiable assets acquired and liabilities assumed. As the result of the culmination of this process, the asset values disclosed as preliminary in prior filings have been finalized without further revision. We continue to monitor and periodically review for impairment our equity method investment in OpCo to determine whether a decline, if any, in the value of the investment is other than temporary. We noted no decline in value as of September 30, 2013.

Summary financial information for OpCo, for which our pro rata share of the equity in its net income is presented in our Condensed Consolidated Statement of Income, is presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	$14,836	$—	$27,156	$—
Operating expenses, including management fees	9,400	—	17,394	—
Lease expenses	5,138	—	9,312	—
Depreciation and amortization	88	—	133	—
Net Income	$210	$—	$317	$—

NOTE 4. MORTGAGE AND OTHER NOTES RECEIVABLE

At September 30, 2013, we had: (1) investments in mortgage notes receivable with a carrying value of $33,654,000 secured by real estate and UCC liens on the personal property of 11 health care properties and (2) other notes receivable with a carrying value of $25,713,000 guaranteed by significant parties to the notes or by cross-collateralization of properties with the same owner. No allowance for doubtful accounts was considered necessary at September 30, 2013.

Due to non-receipt of contractual payments, in March 2013 we evaluated the recoverability of mortgage notes receivable due from two not-for-profit borrowers (SeniorTrust of Florida, Inc. and ElderTrust of Florida, Inc.). Using a discounted cash flow analysis, we evaluated the declining net operating income of SeniorTrust over the previous twelve months and recognized an impairment to the carrying value of the SeniorTrust notes in the total amount of $4,037,000, thereby reducing the carrying value of the SeniorTrust notes receivable to $15,000,000.

In June 2013 we received full payment of $15,000,000 on the SeniorTrust notes. In August 2013 the ElderTrust notes with an aggregate principal balance of $13,741,000 were applied to the purchase price of seven skilled nursing facilities in Massachusetts and New Hampshire. See Note 8 for more information on our transactions with SeniorTrust and ElderTrust.

In July 2013, we extended a $9,200,000 loan to Bickford to fund a portion of their acquisition of six senior housing communities consisting of 342 units. The loan is guaranteed by principals of Bickford and has a two year maturity plus a one year extension option with 12% annual interest. As a result of this transaction, PropCo acquired a $97,000,000 purchase option on the properties which is exercisable over the term of the loan.

In September 2013, we received $3,293,000 as full payment upon the final maturity of a mortgage note secured by a skilled nursing facility located in Georgia. Of the amount received, we recorded $2,061,000 as a recovery of a previous writedown.

As disclosed in Note 13, in October 2013, we provided a $2,500,000 second mortgage loan to an affiliate of Discovery for the construction of a 120-unit senior housing community in Naples, Florida.

NOTE 5. INVESTMENT IN PREFERRED STOCK, AT COST

We received $2,454,000 in preferred dividends from LTC (a publicly-traded REIT) for each of the nine month periods ended September 30, 2013 and 2012, on our investment in 2,000,000 shares of their cumulative preferred stock having an original cost of $38,132,000. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security and is recorded at cost in our Condensed Consolidated Balance Sheets. The non-voting preferred stock is convertible into 2,000,000 shares of LTC common stock.

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NOTE 6. INVESTMENTS IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities which are reported at fair value. Unrealized gains and losses on available-for-sale securities are presented as a component of other comprehensive income. Realized gains and losses from securities sales are determined based upon specific identification of the securities.

Marketable securities consist of the following (in thousands):

	September 30, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Common stock of other healthcare REITs	$4,088	$13,577	$4,088	$12,884

Gross unrealized gains related to available-for-sale securities were $9,489,000 at September 30, 2013 and $8,796,000 at December 31, 2012.

NOTE 7. DEBT

Debt consists of the following (in thousands):

	September 30, 2013	December 31, 2012
Revolving credit facility - unsecured	$191,000	$64,000
Bank term loans - unsecured	120,000	120,000
Bank term loan - secured	—	19,250
Fannie Mae term loans - secured (including a premium of $1,782)	80,362	—
	$391,362	$203,250

On June 28, 2013, we entered into a $370,000,000 unsecured credit facility which includes a 5-year revolving credit facility (inclusive of an embedded 1-year extension option) of $250,000,000 with interest at 140 basis points over LIBOR and $120,000,000 of 7-year term loans with interest at 150 basis points over LIBOR. At September 30, 2013, we had $59,000,000 available to draw on the revolving portion of the credit facility. Quoted 30-day LIBOR was 18 basis points on September 30, 2013. The new facility replaces a smaller credit facility that originated on May 1, 2012 and provided for $320,000,000 of total borrowing capacity.

As part of the Care acquisition described in Note 2, we assumed Fannie Mae mortgage loans with principal balances of $71,323,000 and $7,257,000 on September 30, 2013, which have interest at rates of 6.85% and 7.17%, respectively, and maturing on July 1, 2015 (prepayable without penalty after December 31, 2014).

Interest expense for the nine months ended September 30, 2013 and 2012 includes $596,000 and $238,000, respectively, as amortization of loan costs. Amortization of loan costs for 2013 includes $353,000 which was written off as a result of modifications we made to the credit facility at the end of the second quarter.

In August 2013, we used our revolving credit facility to pay off a $19,250,000 secured bank loan which provided for interest at 300 basis points over LIBOR.

Interest Rate Swap Agreements

To mitigate our exposure to interest rate risk, we have entered into the following interest rate swap contracts as of September 30, 2013 (dollars in thousands):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value
May 2012	April 2019	3.04%	1-month LIBOR+150 bps	$40,000	$189
June 2013	June 2020	3.61%	1-month LIBOR+150 bps	$80,000	$(708)

See Note 12 for fair value disclosure about our Fannie Mae mortgage loans and interest rate swap agreements.

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NOTE 8. COMMITMENTS AND CONTINGENCIES

Bickford

At September 30, 2013, our subsidiary PropCo had purchased land and begun construction on three assisted living facilities having a maximum cost of $27,000,000. Our costs incurred to date, including land, were $14,252,000.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of $26,150,000 in cash, plus consideration related to the Corinth facility of $1,600,000 conditional upon the achievement of certain operating metrics, which is probable.

Kentucky River

In March 2012, we entered into a long-term lease extension and construction commitment to Jackson Hospital Corporation, an affiliate of Community Health Systems, to provide up to $8,000,000 for extensive renovations and additions to our Kentucky River Medical Center, a general acute care hospital in Jackson, Kentucky. This investment will be added to the basis on which the lease amount is calculated. The construction project commenced during the first quarter of 2013 and is expected to continue over two years. Total construction costs incurred as of September 30, 2013 were $4,363,000. The 10-year lease extension began July 1, 2012, with an additional 5-year renewal option.

Legend Healthcare

In October 2011, we completed a purchase/leaseback of four skilled nursing facilities in Texas with affiliates of Legend Healthcare, LLC (“Legend”) for $55,278,000, including consideration of $5,478,000 which is contingent on the expected achievement of certain operating metrics. We anticipate the remaining $3,256,000, which is recorded as a purchase liability, to be funded prior to December 31, 2014.

Santé

We have a $2,000,000 supplemental construction commitment to our borrower, Santé Partners, LLC (“Santé”). This additional loan amount becomes available to the borrower when the 70-bed transitional rehabilitation hospital, completed in March 2011, achieves certain operating metrics. NHI also has the option to purchase and lease back the hospital when it achieves a predetermined level of stabilized net operating income.

We have committed to fund a $3,500,000 expansion and renovation program in connection with our August 2012 acquisition of the senior living campus leased to Santé in Silverdale, Washington. As of September 30, 2013, we had funded $2,639,000 of this commitment, which will be added to the basis on which the lease amount is calculated.

Helix Healthcare

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare (“Helix”) for $12,500,000. The purchase price includes a conditional payment of $1,000,000, which is recorded as a purchase liability.

Discovery

As a lease inducement, we have a contingent commitment to fund a series of payments up to $2,500,000 in connection with our September 2013 lease to Discovery of a senior living campus in Rainbow City, Alabama. Discovery would

earn the contingent payments upon obtaining, and maintaining, a specified lease coverage ratio. As earned, the payments would be due in installments of $750,000 in each of years two and three of the lease with the residual due in year four. At acquisition, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the condensed consolidated financial statements.

Litigation

The health care facilities in which we have investments are subject to claims and suits in the ordinary course of business. Our lessees and mortgagors have indemnified, and will continue to indemnify, us against all liabilities arising from the operation of the health care facilities and will indemnify us against environmental or title problems affecting the real estate underlying such

facilities. While there are lawsuits pending against certain of the owners and/or lessees of the health care facilities, management believes that the ultimate resolution of all pending proceedings will have no material adverse effect on our financial position, results of operations and cash flows.

As previously disclosed and discussed in the notes to the condensed consolidated financial statements, we have been involved in an investigation by the Tennessee Attorney General (“OTAG”) regarding transactions between the Company and two Tennessee not-for-profit corporations, as well as extended litigation with ElderTrust of Florida, Inc ("ElderTrust") and SeniorTrust of Florida, Inc. ("SeniorTrust").

In April 2013, we agreed to a full settlement of the above litigation. The settlement agreement also resolved the OTAG investigation with respect to both ElderTrust and Senior Trust and was court approved on May 3, 2013.

In accordance with provisions of the settlement, in June 2013 we received payment in the full amount of $15,000,000 on the SeniorTrust notes. In the ElderTrust settlement, we acquired seven skilled nursing facilities which had served as collateral for their notes. Consideration given in the acquisition included cancellation of these notes totaling $13,741,000 and cash of $23,676,000, inclusive of closing costs. The purchase was completed August 30, 2013. The facilities were placed under a new triple-net lease to NHC as discussed in Note 2.

NOTE 9. SHARE-BASED COMPENSATION

We recognize share-based compensation for: (1) all stock options granted over the requisite service period using the fair value of these grants as estimated at the date of grant using the Black-Scholes pricing model, and (2) all restricted stock granted over the requisite service period using the market value of our publicly-traded common stock on the date of grant.

Share-Based Compensation Plans

The Compensation Committee of the Board of Directors ("the Committee") has the authority to select the participants to be granted options; to designate whether the option granted is an incentive stock option ("ISO"), a non-qualified option, or a stock appreciation right; to establish the number of shares of common stock that may be issued upon exercise of the option; to establish the vesting provision for any award; and to establish the term any award may be outstanding. The exercise price of any ISO’s granted will not be less than 100% of the fair market value of the shares of common stock on the date granted and the term of an ISO may not be more than ten years. The exercise price of any non-qualified options granted will not be less than 100% of the fair market value of the shares of common stock on the date granted unless so determined by the Committee.

In May 2012, our stockholders approved the 2012 Stock Incentive Plan ("the 2012 Plan") pursuant to which 1,500,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. As of September 30, 2013, there were 1,140,000 shares available for future grants under the 2012 Plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options under the 2012 Plan is up to five years from the date of grant.

In May 2005, our stockholders approved the NHI 2005 Stock Option Plan ("the 2005 Plan") pursuant to which 1,500,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. As of September 30, 2013, there were 20,635 shares available for future grants under the 2005 Plan. The individual restricted stock and option grant awards vest over periods up to ten years. The term of the options outstanding under the 2005 Plan is up to ten years from the date of grant.

The NHI 1997 Stock Option Plan (“the 1997 Plan”) provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of September 30, 2013, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense reported for the nine months ended September 30, 2013 was $2,086,000, all of which related to outstanding stock options, as compared to $1,924,000 for the nine months ended ended September 30, 2012, consisting of $1,923,000 for stock options and $1,000 for restricted stock.

At September 30, 2013, we had $669,000 of unrecognized compensation cost related to unvested stock options, net of expected forfeitures, which is expected to be recognized over the following periods: 2013 - $253,000, 2014 - $375,000 and 2015 - $41,000. Stock-based compensation is included in general and administrative expense in the Condensed Consolidated Statements of Income.

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The following tables summarize our outstanding stock options:

	Nine Months Ended September 30,	
	2013	2012
Options outstanding January 1,	211,675	509,422
Options granted under 2005 Plan	—	340,000
Options granted under 2012 Plan	360,000	—
Options exercised under 1997 Plan	—	(19,266)
Options exercised under 2005 Plan	(55,001)	(488,481)
Options outstanding, September 30,	516,674	341,675
Exercisable at September 30,	323,330	165,000

The following table summarizes our restricted stock activity:

	Nine Months Ended September 30,	
	2013	2012
Non-vested at January 1,	—	1,250
Vested during the period	—	(1,250)
Non-vested at September 30,	—	—

NOTE 10. DISCONTINUED OPERATIONS

We have reclassified, for all periods presented, the operations of facilities meeting the accounting criteria for properties being sold or held for sale as discontinued operations.

In August 2013 we sold six older skilled nursing facilities to NHC for $21,000,000 and recorded a gain for financial statement purposes of $19,370,000 after selling costs of $19,000. Our lease revenue from the facilities was $2,321,000 and $2,543,000 for the nine months ended September 30, 2013 and 2012, respectively.

In December 2012, our tenant, Sunrise Senior Living, exercised its option to purchase our assisted living facility in Edison, New Jersey. Our lease revenue from the facility was $1,029,000 for the nine months ended September 30, 2012.

Income from discontinued operations is summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Rental income	$562	$1,169	$2,321	$3,572
Expenses:				
Depreciation	—	101	—	303
Income from operations - discontinued	$562	$1,068	$2,321	$3,269

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NOTE 11. EARNINGS AND DIVIDENDS PER SHARE

The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method, to the extent dilutive.

The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per common share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations attributable to common stockholders	$22,812	$13,283	$56,717	$46,359
Discontinued operations	19,932	1,068	21,691	3,269
Net income attributable to common stockholders	$42,744	$14,351	$78,408	$49,628
BASIC:				
Weighted average common shares outstanding	27,876,176	27,830,311	27,872,805	27,799,750
Income from continuing operations per common share	$.82	$.48	$2.03	$1.66
Discontinued operations per common share	.71	.04	.78	.12
Net income per common share	$1.53	$.52	$2.81	$1.78
DILUTED:				
Weighted average common shares outstanding	27,876,176	27,830,311	27,872,805	27,799,750
Stock options	29,369	32,271	34,109	29,129
Average dilutive common shares outstanding	27,905,545	27,862,582	27,906,914	27,828,879
Income from continuing operations per common share	$.82	$.48	$2.03	$1.66
Discontinued operations per common share	.71	.04	.78	.12
Net income per common share	$1.53	$.52	$2.81	$1.78
Incremental shares excluded since anti-dilutive:				
Stock options with an exercise price in excess of the average market price for our common shares	43,473	917	15,649	1,972
Dividends declared per common share	$.735	$.67	$2.165	$1.97

NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial assets and liabilities measured at fair value on a recurring basis include marketable securities, derivative financial instruments and contingent consideration arrangements. Marketable securities consist of common stock of other healthcare REITs. Derivative financial instruments include our interest rate swap agreements. Contingent consideration arrangements relate to certain provisions of recent real estate purchase agreements involving both business combinations and asset purchases.

Marketable securities. Where possible we utilize quoted prices in active markets to measure debt and equity securities; these items are classified as Level 1 in the hierarchy and include the common and preferred stock of other healthcare REITs.

Derivative financial instruments. Derivative financial instruments are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Fixed rate debt. Fixed rate debt is classified as Level 2 and its value is based on quoted prices for similar instruments or calculated utilizing model derived valuations in which significant inputs are observable in active markets.

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Contingent consideration. Contingent consideration arrangements are classified as Level 3 and are valued using unobservable inputs about the nature of the contingent arrangement and the counter-party to the arrangement, as well as our assumptions about the probability of full settlement of the contingency.

Assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	Balance Sheet Classification	Fair Value Measurement September 30, 2013	December 31, 2012
Level 1			
Common stock of other healthcare REITs	Marketable securities	$13,577	$12,884
Level 2			
Interest rate swap asset	Other assets	$189	$—
Interest rate swap liability	Accrued expenses	$708	$1,241
Fixed rate debt	Debt	$80,362	$—
Level 3			
Contingent consideration	Real estate purchase liabilities	$5,856	$4,256

The following table presents a reconciliation of Level 3 liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2013 and 2012 (in thousands):

	Fair Value Beginning of Period	Transfers Into Level 3	Realized Gains and (Losses)	Purchases, Issuances and Settlements	Fair Value at End of Period	Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year
2013						
Contingent consideration	$4,256	$—	$—	$1,600	$5,856	$—
2012						
Contingent consideration	$9,478	$—	$—	$—	$9,478	$—

Carrying values and fair values of financial instruments that are not carried at fair value at September 30, 2013 and December 31, 2012 in the Condensed Consolidated Balance Sheets are as follows (in thousands):

	Carrying Amount		Fair Value Measurement	
	2013	2012	2013	2012
Level 2				
Variable rate debt	$311,000	$203,250	$311,000	$203,250
Level 3				
Mortgage and other notes receivable	$59,367	$84,250	$66,690	$93,835

The fair value of mortgage and other notes receivable is based on credit risk and discount rates that are not observable in the marketplace and therefore represents a Level 3 measurement.

Carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The fair value of our borrowings under our credit facility are reasonably estimated at their carrying value at September 30, 2013 and December 31, 2012, due to the predominance of floating interest rates, which generally reflect market conditions.

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NOTE 13. SUBSEQUENT EVENTS

In October 2013, we provided a $2,500,000 second mortgage loan to an affiliate of Discovery for the construction of a 120-unit senior housing community in Naples, Florida. Construction is planned to begin in the fourth quarter of 2013. The loan is guaranteed by principals of Discovery and has a five-year maturity with monthly payments of interest at a 12% annual rate.

In October 2013, we completed a $9,000,000 acquisition of a 63-unit senior housing community in Baltimore, Maryland, and leased the facility to Chancellor Health Care, LLC for an initial term of seven years, plus renewal options. The lease rate in the first year will be 8% plus a fixed annual escalator. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase. We also committed to provide up to $500,000 for renovations and improvements.

Additionally, we have committed $7,500,000 to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who has been operating the campus since 1993.

In October 2013, our current tenant, Weatherly Associates, LLC, exercised their option to purchase our Weatherly, PA senior housing facility for $5,315,000. The property had a carrying value of $3,599,000 resulting in a gain for financial statement purposes. We plan to defer recognition of the tax gain on the sale of this facility by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. Our lease revenue from the facility was $302,000 for both nine month periods ended September 30, 2013 and 2012.

In October 2013, we agreed to sell three older skilled nursing facilities to affiliates of our current tenant, Fundamental, for $18,500,000. The properties have a carrying value of $17,115,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the internal Revenue Code. Our lease revenue from these facilities was $2,531,000 and $2,387,000 for the nine months ended September 30, 2013 and 2012, respectively. We expect to complete this sale by December 31, 2013.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

References throughout this document to NHI or the Company include National Health Investors, Inc., and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission’s “Plain English” guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words “we”, “our”, “ours” and “us” refer only to National Health Investors, Inc. and its consolidated subsidiaries and not any other person. Unless the context indicates otherwise, references herein to “the Company” include all of our consolidated subsidiaries.

This Quarterly Report on Form 10-Q and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements made, or to be made, by our senior management contain certain “forward-looking” statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitation, those containing words such as “may”, “will”, “believes”, “anticipates”, “expects”, “intends”, “estimates”, “plans”, and other similar expressions are forward-l statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements as a result of, but not limited to, the following factors:

* We depend on the operating success of our customers (facility operators) for collection of our revenues during this time of uncertain economic conditions in the U.S.;

* We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings;

* We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates will have on our tenants’ and borrowers’ business;

* We are exposed to the risk that the cash flows of our tenants and borrowers will be adversely affected by increased liability claims and general and professional liability insurance costs;

* We are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances;

* We are exposed to the risk that we may not be indemnified by our lessees and borrowers against future litigation;

* We depend on the success of future acquisitions and investments;

* We depend on the ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;

* We may need to incur more debt in the future, which may not be available on terms acceptable to the Company;

* We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties;

* We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests;

* We depend on revenues derived mainly from fixed rate investments in real estate assets, while our debt capital used to finance those investments is primarily at variable rates. This circumstance creates interest rate risk to the Company;

* We have covenants related to our indebtedness which impose certain operational limitations and a breach of those covenants could materially adversely affect our financial condition and results of operations;

* We are exposed to the risk that our assets may be subject to impairment charges;

* We depend on the ability to continue to qualify as a real estate investment trust;

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* We have ownership limits in our charter with respect to our common stock and other classes of capital stock which may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders;

* We are subject to certain provisions of Maryland law and our charter and bylaws that could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.

See the notes to the annual audited consolidated financial statements in our most recent Annual Report on Form 10-K for the year ended December 31, 2012, and “Business” and “Risk Factors” under Item 1 and Item 1A therein for a further discussion of these and of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing the Company. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition, results of operations, or cash flows could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose part or all of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

Executive Overview

National Health Investors, Inc., a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care and senior housing industries. As of September 30, 2013, our portfolio consisted of real estate, mortgage and note investments and other investments in the preferred stock and marketable securities of other REITs. We are a self-managed REIT investing in health care real estate or in the operations thereof through independent third-party managers which generate current income that will be distributed to stockholders. We have pursued this mission by investing primarily in leased properties, loans and RIDEA transactions. These investments include senior housing, skilled nursing facilities, hospitals and medical office buildings, all of which are collectively referred to herein as "Health Care Facilities." Senior housing includes assisted living facilities, senior living campuses, and independent living facilities. We typically fund these investments through three sources of capital: (1) debt offerings, including bank lines of credit and ordinary term debt, (2) current cash flow, and (3) the sale of equity securities.

Portfolio

At September 30, 2013, our continuing operations is comprised of investments in real estate and mortgage and other notes receivable in 146 health care facilities located in 27 states consisting of 69 senior housing communities, 71 skilled nursing facilities, 4 hospitals , 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $882,000) consisted of properties with an original cost of approximately $944,346,000, rented under triple-net leases to 23 lessees, and $59,367,000 aggregate carrying value of mortgage and other notes receivable due from 14 borrowers.

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The following tables summarize our investments in real estate and mortgage and other notes receivable as of September 30, 2013 (dollars in thousands):

Real Estate Properties	Properties	Beds/Sq. Ft.*		Revenue
Senior Housing Communities				
Assisted Living	58	2,930		$20,475
Senior Living Campus	5	797		5,087
Independent Living	3	273		928
	66	4,000		26,490
Skilled Nursing Facilities	64	8,768		46,253
Hospitals	3	181		5,324
Medical Office Buildings	2	88,517	*	812
Total Real Estate Properties	135			$78,879
Mortgage and Other Notes Receivable				
Senior Housing Properties				
Assisted Living	2	190		$547
Senior Living Campus	1	76		85
	3	266		632
Skilled Nursing Facilities	7	594		2,425
Hospital	1	70		900
Other Notes Receivable	—	—		1,920
Total Mortgage and Other Notes Receivable	11			$5,877
Total Portfolio	146			$84,756

Portfolio Summary	Properties	Investment %		Revenue
Real Estate Properties	135	93.1	%	$78,879
Mortgage and Other Notes Receivable	11	6.9	%	5,877
Total Portfolio	146	100.0	%	$84,756
Summary of Facilities by Type				
Skilled Nursing Facilities	71	57.4	%	$48,677
Senior Housing Communities	69	32.0	%	27,123
Hospitals	4	7.3	%	6,224
Medical Office Buildings	2	1.0	%	812
Other	—	2.3	%	1,920
Total Real Estate Portfolio	146	100.0	%	$84,756
Portfolio by Operator Type				
Public	53	37.3	%	$31,614
Regional	81	54.5	%	46,193
Small	12	8.2	%	6,949
Total Real Estate Portfolio	146	100.0	%	$84,756
Public Operators				
National HealthCare Corp.	42	30.3	%	$25,650
Emeritus Senior Living	9	4.2	%	3,533
Community Health Systems, Inc.	2	2.8	%	2,431
Total Public Operators	53	37.3	%	$31,614

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We invest a portion of our funds in the preferred and common shares of other publicly-held healthcare REITs to ensure a substantial portion of our assets are invested for real estate purposes. At September 30, 2013, such investments had a carrying value of $51,709,000.

Areas of Focus

We are evaluating and will potentially make additional investments during the remainder of 2013 while we continue to monitor and improve our existing properties. We seek tenants who will become mission-oriented partners in relationships where our business goals are aligned. This approach fuels steady, and thus, enduring growth for NHI and our tenants. While deal flow among the largest in our peer group may be slackening, there are smaller portfolio assets in secondary markets with prospective yields that justify our attention.

If longer term borrowing rates increase as anticipated, there will be pressure on the spread between our cost of capital and the returns we earn. We expect that pressure to be partially mitigated by market forces that lead to an increase in lease rates. We expect our cost of capital will increase as a result of our plan to transition some of our short term revolving borrowings into debt instruments with longer maturities and increased overall interest rates.

Even as we make new investments, we expect to maintain a relatively low level of debt compared to the value of our assets and relative to our peers in the industry. Approximately 55% of our revenue from continuing operations is from operators of our skilled nursing facilities that receive a significant portion of their revenue from governmental payors, primarily Medicare and Medicaid. Such revenues are subject annually to statutory and regulatory changes, and in recent years, have been reduced due to federal and state budgetary pressures. As a result, in 2009, we began to diversify our portfolio by directing a significant portion of our investments into properties which do not rely primarily on Medicare and Medicaid reimbursement, but rather on private pay sources. While we will occasionally acquire skilled nursing facilities in good physical condition with a proven operator and strong local market fundamentals, our current investment focus is on acquiring assisted living and memory care facilities, independent living facilities and senior housing campuses which contain two or more facility types.

We monitor the operating results of our tenants on a monthly, quarterly and annual basis to identify any material changes in their operations and credit quality. We believe the tenant lease service coverage ratio ("LSCR") is an important ratio to indicate the tenant's continued ability to pay their scheduled rent to us in view of various business fluctuations, some of which are beyond the control of the tenant such as changes in payments rates by government payors, increased competition from other facilities and increased costs of operation.

LSCR is calculated by dividing the tenant's EBITDARM (earnings before interest, taxes, depreciation, amortization, scheduled rent and management fees) by their scheduled rent over the same period. The following table summarizes the lease service coverage of our stabilized lease portfolio.

	Senior Housing	Skilled Nursing[2]	NHC	Hospitals	Medical Office
Lease Service Coverage Ratio	1.38	1.82	4.10	3.13	6.71
Number of stabilized lease properties[1]	31	23	41	2	2

[1] excludes new construction, RIDEA assets, and notes
[2] excludes NHC

We manage our business with a goal of increasing the regular annual dividends paid to shareholders. Our Board of Directors approves a regular quarterly dividend which is reflective of expected taxable income on a recurring basis. Our transactions that are infrequent and non-recurring that generate additional taxable income have been distributed to shareholders in the form of special dividends. Taxable income is determined in accordance with the Internal Revenue Code and differs from net income for financial statements purposes determined in accordance with U.S. generally

accepted accounting principles. Our goal of increasing annual dividends requires a careful balance between identification of high-quality lease and mortgage assets in which to invest and the cost of our capital with which to fund such investments. We consider the competing interests of short and long-term debt (interest rates, maturities and other terms) versus the higher cost of new equity. We accept some level of risk associated with leveraging our investments. We intend to continue to make new investments that meet our underwriting criteria and where we believe the spreads over our cost of capital will generate sufficient returns to our shareholders.

Our dividend payouts of both regular and special dividends for 2013 and on an annual basis for the last three years are as follows:

	YTD 2013	2012	2011	2010
Regular	$2.165	$2.64	$2.50	$2.36
Special	$—	$0.22	$0.22	$—
	$2.165	$2.86	$2.72	$2.36

Beginning in 2009, our increased investments in healthcare real estate beginning in 2009 have been partially accomplished by our ability to effectively leverage our balance sheet. However, we continue to maintain a relatively low leverage balance sheet compared with the value of our assets and with many in our peer group. We believe that our fixed charge coverage ratio, which is the ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to fixed charges (interest expense and principal payments on debt), and the ratio of consolidated debt to EBITDA are meaningful measures of our ability to service our debt. We use these two measures as a useful basis to compare the strength of our balance sheet with those in our peer group.

We calculate our fixed charge coverage ratio as 17:1 for the nine months ended September 30, 2013 (see page 42 for a discussion of EBITDA and a reconciliation to our net income). On an annualized basis, our consolidated debt-to-EBITDA ratio is 3:1.

Annual dividend growth, a low leverage balance sheet, a portfolio of diversified, high-quality assets, and prioritizing business relationships with experienced tenants and borrowers continue to be the key drivers of our business plan.

According to a 2011 estimate by the U.S. Department of Health and Human Services, the number of Americans 65 and older is expected to grow 36% between 2010 and 2020, compared to a 9% growth rate for the general population. An increase in this age demographic is expected to increase the demand for senior housing properties of all types in the coming decades.

There is increasing demand for private-pay senior housing properties in countries outside the U.S. We will consider real estate and note investments with U.S. entities who seek to expand their senior housing operations into countries where local-market demand is sufficiently demonstrated. We have a current investment of $1,500,000 in such ventures.

We expect to fund any new investments in real estate and mortgage notes during the remainder of 2013 using our liquid investments and debt financing unless the size of an acquisition leads us to consider issuing equity securities to fund some or all of such acquisition in order to maintain a relatively low level of debt in comparison to the value of our assets.

Critical Accounting Policies

Impairment Evaluations

The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the interest or the estimated fair value of the assets prior to our acquisition of interests in the entity. An aggregate basis difference between the cost of our equity method investee and the amount of underlying equity in its net assets is primarily attributable to goodwill, which is not amortized. We evaluate for impairment our equity method investments and related goodwill based upon a comparison of the estimated fair value of the investments to their carrying value. When we determine a decline in the estimated fair value of such an investment below its carrying value is other than temporary, an impairment is recorded. No impairments to the carrying value of our equity method investee have been

recorded for any period presented.

The determination of the fair value and whether a shortfall in operating revenues or the existence of operating losses is indicative of a loss in value that is other than temporary involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends, the duration of the fair value deficiency, and any other relevant factors. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

We evaluate the recoverability of the carrying value of our real estate properties on a property-by-property basis. On a quarterly basis, we review our properties for events or circumstances that indicate the carrying value of the property may not be recoverable. The need to recognize an impairment is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

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We evaluate the carrying values of our notes receivable on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for recoverability when events or circumstances, including the non-receipt of contractual principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, an impairment is measured as the amount by which the carrying amount exceeds the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable.

Significant judgment is involved in our analysis and estimates of fair value, including future operating results and related cash flows of our tenants and borrowers. Our ability to accurately predict these results and the cash flows they might generate and to estimate and allocate fair values affects the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

See our most recent Annual Report on Form 10-K for further discussion of our critical accounting policies including those concerning revenue recognition, our status as a REIT, principles of consolidation and allocation property acquisition costs.

Investment Highlights

Since January 1, 2013 we have made or announced the following real estate investments:

	Properties	Asset Class	Amount
Lease Investments			
Bickford Senior Living/RIDEA Structure	17	Senior Housing	$ 137,459
Fundamental Long Term Care Holdings, LLC	2	Skilled Nursing	27,750
National Healthcare Corporation	7	Skilled Nursing	37,417
Emeritus Senior Living	1	Senior Housing	15,300
Discovery Senior Living	1	Senior Housing	12,000
Chancellor Healthcare	1	Senior Housing	17,000
Note Investments			
Bickford Senior Living	1	Senior Housing	9,200
Discovery Senior Living	1	Senior Housing	2,500
			$ 258,626

NHC

Our revenue from continuing operations was $87,912,000 and $70,223,000 for the nine months ended September 30, 2013 and 2012, respectively. Of these amounts, $25,650,000 (29%) and $25,041,000 (36%), respectively, were derived from National Healthcare Corporation (“NHC”), a publicly-held company and our largest tenant. At September 30, 2013, we leased 42 health care facilities to NHC consisting of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). The master lease agreement with NHC originally dated October 17, 1991, has since been amended to extend the lease expiration five years to December 31, 2026. There are two additional 5-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as “percentage rent.”

The following table summarizes the percentage rent received and recognized from NHC (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Current year	$570	$382	$1,706	$1,148
Prior year final certification[1]	—	—	746	997
Total percentage rent	$570	$382	$2,452	$2,145

[1] For purposes of the percentage rent calculation described in the Master Lease Agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

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As previously disclosed, in December 2012, NHI entered into an agreement with NHC to sell six skilled nursing facilities for $21,000,000 in cash. The properties had a carrying value of $1,611,000. The sale was completed on August 31, 2013, and resulted in a gain for financial statement purposes of $19,370,000 after transaction costs of $19,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. The results of operation of the facilities sold were classified as discontinued operations for all period presented in our Condensed Consolidated Statements of Income. Upon the sale of these facilities and prior to the acquisition described below, NHI's annual base rent of $33,700,000 was reduced to $30,750,000.

On August 30, 2013, NHI acquired seven skilled nursing facilities (and one vacant assisted living facility) in Massachusetts and New Hampshire from former not-for profit borrower ElderTrust of Florida, Inc. (“ElderTrust”) for consideration of $37,417,000, consisting of $23,676,000 in cash, inclusive of closing costs, and the cancellation of notes receivable from ElderTrust with a principal balance of $13,741,000. Beginning September 1, 2013, the facilities were placed under a new triple net lease to the current manager, NHC, for an initial period of 15 years commencing with a lease amount of $350,000 for the remainder of 2013. In 2014, the lease provides for a base annual rental of $3,450,000. Under the terms of the lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. Because ElderTrust was the owner and operator of the facilities, we accounted for the transaction as an asset acquisition. During the last three years of the lease, NHC will have the option to purchase the facilities for $49,000,000.

Bickford

As of September 30, 2013, we owned an 85% equity interest and an affiliate of Bickford Senior Living ("Bickford") owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 27 assisted living/memory care facilities and also has 3 facilities under construction. The facilities are leased to an operating company, ("OpCo"), in which we also retain an 85% ownership interest, but do not control. Our joint venture is structured to comply with the provisions of RIDEA.

On June 28, 2013, PropCo purchased 17 assisted living and memory care facilities which were managed by Bickford. The facilities total 750 units and are located in Illinois, Indiana, Iowa and Nebraska. Of these facilities, 14 were acquired from a subsidiary of Care Investment Trust, Inc. ("Care") for $124,549,000, consisting of $44,021,000 in cash and assumption of secured debt with a fair value of $80,528,000. We accounted for acquisition of the 100% interest in the real estate operation of these facilities using the acquisition method as prescribed by ASC Topic 805. As part of this transaction, we recognized all identifiable tangible assets and liabilities assumed at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed $4,360,000 to the fair value of the land, $120,189,000 to the fair value of the buildings and improvements and expensed $63,000 in transaction costs at closing. The 14 newly-acquired facilities have been leased to OpCo for an initial term of 5 years at an aggregate annual lease amount of $9,750,000 plus annual fixed escalators commencing on July 1 of each succeeding year.

Concurrent with this acquisition, PropCo also completed a $12,910,000 purchase and leaseback of three assisted living facilities located in Iowa, Nebraska and Indiana totaling 107 units from affiliates of Bickford. The acquisition was accounted for as an asset purchase. PropCo's previous master lease with Bickford was amended to include these three properties and the annual lease amount was increased from $7,750,000 to $9,086,000, plus annual fixed escalators beginning January 1 of each succeeding year. All other significant terms of the existing master lease remain unchanged.

In total, the 27 operating facilities in the joint venture have aggregate annual contractual rent due from OpCo to Propco of $18,836,000, plus annual fixed escalators. Of our total revenue from continuing operations, $5,209,000

(16%) and $9,383,000 (11%) were recorded by PropCo from OpCo for the three and nine months ended September 30, 2013, respectively.

NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions. At September 30, 2013, PropCo had purchased land and begun construction on three assisted living/memory care facilities having a maximum cost of $27,000,000. Our costs incurred to date, including land, were $14,252,000.

In July 2013, we extended a $9,200,000 loan to Bickford to fund a portion of their acquisition of six senior housing communities consisting of 342 units. The loan is guaranteed by principals of Bickford and has a two year maturity plus a one year extension option with 12% annual interest. As a result of this transaction, PropCo acquired a $97,000,000 purchase option on the properties which is exercisable over the term of the loan.

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Emeritus

In July 2013 we completed a $15,300,000 acquisition of The Inn at Halcyon Village in Marysville, Ohio ("Halcyon"). The 76-unit assisted living and memory care community is leased to Emeritus Senior Living for an initial term of 15 years with options to extend. Rent in the first year of the lease will be $1,140,000. Annual fixed escalators begin in the third lease year.

Discovery

In September 2013, we completed a $12,000,000 acquisition of Regency Pointe Retirement Community in Rainbow City, Alabama. The 120-unit senior housing community is leased to Discovery Senior Living ("Discovery") for an initial term of 15 years with three 5-year renewal options. Rent in the first year of the lease is $942,000 plus annual fixed escalators. As a lease inducement, upon obtaining certain operating metrics, Discovery will be eligible over years two, three and four of the lease for contingent payments totaling up to $2,500,000 which, if paid, we will amortize as an adjustment to rental income over the remaining lease term. At acquisition, the likelihood that we would incur the contingent payments was considered reasonably possible but not probable. Accordingly, no provision for these payments is reflected in the condensed consolidated financial statements.

In October 2013, we provided a $2,500,000 second mortgage loan to an affiliate of Discovery for the construction of a 120-unit senior housing community in Naples, Florida. Construction is planned to begin in the fourth quarter of 2013. The loan is guaranteed by principals of Discovery and has a five-year maturity with monthly payments of interest at a 12% annual rate.

Chancellor

In October 2013, we completed a $9,000,000 acquisition of a 63-unit senior housing community in Baltimore, Maryland, and leased the facility to Chancellor Health Care, LLC for an initial term of seven years, plus renewal options. The lease rate in the first year will be 8% plus a fixed annual escalator. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase. We also committed to provide up to $500,000 for renovations and improvements.

Additionally, we have committed $7,500,000 to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who has been operating the campus since 1993.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of $26,150,000 in cash, plus consideration related to the Corinth facility of $1,600,000 conditional upon the achievement of certain operating metrics, which is probable. The facilities, which total 254 beds, have been leased to affiliates of Fundamental Long Term Care Holdings, LLC (“Fundamental”) for an initial term of 10 years at a lease rate of 9% plus annual fixed escalators. The lease includes three 5-year renewal options at the terms which exist upon renewal.

In October 2013, we agreed to sell three older skilled nursing facilities to affiliates of our current tenant, Fundamental, for $18,500,000. The properties have a carrying value of $17,115,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the internal Revenue Code. Our lease revenue from these facilities was $2,531,000 and $2,387,000 for the nine months ended September

30, 2013 and 2012, respectively. We plan to complete this sale by December 31, 2013.

Other Lease Activity

Our leases are typically structured as "triple net leases" on single-tenant properties having an initial leasehold term of 10 to 15 years with one or more 5-year renewal options. As such, there may be reporting periods in which we do not experience a lease renewal or expiration. During the nine months ended September 30, 2013, we had no renewing or expiring leases.

In October 2013, our current tenant, Weatherly Associates, LLC, exercised their option to purchase our Weatherly, PA senior housing facility for $5,315,000. The property had a carrying value of $3,599,000 resulting in a gain for financial statement purposes. We plan to defer recognition of the tax gain on the sale of this facility by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. Our lease revenue from the facility was $302,000 for both nine month periods ended September 30, 2013 and 2012.

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Real Estate and Mortgage Write-downs

Our borrowers and tenants experience periods of significant financial pressures and difficulties similar to other health care providers. Governments at both the federal and state levels have enacted legislation to lower, or at least slow, the growth in payments to health care providers. Furthermore, the cost of professional liability insurance has increased significantly during this same period.

Since inception, a number of our facility operators and mortgage loan borrowers have undergone bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or, for certain periods, have failed to make timely payments on their obligations to us.

We believe that the carrying amounts of our real estate properties are recoverable and that mortgage notes receivable are realizable and supported by the value of the underlying collateral. However, it is possible that future events could require us to make significant adjustments to these carrying amounts.

Potential Effects of Medicare Reimbursement

Our tenants who operate skilled nursing facilities receive a significant portion of their revenues from governmental payors, primarily Medicare (federal) and Medicaid (states). Changes in reimbursement rates and limits on the scope of services reimbursed to skilled nursing facilities could have a material impact on the operators' liquidity and financial condition. On May 1, 2013, the Centers for Medicare & Medicaid Services ("CMS") released a proposed rule outlining a 1.4% increase in their Medicare reimbursement for fiscal 2014 beginning on October 1, 2013. We currently estimate that our borrowers and lessees will be able to absorb this nominal Medicare increase due to their credit quality, profitability and their debt or lease coverage ratios, although no assurances can be given as to what the ultimate effect that similar Medicare increases on an annual basis would have on each of our borrowers and lessees. According to industry studies, state Medicaid funding is not expected to keep pace with inflation. Federal legislative policies have been adopted and continue to be proposed that would reduce Medicare and/or Medicaid payments to skilled nursing facilities. Accordingly, for the near-term we are treating as cautionary the Federal Government’s recent re-commitment, after debating a ‘chained CPI’ indexing, to fully index Social Security to inflation. In this cautious approach, any near-term acquisitions of skilled nursing facilities are planned on a selective basis, with emphasis on operator quality and newer construction.

As discussed in the notes to the condensed consolidated financial statements, former not-for-profit borrowers, SeniorTrust and ElderTrust, appointed receivers to effect the sale of their assets and the winding up of those entities. These two mortgage borrowers were adversely impacted by previous Medicare rate adjustments due to their payor mix, their current payment coverage ratios and limited net equity. The impact of net reductions in Medicare reimbursement had an adverse effect on the value of the underlying real estate assets. In March 2013, the financial condition of SeniorTrust reflected their declining net operating income over the previous twelve months and indicated a further adverse change in the estimated value of the collateral for our notes receivable at that time. As a result, we recorded an impairment on this former note of $4,037,000 based on such estimated value.

Litigation Settlement

In April 2013, we entered into a settlement agreement concerning litigation with the two borrowers mentioned above, ElderTrust and SeniorTrust. As described earlier, we agreed to purchase the seven skilled nursing facilities which serve as collateral for the note from ElderTrust. Additionally, we agreed to a full settlement of our notes receivable from SeniorTrust for $15,000,000 in cash. Our notes from SeniorTrust were paid in full on June 28, 2013.

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At the time of the settlement agreement, our annualized interest-only cash flows from SeniorTrust and ElderTrust totaled approximately $1,980,000. With an additional net investment of $8,676,000, our estimated annualized cash flows beginning in 2014, before any rent escalation, will be $3,450,000. The table below illustrates the projected effect of the settlement on annualized cash flows and return on investment (in thousands):

	Before Settlement	After Settlement	Difference
SeniorTrust	$15,000	$—	$(15,000)
ElderTrust	13,741	37,417	23,676
Total Investment	$28,741	$37,417	$8,676
Estimated Annualized Cash Flow	$1,980	$3,450	$1,470
Estimated Annualized Cash Flow as % of Total Investment	6.9 %	9.2 %	16.9 %

The above analysis focuses entirely upon cash flow and investment return without considering qualitative portfolio improvements inherent in transitioning from a mortgage note to a triple net lease. Additionally, the above analysis does not consider the effect of future rent escalations or the future cost of borrowings used to acquire the seven New England properties.

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Results of Operations

The significant items affecting revenues and expenses are described below (in thousands):

	Three Months Ended September 30,		Period Change	
	2013	2012	$	%
Revenues:				
Rental income				
ALFs leased to Bickford Senior Living	$5,028	$915	$4,113	NM
SNFs leased to Fundamental Long Term Care	1,876	1,247	629	50.4 %
Hospital leased to Polaris	538	—	538	NM
ALF leased to Landmark Senior Living	394	—	394	NM
ALFs leased to Emeritus Senior Living	1,196	885	311	35.1 %
SLC leased to Santé Partners	534	250	284	113.6 %
SLC leased to Chancellor Health Care	270	6	264	NM
Other new and existing leases	17,268	16,536	732	4.4 %
	27,104	19,839	7,265	36.6 %
Straight-line rent adjustments, new and existing leases	1,713	1,277	436	NM
Total Rental Income	28,817	21,116	7,701	36.5 %
Interest income from mortgage and other notes				
Capital Funding Group	518	173	345	NM
Bickford Senior Living	249	2	247	NM
SeniorTrust	—	251	(251)	NM
Bell Oden	—	220	(220)	NM
Other new and existing mortgages	1,169	1,233	(64)	(5.2)%
Total Interest Income from Mortgage and Other Notes	1,936	1,879	57	3.0 %
Investment income and other	1,040	1,348	(308)	(22.8)%
Total Revenue	31,793	24,343	7,450	30.6 %
Expenses:				
Depreciation				
ALFs leased to Bickford Senior Living	1,508	254	1,254	NM
SNFs leased to Fundamental reclassified to continuing operations	445	2,398	(1,953)	NM
ALF leased to Landmark Senior Living	145	—	145	NM
SLC leased to Santé Partners	166	60	106	176.7 %
ALFs leased to Emeritus Senior Living	106	—	106	NM
Other new and existing assets	3,362	3,079	283	9.2 %
Total Depreciation	5,732	5,791	(59)	(1.0)%
Interest expense and amortization of loan costs	3,290	854	2,436	NM
Legal fees	55	205	(150)	NM
Loan and realty (recoveries) losses, net	(2,061)	2,300	(4,361)	NM
Other expenses	1,837	1,910	(73)	(3.8)%
	8,853	11,060	(2,207)	(20.0)%
Income before equity-method investee, discontinued operations and noncontrolling interest	22,940	13,283	9,657	72.7 %
Income from equity-method investee	178	—	178	NM
Income from continuing operations	23,118	13,283	9,835	74.0 %
Income from discontinued operations	562	1,068	(506)	(47.4)%
Gain on sale of real estate	19,370	—	19,370	NM
Net income	43,050	14,351	28,699	200.0 %

Net income attributable to noncontrolling interest	(306)	—	(306)	NM
Net income attributable to common stockholders	$42,744	$14,351	$28,393	197.8 %

NM - not meaningful

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Financial highlights of the quarter ended September 30, 2013, compared to the same period in 2012 were as follows:

- Rental income increased $7,701,000 when compared to the same period in the prior year primarily as a result of new real estate investments of $241,549,000 funded during the first nine months of 2013. Future increases in rental income depend on our ability to make new investments which meet our underwriting criteria.

- Interest income from mortgage and other notes for the remainder of 2013 is expected to be lower than the comparative period in 2012 due to (1) the settlement of outstanding notes receivable balances from not-for-profit borrowers, ElderTrust and SeniorTrust totaling $28,741,000, and (2) the payoff of a mortgage receivable of $3,293,000 secured by a facility in Georgia which resulted in a recovery of a previous writedown of $2,061,000. Unless we continue to make new investments in loans in 2013 and future years, our interest income will decrease due to the normal amortization and scheduled maturities of our loans.

- Depreciation expense recognized in continuing operations decreased $59,000 compared to the prior year partially due to the reclassification of the Fundamental facilities from discontinued operations after the agreement to sell the facilities was canceled in September 2012 and "catch-up" depreciation was recorded during that period. Depreciation expense would have been recognized in continuing operations during 2012 and previously on these properties had the facilities been continuously classified as held and used. New real estate investments completed since the third quarter of 2012 increased depreciation expense by $1,894,000 for the quarter ended September 30, 2013 as compared to the same period in the prior year.

- Interest expense, which includes amortization of loan costs of $110,000 and $82,000 for the quarters ended September 30, 2013 and 2012, respectively, relates to our borrowings on our credit facility and debt assumptions to fund new real estate and loan investments. Upfront fees and other loan-related costs are amortized over the term of the credit facility. An increase in interest expense and loan cost amortization of $2,436,000 resulted from expanded borrowings used to fund new real estate investments in 2012 and 2013. We expect to fund additional healthcare real estate investments in 2013 with borrowings from our bank credit facility and longer-term debt, both secured and unsecured, which will increase our interest expense.

- Legal expense decreased $150,000 primarily as a result of the final resolution of litigation brought by two of former not-for-profit borrowers, ElderTrust and SeniorTrust.

- We recognized a gain of $19,370,000 on our sale of six skilled nursing facilities to our tenant, NHC.

The results of operations for facilities included in assets held for sale or sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

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The significant items affecting revenues and expenses are described below (in thousands):

	Nine Months Ended September 30,		Period Change	
	2013	2012	$	%
Revenues:				
Rental income				
ALFs leased to Bickford Senior Living	$9,197	$2,683	$6,514	242.8 %
Hospital leased to Polaris	1,602	—	1,602	NM
SLC leased to Santé Partners	1,561	250	1,311	NM
SNFs leased to Fundamental Long Term Care	4,901	3,717	1,184	31.9 %
ALF leased to Landmark Senior Living	1,183	—	1,183	NM
SNFs leased to Legend Healthcare	8,902	8,156	746	9.1 %
SLC leased to Chancellor Health Care	810	6	804	NM
ALFs leased to White Pine Senior Living	1,777	1,187	590	49.7 %
Other new and existing leases	44,538	42,934	1,604	3.7 %
	74,471	58,933	15,538	26.4 %
Straight-line rent adjustments, new and existing leases	4,408	2,400	2,008	83.7 %
Total Rental Income	78,879	61,333	17,546	28.6 %
Interest income from mortgage and other notes				
Capital Funding Group	1,536	323	1,213	NM
Bickford Senior Living	249	6	243	NM
Bell Oden	—	651	(651)	NM
SeniorTrust	475	748	(273)	(36.5)%
Other new and existing mortgages	3,617	3,700	(83)	(2.2)%
Total Interest Income from Mortgage and Other Notes	5,877	5,428	449	8.3 %
Investment income and other	3,156	3,462	(306)	(8.8)%
Total Revenue	87,912	70,223	17,689	25.2 %
Expenses:				
Depreciation				
ALFs leased to Bickford Senior Living	2,672	762	1,910	250.7 %
SNFs leased to Fundamental reclassified to continuing operations	1,032	2,398	(1,366)	(57.0)%
SLC leased to Santé Partners	500	60	440	NM
ALF leased to Landmark Senior Living	436	—	436	NM
Hospital leased to Polaris	330	—	330	NM
Other new and existing assets	9,735	9,130	605	6.6 %
Total Depreciation	14,705	12,350	2,355	19.1 %
Interest expense and amortization of loan costs	6,011	2,176	3,835	176.2 %
Legal expense	621	424	197	46.5 %
Loan and realty (recoveries) losses, net	1,976	2,300	(324)	(14.1)%
Other expenses	7,487	6,644	843	12.7 %
	30,800	23,894	6,906	28.9 %
Income before equity-method investment, discontinued operations and noncontrolling interest	57,112	46,329	10,783	23.3 %
Income from equity-method investment	269	—	269	NM
Investment and other gains	—	30	(30)	NM
Income from continuing operations	57,381	46,359	11,022	23.8 %
Income from discontinued operations	2,321	3,269	(948)	(29.0)%
Gain on sale of real estate	19,370	—	19,370	NM
Net income	79,072	49,628	29,444	59.3 %

Net income attributable to noncontrolling interest	(664)	—	(664)	NM	
Net income attributable to common stockholders	$78,408	$49,628	$28,780	58.0	%

NM - not meaningful

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Financial highlights of the nine months ended September 30, 2013, compared to the same period in 2012 were as follows:

- Rental income increased $17,546,000 when compared to the same period in the prior year primarily as a result of funding new real estate investments of $241,549,000 during the first nine months of 2013. Future increases in rental income depend on our ability to make new investments which meet our underwriting criteria.

- Interest income from mortgage and other notes increased $449,000 due to new loan investments of $9,713,000 funded in 2013. Interest income for the remainder of 2013 is expected to be lower due to (1) the settlement of outstanding notes receivable balances from not-for-profit borrowers ElderTrust and SeniorTrust totaling $28,741,000, and (2) the payoff of a mortgage receivable of $3,293,000 secured by a facility in Georgia which resulted in a recovery of a previous writedown of $2,061,000. Unless we continue to make new investments in loans in 2013 and future years, our interest income will decrease due to the normal amortization and scheduled maturities of our loans.

- Depreciation expense increased $2,355,000 primarily as a result of new real estate investments completed during 2012 and 2013. The increase in depreciation expense was partially offset by "catch-up" depreciation recorded in September 2012 as a result of the reclassification of the Fundamental facilities from discontinued operations after the agreement to sell the facilities was canceled. Depreciation expense would have been recognized in continuing operations during 2012 and previously on these properties had the facilities been continuously classified as held and used.

- Interest expense, which includes amortization of loan costs of $596,000 and $238,000 for the nine months ended September 30, 2013 and 2012, respectively, relates to our borrowings on our credit facility and debt assumptions to fund new real estate and loan investments. Amortization of loan costs for 2013 includes $353,000 which were written off as a result of the modifications we made to the credit facility at the end of the second quarter. Upfront fees and other loan-related costs are amortized over the term of the credit facility. An increase in interest expense and loan cost amortization of $3,835,000 resulted from expanded borrowings used to fund new real estate investments in 2012 and 2013. We expect to fund additional healthcare real estate investments in 2013 with borrowings from our bank credit facility and longer-term debt, both secured and unsecured, which will increase our interest expense.

- Legal expense increased $197,000 primarily as a result of the litigation brought by two former not-for-profit borrowers, ElderTrust and SeniorTrust, which reached a final settlement in April 2013. This litigation and its settlement are discussed in the notes to the condensed consolidated financial statements.

- Loan and realty losses include an impairment of of $4,037,000 recorded in March 2013 related to our estimate of the underlying value of the collateral for the SeniorTrust note. In September 2013 we received $3,293,000 as full payment of a mortgage note and recorded a recovery of a previous writedown of $2,061,000.

- Other expenses increased primarily due to $295,000 of transaction costs related to two business combinations completed during 2013 and higher consulting and advisory costs resulting from our increased investment activity.

- We recognized a gain of $19,370,000 on our sale of six skilled nursing facilities to our tenant, NHC.

The results of operations for facilities included in assets held for sale or sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

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Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of cash include rent payments, principal and interest payments on mortgage and other notes receivable, dividends received on our investments in the common and preferred shares of other REITs, proceeds from the sales of real property and borrowings from our term loans and revolving credit facility. Our primary uses of cash include dividend distributions to our shareholders, debt service payments (both principal and interest), new investments in real estate and notes and general corporate overhead.

These sources and uses of cash are reflected in our Condensed Consolidated Statements of Cash Flows as summarized below (dollars in thousands):

	Nine Months Ended		Change	
	9/30/2013	9/30/2012	$	%
Cash and cash equivalents at beginning of period	$9,172	$15,886	$(6,714)	(42.3)%
Net cash provided by operating activities	74,413	63,735	10,678	16.8%
Net cash used in investing activities	(117,133)	(91,877)	(25,256)	27.5%
Net cash provided by financing activities	40,998	16,666	24,332	146.0%
Cash and cash equivalents at end of period	$7,450	$4,410	$3,040	68.9%

Operating Activities – Net cash provided by operating activities for the nine months ended September 30, 2013 increased primarily as a result of the collection of lease payments on new real estate investments completed during 2012 and 2013.

Investing Activities – Net cash flows used in investing activities for the nine months ended September 30, 2013 increased as compared to 2012 primarily due to new real estate investments completed during 2013.

Financing Activities – Net cash flows from financing activities for the nine months ended September 30, 2013 increased as a result of the timing of borrowings on our revolving credit facility used to fund real estate investments, partially offset by $64,656,000 in dividends paid to stockholders.

Liquidity

At September 30, 2013, our liquidity was strong, with $80,027,000 available in cash, highly-liquid marketable securities and borrowing capacity on our revolving credit facility. In addition, our investment in LTC preferred stock is convertible into 2,000,000 shares of common stock whose per share price ranged between $34 and $42 during the quarter ended September 30, 2013. Cash proceeds from lease and mortgage collections, loan payoffs and the recovery of previous write-downs have been distributed as dividends to stockholders, used to retire our indebtedness, and accumulated in bank deposits for the purpose of making new real estate and mortgage loan investments.

On June 28, 2013, we entered into a $370,000,000 unsecured credit facility that includes $120,000,000 of 7-year term loans that are fully drawn. The facility includes an uncommitted incremental facility feature allowing for an additional $130,000,000 of borrowings. The credit facility provides for unsecured, revolving borrowings of up to $250,000,000 with interest at 140 basis points over LIBOR and a maturity of 5 years years (inclusive of an embedded 1 year extension option), and $80,000,000 and $40,000,000 unsecured, 7 years-year term loans with interest at 150 basis points over LIBOR. There is an unused commitment fee of 35 basis points per annum. At September 30, 2013, we had $59,000,000 available to draw on the revolving portion of the credit facility. Quoted 30-day LIBOR was 18 basis points on September 30, 2013.

The unsecured credit facility mentioned above requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been well within the limits required by the credit facility agreements. We continually assess the impact of any new investments and the underlying capital requirements on these limits. In the future, our resource allocation decisions may be driven in part by the need to maintain compliance with these creditor-imposed limits.

As part of the Care acquisition described in Note 2, we assumed Fannie Mae mortgage loans with principal balances of $71,323,000 and $7,257,000 on September 30, 2013, which have interest at rates of 6.85% and 7.17%, respectively, and mature on July 1, 2015. The loans are subject to early-payment penalties extending until December 2014. At that time, we may consider other favorable arrangements.

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In August 2013, with borrowings from our revolving credit facility, we paid off a $19,250,000 mortgage which carried interest at 300 basis points over LIBOR and had a scheduled maturity of November 2013.

To mitigate our exposure to interest rate risk, we have entered into the following interest rate swap contracts on our term loans as of September 30, 2013 (dollars in thousands):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value
May 2012	April 2019	3.04%	1-month LIBOR+150 bps	$40,000	$189
June 2013	June 2020	3.61%	1-month LIBOR+150 bps	$80,000	$(708)

We plan to refinance the borrowings on our revolving credit facility into longer-term debt instruments. We will consider secured debt from U.S. Govt. agencies, including HUD, private placements of unsecured debt, and public offerings of debt and equity. We anticipate that our historically low cost of debt capital will rise in the near to mid-term, as the federal government inevitably transitions away from quantitative easing. Because of consensus expectations of resultant rising interest rates, refinancing the borrowings on our revolving credit facility continues to be a high priority.

If we modify or replace existing debt, we would incur debt issuance costs. These fees would be subject to amortization over the term of the new debt instrument and may result in the write-off of fees associated with debt which has been replaced or modified. Sustaining long-term dividend growth will require that we consider all forms of capital mentioned above, with the goal of maintaining a low-leverage balance sheet as mitigation against potential adverse changes in the business of our tenants and borrowers.

We intend to comply with REIT dividend requirements that we distribute at least 90% of our annual taxable income for the year ending December 31, 2013 and thereafter. During the first nine months of 2013, we declared (1) a quarterly dividend of $.695 per common share to shareholders of record on March 31, 2013, payable on May 10, 2013; and (2) a quarterly dividend of $.735 per common share to shareholders of record on June 28, 2013 and payable on August 9, 2013; and (3) a quarterly dividend of $.735 per common share to shareholders of record on September 30, 2013 and payable on November 8, 2013.

Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). The 2012 regular fourth quarter dividend was $.67 per common share and was paid on January 31, 2013. The 2012 dividends declared included a special dividend of $.22 per common share. We declare special dividends when we compute our REIT taxable income in an amount that exceeds our regular dividends for the fiscal year.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit.

Contractual Obligations and Contingent Liabilities

As of September 30, 2013, our contractual payment obligations and contingent liabilities are more fully described in the notes to the condensed consolidated financial statements and were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt, including interest[1]	$441,769	$3,467	$100,630	$14,771	$322,901
Real estate purchase liabilities	5,856	4,256	1,600	—	—
Construction commitments	17,246	17,246	—	—	—
Loan commitments	2,000	2,000	—	—	—

	$466,871	$26,969	$102,230	$14,771	$322,901

[1] Interest is calculated based on the interest rate at September 30, 2013 through maturity of the 7-year term loans, the revolving credit facility, and the mortgages assumed in our arrangement with Bickford, based on the balances outstanding as of September 30, 2013. The calculation also includes an unused commitment fee of .35%.

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Commitments and Contingencies

Bickford

At September 30, 2013, our consolidated subsidiary, PropCo, had purchased land and begun construction on three assisted living facilities having a maximum cost of $27,000,000. Our costs incurred to date, including land, were $14,252,000.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of $26,150,000 in cash, plus consideration related to the Corinth facility of $1,600,000 conditional upon the achievement of certain operating metrics, which is probable.

Kentucky River

In March 2012, we entered into a long-term lease extension and construction commitment to Jackson Hospital Corporation, an affiliate of Community Health Systems, to provide up to $8,000,000 for extensive renovations and additions to our Kentucky River Medical Center, a general acute care hospital in Jackson, Kentucky. This investment will be added to the basis on which the lease amount is calculated. The construction project commenced during the first quarter of 2013 and is expected to continue over two years. Total construction costs incurred as of September 30, 2013 were $4,363,000. The ten-year lease extension began July 1, 2012 with an additional 5-year renewal option.

Legend Healthcare

In October 2011, we completed a purchase/leaseback of four skilled nursing facilities in Texas with affiliates of Legend Healthcare, LLC (“Legend”) for $55,278,000, which included contingent consideration of $5,478,000. In December 2012, as a result of Legend's attainment of certain required operating metrics, we funded $2,222,000 of this contingent consideration. We expect the remaining $3,256,000, which is recorded as a purchase liability, to be funded prior to December 31, 2014.

Santé

We have a $2,000,000 supplemental construction commitment to our borrower, Santé Partners, LLC (“Santé”). This additional loan amount becomes available to the borrower when the 70-bed transitional rehabilitation hospital, completed in March 2011, achieves certain operating metrics. NHI also has the option to purchase and lease back the hospital when it achieves a predetermined level of stabilized net operating income.

We have committed to fund a $3,500,000 expansion and renovation program in connection with our August 2012 acquisition of the senior living campus in Silverdale, Washington leased to Santé. As of September 30, 2013, we had funded $2,639,000 of this commitment, which will be added to the basis on which the lease amount is calculated.

Helix Healthcare

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare (“Helix”) for $12,500,000. The purchase price includes a conditional payment of $1,000,000, which is recorded as a purchase liability.

Discovery

As a lease inducement, we have a contingent commitment to fund a series of payments up to $2,500,000 in connection with our September 2013 lease to Discovery of a senior living campus in Rainbow City, Alabama. Discovery would earn the contingent payments upon obtaining, and maintaining, a specified lease coverage ratio. As earned, the payments would be due in installments of $750,000 in each of years two and three of the lease with the residual due in year four. At acquisition, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the condensed consolidated financial statements.

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Funds From Operations

Our funds from operations ("FFO") for the nine months ended September 30, 2013 increased $10,445,000, or 17.1%, over the same period in 2012. Our normalized FFO for the nine months ended September 30, 2013 increased $9,070,000, or 13.9%, over the same period in 2012, primarily as the result of the impact of our new real estate investments in 2012 and 2013. FFO represents net earnings available to common stockholders, excluding real estate asset impairments and gains on dispositions, plus depreciation associated with real estate investments. Diluted FFO assumes the exercise of stock options and vesting of restricted stock using the treasury stock method. Normalized FFO excludes from FFO certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing FFO for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs.

We believe that FFO and normalized FFO are important supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative, and should be supplemented with a measure such as FFO. The term FFO was designed by the REIT industry to address this issue. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our FFO may not provide a meaningful measure of our performance as compared to that of other REITs. Since other REITs may not use our definition of FFO, caution should be exercised when comparing our Company's FFO to that of other REITs. FFO in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles ("GAAP") (FFO does not include changes in operating assets and liabilities) and therefore should not be considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

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The following table reconciles net income attributable to common stockholders, the most directly comparable GAAP metric, to FFO and Normalized FFO and is presented for both basic and diluted weighted average shares (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to common stockholders	$42,744	$14,351	$78,408	$49,628
Elimination of certain non-cash items in net income:				
Real estate depreciation in continuing operations	5,079	5,408	12,947	11,275
Real estate depreciation related to noncontrolling interest	(199)	—	(334)	—
Real estate depreciation in discontinued operations	—	101	—	303
Net gain on sales of real estate	(19,370)	—	(19,370)	—
Funds from operations	$28,254	$19,860	$71,651	$61,206
Gains on sales of marketable securities	—	—	—	(30)
Loan costs expensed due to credit facility amendment	—	—	353	—
Non-cash write-off of straight-line rent receivable	—	—	—	963
Write-offs and expenses due to early lease termination	—	—	—	297
Acquisition costs under business combination accounting[1]	—	—	208	—
Legal settlement	—	275	—	365
Loan impairments and (recoveries), net	(2,061)	2,300	1,976	2,300
Other items	—	(78)	—	17
Normalized FFO	$26,193	$22,357	$74,188	$65,118

[1] excludes portion attributable to noncontrolling interest

BASIC				
Weighted average common shares outstanding	27,876,176	27,830,311	27,872,805	27,799,750
FFO per common share	$1.01	$.71	$2.57	$2.20
Normalized FFO per common share	$.94	$.80	$2.66	$2.34
DILUTED				
Weighted average common shares outstanding	27,905,545	27,862,582	27,906,914	27,828,879
FFO per common share	$1.01	$.71	$2.57	$2.20
Normalized FFO per common share	$.94	$.80	$2.66	$2.34

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Funds Available for Distribution

Our funds available for distribution ("FAD") for the nine months ended September 30, 2013 increased $9,140,000, or 14.8%, over the same period in 2012. Our normalized FAD for the nine months ended September 30, 2013 increased $8,728,000, or 13.5%, over the same period in 2012 due primarily to the impact of real estate investments completed during 2012 and 2013. FAD represents net earnings available to common stockholders, excluding the effects of asset dispositions and straight-line rent adjustments, plus depreciation and stock based compensation. Diluted FAD assumes the exercise of stock options using the treasury stock method. Normalized FAD excludes from FAD certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing FAD for the current period to similar prior periods, and may include, but are not limited to, impairment of assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs.

Since other REITs may not use our definition of FAD, caution should be exercised when comparing our Company's FAD to that of other REITs. FAD in and of itself does not represent cash generated from operating activities in accordance with GAAP (FAD does not include changes in operating assets and liabilities) and therefore should not be considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

The following table reconciles net income attributable to common stockholders, the most directly comparable GAAP metric, to FAD and Normalized FAD and is presented for basic and diluted weighted average shares (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to common stockholders	$42,744	$14,351	$78,408	$49,628
Elimination of certain non-cash items in net income:				
Depreciation in continuing operations	5,732	5,791	14,705	12,350
Depreciation related to noncontrolling interest	(226)	—	(401)	—
Depreciation in discontinued operations	—	101	—	303
Net gain on sales of real estate	(19,370)	—	(19,370)	—
Straight-line lease revenue, net	(1,713)	(1,248)	(4,408)	(2,325)
Non-cash stock based compensation	253	244	2,086	1,924
Funds available for distribution	$27,420	$19,239	$71,020	$61,880
Gains on sales of marketable securities	—	—	—	(30)
Loan costs expensed due to credit facility amendment	—	—	353	—
Write-offs and expenses due to early lease termination	—	—	—	297
Acquisition costs under business combination accounting[1]	—	—	208	—
Legal settlement	—	275	—	365
Loan impairments and (recoveries), net	(2,061)	2,300	1,976	2,300
Other items	$—	$(78)	$—	$17
Normalized FAD	$25,359	$21,736	$73,557	$64,829

[1] excludes portion attributable to noncontrolling interest

BASIC				
Weighted average common shares outstanding	27,876,176	27,830,311	27,872,805	27,799,750
FAD per common share	$.98	$.69	$2.55	$2.23

Normalized FAD per common share	$.91	$.78	$2.64	$2.33
DILUTED				
Weighted average common shares outstanding	27,905,545	27,862,582	27,906,914	27,828,879
FAD per common share	$.98	$.69	$2.54	$2.22
Normalized FAD per common share	$.91	$.78	$2.64	$2.33

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Consolidated EBITDA

We consider Consolidated EBITDA to be an important supplemental measure because it provides information which we use to evaluate our performance and serves as an indication of our ability to service debt. We define Consolidated EBITDA as consolidated earnings before interest, taxes, depreciation and amortization, including amounts in discontinued operations. Since others may not use our definition of Consolidated EBITDA, caution should be exercised when comparing our Consolidated EBITDA to that of other companies.

The following table reconciles net income, the most directly comparable GAAP metric, to Consolidated EBITDA:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	43,050	14,351	79,072	49,628
Interest expense	3,290	854	6,011	2,176
Franchise, excise and other taxes	80	271	316	626
Depreciation	5,732	5,892	14,705	12,653
EBITDA	52,152	21,368	100,104	65,083

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

At September 30, 2013, we were exposed to market risks related to fluctuations in interest rates on approximately $191,000,000 of variable-rate indebtedness (excludes $120,000,000 of variable-rate debt that has been hedged through interest-rate swap contracts) and on our mortgage and other notes receivable. The unused portion ($59,000,000 at September 30, 2013) of our credit facility, should it be drawn upon, is subject to variable rates.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and loans receivable unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a 50 basis point increase or decrease in the interest rate related to variable-rate debt, and assuming no change in the outstanding balance as of September 30, 2013, net interest expense would increase or decrease annually by approximately $955,000 or $.03 per common share on a diluted basis.

We use derivative financial instruments in the normal course of business to mitigate interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are included in the Condensed Consolidated Balance Sheets at their fair value. We may engage in hedging strategies to manage our exposure to market risks in the future, depending on an analysis of the interest rate environment and the costs and risks of such strategies.

The following table sets forth certain information with respect to our debt (dollar amounts in thousands):

	September 30, 2013						December 31, 2012					
	Balance[1]	% of total		Rate[2]			Balance	% of total		Rate[2]	
Fixed rate:											
Unsecured 7-year term loan	$40,000	10.3	%	3.04	%		$40,000	19.6	%	3.04	%
Unsecured 7-year term loan	80,000	20.5	%	3.61	%		—	—		—	
Secured mortgage loan	71,323	18.2	%	6.85	%		—	—		—	
Secured mortgage loan	7,258	1.9	%	7.20	%		—	—		—	
Variable rate:											
Unsecured 7-year term loan	—	—		—			80,000	39.4	%	1.62	%
Secured mortgage loan	—	—		—			19,250	9.5	%	3.22	%
Unsecured revolving credit facility	191,000	49.1	%	1.61	%		64,000	31.5	%	1.62	%
	$389,581	100.0	%	3.23	%		$203,250	100.0	%	2.05	%

[1] Excludes unamortized premium of $1,782 applicable to two fixed rate secured mortgages
[2] Total is weighted average rate

The fixed rate debt in the table above reflects the effect of $40,000,000 and $80,000,000 notional amount interest rate swaps with maturities of April 2019 and June 2020, respectively, that effectively converts variable rate debt to fixed rate debt. To highlight the sensitivity of this fixed rate debt to changes in interest rates, the following summary shows the effects on fair value ("FV") assuming a parallel shift of 50 basis points ("bps") in market interest rates for a contract with similar maturities as of September 30, 2013 (dollar amounts in thousands):

	Balance	Fair Value[1]	FV reflecting change in interest rates	
Fixed rate:			-50 bps	+50 bps
Unsecured 7-year term loan	$80,000	$80,708	$83,111	$78,387
Unsecured 7-year term loan	40,000	39,811	40,844	38,807

[1] The change in fair value of our fixed rate debt was due primarily to the overall change in interest rates.

At September 30, 2013, the fair value of our mortgage loans receivable, discounted for estimated changes in the risk-free rate, was approximately $66,690,000. A 50 basis point increase in market rates would decrease the estimated fair value of our mortgage

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loans by approximately $1,238,000, while a 50 basis point decrease in such rates would increase their estimated fair value by approximately $1,291,000.

Equity Price Risk

We are exposed to equity price risk, which is the potential change in fair value due to a change in quoted market prices. We account for our investments in marketable securities, with a fair value of $13,577,319 at September 30, 2013, as available-for-sale securities. Increases and decreases in the fair market value of our investments in other marketable securities are unrealized gains and losses that are presented as a component of other comprehensive income. The investments in marketable securities are recorded at their fair value based on quoted market prices. Thus, there is exposure to equity price risk. We monitor our investments in marketable securities to consider evidence of whether any portion of our original investment is likely not to be recoverable, at which time we would record an impairment charge to operations. A hypothetical 10% change in quoted market prices would result in a related $1,358,000 change in the fair value of our investments in marketable securities.

Item 4. Controls and Procedures.

Evaluation of Disclosure Control and Procedures. As of September 30, 2013, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”) and Chief Accounting Officer (“CAO”), of the effectiveness of the design and operation of management’s disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities and Exchange Act of 1934, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our CEO and our CAO, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the CEO and CAO concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2013.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management’s evaluation during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Our Health Care Facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the Health Care Facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the Health Care Facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

As previously disclosed, in November 2008, the Company was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General (“OTAG”), which indicated that the OTAG was investigating transactions between the Company and three Tennessee not-for-profit corporations. NHI has provided the OTAG with requested information and documents and has been working with the OTAG with respect to this investigation. The investigation with respect to one of the not-for-profit corporations was settled in 2009. A receiver had been appointed for the two remaining not-for-profit corporations, SeniorTrust of Florida, Inc. ("SeniorTrust") and ElderTrust of Florida, Inc ("ElderTrust"). As previously disclosed, the receiver of SeniorTrust and ElderTrust had caused those entities to bring lawsuits against NHI and NHC.

In April 2013, NHI, NHC and the receiver for ElderTrust and SeniorTrust entered into a settlement agreement resolving all remaining issues. The settlement agreement also resolves the OTAG investigation and was approved by the Court on May 3, 2013. Thus the investigation has now been resolved with respect to all three of the not-for-profit corporations. The settlement agreement provided that SeniorTrust pay NHI $15,000,000 in cash in full settlement of the notes receivable between NHI and SeniorTrust, which payment was made on June 27, 2013.

The settlement agreement also provided that NHI purchase ElderTrust's seven skilled nursing facilities in Massachusetts and New Hampshire. As consideration for the purchase from ElderTrust, NHI canceled a note receivable from ElderTrust with a principal balance of $13,741,000 and paid cash in the amount of $23,676,000, inclusive of closing costs. As discussed in further detail at Note 2, the purchase was completed on August 30, 2013. NHI has leased these facilities to NHC, the current operator.

Item 1A. Risk Factors.

During the nine months ended September 30, 2013, there were no material changes to the risk factors that were disclosed in Item 1A of National Health Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, except for the addition of the risk factor that is stated as follows:

We have covenants related to our indebtedness which impose certain operational limitations and a breach of these covenants could materially adversely affect our financial condition and results of operations.

The terms of our current indebtedness as well as debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. Among other things, these provisions require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. Our continued ability to incur debt and operate our business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in a default under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt

instruments, could have a material adverse effect on our financial condition and results of operations.

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Item 6. Exhibits.

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863)
3.2	Amendment to Articles of Incorporation (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed March 23, 2009)
3.3	Restated Bylaws (incorporated by reference to Exhibit 3.3 to Form 10-K filed February 15, 2013)
10.1	Amendment No. 6 to the Company's Master Agreement to Lease with NHC
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Securities Exchange Act or otherwise subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL HEALTH INVESTORS, INC.
(Registrant)

Date: November 4, 2013

/s/ J. Justin Hutchens
J. Justin Hutchens
President, Chief Executive Officer,
and Director

Date: November 4, 2013

/s/ Roger R. Hopkins
Roger R. Hopkins
Chief Accounting Officer
(Principal Financial Officer and Principal Accounting Officer)

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Parque Green Village

2009
100 3,991 2013 176 87

Fit Marodin — Jardins

2009
70 15,432 2012 171 85

Mirante do Lago — Phase 2B

2009
70 7,368 2013 310 22

Residencial Monet Life — Le Grand Villa das Artes

2009
100 1,165 2011 200 99

Cotia — Phase 4 — Etapa II

2009
100 4,256 2011 224 97

Portal do Sol Life I

2009
100 2,354 2011 64 95

Portal do Sol Life II

2009
100 2,354 2011 64 85

Portal do Sol Life III

2009
100 2,354 2012 64 91

Residencial Monet II (Grand Ville das Artes — Phase 3)

2009
100 4,937 2011 120 97

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

(2) Values for 100% of the building development, except on projects with stake 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 our Alphaville residential communities and do not include some of the facilities available in our 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.

The table below sets forth our land subdivision developments launched between January 1, 2009 and December 31, 2011:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (as of December 31, 2011)
Alta Vista — Phase 2	2010	50	168,299	2012	236	18

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

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

Land Subdivisions under our Alphaville Brand

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 we develop a new Alphaville community, we provide 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, we also build 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 we develop a new Alphaville community far from large urban centers, we seek to assist in establishing schools near the community by forming partnerships with renowned educational

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institutions. Throughout our Alphaville communities, we also seek to stimulate the local economy by drawing new businesses to that area.

We believe that the maintenance of a development's quality is essential. For this reason, we impose 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.

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

The table below sets forth our residential communities launched between January 1, 2009 and December 31, 2011:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2) (1) (2)	Completion Year	Number of Units (2)	Units Sold (%) (as of December 31, 2011)
Terreno Cajamar	2011	55	1	2011	1	100
Alphaville Pernambuco F2	2011	70	340,288	2013	602	17
Alphaville Manaus F3	2011	100	120,242	2013	249	77
Alphaville Feira de Santana	2011	72	211,820	2013	422	85
Alphaville Campina Grande F2	2011	53	68,941	2011	158	24
Barra da Tijuca	2011	35	51,360	20121	75	46
Petrolina F2	2011	76	117,365	2012	377	29
São José dos Campos F1 + F2	2011	57	559,766	2014	1,009	87
Terras Alpha Maricá	2011	48	243,213	2013	615	76
Terras Alpha Resende	2011	77	183,093	2013	419	91
Alphaville Campo Grande F2	2011	66	233,539	2012	594	99
Alphaville Pernambuco	2011	83	323,525	2013	551	72
Alphaville Ribeirão Preto 1	2010	60	182,253	2012	586	95
Alphaville Mossoró 2	2010	53	35,417	2011	176	37
Alphaville Ribeirão Preto 2	2010	60	99,078	2012	303	38
Alphaville Brasília	2010	34	112,807	2011	500	87
Alphaville Alphaville Jacuhy 3	2010	65	103,995	2011	368	24
Alphaville Brasília Terreneiro	2010	13	44,579	2011	—	—
Living Solution Burle Marx	2010	100	1,537	2011	4	100
Alphaville Teresina	2010	79	283,223	2012	746	97
Alphaville Belém 1	2010	73	168,159	2012	463	93
Alphaville Belém 2	2010	72	136,696	2012	402	60
Terras Alpha Petrolina	2010	75	117,241	2012	489	96
Terras Alpha Foz do Iguaçu 2	2010	74	120,320	2012	465	42
Reserva Porto Alegre	2010	92	8,075	2012	21	18

Alphaville Porto Velho	2010	76	291,741	2012	832	40
Alphaville Caruaru	2009	70	79,253	2011	246	100
Alphaville Granja	2009	33	65,360	2011	333	100
Alphaville Votorantim 2	2009	30	59,166	2011	171	100
Conceito A Rio das Ostras	2009	100	12,354	2011	106	81
Alphaville Capina Grande	2009	53	91,504	2011	293	67
Alphaville Porto Alegre	2009	64	258,991	2011	613	87
Alphaville Piracicaba	2009	63	112,351	2011	345	95
Alphaville Gravataí 2	2009	64	91,040	2011	351	71
Alphaville Costa do Sol 3	2009	58	234,966	2011	506	94
Terras Alpha Foz do Iguaçu	2009	27	34,269	2011	392	97

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

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

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The table below discloses the projects that were completed in 2011 or in prior years and where the number of units sold as of December 31, 2011 was less than 90%.

Project Description	Units Sold (%) (as of December 31, 2011)
Alphaville Barra da Tijuca (2)	85
Fit Maria Ines (3)	88
Jatiuca Trade Residence (4)	69
Carpe Diem Niteroi (5)	77
Colina Verde (8)	82
Residencial Betim Life Phase 1(9)	89
Arsenal Life II (10)	85
Arsenal Life III (11)	89
Arsenal Life IV (12)	89
Humaita Garden Phase 2 (13)	72
Humaita Garden Phase 1 (14)	63
Residencial Morada de Ferraz (15)	85
Residencial Jd Atlantico Life Phase 2 (17)	88
Residencial Jd Atlantico Phase 3 (18)	89
Residencial Figueiredo II (19)	87
Residencial Ferrara Phase 2 (21)	80
Bella Vista Phase 1 (22)	88
Residencial Michelangelo (23)	88
Residencial Ferrara Phase 1 (25)	81
Residencial Parque Das Aroeiras Life (26)	71
Magnific (28)	70
Grand Ville das Artes — Matisse Life V (29)	87
Grand Ville das Artes — Matisse Life VI (30)	86
Portal do Sol Life II (31)	85
Vila Nova São José — Phase 1 — Metropolitan (32)	81

(1) Alphaville Barra da Tijuca. This development was 100% completed at December 31, 2011 at which time only 85% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(2) Fit Maria Ines. This development was 100% completed at December 31, 2011 at which time only 88% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(3) Jatiuca Trade Residence. This development was 100% completed at December 31, 2011 at which time only 69% of the units had been sold. According to the Company's then-existing business plan, this development's selling

forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(4) Carpe Diem Niteroi. This development was 100% completed at December 31, 2011 at which time only 76% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(5) Colina Verde. This development was 100% completed at December 31, 2011 at which time only 82% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(6) Residencial Betim Life. This development was 100% completed at December 31, 2011 at which time only 89% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales

of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(7) Arsenal Life II. This development was 100% completed at December 31, 2011 at which time only 85% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(8) Arsenal Life III. This development was 100% completed at December 31, 2011 at which time only 89% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(9) Aresenal Life IV. This development was 100% completed at December 31, 2011 at which time only 89% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(10) Humaita Garden Phase 2. This development was 100% completed at December 31, 2011 at which time only 72% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(11) Humaita Garden Phase 1. This development was 100% completed at December 31, 2011 at which time only 63% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(12) Residencial Morada de Ferraz. This development was 100% completed at December 31, 2011 at which time only 85% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(13) Residencial Jd Atlantico Life Phase 2. This development was 100% completed at December 31, 2011 at which time only 88% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(14) Residencial Jd Atlantico Phase 3. This development was 100% completed at December 31, 2011 at which time only 89% of the units had been sold. According to the Company's then-existing business plan, this development's

selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(15) Residencial Figueiredo II. This development was 100% completed at December 31, 2011 at which time only 87% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(16) Residencial Ferrara Phase 2. This development was 100% completed at December 31, 2011 at which time only 80% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(17) Bela Vista Phase 1. This development was 100% completed at December 31, 2011 at which time only 88% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(18) Residencial Michelangelo. This development was 100% completed at December 31, 2011 at which time only 88% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(19) Residencial Ferrara Phase 1. This development was 100% completed at December 31, 2011 at which time only 81% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated

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sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(20) Residencial Parque Das Aroeiras Life. This development was 100% completed at December 31, 2011 at which time only 71% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(21) Magnific. This development was 100% completed at December 31, 2011 at which time only 64% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. This development is a luxury building and the sale's velocity is lower than other buildings. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(22) Grand Ville das Artes — Matisse Life V. This development was 100% completed at December 31, 2011 at which time only 87% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(23) Grand Ville das Artes — Matisse Life VI. This development was 100% completed at December 31, 2011 at which time only 86% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(24) Portal do Sol Life II. This development was 100% completed at December 31, 2011 at which time only 85% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

(25) Vila Nova São José — Phase 1 — Metropolitan. This development was 100% completed at December 31, 2011 at which time only 81% of the units had been sold. According to the Company's then-existing business plan, this development's selling forecast indicated sales of the unsold units within a short time period with sales value higher than the accumulated cost. The Company currently has no reason to believe that the carrying value of this property is greater than its market value.

Commercial Buildings

In 2009, we launched four commercial buildings: Centro Empresarial Madureira, Paulista Corporate, Reserva Eco Office Life and Global Offices. As of December 31, 2010 we had four commercial buildings under development for sale: Sunplaza Personal Office and Icaraí Corporate, both in the state of Rio de Janeiro, Manhattan Wall Street in Salvador and JTR in Maceió. In 2010, we did not launch any commercial buildings.

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

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 principal construction services clients are large companies, many of them developers that do not build their own projects. As of December 31, 2011 our principal construction services clients were Fibra Empreendimentos Imobiliários S.A., Helbor LM Investimentos Imobiliários Ltda., Incons Champagnat Empreendimento Imobiliário SPE Ltda., Incons Curitiba Empreendimento Imobiliário SPE Ltda., MBigucci Villa Reggio Empreendimentos Imobiliários Ltda., SDI Desenvolvimento Imobiliário Ltda., Tanguá Patrimonial Ltda., Concivil Construtora e Incorporadora Ltda., STAN Portugal Empreendimento Imobiliário

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SPE Ltda., PP II SPE Empreendimentos Imobiliários 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, 2009 and December 31, 2011:

Project	First Year of Construction	Client	Type of Project
One	2011	Portugal Empreendimentos Imobiliário SPE Ltda.	Residential
Veranda	2011	Concivil Construtora e Incorporadora Ltda.	Residential/ Commercial
Status	2011	Villa Reggio Empreendimentos Imobiliários Ltda.	Residential
Panamérica Green Park	2011	PP II SPE Empreendimentos Imobiliários Ltda.	Commercial
Kino	2011	Kino Empreedimento Imobiliário SPE S.A.	Commercial
Residencial Helbor Spazio Vita	2010	LM Investimentos Imobiliários Ltda	Residential
Edifício Monde Champagnat	2010	Incons Champagnat Empreendimento Imobiliário SPE Ltda	Residential
Essenza	2010	Villa Reggio Empreendimentos Imobiliarios Ltda	Residential
Neosuperquadra	2010	Tangua Patrimonial Ltda	Residential/ Commercial
New Age	2009	Incols Curitiba Empreedimentos Imobiliários SPE	Residential
Duetto Volare	2009	Fibra Empreendimentos Imobiliários	Residential
Duetto Fioratta	2009	Fibra Empreendimentos Imobiliários	Residential
Carlyle (RB2)	2009	Fibra Empreendimentos Imobiliários	Residential
RB2	2009	Fibra Empreendimentos Imobiliários	Commercial
Acqua Faria Lima	2009	SDI Desenvolvimento Imobiliário Ltda	Commercial

The table below sets forth the real estate developments we have constructed for third parties, in which we also have an equity interest, between January 1, 2009 and December 31, 2011:

Project	First Year of Construction	Gafisa Participation(%)	Partner	Type of Project
Igloo Vila Olímpia	2011	80	BKO	Residential
Costa Araçagy	2011	60	Franere	Residential
Target	2011	60	Comasa/Polo	Commercial
Jardins da Barra	2010	50	Bueno Neto	Residential
Igloo Alphaville	2010	50	BKO	Residential
Reserva Ecoville Residencial	2010	50	Agre	Residential
Panamby Ribeirão Preto	2010	55	Stefani Nogueira	Residential
Grand Park Prime	2010	50	Franere	Residential
Grand Park Varandas	2010	50	Franere	Residential
Vistta Patamares	2010	50	OAS Empreendimentos Imobiliários Ltda.	Residential

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Project	First Year of Construction	Gafisa Participation(%)	Partner	Type of Project
City Park Exclusive	2010	50	OAS Empreendimentos Imobiliários Ltda.	Residential
City Park Brotas	2010	50	OAS Empreendimentos Imobiliários Ltda.	Residential
City Park Acupe	2010	50	OAS Empreendimentos Imobiliários Ltda.	Residential
Manhattan Square — Phase 1 (Wall Street)	2009	50	OAS Empreendimentos Imobiliários Ltda.	Commercial
Chácara Santanna	2009	50	Monza Incoporadora	Residential
Montblanc	2009	80	Yuny	Residential
Carpe Diem RJ	2009	80	Mattos & Mattos	Residential
Mistral	2009	80	Premiun	Residential
Reserva do Bosque	2009	80	GM	Residential
Ecoville	2009	50	Abyara Empreendimentos Imobiliários Ltda	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.

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, 2011, our development-client database was comprised of more than 118,500 individuals. We currently have approximately 71,380 active clients. Our construction-services clients are large companies, many of them developers that do not build their own projects. As of December 31, 2011, we had, among our main construction services clients, the following companies: Fibra Empreendimentos Imobiliários S.A., Helbor LM Investimentos Imobiliários Ltda., Incons Champagnat Empreendimento Imobiliário SPE Ltda., Incons Curitiba Empreendimento Imobiliário SPE Ltda., MBigucci Villa Reggio Empreendimentos Imobiliários Ltda., SDI Desenvolvimento Imobiliário Ltda., Tanguá Patrimonial Ltda., Concivil Construtora e Incorporadora Ltda., STAN Portugal Empreendimento Imobiliário SPE Ltda., PP II SPE Empreendimentos Imobiliários Ltda. and KINO Empreendimento Imobiliário SPE S.A. No individual client represents more than 5% of our revenues from residential developments or construction services.

Our Operations

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

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Land Acquisition

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

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

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

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

As of December 31, 2011, we had an inventory of 156 land parcels in which we estimate we could develop a total of 86,247 residential units with a sales value of R$17.6 billion, of which 35.2% 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.

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	Gafisa		Alphaville		Tenda	
	Future Sales (% Gafisa)(1) (in thousands of reais)	% Bartered	Future Sales (% Gafisa) (in thousands of reais)	% Bartered	Future Sales (% Gafisa) (in thousands of reais)	% Bartered
São Paulo	4,311,210	33.6	1,259,533	98.5	2,179,520	32.2
Rio de Janeiro	1,143,860	44.5	744,785	100.0	1,099,039	18.9
Other states	-	-	5,710,229	98.5	1,156,916	37.3
Total	5,455,070	36.2	7,714,547	98.7	4,435,475	32.3

(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 225 professionals. Our specialized team generally coordinates with several outsourced brokerage companies with a combined sales force of more than 5,000 representatives, monitoring such sales representatives in order to promote loyalty and ensure performance. Our marketing 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 225 sales consultants and 9 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.

We will continue to utilize independent real estate brokerage firms as we believe this provides a healthy competition between our internal sales force and outside brokers. Independent brokers provide us with a broad reach, access to a specialized and rich database of prospective customers, and flexibility to accommodate the needs of our diverse

offering and clientele. In line with our results-oriented culture, we compensate brokers based on their profit contribution rather than on sales. Brokers are required to attend periodic specialized training sessions where they are updated on customer service and marketing techniques, competing developments, construction schedules, and marketing and advertising plans. We emphasize a highly transparent sales approach, as opposed to the traditional high-pressure techniques, in order to build customer loyalty and to develop a sense of trust between customers and us. At our showrooms, brokers explain the project and financing plans, answer questions and encourage customers to purchase or sign on to receive a visit or additional information.

We typically initiate our marketing efforts 30 days before the launch of a development. We normally have a showroom on or near the construction site, which includes a model unit furnished with appliances and furniture. We

leverage our reputation for quality, consistency, on-time delivery and professionalism to increase sales velocity. We have been successful with this strategy, usually selling approximately 60% of the units before construction starts.

Our subsidiary Alphaville has also been successful in its sales and marketing efforts. For example, in Vitória, Alphaville Jacuhy development with more than 700 lots, was 85% sold within 48 hours after launch; in João Pessoa, Paraiba, the sales team needed only five hours to sell all of its residential lots; in Barra da Tijuca, Rio de Janeiro, 90% of the Alphaville lots available (valued at R$150 million) were sold during the weekend of launch; and Alphaville Caruaru in Recife, Alphaville Teresina in Piaui, Alphaville Granja Viana in São Paulo, Alphaville Piracicaba and Ribeirão Preto, both cities in the State of São Paulo, were 100% sold in the same day of their launch. In Brasilia, Alphaville launched the first phase of a twenty million square meter urban development. All the 600 residential lots were sold within a few hours of 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 18 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. Because the Tenda sales force is specially trained to provide information on the affordable entry-level segment, we believe that they are uniquely positioned to provide us with an advantage in this segment.

In addition to direct sales, Tenda markets its developments through telemarketing, which generates more than 28,000 calls per month and results in over 6,000 visits per month to its store fronts. Tenda also gathers information on its customers’ preferences to better tailor its marketing efforts and has implemented a customer relationship management department in order to improve its client satisfaction. Finally, Tenda focuses on improving its sales during the launch of a development using a specific strategy for each type of development. For example, with large developments, Tenda has successfully combined its direct sales force with independent real estate brokerage firms, and the increase in cost associated with such combined efforts was offset by the significant increase in sales during the initial months after launch.

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

Construction

Gafisa has been engaged in the construction business for over 50 years. Our experience spans across the entire construction chain. Before engaging in each new project, we develop sketches and research and develop projects and plans to create the most appropriate product possible. Our standardized construction techniques and unique control system are designed to optimize productivity and minimize raw material losses. Our monitoring tools are available on

our intranet where all employees regularly review costs and key performance indicators of each development such as actual versus budget comparisons, volume consumption for each raw material, and construction schedule.

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

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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. There are only three other buildings in the world that have achieved this category.

We invest in technology. Our research and development costs amounted to R$2.9 million, R$2.5 million and R$1.4 million in each of 2011, 2010 and 2009 respectively. 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 terms of customer financing we provide for each type of our developments as of December 31, 2011:

Sales Term	Luxury		Middle Income		Affordable Entry-Level(1)	Land Subdivisions (2)
Mortgage lending (delivery)	90	%	90	%	-	-

Caixa Econômica Federal	-	-	100 %	-
Gafisa 36 months	10 %	10 %	-	40 %
Gafisa 60 months	-	-	-	40 %
Gafisa 120 months	-	-	-	20 %

(1) Includes Tenda developments.

(2) Includes both Gafisa and Alphaville land subdivisions.

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Mortgages. In 2011, 80% of our sales value was financed by bank mortgages, where the customer paid us approximately 20% to 30% 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	< 12% annually + TR(1)	No limit	No limit
Housing Finance System (Sistema Financeiro da Habitação) or SFH	< 10% annually + TR	R$ 500,000	R$ 450,000
Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviços) or FGTS	< 8.16% 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$540.0 as of December 31, 2011 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 12.0% 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. In May, 2012, our clients' default level was 6.94% of our accounts receivable for Gafisa, 6.49% for Tenda and 3.22% for Alphaville. We attribute our low default rate to the fact that: (1) we conduct database research on the socio-economic background of our prospective customers; (2) our agreements discourage default and cancellation of the purchase by imposing immediate penalty fees, interest and liquidated damages which are adjusted for inflation, and we retain approximately 60-65% (Gafisa), 20% (Tenda) and 20% (Alphaville) of the total purchase price plus expenses incurred by us, which in general represents all or a substantial portion of the amount that the defaulted clients have already paid us; and (3) we offer several options to our customers if they experience financial difficulties, such as offering them a greater number of installment payments or exchanging the unit bought for a less expensive one. When a default occurs, we endeavor to renegotiate the outstanding loan with our customers before taking any legal action. We will only transfer title of the unit to a buyer after the release of the certificate of acceptance of occupancy by local authority and/or the full payment of all outstanding installments. We have increased the percentage of mortgages that our customers obtain from us from approximately 33% in 2006 to 80% in 2011. 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—New Developments 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 segment, as of May 31, 2012.

	Gafisa	Alphaville	Tenda
Default level by segment	6.94%	3.22%	6.49%

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

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

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

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Year Segment	2011 Number of contracts	2011 Sales value (R$ thousands)	2010 Number of contracts	2010 Sales value (R$ thousands)	2009 Number of contracts	2009 Sales value (R$ thousands)
Gafisa						
Contracted sales	5,871	2,530,372	5,377	2,195,814	4,510	1,637,961
Volume/Sales value of terminations	(753)	(350,284)	(604)	(221,497)	(320)	(127,886)
Percentage	12.8 %	13.8 %	11.2 %	10.1 %	7.1 %	7.8 %
Sales value, net of termination	5,118	2,180,088	4,773	1,974,317	4,190	1,510,075
Tenda						
Contracted sales	15,725	1,737,721	19,616	1,962,174	21,193	1,804,193
Volume/Sales value of terminations(1)	(14,284)	(1,407,511)	(6,551)	(529,049)	(5,322)	(443,089)
Percentage(1)	90.8 %	81.0 %	33.4 %	27.0 %	25.1 %	24.6 %
Sales value net of terminations	1,441	330,210	13,065	1,433,125	15,871	1,361,105
Alphaville						
Contracted sales	3,584	910,425	3,170	658,542	2,230	402,599
Volume/Sales value of terminations	(299)	(68,435)	(264)	(59,604)	(279)	(25,714)
Percentage	8.3 %	7.5 %	8.3 %	9.1 %	12.5 %	6.4 %
Sales value net of termination	3,285	841,991	2,906	598,938	1,951	376,885
Total sales value net of termination	9,844	3,352,288	20,744	4,006,380	22,012	3,248,065

(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 2011, we had R$1.4 billion in sales value of termination, of which R$467 million were in the fourth quarter of 2011. 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.

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

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

Main Raw Materials and Suppliers

We purchase a wide variety of raw materials for our operations. Even though these raw materials have represented on average, over the last three years, approximately 34% of our total costs of development, aside from land, the only raw material that represents more than approximately 5% of our total costs is steel. Prices of some raw materials have significantly increased over the last two years at a rate higher than inflation. The index that measures the fluctuation of construction costs, the INCC, increased 20% during the three year period ended December 31, 2011. During that same period, the IGP-M increased 15%, resulting in an increase in unit prices. We have been working on the development of new construction techniques and the utilization of alternative materials in order to reduce costs and improve our construction process with advanced technology.

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

Our five largest suppliers in terms of volume are Gerdau Aços Longos S.A., Votorantim Cimentos Brasil Ltda., Supermix Concreto S.A., Cia. Brasileira de Concreto S.A. and Elevadores Otis 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 and check their outstanding balances;
- the development of the "Alphaville Viver a Vida" web portal, through which our customers can quickly and easily access 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. 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.

We also promote a program called the "Alphaville Clubes – Lazer Brasil," which allows owners of the Alphaville developments and other registered members to use the facilities of all Alphaville health and fitness clubs throughout the country. News on our Alphaville communities are posted on Alphaville's website, which also contains documents and information related to each of our Alphaville developments exclusively for owners of Alphaville developments.

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 ended December 31,		
Year	2011	2010	2009
	(Launches in R$ million)		
Local market	30,311	20,935	12,718
Gafisa(2)	2,227	1,069	896
Gafisa's market share	7.3 %	5.1 %	7.0 %

Source: EMBRAESP and SECOVI.

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

	Year ended December 31,		
Year	2011	2010	2009
	(Launches in R$ million)		
Local market	11,544	6,786	2,809
Gafisa(2)	962	159	85
Gafisa's market share	8.3 %	2.3 %	3.0 %

Source: ADEMI.

(1) Metropolitan region.

(2) Gafisa stake.

We believe we are the leader in residential community developments. Our subsidiary Alphaville has a sizable and what we believe to be non-replicable land reserves, which will foster our future growth in the upcoming years.

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, 2011, we had 214 subsidiaries and 76 jointly-controlled entities under operations, all of such subsidiaries and jointly-controlled entities are incorporated as special purpose

entities and headquartered in Brazil. Our subsidiaries and jointly-controlled entities operate exclusively in the real estate sector.

Many of our subsidiaries and joint-ventures are SPEs, many of which have been incorporated by us as joint ventures together with other real estate and construction companies in Brazil. Of our 288 SPEs, 65% are wholly-owned by us and 14% are majority-owned by us, and we hold an interest of 50% or less in the remaining 21%.

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 150 pending trademark applications and 131 trademarks registered in Brazil with the INPI of which approximately (1) 12 pending applications and 10 registered trademarks refer to Alphaville, and (2) 37 pending applications and 12 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 "Alphaville" and "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 82 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 July 2012 and April 2021. We will seek to renew our domain names expiring in 2012, 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., Itau Unibanco Seguros ACE Seguradora S.A., Zurich Brasil Seguros S.A., Chubb do Brasil Companhia de Seguros, Caixa Seguradora, J. Malluceli Seguros S.A. and Austral Seguradora 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. Although no assurance can be given, we believe that the amount of insurance we carry will be sufficient to protect us from material loss in the future.

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).

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Real estate development

Real estate development activities are regulated by Law No. 4,591 of December 16, 1964, as amended, or Law No. 4,591. The main duties of a developer are to: (1) obtain all required construction approvals and authorizations from the proper authorities; (2) register the development with the Real Estate Registry Office (without registration, the developed units cannot be sold); (3) indicate in the preliminary documents the deadline for the developer to withdraw from the development; (4) indicate in all advertisements and sales contracts the registration number of the development with the Real Estate Registry Office; (5) oversee the construction of the project established by the contract which must be in accordance with the approval granted by the authorities; (6) deliver to the final owner the completed units, in accordance with the contractual specifications, and transfer to the final owner the title of the unit by signing the final sale deed; (7) assume sole responsibility for the delivery of the developed units to the respective purchasers; (8) assume sole responsibility in the event the construction of the unit is not in accordance with the advertisements and sale contracts; and (9) provide construction blueprints and specifications along with the joint ownership agreement to the proper Real Estate Registry Office. The final owner is obligated, in turn, to pay the price related to the cost of the land and the construction.

The construction of the real estate units may be contracted and paid for by the developer or by the final owners of the units. Brazilian law provides for two pricing methods in real estate development: (1) construction under contract and (2) construction under a system of management. In construction under contract, the contracting parties will either set a fixed price, stipulated before the construction begins, or agree on an adjustable price pegged to an 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, or Law No. 6,766. The Urban Land Subdivision Act governs urban land subdivisions and establishes, among other things, the planning and technical requirements for this form of land parceling and the obligations of the developers, and also provides for fines and sanctions in the event of violation of its provisions.

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

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

In addition to the approval of the project by the municipality in which the development will be located, the approval of other governmental bodies may be necessary in cases where the land subdivision: (1) is located in an area of particular interest, such as a protected cultural heritage site as defined by state or federal legislation; (2) is located in the

boundary area of a city, belongs to more than one municipality, or is in a metropolitan region as defined in state or federal law; or (3) has an area greater than 1 million square meters, in which case the state where the development will be located will be responsible for reviewing and approving it prior to the approval by the municipality, and will also determine the regulations to which the development must be subject.

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

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

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

Assets for Appropriation

Law No. 10,931 of August 2, 2004, 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 and No. 12,024 of August 27, 2009, which granted tax benefits for the adoption of the system by reducing tax rates on appropriated assets from 7% to 6% and, in the case of the appropriated assets under the public housing program “Minha Casa, Minha Vida,” from 7% to 1%.

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

Credit Policy Regulations

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

Housing Finance System, or "SFH"

Law No. 4,380 of August 21, 1964, as amended, created the SFH to promote the construction and ownership of private homes, especially for low income earners. Financing resources under the SFH's control are provided by the Government Severance Indemnity Fund for Employees (Fundo de Garantia do Tempo de Serviço), or "FGTS," and from savings account deposits. The FGTS, created by Law No. 5,107 of September 13, 1966 and regulated by Law No. 8,036 of May 11, 1990, imposes a mandatory 8% employee payroll deduction on all employees in Brazil. Employees maintain FGTS accounts, which are similar to pension funds, and are allowed, among other things, to use the funds deposited in the accounts for the acquisition of real estate property under certain circumstances, as set forth by applicable law. The CEF is the agency responsible for managing the funds deposited in the FGTS. In order to be eligible for the financing, the beneficiary must purchase a completed unit or unit under construction priced at up to R$500,000. In addition, the beneficiary shall (1) not own or be the committed purchaser of any residential real estate financed by the SFH within Brazil; (2) not own or be the committed purchaser of, any real estate property built or under construction in both his or her current city of residence and the city where the beneficiary conducts his or her main activities; (3) reside for at least one year in the city where the property is located; (4) pay the FGTS; and (5) be registered for at least three years with the FGTS regime. The unemployed also have access to the FGTS to purchase real estate property provided that he still has funds on the FGTS account (where the 8% payroll deduction was deposited while employed).

Financings that originate from savings account deposits in the entities comprising the Brazilian Saving and Loan System (Sistema Brasileiro de Poupança e Empréstimo), or "SBPE," are regulated by the Central Bank. Such financings can be obtained through the SFH, which is strictly regulated by the Brazilian government, or through the mortgage portfolio system, where banks are free to set the financing conditions. SFH financing offers fixed interest rates lower than the market rates, capped at 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 R$450,000; (2) the maximum sales price for the financed unit is R$500,000; (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) in the event of an outstanding balance at the end of the financing term, such term will be extended by half of the initial term.

SFH financings need to be secured by at least one of the following: (1) a first mortgage over the unit that is being financed; (2) a conditional sale over the unit that is being financed, as prescribed by Law No. 9,514 of November 20, 1997, as amended by Law No. 10,931 of August 2, 2004, or Law No. 9,514; (3) a first mortgage or conditional sale, as determined by Law No. 9,514, of other property of the borrower or a third party; or (4) some other guarantee, as established by the financing agent. SFH funds are only released upon the formalization of one of these methods of guaranteeing the loan.

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

Mortgage portfolio

While a large portion of the funds in the deposits in saving accounts are allocated to the SFH, some of the funds are allocated to loans granted at market rates. CMN Resolution No. 3,932/10 established that at least 65% of these deposits should be used for real estate financing, with a minimum of 80% of the financing going to housing loans

under the SFH and the remaining balance for loans granted at market rates which are usually higher than in SFH loans, including mortgage portfolio used by banks for the concession of housing loans.

In early 2005 the Brazilian government took a number of measures to better regulate the use of the funds raised in savings account deposits in order to promote growth of the real estate sector, these measures included: (1) cancellation of payment to the Central Bank of funds not invested in real estate financing in January, February and March; (2) creation of a real estate interbank deposit market to allow financial institutions with excessive investments in real estate to trade with financial institutions that has capacity for more real estate credits; (3) increase of the operating limits of the SFH to units with a maximum sales price of R$500,000; (4) review of the factors used in the calculation guidelines of the SFH in order to stimulate financing for the acquisition of new real estate properties at a low cost, applicable as of January 1, 2005; and (5) 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. These changes have significantly increased the funds available for investments in the Brazilian real estate sector.

Real Estate Finance System, or “SFI”

The SFI was created by Law No. 9,514 to establish assignment, acquisition and securitization criteria for real estate credits. The system seeks to develop primary (loans) and secondary (trading of securities backed by receivables) markets for the financing of real estate properties by creating advantageous payment conditions and special protection of creditors’ rights. The SFI supervises real estate financing transactions carried out by savings banks, commercial banks, investment banks, real estate credit portfolio banks, housing loan associations, savings and loan associations, mortgage companies and other entities authorized by the CMN to provide such financing. SFI real estate credits may be freely negotiated by the parties, under the following conditions: (1) the amount loaned and the related adjustments must be fully reimbursed; (2) interest must be paid at the rates established by the contract; (3) interest must be capitalized; and (4) borrowers must purchase life and permanent disability insurance.

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

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

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

Minha Casa, Minha Vida program

Provisional Measure No. 459 enacted on March 25, 2009, converted into Law No. 11,977 enacted on July 7, 2009, amended by Law No. 12,249 enacted on June 11, 2010, created a public housing program called "Minha Casa, Minha Vida." Provisional Measure No. 514 enacted on December 1, 2010, converted into Law No. 12,424 of June 16, 2011, modified the aforementioned legislation, which calls for government investment of more than R$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the

minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R$80,000 and R$170,000.

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

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

São Paulo municipality

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

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

Rio de Janeiro municipality

Decree 322 of March 3, 1976, of the municipality of Rio de Janeiro, and Decree "E" 3,800 of April 20, 1970, 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 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. These environmental laws may result in

delays, cause us to incur substantial compliance and other 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.

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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. Our subsidiary 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 fourth building in the world and the only building in Latin American, to be pre-certified by the U.S. Green Building Council as a Leed CS 2.0 Platinum building for leadership in energy and environmental design.

Environmental licenses and authorizations

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

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. 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 impacting activities 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. Such value must be no greater than 0.5% of the project's total costs and shall be proportional to the environmental impact of the activity.

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) to suspension of activities and, depending on the specific circumstances, criminal liability (of individuals and companies), pursuant to 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. These activities may require prior authorization of the relevant environmental authorities. As conditions to granting these authorizations, the relevant environmental authorities may require the licensees to plant new trees or acquire forests to repair the affected areas. 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 Law No. 9,605/98.

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Waste disposal

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.

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. 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 quality standards established by the National Environmental Council (Conselho Nacional do Meio Ambiente), or “CONAMA,” Resolutions. Other states have similar requirements. 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.

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.

Under Brazilian civil law, 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

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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. Consequently, the controlling legal entity can be found liable despite a limited liability legal status.

C. Organizational Structure

The following chart shows our organizational structure for our principal subsidiaries, all of them incorporated in Brazil, as of December 31, 2011:

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 Avenida das Nações Unidas, 12.495, 9th and 10th floors, in São Paulo, SP — Brazil. Currently, we and our main subsidiaries leased approximately 14,000 square meters. We believe our current facilities are adequate for the full development of our operations.

As of December 31, 2011, 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$52.8 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, 2011, 2010 and 2009 were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities Commission (CVM), and the standards, interpretations and guidelines of the Accounting Standards Pronouncements Committee (CPC), and are in compliance with the International Financial Reporting Standards (IFRS) adopted in Brazil, including the Guideline OCPC 04 - Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities – regarding the revenue recognition, and the respective costs and expenses arising from real estate 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.

In 2008, we retrospectively applied changes to Brazilian GAAP introduced by the CPC and the provisions of Brazilian Law No. 11,638/07 as from January 1, 2006. All periods presented from January 1, 2007 to December 31, 2008 have been prepared to reflect such accounting practices.

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 2011, 2010 and 2009 included the results of the following segments” Gafisa S.A., Alphaville and Tenda. See “Item 4. Information on the Company—A. History and Development of the Company—Historical Background and Recent Developments.” Our chief executive officer, who is responsible for allocating resources among these businesses and monitoring their progress, uses economic present value data, which is derived from a combination of historical operating results and forecasted operating results, to assess segment information primarily on the basis of different business segments.

Overview

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

Brazilian Economic Environment

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

The recent crisis in 2008 in the United States mortgage market affected credit markets, which had a negative impact on emerging markets and on stock exchanges throughout the world. During this period, average inflation according to the INPC consumer price index measured by the IBGE, or “INPC,” was 5.9%. The SELIC rate closed the 2008 year at

the rate of 11.8%. The real depreciated 24.2% in relation to the dollar, reaching R$2.34 per US$1.00 as of December 31, 2008.

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In 2009, the Central Bank began gradually reducing the SELIC rate, which attained 9.05% as of December 31, 2009. During this period, average inflation according to the INPC was 3.92%. The real appreciated 34.2% in relation to the dollar, reaching R$1.74 per US$1.00 as of December 31, 2009.

In 2010, the Central Bank increased the basic interest rate, which attained 10.75% as of December 31, 2010. During this period, average inflation according to the INPC was 6.46%. In 2010, the real appreciated by 4.3% against the U.S. dollar. On December 31, 2010, the period-end real/U.S. dollar exchange rate was R$1.666 per US$1.00.

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 US1.00. During this period, inflation according to the INPC was 6.50%.

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,		
	2011	2010	2009
	(%, unless otherwise stated)		
Real growth in GDP	3.7	7.5	(0.2)
Inflation rate (INPC) (1)	6.5	6.5	4.1
Inflation rate (IGP—M) (2)	5.1	11.3	(1.71)
National Construction Cost Index (INCC)(3)	7.3	7.8	3.20
TJLP rate (4)	6.0	6.0	6.0
CDI rate (5)	11.6	10.8	8.62
Appreciation (devaluation) of the real vs. US$	2.81	4.3	34.2
Exchange rate (closing) — US$1.00	R$1.87	R$1.66	R$1.74
Exchange rate (average)(6) — US$1.00	R$1.84	R$1.76	R$1.99

(1) INPC: consumer price index measured by the IBGE.

(2) General Market Price Index (Índice Geral de Preços—Mercado) measured by the FGV.

(3) National Index of Construction Cost (Índice Nacional de Custo da Construção) measured by the FGV.

(4) Represents the interest rate used by BNDES for long-term financing (end of period).

(5) Represents an average of interbank overnight rates in Brazil (accumulated for period-end month, annualized).

(6) Average exchange rate for the last day of each month in the period indicated.

Brazilian Real Estate Sector

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

Since 1994, Brazil's ability to control inflation has contributed to the country's economic recovery (particularly at the lower income level) and allowed Brazil to assert itself more effectively into the global economic context. For example, during the second half of the 1990s, policies that promoted economic liberalization and privatization of public services facilitated a significant influx of foreign investment. This environment generated pressure among the Brazilian financial and business communities to encourage responsible and transparent public management, promoting economic stability. In general, the current and previous presidential administrations have adopted comparatively austere economic policies, characterized by increased independence of the Central Bank,

transparency and control over public accounts. Another significant effect of Brazil's heightened international profile and economic stability was an increase in the competitiveness of various economic sectors, with a notable improvement in standards of corporate administration and governance. This pattern, along with favorable conditions in the global economy, have 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, gave banks the option to charge fixed interest rates on mortgages;

- Law No. 10,820 enacted on December 17, 2003, regulated by Decree No. 5,892 enacted on September 12, 2006, as amended by Decree No. 4,840 enacted on September 17, 2003, allowed payroll deductible mortgage loans to employees of both public and private entities;

- 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, created a public housing program called "Minha Casa, Minha Vida," which calls for government investment of more than R$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R$80,000 and R$170,000; and

- Provisional Measure No. 514 enacted on December 1, 2010, 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.

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 notes to our financial statements, included elsewhere in this annual report for further information on these and other accounting policies we adopt.

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Impairment of non-financial assets

We review annually 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 evidence be found, and the carrying amount exceeds the recoverable amount, a provision for loss is recognized by adjusting the carrying amount to the recoverable amount. These losses are recorded in the statement of operations when found. The test for impairment of intangible assets with indefinite useful lives and goodwill is performed at least annually or when circumstances indicate there is a decrease in the carrying amount.

The carrying amount of an asset or a certain cash-generating unit is defined as the highest of the value in use and the fair value less cost 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 with which we have not committed to undertake 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 at the growth rate used for purposes of extrapolation. The fair value less costs to sell is determined, whenever possible, based on a binding sales agreement in an arm’s length transaction between 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 in the latest transaction with similar assets.

The main assumptions used in the estimates of value in use are the following: revenue – revenue was projected between 2012 and 2016 considering the sales growth and on the customer base of different cash-generating units. Operating costs and expenses costs and expenses were projected in line with the past performance of the Company, as well as with the history of revenue growth. The key assumptions were based on the past performance of the Company and on reasonable and valid macroeconomic assumptions based on projections of the financial market, documented and approved by the Company’s management. The recovery test of our intangible assets resulted in impairment loss for the year ended December 31, 2011, as the estimated market value is in excess of the net book value on the assessment date in the amount of R$10,430 on Cipesa goodwill. For the years ended December 31, 2010 and 2009, the estimated market value is in excess of the net book value on the assessment date.

Properties for sale

Our properties for sale are recorded at the lower of cost or fair value. In the case of uncompleted units, the portion in inventories corresponds to the costs incurred in units that have not yet been sold.

The cost is made up of construction (materials, own or outsourced labor and other related items) and land, including financial charges allocated to the venture as incurred during the construction phase.

Land is recorded at acquisition cost. See “Business – Our Operations – Land Acquisition”. We acquire portions of land through barter transactions where, in exchange for the land acquired, we undertake to deliver either real estate units of developments in progress or part of the sales revenues originating from the sale of the real estate units in the developments. Land acquired through barter transactions is recorded at fair value.

We capitalize interest on the developments during the construction phase under the National Housing System credit line and other credit lines that are used for financing the construction of developments (limited to the corresponding financial expense amount).

When construction costs exceed the undiscounted cash flows expected from sales of completed units, properties under construction or land under development, an impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. The same analysis applies equally to our high, medium and low income residential developments and our land developments, irrespective of geographic location or stage of completion.

Our properties for sale are considered long-lived assets and we regularly review the carrying value of each of our developments whenever events or changes in circumstances indicate that their carrying value may not be

recoverable. If the carrying value of a development is not recoverable from its estimated future undiscounted cash flows, it is impaired and written down to its estimated fair value. In estimating the future undiscounted cash flows of a property, we use various estimates such as (1) expected sales price, based upon general economic conditions of the market, the location of our development and competition within the market and (2) costs expended to date and costs expected to be incurred in the future, which are associated with all future expenditures necessary to develop our properties for sale, including interest payments that will be capitalized as part of the costs of the asset.

We determine that the carrying value of properties held for sale (unsold units) does not exceed its net realizable value by comparing the cost with the estimated undiscounted cash flow expected from the sales of completed units.

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

Transactions with share-based payment

We measure the cost of transactions to be settled with shares with employees 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 yield, and the corresponding assumptions.

Provisions for tax, labor and civil risks

We recognize a provision for probable losses with tax, labor and civil claims. The assessment of the probability of a loss includes the evaluation of the available evidences, the hierarchy of Laws, the 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 for estimating them. We review the estimates and assumptions at least annually.

Taxes on income

We use both the “actual profit” and “presumed profit” regimes in our operations.

Deferred income and social contribution taxes are calculated to take into account all tax timing differences as follows: (1) amounts not yet taxed due to the fact that net income from real estate activities is taxed when the sales price is collected in cash as opposed to when revenue is recognized on an accrual basis; (2) income or expenses which are not yet taxable or deductible, such as provisions for contingencies; and (3) net operating losses, which have no expiration, when realization or recovery in future periods is considered probable. Deferred tax assets are generated under the

“actual profit” regime only. We consider in our annual business plan the allocation of new developments between entities using “actual profits” versus the “presumed profits” tax regimes such that sufficient taxable income will be generated in future years to realize the deferred tax asset. The business plan includes consideration of a variety of factors including the 30% annual limitation for utilizing net operating losses and changes in the Brazilian economic conditions. We evaluate whether a valuation allowance is required for these assets and deferred tax assets are recognized only to the extent that is probable that the temporary differences will

reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized, otherwise a valuation allowance is recorded. We also include in our evaluation the limitation of utilizing up to only 30% of annual taxable income in connection with recognition of net operating loss carryforwards. In the event our jointly-controlled subsidiaries elect to change from the "actual profit" regime to the "presumed profit" regime, accumulated tax loss carryforwards will be forfeited.

In situations of cumulative losses over three year period, temporary difference assets in excess of temporary difference liabilities do not have the respective deferred tax asset recognized, nor is an asset recognized for tax losses not used to offset against the 30% of tax liabilities.

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 costs of ventures

Total estimated costs, comprised of incurred and future costs for completing the construction works, are regularly reviewed, according to the construction progress, and the adjustments based on this review are reflected in the statement of operations, which form the basis for calculating the percentage in order to recognize the revenue.

Development and sale of real estate

In installment sales of finished units, revenue and costs are recognized when the sale is made regardless of the term for receipt of the contract price, provided that the following conditions are met: (a) the value thereof can be estimated, i.e. the receipt of the sale price is known or the sum that will be received may be reasonably estimated, and (b) the process of recognition of the sales revenues is substantially completed, i.e. we are released from our obligation to perform a considerable part of our activities that will generate future expenses related to the sale of the finished unit.

In sales of unfinished units, the procedures and rules established by CFC Resolution No. 963 are:

- the cost incurred (including the cost related to land) corresponding to the units sold is fully included in our results;
- the percentage of the cost incurred for units sold (including costs related to land) is calculated as a percentage of total estimated costs, and this percentage is included in revenues from units sold, as adjusted pursuant to the conditions of the sales agreements, and in selling expenses, thus determining the amount of revenues and selling expenses to be recognized;
- any amount of revenues recognized that exceeds the amount received from clients is recorded as current or non-current "Receivables from clients". Any amount received in connection with the sale of units that exceeds the amount of revenues recognized is recorded as "Obligations for purchase of land and advances from clients";
- interest and inflation adjustments on accounts receivable from the time the client takes possession of the property, as well as adjustments to present value of accounts receivable, are included in our results for the

development and sale of real estate using the accrual basis of accounting; and

- financial charges on accounts payable from the acquisition of land and on real estate credit operations incurred during the construction period are included in the costs incurred, and recognized in our results upon the sale of the units of the venture to which they are directly related.

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Taxes on the difference between revenues from real estate development and taxable accumulated revenues are calculated and recognized when the difference in revenues is recognized. Other income and expenses, including advertising and publicity, are included in results as they are incurred using the accrual basis of accounting.

Allowance for doubtful accounts and cancelled contracts

The Company set up an allowance for doubtful accounts and cancelled contracts for customer whose installments are over 180 days past due, in several phases of construction work: construction works ready on time, construction works delayed (within the grace period), works that are late (out of the grace period) and completed units that are delivered. This allowance is calculated based on the percentage of the construction work completed, 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,		
	2011	2010	2009
Launches (in millions of reais)	3,526	4,491	2,301
Number of projects launched	49	127	68
Number of units launched (1)	12,223	22,233	10,795
Launched usable area (m2) (2) (3)	2,250,725	3,029,748	1,354,332
Percentage of Gafisa investment	84 %	81 %	80 %

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

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

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

In 2011, we launched 49 residential developments with a total sales value of R$3.5 billion. This sales value was approximately 21.5% lower than that achieved in 2010, during which we launched residential developments totaling R$4.5 billion. This decrease is a reflection of deliberate slowdown in Tenda launches as part of a more conservative growth strategy.

21 of the 49 developments we launched during 2011 were located in the state of São Paulo, while another 9 developments were located in the state of Rio de Janeiro. The remaining 19 residential developments launched were located in the cities of Feira de Santana, state of Bahia, Salvador, state of Bahia, São Luiz, state of Maranhão, Natal, state of Rio Grande do Norte, Duas Una, state of Pernambuco, Petrolina, state of Pernambuco, Campo Grande, state of Mato Grosso do Sul, Campina Grande, state of Paraíba, Manaus, state of Amazonas, Paço do Lumiar, state of Maranhão, Belo Horizonte, state of Minas Gerais, Curitiba, state of Paraná, Santa Luzia, state of Minas Gerais, Canoas, state of Rio Grande do Sul, Goiânia, state of Goiás, Vespaziano, state of Minas Gerais.

During 2011, approximately 26% 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 10% of our total sales value for the year ended December 31, 2011. In the year ended December 31, 2010, the affordable entry-level business represented approximately 36% of our total sales value.

Full-year launches 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.

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In 2010, we launched 127 residential developments with a total sales value of R$4.5 billion. This sales value was approximately 95% higher than that achieved in 2009, during which we launched residential developments totaling R$2.3 billion. This increase is a reflection of the great demand during 2010.

44 of the 127 developments we launched during 2010 were located in the state of São Paulo, while another 17 developments were located in the state of Rio de Janeiro. The remaining 66 residential developments launched were located in the cities of Maceió, state of Alagoas, São Luiz, state of Maranhão, Porto Alegre, state of Rio Grande do Sul, Curitiba, state of Paraná, Aracaju, state of Sergipe, Goiânia, state of Goiás, Belém, state of Pará, Natal, state of Rio Grande do Norte, Vitória, state of Espírito Santo, Teresina, state of Piauí, Lauro de Freitas, state of Bahia, Belo Horizonte, state of Minas Gerais.

During 2010, approximately 44% of our total sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. Our diversification into the affordable entry-level business accounted for approximately 36% of our total sales value for the year ended December 31, 2010. In the year ended December 31, 2009, the affordable entry-level business represented approximately 42% of our total sales value.

In 2009, we launched 65 residential developments with a total sales value of R$2.1 billion. This sales value was approximately 22.2% lower than that achieved in 2008, during which we launched residential developments totaling R$2.7 billion. This decrease is compensated by an increase in commercial launches. We also launched 4 commercial developments with a total sales value of R$155.4 million.

23 of the 69 developments we launched during 2009 were located in the state of São Paulo, while another nine developments were located in the state of Rio de Janeiro. The remaining 36 residential developments launched were located in the cities of Vila Velha, state of Espírito Santo, Belém, state of Pará, Porto Velho, state of Rondônia, Goiânia, state of Goiás, Porto Alegre, state of Rio Grande do Sul, São Luis, state of Maranhão, Manaus, state of Amazonas, Curitiba, state of Paraná, Salvador, state of Bahia.

During 2009, approximately 30% of our total sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. Our diversification into the affordable entry-level business accounted for approximately 42% of our total sales value for the year ended December 31, 2009.

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:

	For the year ended December 31,		
	2011	2010	2009
	(in millions of R$, unless otherwise stated)		
Type of development			
Luxury buildings	R$706.4	R$534.6	R$416.5
Middle-income buildings	784.0	1,439.7	1,005.9
Affordable entry-level housing	330.2	1,433.1	1,361.1
Commercial	657.0	—	87.7
Lots(1)	874.6	598.9	376.9
Total contracted sales	R$3,352.3	R$4,006.4	R$3,248.1
Sale of units launched in the year	R$2,210.2	R$2,676.3	R$1,279.6

Percentage of total contracted sales	66	%	67	%	39	%
Sale of units launched during prior years	1,142.1		1,334.3		1,968.5	
Percentage of total contracted sales	34	%	33	%	61	%

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

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

	For the year ended December 31,		
	2011	2010	2009
	(in millions of R$, unless otherwise stated)		
Company			
Gafisa	R$2,180.1	R$1,974.3	R$1,510.1
Tenda (1)	330.2	1,433.1	1,361.1
Alphaville	842.0	598.9	376.9
Total contracted sales	R$3,352.3	R$4,006.4	R$3,248.1

(1) On December 30, 2009, all of the remaining Tenda shares not held by Gafisa were exchanged into Gafisa shares and, as a result, Tenda became a wholly-owned subsidiary of Gafisa.

In 2011, we sold 66% 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$3,352 million, a decrease of approximately 16% compared to 2010. In 2010, we sold 67% 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$4,006 million, an increase of approximately 23% compared to 2009. In 2009, we sold 39% 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$3,248.1 million. The decrease in 2011 is a result, among others, of sharp decrease in sales to affordable entry-level housing.

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, nor does the customer have an ability to 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 his financing is not available to Tenda clients. Our default rate was 4.1%, 5.3% and 4.5% as of December 31, 2011, 2010 and 2009, 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,		
	2011	2010	2009
	(in millions of R$)		
Gafisa	4.7	6.7	5.4
Tenda	11.0	23.4	7.8

The following table sets forth the growth of our contracted sales to be recognized, as well as the amount corresponding to the 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,		
	2011	2010	2009
	(in millions of R$, unless otherwise stated)		
Sales to be recognized—end of the year	R$4,686.2	R$4,112.7	R$3,139.6
Net sales(1)	4,515.1	3,962.6	3,025.0
Cost of units sold to be recognized	(2,956.3)	(2,423.6)	(1,959.2)
Expected gross margin—yet to be recognized(2)	1,558.8	1,538.8	1,065.8
Expected margin percentage	34.5 %	38.9 %	35.2 %

(1) Excludes indirect PIS and COFINS taxes of 3.65%.

(2) Based on management's estimates.

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, as follows:

	For year ended December 31,		
	2011	2010	2009
Real estate development and sales	99.1 %	99.4 %	98.5 %
Construction services rendered	0.9 %	0.6 %	1.5 %
Total	100.0 %	100.0 %	100.0 %

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,

	2011		2010		2009	
Land	9.8	%	12.3	%	11.4	%
Construction costs	80.4		79.9		81.8	
Financial costs	5.6		5.3		4.4	
Development costs	4.2		2.5		2.4	
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 four years, land represented, on average, 20% 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 four fiscal years, raw materials represented, on average, 34% of our total cost of development. The index that measures construction cost variation, the INCC, increased by 7.5%, 7.7% and 3.14% in 2011, 2010 and 2009, 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.

During the last five years, labor represented, on average, 61% of our total cost of real estate development.

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 and depreciation and amortization expenses and revenues.

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.

Administrative expenses reached R$251.5 million in 2011, a 6.2% increase over the R$237 million posted in 2010, which is below inflation. The IPCA was 6.5% in the same period.

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.

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 (9%); for a composite statutory tax rate of 34%. We calculate our 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.

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.

Results of Operations for the Years Ended December 31, 2011 and 2010

Since mid 2011, the entire senior management team worked along with the Board of Directors and Gafisa's consultants, in a review of the Company's operating units and overall strategy. The results of this review led to a decision in October 2011 to: (i) establish a new operating structure by brands; (ii) reduce risk at Tenda; (iii) expand the contribution of AlphaVille´s successful developments in our product mix and; (iv) refocus the Gafisa brand on its core markets of São Paulo and Rio de Janeiro. As a result of the analysis conducted, the Company identified important adjustments related to the strategic redirection at Gafisa and the new operating model adopted at Tenda which are reflected in the fourth quarter.

We believe that 2011 is an atypical year due to the impact of structural changes above mentioned, the recognition of cost overruns identified, cancellations and contract dissolutions at Tenda on the back of the new sales policy adopeted, as well as our more targeted strategy.

Net operating revenue

On a consolidated basis, Net revenue for the full year 2011, recognized by the Percentage of Completion ("PoC") method, was R$2.9 billion, a 13.6% decline from R$3.4 billion in the year ended on 2010 as a result of the revenue reversals related to the adjustments registered in the fourth quarter. During 2011, the Gafisa brand accounted for 62% of net revenues; AlphaVille comprised 23% and Tenda the remaining 15%. However, we expect to rebook: (1) 60% of the revenue reversal with resale of returned units; and (2) 34% will be recognized in accordance with PoC of the related projects (79% launched< 2008). Only 6% of the total is unrecoverable.

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Gross revenue from sales and/or services increased 21.9%, from R$24 million in the year ended on December 31, 2010 to R$30 million in the year ended on December 31, 2011. The gross revenue generated from the sale of property and barter transactions, net of the cancellation provision totaled R$3.1 billion in the year ended in 2011, a decrease of R$512 million or 14% compared with the same period in 2010 of R$3.7 billion. The tax deductions from gross revenue reached R$229 million in the 2011 financial year from R$273 million, representing a decrease of 16%, in the year ended on December 31, 2010 to mainly due to the decrease in revenue as a result of the lower sales volume in the period.

Operating costs

Operating costs in 2011 totaled R$2.7 billion, an increase of 8% as compared to R$2.5 billion in 2010. Cost overruns related to construction of R$587 million (R$231 million in Gafisa and R$356 million in Tenda) equivalent to 8% of the original total cost base of projects. 49% of the preliminary value relates to developments executed by third parties and franchisees, 26% relates to developments in regions that have been discontinued, and 25% from construction managed in-house.

Gross profit

Gross profit in 2011 totaled R$262.2 million, representing a decrease of 72%, from R$942.1 million in 2010 as a result of the revenue reversals related to the adjustments registered in the fourth quarter. In 2011, the gross margin generated from our activities deteriorated to 8.9% as compared to 27.7% in 2010. This sharp fall was due to mainly due to budget review deviation registered in the fourth quarter, 80% attibutted to projects launched prior to 2008.

Selling expenses

Selling expenses in 2011 totaled R$393.2 million, representing an increase of 47% as compared to R$266.7 million in 2010. Selling expenses increased 47% to R$393.2 million mainly due to the provision for doubtful debts, of R$87 million recorded as additional expenses. Excluding these amounts, selling expenses totaled R$306.2 million in 2011, a 15% increase over 2010. Selling expenses were also necessary as they characterized new sales after dissolutions, mainly from Tenda.

General and administrative expenses

Administrative expenses reached R$251.5 million, a 6% increase over the R$236.8 million posted in 2010, which is lower than inflation. The IPCA was 6.5% in the same period. These expenses were comprised of profit sharing and other administrative expenses.

Depreciation and amortization

Depreciation and amortization in 2011 was R$83 million, an increase of R$49 million when compared to the R$34 million recorded in 2010, mainly due to higher sales stands depreciation. Depreciation of sales stands accounted for 4% of the expenses in the period.

Financial income and expenses, net

Net financial expenses totaled R$160 million in 2011, compared to net financial expenses of R$82 million in 2010 as a result of a higher level of leverage. The difference is mainly due to the decrease in financial revenues of 27% and to

a 20% increase in financial expenses, due to higher leveraging rate and, consequently, higher interest expenses.

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Taxes on income

Income, social contribution and deferred taxes for 2011 amounted to R$142 million, compared to R$22 million in 2010. 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 noncontrolling interest

The increase in the stakes of non-controlling shareholders (minorities in subsidiaries in which we have investment) from R$24 million in 2010 to R$40 million in 2011, an increase of 67% when compared to the previous year, as a result of increased net income at Alphaville business registrered in the period.

Net income

Our use of the percentage-of-completion method of accounting resulted in a reduction or reversal of previously recorded revenue and profit due to the adjustments mentioned above, resulting in a net loss in the year ended December 31, 2011 of R$945 million compared to a net profit of R$265 million in the same period of 2010. Results of Operations for the Years Ended December 31, 2010 and 2009.

Results of Operations for the Years Ended December 31, 2010 and 2009

Net operating revenue increased by 13.3%, from R$3.0 billion in 2009 to R$3.4 billion in 2010. Gross revenues generated from the sales of real estate properties and barter transactions net of the provision for cancelled contracts totaled R$3.6 billion in 2010, an increase of R$511.5 million or 18% as compared to the same period in 2009 net of provisions for cancelled contracts, when gross revenues generated from the sales of real estate properties and barter transactions totaled R$3.1 billion. This increase is mainly due to the continuing recognition of revenues from sales contracted in prior periods. Gross revenues generated from services decreased by 49%, from R$48.0 million in 2009 to R$24.3 million in 2010, reflecting a decrease in the volume of construction services rendered to other companies.

Operating costs

Operating costs in 2010 totaled R$2.5 billion, an increase of 19% as compared to R$2.1 billion in 2009. This increase is due to increased volume of construction in progress in 2010 as compared to 2009. The cost of land totaled 12.3% of the operating costs in 2010, as compared to 11.4% in 2009 net of the provision for cancelled contracts. Construction costs payable to third parties decreased in 2010, totaled 79.9% of total operating costs, as compared to 81.8% in 2009. These variations were mainly due to a strategic change to rely less on third party providers for construction services. Operating costs, as a percentage of net operating revenue, remained stable at 72.3% in 2010 as compared to 70.8% in 2009.

Gross profit

Gross profit in 2010 totaled R$942.1 million, representing an increase of 7.2%, as compared to R$878.5 million in 2009 net of the provision for cancelled contracts. This increase was mainly due to higher gross operating revenue as a result of increase operational volume during 2010. In 2010, the gross margin generated from our activities remained stable at 27.7% as compared to 29.14% in 2009. This stability was due to higher revenues offset by higher operating costs which resulted in similar margins.

Selling expenses

Selling expenses in 2010 totaled R$266.7 million, representing an increase of 18%, as compared to R$226.6 million in 2009. This increase reflects (i) the increase of launches and sales volume, and (ii) increased marketing efforts in furtherance of our growth strategy of geographic and income segment diversification. Selling expenses in 2010 represented 7.8% of our net operating revenue compared to 7.9% in 2009, reflecting an improvement in operational efficiency.

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General and administrative expenses

General and administrative expenses totaled R$236.8 million in 2010, remaining stable compared to R$233.1 million in 2009.

Depreciation and amortization

Depreciation and amortization in 2010 was stable at R$33.8 million, compared to R$34.2 million in 2009.

Financial income and expenses, net

Net financial results totaled an expense of R$82.1 million in 2010 compared to an expense of R$111.0 million in 2009. Financial income during 2010 totaled R$128.1 million, as compared to R$129.6 million in 2009 due to lower average interest rate that was partially offset by the higher average cash position in 2010 when compared to the previous year. Financial expenses during 2010 totaled R$210.2 million, as compared to R$240.6 million in 2009 due to the higher interest capitalized, which was partially offset by increased interest expenses due to higher average debt during 2010.

Taxes on income

Income and social contribution taxes in 2010 totaled R$22.1 million, or 41.5% lower than in 2009, when income and social contribution taxes totaled R$37.8 million. In 2010 and 2009, the combined effective income and social contribution tax rates, calculated as a percentage of income before taxes, were 7.1% and 20.9%, respectively. The decrease in our effective tax rate is due to the implementation of tax planning allocating more projects at the holding company level to maximize the use of corporate and financial expenses. The combined effective rates during these years were lower than the composite statutory rate of 34% as some of our jointly-controlled subsidiaries calculated their taxes on the presumed profit regime.

Net income attributable to noncontrolling interest

Net income attributable to noncontrolling interest decreased from R$41.2 million in 2009 to R$23.9 million in 2010, mainly due to the acquisition of 20% interest at Alphaville Urbanismos S.A., during 2010, which reduced the noncontrolling interest at that subsidiary.

Net income attributable to owners of Gafisa

As a result of the factors above, net income in 2010 totaled R$264.6 million, an increase of 160.2% over the previous year, when net income was R$101.7 million.

Business Segments

Our financial results for 2011, 2010 and 2009 included the results of the following segments: Gafisa S.A., Alphaville and Tenda. 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.

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	For Year Ended December 31, 2011			
	Gafisa (1)	Tenda	Alphaville	Total
	(millions of reais except for percentages)			
Net operating revenue	1,821.9	446.0	672.6	2,940.5
Operating costs	(1,601.7)	(725.5)	(351.2)	(2,678.4)
Gross profit (loss)	220.2	(279.5)	321.4	262.1
Gross margin	12.1%	(62.7%)	47.8%	8.9%
Net Income (loss)	(413.7)	(660.1)	128.9	(944.9)

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

	For Year Ended December 31, 2010			
	Gafisa (1)	Tenda	Alphaville	Total
	(millions of reais except for percentages)			
Net operating revenue	1,894.5	1,061.6	447.0	3,403.1
Operating costs	(1,477.8)	(732.0)	(251.2)	(2,460.9)
Gross profit	416.7	329.6	195.8	942.1
Gross margin	22.0%	31.0%	43.8%	27.7%
Net Income	116.8	82.5	65.3	264.6

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

	For Year Ended December 31, 2009			
	Gafisa (1)	Tenda (2)	Alphaville	Total
	(millions of reais except for percentages)			
Net operating revenue	1,770.2	988.4	277.8	3,036.4
Operating costs	(1,297.0)	(671.6)	(175.1)	(2,143.7)
Gross profit	473.2	316.8	101.7	891.7
Gross margin	26.7%	32.1%	36.6%	29.4%
Net Income	39.3	38.7	23.7	101.7

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

Gafisa Segment

Years Ended December 31, 2011 and 2010

Net operating revenue

In the last quarter of 2011 we did an extensive review of the budgeted costs of the projects and adjusted the percentage of completion leading to a reversal of revenues, as a consequence the net revenue from sales and/or services decreased by 5.6%, from R$1.9 billion in 2010 to R$1.8 billion in 2011. In 2011, Gafisa segment accounted for 62% of our consolidated net revenue.

Operating costs

The costs of the sale and barter transactions in 2011 totaled R$1.6 billion, an increase of 6.8% compared with the R$1.5 billion reported in 2010. This increase was mainly due to an impairment of development expenses related to the process of land acquisition in the amount of R$100 million recognized as sunk costs.

Gross profit

The gross profit in 2011 was R$220 million, representing a decrease of 47% compared with the R$417 million reported in 2010. Decrease in the gross profit can be largely attributed to the excessive costs, of which 60% are

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related to third parties' constructions overruns and 27% to discontinued sites. The gross margin in 2011 generated by our projects sales reduced to 12% compared to 22% in the same period of 2010.

Net income (loss)

Net loss for the Gafisa segment was R$413.7 million in 2011 or 43.9% of our total net loss in 2011, compared to a profit of R$116.8 million or 44.2% of our total net income in 2010. The decrease in net income is a result of reversal of revenues as a consequence of review of budget led costs of projects, increase in net financial expenses, impairment costs and reversal of deferred tax asset. Net income (loss) as a percentage of net operating revenues was negative 22.7% in 2011 as compared to a positive 6.2% in 2010.

Tenda Segment

Years Ended December 31, 2011 and 2010

Net operating revenue

Net revenue of sales/or services during 2011 totaled R$446 million, compared to R$1.1 billion in the previous year, a decrease of 58% when compared to the previous year. In 2011, Construtora Tenda S.A accounted for 15% of the consolidated net revenue. The main reason for the decrease was (i) reversal of revenues as a consequence of review of budget led costs of projects and (ii) cancellation of sales related to clients with high delinquency or without the ability to transfer to the CEF.

Operating costs

The costs of development and sale of property and barter transactions in 2011 totaled R$725 million, compared to R$732 million reported in 2010. Cost overruns related to construction of R$356 million in Tenda equivalent to approximately 8% of the original total cost base of projects mainly related to the developments executed by third parties and franchisees.

Gross profit (loss)

The gross loss in 2011 of R$279 million, compared to gross profit in 2010 of R$329 million. In 2010, sales margins fell from 31.1% in 2010 to a gross loss of 63% in 2011. The use of the percentage-of-completion method of accounting resulted in a reduction of reversal of previously recorded revenue due to the adjustments mentioned above.

Net income (loss)

Net loss for the Tenda segment was R$660.1 million of our total net loss in 2011, compared to a net income of R$82.5 million or 31.1% of total net income for 2010. This decrease of net income in 2011 when compared to 2010 is a result of revenue reversal related to adjustments registered in the 2011, cancellations and contract dissolutions at Tenda on the back of the new sales policy adopted, as well as our more targeted strategy.

Alphaville Segment

Years Ended December 31, 2011 and 2010

Net operating revenue

The net revenue from sales and/or services increased by 51%, from R$447 million in 2010 to R$ 673 million in 2011. This increase was mainly due to large continuous demand for Alphaville Urbanismo S.A.'s properties and recognition of the revenues derived from sales contracted in former periods. In 2011, Alphaville Urbanismo S.A. contributed for 22.9% of the consolidated net revenue.

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Operating costs

The costs of development and sale of property and barter transactions in 2011 totaled R$351 million, an increase of 40% compared with the R$251 million reported in 2010. This increase was mainly due to the higher volume of construction in progress during 2011 compared to 2010.

Gross profit

The gross profit in 2011 was R$321 million, representing an increase of 63.8% compared with the R$196 million reported in 2010. Increase in the gross profit can be largely attributed to the higher gross revenue derived from the large number of construction projects in progress. The gross margin in 2011 generated by our projects sales increased to 48% compared to 44% in the same period of 2010. Such increase derives from the higher sales margins to the extent that we have recognized revenues derived from projects launched in former years.

Net income

Net income for the Alphaville segment was R$128.9 million. Net income, as a percentage of net operating revenue, was 19.2% in 2011 as compared to 14.7% in 2010. The increase was mainly attributable to higher operational margins as discussed above.

Gafisa Segment

Years Ended December 31, 2010 and 2009

Net operating revenue

Net operating revenue for the Gafisa segment was R$1,894.5 million in 2010 compared to R$1,770.2 million in 2009, which represents an increase of 7%. This increase was primarily due to the continued strong demand for Gafisa properties and recognition of results from sales contracted in prior periods, since Gafisa recognizes revenues on a percentage of completion basis. As a result of the continued economic recovery in 2010 after the financial crisis, Gafisa began increasing the launch volume for the year and its volume of units under construction. At December 31, 2010, Gafisa had R$1,323.2 million in inventory and 15,380 units under construction compared to R$1,114.3 million and 14,775 units at December 31, 2009.

The increase in the launched volume and consequently in the contracted sales from 2009 to 2010 was a result of the continued improvement in the Brazilian economy during 2010. The average price for a Gafisa unit launched during 2010 was R$442.6 thousand as compared to an average price per unit of R$370.5 thousand in 2009. The increase in average price per unit in 2010 was a result of a change in the project mix and the strong demand during 2010.

Operating costs

Operating costs for the Gafisa segment were R$1,477.8 million in 2010 compared to R$1,297.0 million in 2009, which represented an increase of 13.9%. This increase was mainly due to the greater volume of construction in progress during 2010 as compared to 2009 as discussed above. Operating costs, as a percentage of net operating revenues, increased to 78.0% in 2010 as compared to 73.8% in 2009, mainly due to an increase in labor costs. The

increase in labor costs was attributable to the continued strengthening of the Brazilian economy and the higher labor cost associated with completing a unit. This increase in labor costs resulted in an increase in construction costs payable to third parties.

Gross profit

The gross profit in 2010 was R$416.8 million, representing a decrease of 11.9% compared with a gross profit of R$473,2 million reported in 2009. The gross margin generated in 2010 by sales of Company’s projects fell to 22% compared with the 26.8% reported in the period in 2009. This reduction was mainly due to the higher

amortization expenses arising from the interest capitalized and a less profitable mix of units under construction due to the process of geographical diversification that took place in the previous years, particularly certain projects located in Rio de Janeiro.

Net income

Net income for the Gafisa segment was R$116,8 million or 44.2% of Gafisa Group total net income in 2010, compared to R$39.3 million or 38.6% of Gafisa Group total net income in 2009. The shift from 38.6% of net income in 2009 to 44.2% of net income in 2010 is a result of an increase in Gafisa operations. Net income as a percentage of net operating revenues was 6.2% in 2010 as compared to 2.2% in 2009. The increase between years was mostly attributable to decrease in income tax expenses.

Tenda Segment

Years Ended December 31, 2010 and 2009

Net operating revenue

Net operating revenue for the Tenda segment was R$1,061.6 million in 2010 compared to R$988.4 million in 2009. This increase was primarily due to greater pre-sales amounts, which increased from R$1,361.1 million to R$1,433.1 million and also to the consequently higher recognition of results from sales contracted and developments launched. Since we recognize revenues based on percentage of completion from the units already sold, the number of units under construction, and consequently the amounts of sales, also impact revenue recognition. At December 31, 2010, Tenda had 28,550 units under construction compared to 26,500 units at December 31, 2009. The average price for a Tenda unit launched during 2010 was R$118.2 thousand as compared to an average price per unit of R$116.8 thousand in 2009. The change in the average price per unit was attributable to inflation, partially offset by our focus on developing projects within the R$100.0 thousand and R$120.0 thousand price range, maintaining our projects directed towards lower-income families attractive.

Operating costs

Operating costs for the Tenda segment were R$732.0 million in 2010 compared to R$671.6 million in 2009. This increase is mainly related to higher recognition of revenues, and consequently costs, and also some costs overrun that resulted in lower gross margin when compared to the previous year, as described below.

Gross profit

Gross profit for the Tenda segment was R$329.6 million, or 35.0% of our total gross profit in 2010, compared to R$316.8 million in 2009, or 35.5% of our total gross profit in 2009. Despite the nominal gross profit increase in, which is related to higher revenue recognition, Tenda's gross margin decreased to 31.0% in 2010 from 32.1% in 2009, mainly as a consequence of higher revenue recognition of lower margin projects, resulting from old projects which did not have standard construction procedures. Tenda's projects launched in prior to 2009 (before to Gafisa's acquisition of Tenda) did not have standardization projects and the execution was mainly outsourced, which added to the difficulties in controlling execution and cost overruns.

Net income

Net income for the Tenda segment was R$82.5 million or 31.2% of our total net income in 2010, compared to a net income of R$38.7 million or 38.1% of our total net income for 2009. This increase of net income in 2010 when compared to 2009 is a result of higher gross profit, as discussed above. Income from operations as a percentage of net operating revenues was 7.8% in 2010 as compared to 3.9% in 2009.

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Alphaville Segment

Years Ended December 31, 2010 and 2009

Net operating revenue

Net operating revenue for the Alphaville segment was R$447.0 million in 2010, compared to R$277.8 million in 2009, which represents an increase of 61.0%. This increase was primarily due to continued strong demand for Alphaville properties and recognition of revenues from sales contracted in prior periods. Contracted sales increased from R$376.9 million in 2009 to R$598.9 million in 2010. At December 31, 2009, Alphaville had 8,423 units under construction compared to 11,294 units under construction at December 31, 2010. The average price for an Alphaville unit launched during 2009 was R$200.2 thousand compared to an average price per unit of R$205.3 thousand in 2010.

Operating costs

Operating costs for the Alphaville segment was R$251.2 million in 2010, compared to R$175.1 million in 2009, which represents an increase of 43.5%. This increase was mainly due to the greater volume of projects under construction in 2010, compared to 2009.

Gross profit

Gross profit for the Alphaville segment was R$195.8 million, or 20.8% of our total gross profit in 2010, compared to R$101.7 million, or 11.4% of our total gross profit for 2009. The increase in gross profit was primarily due to higher gross revenue from a greater number of developments under construction. In 2010, the gross margin generated from the sale of Alphaville’s developments increased to 43.8%, compared to 36.7%, in 2009. This increase was due to higher margins and recognition of sales contracted in prior periods. This increase in gross margin percentage was due to higher average price per square meter, which contributed to a higher gross margin, primarily as a result of increased market demand for Alphaville’s products.

Net income

Net income for the Alphaville segment was R$65.3 million, or 24.7% of our net income in 2010, compared to R$23.7 million, or 23.3% of our total net income in 2009. Net income, as a percentage of net operating revenue, was 14.7% in 2010 as compared to 8.6% in 2009. The increase was mainly attributable to higher operational margins as discussed above.

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 completed units. In 2010, we did not sell receivables from completed units, though in 2011, we carried out the following receivables sales:

On June 27, 2011, we entered into a definitive assignment of real estate receivables agreement. The assignment relates to a portfolio comprising select residential real estate receivables due to us. The assigned portfolio of receivables amounts to R$203.9 million and was assigned in exchange for cash discounted to present value, for a price of R$171.7 million, and was recorded under payables to venture partners and other – credit assignment.

During a period of no more than eighteen months, we will continue to perform and will be compensated for performing, among other duties, receivables collection management, guarantee of the assignment, and collection of

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past due receivables. After this period, receivable management will be performed by an outsourced company, as provided under the receivables agreement.

On September 29, 2011, we entered into a private instrument for assignment of real estate receivables and other covenants. The assignment relates to a portfolio comprising select residential real estate receivables due to us. The assigned portfolio of receivables amounts to R$238.4 million. A portion of this amount will be amortized through the SFH debt balance of the bank that purchased the receivables and the remaining balance will be amortized through the issue of bank deposit certificates, or CDBs, amounting to R$41.5 million.

On December, 22, 2011, we entered into a definitive assignment of real estate receivables agreement. The assignment relates to a portfolio comprising select residential real estate receivables due to us. The assigned portfolio of receivables amounts to R$72.4 million and was assigned in exchange for cash discounted to present value for a price of R$60.1 million, and was recorded under payables to venture partners and other – credit assignment.

We consistently review opportunities for acquisition and investments. We consider different types of investments, either direct or through our subsidiaries and jointly-controlled entities. We finance such investments using capital market financings, capital increase or through a combination thereof.

Construction financing lines of credit are available and we have fulfilled substantially all of our construction financing needs for 2010 at consolidated rates similar to the Selic 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, the Brazilian government will finance up to 20% of construction costs, to be financed by the Brazilian Saving and Loan System (Sistema Brasileiro de Poupança e Empréstimo — SBPE).

During 2011, our customers' ability to obtain bank mortgage loans continued to improve, with interest rates in the range of 6%+TR (affordable entry level) to 12%+TR, depending on family income and credit score. Delinquency rates among our customers have increased in 2011 compared to 2010.

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,		
	2011	2010	2009
	(in millions of reais)		
Real estate development receivables:			
Current	R$ 3,962.6	R$ 3,704.7	R$ 2,252.5
Long-term	863.9	1,247.3	1,524.2
Total	R$ 4,826.5	R$ 4,952.0	R$ 3,776.7

Receivables to be recognized on our balance sheet according to percentage of completion method:

Current	R$—	R$2,465.8	R$1,556.5
Long-term	4,686.2	1,646.9	1,583.1
Total	4,686.2	4,112.7	3,139.6
Total receivables from clients	R$9,512.6	R$9,064.7	R$6,916.2

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

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	As of December 31, 2011 (in millions reais)
Maturity	
2012	3,962.6
2013	3,220.9
2014	1,418.4
2015	224.3
Thereafter	686.5
Total	9,512.6

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 May, 2012, our clients' default level was 6.94% of our accounts receivable for Gafisa, 6.49% for Tenda and 3.22% for Alphaville. We did not record a provision for the years ended December 31, 2010, 2009 and 2008 because we considered the allowance for doubtful accounts not to be necessary, except for Tenda. We review annually our 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. The Company records an allowance for doubtful accounts and cancelled contracts for customer whose installments are over 180 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. The allowance for doubtful accounts and cancelled contracts totaled R$119.8 million as of December 31, 2011 and is considered sufficient by our management to cover expected future losses on the realization of accounts receivable of this subsidiary.

Cash Flows

Operating activities

Net cash used in operating activities totaled R$819.4 million in 2011 compared to R$1,079.6 million in 2010. The R$819.4 million was primarily composed of: (1) a decrease in trade accounts receivables, totaling R$58.5 million in 2011; (2) increase in properties for sale of R$826.5 million attributable to an increase of our land bank and completed units; and (3) other less significant increases and decreases in other operating asset and liability captions.

Net cash used in operating activities totaled R$1,079.6 million in 2010 compared to R$630.0 million in 2009. The R$1,079.6 million was primarily composed of: (1) a continued increase in trade accounts receivables, totaling R$1,185.2 million in 2010, which was primarily attributable to the continued growth of our operations, related projects under development and thus the increase of the percentage of completion receivable; (2) increase in properties for sale of R$457.6 million attributable to an increase of our land bank and completed units; and (3) other less significant increases and decreases in other operating asset and liability captions.

Investing activities

Net cash used in investment activities, including the acquisition of property, equipment and new investments, was R$3.8 million, R$122.9 million and R$762.2 million in 2011, 2010 and 2009, respectively.

Net cash from investing activities, including the acquisition of property, equipment and new investments, was R$3.8million in 2011 compared to a net cash from investing activities of R$122.9 million in 2010. Our cash generated in 2011 was mainly related to investments in property and equipment in the amount of R$94.9 million. Our main investments during the period were the construction of sales stands, which totaled R$22.7 million,

investments in information technology equipment and software, which totaled R$31.2 million, in construction equipment, which totaled R$2.8 million and in machines and equipment, which totaled R$3.1 million. These investments were compensated by cash used by investment activities related to marketable securities and restricted cash in the amount of R$98.7 million.

Net cash from investing activities, including the acquisition of property, equipment and new investments, was R$122.9 million in 2010 compared to a net cash used in investing activities of R$762.2 million in 2009, respectively. Our cash generated in 2010 was mainly related to investments in property and equipment in the amount of R$63.4 million. Our main investments during the period were the construction of sales stands, which totaled R$44.1 million, investments in information technology equipment and software, which totaled R$15.7 million, in construction equipment, which totaled R$4.8 million and in machines and equipment, which totaled R$3.1 million. These investments were compensated by cash from investment activities related to net redemption of marketable securities and restricted cash in the amount of R$186.3 million.

Financing activities

Net cash generated from financing activities in 2011 totaled R$696.8 million, a decrease of 24.3%, compared to the net cash generated from financing activities in 2010 of R$920.2 million. The cash generated in 2011 was mainly attributable to: (1) issuance of debentures and other debt totaling R$1,445.9 million, which was partially offset by amortizations of loans and interests in the amount of R$655.2 million and (2) capital increase in the amount R$5.0 million. We also paid R$98.8 million in dividends.

Net cash generated from financing activities in 2010 totaled R$920.2 million, an decrease of 38.4%, compared to the net cash generated from financing activities in 2009 of R$1,493.6 million. The cash generated in 2010 was mainly attributable to: (1) issuance of debentures and other debt totaling R$1,138.2 million, which was partially offset by amortizations of loans and interests in the amount of R$1,187.9 million, and (2) capital increase through the issuance of common shares in a public offering, net of expenses, in the amount R$1,051.5 million. We also paid R$50.7 million in dividends.

Pledged mortgage receivables and short-term investments

As of December 31, 2011, substantially all of our mortgage receivables totaling R$3,806.6 million are pledged. In addition, R$59.5 million of our short-term investments and collaterals are restricted as they have been pledged.

Capital Expenditures

In 2011, we invested R$94.9 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and new office facilities in São Paulo. Our main investments during the period were the construction of sales stands, which totaled R$30.2 million, investments in information technology equipment and software, which totaled R$36.1 million, in construction equipment, which totaled R$2.8 million and in machines and equipment, which totaled R$3.1 million.

In 2010, we invested R$63.5 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and new office facilities in São Paulo. Our main investments during the period were the construction of sales stands, which totaled R$44.3 million, investments in information technology equipment and software, which totaled R$10.8 million, in construction equipment, which totaled R$4.4 million and in machines and equipment, which totaled R$3.9 million.

In 2009, we invested R$45.1 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and new office facilities in São Paulo. Our main investments during the period were the construction of sales stands, which totaled R$23.2 million, investments in information technology equipment and software, which totaled R$4.9 million, in office facilities, which totaled R$7.6 million and the SAP implementation, which totaled R$5.0 million.

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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, 2011 we had outstanding debt in the total amount of R$3,733 million, an increase of 13.5% as compared to December 31, 2010. Our indebtedness principally consists of (1) debentures totaling R$1,899 million, (2) working capital loans in the total amount of R$1,163 million and (3) other loans (mainly SFH) in the total amount of R$671 million.

As of December 31, 2010 we had outstanding debt in the total amount of R$3,290 million, an increase of 5.4% as compared to December 31, 2009. Our indebtedness principally consists of (1) debentures totaling R$1,879.9 million, (2) working capital loans in the total amount of R$664.5 million and (3) other loans (mainly SFH) in the total amount of R$745.7 million.

As of December 31, 2009 we had outstanding debt in the total amount of R$3,122.1 million, an increase of 101.2% as compared to December 31, 2008. Our indebtedness principally consists of (1) outstanding debentures totaling R$1,918.4 million, (2) working capital loans in the total amount of R$736.7 million and (3) other loans (mainly SFH) in the total amount of R$467.0 million.

The table below sets forth information on our loans, financing and debentures as of December 31, 2011:

			Maturity		
	Total	2012	2013	2014	2015 and thereafter
		(in millions of reais)			
Debentures (Project Finance)	1,899.2	1,899.2	—	—	—
Working Capital	1,168.1	664.5	230.4	273.2	—
Other Working Capital	3.9	3.9	—	—	—
Housing Finance System (SFH)	684.6	467.2	207.5	9.9	—
Investor Obligations	473.2	219.8	233.8	19.6	—
Total	4,229.0	3,254.5	671.7	302.7	—

Investor obligations refer to contributions received from venture partners of R$300.0 million in 2008 and R$80.0 million in 2010 and R$200.0 million in 2011 which will be fully redeemed by us until 2017. See "—Cash Flows—Financing Activities."

In January 2008, we formed an unincorporated venture represented by 13,084,000 Class A quotas fully paid by us and 300,000,000 Class B quotas from our venture partner, of which R$300.0 million was subscribed by our venture partner. The venture, which will use these funds to acquire equity investments in real estate developments, has a term that ends on January 31, 2017 at which time we are required to fully redeem our venture partner's interest. The venture partner receives an annual dividend substantially equivalent to the variation in the Interbank Certificate of Deposit

(CDI) rate. The venture's charter provides that we must comply with certain covenants in our capacity as lead partner, which include the maintenance of minimum net debt and receivables. We and the venture are currently in compliance with these covenants. The redemption of Class B quotas commenced on January 31, 2012.

In April 2010, our subsidiary Alphaville Urbanismo S.A. paid in the capital of an entity that held interest in other companies, the main objective of which includes the development and carrying out of real estate ventures. This entity subscribed capital and paid in capital reserve totaling R$161.7 million (comprising 81,719,641 common

shares held by the Company and 80,000,000 preferred shares held by other shareholders). As a result of this transaction, payables to investors/venture partners are recognized at R$80.0 million, with final maturity on March 31, 2014. The preferred shares shall pay cumulative fixed dividends, substantially equivalent to the variation of the General Market Prices Index (IGP-M) plus 7.25% p.a.. The Company's articles of incorporation set forth that certain matters shall be submitted for approval from preferred shareholders through vote, such as the rights conferred by such shares, increase or reduction in capital, use of profits, set up and use of any profit reserve, and disposal of assets.

On June 27, 2011, eight certificates of bank credit (CCBs) were issued in the Company, totaling R$65,000. CCBs are guaranteed by 30,485,608 shares issued by Gafisa SPE-89 Empreendimentos Imobiliários S.A. In AUSA, eight CCBs were issued, totaling R$55,000. CCBs are guaranteed by 500,000 units shares issued by Alphaville Ribeirão Preto 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 and subsidiary AUSA entered into a paid usufruct agreement in connection with 100% of the preferred shares in SPE-89 Empreendimentos Imobiliários S.A. and Alphaville Ribeirão Preto Empreendimentos Imobiliários S.A., for a period of six years, having raised R$45,000 and R$35,000, respectively, recorded based on the effective interest method of amortization in the consolidated income statement.

Debenture program

Our first debenture program was approved by and registered with the CVM on April 29, 2005. This enabled us to make public offerings of non-convertible debentures, secured on property and/or with guarantees subordinated to our general creditors. The offer of debentures through the program was limited to a maximum value of R$200 million.

On September 29, 2006, our second public offering of debentures was approved by the CVM. Under the second debenture program we can issue up to R$500.0 million in debentures that are not convertible into shares. The debentures are subordinated, and may be secured or unsecured.

We issued one series of debentures under the second debenture program for R$240.0 million aggregate principal amount due September 1, 2011. This is our fourth issuance which consists of 24,000 nominal, non-convertible debentures with a face value of R$10,000 each with subordinated guarantees. The debentures provide for the payment of annual interest equivalent to the CDI rate, calculated from the date of issuance, plus a spread of 2.0% to 3.25% per annum (based on a 252 business-day year).

The first issuance under the second debenture program provides that the following indices and limits be calculated on a semi-annual basis by the trustee based on our financial statements, drawn-up according to Brazilian GAAP, that we file with the CVM: (1) total debt minus SFH debt minus cash and equivalents and short-term investments does not exceed 75% of shareholders' equity plus noncontrolling interests; (2) total receivables plus post-completion inventory is equal to or greater than 2.0 times total debt; and (3) total debt minus available funds is less than R$1.0 billion, as adjusted for inflation, where:

- available funds is the sum of our cash, bank deposits and financial investments;
- SFH debt is the sum of all our loan agreements that arise from resources of the SFH;
-

total receivables is the sum of our short and long-term “development and sale of properties” accounts, as provided in our financial statements;

- post-completion inventory is the total value of units already completed for sale, as provided on our balance sheet; and

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- total debt is the sum of our outstanding debt, including loans and financing with third parties and fixed income securities, convertible or not, issued in local or international capital markets.

Our indenture under the debenture program contains various covenants including, among other things:

- limitations on our ability to incur debt; and
- limitations on the distribution of dividends if we are under default.

In July 2009, we renegotiated with the debenture holders the restrictive debenture covenants in the second debenture program, and obtained approval to delete the covenant that limited our net debt to R$1.0 billion and increased our financial flexibility by changing the calculation of the ratio between net debt and shareholders' equity. As a result of these amendments, interest payable on the debentures increased to CDI plus 3.3% per annum.

In June 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 million. The debentures provide for the payment of annual interest corresponding to 107.2% of the CDI rate, calculated from the subscription date, with a maturity of 5 years.

Certain covenants contained in the agreements governing our debenture programs restrict our 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. Our second and third debenture programs have cross default provisions whereby an event of default or prepayment of any other debt above R$5.0 million and R$10.0 million, respectively, could require us to prepay the indebtedness under the second or third debenture program. The ratios and minimum or maximum amounts generally required by those covenants and our performance against those minimum or maximum levels are summarized below.

In April 2009, Tenda's first debenture program was approved, under which we issued R$600 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 and minimum or maximum amounts required by such financial covenants and Tenda's performance against those minimum or maximum levels include: (1) coverage debt service defined as EBIT divided by net financial expenses cannot exceed 1.3 ratio, (2) debt index defined as (receivables plus inventory) divided by (net debt minus collateralized debt) cannot exceed 2.0 ratio or be lower than zero, and (3) (total debt minus SFH debt minus cash) divided by shareholders equity cannot exceed 50%.

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 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 December 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.

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In November 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.

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 or 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.

As of December 31, 2011, the Company and its subsidiary Tenda were in default on the contractual covenants provided for in the Debenture Placement Programs, with side effects on loan contracts and other debenture placements. Immediately thereafter, the Company started to renegotiate with debenture holders a waiver for not complying with the ratios provided for in such covenants. On March 2012, the debenture holders approved the renegotiation of such covenants ratios.

Fifth placement	
Total debt less venture debt, less cash and cash equivalents and short-term investments (1) cannot exceed 75% of equity	78.79%
Total account receivable plus inventory of finished units required to be 2.2 times over net debt	3.48 times
Seventh placement	
The quotient of the division of EBIT(2) by the net financial expense shall be lower than 1.3, EBIT being positive at all times	3.25 times
Total account receivable plus inventory of finished units required to be 2.0 times over net debt less debt of projects (3)	14.27 times
Total debt less debt of projects, less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interest	31.8%
Eighth placement – first and second placement	
Total account receivable plus inventory of finished units required to be 2.0 times over net debt less debt of projects	14.27 times
Total debt less debt of projects, less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interest	31.8%
First placement – Tenda	
The EBIT (2) balance shall be 1.3 times over the net financial expense or equal or lower than zero and EBIT higher than zero	39.35 times
The debt ratio, calculated as total account receivable plus inventory, divided by net debt plus project debt, must be > 2 or < 0, where TR (4) + TE (5) is always > 0	-6.44
The Maximum Leverage Ratio, calculated as total debt less general guarantees divided by equity, must not exceed 50% of equity.	-40.83%
First placement – Tenda	

(1) Cash and cash equivalents and short-term investments refer to cash and cash equivalents, short-term investments, restricted cash in guarantee to loans, and restricted credits.
(2) EBIT refers to earnings less selling, general and administrative expenses plus other net operating income.
(3) Project 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 receivables
(5) Total inventory of properties for sale

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."

In January 2012, the Company was in default on the restrictive covenants of a CCB in the amount of R$100 million because of the corporate rating downgrading. Immediately thereafter, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual covenant.

In April 2012, we were in default on the restrictive covenants of a bank loan (cédula de crédito bancário), or CCB in the amount of R$100 million because of the corporate rating downgrading. Immediately thereafter, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual covenant.

In June 2012, we were in default on the restrictive covenants of a bank loan (cédula de crédito Imobiliário), or CCB in the amount of R$100 million because of the corporate rating downgrading. In June, 2012, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual 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, 2011, the interest rates on these loans generally varied between 8.3% and 12.7% per annum, plus TR, and the loans generally mature through December 2011 and 2012. This financing is secured by mortgages on property and by security interests on the receivables from clients. As of December 31, 2011 we had 127 loan agreements in effect, with a balance of R$695 million. At the same date we also had R$1.227 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 developments progress.

Securitization 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, 2011 and 2010.

The receivables portfolio assigned totaled R$119.6 million of which we received the equivalent of the present value of R$88.7 million in cash. We consolidated receivables of R$35.0 million assigned to Gafisa FIDC in our financial statements as of December 31, 2011 and recorded the mandatorily redeemable equity interest in the securitization fund of R$18.1 million as other accounts payable. The balance of our subordinated quotas was eliminated on consolidation.

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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, amounting to R$69.3 million at the issuance date. These eight CCIs are backed by receivables which installments fall due on and up to June 2014, or CCI-Investor.

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.

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.

US GAAP Reconciliation

We prepare our financial statements in accordance with Brazilian GAAP, which differs in significant respects from US GAAP. Our net income (loss) attributable to owners of Gafisa, in accordance with Brazilian GAAP, was R$(944.9) million, R$264.6 million and R$101.7 million, in 2011, 2010 and 2009, respectively. Under US GAAP, our net loss was R$(755.8) million, R$(94.8) million and R$(134.4) million, in 2011, 2010 and 2009, respectively.

Our equity, in accordance with Brazilian GAAP, was R$2,747.1 million, R$3,632.2 million and R$2,84.2 million, as of December 31, 2011, 2010 and 2009, respectively. Under US GAAP, we recorded total equity of R$1,741.1 million, R$2,632.7 million and R$1,697.8 million as of December 31, 2011, 2010 and 2009, respectively.

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

- revenue recognition;
- stock option plans;
- business combinations;
- effects of deferred taxes on the differences above; and

- noncontrolling interest.

For a discussion of the principal differences between Brazilian GAAP and US GAAP as they relate to our financial statements and a reconciliation of net income and equity see Note 29 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

The following standards and the amendments to the existing standards were published and are mandatory for subsequent accounting periods. There was no early adoption of such standards or their amendments by the Company. We stress that there are no IFRS or IFRIC, neither improvements to the existing IFRS or IFRIC that are effective for first adoption in the year ended December 31, 2011 and
that are significant to the Company and its subsidiaries.

- IFRS 7 – "Financial Instruments – Disclosure", issued in October 2010. The amendment to the standard on disclosure of financial instruments aims at promoting transparency in the disclosure of transfer transactions of financial assets to improve the user understanding about the risk exposure in these transfers, and the effect of these risks on the balance sheet, particularly those involving securitization of financial assets. The standard is applicable from January 1, 2013.

- IFRS 9 – "Financial instruments", issued in November 2009. IFRS 9 is the first standard issued as a part of a larger project to replace IAS 39. IFRS 9 maintains, however, it simplifies the measurement and establishes two main measurement categories of financial assets: amortized cost and fair value.

The classification basis depends on the business model of the entity and of the contractual characteristics of the cash flow of financial assets. The guidance included in IAS 39 on impairment of financial assets and recording of hedge continues to be applied. Prior years do not need to be restated if the entity adopts the standard for periods beginning on or before January 1, 2012. The standard is applicable from January 1, 2013.

- IFRS 10 – "Consolidated financial statements", issued in May 2011. This standard is based on principles existing relating to the identification of the concept of control as a determining factor whether an entity shall be consolidated in the financial statements. The standard provides additional guidance to assist in the determination of control when there are doubts in its assessment. The standard is applicable from January 1, 2013.

- IAS 28 – "Investments in associates", IFRS 11 – "Joint arrangements" and IFRS 12 – "Disclosures of interests in other entities", all of them issued in May 2011. The main change introduced by these standards is the impossibility of making the proportionate consolidation of entities which control over net assets is shared by an arrangement between two or more parties and that is classified as a joint venture.

  - IFRS 11 defines the concepts of two classification types for arrangements:

(i) Joint operations – when the parties jointly control assets and liabilities, whether these assets are in a separate vehicle or not, according to the contractual provisions and the essence of the operation. In these arrangements, assets, liabilities, revenues and expenses are accounted for by the entities that participate in the joint operator arrangement in proportion to their rights and obligations.

(ii) Joint ventures – when the parties jointly control the net assets of an arrangement, structured through a separate vehicle and the respective results from these assets are divided between the parties. In these arrangements, the entity interest shall be accounted for using the equity method and included in the account investments.

- IFRS 12 establishes qualitative disclosures that shall be made by the entity in relation to its interests in subsidiaries, joint arrangements or non-consolidated entities, which include significant judgments and assumptions to determine whether their interests provide control, significant influence or the type of joint

arrangements, whether Joint Operations or Joint Ventures, as well as other information on the nature and extent of significant restrictions and associated risks. The standard is not applicable before January 1, 2013.

- IFRS 13 – "Fair value measurement", issued in May 2011. The standard has the objective of improving the consistency and reducing the complexity of the disclosure required by the IFRSs. The requirements do not increase the fair value in accounting, however, it guides how it should be applied when its use is required or permitted by another standard. The standard is applicable from January 1, 2013, and there is no exemption for the application of the new disclosure requirements for comparative periods.

There are no other standards or interpretation issued until the issue of these financial statements.

The Company does not expect significant impacts on the consolidated financial statements in the first adoption of the new pronouncements and interpretations, except in relation to IFRS 11, once the Company makes the proportionate consolidation of ventures under joint control, which shall be no longer consolidated. The Company is assessing the potential impacts on its consolidated financial statements.

The Accounting Pronouncements Committee (CPC) has not issued the respective pronouncements and amendments related to the previously presented new and revised IFRS. Because of CPC and CVM's commitment to keeping the set of standards issued that were based on the updates made by the IASB updated, these pronouncements and amendments are expected to be issued by CPC and approved by CVM until the date of their mandatory application.

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, 2011, 2010 and 2009, we had 10, 9 and 13 employees engaged in research and development activities, respectively. Our research and development expenditures in 2011, 2010 and 2009 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.

In addition, while we believe the long term prospects for the Brazilian housing market have not changed, during 2010 and 2011, 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.

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.

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, 2011. The table does not include deferred income tax liability.

	Maturity Schedule				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions of R$)				
Loans and financing	1,856.5	1,135.5	437.9	283.1	—
Debentures	1,899.2	1,899.2	—	—	—
Interest (1)	796	346.0	404.0	46.0	—
Real estate development obligations (2)	3,662.6	2,157.7	1,483.3	21.6	—
Obligations for land purchase	489.2	312.0	151.6	19.4	6.2
Obligation to venture partners (3)	473.2	219.8	233.8	19.6	—
Credit assignments	501.9	70.7	431.2	—	—
Obligations from operating leases	51	12.7	21.6	12.8	3.9
Acquisition of investments	20.6	2.3	18.3	—	—
Securitization Fund – FIDC	2.9	2.9	—	—	—
Other accounts payable	396.5	271.9	124.6	—	—
Total	10,149.6	6,430.7	3,306.3	402.5	10.1

(1) Estimated interest payments are determined using the interest rate as of December 31, 2011. 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 obligations 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, 2011, the amount of "real estate development obligations" related to units launched but not sold was R$2,686.8 million.

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

We have a commitment to purchase the remaining 20% of Alphaville's capital, not yet measurable and consequently not recorded, which will be based on a fair value appraisal of Alphaville prepared at the future acquisition dates. The acquisition agreement provides that we will purchase the remaining 20% of Alphaville in 2012 with the issuance of an estimated 70,251,551 common shares. The numbers of shares that will be issued to settle this transaction is under negotiation.

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We also made provisions for contingencies in relation to labor, tax and civil lawsuits in the amounts of R$34.9 million and R$134.9 million in current and non-current liabilities, respectively, as of December 31, 2011.

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	65	Chairman	May 11, 2012	Annual Shareholders' General Meeting in 2014
Nelson Machado(2)(3)	64	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Guilherme Affonso Ferreira(2)(3)	61	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Maurício Marcellini Pereira(2)(3)	38	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Cláudio José Carvalho de Andrade(2)(3)	40	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
José Écio Pereira da Costa Junior(2)(3)	60	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Gerald Dinu Reiss(2)(3)	67	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Rodolpho Amboss(2)(3)	49	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014
Henri Phillippe Reichstul(2)(3)	63	Director	May 11, 2012	Annual Shareholders' General Meeting in 2014

(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.

None of our directors is entitled to any severance compensation in the event of dismissal from office, except for unpaid portions related to prior years. 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.

Nelson Machado. Mr. Machado is a member of our board of directors. In the past, he has held, among others, the following positions: Executive Secretary of the Department of Treasury, governmental entity of the

administrative structure, responsible for developing and executing the economic policies; Manager of Rocha e Machado Consultoria Ltda., a consulting company, (1) has been a member of the Boards of Directors of Caixa Econômica Federal, a financial institution; Brasilcap Capitalização S.A., a company specialized in savings bond; Brasilprev Seguros S.A., a company specialized in insurance; FINAME, special agency of industry financing; and Petroquisa S.A., company within the Petrobras group, specialized in petrochemical; and (2) has been a member of the Fiscal Councils of Vale S.A., a company specialized in mining; CESP – Companhia Energética de São Paulo, company of generation of electrical energy; Comgas – Companhia de Gás de São Paulo, a natural gas distributor; (i) Terrafoto S.A. Atividades de Aerolevantamentos, a company specialized in photogrammetry; and Companhia Metropolitana de Habitação de São Paulo – Cohab-SP, an entity specialized in fomenting the access to housing for underprivileged population. He holds a law degree from Brasilia University (UnB), a masters degree in business from EAESP/FGV – SP and a doctorate in accounting and controlling from FEA/USP.

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 Açucar), 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 form the University of São Paulo and a masters degree in economics and political science from Macalester College.

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 Economiários 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 masters 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 has also been an alternate member of the fiscal councils of Banco Panamericano S.A., a financial institution, Banco Sofisa S.A., 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 Noster Group, a public transportation, vehicle retailer and energy production company and chairman of the fiscal council of 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.

Gerald Dinu Reiss. Mr. Reiss is currently a member of our board of directors. He has also been a member of the board of directors of Odontoprev S.A., a company specialized in dental assistance plans; CAEMI Mineração e Metalúrgica S.A., a mining company; Petróleo Brasileiro S.A. – Petrobrás, a petrochemical company and Companhia Brasileira de Distribuição (Pão de Açucar), a retail company. Mr. Reiss has also been an executive officer of Rotapar Investimentos, Administração e Participações S.A., a business consulting company, and Grupo Ultra, a conglomerate acting in the fuel distribution, chemical industry sectors and in the storage of liquid bulks. He

holds a bachelor’s degree in electric engineering from Escola Politécnica da Universidade de São Paulo and a PhD in Business Administration from the University of California, Berkeley.

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.

Henri Phillippe Reichstul. Mr. Reichstul is a member of our board of directors. He has been on the board of directors of Repsol YPF S.A., a company specialized in production and distribution of fuel, PSA Peugeot Citroen S.A., Foster Wheeler, an engineering company, Companhia Brasileira de Distribuição (Grupo Pão de Açucar), TAM S.A., Vivo Participações, Telebrás S.A., and Centrais Elétricas Brasileira S.A. – Eletrobrás. In addition, he has also been the CEO of Petróleo Brasileiro S.A. – Petrobrás. Mr. Reichstul has an economics degree from the University of São Paulo and a post-graduate degree from Oxford University’s Hartford College.

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

Name	Age	Position	Election Date	Term of Office
Alceu Duilio Calciolari	49	Chief Executive Officer	May 25, 2012	May 25, 2015
Andre Bergstein	41	Chief Financial Officer and Investor Relations Officer	May 25, 2012	May 25, 2015
Sandro Rogério da Silva Gamba	36	Executive Officer of Gafisa	May 25, 2012	May 25, 2015
Luiz Carlos Siciliano	47	Operational Executive Officer	May 25, 2012	May 25, 2015
Fernando Cesar Calamita	45	Operational Executive Officer	May 25, 2012	May 25, 2015
Rodrigo Ferreira Coimbra Pádua	37	Operational Executive Officer	May 25, 2012	May 25, 2015

None of our executive officers is entitled to any severance compensation in the event of dismissal from office, except the unpaid portions related to prior years. 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.

Alceu Duilio Calciolari. Mr. Calciolari is currently our chief executive officer, and his current term commenced in May 2012, with a term of office through May 25, 2015. He is also the coordinator of the Finance Executive Committee and the Investments Executive Committee and member of the board of directors of Construtora Tenda S.A. and Alphaville Urbanismo S.A. He holds a bachelor’s degree in business administration from Faculdades Metropolitanas Unidas and a master’s degree in controllership from Pontifícia Universidade de São Paulo. Mr. Calciolari started his career as a trainee at ABN AMRO Real S.A. in 1978 and worked as an auditor, from 1983 to 1996, at Arthur Andersen LLP. He was also chief finance officer at Tupy S.A., from 1996 to 1998, and ALL—America

Latina Logística S.A., from 1998 to 2000. Mr. Calciolari has been our chief financial officer and investor relations since 2000 and has been our chief executive officer since May 9, 2011.

Andre Bergstein. Mr. Bergstein is currently our chief financial officer and investor relations officer, and his current term commenced in May 2012, with a term of office through May 25, 2015. He is also a member of the board of directors of Construtora Tenda S.A. and 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.

Sandro Rogério da Silva Gamba. Mr. Gamba is currently the executive officer of our Gafisa segment and his current term commenced in May 2012, with a term of office through May 25, 2015. 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.

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Luiz Carlos Siciliano. Mr. Siciliano is currently one of our operational executive officers, responsible internally for the supply chain department, and his current term commenced in May 2012, with a term of office through May 25, 2015. He is also a member of the investment executive committee. Mr. Sicilano 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 experiences. He has worked for us since 2005, as head of business development in the state of Rio de Janeiro and director of sales and marketing. Prior to joining us, Mr. Siciliano worked at AmBev from 1992 to 2004 in positions of increasing responsibility, and he holds master's in business administration degrees from IBMEC and Pontifícia Universidade Católica (PUC) in Rio de Janeiro.

Fernando Cesar Calamita. Mr. Calamita is currently one of our operational executive officers, responsible internally for the control department, and his current term commenced in May 2012, with a term of office through May 25, 2015. He is also a member of the financial executive committee and ethics executive committee and member of the Board of Directors of Construtora Tenda S.A. Before joining us he was Vice-President of Finance and Administration of Kidde do Brasil S.A., a company specialized in engineering and manufacturing of security equipments.

Rodrigo Ferreira Coimbra Pádua. Mr. Pádua is currently one of our operational executive officers, responsible internally for the human resources department, and his current term commenced in May 2012, with a term of office through May 25, 2015. He is also the chairman of the ethics executive committee. Before joining us he was (i) Manager of Human Resources and Projects of AmBev, company specialized in commercialization of beverages; and (ii) Manager of Human Resources of Danone S.A., company specialized in the commercialization of food and milky products.

Our Relationship with our Executive Officers and Directors

As of December 31, 2011, 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, 2011, our board of officers in the aggregate held 0.55% of our share capital and our board of directors in the aggregate held less than a 0.3% direct or indirect interest in our share capital. As of December 31, 2011, our board of officers in the aggregate held 0.27% of our share capital and our board of directors in the aggregate held less than a 0.3% direct or indirect interest in our share capital. Also, as of December 31, 2011, some of our executive officers held interests in our subsidiaries as partners, minority shareholders, and/or directors and executive officers. In none of these cases, as of the referenced date, were the interests held material. In addition, there is no family relationship among our executive officers, directors or controlling shareholders, if any.

B. Compensation

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.

For each of 2011, 2010 and 2009, the aggregate compensation was paid to the members of the board of directors was R$1.5 million, R$955 thousand, R$975 thousand, respectively.

For each of 2011 and 2010, the aggregate compensation we paid to the members of the fiscal council was stable at R$136.8 thousand in both fiscal period years.

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For each of 2011, 2010 and 2009, the aggregate compensation we paid to the executive officers was R$3.5 million, R$11.9 million and R$6.0 million, respectively, which includes fixed compensation and annual bonus amounts.

Approximately 70% of the total compensation paid to our executive officers is variable. For each of 2011, 2010 and 2009, the individual compensation we paid to members of our board of directors (fixed compensation), fiscal council (fixed compensation) and executive officers (both fixed and variable compensation) is set forth in the tables below.

For 2011, the amounts presented refer to 100% of fixed compensation, since the eliminatory goals were not achieved, there was no bonus payments for the executive officers.

These tables show individual compensation of members of our fiscal council, as of January 2010, since the fiscal council was created in December 2009.

2011	Board of Directors (1)	Fiscal Council	Executive Officers
Number of members	8.00	3.00	6.00
Annual highest individual compensation (in R$)	264,384	45,600	790,824
Annual lowest individual compensation (in R$)	100,800	45,600	620,929
Annual average individual compensation (in R$)	184,176	45,600	591,075

(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).

2010	Board of Directors (1)	Fiscal Council	Executive Officers
Number of members	5,67	3	5
Annual highest individual compensation (in R$)	242,100	45,600	2,479,913
Annual lowest individual compensation (in R$)(2)	161,400	45,600	1,453,309
Annual average individual compensation (in R$)	168,547	45,600	1,842,653

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

(2) Annual lowest individual compensation includes only the members of board of directors 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).

2009	Board of Directors (1)	Executive Officers
Number of members	6	5
Annual highest individual compensation (in R$)	225,000	5,483,533
Annual lowest individual compensation (in R$)	150,000	1,600,915
Annual average individual compensation (in R$)	162,500	3,172,335

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

Approximately 60% of the total compensation is comprised of the 2009 stock option plan, taking into consideration the entire 5-year program.

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

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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 times when a meeting is called by its chairman or by at least two other 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.

Under Brazilian corporate law, a company’s board of directors must have at least three members, and each of the members of the board of directors must be a shareholder of the company, although there is no requirement as to the minimum number of shares that an individual must hold in order to serve as a director. 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 seven independent members, out of a total of nine members.

Paragraph 4 of 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. 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, but is not required to be a shareholder of the company. 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 six members: (1) Mr. Alceu Duilio Calciolari, who is the chief executive officer, (2) Mr. Andre Bergstein, who is the chief financial officer and investor relations officer, (3) Mr. Sandro Rogerio da Silva Gamba, who is an executive officer of Gafisa, (4) Mr. Luis Carlos Siciliano, who is an operational executive officer, (5) Mr. Fernando Cesar Calamita, who is an operational executive officer, and (6) Mr. Rodrigo Ferreira Coimbra Pádua, who is an operational executive officer.

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).

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, Adriano Rudek de Moura and Luis Fernando Brum de Melo) and three alternates (Marcello Mascotto Iannalfo, Paulo Ricardo de Oliveira 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, Nelson Machado and Maurício Marcellini Pereira, each of whom is a director of our company. Our board of directors has determined that Jose Ecio Pereira da Costa Junior, Nelson Machado and Maurício Marcellini Pereira 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 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.

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 Henri Philippe Reichstul, who is also the chairman, Guilherme Affonso Ferreira and Cláudio José Carvalho de Andrade. 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 Gerald Dinu Reiss, who is also the chairman, Rodolpho Amboss and Maurício Marcellini Pereira. 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

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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 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 Alceu Duilio Calciolari (also the Coordinator of the Committee), Andre Bergstein, Sandro Rogério da Silva Gamba and Luiz Carlos Siciliano.

Finance Executive Committee

Our directors have established a Finance Executive Committee composed of three members; currently, they are Alceu Duilio Calciolari (also the Coordinator of the Committee), Andre Bergstein and Fernando Cesar Calamita. This committee evaluates and makes periodic recommendations to our board of directors regarding risk and financial investments policies.

Ethics Executive Committee

In September 2010, our board of directors established an Ethics Executive Committee, as a collegiate body to provide advice and guidance to the board of directors, elected by the board of directors, and composed primarily of members of the board of officers (statutory or otherwise). Due to the recent dismissal of one member, the Ethics Executive Committee is temporarily composed of two members: Rodrigo Ferreira Coimbra Pádua (our Human Resources Officer and Coordinator of the Committee) and Fernando Cesar Calamita (our Planning and Controlling Officer). This committee is responsible 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.

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 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 function 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 functions of the audit committee could be subordinated by local laws to our other bodies.

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;

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- 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.B. Additional— 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, 2011, we had 2,091 employees at Gafisa across the following states:

States	Number of Employees
Alagoas	18
Bahia	43
Goiás	14
Maranhão	12
Minas Gerais	3
Mato Grosso do Sul	6
Pará	196

Paraná	77
Rio de Janeiro	413
Rio Grande do Sul	30
Sergipe	10
São Paulo	1,275
Total	2,091

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

Period	Operations	Administration & Finance	Business Development	Sales	Total
2011	1,550	269	165	107	2,091
2010	1,911	262	139	113	2,425
2009	3,925	253	99	104	4,381
2008	3,665	162	72	17	3,916

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 34,000 outsourced professionals are providing services to Gafisa, Tenda and Alphaville across the following regions:

Region	Outsourced Professionals
North/CentralWest	4,067
Northeast	5,037
South	2,987
Southeast	21,563
Total	33,923

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.

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 2011, establishing a salary adjustment of 9.75% as of May 2011. This collective bargaining agreement became effective inn May 2011 and will expire in April 30, 2012.

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 2011, establishing a salary adjustment of 7.5% as of March 2011. This collective bargaining agreement became effective in March 2011 and will expire in February 2012.

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.

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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 0.6% of our total share capital or of the share capital of any of our subsidiaries or jointly-controlled entities. As of December 31, 2011, some of our executive officers held interests in our subsidiaries and jointly-controlled entities as partners, minority shareholders, and/or 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
Alceu Duilio Calciolari	Chief Executive Officer	833,447
Gerald Dinu Reiss	Director	141,102
Odair Garcia Senra	Director	96,705
Luiz Carlos Siciliano	Officer	78,391
Sandro Rogério da Silva Gamba	Officer	78,279
Rodrigo Osmo	Officer	45,912
Fernando Cesar Calamita	Officer	40,000
Rodrigo Ferreira Coimbra Pádua	Officer	28,245
Cláudio José Carvalho de Andrade	Director	1,000
José Écio Pereira da Costa Junior	Director	2
Guilherme Affonso Ferreira	Director	2
Henri Phillippe Reichstul	Director	2
Andre Bergstein	Chief Financial Officer and Investor Relations Officer	0
Nelson Machado	Director	0
Maurício Marcellini Pereira	Director	0
Rodolpho Amboss	Director	0
Marcelo Renaux Willer	Officer	0
Total		1,343,087

Stock Option Plans

Our stock option plans seek to: (1) encourage our expansion and success by allowing our directors, executive officers 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 directors, executive officers and key employees by offering them the additional benefit of becoming one of our shareholders; and (3) align the interests of our directors, executive officers and key employees with the interests of our shareholders.

We entered into individual agreements with our key employees, directors and executive officers, 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.

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2000 to 2002

In 2002, our shareholders ratified the terms and conditions of our stock option plan. A standard stock option plan 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 the BM&FBOVESPA, our preferred shares were converted into common shares, and therefore all stock options relating to this stock option plan currently grant subscription rights related to our common shares.

As of the date of this annual report, 4,050,000 options to purchase shares of our common shares have been issued to key employees, directors and executive officers pursuant to this stock option plan agreement and all of these shares have been acquired or expired pursuant to such agreements.

2006

In view of our entry in the Novo Mercado segment of the BM&FBOVESPA, and in order to protect the rights of the beneficiaries of the existing stock option plan, we decided to maintain the existing stock option plan. In addition, 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 plan's agreements entered into with each participant.

As of the date of this annual report, 4,035,034 options to purchase shares of our common shares have been issued to key employees, directors and executive officers pursuant to this stock option plan agreement. Of these shares, 3,369,888 shares have been acquired or expired pursuant to such agreements.

2008

We approved a new stock option plan on May 18, 2008 during a special shareholders' general meeting. Under the 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 new stock option plan, the board of directors may grant different types of options to certain beneficiaries, or "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 A 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.

As of the date of this annual report, 155,185 common shares have been purchased by our key employees, directors and executive officers pursuant to this stock option plan agreement, which has been exercised in full.

2009

Three new stock option plans were approved in 2009 for executive officers and key employees. The first plan is a standard stock option plan to grant subscription rights related to our common shares, which was approved by our board of directors at a meeting held on June 26, 2009. Under this plan, 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 the date of this annual report, 5,400,000 options to purchase shares of our common shares have been issued to executive officers pursuant to this stock option plan agreement. Of the total options granted, 2,850,000 have been acquired or expired pursuant to such agreements.

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

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As of the date of this annual report, options to purchase 874,022 shares of our common shares have been issued to key employees and executive officers pursuant to this stock option plan agreement. The options granted included 500,467 B options. Of the total options granted, 373,556 have been acquired or expired pursuant to such agreements.

After our acquisition of Tenda, the board of directors approved the conversion of Tenda's existing stock options plan into Gafisa's plan.

As of the date of this annual report, options to purchase 634,367 shares of our common shares have been issued in order to convert Tenda's plan to key employees and executive officers pursuant to this stock option plan agreement. The options granted included 377,191 B options. Out of the amount granted, 247,504 options have been acquired or expired pursuant to such agreements.

2010

Two new stock option plans were approved in 2010 for executives and key employees. The first plan is a standard stock option plan to grant subscription rights related to our common shares, which was approved by our board of directors at a meeting held on August 4, 2010. Under this plan, 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 the date of this annual report, 600,000 options to purchase shares of our common shares have been issued to executive officers pursuant to this stock option plan agreement. Of the total options at market price granted, none have been acquired or expired pursuant to such agreements.

Under the second plan, the board of directors may grant different types of B options for the exercise price of R$0.01. The exercise of B options, if granted, is subject to the proportional exercise of the regular options granted under this 2010 plan, 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 26,061 shares of our common shares have been issued to employees and directors pursuant to this stock option plan agreement. The options granted included 17,373 B options. Of the total options granted, 8,688 have been acquired or expired pursuant to such agreements.

2011

Two new stock option plans were approved in 2011 for the board of directors, executive officers and key employees.

The first plan is a standard stock option plan granting subscription rights related to our common shares. Under this plan, 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 the date of this annual report, 8,590,000 options to purchase shares of our common shares have been issued to executive officers and directors pursuant to this stock option plan. Out of the amount granted, no shares have been acquired or expired pursuant to such agreements.

Under the second plan, the board of directors may grant different types of B options for the exercise price of R$0.01. 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 2,940,000 shares of our common shares have been issued to employees and directors pursuant to this stock option plan agreement. The options granted included 2,142,050 B options. Out of the total options granted, 577,407 have been acquired or expired pursuant to such agreements.

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Issuance	Number of Stock Options Issued	Number of Stock Options Outstanding (Not Expired or exercised)	Exercise Price per Stock Option (1)	Expiration
April 2000 (Standard SOP)	2,100,000	—	—	April 2010
April 2001 (Standard SOP)	1,470,000	—	—	April 2011
April 2002 (Standard SOP)	480,000	—	—	April 2012
February 2006 (Standard SOP)	1,035,034	422,838	R$ 13.14	February 2016
February 2006 (Standard SOP)	3,000,000	—	—	February 2016
May 2008 (Restricted SOP)	155,185	—	—	May 2011
May 2009 (Restricted – Tenda's conversion)	499,920	—	—	May 2012
June 2009 (Standard SOP)	5,400,000	1,800,000	R$ 8.39	June 2019
December 2009 (Restricted SOP) (2)	849,020	341,576	R$ 0.01	December 2013
August 2010 (Restricted SOP) (2)	26,061	17,373	R$ 0.01	August 2014
August 2010 (Standard SOP)	600,000	600,000	R$ 12.10	August 2020
March 2011 (Restricted Type A)	377,950	183,845	R$ 10.24	June 2012
March 2011 (Restricted Type B) (2)	882,050	882,050	R$ 0.01	March 2015
July 2011 (Standard SOP)	8,590,000	8,590,000	R$ 7.71	July 2021
July 2011 (Restricted Type A)	420,000	238,491	R$ 7.71	July 2012
July 2011 (Restricted Type B) (2)	1,260,000	1,260,000	R$ 0.01	July 2015

(1) Exercise prices were adjusted according to the dividends paid and the IGP-M inflation index plus an annual interest rate from 3% to 6%, until 2010.

(2) Options 100% unvested (Type B).

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of the date of this annual report, none of our shareholders 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	(%)
Directors and officers(1)	2,457,315	0.6
Other shareholders	439,642,758	99.3
Treasury shares	599,486	0.1
Total	432,699,559	100.0

(1) Does not include shares that may be purchased pursuant to outstanding stock option plans except for shares subject to options that are currently exercisable or exercisable within 60 days of the date of this annual report.

We had a total 278 record shareholders located in the United States, 158 of which hold shares traded at BM&FBOVESPA and 120 of which hold ADSs traded on the NYSE. We are not aware of any shareholders' agreement currently in force with our main shareholder.

As per material fact released on June 8, 2012 regarding the Third Phase of the Investment Agreement and Other Covenants entered into on October 2, 2006 ("Investment Agreement"), which established rules and conditions for Gafisa acquiring and holding shares of the corporate capital of Alphaville Urbanismo S.A. ("AUSA"), the Company informs that the final amount of the operation (acquisition of remaining 20%) was established as R$359.0 million which will be settled by the issuance of an estimated 70,251,551 common shares, issued by Gafisa, as set forth in the Investment Agreement. The number of shares that will be issued to settle this transaction is going to be decided in an arbitration process, initiated by the other shareholders of AUSA, as per material fact release on July 3, 2012. In case of issuance of 70,251,551 common shares of Gafisa to the other shareholders of AUSA, these shareholders of AUSA will receive 13.96% of Gafisa's total capital stock and will become relevant shareholders of Gafisa.

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.

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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, 2011 and 2010 and 2009, we had current accounts receivable from related parties related to real estate ventures of R$84.2 million, R$75.2 million and R$7.2 million, respectively.

As of and for the years ended December 31, 2011, 2010 and 2009, 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, 2011, we were a party to 4,799 civil actions, totaling R$732.8 million. Of these actions, we were the plaintiff in 221 actions and the defendant in approximately 4,578 actions, with aggregate amounts of R$14.5 million and R$718.3 million, respectively.

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

As of December 31, 2011, the provisions related to civil claims include R$128.5 million related to lawsuits in which the Company is included as successor in enforcement actions, in which the original debtor is a former shareholder of Gafisa, Cimob Companhia Imobiliária ("Cimob"), among other companies. The plaintiff alleges that the Company should be liable for the debts of Cimob. Certain claims, amounting to R$6,6 million, are backed by guarantee insurance, in addition we have made judicial deposits amounting to R$74,8 million, in connection with the

restriction of the usage of our bank accounts; and there is also a restriction on the use of our treasury stock in order to guarantee the enforcement. 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 final decision is on appeal, and cannot be predicted at present.

As of December 31, 2011, the provision for our civil claims amounted to R$114.2 million.

Environmental Claims

As of December 31, 2011, we were the defendants in certain environmental claims alleging harm in a permanent conservation area and we are currently not able to estimate the aggregate amount of such claims.

In addition, we are periodically party to other administrative environmental inquiries or claims by the Public Prosecution Offices of the States of São Paulo and Rio de Janeiro or by other governmental agencies or third parties. These inquiries may result in public environmental claims against us and the findings in these inquires 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.

As of December 31, 2011, we have made no provisions for environmental claims.

Tax Claims

As of December 31, 2011, we were party to several tax proceedings involving tax liabilities in the aggregate amount of R$90.6 million. As of December 31, 2011, the provision for tax liabilities amounted to R$15.9 million. In addition, we have deposited R$11.8 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. Our subsidiaries 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.

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) probable 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 probable loss totaled R$11.8 million and was recorded at December 31, 2010.

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$10.7 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$6.9 million.

Labor Claims

As of December 31, 2011, we were a defendant in approximately 4,435 labor claims resulting from our ordinary course of business, of which approximately 81% were filed by outsourced workers and approximately 19% were filed by our former employees. The alleged legal bases for these claims mainly relate to termination benefits,

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overtime hours, employee relationship and dismissal rights. As of December 31, 2011, the total value involved in the labor claims filed against us was approximately R$100 million. As of December 31, 2011, the provision for labor claims amounted to R$39.7 million.

Arbitration

We are also involved in 2 arbitrations proceeding filed one of them by a partner seeking to discuss and terminate the partnership entered by the parties to develop a few real estate projects and the other one regarding enforceability of contractual clauses. There is no yet decision in neither case.

As of December 31, 2011, 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.

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.

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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 bylaws, 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, 2011, there was no amount allocated to a legal reserve since it was absorpted by our loss for the year ended.

- 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, 2011, there was no amount allocated to a statutory reserve since it was absorpted by our loss for the year ended.

- 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, 2011, 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, 2011, there was no amount allocated to a investment reserve since it was absorpted by our loss for the year ended.

- 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, 2011, 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.

As of December 31, 2011, there was no amount allocated to a capital reserve since it was absorpted by our loss from the year ended.

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.

The mandatory dividend is based on a percentage of adjusted net income, rather than a fixed monetary amount per share. Under our bylaws, at least 25% of our net income, as calculated under Brazilian GAAP and adjusted under Brazilian corporate law (which differs significantly from net income as calculated under US GAAP), for the preceding fiscal year must be distributed as a mandatory dividend. Adjusted net income means the distributable amount before any deductions for profit retention and statutory reserves.

Under Brazilian corporate law, however, we are allowed to suspend the distribution of the mandatory dividends in any year in which our board of directors report to our general shareholders' meeting that the distribution would be inadvisable in view of our financial condition. Such suspension is subject to the approval at the shareholders' meeting and review by members of the fiscal council. In the case of publicly held companies, the board of directors must file a justification for such suspension with the CVM within five days of the relevant general shareholders' meeting. If the mandatory dividend is not paid, the unpaid amount shall be attributed to a special reserve account. If not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

The mandatory dividend may also be paid in the form of interest attributable to shareholders' equity, being considered as a deductible expense for purpose of calculating our income and social contribution tax obligations.

Payment of Dividends

We are required by Brazilian corporate law and our bylaws to hold an annual general shareholders' meeting within the first four months following the end of each fiscal year, at which time, among other things, the shareholders have to decide on the allocation of the results from the preceding year and on the payment of dividends based on our financial results from the previous fiscal year.

Under Brazilian corporate law, dividends are generally required to be paid to the holder of record on the date of the dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur within the fiscal year in which such dividend was declared. A shareholder has a three-year period from the date of the dividend payment to claim dividends, which do not bear interest and are not monetarily restated, after which the aggregate amount of any unclaimed dividends shall legally revert to us.

Our board of directors may declare interim dividends to be deducted from the retained earnings or profit reserves in our semi-annual or annual financial statements. In addition, our board of directors may pay dividends from our net income based on our net income registered on semi-annual or quarterly balance sheet. The dividends paid in each semester may not exceed the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividend relating to the net profit earned in the year in which the interim dividends were paid.

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In general, shareholders who are not residents of Brazil must register their equity investment with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted outside of Brazil. The common shares underlying the ADSs are held in Brazil by Banco Itaú S.A., also known as the custodian, as agent for the depositary, who is the registered owner on the records of the registrar for our shares. The depositary registers the common shares underlying the ADSs with the Central Bank and, therefore, it is possible to have dividends, sales proceeds or other amounts with respect to the common shares remitted outside Brazil.

Payments of cash dividends and distributions, if any, are made in reais to the custodian on behalf of the depositary, which then converts such proceeds into U.S. dollars and causes such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. In the event that the custodian is unable to convert immediately the reais received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by any depreciation of the real that occurs before the dividends are converted. Under the current Brazilian tax law, dividends paid to persons who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian withholding tax, except for dividends declared based on profits generated prior to December 31, 1995, which will be subject to Brazilian withholding income tax at varying tax rates. See "Item 10. Additional Information—E. Taxation."

Holders of ADSs have the benefit of the electronic registration obtained from the Central Bank, which permits the depositary and the custodian to convert dividends and other distributions or sales proceeds with respect to the common shares represented by ADSs into foreign currency and remit the proceeds outside of Brazil. In the event the holder exchanges the ADSs for common shares, the holder will be entitled to continue to rely on the depositary's certificate of registration for five business days after the exchange. Thereafter, in order to convert foreign currency and remit outside of Brazil the sales proceeds or distributions with respect to the common shares, the holder must obtain a new certificate of registration in its own name that will permit the conversion and remittance of such payments through the commercial exchange rate market.

Under current Brazilian legislation, the Brazilian government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs."

Interest on Equity

Under the Brazilian tax legislation effective January 1, 1996, Brazilian companies are permitted to pay "interest" to holders of equity securities and treat such payments as a deductible expense for Brazilian income tax purposes and, from 1997, for social contribution purposes. The purpose of the tax law change is to encourage the use of equity investment, as opposed to debt, to finance corporate activities. Payment of such interest may be made at the discretion of our board of directors. The amount of any such notional "interest" payment to holders of equity securities is generally limited in respect of any particular year to the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits but before taking into account the provision for corporate income tax and the interest attributable to shareholders' equity) for the period in respect of which the payment is made; or

- 50% of the sum of retained earnings and profit reserves as of the beginning of the year in respect to which such payment is made.

For tax deduction purposes, the rate applied in calculating interest attributable to shareholders' equity cannot exceed the pro rata die variation of the Long Term Interest Rate (Taxa de Juros de Longo Prazo), or TJLP, as determined by the Central Bank from time to time.

For accounting purposes, although the interest should be reflected in the income statement for tax deduction, the charge is reversed before the calculation of the net income in the statutory financial statements and deducted from the shareholders' equity in the same way as the dividend. Any payment of interest with respect to the common shares is subject to withholding income tax at the rate of 15% or 25% if a holder that is not domiciled in Brazil for purposes of Brazilian taxation is domiciled in a country or location defined as a "tax favorable jurisdiction." The

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definition of tax favorable jurisdiction includes countries and locations (a) that do not impose income tax, (b) that impose income tax at a rate of 20% or less, or (c) where local laws do not allow access to information related to shareholding composition, ownership of investments, or the identity of the ultimate beneficiary of earnings that are attributed to non-residents. Please refer to "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations—Discussion on Low or Nil Tax Jurisdictions" below for a discussion that the definition of "tax favorable jurisdiction" may be broadened by an interpretation of Law No. 11,727.

The amount distributed to shareholders as interest attributable to equity, net of any withholding tax, may be included as part of the minimum mandatory dividend. In accordance with applicable law, we are required to pay to shareholders an amount sufficient to ensure that the net amount they receive in respect of interest attributable to shareholders' equity, after payment of the applicable withholding tax, plus the amount of declared dividends, is at least equivalent to the amount of the minimum mandatory dividend. A shareholder has a three-year period from the date of the interest payment to claim interest attributable to equity, after which the aggregate amount of any unclaimed interest shall legally revert to us.

If a payment of interest on equity is recorded at net value as part of a mandatory dividend, we will pay the income tax on behalf of our shareholders at the time the payment is distributed. Otherwise, the income tax will be paid by the shareholders, subject to our obligation to retain and collect taxes on the payment.

History of Payment of Dividends and Interest on Equity

In 2008, we distributed dividends in the total amount of R$27.0 million, or R$0.21 per share (without giving effect to the stock split of one existing share into two newly issued shares approved at our shareholders' meeting on February 22, 2010), for fiscal year 2007. In 2009, we distributed dividends in the total amount of R$26.1 million, or R$0.20 per share (without giving effect to the stock split of one existing share into two newly issued shares approved at our shareholders' meeting on February 22, 2010), for fiscal year 2008. In 2010, we distributed dividends in the total amount of R$50.7 million, or R$0.12 per share (after giving effect to the stock split of one existing share into two newly issued shares approved at our shareholders' meeting on February 22, 2010), for fiscal year 2009. In 2011, we distributed dividends in the total amount of R$98.8 million, or R$0.2991 per share, for fiscal year 2010.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our common shares started trading on the BM&FBOVESPA on February 17, 2006 and the ADSs started trading on the NYSE on March 16, 2007. The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on the NYSE, in U.S. dollars, and the common shares on the BM&FBOVESPA, in reais:

	New York Stock Exchange (2)			São Paulo Stock Exchange		
	High	Low	Volume(1)	High	Low	Volume(1)
	(in US$ per ADS)			(in reais per common shares)		
Year Ended						
December 31, 2007	40.50	23.10	418,005	35.61	22.50	897,085
December 31, 2008	46.50	5.41	930,018	38.26	6.86	1,238,592

December 31, 2009	36.60	7.33	830,509	31.27	8.69	2,077,590
December 31, 2010(3)	18.19	10.83	2,210,016	14.79	9.83	4,339,823
December 31, 2011	15.17	4.30	3,548,148	12.25	4.10	8,082,453
Quarter						
First quarter 2010	16.36	12.73	2,138,173	14.25	11.60	3,659,472
Second quarter 2010	14.63	10.83	2,351,966	12.64	9.83	4,325,295
Third quarter 2010	15.99	12.14	2,025,664	13.65	10.80	4,376,050
Fourth quarter 2010	18.19	13.12	2,323,107	14.79	10.95	4,985,780

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First quarter 2011	12.89	12.68	1,964,727	10.32	10.10	3,809,000
Second quarter 2011	15.17	11.82	2,452,749	12.25	9.62	5,117,548
Third quarter 2011	14.77	9.06	4,098,922	11.45	7.35	6,447,629
Fourth quarter 2011	10.13	5.32	3,671,459	8.19	4.93	11,172,193
First quarter 2012	6.52	4.64	3,705,616	5.39	4.20	13,832,655
Second quarter 2012	4.60	2.07	3,056,674	4.24	2.13	15,575,915
Month						
October 2011	8.10	4.30	3,734,860	6.78	4.10	12,778,310
November 2011	8.10	5.32	3,209,770	6.78	4.93	10,676,770
December 2011	7.60	5.51	4,145,640	6.48	5.00	14,899,280
January 2012	6.43	4.30	4,164,537	5.76	4.10	12,759,805
February 2012	5.42	4.64	4,556,888	4.77	4.20	15,049,105
March 2012	6.52	5.55	4,411,835	5.39	4.78	17,895,100
April 2012	5.92	4.72	2,289,716	5.35	4.30	9,163,023
May 2012	4.60	3.68	2,687,706	4.24	3.54	9,512,460
June 2012	2.98	2.07	2,779,036	3.09	2.13	21,334,211

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(1) Average number of shares traded per day.

(2) The ADSs started trading on the NYSE on March 16, 2007.

(3) On February 22, 2010, our shareholders approved a stock split of our common shares giving effect to the split of one existing share into new issued shares, increasing the number of shares from 167,077,137 to 334,154,274.

In September 2007, we joined the BM&FBOVESPA Index, or “IBM&FBOVESPA,” the main indicator of the Brazilian stock market’s average performance and the IBrX-50, an index measuring the total return on a theoretical portfolio composed of 50 stocks selected among BM&FBOVESPA’s most actively traded securities. Additionally, we are part of the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Through the inclusion on these indices, our stock has expanded opportunity for increased liquidity. Prior to joining the indices, we traded at a daily average of R$38.1 million (or 1.3 million shares), and after joining the indices, trading in our shares increased to a daily average of R$37 million (or 9.5 million shares).

B. Plan of Distribution

Not applicable.

C. Markets

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.”

Trading on the BM&FBOVESPA

Trading on the São Paulo Stock Exchange is conducted every business day, from 10:00 a.m. to 5:00 p.m., or from 11:00 a.m. to 6:00 p.m. during daylight saving time in Brazil, on an electronic trading system called “Megabolsa.” Trading is also conducted between 5:45 p.m. and 7:00 p.m., or between 6:45 p.m. and 7:30 p.m. during daylight

saving time in Brazil. The “after-market” trading is scheduled after the close of principal trading sessions, when investors may send purchase and sell orders and trade through the home broker system. This after-market trading is subject to regulatory limits on price volatility of securities traded by investors operating on the Internet.

The CVM and the BM&FBOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the BM&FBOVESPA, including the Novo Mercado and Levels 1 and 2 segments, may be effected off the exchanges in the unorganized over-the-counter market in certain circumstances.

The shares of all companies listed on the BM&FBOVESPA, including the Novo Mercado and Level 1 and Level 2 companies, are traded together.

Settlement of transactions occurs three business days after the trade date, without adjustments to the purchase price. Delivery of and payment for shares are made through the facilities of separate clearing houses for each exchange, which maintain accounts for brokerage firms, the Central Depositary BM&FBOVESPA (Central Depositária da BM&FBOVESPA), formerly the Brazilian Settlement and Custodial Company (Companhia Brasileira de Liquidação e Custódia). The seller is ordinarily required to deliver the shares to the BM&FBOVESPA clearing house on the second business day following the trade date.

In order to maintain control over the fluctuation of the BM&FBOVESPA index, the BM&FBOVESPA has adopted a "circuit breaker" system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever specified indices of the BM&FBOVESPA fall below the limits of approximately 10% and 15%, respectively, in relation to the closing index levels for the previous trading session.

Although the Brazilian equity market is the largest in Latin America in terms of capitalization, it is smaller and less liquid than the major U.S. and European securities markets. The BM&FBOVESPA is significantly less liquid than the NYSE, or other major exchanges in the world. The BM&FBOVESPA, had a market capitalization of US$1.40 trillion as of March 31, 2012 and an average daily trading volume of US$3.5 billion for 2012. In comparison, the NYSE had a market capitalization of US$19.05 trillion as of March 31, 2012 and an average daily trading volume of approximately US$153,189.30 million for 2012. Although any of the outstanding shares of a listed company may trade on the BM&FBOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder. The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the common shares at the time and price you desire and, as a result, could negatively impact the market price of these securities.

Trading on Brazilian stock exchanges by non-residents of Brazil is subject to registration procedures. See "—Investment in Our Common Shares by Non-Residents of Brazil."

Regulation of Brazilian Securities Markets

The Brazilian securities markets are principally governed by Law No. 6,385, of December 7, 1976, and Brazilian corporate law, each as amended and supplemented, and by regulations issued by the CVM, which has authority over stock exchanges and the securities markets generally; the National Monetary Council; and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

These laws and regulations, among others, provide for licensing and oversight of brokerage firms, governance of the Brazilian stock exchanges, disclosure requirements applicable to issuers of traded securities, restrictions on price manipulation and protection of minority shareholders. They also provide for restrictions on insider trading. However, the Brazilian securities markets may not be considered to be as highly regulated and supervised as the U.S. securities markets or securities markets in some other jurisdictions. Accordingly, any trades or transfers of our equity securities by our officers and directors, our controlling shareholders or any of the officers and directors of our controlling shareholders must comply with the regulations issued by the CVM. See "Item 10. Additional Information—B. Memorandum and Bylaws—Disclosure Requirements."

We have the option to ask that trading in our securities on the BM&FBOVESPA be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the BM&FBOVESPA or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the BM&FBOVESPA.

Under Brazilian corporate law, a corporation is either public, as we are, or closely held. All public companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may trade its securities either on the BM&FBOVESPA, if it has registered to have its securities traded at the BM&FBOVESPA, or on the Brazilian over-the-counter market. The shares of a listed company may also be traded privately, subject to several limitations. Our common shares are listed on Novo Mercado segment of the BM&FBOVESPA.

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The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM (and in the relevant over the counter market) serves as intermediary. The Brazilian over-the-counter market is divided into two categories: (i) an organized over the counter market, in which the transactions are supervised by self-regulating entities authorized by the CVM; and (ii) a non-organized over the counter market, in which the transactions are not supervised by self-regulating entities authorized by the CVM. In either case, transactions are directly traded outside of the stock exchange market, through a financial institution authorized by the CVM. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Investment in Our Common Shares by Non-Residents of Brazil

Investors residing outside Brazil are authorized to purchase equity instruments, including our common shares, in the form of foreign portfolio investments on the BM&FBOVESPA, provided that they comply with the registration requirements set forth in Resolution No. 2,689 of the National Monetary Council (or "Resolution No. 2,689"), and CVM Instruction No. 325.

With certain limited exceptions, Resolution No. 2,689 investors are permitted to carry out any type of transaction in the Brazilian financial capital market involving a security traded on a stock, futures or organized over-the-counter market. Investments and remittances outside Brazil of gains, dividends, profits or other payments under our common shares are made through the foreign exchange market. See "Item 10. Additional Information—D. Exchange Controls."

In order to become a Resolution No. 2,689 investor, an investor residing outside Brazil must:

- appoint a representative in Brazil with powers to take actions relating to the investment;
- appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and CVM;
- appoint a tax representative in Brazil;
- through its representative, register itself as a foreign investor with the CVM and the investment with the Central Bank; and
- through its representative, register itself with the Brazilian Internal Revenue (Receita Federal) pursuant to the Regulatory Instructions No. 461 and 568.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by foreign investors is generally restricted to transactions involving securities listed on the Brazilian stock exchanges or traded in organized over-the-counter markets licensed by the CVM.

Foreign direct investors under Law No. 4,131/62 may sell their shares in both private or open market transactions, but these investors will generally be subject to less favorable tax treatment on gains as compared to foreign portfolio investors.

A foreign direct investor under Law No. 4,131/62 must:

- register as a foreign direct investor with the Central Bank;

- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint a tax representative in Brazil; and

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- appoint a representative in Brazil for service of process in respect of suits based on Brazilian corporate law.

Resolutions No. 1,927/92 and 3,485/10 of the National Monetary Council, which restated and amended Annex V to Resolution No. 1,289/87 of the National Monetary Council, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Our ADSs program was approved by the CVM on March 8, 2007.

If a holder of ADSs decides to exchange ADSs for the underlying common shares, the holder may (1) sell the common shares on the BM&FBOVESPA and rely on the depositary's electronic registration for five business days from the date of exchange to obtain and remit U.S. dollars abroad upon the holder's sale of our common shares; (2) convert its investment into a foreign portfolio investment under Resolution No. 2,689/00, subject to simultaneous foreign exchange transactions; or (3) convert its investment into a foreign direct investment under Law No. 4,131/62, subject to simultaneous foreign exchange transactions.

If a holder of ADSs wishes to convert its investment into either a foreign portfolio investment under Resolution No. 2,689/00 or a foreign direct investment under Law No. 4,131/62, it should first comply with such regulations, obtaining his own foreign investor registration with the Central Bank or with the CVM as the case may be, in advance of exchanging the ADSs for common shares.

The aforementioned conversions are subject to simultaneous foreign exchange transactions, without actual remittance of funds, for purposes of payments of the applicable taxes. Please refer to "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations"

The custodian is authorized to update the depositary's electronic registration to reflect conversions of ADSs into foreign portfolio investments under Resolution No. 2,689/00. If a foreign direct investor under Law No. 4,131/62 wishes to deposit its shares into the ADR program in exchange for ADSs, such holder will be required to present to the custodian evidence of payment of capital gains taxes. The conversion will be effected after obtaining Central Bank's authorization. Please refer to "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations" for a description of the tax consequences to an investor residing outside Brazil of investing in our common shares in Brazil.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Bylaws

Registration

We are currently a publicly-held company incorporated under the laws of Brazil, registered with the Board of Trade of the State of São Paulo (JUCESP) under NIRE 35300147952 and with the CVM under No. 01610-1, and enrolled with the Brazilian Taxpayer's Authorities under CNPJ/MF No. 01,545,826/0001-07.

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Corporate Purposes

Article 3 of our bylaws provides that our corporate purpose is to: (1) promote and develop any type of real estate project, whether our own or that of a third party, in the latter case as a contractor and agent; (2) purchase and sell any type of real estate; (3) perform civil construction and provide civil engineering services; and (4) develop and implement marketing strategies for any type of real estate project, whether our own or that of a third party.

Issued Share Capital

As of the date of this annual report, our share capital was R$2,734.2 million, all of which was fully subscribed and paid-in. Our share capital is comprised of 432,872,285 registered, book-entry common shares, without par value. Under our bylaws, our board of directors may increase our share capital to the limit of our authorized capital by issuing up to 600 million common shares without the need of specific shareholder approval. Our shareholders must approve any capital increase above that amount at a shareholders' general meeting. Pursuant to the agreement entered into with the BM&FBOVESPA for the listing of our shares on the Novo Mercado, we are not permitted to issue preferred shares.

Novo Mercado

Our shares were accepted for trading on the Novo Mercado on February 17, 2006. In order to delist our shares from the Novo Mercado and since we currently do not have a controlling shareholder, the general shareholders' meeting that decides upon the delisting shall appoint among those presents the person that, upon its express acceptance, must conduct a tender offer for the purchase of the shares of our capital stock outstanding in the market. See "—Delisting from the Novo Mercado." In the Novo Mercado, listed companies are required to, among others, (1) only issue common shares, (2) maintain a minimum free float equal to at least 25% of the company's capital, (3) detail and include additional information in the quarterly information and (4) make available the annual financial statements in English and based on international accounting standards.

The rules imposed by the Novo Mercado aim at providing transparency in relation to the activities and economic situation of the companies to the market, as well as more power to the minority shareholders in the management of the companies, among other rights. The main rules relating to the Novo Mercado, to which the company is subject, are summarized below.

According to CMN Resolution No. 3,792 of September 24, 2009, which governs the closed complementary social security entities' investment policy (Entidades Fechadas de Previdência Complementar — EFPC), such pension funds may invest up to 70% of its variable income investment portfolio (in which are included corporate stakes) in publicly held companies listed in the Novo Mercado, which may, therefore, improve the development of this corporate governance segment, benefiting the companies listed therein, taking into account the immense financial equity held by such pension funds in Brazil.

Authorization for Trading in the Novo Mercado

Firstly, the company that is authorized to list its securities on the Novo Mercado of BM&FBOVESPA shall keep its listed company register with the CVM updated, which allows the trading of the company's common shares at the stock market. The Listing Rules of the Novo Mercado were recently revised and the new rules are in full force and effect since May 10, 2011. We have already adapted our bylaws to the new rules of the Novo Mercado within the scope of the amendment of our bylaws, as approved by the shareholders' general meeting held on June 9, 2011.

According to the Listing Rules of the Novo Mercado, the company willing to negotiate its securities on the Novo Mercado shall, among other conditions: (1) along with its controlling shareholder (if any), execute a Listing Agreement in the Novo Mercado, (2) adapt its bylaws to comply with the minimum requirements determined in the Listing Rules of the Novo Mercado and (3) file the Management Compliance Statements and the Fiscal Council Compliance Statements (if applicable) with BM&FBOVESPA, duly executed by all managers and members of the fiscal council, respectively. The capital of the company shall be exclusively divided into common shares and a

minimum free float equal to 25% of the capital stock shall be maintained by the company. The existence of founders' shares by the companies listed on the Novo Mercado is prohibited.

In addition to the previous requirements, the company's bylaws may not (1) establish any provision which restricts the number of votes of any shareholder or group of shareholders (as defined in the Listing Rules of the Novo Mercado) to a percentage inferior to 5% of the company's corporate capital, (2) determine qualified quorums for matters submitted for the approval of the shareholders' general meetings, except as provided by law, nor (3) restrict or establish any encumbrance to shareholders who vote favorably to the suppression or amendment of any provision of the company's bylaws.

Board of Directors

The board of directors of companies authorized to have their shares traded on the Novo Mercado shall be comprised of at least five members, of which at least 20% shall be independent, as defined in the Listing Rules of the Novo Mercado. The members of the board of directors shall be elected by a shareholders' general meeting for a maximum two-year term of office, and are eligible for reelection. All new members of the board of directors and of the board of officers shall sign a Management Compliance Statement which shall be filed with BM&FBOVESPA within 15 days of the date such members take office. Through such Compliance Statement, the company's directors and officers are personally responsible for complying with the Listing Agreement in the Novo Mercado, the Rules of the Market Arbitration Chamber, the Listing Rules of the Novo Mercado and any other rule issued by BM&FBOVESPA regarding the Novo Mercado.

The positions of chairman of the board of directors and of chief executive officer may not be cumulated by the same person, except in the event of (1) a transition period (limited to 3 years as of the date the company was authorized to negotiate on the Novo Mercado, except if BM&FBOVESPA authorizes otherwise); or (2) vacancy, for a maximum period of 180 days.

Directors shall inform the company of any other board of directors, executive committee, fiscal council or any other office occupied by them in other companies or entities, which information will be sent by the company to BM&FBOVESPA pursuant to the terms established in the Listing Rules of the Novo Mercado.

The board of directors shall always disclose to the market an opinion regarding any tender offer of the company's shares, informing, among others, their position on the convenience and consequences of such offer in respect to the interests (a) of the shareholders and regarding the liquidity of such securities held by the shareholders and (b) of the company, stating their reasons for being favorable or against the offer.

Other Novo Mercado Characteristics

Novo Mercado rules cover other areas designed to foster high levels of corporate governance and market transparency. Companies are required to keep the minimum stock percentage floating in the market in order to foster dispersion of share ownership. In addition, companies are obliged to assign tag-along rights to their shareholders in order to ensure equal treatment if a controlling shareholder sells its controlling stake.

The Novo Mercado rules require companies to provide quarterly information on the number of shares held by the controlling shareholder, if any, in addition to other information required by the Listing Rules of the Novo Mercado. We provide such required information on a quarterly basis and voluntarily on a monthly basis. Companies are also required to give more disclosure regarding related party transactions in which a company may be involved. The Listing Rules of the Novo Mercado also require companies to prepare and disclose to BM&FBOVESPA and to the market a Securities Negotiation Policy applicable to the company, its controlling shareholders, directors, officers,

members of the fiscal council and members of other committees, as well as a Code of Conduct establishing the company's principles and values regarding its relationship with its management, employees, service providers and any person or entity with which the company maintains any relation.

Finally, controlling shareholders, other shareholders, directors, officers and members of a company's fiscal council are required to submit to arbitration any disputes or conflicts related to or arising from the Listing Rules of

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the Novo Mercado, the Listing Agreement in the Novo Mercado, the Penalties Regulation and the Arbitration Clause, specifically with regard to their application, validity, effectiveness and interpretation. The arbitrations shall take place before the Market Arbitration Chamber established by the BM&FBOVESPA and shall be conducted in accordance with the Rules of the Market Arbitration Chamber.

Company Management

We are managed by a board of directors (Conselho de Administração) and a board of officers (Diretoria). See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

The members of the board of directors and of the board of officers must be individuals, provided that the latter must also be Brazilian residents.

Conflict of Interests

According to the Brazilian corporate law a director or an officer shall not take part in any corporate transaction in which he/she has an interest which conflicts with the interest of the company. In this case, he/she shall disclose his/her disqualification to the other directors or officers and shall cause the nature and extent of his/her interest to be recorded in the minutes of the board of directors or board of officers' meeting, as the case may be.

With due compliance with the rules above relating to conflict of interests, a director or an officer may only contract with the company under reasonable and fair conditions, identical to those which prevail in the market or under which the corporation would contract with third parties. Any business contracted otherwise is voidable and the director or the officer concerned shall be obliged to transfer to the corporation all benefits which he/she may have obtained in such business.

According to Brazilian corporate law, a director or officer may not:

- perform any act of generosity to the detriment of the company;
- without prior approval of the shareholders' general meeting or the board of directors, borrow money or property from the company or use its property, services or take advantage of its standing for his/her own benefit, for the benefit of a company in which he/she has an interest or for the benefit of a third party; and
- by virtue of his or her position, receive any type of direct or indirect personal advantage from third parties, without authorization in the bylaws or from a shareholders' general meeting.

According to our bylaws, any business or agreement between the company and any director or officer must be previously approved by the board of directors, except if specified in our annual budget or business plan.

Rules for Retirement

There is no retirement age relating to directors or officers pursuant to the Brazilian law and our bylaws.

Policy for the Trading of Our Securities

On July 11, 2011, our board of directors approved the amendment of our Conduct Manual on Information Disclosure and Use and Securities Trading Policy passed on July 15, 2009, which establishes the following procedures regarding the policy for the trading of our securities:

- the company and all of our directors, executive officers, employees, members of the other bodies with technical or consultant duties, our possible controlling shareholders, and whoever by virtue of his/her position, job, or post at our company or our subsidiaries and affiliates, and who have signed the compliance statement and became aware of information of a material transaction or event involving our company, are restricted from trading in our securities until such material transaction or event is disclosed to the market as a material fact, except as regards treasury stock transactions, through private trading, the exercise of

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options to purchase shares of our capital stock, with stock option plan approved by the shareholders, or a possible buyback, also through private trading, carried out by us, provided that such buyback program. This restriction is extended to periods prior to the announcement of such information or annual or interim financial statements or prior to disclosure of a material fact in accordance with applicable law;

- trading of our securities or transactions related to our securities carried out by the aforementioned persons pursuant to an Individual Investment Program, consisting of long-term investments, as defined in the Trading Policy, is not subject to the aforementioned restrictions; provided that the Individual Investment Program is filed with the investors relations officer at least 30 days in advance;

- the restrictions of the Trading Policy also apply to our former directors and executive officers who resigned prior to the public disclosure of a transaction or fact that began during their administration (a) for the six month period following the end of their duties with the company, or (b) until the disclosure of the material event or the related financial statements, whichever occurs first; and

- the abovementioned restrictions also apply to indirect trading carried out by such persons, except those conducted by investment funds, provided that the investment funds are not exclusive and the transaction decisions taken by the investment fund officers cannot be influenced by its unit holders.

Rights of Common Shares

Each of our common shares entitles its holder to one vote at an annual or special shareholders' general meeting. A holder of ADSs has the right under the deposit agreement to instruct the depositary to exercise the voting rights for the common shares represented by his/hers ADSs. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs." Pursuant to our bylaws, Brazilian corporate law and the Novo Mercado rules, owners of common shares are entitled to dividends, or other distributions made in respect of common shares, in proportion to their ownership of outstanding shares. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy" and "Item 9. The Offer and Listing—C. Markets— Investment in Our Common Shares by Non-Residents of Brazil" for a more complete description of payment of dividends and other distributions on our common shares. In addition, upon our liquidation, holders of our shares are entitled to share all our remaining assets, after payment of all our liabilities, ratably in accordance with their respective participation in the total amount of our issued and outstanding shares. Holders of our common shares are entitled to participate on a pro rata basis in future capital calls by our company except in some specific circumstances under Brazilian law, as described in "—Preemptive Rights." Our common shares have tag along rights, which enable their holders to, upon the sale of a controlling interest in us, receive 100% of the price paid per common share of the controlling block by a single or series of transaction.

Options

According to our bylaws, we may, within our authorized share capital and upon resolution of the shareholders' general meeting, grant stock options to (1) our directors, executive officers and employees, or (2) individuals who provide services to us or to companies we control.

Appraisal Rights

Shareholders who are absent, dissent or abstain from voting on certain actions taken during a shareholders' general meeting have the right under Brazilian corporate law to withdraw from our company and to receive the value of their shares.

According to Brazilian corporate law, shareholder appraisal rights may be exercised in the following circumstances, among others:

- a reduction in the percentage of our mandatory dividends;
- a change in our corporate purpose;

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- an acquisition, by our company, of a controlling stake in another company if the acquisition price is outside of the limits established by Brazilian corporate law;
- a merger of shares involving our company, a merger of our company into another company, if we are not the surviving entity, or our consolidation with another company; or
- an approval of our participation in a group of companies (as defined in Brazilian corporate law).

Brazilian corporate law further provides that any resolution regarding a spin-off will also entitle shareholders to withdraw if the spin-off:

- causes a change in our corporate purpose, except if the equity is spun-off to a company whose primary activities are consistent with our corporate purposes;
- reduces our mandatory dividends; or
- causes us to join a group of companies (as defined in Brazilian corporate law).

In cases where (1) our company merges with another company where we are not the surviving company, or (2) we are consolidated with another company, or (3) we participate in a group of companies (as defined in Brazilian corporate law), our shareholders will not be entitled to withdraw from our company if their respective shares are (a) liquid, i.e. part of the BM&FBOVESPA index or other stock exchange index in Brazil or abroad, (as defined by the CVM), and (b) widely held, such that less than 50% of our shares are held by a controlling shareholder or by companies a controlling shareholder controls. We are currently part of the IBM&FBOVESPA (the BM&FBOVESPA index) and have no controlling shareholder. Therefore, our shares are, at present, considered liquid and widely held for the purposes of this paragraph.

The right to withdraw expires 30 days after publication of the minutes of the relevant shareholders' general meeting. We are entitled to reconsider any action giving rise to withdrawal rights for 10 days after the expiration of the 30-day period if the redemption of shares of absent, dissenting or non-voting shareholders would jeopardize our financial stability. If shareholders exercise withdrawal rights, they are entitled to receive the economic value of the company's shares, as determined by a valuation report issued by a specialized firm. If the resolution giving rise to the appraisal rights is made later than 60 days after the date of the last approved balance sheet, the shareholder may demand that his or her shares be valued according to a new balance sheet dated no less than 60 days before the resolution date. In this case, we must immediately pay 80% of the equity value of the shares according to the most recent balance sheet approved by our shareholders, and the remaining balance must be paid within 120 days after the date of the resolution of the shareholders' general meeting.

Redemption of Shares

According to Brazilian corporate law, we may redeem our shares by a decision taken in a special shareholders' general meeting by shareholders representing at least 50% of our share capital. The share redemption may be paid with our profit, profit reserves or capital reserves. If the share redemption is not applicable to all shares, the redemption will be made by lottery. If custody shares are picked in the lottery and there are no rules established in the custody agreement, the financial institution will specify on a pro rata basis, the shares to be redeemed.

Registration of Shares

Our shares are held in book-entry form with Itaú Unibanco Corretora S.A., which will act as the custodian agent for our shares. Transfer of our shares will be carried out by means of book entry by Itaú Unibanco S.A., debiting the share account of the seller and crediting the share account of the buyer, with the presentation of a written order of the transferor or a judicial authorization or order to effect such transfers.

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Preemptive Rights

Except as provided below, our shareholders have a general preemptive right to participate in any issuance of new shares, convertible debentures and warrants, in proportion to their respective shareholding at such time, but the conversion of debentures and subscription warrants into shares, the granting of options to purchase shares and the issuance of shares as a result of its exercise, are not subject to preemptive rights. In addition, Brazilian corporate law allows for companies' bylaws to give the board of directors the power to exclude preemptive rights or reduce the exercise period of such rights with respect to the issuance of new shares, debentures convertible into shares and subscription warrants up to the limit of the authorized share capital if the distribution of those shares, debentures or subscription warrants is effected through a sale on a stock exchange, through a public offering or through an exchange of shares in a tender offer the purpose of which is to acquire control of another company. Shareholders are allowed to exercise the preemptive rights for a period of at least 30 days following the publication of notice of the issuance of shares, convertible debentures and warrants, and the right may be transferred or disposed of for consideration.

Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares underlying the ADSs. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs—Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares underlying the ADSs."

Shareholders' General Meetings

Under Brazilian corporate law, at our shareholders' meetings, shareholders are empowered to take any action relating to our corporate purpose and to pass any such resolutions as they deem necessary. The approval of our financial statements and the determination of the allocation of our net profits with respect to each fiscal year take place at our annual general shareholders' meeting immediately following such fiscal year. The election of our directors and, if requested by shareholders, of members of our fiscal council typically takes place at the annual general shareholders' meeting, although under Brazilian law it may also occur at a special shareholders' general meeting.

A special shareholders' general meeting may be held concurrently with the annual general shareholders' meeting. Pursuant to our bylaws and Brazilian corporate law, the following actions, among others, may only be taken at a general shareholders' meeting:

- amendment of our bylaws, including amendment of our corporate purpose;
- election and dismissal, at any time, of our directors and members of our fiscal council;
- determination of the aggregate compensation of our board of directors and board of officers, as well as the fiscal council's compensation;
- approval of stock splits and reverse stock splits;
- approval of a stock option plan;
- approval of the company's financial statements;
- resolution upon the destination of our net profits and distribution of dividends;
- election of the fiscal council to function in the event of our dissolution;
- cancellation of our registration with the CVM as a publicly-held company;

- suspension of the rights of a shareholder who has violated Brazilian corporate law or our bylaws;

- acceptance or rejection of the valuation of in-kind contributions offered by a shareholder in consideration for shares of our capital stock;
- approval of our transformation into a limited liability company or any other corporate form;
- delisting of our common shares from the Novo Mercado;
- appointment of a financial institution responsible for our valuation, in the event of a mandatory tender offer, specifically in the event that a tender offer for our common shares is carried out in connection with the delisting of our common shares from the Novo Mercado or cancellation of our registration as a publicly-held company;
- reduction in the percentage of mandatory dividends;
- participation in a group of companies (as defined in Brazilian corporate law);
- approval of any merger, consolidation with another company or spin-off;
- approval of our dissolution or liquidation, the appointment and dismissal of the respective liquidator and the official review of the reports prepared by him or her; and
- authorization to petition for bankruptcy or request for judicial or extrajudicial restructuring.

According to Brazilian corporate law, neither a company's bylaws nor actions taken at a shareholders' meeting may deprive a shareholder of specific rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;
- preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under Brazilian law described in "—Preemptive Rights";
- the right to inspect and monitor the management of the company's business in accordance with Brazilian corporate law; and
- the right to withdraw from the company in the cases specified in Brazilian corporate law, described in "—Appraisal Rights."

Quorum for our Shareholders' General Meetings

As a general rule, Brazilian corporate law provides that a quorum at a shareholders' general meeting consists of shareholders representing at least 25% of a company's issued and outstanding voting capital on the first call and, if that quorum is not reached, any percentage on the second call. A quorum for the purposes of amending our bylaws consists of shareholders representing at least two-thirds of our issued and outstanding voting capital on the first call and any percentage on the second call.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders' general meeting is required to ratify any

proposed action, with abstentions not taken into account. However, the affirmative vote of shareholders representing one-half of our issued and outstanding voting capital is required to:

- reduce the percentage of mandatory dividends;
- change our corporate purpose;

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- merge or consolidate our company with another company;
- spin-off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in Brazilian corporate law);
- apply for cancellation of any voluntary liquidation;
- approve our dissolution; and
- approve the merger of all our shares into another company.

A quorum smaller than one-half of our issued and outstanding voting capital may be authorized by the CVM for a publicly-held company with widely-traded and widespread shares that has had less than half of the holders of its voting shares in attendance at its last three shareholders' meetings. In such case, resolutions may only be taken on a third call.

According to our bylaws and for so long as we are listed on the Novo Mercado, we may not issue preferred shares or founders' shares and we will have to conduct a tender offer in order to delist ourselves from the Novo Mercado.

Notice of our Shareholders' General Meetings

According to Brazilian corporate law, notice of our shareholders' general meetings must be published at least three times in the Diário Oficial do Estado de São Paulo, the official newspaper of the State of São Paulo, and in another widely circulated newspaper in the same State, previously chosen at an annual shareholders meeting, which, in our case is O Estado de São Paulo. The first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call. However, in certain circumstances, upon the request of any shareholder, the CVM may require that the first notice be published 30 days in advance of the meeting if the meeting relates to complex transactions and, accordingly, shareholders need more time to be familiarized with and analyze such transactions. In addition, the CVM may suspend for up to 15 days the required prior notice of the special shareholders' general meeting so that it may further analyze the proposal to be voted upon at such meeting. Such call notice in all circumstances shall contain the agenda for the meeting and a list of the documents that will be required from our shareholders to be admitted at the meetings. CVM Regulation No. 481 of December 17, 2009 also requires that additional information be disclosed in the call notice for certain matters. For example, in the event of an election of directors, the call notice shall also disclose the minimum percentage of equity participation required from a shareholder to request the adoption of cumulative voting procedures. All documents pertaining to the matters to be discussed at the shareholders' general meeting shall be made available to the shareholders upon publication of the first call notice, except if the law or CVM regulations provide otherwise.

Location of our Shareholders' General Meetings

Our shareholders' meetings shall take place at our head offices at Av. Nações Unidas No. 8,501, 19th floor, 05425-070 – São Paulo, SP – Brazil. Brazilian corporate law allows our shareholders to hold meetings outside our head offices in the event of force majeure, provided that the relevant notice contains a clear indication of the place where the meeting will occur, which, in any case, shall never be held outside the city where the company's headquarters are located.

Who May Call our Shareholders' General Meetings

According to Brazilian corporate law, our board of directors may call a shareholders' general meeting. Shareholders' general meetings may also be called by:

- any shareholder, if our directors fail to call a shareholders' general meeting within 60 days after the date they were required to do so under applicable laws and our bylaws;

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- shareholders holding at least 5% of our share capital if our directors fail to call a meeting within eight days after receipt of a request to call the meeting by those shareholders, and such request must indicate the proposed agenda;
- shareholders holding at least 5% of voting share capital or 5% of non-voting share capital if our directors fail to call a meeting within eight days after receipt of a request to call the meeting to convene a fiscal council; and
- our fiscal council (if installed), in the event our board of directors delays calling an annual shareholders' meeting for more than one month. The fiscal council may also call a special general shareholders' meeting at any time if it believes that there are significant or urgent matters to be addressed.

There is an obligation of the chairman of our board of directors to call a shareholders' general meeting if: (1) we are not under control of a shareholder holding more than 50% of our voting capital, and (2) BM&FBOVESPA determines that the price of our shares shall be quoted separately or that the trading of our shares on the Novo Mercado shall be suspended by reason of non-compliance with the listing rules of Novo Mercado. At such a meeting all members of our board of directors must be replaced. In the event the shareholders' general meeting is not called by the chairman of the board of directors within the time period established in our bylaws, the meeting may be called by any shareholder of the company.

Conditions for Admission at our Shareholders' General Meetings

A shareholder may be represented at a shareholders' general meeting by a proxy, as long as the proxy is appointed less than a year before such shareholders' general meeting. The proxy must be either a shareholder, an executive officer or a director of our company, a lawyer or a financial institution. An investment fund must be represented by its investment fund officer.

Shareholders attending a shareholders' general meeting must deliver proof of their status as shareholders and proof that they hold the shares they intend to vote by delivery of proper identification and a receipt issued by the custodian agent of our shares.

Arbitration

Any disputes or controversies involving our company, our shareholders, members of our management or our fiscal council relating to or arising from the Listing Agreement on the Novo Mercado, Listing Rules, our bylaws, Brazilian corporate law, the rules published by the CMN, the Central Bank, the CVM, any shareholders' agreement filed at our headquarters, and other rules applicable to the Brazilian capital markets in general, must be submitted to arbitration conducted in accordance with the Rules of the Market Arbitration Chamber established by the BM&FBOVESPA. For arbitration procedures started prior to October 25, 2011, the parties are able to consensually agree to use another arbitration chamber or center to resolve their disputes under ad hoc arbitration procedures.

Going Private Process

We may become a private company by the decision of our shareholders only if we conduct a public tender offer to acquire all of our outstanding shares in accordance with the rules and regulations of Brazilian corporate law, the CVM and the Novo Mercado regulations which requires:

- a fair bid price at least equal to the value estimated of the company; and
- shareholders holding more than two thirds of the outstanding shares have specifically approved the process or accepted the offer.

The minimum price offered for the shares in the public tender offer will correspond to the economic value of such shares, as determined by a valuation report issued by a specialized firm, and we may only purchase shares from shareholders that have voted in favor of us becoming a private company after purchasing all shares from the other shareholders that did not vote in favor of such deliberation and that have accepted the public tender offer.

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The valuation report must be prepared by a specialized and independent firm of recognized experience chosen by the shareholders representing the majority of the outstanding shares present at the relevant shareholders' meeting (excluding, for such purposes, treasury shares, shares held by our affiliates and by other companies that are a part of our economic group, as well as blank votes) from a list of three institutions presented by our board of directors. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid for by the person making the tender offer.

Shareholders holding at least 10% of our outstanding shares may require our management to call a special shareholders' general meeting to determine whether to perform another valuation using the same or a different valuation method. This request must be made within 15 days following the disclosure of the price to be paid for the shares in the public offering. The shareholders who make such request as well as those who vote in its favor must reimburse us for any costs involved in preparing the new valuation, if the new valuation price is not higher than the original valuation price. If the new valuation price is higher than the original valuation price, the public offering must be made at the higher price.

Delisting from the Novo Mercado

We may, at any time, delist our common shares from the Novo Mercado, provided that shareholders approve the decision and that the BM&FBOVESPA is notified in writing at least 30 days in advance. Delisting of shares from the Novo Mercado does not require delisting from the BM&FBOVESPA.

If our common shares are delisted from the Novo Mercado, our controlling shareholders, if any, will be required to conduct a tender offer for the acquisition of our outstanding common shares. In case there are no controlling shareholders, the shareholders' general meeting deciding on the delisting must also appoint who will be responsible for the mandatory tender offer. The minimum price offered for the shares in the public tender offer will correspond to the economic value of the shares, as determined by a valuation report issued by a specialized firm chosen by the shareholders representing a majority of the outstanding shares (excluding, for such purposes, shares held by the controlling shareholders, if any, and their affiliates, treasury shares, shares held by our affiliates, and blank votes) from a list of three institutions presented by our board of directors. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid for by the controlling shareholder, if any, or by us.

If our delisting from the Novo Mercado occurs due to the cancellation of our registration as a publicly held company, all the other requirements established by such delisting shall be followed. See "—Going Private Process."

In the event that we delist due to a corporate reorganization where the surviving company is not admitted for listing on the Novo Mercado within one hundred and twenty days as of the date of the shareholders' general meeting that resolved on the corporate reorganization, the then-controlling shareholders will need to carry out a public tender offer for the acquisition of the shares held by the other shareholders, and the minimum price offered per share shall be the economic value of the shares. In case the company does not have controlling shareholders, the shareholders' general meeting that decided on the delisting must also determine who will be responsible for the mandatory tender offer, and in case the shareholders' general meeting fails to do so, the shareholders who approved the corporate reorganization will be responsible for the tender offer. The notice of public tender offer shall be given to the BM&FBOVESPA and released to the market immediately after the shareholders' general meeting that has approved the corporate reorganization.

If our share control is sold within twelve months of our delisting from the Novo Mercado, the selling controlling shareholder and the acquirer shall offer to acquire the shares of all other shareholders under the same conditions offered to the selling controlling shareholder.

Sale of a Controlling Stake in our Company

Under the Listing Rules of the Novo Mercado, the sale of a controlling interest in our company, either through a single transaction or through successive transactions, takes place under a suspension or resolution condition, where the acquirer agrees to, within the time and pursuant to the conditions specified under Brazilian corporate law and the

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Listing Rules of the Novo Mercado, make a tender offer of the remaining shares of the other shareholders under the same terms and conditions granted to the selling controlling shareholder.

A tender offer is also required under the following conditions:

- when rights are assigned for a subscription of shares and other securities or rights related to securities convertible into shares that results in the sale of the company's controlling stake;
- when, if the controlling shareholder is an entity, the control of such controlling entity is transferred; and
- when a controlling stake is acquired through an agreement for the purchase of shares. In this case, the acquirer is obligated to make a tender offer under the same terms and conditions granted to the selling shareholders and reimburse the shareholders from whom he/she had purchased the shares traded on stock exchanges within the six months before the sale date of the company's share control. The reimbursement value is the difference between the price paid to the selling controlling shareholder and the amount traded on stock exchanges per share, during this period, adjusted by the inflation in the period. Such amount shall be distributed among all persons who sold shares issued by the company in the stock market trading session in which the acquirer made its acquisitions, proportionally to the daily net selling balance of each acquisition, being BM&FBOVESPA responsible for processing such distribution according to its regulations.

The buyer, when necessary, must take the necessary measures to recompose the minimum 25% of outstanding shares in the market within the subsequent six months.

Mandatory Tender Offer in Case of Acquisition of a 30% Stake

Under the rules of our bylaws, if any person acquires our shares, or any securities or rights related to such shares, in an amount representing 30% or more of our corporate capital, such acquirer has to carry out a mandatory tender offer for the acquisition of all shares issued by the Company. The minimum price offered for the shares in the public tender offer will correspond to the economic value of such shares, as determined by a valuation report issued by a specialized firm.

The valuation report must be prepared by a specialized and independent firm of recognized experience chosen by the shareholders representing the majority of the outstanding shares present at the relevant shareholders' meeting (excluding, for such purposes, shares held by the controlling shareholder, if any, by the members of the board of directors and officers appointed, directly or indirectly, by the controlling shareholder, if any, treasury shares, as well as abstentions) from a list of three institutions presented by our board of directors. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid for by the person making the tender offer.

Shareholders holding at least 10% of our outstanding shares may require our management to call a special shareholders' general meeting to determine whether to perform another valuation using the same or a different valuation method. This request must be made within 15 days following the disclosure of the price to be paid for the shares in the public offering. The shareholders who make such request as well as those who vote in its favor must reimburse us for any costs involved in preparing the new valuation, if the new valuation price is not higher than the original valuation price. If the new valuation price is higher than the original valuation price, the acquirer may either increase the offer price or withdraw the tender offer, in the latter case provided that it shall dispose of the shares in excess of 30% of our corporate capital within 3 months counted from the special general meeting mentioned in this paragraph.

A tender offer as a result of an acquisition of a 30% equity stake is not mandatory in any of the following cases: (1) if we have a controlling shareholder with more than 50% of our shares; (2) if a 30% equity stake is obtained as a result of purchases made under another public tender offer for the acquisition of our shares by their economic value, made in accordance with the Novo Mercado Listing Rules or with the applicable law; provided that the offer was made for all shares of the company and at least the minimum price has been paid; (3) if a 30% equity stake is

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obtained involuntarily as a result of a corporate reorganizations, cancellation of shares in treasury, share redemption, capital reduction, or of a subscription of shares made under a primary public offer for distribution of our shares where the preemptive rights were not exercised by all shareholders who had it or which did not have as subscribers as expected; or (4) in the case of a sale of a controlling stake, which is subject to the rules described above for such case.

Purchases by us of our own Shares

Our bylaws entitle our board of directors to approve the acquisition of our own shares. The decision to acquire our shares for purposes of maintaining the acquired shares in treasury or of cancelling them may not, among other things:

- result in the reduction of our share capital;
- require the use of resources greater than our profit reserves and other available reserves, as provided in our financial statements;
- create, as a result of any action or inaction, directly or indirectly, any artificial demand, supply or condition relating to share price;
- involve any unfair practice;
- be used for the acquisition of unpaid shares or shares held by our controlling shareholders; or
- when a public offer for acquisition of the shares of the company is being made.

We may not keep in treasury more than 10% of our outstanding common shares, including the shares held by our subsidiaries and affiliates.

Any acquisition by us of our own shares must be made on a stock exchange and cannot be made in a private transaction, except if previously approved by the CVM. Moreover, we may acquire or issue put or call options related to our shares upon prior approval of the quotaholders.

Disclosure Requirements

We are subject to the reporting requirements established by Brazilian corporate law and the CVM. Furthermore, because we are listed with the Novo Mercado, we must also follow the disclosure requirements provided for in the Listing Rules of the Novo Mercado.

Disclosure of Information

The Brazilian securities regulations require that a publicly-held corporation provide the CVM and the relevant stock exchanges with periodic information that includes annual information statements, quarterly financial statements, quarterly management reports, independent auditor reports, notices and minutes of shareholders' meetings, among others. In addition, we also must disclose any material development related to our business to the CVM and the BM&FBOVESPA.

We observe the Novo Mercado disclosure standards and are required to, among other things:

- present the company's financial statements, standard financial statements form (DFP), quarterly information form (ITR) and Reference Form (Formulário de Referência);

- include a note in the quarterly information form (ITR) regarding all operations with related parties;
- disclose and maintain updated the information presented in the Reference Form regarding any shareholder holding, directly or indirectly, at least 5% of the company's capital stock, considering the information received by company from the relevant shareholders;

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- disclose, monthly, the individual and consolidated amount and characteristics of our securities held directly or indirectly by controlling shareholders (if this is the case); and

- disclose, monthly, the individual and consolidated changes in the amount of securities held by controlling shareholders (if this is the case), as well as their respective spouses or dependents, as per their income tax statements, as the case may be.

Disclosure of Trading by Insiders

Pursuant to the rules of the Novo Mercado, each of our possible controlling shareholders must disclose to the BM&FBOVESPA information in connection with the total amount and characteristics of securities owned, directly or indirectly, by them and issued by us, or any derivatives referenced in such securities, as well as any subsequent trading of such securities and derivatives. In the case of individuals, such information shall also include securities held by the spouse, companion or dependents of such persons, included in the annual income tax statement of such controlling shareholder. This information must be communicated to the BM&FBOVESPA within 10 days following the end of each month.

CVM regulations require our directors, executive officers, members of the fiscal council, and members of any other technical or advisory body to disclose to us, to the CVM and to the BM&FBOVESPA, the total amount, the characteristics and form of acquisition of securities issued by us, listed companies under our control or the control of our listed controlling shareholders, including derivatives referenced in such securities that are held by each of them, as well as any change in such investments within 10 days after the end of the month when the securities were traded. In the case of individuals, such information shall also include securities held by the spouse, companion or dependents of such persons, included in the annual income tax statement and companies controlled directly or indirectly by such person.

In addition, our controlling shareholders, our shareholders who have caused the election of members of our board of directors or fiscal council, as well as any individual, legal entity or group of persons acting jointly whose direct or indirect participation reaches 5% or more of our shares, must provide to us, and we shall transmit such information to the CVM and the BM&FBOVESPA the following information:

- the name and qualification of the person providing the information;

- reason and purpose for the acquisition; and

- reason and purpose for the acquisition and amount of securities to be acquired, including, as the case may be, a representation of the acquirer stating that the acquisition does not aim at modifying the management or the controlling structure of the company;

- amount of shares, subscription bonuses, as well as other share subscription rights and call options, by type and/or class, already owned, directly or indirectly, by the acquirer or any person related with the acquirer;

- amount of debentures convertible in shares, already owned, directly or indirectly, by the acquirer or person related to the acquirer, displaying the amount of shares object of the possible conversion by type and class; and information on any agreement regarding the exercise of voting rights or the purchase and sale of our securities.

The disclosure requirement referred to above will also apply to any person or group acting jointly, holding participation equal to or in excess of 5%, each time such person increases or decreases its participation in our shares by an amount equal to 5% of our shares.

Disclosure of Material Developments

According to Law No. 6,385 of December 7, 1976, and subsequent amendments, and CVM Instruction No. 358 of January 3, 2002, and subsequent amendments, we must disclose any material development related to our business to the CVM and to the BM&FBOVESPA and must publish a notice of the material development. A development is

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deemed to be material if it has a material impact on the price of our securities, on the decision of investors to trade in our securities or on the decision of investors to exercise any rights as holders of any of our securities.

Under special circumstances, we may request confidential treatment of certain material developments from the CVM, when our management believes that public disclosure could result in adverse consequences to us.

C. Material Contracts

On December 30, 2009, the shareholders of Gafisa and Tenda approved a corporate restructuring to consolidate Gafisa's noncontrolling 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 May 27, 2010, the shareholders of Gafisa approved the acquisition of 20% of Alphaville's shares, by means of a merger of the totality of shares issued by Shertis Empreendimentos e Participações S.A. or "Shertis", which main asset are shares representing 20% of Alphaville's shares, in the total amount of R$126.5 million. As a consequence of such merger, Gafisa issued 9,797,792 common shares, paid to the former shareholders of Shertis. In addition, by the second semester of 2012, we will acquire the remaining 20% of Alphaville's shares through the issuance of an estimated 70,251,551 common shares. The numbers of shares that will be issued to settle this transaction is under negotiation.

D. Exchange Controls

There are no restrictions on ownership of our common shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to requirements under foreign investment legislation which generally establish that the relevant investment be registered with the Central Bank and the CVM. Subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of reais by a person or legal entity resident, domiciled or headquartered in Brazil, as the case may be, is allowed, without limitation as to amount, provided that the underlying transaction is legal, legitimate and has economic substance, as evidenced by the applicable supporting documentation submitted to the financial institution in charge of the foreign exchange transaction. In addition, foreign currencies may only be purchased through duly authorized financial institutions headquartered in Brazil. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil—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" and "Item 9. The Offer and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil."

In the past, the Brazilian Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Brazilian Central Bank or the Brazilian government will continue to let the real float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The real may depreciate or appreciate against the U.S. dollar substantially.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil—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" and "Item 9. The Offer and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil."

E. Taxation

The following discussion contains a description of material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of common shares or ADSs. The discussion is based upon the tax laws

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of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as of the date hereof, which are subject to change.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders (as defined below) of common shares or ADSs. Prospective holders of common shares or ADSs should consult their own tax advisers as to the tax consequences of the acquisition, ownership and disposition of common shares or ADSs in their particular circumstances.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of our common shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Resident Holder”). This discussion is based on Brazilian law as currently in effect, which is subject to change, possibly with retroactive effect, and subject to different interpretations. Any change in that law may change the consequences described below.

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity agreements for tax treatment entered into by Brazil and other countries. The discussion also does not address any tax consequences under the tax laws of any state or municipality of Brazil. The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our common shares or ADSs. Each Non-Resident Holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in our common shares or ADSs.

Income tax

Dividends. Dividends paid by a Brazilian corporation, such as our company, including stock dividends and other dividends paid to a Non-Resident Holder of common shares or ADSs, are currently not subject to income withholding tax in Brazil to the extent that such amounts are related to profits generated after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian income withholding tax at varying rates, according to the tax legislation applicable to each corresponding year. We generally expect to pay dividends from profits generated after January 1, 1996.

Interest on Shareholders’ Equity. Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as our company, to make distributions to shareholders of interest on shareholders’ equity as an alternative to making dividend distributions and treat such payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, to the extent the limits described below are observed. These distributions may be paid in cash. For tax purposes, this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate (“TJLP”), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after the deduction of social contribution on net profits but before taking into account the provision for corporate income tax and the interest on shareholders’ equity) for the period in respect of which the payment is made; and

- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest to a Non-Resident Holder is subject to income withholding tax at the rate of 15%, or 25% if the Non-Resident Holder is domiciled in a "tax favourable jurisdiction." The definition of a "tax favorable jurisdiction" includes countries and locations (1) that do not impose income tax, (2) that impose income tax at a rate of 20% or less, or (3) where local laws do not allow access to information related to shareholder composition, ownership of investments or the identity of the ultimate beneficiary of earnings that are attributed to non-residents. Please refer to "—Discussion on Low or Nil Tax Jurisdictions" below for a discussion that such concept may be

broadened by an interpretation of Law No. 11,727/08. These payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

Gains

According to Law No. 10,833/03, enacted on December 29, 2003, the disposition or sale of assets located in Brazil by a Non-Resident Holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to capital gain taxes in Brazil.

With respect to the disposition of common shares, which are treated as assets located in Brazil, the Non-Resident Holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident.

With respect to the ADSs, although the matter is not entirely clear, it is reasonable to argue that ADSs do not constitute assets located in Brazil for the purposes of Article 26 of Law No. 10,833 and, therefore, that the gains realized by a Non-Resident Holder on the disposition of ADSs to another Non-Resident Holder should not be taxed in Brazil. We cannot assure you, however, that the Brazilian tax authorities or the Brazilian courts will agree with this interpretation. Accordingly, gains on a disposition of ADSs by a Non-Resident Holder may be subject to income tax in Brazil in the event that courts determine that ADSs constitute assets located in Brazil. For more information, please refer to "Item 3. Key Information—D. Risks Factors—Risks Relating to Our Common Shares and the ADSs—Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs."

As a general rule, gains realized as a result of a disposition or sale transaction of common shares (or ADSs should they be deemed to be "assets located in Brazil") are the positive difference between the amount realized on the sale or exchange of the securities and their acquisition cost.

Under Brazilian law, however, income tax rules on such gains can vary, depending on the domicile of the Non-Resident Holder, the type of registration of the investment by the Non-Resident Holder with the Central Bank and how the disposition is carried out, as described below.

Gains assessed on a disposition of common shares carried out on a Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when assessed by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 2,689, dated January 26, 2000 ("2,689 Holder") and (2) is not a resident in a country that does not tax income or that taxes it at a maximum rate of 20% ("Low or Nil Tax Jurisdiction"); or

- subject to income tax at a rate of up to 25% in any other case, including a case of gains recognized by a Non-Resident Holder that is not a 2,689 Holder, or is a resident in a Low or Nil Tax Jurisdiction. In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset the eventual income tax due on the capital gain.

Any other gains recognized on a disposition of the common shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, or 25% in the case of a Non-Resident Holder residing in a Low or Nil Tax Jurisdiction or where the local legislation does not allow access to information related to the shareholders

composition of legal entities, to their ownership or to the identity of the ultimate beneficiary of the income attributed to non-residents. In the event that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

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In the case of a redemption of common shares (or ADSs, should they be deemed as “assets located in Brazil”) or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the common shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

Any exercise of preemptive rights relating to the common shares or ADSs will not be subject to Brazilian income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights relating to the common shares (or ADSs, should they be deemed as “assets located in Brazil”) will be subject to Brazilian income tax according to the same rules applicable to the sale or disposition of common shares.

As a Non-Resident Holder of ADSs, you may cancel your ADSs and exchange them for the underlying common shares and no income tax may be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment with the Central Bank.

The deposit of common shares by Non-Resident Holders in exchange for ADSs may be subject to Brazilian income tax if the acquisition cost of the common shares is lower than (a) the average price per common share on a Brazilian stock exchange on which the greatest number of such common shares were sold on the day of deposit; or (b) if no common shares were sold on that day, the average price on a Brazilian stock exchange on which the greatest number of common shares were sold in the 15 trading sessions immediately preceding such deposit. The difference between the acquisition cost and the average price of the common shares will be considered to be a capital gain subject to income tax at a rate of 15% or 25%, as the case may be. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a Non-Resident Holder that is a 2,689 Holder and is not a resident in a tax favorable jurisdiction.

There can be no assurance that the current favorable treatment of 2,689 Holders will continue in the future.

Discussion on Low or Nil Tax Jurisdictions

On June 24, 2008, Law No. 11,727 introduced the concept of “privileged tax regimes,” which went into effect on January 1, 2009. In principle, the best interpretation of Law No. 11,727/08 leads us to conclude that the new concept of privileged tax regimes should be applied solely for purposes of transfer pricing rules in export and import transactions for the definition of the applicable rate of withholding income tax on the remittance of specific items of income and for certain other Brazilian tax purposes without relevance for an investment of a Non-Resident Holder in our common shares or ADSs. Although we are of the opinion that the concept of privileged tax regimes should not affect the tax treatment of a Non-Resident Holder described above, we cannot assure you whether subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of “privileged tax regimes” will extend such concept to the tax treatment of a Non-Resident Holder described above.

Tax on Foreign Exchange and Financial Transactions

Foreign Exchange Transactions. Brazilian law imposes a Tax on Foreign Exchange Transactions (“IOF/Exchange Tax”) on the conversion of reais into foreign currency and on the conversion of foreign currency into reais. As of October 20, 2009, any inflow of funds related to investments carried out on the Brazilian financial and capital markets by 2,689 Holders is subject to the IOF/Exchange Tax at a rate of 2.0%. However, foreign exchange transactions related to outflows of funds in connection with investments carried out on the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at a rate of zero percent, which also applies to payments of dividends and interest on shareholders’ equity to 2,689 Holders with respect to investments on the Brazilian financial and capital markets.

Nevertheless, the rate applicable to most foreign exchange transactions is 0.38%. In any case, the Brazilian government may increase the rate at any time by up to 25% on the foreign exchange transaction amount. However, any increase in rates will only apply to future transactions.

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Tax on Transactions Involving Bonds and Securities. Brazilian law imposes a Tax on Transactions Involving Bonds and Securities ("IOF/Bonds Tax") due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. Although the rate of IOF/Bonds Tax applicable to transactions involving common shares is currently zero, the rate of the IOF/Bonds Tax applicable to the transfer of shares with the sole purpose of enabling the issuance of ADSs is currently 1.5%. This rate is applied on the product of (a) the number of shares which are transferred, multiplied by (b) the closing price for those shares on the date prior to the transfer or, if such closing price is not available on that date, the last available closing price for those shares. The Brazilian government may increase the rate of the IOF/Bonds Tax at any time by up to 1.5% per day of the transaction amount, but only in respect of future transactions.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADSs, except for gift and inheritance taxes that may be imposed by some Brazilian states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common shares or ADSs.

U.S. Federal Income Tax Considerations

The following are the material U.S. federal income tax consequences to U.S. Holders described herein of owning and disposing of common shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion applies only if you hold common shares or ADSs as capital assets for U.S. federal tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding common shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the common shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, including "individual retirement accounts" or "Roth IRAs";
- persons that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired our ADSs or common shares pursuant to the exercise of any employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds common shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities

of the partnership. Partnerships holding common shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of common shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof,

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any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a "U.S. Holder" if you are a beneficial owner of our common shares or ADSs and if you are, for U.S. federal tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the district of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The summary of U.S. federal income tax consequences set out below is intended for general informational purposes only. You should consult your advisers with respect to the particular tax consequences to you of owning or disposing of common shares or ADSs, including the applicability and effect of state, local, non-U.S. and other tax laws and the possibility of changes in tax laws.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before shares are delivered to the depositary ("pre-release") or intermediaries in the chain of ownership between U.S. holders and the issuer of the security underlying the American depositary shares may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Brazilian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

Please consult your tax adviser concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of common shares or ADSs in your particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

Distributions paid on ADSs or common shares other than certain pro rata distributions of ordinary shares will generally be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will be reported to you as dividends.

Subject to applicable limitations, dividends paid by qualified foreign corporations to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2013, are taxable at favorable rates, up to a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is

readily tradable on a securities market in the United States, such as the NYSE where the ADSs are traded. You should consult your tax adviser to determine whether the favorable rate will apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at this favorable rate.

The amount of a dividend will include any amounts withheld by the Company in respect of Brazilian taxes on the distribution. The amount of the dividend will be treated as foreign-source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will

be included in your income on the date of your, or in the case of ADSs, the Depositary's, receipt of the dividend. The amount of any dividend income paid in reais will be a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is converted into U.S. dollars after the date of such receipt. See "—Brazilian Tax Considerations—Tax on Foreign Exchange and Financial Transactions."

Subject to applicable limitations that may vary depending upon your circumstances, Brazilian income taxes withheld from dividends on common shares or ADSs will be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the availability of foreign tax credits in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct such Brazilian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

Sale or Other Disposition of Common Shares or ADSs

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of common shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if you have held the common shares or ADSs for more than one year. The amount of your gain or loss will equal the difference between the amount realized on the disposition and your tax basis in the common shares or ADSs disposed of, in each case as determined in U.S. dollars. If a Brazilian tax is withheld on the sale or disposition of common shares or ADSs, your amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See "—Brazilian Tax Considerations—Gains" for a description of when a disposition may be subject to taxation by Brazil. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. You should consult your tax adviser as to whether the Brazilian tax on gains would be creditable against your U.S. federal income tax on foreign-source income from other sources.

Passive Foreign Investment Company Rules

The Company believes that it was not a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes for its 2011 taxable year. However, because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, which may be determined in large part by reference to the market value of the Company's stock, there can be no assurance that the Company will not be a PFIC for any taxable year. If the Company were a PFIC for any taxable year during which a U.S. Holder held common shares or ADSs, gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the common shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the common shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the amount allocated to that taxable year. Further, to the extent that any distribution received by a U.S. Holder on its common shares or ADSs exceeds 125% of the average of the annual distributions on common shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the common shares or ADSs. Pursuant to legislation enacted in 2010, if the Company were to be treated as a PFIC in any taxable year, during which you held our common shares or ADSs, you may be required to file an annual report with the Internal Revenue Service containing such information as the Treasury Department may require to determine

whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

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Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding unless (1) you are an exempt recipient or (2) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals may be required to report information relating to their ownership of securities of a non-U.S. person, subject to certain exceptions including an exception for securities held in certain accounts maintained by U.S. financial institutions, such as our ADSs). You should consult your tax adviser regarding the effect, if any, of these rules on your ownership and disposition of common shares or ADSs.

U.S. HOLDERS OF OUR COMMON SHARES OR ADSs SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE BRAZILIAN, U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES OR ADSs BASED UPON THEIR PARTICULAR CIRCUMSTANCES.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Statements contained in this annual report as to the contents of any contract or other document referred to are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit hereto. A copy of the complete annual report including the exhibits and schedules filed herewith may be inspected without charge at the public reference facilities maintained by the SEC at Room 1024, 100 F Street, N.E., Washington, D.C. 20549. Copies of such materials may be obtained by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Such reports and other information may also be inspected at the offices of the NYSE, 11 Wall Street, New York, New York 10005, on which our ADSs are listed. In addition the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed over the Internet at http://www.sec.gov.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act and, in accordance therewith, file periodic reports and other information with the SEC. However, as a foreign private issuer, we are exempt from the rules under the Securities Exchange Act relating to the furnishing and content of proxy statements and relating to short-swing profits reporting and liability.

We furnish to Citibank, N.A., as depositary, copies of all reports we are required to file with the SEC under the Securities Exchange Act, including our annual reports in English, containing a brief description of our operations and our audited annual consolidated financial statements which are prepared in accordance with Brazilian GAAP and

include a reconciliation to US GAAP. In addition, we are required under the deposit agreement to furnish the depositary with copies of English translations to the extent required under the rules of the SEC of all notices of meetings of shareholders and other reports and communications that are generally made available to shareholders. Under certain circumstances, the depositary will arrange for the mailing, at our expense, of these notices, other reports and communications to all ADS holders.

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We also file financial statements and other periodic reports with the CVM located at Rua Sete de Setembro, 111, Rio de Janeiro, Brazil 20159-900, which are available to the public from CVM's website at http://www.cvm.gov.br.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from the normal course of our business. These market risks mainly involve the possibility that changes in interest rates may impact the value of our financial liabilities. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil."

Interest rates

Our results of operations and profitability are affected by changes in interest rates due to the impact that these changes have on our interest expenses relating to our variable interest rate debt instruments and on our purchase and sale contracts and on our interest income generated from our financial investments.

The table below provides information about our significant interest rate-sensitive instruments (fixed and variable) as of December 31, 2011.

	As of December 31, 2011 Expected Maturity Date						
	Total	2012	2013	2014	2015 and later	Principal Index(1)	Fair Value
	(In accordance with Brazilian GAAP) (in millions of R$)						
Liabilities:							
Loans, financing and debentures:							
Debentures	1,899.2	1,899.2	—	—	—	CDI IPCA	1,907.5
Average interest rate	11.33 %	11.33 %	—	—	—		—
Loans and financing (working capital)	1,172.0	668.3	58.9	171.6	273.2	CDI	1,176.4
Average interest rate	12.73 %	11.88 %	12.32 %	12.59 %	12.76 %		—
Loans and financing — SFH	684.6	467.2	156.4	51.1	9.9	TR	684.5
Average interest rate	11.64 %	10.81 %	11.24 %	11.51 %	11.67 %		—
Total loans, financing and debentures	3,755.8	3,034.7	215.3	222.7	283.1		3,768.5
	473.2	219.8	233.8	19.6	—	CDI	946.4

Obligation to venture partner							
Real estate development obligations(2)	3,327.6	2,147.0	985.0	193.0	2.6	INCC	3,327.5
Obligations for purchase of land	489.1	312.0	151.6	19.4	6.2	INCC	489.1
Total	8,045.7	5,713.5	1,585.7	454.7	291.8		8,531.5
Assets:							
Cash and cash equivalents	137.6	137.6	—	—	—		137.6
Marketable securities (current and non-current)	846.1	846.1	—	—	—		846.1
Receivables from clients	4,826.4	3,962.6	545.9	208.8	109.2	INCC and IGPM	4,826.4
Receivables from clients (2)	4,686.2	—	2,675.0	1,209.6	801.6	INCC and IGPM	4,686.2
Total client receivables	9,512.6	3,962.6	3,220.9	1,418.4	910.8		9,512.6
Total	10,496.4	4,946.3	3,220.9	1,418.4	910.8		10,496.3

(1) See notes 10 and 11 to our consolidated financial statements for information about the interest rates on our loans, financing and debentures. As of December 31, 2011, the annualized index was 10.64% for CDI, 0.6887% for TR, 7.5683% for INCC and 11.3220% for IGPM.

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(2) Includes obligations and receivables arising from units sold after January 1, 2004 for which balances have not been recorded in our balance sheet—CFC Resolution No. 963.

We borrow funds at different rates and linked to different indices in order to try to match the financing that we provide to some of our clients. The mismatch between rates and terms on our funds borrowed and the financing we provide may adversely affect our cash flow. We constantly monitor and evaluate the impact of indexation on our assets and liabilities. If we anticipate the possibility of an interest rate mismatch between our assets and obligations, we may use derivative financial instruments in order to hedge against the risk that arises from interest rate variations.

Foreign Exchange Rate

During 2011, we had no derivative financial instruments with the objective of hedging against fluctuations in foreign exchange rates. As of December 31, 2011, we had no debt in foreign currency.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

D. American Depositary Shares

Depositary Fees

We and the holders and beneficial owners of our ADSs and the person depositing our common shares or surrendering ADSs for cancellation are responsible for the following fees of the depositary:

Service	Rate	Paid By
Issuance of ADSs upon deposit of Shares (excluding issuances as a result of distributions described in paragraph (4) below).	Up to US$5.00 per 100 ADSs (or fraction thereof) issued.	Person depositing our common shares or person receiving ADSs.
Delivery of common shares deposited under our deposit agreement against surrender of ADSs.	Up to US$5.00 per 100 ADSs (or fraction thereof) issued.	Person surrendering ADSs for purpose of withdrawal of common shares deposited under our deposit agreement or person to whom common shares deposited under our deposit agreement are delivered.
Distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements).	Up to US$2.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.
Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs.	Up to US$2.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.
Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e. spin-off shares).	Up to US$2.00 per 100 ADSs (or fraction thereof) held.	Person to whom distribution is made.
Depositary services	Up to US$4.00 per 100 ADSs (or fraction thereof) held.	Person holding ADSs on applicable record date(s) established by the depositary.

Transfer of ADRs	US$1.50 per certificate presented for transfer.	Person presenting certificate for transfer.

The depositary may deduct applicable depositary fees from the funds being distributed in the case of cash distributions. For distributions other than cash, the depositary will invoice the amount of the applicable depositary fees to the applicable holders.

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Additional Charges

Holders and beneficial owners of our ADSs and person depositing our common shares for deposit and person surrendering ADSs for cancellation and withdrawal of our common shares will be required to pay the following charges:

- taxes (including applicable interest and penalties) and other governmental charges;
- such registration fees as may from time to time be in effect for the registration of our common shares or other common shares deposited under our deposit agreement on the share register and applicable to transfers of our common shares or other common shares deposited under our deposit agreement to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
- such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing our common shares or holders and beneficial owners of ADSs;
- the expenses and charges incurred by the depositary in the conversion of foreign currency;
- such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to our common shares, common shares deposited under our deposit agreement, ADSs and ADRs; and
- the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of common shares deposited under our deposit agreement.

Direct and Indirect Payments

Citibank N.A., as depositary, has agreed to reimburse certain of our reasonable expenses related to our ADR program and incurred by us in connection with the program. As of December 31, 2011, we received from the depositary of our ADSs US$2.6 million, which was used for general corporate purposes such as the payment of costs and expenses associated with (1) the preparation and distribution of proxy materials, (2) the preparation and distribution of marketing materials, (3) consulting and other services related to investor relations and (4) expenses related to the offering of our common shares in 2011.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

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ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

We carry out an evaluation under the supervision of, and with participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, including those defined in the United States Exchange Act Rule 13a-15e, as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circunvention or overriding of the controls and procedures. Accordingly, even effective controls and procedures can only provide reasonable assurance of achieving their control objectives.

As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2011, and that the design and operations of our disclosure controls and procedures were not effective to provide reasonable assurance that all material information relating to our company was reported as required because material weaknesses in the current operation of our internal control over financial reporting were identified as described in the item (b) below.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management's annual report on internal control over financial reporting is included in this annual report on page F-2.

(c) Remediation of Material Weaknesses in Internal Controls over Financial Reporting

At December 31, 2011 material weaknesses in internal control over financial reporting have been reported. While the Company recognizes that significant improvements are required to be made in its internal controls over financial reporting, not all such remediation has occurred, nor has also such remediation been planned, to date. In order to remedy the material weaknesses related to our internal controls over financial reporting, we primarily plan on improving communications and training with the business areas of the Company. In order to remedy the material weakness regarding the preparation of our Brazilian GAAP and US GAAP financial statements and disclosures, we are re-assessing the need to hire further accounting staff with specialized knowledge. Further remediation efforts are also anticipated, although not all have been planned in detail to date. As part of our ongoing assessment of internal control over financial reporting, our management will conduct sufficient testing and evaluation of the controls to be implemented as part of the remediation plan to evaluate the status of their design and operation. Certain weaknesses identified herein remain unremediated as of this date in 2012.

(d) Changes in Internal Control over Financial Reporting

In our Form 20-F/A#2 for the year ended December 31, 2009, we reported material weaknesses in internal accounting controls under Item 15(b) as follows:

- The Company's US GAAP conversion process in respect to revenue recognition, cash and cash equivalents classification and presentation, and consolidated statements of cash flows; and
- The Company's US GAAP redeemable non-controlling interest presentation, business combination accounting and deferred income taxes.

These material weakness noted in U.S. GAAP accounting are attributable, in part, to insufficient resources with adequate knowledge of US GAAP and SEC financial reporting matters.

Included in our management's annual report on internal control over financial reporting on page F-2, as of December 31, 2010, we reported the following material weaknesses in internal accounting control:

- revenue recognition under US GAAP;
- cash equivalents under US GAAP;
- business combination accounting including noncontrolling interest under US GAAP;
- budgets of the costs of works in progress under Brazilian and US GAAP;
- income taxes under Brazilian and US GAAP; and
- financial statement closing process under Brazilian and US GAAP.

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There were no additional changes in our internal control over financial reporting that occurred during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting as of December 31, 2011.

(e) Attestation Report of the Registered Public Accounting Firm

For the report of Ernst & Young Terco Auditores Independentes, our independent registered public accounting firm, dated July 5, 2012, on the effectiveness of the internal control over financial reporting as of December 31, 2011, see "Item 18. Financial Statements."

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

For the purposes of the Sarbanes-Oxley Act of 2002, our directors established an Audit Committee that convenes as often as it determines is appropriate to carry out its responsibilities, but at least quarterly. This committee has responsibility for planning and reviewing our annual and quarterly reports and accounts with the involvement of our auditors in that process, focusing particularly on compliance with legal requirements and accounting standards, and ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving our annual and quarterly reports and accounts remains with our directors.

The Audit Committee convened 9 times in 2011. The Audit Committee currently comprises Jose Ecio Pereira da Costa Junior, Nelson Machado and Maurício Marcellini Pereira, each of whom is a director of our company. Our board of directors has determined that Jose Ecio Pereira da Costa Junior, Nelson Machado and Maurício Marcellini Pereira, 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 Securities 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 Securities and Exchange Commission.

ITEM 16B. CODE OF BUSINESS CONDUCT AND ETHICS

On July 10, 2007, we adopted a Code of Business Conduct and Ethics that applies to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions, as well as to our directors, other officers and employees. The objective of this code is (1) to reduce the subjectivity of personal interpretations of ethical principles; (2) to be a formal and institutional benchmark for the professional conduct of the employees, including the ethical handling of actual or apparent conflicts of interests, becoming a standard for the internal and external relationship of the Company with its shareholders, clients, employees, partners, suppliers, service providers, labor unions, competitors, society, government and the communities in which we operate; and (3) to ensure that the daily concerns with efficiency, competitiveness and profitability do not override ethical behavior. Our Code of Business Conduct and Ethics is filed as an exhibit to this annual report and is available, free of charge by requesting a copy from our Investor Relations Department at the following address: Av. Nações Unidas No. 8,501, 19th floor, 05425-070 – São Paulo, SP – Brazil, telephone 55-11-3025-9242, fax 55-11-3025-9348 and e-mail ri@gafisa.com.br.

We have also established a "whistleblower channel" in order to receive "complaints," by any person (provided such complaint is first reported to the Ethics Committee or Audit Committee), regarding any "dishonest or unethical conduct" and "accounting, internal accounting controls, or auditing matters" and equally confidential and anonymous submissions

of "concerns" of the same type by our employees and affiliates. The "whistleblower channel" can be accessed through our intranet or website or a letter may be forwarded to our headquarters under the attention of our Ethics Committee and/or Audit Committee. Since its establishment, 213 issues were reported to our "whistleblower channel," all of them related to personal conduct and, therefore, without any financial impact on our results of operations.

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ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The relationship with our independent auditors in respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditor. Our board of directors approves our financial statements, the performance by our auditors of audit and permissible non-audit services, and associated fees, supported by our Audit Committee.

The following table describes the total amount billed to us by and Ernst & Young Terco Auditores Independentes S.S. for services performed in 2011 and 2010 and the remuneration for these services in each period, respectively.

	2011	2010
	(in thousands of reais)	
Audit fees (1)	4,295	6,097
Audit related fees (2)	—	288
Tax fees (3)	—	—
Total	4,295	6,385

(1) "Audit fees" are the aggregate fees billed by Ernst & Young Terco Auditores Independentes S.S. for the audit of our consolidated and annual financial statements including audit of internal control over financial reporting, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

(2) "Audit-related fees" are fees billed by Ernst & Young Terco Auditores Independentes S.S. for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements in 2010 were principally related to an assessment and recommendation for improvements in internal control over financial reporting and due diligence related to mergers and acquisitions.

(3) There were no "Tax fees" billed by Ernst & Young Terco during either of 2011 or 2010.

Audit Committee Pre-Approval Policies and Procedures

Our board of directors has established pre-approval policies and procedures for the engagement of registered public accounting firm for audit and non-audit services. Under such pre-approval policies and procedures, our board of directors reviews the scope of the services to be provided by each registered public accounting firm to be engaged in order to ensure that there are no independence issues and the services are not prohibited services as defined by Sarbanes-Oxley Act of 2002.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

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ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Changes in Gafisa's Certifying Accountant

Previous independent registered public accounting firm

On August 18, 2009, Gafisa dismissed PricewaterhouseCoopers Auditores Independentes as its independent registered public accounting firm. Gafisa's board of directors participated in and approved the decision to change its independent registered public accounting firm. As explained below, on July 7, 2011 Gafisa re-appointed PricewaterhouseCoopers Auditores Independentes as our independent registered accounting firm with respect to 2009 for purposes of our filings with the SEC. Upon completion of such engagement on July 5, 2012, PricewaterhouseCoopers Auditores Independentes was dismissed. The reports of PricewaterhouseCoopers Auditores Independentes on the financial statements for the two fiscal years ended December 31, 2009, 2008 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

During the fiscal years ended December 31, 2009 and 2008 and through July 5, 2012 there were no disagreements with PricewaterhouseCoopers Auditores Independentes on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PricewaterhouseCoopers Auditores Independentes would have caused them to make reference thereto in their reports on the financial statements for such years.

During the fiscal years ended December 31, 2009 and 2008, and through July 5, 2012, there have been no reportable events (as defined in Item 16(a)(1)(v) of Form 20-F) except for:

- Restatement of the financial statements for correction of errors

- Material weaknesses in Internal Controls over Financial Reporting discussed in Item 15

The reportable events discussed above were discussed with the audit committee.

Gafisa requested that PricewaterhouseCoopers Auditores Independentes furnish it with a letter addressed to the SEC, stating whether or not it agrees with the above statements. This letter was included as Exhibit 15.1 as is incorporated herein by reference to our annual report on 2009 Form 20-F/A #2 filed with the SEC on July 5, 2012.

New independent registered public accounting firm

Terco Grant Thornton Auditores Independentes S.S. ("Terco") previously audited:

- The consolidated financial statements of our subsidiary Construtora Tenda S.A. ("Tenda") as of December 31, 2008 and for the period from its acquisition on October 22, 2008 through December 31, 2008. Terco issued an unqualified opinion on those Tenda consolidated financial statements while still a member firm of Grant Thornton International. Our then principal independent registered public accounting firm (PricewaterhouseCoopers Auditores independentes) referred to Terco's consolidated financial statement audit report in their audit report on our 2008 consolidated financial statements, when it was initially issued.

- The consolidated financial statements of Gafisa S.A. as of and for the year ended December 31, 2009, and issued an unqualified opinion on those consolidated financial statements, when it was initially issued, while still a member firm of Grant Thornton International.

- Gafisa's internal control over financial reporting ("ICFR") as of December 31, 2009, and issued an unqualified opinion on ICFR when it was initially issued, alsowhile still a member of Grant Thornton International.

On October 1, 2010, a merger took place between Ernst & Young Auditores Independentes S.S. ("Ernst & Young Brazil") and Terco to form Ernst & Young Terco Auditores Independentes S.S. ("Ernst & Young Terco"). The combined firm Ernst & Young Terco assumed responsibility for Terco's previous audit work and audit opinions.

As a result of our decision to restate our previously issued 2009 Form 20-F due to certain errors in its previously published consolidated financial statements, Ernst & Young Terco advised us that, as a consequence of the decision to restate such financial statements, Terco's previously issued audit reports dated March 10, 2010 on the 2009 Gafisa consolidated financial statements and April 27, 2009 on the 2008 Tenda consolidated financial statements (both audits performed in accordance with PCAOB standards) should no longer be relied upon. Ernst & Young Terco also advised us that Terco's attestation report on our internal control over financial reporting dated March 10, 2010 included in the 2009 Form 20-F should no longer be relied on. Ernst & Young Terco further advised us that previously issued consents relating to a past Form F-3ASR (File No. 333-159803, effective June 5, 2009) were being withdrawn.

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Prior to its merger with Terco, Ernst & Young Brazil provided certain internal audit services to us in connection with the preparation of our consolidated financial statements for both 2008 and 2009. Because the merged firm of Ernst & Young Terco would have been responsible to audit the adjustments of our 2009 consolidated financial statements and ICFR, it must be independent both in fact and appearance during both the period in which the auditor performs its audit services and also during the period under audit. In light of both (i) the magnitude of the resulting U.S. GAAP restatement adjustments, and (ii) the extent of the aforementioned internal audit services which were provided, among other factors, it was ultimately determined that the merged firm of Ernst & Young Terco would be unable to report on the accompanying restated 2009 consolidated financial statements or on the accompanying restated 2009 ICFR.

Accordingly, on June 27, 2011, Ernst & Young Terco resigned as our independent registered accounting firm with respect to 2009 for purposes of our filings with the SEC. Ernst & Young Terco however remains our independent auditors with respect to 2009 for purposes of our Brazilian GAAP financial statements filed with the CVM. Ernst & Young Terco was appointed on August 25, 2010 and September 27, 2011 as our independent registered accounting firm for the 2010 and 2011 fiscal years, respectively. Furthermore, Ernst & Young Terco has audited the restatement adjustments relating to the 2008 financial statements of Tenda.

During the fiscal years ended December 31, 2009 and 2008 and the subsequent interim period until engaging PricewaterhouseCoopers Auditores Independentes for the 2009 SEC audit, there were no disagreements with either Terco or Ernst & Young Terco on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to their satisfaction, would have caused them to make reference to the subject matter of such disagreements in connection with its reports on the aforementioned consolidated financial statements for such periods.

During the fiscal years ended December 31, 2009 and 2008 and the subsequent interim periods until engaging PricewaterhouseCoopers Auditores Independentes for the 2009 SEC audit, there were no reportable events (as defined in Item 16F(a)(1)(v) of Form 20-F), except for:

- The aforementioned restatements of our and Tenda’s consolidated financial statements.
- The aforementioned material weaknesses in our ICFR discussed in Item 15.
- The aforementioned withdrawl of auditor reports and consents
- Ernst & Young Terco's need to resign as our 2009 principal auditor for independence considerations trigger by the need to restate the 2009 Gafisa financial statements

The reportable events discussed above were discussed with the Audit Committee.

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Gafisa's Audit Committee, Management and legal counsel together with Ernst & Young Terco assessed the impact of Ernst & Young Brazil´s internal audit services on Ernst & Young Terco's audit of the 2010 financial statements. This assessment included an evaluation of whether Ernst & Young Brazil acted in a management role in Performing the internal audit services or created documentation or tests of controls that would be subject to self-review in the course of Ernst & Young Terco's audits.

The Audit Committee and Ernst & Young Terco have concluded that the internal audit services did not impair Ernst & Young Terco's integrity, objectivity or Professional skepticism with respect to the audit of the 2010 financial statements and the restatement of the 2008 Tenda financial statements. In addition to ceasing the internal audit services prior to the merger of Ernst & Young Brazil and Terco, Ernst & Young Terco did not deliver any results of internal audit testing in 2010 that might be subject to self-review. With respect to the audit of the 2008 restatements, Ernst & Young Terco did not test or rely on any of the internal controls documented or tested by Ernst & Young Brazil in its 2008 internal audit services. The restatement related to matters and judgments that were not the subject of the controls documented or tested by Ernst & Young Brazil.

Gafisa has requested that Ernst & Young Terco furnish it with a letter addressed to the SEC stating whether or not it agrees with the statements above. This letter was included as Exhibit 15.2 as is incorporated herein by reference to our annual report on 2009 Form 20-F/A #2 filed with the SEC on July 5, 2012.

ITEM 16G. CORPORATE GOVERNANCE

See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18, in lieu of reporting to this Item.

ITEM 18. FINANCIAL STATEMENTS

See our audited consolidated financial statements beginning on page F-1.

ITEM 19. EXHIBITS

We are filing the following documents as part of this Annual Report Form 20-F:

1.1. Bylaws of Gafisa S.A., as amended (English), which is incorporated by reference to our annual report on Form 20-F for the year ended December 31, 2010, filed with the Securities and Exchange Commission on July 5, 2012.

2.1. Deposit Agreement, date March 21, 2007, among Gafisa S.A., Citibank, N.A., as depositary, and the Holders and Beneficial Owners from time to time of American Depositary Shares issued thereunder, which is incorporated by reference to our registration statement on Form F-6 filed with the Securities and Exchange Commission on

February 22, 2007.

4.1. Merger of shares agreement dated November 6, 2009 between Gafisa S.A. and Construtora Tenda S.A., which is incorporated by reference to our registration statement on Form F-4 filed with the Securities and Exchange Commission on November 13, 2009.

8.1. List of Subsidiaries*

11.1. Code of Business Conduct and Ethics (English), which is incorporated by reference to our annual report on Form 20-F filed with the Securities and Exchange Commission on June 18, 2008.

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12.1. Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer*

12.2. Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer*

13.1. Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer*

13.2. Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer*

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* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAFISA S.A.

By: /s/ Alceu Duilio Calciolari
Name: Alceu Duilio Calciolari
Title: Chief Executive Officer

By: /s/ Andre Bergstein
Name: Andre Bergstein
Title: Chief Financial Officer

Date: July 5, 2012

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Management's Annual Report on Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting as defined in Rules 13a – 15(f) and 15d – 15(f) under the Securities and Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in Brazil ("Brazilian GAAP"), along with a reconciliation of net income and equity from Brazilian GAAP to accounting principles generally accepted in the United States of America ("US GAAP") Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Brazilian GAAP, along with a reconciliation of net income and equity from Brazilian GAAP to US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in "Internal Control – Integrated Framework". Based on this assessment, our management concluded that, as of December 31, 2011, our internal control over financial reporting was not effective because there were material weaknesses in our internal controls.

A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual financial statements will not be prevented or detected on a timely basis. Based on the evaluation described above, our management has identified the following material weaknesses in our internal control over financial reporting as of December 31, 2011:

Revenue recognition under U.S. GAAP

We did not design effective controls over revenue recognition in accordance with application of U.S. GAAP. The internal controls were not designed effectively to identify the contractual provisions that exist within company sales contracts that provide for a potential refund to customers or to identify past practice of permitting contract cancelations with substantial refunds to customers.

Cash equivalents under U.S. GAAP

We did not design effective monitoring controls over cash equivalents reporting in accordance with U. S. GAAP. The internal controls were not effectively designed to properly classify cash equivalents based on the characteristics and terms of the underlying financial instruments.

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Business Combination under U.S. GAAP

We did not design effective controls over business combination accounting for goodwill and related income taxes and noncontrolling interest in accordance with application of U. S. GAAP. The internal controls were not effectively designed to meet the appropriate accounting policy for the measurement and classification of goodwill and related income taxes and noncontrolling interest as temporary equity - "Mezzanine" and its impact on earnings per share calculation.

Budgets of the costs of works in progress

We did not design effective controls over our construction budgets and the cost review process in accordance with both Brazilian GAAP and U. S. GAAP. The internal controls were not designed effectively to identify the adjustments to construction budgets that should have been identified through the internal controls operating at the time, and the resulting impact on our revenue and cost recognition in the consolidated financial statements.

Income Taxes

We did not design effective controls over our period end deferred income tax asset realization assessment and classification of presumed income taxes payable from deferred tax liability for both Brazilian GAAP and U S GAAP and offsetting of deferred tax assets and deferred tax liabilities to present on a net basis under BR GAAP. The internal controls were not designed effectively to support, classify and present all the income tax considerations and disclosures.

Financial statement closing process

The financial statement close process with respect to certain items including the impairment analysis and consolidation matters did not operate effectively to ensure proper accounting treatment in an accurate and timely manner. In addition, the controls did not operate effectively to ensure proper classification of "brokerage expenses/sales commissions" and "operating costs related to the provision for cancelled contracts" in the statement of operations and classification of "Trade accounts receivable" between short and long term in the balance sheet.

We did not maintain effective design and operating controls to ensure the appropriate review/monitoring related to the preparation of our US GAAP financial statements and disclosures. In addition, we did not have internal accounting staff with adequate US GAAP knowledge to supervise and review the accounting process and did not maintain effective controls over the financial reporting process due to insufficient internal personnel with sufficient knowledge, experience and training in the application of US GAAP and did not implement an adequate supervisory review of the accounting process to ensure the financial statements and disclosures were prepared in compliance with US GAAP and SEC rules and regulations.

The aforementioned material weaknesses were largely attributable to both controls that were not designed in sufficient detail to accomplish their objective, and also insufficient internal resources, including but not limited to sufficient internal resources with adequate knowledge of US GAAP and SEC reporting as well as income tax accounting to execute the specific controls.

These material weaknesses could result in a misstatement of the aforementioned accounts and disclosures that would result in a material misstatement to our financial statements that would not be prevented or detected.

Notwithstanding, management's assessment that our disclosure controls and procedures were not effective and that there were material weakness as identified above, we believe that our financial statements contained in this annual

report fairly present our financial position, results of operations and cash flow for the year covered thereby in all material respects.

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As of the date of the filling of this report, our management, including our CEO and CFO and the Audit Committee, have established a plan of action to address the material weaknesses in our internal control over financial reporting.

São Paulo, Brazil July 5, 2012

By: /s/ Alceu Duilio Calciolari
Name: Alceu Duilio Calciolari
Title: Chief Executive Officer

By: /s/ Andre Bergstein
Name: Andre Bergstein
Title: Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Gafisa S. A.

We have audited the accompanying consolidated balance sheets of Gafisa S. A. as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in equity, cash flows and value added for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gafisa S. A. at December 31, 2011 and 2010 and the results of its operations, its cash flows and its value added for the years then ended in conformity with accounting practices adopted in Brazil which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 29 to the consolidated financial statements).

As described in Note 2.1.3, the Company has restated its 2010 consolidated financial statements as previously filed with the Brazilian Securities Commission (“CVM”) on March 24, 2011 and those furnished as unaudited on Form 6-K with us U.S. Securities and Exchange Commission, filed on January 17, 2012, to reflect corrections or errors.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Gafisa S. A.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 5, 2012, expressed an opinion that Gafisa S.A. did not maintain effective internal control over financial reporting.

São Paulo, Brazil

July 5, 2012

/s/ ERNST & YOUNG TERCO

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC- 2SP015199/O-6

/s/ Daniel G. Maranhão Jr.

Daniel G. Maranhão Jr.
Accountant CRC-1SP215856/O-5

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To the Board of Directors and Shareholders
Gafisa S.A.

In our opinion, based on our audit the accompanying consolidated balance sheet and the related consolidated statements of income, of shareholders' equity, of cash flows and of value added present fairly, in all material respects, the financial position of Gafisa S.A. and its subsidiaries (the Company) at December 31, 2009, and the results of their operations, their cash flows and the value added to their operations for the year ended December 31, 2009 in conformity with accounting practices adopted in Brazil. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements of the Company in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 29 to the consolidated financial statements.

São Paulo, Brazil July 5, 2012

/s/ PricewaterhouseCoopers	/s/ Wander Rodrigues Teles
PricewaterhouseCoopers	Wander Rodrigues Teles
Auditores Independentes	Contador CRC 1DF005919/O-3 "S" SP
CRC 2SP000160/O-5	

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Gafisa S.A.

We have audited Gafisa S.A.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gafisa S.A.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting practices adopted in Brazil (Brazilian GAAP), including the reconciliation to US generally accepted accounting principles (U.S. GAAP) in accordance with Item 18 of Form 20F. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Brazilian GAAP, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20F, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment of the effectiveness of internal control over financial reporting:

- Lack of effective designed controls over revenue recognition in accordance with application of U.S. GAAP. The internal controls were not designed effectively to identify the contractual provisions that exist within company sales contracts that provide for a potential refund to customers or to identify past practice of permitting contract cancelations with substantial refunds to customers;

- Lack of monitoring controls over cash equivalents reporting in accordance with U. S. GAAP. The internal controls were not effectively designed to properly classify cash equivalents based on the characteristics and terms of the underlying financial instruments;

- Lack of effective designed controls over business combination accounting for goodwill and related income taxes and noncontrolling interest in accordance with application of U. S. GAAP. The internal controls were not effectively designed to meet the appropriate accounting policy for the measurement and classification of goodwill and related income taxes and noncontrolling interest as temporary equity ("mezzanine") and its impact on earnings per share calculation;

- Lack of effective designed controls over construction budgets and the cost review process in accordance with both Brazilian GAAP and U. S. GAAP. The internal controls were not designed effectively to identify the adjustments to construction budgets and the resulting impact on revenue and cost recognition in the consolidated financial statements;

- Lack of effective designed controls to perform the assessment of deferred income tax asset realization and classification of presumed income taxes payable from deferred tax liability for both Brazilian GAAP and U S GAAP and offsetting of deferred tax assets and deferred tax liabilities to present on a net basis under BR GAAP. The internal controls were not designed effectively to support, classify and present all the income tax considerations and disclosures;

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- Lack of effective design and operating controls to ensure the appropriate review/monitoring in the financial statement closing process related to the preparation in compliance with US GAAP consolidated financial statements and disclosures and SEC rules and regulations as well as with respect to certain items including the impairment analysis and consolidation matters that did not operate effectively to ensure proper accounting treatment in an accurate and timely manner. In addition, the controls did not operate effectively to ensure proper classification of “brokerage expenses/sales commissions” and “operating costs related to the provision for cancelled contracts” in the consolidated statements of operation and classification of “Trade accounts receivable” between short and long term in the consolidated balance sheet.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Gafisa S.A. as of December 31, 2011, and the related consolidated statements of operations, changes in equity, cash flows and value added for the year then ended. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 consolidated financial statements, and this report does not affect our report dated July 5, 2012, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Gafisa S.A. has not maintained effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

São Paulo, Brazil

July 5, 2012

/s/ ERNST & YOUNG TERCO

ERNST & YOUNG TERCO
Auditores Independentes S.S.
CRC- 2SP015199/O-6

/s/ Daniel G. Maranhão Jr.

Daniel G. Maranhão Jr.
Accountant CRC-1SP215856/O-5

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Gafisa S.A.

Consolidated balance sheet
December 31, 2011
(In thousands of Brazilian Reais)

	Notes	2011	2010 (restated)	2009 (restated)
Assets				
Current assets				
Cash and cash equivalents	4.1	137,598	256,382	292,940
Short-term investments	4.2	846,062	944,766	1,131,113
Trade accounts receivable	5	3,962,574	3,704,709	2,252,474
Properties for sale	6	2,049,084	1,707,892	1,371,672
Other accounts receivable and other	7	60,378	103,109	101,569
Receivables from related parties	20.1	84,207	75,196	7,222
Land available for sale	8	93,188	-	-
Derivative financial instruments	19.i.b	7,735	-	-
Prepaid expenses and other	-	73,532	21,216	18,766
Total current assets		7,314,358	6,813,270	5,175,756
Non-current assets				
Trade accounts receivable	5	863,874	1,247,265	1,524,172
Properties for sale	6	798,206	498,180	376,785
Other accounts receivable and other	7	143,850	120,107	100,202
Receivables from related parties	20.1	104,059	71,163	17,344
		1,909,989	1,936,715	2,018,503
Property and equipment		52,793	68,977	56,476
Intangible assets	9	229,484	221,829	204,686
		282,277	290,806	261,162
Total non-current assets		2,192,266	2,227,521	2,279,665
Total assets		9,506,624	9,040,791	7,455,421

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	Notes	2011	2010 (restated)	2009 (restated)
Liabilities				
Current liabilities				
Loans and financing	10	843,283	797,903	678,312
Loans and financing – reclassified as current due to default	10	292,260	-	-
Debentures	11	303,239	26,532	122,377
Debentures – reclassified as current due to default	11	1,595,961	-	-
Payable for purchase of properties and advances from customers	16	610,555	420,199	475,409
Payables for materials and service suppliers	-	135,720	190,461	194,331
Income tax and social contribution payable	-	13,739	11,343	7,192
Other tax payable	-	236,839	219,545	170,200
Salaries, payroll charges and profit sharing	-	75,002	72,155	61,320
Declared dividends	17.2	11,774	102,767	54,279
Provision for legal claims	15	34,875	14,155	11,266
Obligations assumed on the assignment of receivables	12	70,745	88,442	122,360
Payables to venture partners	13	219,796	24,264	11,004
Other payables and provisions	14	274,214	37,167	72,293
Payables to related parties	20.1	97,937	-	-
Total current liabilities		4,815,939	2,004,933	1,980,343
Non-current liabilities				
Loans and financing	10	721,067	612,275	525,443
Debentures	11	-	1,853,399	1,796,000
Payables for purchase of properties and advances from customers	16	177,135	177,860	146,401
Deferred income tax and social contribution	18.ii	83,002	13,847	3,553
Provision for legal claims	15	134,914	124,537	110,073
Obligations assumed on the assignment of receivables	12	431,226	-	-
Payables to venture partners	13	253,390	380,000	300,000
Other payables and provisions	14	142,857	241,768	209,427
Total non-current liabilities		1,943,591	3,403,686	3,090,897
Equity				
Capital	17.1	2,734,157	2,729,198	1,627,275
Treasury shares	17.1	(1,731)	(1,731)	(1,731)
Capital reserves	17.3	18,066	295,879	318,439
Reserves of income	17.3	-	547,404	381,651
Accumulated losses	17.2	(102,019)	-	-
		2,648,473	3,570,750	2,325,634
Noncontrolling interest		98,621	61,422	58,547
Total equity		2,747,094	3,632,172	2,384,181
Total liabilities and equity		9,506,624	9,040,791	7,455,421

See accompanying notes.

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Gafisa S.A.

Consolidated statement of operations
Year ended December 31, 2011
(In thousands of Brazilian Reais, except if stated otherwise)

	Notes	2011	2010 (restated)	2009 (restated)
Net operating revenue	21	2,940,506	3,403,050	3,036,357
Operating costs				
Real estate development and sales of properties	22	(2,678,338)	(2,460,918)	(2,143,762)
Gross profit		262,168	942,132	892,595
Operating (expenses) income				
Selling expenses	22	(393,181)	(266,660)	(240,632)
General and administrative expenses	22	(251,458)	(236,754)	(233,129)
Depreciation and amortization	-	(83,428)	(33.816)	(34,170)
Provision for legal claims and commitments	15	(57,902)	(36,655)	(85,784)
Other income (expenses), net		23,362	24,482	(7,100)
Provision for impairment of non-financial assets	6, 8 and 9	(102,485)	-	-
Income (loss) before financial income and expenses and income and social contribution taxes		(602,924)	392,729	291,780
Financial expenses	23	(252,876)	(210,202)	(240,572)
Financial income	23	92,973	128,085	129,566
Income (loss) before income and social contribution taxes		(762,827)	310,612	180,774
Current income taxes and social contribution taxes	18. i	(73,207)	(11,834)	(20,147)
Deferred income tax and social contribution taxes	18. i	(69,155)	(10,294)	(17,665)
Total income and social contribution taxes	18. i	(142,362)	(22,128)	(37,812)
Net income (loss) for the year		(905,189)	288,484	142,962
Attributable to:				
Owners of Gafisa S.A		(944,868)	264,565	101,740
Noncontrolling interests		39,679	23,919	41,222
Weighted average number of shares (in thousands)	17, 26 and 2.1.3	431,586	412,434	267,174
		(2.1893)	0.6415	0.3808

Basic earnings (loss) per thousand weighted average number of shares - R$	26 and 2.1.3			
Diluted earnings (loss) per thousand weighted average number of shares - R$	26 and 2.1.3	(2.1893)	0.6109	0.3242

All amounts relate to continuing operations. There are no items of other comprehensive income (loss) in the year.

See accompanying notes.

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Gafisa S.A.

Consolidated statement of changes in equity
Year ended December 31, 2011
(In thousands of Brazilian Reais)

		Attributable to the equity holders			Income reserves					
	Note	Capital	Treasury shares	Capital reserves and options granted	Legal reserve	Statutory reserve	Reserve for future investments	Retained earnings	Total - company	Noncontr interest
Balances at December 31, 2008		1,229,517	(18,050)	182,125	21,081	159,213	38,533	-	1,612,419	-
First-time adoption of Brazilian CPCs	2.1.3	-	-	-	-	-	-	111,800	111,800	471,402
Balances at January 1, 2009		1,229,517	(18,050)	182,125	21,081	159,213	38,533	111,800	1,724,219	471,402
Transactions with owners:										
Capital increase										
- Exercise of stock options	17.1	9,736	-	-	-	-	-	-	9,736	-
- Acquisition of Tenda shares	17.1	388,022	-	60,822	-	-	-	-	448,844	(450,468
Sale of treasury shares		-	16,319	65,727	-	-	-	-	82,046	-
Stock option plan	17.3	-	-	9,765	-	-	-	-	9,765	154
Minimum mandatory dividends	17.2	-	-	-	-	-	-	(50,716)	(50,716)	(3,763
Reserves:										
Transfer to legal reserve	17.2	-	-	-	10,677	-	-	(10,677)	-	-
Transfer to statutory reserve	17.2	-	-	-	-	152,147	-	(152,147)	-	-

Comprehensive income:										
Net income for the year		-	-	-	-	-	-	101,740	101,740	41,222
Balances at December 31, 2009 (restated)		1,627,275	(1,731)	318,439	31,758	311,360	38,533	-	2,325,634	58,547
Transactions with owners:										
Capital increase										
- Public offering of shares	17.1	1,063,750	-	-	-	-	-	-	1,063,750	-
- Exercise of stock option	17.1	17,891	-	-	-	-	-	-	17,891	-
- Merger of Shertis shares	17.1	20,282	-	1,620	-	-	-	-	21,902	(24,080
- Gain on capital increase on subsidiary	17.1	-	-	-	-	-	-	-	-	7,133
Expenses for public offering of shares, net of taxes	17.1	-	-	(33,271)	-	-	-	-	(33,271)	-
Stock option plan	17.3	-	-	9,091	-	-	-	-	9,091	194
Purchase of treasury shares		-	-	-	-	-	-	-	-	(171
Minimum mandatory dividends	17.2	-	-	-	-	-	-	(98,812)	(98,812)	(4,120
Reserves:										
Transfer to legal reserve (restated)		-	-	-	13,228	-	-	(13,228)	-	-
Transfer to statutory reserve (restated)	17.2	-	-	-	-	152,525	-	(152,525)	-	-
Comprehensive income:										
Net income for the year (restated)		-	-	-	-	-	-	264,565	264,565	23,919
Balances at December 31, 2010 (restated)		2,729,198	(1,731)	295,879	44,986	463,885	38,533	-	3,570,750	61,422

Transactions with owners:										
Capital increase	17.1	4,959	-	-	-	-	-	-	4,959	-
Stock option plan	17.1	-	-	17,632	-	-	-	-	17,632	328
Non controlling interest of the SPEs of subsidiaries		-	-	-	-	-	-	-	-	4,846
Declared dividends		-	-	-	-	-	-	-	-	(7,654
Comprehensive loss:										
Loss for the year		-	-	-	-	-	-	(944,868)	(944,868)	39,679
Absorption of loss the year income and capital reserves	17.2	-	-	(295,445)	(44,986)	(463,885)	(38,553)	842,849	-	-
Balances at December 31,2011		2,734,157	(1,731)	18,066	-	-	-	(102,019)	2,648,473	98,621

See accompanying notes.

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Gafisa S.A.

Consolidated statement of cash flows
Year ended December 31, 2011
(In thousands of Brazilian Reais)

	2011	2010 (restated)	2009 (restated)
Operating activities			
Income (loss) before income and social contribution taxes	(762,827)	310,612	180,774
Expenses (income) not affecting cash and cash equivalents:			
Depreciation and amortization	83,428	33,816	33,184
Stock option expenses (Note 22)	19,272	12,924	14,427
Unrealized interests and charges, net	111,151	217,626	171,326
Increase in provision for warranty (Note 14)	14,690	14,869	7,908
Increase in provision for legal claims and commitments (Note 15)	57,902	36,655	85,784
Increase in provision for profit sharing (Note 22)	17,196	36,612	28,237
Allowance for doubtful accounts and cancelled contracts (Note 5.i)	67,056	9,904	12,852
Provision for realization of non-financial assets:			
Properties for sale	50,049	-	-
Land available for sale (Note 8)	42,006	-	-
Intangible assets (Note 9)	10,430	-	-
Derivatives financial instruments (Note 21)	(7,735)	-	46,710
Provision or penalties due to delay in construction works (Note14)	51,211	-	-
Write-off of property and equipment, net (Notes 10 and 11)	9,579	-	5,251
Decrease (increase) in operating assets			
Trade accounts receivable	58,470	(1,185,232)	(1,670,950)
Properties for sale	(826,461)	(457,615)	280,519
Other accounts receivable	(27,682)	(133,689)	33,097
Prepaid expenses	(52,317)	(2,450)	15,133
Increase (decrease) in operating liabilities			
Obligations for purchase of land and advances from customers	189,631	(23,751)	(38,881)
Taxes and contributions	19,690	113,517	25,010
Materials and service suppliers	(54,741)	(3,870)	81,431
Salaries, payable charges and bonus payable	(14,348)	(85,800)	3,390
Other obligations	90,275	131,061	22,176
Transactions with related parties	88,925	(67,974)	52,789
Income tax and social contribution paid	(54,288)	(36,858)	(20,147)
Cash and cash equivalents used in operating activities	(819,438)	(1,079,643)	(629,980)
Investing activities			
Purchase of property and equipment and intangible assets (Notes 10 and 11)	(94,908)	(63,460)	(45,109)

Purchase of short-term investments	(2,396,624)	(1,871,140)	(1,731,411)
Redemption of short-term investments	2,495,328	2,057,488	1,014,356
Cash and cash equivalents from (used in) investing activities	3,796	122,888	(762,164)

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Gafisa S.A.

Consolidated statement of cash flows--Continued
Year ended December 31, 2011
(In thousands of Brazilian Reais)

	Consolidated		
	2011	2010 (restated)	2009 (restated)
Financing activities			
Capital increase (Note 17.1)	4,959	1,101,923	9,736
Expenses for public offering	-	(50,410)	-
Sale of treasury shares	-	-	82,045
Redeemable shares of Credit Rights Investment Fund (FIDC)	(15,120)	(23,238)	41,308
Increase in loans and financing	1,009,716	1,138,232	2,259,663
Payment of loans and financing – principal	(380,557)	(1,034,744)	(743,073)
Payment of loans and financing – interests	(274,608)	(153,137)	(164,617)
Obligation assumed on the assignment of receivables, net	415,244	(33,918)	70,176
Payables to venture partners	68,922	80,000	-
Dividends paid	(98,812)	(50,692)	(61,597)
Loan transactions with related parties	(32,896)	(53,819)	-
Cash and cash equivalents from financing activities	696,848	920,197	1,493,641
Net increase (decrease) in cash and cash equivalents	(118,784)	(36,558)	101,497
Cash and cash equivalents			
At the beginning of the year	256,382	292,940	191,443
At the end of the year	137,598	256,382	292,940
Net increase (decrease) in cash and cash equivalents	(118,784)	(36,558)	101,497

See accompanying notes.

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Gafisa S.A.

Statements of value added
Year ended December 31, 2011
(In thousands of Brazilian Reais)

	2011	2010 (restated)	2009 (restated)
Revenues	3,169,492	3,849,326	3,144,880
Real estate development, sale and services	3,236,548	3,859,230	3,144,880
Allowance for doubtful accounts	(67,056)	(9,904)	-
Inputs acquired from third parties (including ICMS and IPI)	(3,088,354)	(2,777,002)	(2,366,310)
Operating costs - Real estate development and sales	(2,514,761)	(2,495,560)	(2,071,426)
Materials, energy, outsourced labor and other	(573,593)	(281,442)	(294,884)
Gross added value	81,138	1,072,324	778,570
Depreciation and amortization	(83,428)	(33,816)	(34,170)
Net added value produced (used) by the Company	(2,290)	1,038,508	744,400
Added value received on transfer			
Financial income, net	92,973	128,085	129,566
Total added value to be distributed	90,683	1,166,593	873,966
Added value distribution	90,683	1,166,593	873,966
Personnel and payroll charges	179,676	314,910	291,872
Taxes and contributions	439,418	237,920	184,168
Interest and rents	416,457	349,197	296,186
Dividends	-	102,767	54,479
Retained earnings (deficit absorbed)	(944,868)	161,799	47,261

Gafisa S.A.

Notes to the consolidated financial statements
December 31, 2011
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

1. Operations

Gafisa S.A. ("Gafisa" or "Company") is a publicly traded company with headquarters at Av. das Nações Unidas, 8501, 19º andar, in the City and State of São Paulo, Brazil and started its commercial operations in 1997 with the objectives of: (a) promoting and managing all forms of real estate ventures on its own behalf or for third parties; (b) purchasing, selling and negotiating real estate properties in general, including provision of financing to real estate customers; (c) carrying out civil construction and civil engineering services; (d) developing and implementing marketing strategies related to its own or third party real estate ventures; and (e) investing in other companies which have similar objectives as the Company's.

Real estate projects entered into by the Company with third parties are structured through specific purpose partnerships ("Sociedades de Propósito Específico" or– "SPEs") or the formation of consortia and condominiums. Controlled entities substantially share the managerial and operating structures and the corporate, managerial and operating costs with the Company. SPEs, condominiums and consortia operate solely in the real estate industry and are linked to specific ventures.

On June 29, 2009, Gafisa and Construtora Tenda S.A. ("Tenda") entered into a Private Instrument for Assignment and Transfer of Quotas and Other Covenants, in which Gafisa assigned and transferred to Tenda 41,341,895 quotas of Cotia1 Empreendimento Imobiliário for the net book value of R$41,342.

On December 30, 2009, the shareholders of Gafisa and Tenda approved the acquisition by Gafisa of the total Tenda´s shares outstanding. In connection with this acquisition, Tenda became a wholly-owned subsidiary of Gafisa, and its shareholders received shares of Gafisa in exchange for their shares of Tenda at the ratio of 0.205 shares of Gafisa to one share of Tenda, as negotiated between Gafisa and the Independent Committee of Tenda, both parties having been advised by independent expert companies. In view of the exchange ratio, 32,889,563 common shares were issued by Gafisa for the total issue price of R$448,844 (Note 2.1.1).

On February 22, 2010, the split of our common shares was approved in the ratio of one existing share to two newly-issued shares, thus increasing the number of shares from 167,077,137 to 334,154,274. In March 2010, the Company completed an initial public offering of common shares, resulting in a capital increase of R$1,063,750 with the issue of 85,100,000 common shares, comprising 46,634,420 shares in Brazil and 38,465,580 ADSs (Note 17.1), with a related cost of transactions, net of taxes effects, amounted R$33,271.

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Gafisa S.A.

Notes to the consolidated financial statements--Continued
December 31, 2011
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

1. Operations (continued)

In May 2010, the Company approved the acquisition of the total amount of shares issued by Shertis Empreendimentos e Participações S.A., whose main asset comprises 20% of the capital stock of Alphaville Urbanismo S.A. (AUSA). The acquisition of shares has the purpose of making viable the implementation of the Second Phase of the schedule for investment planned in the Investment Agreement and other Covenants, signed between the Company and Alphaville Participações S.A. (Alphapar) on October 2, 2006, thus increasing the interest of Gafisa in the capital stock of AUSA to 80%. As a result of the acquisition of shares, Shertis was converted into a wholly-owned subsidiary of Gafisa, with the issue of 9,797,792 new common shares to Alphapar, former shareholder of Shertis. (Note 17.1).

At the end of 2011, as part of management's review of the Company's operations and controls, the Company recorded adjustments retrospectively in 2010 for certain accounts, including additional provisions of R$639,482 for 2011 and R$151,485 for 2010 (Note 2.1.3) in the consolidated financial statements. Such adjustments and provisions do not affect the Company's capacity to fulfill future commitments.

2. Presentation of financial statements and summary of significant accounting policies

2.1 Basis of presentation and preparation of consolidated financial statements

The Company's consolidated financial statements for the years ended December 31, 2011, 2010 and 2009 were prepared in accordance with the accounting practices adopted and generally accepted in Brazil, which comprise the rules of the Brazilian Securities and Exchange Commission ("CVM"), and the pronouncements, interpretations and guidelines of the Brazilian Accounting Standards Committee ("CPC") (such practices, rules, interpretations and guidelines being collectively referred to as "Brazilian GAAP").

In 2010, a number of new accounting standards were required to be implemented under Brazilian GAAP which the Company retrospectively applied to the beginning of 2009 consistent with its local regulatory reporting.

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

Brazilian GAAP differs from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in certain respects, including the fact that Brazilian GAAP permits the application of percentage of completion accounting by real estate companies in more circumstances than are permitted by IFRS. This application of Brazilian GAAP is commonly referred to in Brazil as "IFRS applicable to real estate development entities in Brazil, as approved by the CPC, the CVM and the CFC, including CPC Guideline 04 – Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities – regarding revenue recognition, and the respective costs and expenses arising from real estate development operations by reference to the stage of completion (percentage of completion method)". Accordingly, for the purpose of its annual filing with the United States Securities and Exchange Commission, the accompanying consolidated financial statements prepared in accordance with BR GAAP have been reconciled to US GAAP as presented in Note 29. US GAAP balance sheets have been included in Note 29 (d)(i) for 2011, 2010 and 2009 and US GAAP income statements for the years ended 2011, 2010 and 2009 have been included in Note 29 (d)(ii).

The consolidated financial statements were prepared based on a historical cost basis, except if otherwise stated in the summary of accounting policies.

The financial statements have been prepared on a going concern basis. Management makes an assessment of the Company's ability to continue as going concern when preparing the financial statements. The Company is in compliance with all its debt covenants at the date of issue of these Financial Statements and management have not identified any material uncertainties over the Company's ability to continues as a going concern over the next 12 months.

The Board of Directors of the Company has power to amend the consolidated financial statements of the Company after they are issued. On July 5, 2012, the Company's Board of Directors approved these consolidated financial statements of the Company and has authorized their issuance.

2.1.1 Consolidated financial statements

The consolidated financial statements of Gafisa S.A. include the individual financial statements of the Company and its direct and indirect subsidiaries, and share of jointly-controlled companies. Control over subsidiaries is obtained when the Company has power to control their financial and operating policies, and is able to enjoy their benefits and is exposed to the risks of their activities. The subsidiaries and jointly-controlled companies are fully and proportionally consolidated, respectively, from the date the full or joint control begins until the date it ceases.

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Notes to the consolidated financial statements--Continued
December 31, 2011
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2. Presentation of financial statements and summary of significant accounting policies (continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

As of December 31, 2011, 2010 and 2009, the consolidated financial statements include the full consolidation of the following companies:

	Interest %		
	2011	2010	2009
Gafisa and subsidiaries (*)	100	100	100
Construtora Tenda and subsidiaries (“Tenda”) (*)	100	100	100
Alphaville Urbanismo and subsidiaries (“AUSA”) (*)	80	80	60

(*) This it does not include jointly-controlled investees, as detailed below.

The accounting practices were uniformly adopted in all companies included in the consolidated financial statements and the fiscal year of these companies is the same of the Company.

Information regarding subsidiary – AUSA

In January 2007, upon the acquisition of 60% of AUSA, arising from the acquisition of Catalufa Participações Ltda., a capital increase of R$134,029 was approved upon the issuance for public subscription of 6,358,116 common shares. This transaction generated goodwill of R$170,941 recorded based on expected future profitability, which was amortized up to December 31, 2008. As from January 1, 2009 no subsequent amortization of goodwill was recorded, based on new CPC’s requirements. Goodwill balance at December 31, 2011, 2010 and 2009 is R$152,856 (Note 9).

In May 2010, the Company approved the acquisition of the entire issued share capital of Shertis Empreendimentos e Participações S.A., whose main asset is 20% of the share capital of AUSA. The acquisition of shares had the purpose of implementing the Second Phase of the schedule for investment planned in the Investment Agreement and other Covenants, signed between the Company and Alphaville Participações S.A. (Alphapar) on October 2, 2006, thus increasing the interest of Gafisa in the capital stock of AUSA to 80%. As a result of the acquisition of shares, Shertis was converted into a wholly-owned subsidiary of Gafisa, with the issue of 9,797,792 new common shares to Alphapar, former shareholder of Shertis (Note 17.1).

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2. Presentation of financial statements and summary of significant accounting policies (continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

The purchase agreement includes an obligation for the Company to purchase in 2012 the remaining 20% of AUSA's ordinary shares which are held by non-controlling interest shareholders. The purchase price will be based on the fair value of the shares and will be settled in cash or shares, at the Company's sole discretion. There is an embedded derivative component to the shareholders' agreement, relating to the obligation to purchase additional AUSA shares. 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 AUSA's capital stock, no derivative asset or liability has been recorded. The future settlement in cash, or shares represented an estimated amount of R$358,985 as at December 31, 2011, R$200,800 as at December 31, 2010 and R$256,000 as at December 31, 2009.

Information regarding subsidiary – CIPESA

On October 26, 2007, Gafisa acquired 70% of Cipesa. Gafisa and Cipesa incorporated a new company, Cipesa Empreendimentos Imobiliários Ltda. ("Nova Cipesa"), in which the Company holds a 70% interest and Cipesa has 30%. Gafisa made a contribution to Nova Cipesa of R$50,000 in cash and acquired the shares which Cipesa held in Nova Cipesa amounting to R$15,000, paid on October 26, 2008. The non-controlling interest holders of Cipesa are entitled to receive from the Company a variable portion corresponding to 2% of the Total Sales Value (VGV), as defined, of the projects launched by Nova Cipesa through 2014, not to exceed R$25,000. Accordingly, the Company's purchase consideration totaled R$90,000 and goodwill amounting to R$40,686 was recorded, based on expected future profitability (Note 9). As of December 31, 2011, a provision for realization of this asset was recorded in the amount of R$10,430.

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Notes to the consolidated financial statements--Continued
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(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies (continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

Information regarding subsidiary – Tenda

On October 21, 2008, as part of the acquisition of interest in Tenda, Gafisa contributed the net assets of Fit Residencial amounting to R$411,241, acquiring 60% of the Tenda's equity, at the carrying amount of R$1,036,072, representing an investment of R$621,643 for Gafisa. Such transaction, and according to the previous GAAP, generated negative goodwill of R$210,402, being a bargain purchase. According to CPC 15, this gain was recorded in full in the company's reserves on transition as at January 1, 2010.

On December 30, 2009, the shareholders of Gafisa and Tenda approved the acquisition by Gafisa of total shares outstanding issued by Tenda, through acquisition of 40%, resulting in an increase of interest on Tenda capital from 60% to 100%. The non-controlling interest holders received shares of Gafisa in exchange for their shares of Tenda in the proportion of 0.205 shares of Gafisa to one share of Tenda. In view of the exchange ratio, 32,889,563 common shares of Gafisa were issued for the total issue price of R$448,844 at carrying amount (Note 1). This transaction was treated as an equity transaction in accordance with CPC 36 (R2).

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

The Company carried out the proportionate consolidation of the financial statements of the direct jointly-controlled investees listed below, which main information is the following:

(i) Ownership interest

(a) Information on subsidiaries and jointly-controlled investees

	Ownership interest - %			Equity and advance for future capital increase			Net income (loss) for the year		
Direct invests	2011	2010 (restated)	2009 (restated)	2011	2010 (restated)	2009 (restated)	2011	2010 (restated)	2009 (restated)
Construtora Tenda S.A.	100	100	100	2,083,237	1,879,233	1,130,759	(660,057)	82,495	64,450
Alphaville Urbanismo S.A.	60	60	60	326,272	201,758	99,842	161,146	86,727	39,610
Shertis Emp. Part. S.A.	100	100	-	65,177	40,352	-	32,557	13,486	-
Gafisa SPE 89 Emp. Im. Ltda.	100	100	100	59,463	50,646	36,049	12,562	13,741	8,213
Cipesa Empreendimentos Imobiliários S.A.	100	100	100	58,331	54,941	42,294	636	6,300	(1,216)
Gafisa SPE 48 S.A. (e)	80	-	-	54,502	-	-	6,838	-	1,674
Gafisa SPE 51 Emp. Im. Ltda. (e)	100	-	-	37,801	-	-	(1,558)	-	8,096
Gafisa SPE 41 Emp. Im. Ltda.	100	100	100	32,505	32,200	31,883	304	704	(2,593)
SPE Reserva Ecoville/Office - Emp Im. S.A.	50	50	-	63,674	25,594	-	29,235	10,859	-
Sítio Jatiuca Emp Im.SPE Ltda.	50	50	50	44,683	37,011	12,161	12,483	4,837	10,902
Verdes Praças Inc. Im. SPE Ltda.	100	100	100	26,875	26,730	26,901	144	227	(532)
Gafisa SPE 50 Emp. Im. Ltda.	100	100	80	25,654	26,623	12,098	(977)	(2,024)	5,093

Gafisa SPE 47 Emp. Im. Ltda.	80	80	80	30,079	23,262	16,571	(68)	(760)	(357)
Gafisa SPE 30 Emp. Im. Ltda.	100	100	100	18,599	17,736	18,229	863	508	(334)
Gafisa SPE 85 Emp. Im. Ltda.	80	80	80	21,922	23,315	7,182	(1,393)	8,484	4,878
FIT 13 SPE Emp. Imob. Ltda.	50	50	-	35,123	15,347	-	27,453	4,491	-
Gafisa FIDC (Nota 5 (ii))	100	100	100	17,466	16,895	14,977	-	-	-
Gafisa SPE 32 Emp. Im. Ltda.	100	100	100	16,522	17,090	5,834	(568)	1,550	1,515
Gafisa SPE 72 Emp. Im. Ltda.	100	100	80	14,892	7,931	347	6,960	2,447	(1,080)
Costa Maggiore Emp. Im. Ltda.	50	50	50	18,915	18,717	4,065	1,030	6,389	2,137
Dubai Residencial Emp Im. Ltda.	50	50	50	23,815	21,227	10,613	3,824	10,948	4,286
Gafisa SPE 71 Emp. Im. Ltda.	80	80	80	12,863	13,458	4,109	(5,021)	7,540	3,120
Grand Park - Parque das Arvores Emp. Im. Ltda	50	50	50	22,649	35,588	14,780	(11,577)	20,702	12,454
SPE Pq Ecoville Emp Im S.A.	50	50	-	13,752	3,568	-	2,302	(1,300)	-
Gafisa SPE 46 Emp. Im. Ltda.	60	60	60	11,492	10,435	4,223	1,058	(1,780)	(3,436)
Gafisa SPE 38 Emp. Im. Ltda.	100	100	100	9,424	9,392	8,273	32	625	1,447
Gafisa SPE 42 Emp. Im. Ltda.	100	100	100	9,344	10,769	12,128	(1,424)	(5,105)	949
Apoena SPE Emp Im S.A.	80	50	-	11,128	9,008	-	946	3,231	-
Alto da Barra de São Miguel Emp.Imob. SPE Ltda.	50	50	50	3,458	10,462	(3,279)	(9,166)	844	(6,707)
Gafisa SPE 70 Emp. Im. Ltda.	55	55	55	15,425	13,522	12,685	(213)	(14)	(63)
Gafisa SPE 73 Emp. Im. Ltda.	80	80	80	9,953	10,666	3,551	(2,802)	(2,342)	(57)
Gafisa SPE 36 Emp. Im. Ltda.	100	100	100	8,919	7,039	5,362	1,880	1,517	68

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

Direct investes	Ownership interest - %			Equity and advance for future capital increase			Net income (loss) for the year		
	2011	2010 (restated)	2009 (restated)	2011	2010 (restated)	2009 (restated)	2011	2010 (restated)	2009 (restated)
Parque do Morumbi Incorporadora Ltda.	80	80	-	9,371	4,116	-	3,783	108	-
Manhattan Square Emp. Imob. Coml. 1 SPE Ltda.	50	50	50	14,785	8,320	6,285	3,923	1,011	863
Jardim I Plan., Prom.Vd Ltda.	100	100	100	7,425	7,860	14,114	(435)	(340)	(778)
Gafisa SPE 65 Emp. Im. Ltda.	80	80	80	9,009	9,700	3,725	(1,071)	2,245	877
Gafisa SPE 53 Emp. Im. Ltda.	100	100	80	6,778	7,957	5,924	(1,180)	(425)	2,933
Gafisa SPE 22 Emp. Im. Ltda.	100	100	100	6,661	6,528	6,001	133	526	554
Patamares 1 Emp. Imob. Ltda	50	50	50	12,750	7,187	5,495	5,671	701	(69)
O Bosque Empr. Imob. Ltda.	60	60	60	9,679	9,058	8,862	(382)	(70)	(710)
Gafisa SPE 35 Emp. Im. Ltda.	100	100	100	5,240	4,978	5,393	261	529	(1,274)
Gafisa SPE 39 Emp. Im. Ltda.	100	100	100	5,149	4,745	8,813	404	109	2,469
Grand Park - Parque das Aguas Emp Im Ltda	50	50	50	8,139	20,907	8,033	(13,138)	11,288	6,635
Gafisa SPE 37 Emp. Im. Ltda.	100	100	100	4,046	4,600	4,020	(554)	437	(140)
Other	Several	Several	Several	106,888	108,862	1,598	13,907	33,351	(510)

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Gafisa S.A.

Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.2 Functional and presentation currency

The consolidated financial statements are presented in Reais (presentation currency), which is also the functional currency of the Company and its subsidiaries.

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009

2.1.3.1 Adjustments which impacted income statement and equity in 2010

During the fourth quarter of 2011, Gafisa conducted an extensive review of the construction budget estimated for the completions of projects under construction. In the review process, adjustments to budgets that should have been recorded in 2010 were determined and that had not been identified through the internal controls operating at that time.

The Company's management, with the objective of identifying the retroactive effects, reviewed the costs of earth moving construction and brickwork stages; contracts for the replacement of contractors and franchise partners and additional costs of completed units delivered.

The Company has restated its 2010 consolidated financial statements previously filed with Brazilian Securities Commission (CVM) on March 24, 2011 and those furnished as unaudited on Form 6-K with the U.S. Securities and Exchange Commission, filed on January 17, 2012 to reflect corrections of errors, discussed as follow:

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Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009 (Continued)

2.1.3.1 Adjustments which impacted income statement and equity in 2010

The retrospective effects of adjustments to the budgets of costs for 2010, disclosed and accounted for in accordance with CPC 23 – Accounting Practices, Changes in Accounting Estimates and Errors, are as follows:

	As of December 31, 2010	
	Equity	Net income attributable to owners of Gafisa
As originally reported	3,783,669	416,050
Decrease in net operating revenue	(168,268)	(168,268)
Decrease in deferred income tax and social contribution	16,771	16,771
Non-controlling interests	-	12
Restated	3,632,172	264,565

In addition to the adjustments noted above, the previously published 2010 financial statements prepared in accordance with Brazilian GAAP were restated for the following items which affect the balance sheets as of December 31, 2010 and December 31, 2009:

a) Reclassification of deferred income tax and social contributions relating to taxation of income determined according to the presumed profit regime, to the account “Taxes and contribution payable” in short and long term;

b) Reclassification of brokerage expenses/sales commissions, from being deductions from revenues, to the account “Selling expenses”;

c) Presentation of the net balance of deferred taxes assets and liabilities, for each legal entity and jurisdiction;

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Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009 (Continued)

d) Reclassification of the balances presented in the account "Trade account receivable" between short and long terms.

e) Reclassification of operating costs related to the provision for cancelled contracts from operating costs to "revenue".

The items (a) to (e) commented above do not affect the equity or the net income (loss) for the years ended December 31, 2010 and 2009.

A summary of the adjustments and reclassifications is as follows:

	Year ended December 31, 2010			
Consolidated income statement	As originally reported	Adjustments	Reclassifications	Restated
Net operating revenue (b) (e)	3,720,860	(168,268)	(149,542)	3,403,050
Operating costs (e)	(2,634,556)	-	173,638	(2,460,918)
Gross profit	1,086,304	(168,268)	24,096	942,132
Operating income (expenses)				
Selling expenses (b)	(242,564)	-	(24,096)	(266,660)
Other operating expenses	(282,743)	-	-	(282,743)
Financial income (expenses), net	(82,118)	1	-	(82,117)
Tax expenses	(38,899)	16,771	-	(22,128)
Net income for the year	439,980	(151,496)	-	288,484
(-) Net income for the year attributable to non controlling interests	(23,930)	11	-	(23,919)
Net income for the year attributable to Gafisa S.A.	416,050	(151,485)	-	264,565
Basic earnings per thousand shares – in Reais	1.0088	-	-	0.6415
Diluted earnings per thousand shares – in Reais	1.0010	-	-	0.6365

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Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009 (Continued)

	Year ended December 31, 2009		
Consolidated income statement	As originally reported	Reclassifications	Restated
Net operating revenue (b)	3.022.346	14.011	3.036.357
Operating costs	(2.143.762)	-	(2.143.762)
Gross profit (b)	878.584	14,011	892.595
Operating income (expenses)			
Selling expenses (b)	(226.621)	(14.011)	(240,632)
Other operating expenses	(360,183)	-	(360,183)
Financial income (expenses), net	(111.006)	-	(111.006)
Tax expenses	(37,812)	-	(37,812)
Net income for the year	142,962	-	142,962
Net income for the year attributable to non controlling interests	(41.222)	-	(41.222)
Net income for the year attributable to Gafisa S.A.	101,740	-	101,740
Basic earnings per thousand shares – in Reais	0.3808		0.3808
Diluted earnings per thousand shares – in Reais	0.3780		0.3780

	As at December 31,2010			
Consolidated balance sheet	As originally reported	Adjustments	Reclassifications	Restated
Current assets				
Trade accounts receivable (d)	3,158,074	(178,439)	725,074	3,704,709
Other	2,969,655	-	138,906	3,108,561
Current assets	6,127,729	(178,439)	863,980	6,813,270
Trade accounts receivable (d)	2,113,314	-	(866,049)	1,247,265
Deferred income tax and social contribution (c)	337,804	31,317	(369,121)	-
Other (a) (c)	679,901	-	9,549	689,450
Property and equipment and intangible assets	290,806	-	-	290,806
Non-current assets	3,421,825	31,317	(1.225,621)	2,227,521
Total assets	9,549,554	(147,122)	(361,641)	9,040,791
Current liabilities				

Taxes and contributions payable (a)	243,050	4,375	(16,537)	230,888
Other payables	1,774,122	-	(78)	1,774,044
Current liabilities	2,017,172	4,375	(16,615)	2,004,932
Non-current liabilities				
Other (a) (c)	3,324,304	-	65,536	3,389,840
Deferred income tax and social contribution (a) (c)	424,409	-	(410,562)	13,847
Non-current liabilities	3,748,713	-	(345,026)	3,403,686
Equity	3,783,669	(151,497)	-	3,632,172
Total liabilities and equity	9,549,554	(147,122)	(361,641)	9,040,791

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Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009 (Continued)

	As at December 31,2009		
Consolidated balance sheet	As originally reported	Reclassifications	Restated
Current assets			
Trade accounts receivable (d)	2,008,464	244,010	2,252,474
Other	2,883,984	39,298	2,923,282
Current assets	4,892,448	283,308	5,175,756
Non-current assets			
Trade accounts receivables (d)	1,768,182	(244,010)	1,524,172
Deferred income tax and social contribution (c)	281,288	(281,288)	-
Other	533,629	(39,298)	494,331
Non-current assets	2,583,099	(564,596)	2,018,503
Property and equipment and intangible assets	261,162	-	261,162
Non-current assets			
Total assets	7,736,709	(281,288)	7,455,421
Current liabilities			
Taxes and contributions payable	177,392	-	177,392
Other payables	1,802,951	-	1,802,951
Current liabilities	1,980,343	-	1,980,343
Non-current liabilities			
Other (a) (c)	2,995,635	91,709	3,087,344
Deferred income tax and social contribution (a)(c)	376,550	(372,997)	3,553
Non-current liabilities	3,372,185	(281,288)	3,090,897
Equity	2,384,181	-	2,384,181
Total liabilities and equity	7,736,709	(281,288)	7,455,421

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Notes to the consolidated financial statements-(Continued)
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.1 Basis of presentation and preparation of consolidated financial statements (Continued)

2.1.3 Restatement of the consolidated financial statements for 2010 and 2009 (Continued)

	As at December 31,2010		
Consolidated cash flows statement	As originally reported	Adjustments	Restated
Income before income tax and social contribution	478,879	(168,268)	310,612
Expenses not affecting cash and cash equivalents	347,967	(14,439)	362,406
Increase/decrease in assets and liabilities	(1,923,450)	170,789	(1,752,661)
Cash used in operating activities	(1,096,604)	(16,961)	(1,079,643)
Cash from investing activities	122,888	-	122,888
Cash from financing activities	937,158	40,195	920,197
Net decrease in cash and cash equivalents	(36,558)	-	(36,558)
Cash and cash equivalents:			
At the beginning of the year	292,940	-	292,940
At the end of the year	256,382	-	256,382
Net decrease in cash and cash equivalents	(36,558)	-	(36,558)

	As at December 31,2009		
Consolidated cash flows statement	As originally reported	Adjustments	Restated
Income before income tax and social contribution	180,774	-	180,774
Expenses not affecting cash and cash equivalents	324,320	59,550	383,870
Increase/decrease in assets and liabilities	(1,197,178)	2,554	(1,194,624)
Cash used in operating activities	(692,084)	62,104	(629,980)
Cash used in investing activities	(762,164)	-	(762,164)
Cash from financing activities	1,555,745	(62,104)	1,493,641
Net increase in cash and cash equivalents	101,497	-	101.497
Cash and cash equivalents:			
At the beginning of the year	191,443	-	191,443
At the end of the year	292,940	-	292,940
Net increase in cash and cash equivalents	101,497	-	101,497

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies

2.2.1 Accounting judgments, estimates and assumptions

(i) Judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and adopt 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 and equipment, allowance for doubtful accounts and cancelled contracts, provision for fines due to delay in construction works, impairment of assets, deferred tax assets, provision for warranty, provision for tax, labor and civil risks, and the measurement of the estimated cost of ventures and financial instruments.

(ii) Estimates and assumptions

The Company's main assumptions related to sources of uncertainty for which future estimates may result in different amounts upon settlement are discussed below:

a) Impairment of non-financial assets

Management annually reviews 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. At December 31, 2011 the Company recorded a provision for impairment for land and goodwill related to the Cipesa acquisition. At December 31, 2010 and 2009, there were no indicators of impairment on non-financial assets.

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.1 Accounting judgments, estimates and assumptions (Continued)

(ii) Estimates and assumptions (Continued)

a) Impairment of non-financial assets (Continued)

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 for determining the recoverable amount of cash-generating unit are detailed in Note 9.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.1 Accounting judgments, estimates and assumptions (Continued)

(ii) Estimates and assumptions (Continued)

b) Share-based payment transactions

The Company measures 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. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 17.3.

c) Provision for legal claims

The Company recognizes a provision for tax, labor and civil claims (Note 15). 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 for estimating them. The Company reviews its estimates and assumptions at least annually.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.1 Accounting judgments, estimates and assumptions (Continued)

(ii) Estimates and assumptions (Continued)

d) 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.

e) 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.

f) Taxes

There are uncertainties in relation to the interpretation of complex tax rules and to the value and timing of future taxable income. The Company and its subsidiaries are subject in the ordinary course of their businesses to assessments, audits, legal claims and administrative proceedings in tax and labor matters. The final result of the investigations, legal claims or administrative proceedings that are filed against the Company and/or its subsidiaries and affiliates may affect us adversely.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.1 Accounting judgments, estimates and assumptions (Continued)

(ii) Estimates and assumptions (Continued)

g) Realization of deferred income tax

Deferred income tax assets are recorded when it is probable that there are sources of taxable income available in the future to offset the deferred tax asset given consideration to cumulative losses. These include sources of taxable income, based on projections of results prepared using internal assumptions and assumed future economic scenarios.

2.2.2 Recognition of revenue and expenses

(i) 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;

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.2 Recognition of revenue and expenses (Continued)

(i) Real estate development and sales (Continued)

- Incurred costs of units sold (including land) is measured as a percentage of total estimated cost, and this percentage is applied to the total revenues of the units sold, adjusted in accordance with the terms established in the sales contracts, thus determining the amount of revenues to be recognized in directly proportion to cost;

- Any amount of revenue recognized that exceeds the amount actually received from customers is recorded as either a current or non-current asset in the account “Trade accounts receivable”. Any amount received in connection with the sales of units that exceeds the amount of revenues recognized is recorded as "Payables for purchase of land and advances from customers";

- 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 account receivable, are appropriated to the income statement on a pro rata basis using the accruals basis of accounting;

- The financial charges on account payable for acquisition of land and those directly associated with the financing of construction are recorded in properties for sale and recorded in the incurred cost of finished units until their completion, and follow the same recognition criteria as for the recognition of the cost of real estate units sold while under construction.

The taxes due on the difference between real estate revenues recognized for accounting purposes and those revenues subject to tax are calculated and recognized when the difference in revenues is recognized. Advertising and publicity expenses are recorded in the consolidated income statement as accrual basis.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

(ii) 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.

(iii) Barter transactions

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

2.2.3 Financial instruments

Financial instruments are recognized only from the date the Company becomes a party to the contractual provisions of financial instruments, which mainly consist of cash and cash equivalents, short-term investments, account receivable, loans and financing, suppliers, and other debts.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred substantially all risks and rewards of ownership, and such transfer qualifies for derecognition, according to the requirements of CPC 39. Therefore, if the risks and rewards were not substantially transferred, The Company evaluates the extent of control in order to determine whether the continuous involvement related to any retained control does not prevent derecognition. Financial liabilities are derecognized when discharged or extinguished.

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

Financial assets and liabilities are offset against each other and the net amount is reported in the balance sheet solely when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis, or simultaneously realize the asset and settle the liability.

(i) Financial instruments at fair value through profit and loss

A financial instrument is classified into fair value through profit and loss if held for trading, that is, designated as such when initially recognized. Financial instruments are designated at fair value through profit and loss if the Company manages these investments and makes decisions on purchase and sale based on their fair value according to the strategy of investment and risk management. After initial recognition, attributable transaction costs are recognized in the consolidated income statement when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and their fluctuations are recognized in the consolidated income statement.

In the year ended December 31, 2011, the Company held derivative instruments with the objective of mitigating the risk of its exposure to the volatility of indices and interest rates. In accordance with its treasury policies, the Company does not have or issue derivative financial instruments for purposes other than for protective hedging. After the initial recognition at fair value, derivatives continued to be measured at fair value and the changes are recognized in the consolidated statement of operations. As of December 31, 2011, the Company has R$7,735 in the consolidated balance sheet recognized in assets under the account “Derivative financial instruments” related to the interest rate swap transaction described in Note 19.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.3 Financial instruments (Continued)

(ii) Available-for-sale financial instruments

For available-for-sale financial instruments, the Company assesses if there is any objective evidence that the investment is recoverable at each balance sheet date. After the initial measurement, the available-for-sale financial assets are measured at fair value, with unrealized gains and losses directly recognized in other comprehensive income, when applicable. As of December 31, 2011, 2010 and 2009, has no financial assets classified as available for sale.

(iii) Loans and receivables

After initial recognition, loans and financing accruing interest are subsequently measured at amortized cost, using the effective interest rate method, less any impairment.

2.2.4 Cash and cash equivalents and short-term investments

Cash and cash equivalents are substantially composed of demand deposits and bank deposit certificates held under resale agreements, denominated in Reais, with high market liquidity and purchased maturities that does not exceed 90 days or in regard to which there are no penalties or other restrictions for the immediate redemption thereof.

Cash equivalents are classified into financial assets at fair value through profit or loss and are recorded at the original amounts plus income earned through to the closing date of financial statements, on a pro rata basis. Short-term investments include bank deposit certificates, government bonds, exclusive investment funds that are fully consolidated, and collaterals, whose fair values approximate their carrying amounts.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.5 Trade account receivable

Trade account receivables are stated at amortized cost plus accrued interest and indexation adjustments, net of adjustment to present value. The allowance for doubtful account is recorded at an amount considered sufficient by management to cover estimated losses on realization of accounts receivable.

The installments due are indexed based on the National Civil Construction Index (INCC) during the period of construction, and based on the General Market Prices Index (IGP-M) and interest, after the delivery of the units.

2.2.6 Mortgage-backed securities (CRI)

The Company assigns receivables for the securitization and issuance of mortgage-backed securities (CRI). When this assignment does not involve right of recourse, accounts receivable are derecognized. When the transaction involves recourse against the Company, the accounts receivable from units sold is maintained on the balance sheet. The financial guarantees, when a participation is acquired (subordinated CRI) and maintained to secure assigned receivables, are recorded in the balance sheet as non-current receivables at fair value.

2.2.7 Credit Rights Investment Fund (FIDC) and Housing Loan Certificate (CCI)

The Company consolidates Credit Rights Investment Fund (FIDC) in which it holds subordinated shares, subscribed and paid in by the Company in receivables.

When consolidating the FIDC in its financial statements, the Company records the receivables in the group of account of receivables from customers and the balance of the FIDC net assets are recorded in other accounts payable, with the shares held by the Company being eliminated in the consolidation process. The financial costs of these transactions are appropriated on pro rata basis under the account “Financial expenses”.

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of the main accounting practices (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.7 Credit Rights Investment Fund (FIDC) and Housing Loan Certificate (CCI) (Continued)

The Company and its subsidiaries carry out the assignment and/or securitization of receivables related to completed real estate projects. This securitization is carried out through the issuance of the "Housing loan certificate ("Cédula de Crédito Imobiliário" or "CCI"), which is assigned to financial institutions that grant loans. The funds from assignment are classified in the account "Other obligations", until the certificates are settled by customers. The transaction cost is recorded under the account "Financial expenses" in the year that it is carried out.

2.2.8 Properties for sale

Land is initially stated at cost of acquisition only once the property deeds have been transferred to the Company. Amounts advanced for the acquisition of land are recorded under the account "Advances to suppliers" when there has been no transfer of the property deeds, not being recognized as land in the financial statements while under negotiation, regardless of the likelihood of success or construction stage. The Company and its subsidiaries acquire a portion of their land through barter transactions, which, in exchange for the land acquired, they undertake to deliver (a) real estate units under development or (b) a portion of the revenues originating from the sale of the real estate units. Land acquired through barter transaction is stated at fair value on the acquisition date, and the revenue and cost are recognized according to the criteria described in Note 2.2.2 (iii). Subsequently, the interest on payables for barter transactions is capitalized to the cost of bartered land, net of the effects to the adjustment to present value.

Properties are stated at construction cost, which cannot exceed net realizable value. In the case of real estate developments in progress, the portion in properties for sale corresponds to the cost incurred for units that have not yet been sold. The incurred cost comprises construction costs (materials, own or outsourced labor, and other related items), and legal expenses relating to the acquisition of land and projects, land costs and financial charges which relate to a project over the construction period.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.8 Properties for sale (Continued)

The Company capitalizes interest on developments during the period of the construction, and also land, while the activities for the preparation of assets for resale are being carried out, as long as there are loans outstanding. These costs are recognized in the consolidated income statement in the proportion to the units sold, using the same criteria as for other costs.

When the cost of construction of properties for sale exceeds the expected cash flow from sales, once completed or still under construction, an impairment charge is recognized in the period when the carrying amount is considered no longer to be recoverable.

Properties for sale are annually reviewed, at the closing date of the year, to assess the recoverability of the carrying amount of each real estate development, regardless of any events or changes in macroeconomic scenarios indicating that the carrying amount may not be recoverable. If the carrying amount of a real estate development is not recoverable, compared to its realizable value through expected cash flows, a provision is recorded.

2.2.9 Selling expenses - commissions

Brokerage expenditures and sales commissions are recorded in the income statements under the account “Selling expenses” following the same percentage-of-completion criteria adopted for the recognition of revenues. The charges related to sales commission of the buyer are not recognized as revenue or expense of the Company.

2.2.10 Prepaid expenses

These are recorded in the consolidated income statement when incurred using the accruals basis of accounting.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.11 Land available for sale

Land available for sale is measured based on the lower between the carrying amount and the fair value, less the cost to sell and is classified into held for sale if its carrying amount is recovered through a sale transaction of the land, and not through the development that was supposed to be built. This condition is considered fulfilled only when the sale is highly probable and the group of asset or of disposal is available for immediate sale in its current condition. Management shall undertake to sell it in a year after the classification date.

2.2.12 Investments in subsidiaries and joint-controlled investees

If the Company has the power to control the financial and operating policies of an investee, the latter is considered a subsidiary. In situations in which agreements grant the other company veto rights, significantly affecting business decisions with regards to its investee, the latter is considered to a jointly-controlled investee. Jointly-controlled investees are recorded in the Company under the proportionate consolidation, based on the ownership interest of the Company.

2.2.13 Property and equipment

Property and equipment are recorded at cost, less any applicable accumulated depreciation and any accumulated impairment losses.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.13 Property and equipment (Continued)

A property and equipment item is derecognized when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recorded in the consolidated income statement when the asset is derecognized.

Depreciation is calculated based on the straight-line method considering the estimated useful life of the assets, as mentioned as follow:

	Useful life	Annual depreciation rate %
Installations	10 years	10
Leasehold improvements	4 years	25
Furniture and fixture	10 years	10
Hardware	5 years	20
Machinery and equipment	10 years	10
Aircraft	10 years	10
Vehicles	5 years	20
Moulding	10 years	10
Sales stands	1 year	100

The residual value, useful life, and depreciation methods are reviewed at the end of each year; no change was made in relation to the information for the prior year.

Expenditures incurred for the construction of sales stands, facilities, display apartments and related furnishings are capitalized as property and equipment of the Company. Depreciation of these assets commences upon launch of the development and is recorded over the average term of one year.

Property and equipment are subject to periodic assessments of impairment. As of December 31, 2011, 2010 and 2009, there were no impairment indicators regarding property and equipment.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.14 Intangible assets

Expenditures related to the acquisition and development of computer systems and software licenses, are recorded at acquisition cost and amortized over a period of up to five years, and are subject to periodic assessments of impairment of assets.

The goodwill recorded at December 31, 2011, 2010 and 2009, refers to acquisitions before the date of transition to CPC (January 1, 2009), and the Company opted for not retrospectively recognizing the acquisitions before the transition date, to adjust any of the respective goodwill.

The impairment test of goodwill is carried out annually (at December 31) or whenever circumstances indicate an impairment loss.

2.2.15 Payables for purchase of properties and advances from customer due to barter transaction

Payables for purchase of land are recognized at the amounts corresponding to the contractual obligations assumed. Subsequently they are stated at amortized cost plus interest and charges proportional to the period (pro rata basis), when applicable, net of adjustment to present value.

The obligations related to barter transactions of land in exchange for real estate units are stated at fair value at the acquisition date and subsequently adjusted based on the compensation agreed between the parties, with a corresponding entry to the income statement.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.16 Income tax and social contribution on net profit

(i) Current income tax and social contribution

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

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

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

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.16 Income tax and social contribution on net profit (Continued)

(i) Deferred income tax and social contributions

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 with 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 does 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. As of December 31, 2011, 2010 and 2009 the Company did not fully recognize deferred tax assets calculated on tax loss carryfowards (Note 18). The Company records 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, of the same legal entity, until the limit of the deferred tax liabilities; and

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.16 Income tax and social contribution on net profit (Continued)

(ii) Deferred income tax and social contributions (Continued)

In situations of cumulative losses over a three year period, temporary difference assets in excess of temporary difference liabilities do not have the respective tax asset recognized; nor is an asset recognized for tax losses not used to offset against the 30% of tax liabilities.

2.2.17 Other current and non-current liabilities

These liabilities are stated at their known or estimated amounts, plus, when applicable, the corresponding charges and inflation-indexed variations through the balance sheet date, which contra-entry is included in income for the year. Where applicable, current and non-current liabilities are recorded at present value based on interest rates that reflect the term, currency and risk of each transaction.

2.2.18 Stock option plans

As approved by its Board of Directors, the Company offers to selected executives and employees share-based compensation plans ("Stock Options"), according to which services are received as consideration for granted options.

The fair value of services received from the plan participants, in exchange for options, is determined in relation to the fair value of the options, on the grant date of each plan, and recognized as expense with a corresponding entry against shareholders' equity as service is rendered throughout the vesting period.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.18 Stock option plans (Continued)

In an equity-settled transaction, in which the plan is modified, a minimum expense recognized corresponding to the expense that would have been recorded if the terms have not been changed. An additional expense is recognized for any modification that increases the total fair value of granted options, or that otherwise benefits, the employee, measured on the modification date. In case of cancellation of a stock option plan, this is treated as if it had been granted on the cancellation date, and any unrecognized plan expense is immediately recognized. However, if a new plan replaces the cancelled plan, and a substitute plan is designated on the grant date, the cancelled plan and the new plan are treated as if they were a modification of the original plan, as previously mentioned.

2.2.19 Other employee benefits

The benefits granted to the Company's employees and management include fixed compensation (salaries, social security contributions (INSS), Government Severance Indemnity Fund for Employees (FGTS), vacation and 13th monthly salary) and variable compensation such as profit sharing, bonus, and share-based payment. These benefits are recorded in income for the year, under the account "General and administrative expenses", as they are incurred.

The bonus system operates with individual corporate targets, structured based on the efficiency of corporate goals, followed by the business ones and, finally, individual goals. The Company and its subsidiaries do not offer private pension or retirement plans or other post-employment benefits.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.20 Present value adjustment – assets and liabilities

Assets and liabilities arising from long or short-term transactions, are adjusted to present value if significant.

In installment sales of not completed units, real estate development entities have receivables adjusted by inflation index, including the installment related to the delivery of units, without accrual of interest, and shall be discounted to present value, as the agreed inflation indexes do not include interest. The reversal of the adjustment to present value, considering that an important part of the Company's activities is to finance its customers, is recorded as revenue, consistent with the interest accrued on the portion of account receivable related to the period after the release period.

Borrowing costs for amounts used to finance the construction of real estate ventures are capitalized. Therefore, the reversal of the present value adjustment of an obligation related to these items is appropriated to the cost of real estate unit sold or to the inventories of properties for sale, as the case may be, until the period of construction of the project is completed.

Accordingly, certain asset and liability items are adjusted to present value based on discount rates that reflect management's best estimate of the value of the money over time. The applied discount rate's underlying economic basis and assumption is the average rate of the financing and loans obtained by the Company, net of the inflation-index effect (Note 5.i).

2.2.21 Debenture and public offering costs

Transaction costs and premiums on issuance of securities, as well as share issuance expenses, are accounted for as a direct reduction of capital raised. In addition, transaction costs and premiums on issuance of debt securities are amortized over the terms of the instrument and the net balance is classified as reduction of the respective transaction (Notes 10 and 17).

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.22 Borrowing costs

The borrowing costs directly attributable to ventures during the construction period and land, when the development of the asset for sale is being performed, shall be capitalized as part of the cost of that asset, since there are borrowings outstanding, which are recognized in income to the extent units are sold, the same criteria for other costs. All other borrowing costs are recorded as expense when incurred. Borrowing costs comprise interest and other related costs incurred, including those for raising finance.

2.2.23 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable future economic benefits are required to settle the payable, and a reliable estimate can be made of the amount of the obligation.

(i) Provision for legal claims

The Company is party to various lawsuits and administrative proceedings. Provisions are recognized for all contingencies related to lawsuits, in which it is probable that an outflow of resources will be made to settle the contingency, and a reliable estimate can be made. The assessment of the probability of loss includes the evaluation of available evidence, the hierarchy of Laws, the available case law, the most recent court decisions, and their relevance in the legal system, as well as the opinion of external legal counsel. Provisions are reviewed and adjusted to take into account the change in circumstances, such as the statute of limitations, findings of tax inspections, or additional identified exposures based on new issues or court decisions.

Contingent liabilities for which losses are considered possible are only disclosed in a note to financial statements, and those for which losses are considered remote are neither accrued nor disclosed. Contingent assets are recognized only when there are real guarantees or favorable final and unappealable court decisions. Contingent assets with probable favorable decisions are only disclosed in the notes.

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.23 Provisions (Continued)

(ii) Allowance for doubtful account and cancelled contracts

The Company reviews annually 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.

The Company records an allowance for doubtful accounts and cancelled contracts for customer whose installments are over 180 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 (Note 2.2.2 and recorded as a reduction of operating revenue).

(iii) Provision for penalties due to delay in constructions work

As provided for in contract, the Company adopts the practice of provisioning the charges payable to customers for projects with over 180 days of delay to their handover, according to the respective contractual clause. This provision is recorded within “other operating expenses” in the statement of income.

(iv) Warranty provision

The Company and its subsidiaries recognize a provision to cover expenditures for repairing construction defects covered during the warranty period, except for the subsidiaries that operate with outsourced companies, which are the direct guarantors of the constructions services provided. In case of the outsourced companies do not cover the related costs, the Company is the guarantor. The warranty period is five years from the delivery of the unit and is recorded within “cost of real estate and development and sale” in the statement of income.

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Notes to the consolidated financial statements--Continued
December 31, 2011
(Amounts in thousands of Brazilian Reais, except as stated otherwise)

2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.23 Provisions (Continued)

(v) Provision for impairment of non-financial assets

Management reviews annually, at each balance sheet date, the carrying amount of non-financial assets with the objective of evaluating events or changes in economic and operational circumstances that may indicate impairment. When such evidence is found, the carrying amount exceeds the recoverable amount, so a provision for impairment is recorded, adjusting the carrying to the recoverable amount. The goodwill and intangible assets with indefinite useful lives have the recovery of their amounts tested annually, regardless if there are any indications of impairment. This test is performed determining the present value of the asset, using a discount rate before taxes that reflect the weighted average cost of capital.

(vi) Provision for non recognition of the deferred tax asset balance

The Company’s projections assume that a significant portion of its business will be conducted in its principal holding companies, and this enables the recovery of a substantial portion of it is accumulated tax losses.

However, several external factors, beyond of the Company, 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 the Company intends. There is also the possibility of taxation rulings, relating to new or even ventures that have already been developed within the principal holding companies, which may require the exclusion of such businesses, which would then make their own tax filing, separated 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 did not recognize a portion of deferred income tax asset (Note 18).

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Notes to the consolidated financial statements--Continued
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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.24 Sales taxes

Revenues, expenses and assets are recognized net of sales taxes, PIS and Cofins, except the following:

- When the sales taxes incurred in the purchase of goods or services are not recoverable from tax authorities as a portion of the acquisition cost of the asset or expense item, as the case may be; and
- When the amounts receivable and payable are shown together with the sales taxes.

The amount of net sales taxes, recoverable or payable, is included as a receivables or payable item in the balance sheet.

2.2.25 Statements of cash flows and value added

The statement of cash flows are prepared and presented in accordance with CVM Resolution No. 641, of October 7, 2010, which approved the accounting pronouncement CPC No. 03 (R2) – Statement of Cash Flows, issued by the CPC.

Certain debt agreements require the Company maintain short-term investments as guarantee for outstanding balances. Such investments are restricted while held in guarantee. The Company accounts for the purchases and sales of such investments as investing activities in the statement of cash flows.

The statement of value added for new Brazilian GAAP was prepared based on CPC 09 - “Demonstração do Valor Adicionado.” For US GAAP, this statement is not required.

2.2.26 Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statements upon purchase, sale, issue or cancellation of the Company’s own equity instruments.

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2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.27 Earnings (loss) per share – basic and diluted

Earnings (loss) per share are calculated by dividing the net income available to ordinary shareholders by the average number of shares outstanding over the period.

Diluted earnings per share are calculated similarly to the basic ones, except for the fact that the numbers of shares outstanding are increased to include the additional shares, which would have been considered in the basic earnings calculation, in case the shares with dilutive potential had been converted, as described in Note 25.

2.2.28 Comprehensive income (loss)

Except in relation to the income (loss) for the year, the Company does not have any other comprehensive income (loss). Accordingly, the statement of comprehensive income (loss) is not disclosed, because it is equivalent to the consolidated statement of operations for the year.

2.2.29 Business combination

The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issues by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The group recognizes any non-controlling interest in the acquire on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquiree´s net assets.

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December 31, 2011
(Amounts in thousands of Brazilian Reais, except as stated otherwise)

2. Presentation of financial statements and summary of significant accounting policies (Continued)

2.2 Summary of significant accounting policies (Continued)

2.2.29 Business combination (continued)

The excess of the consideration transferred the amount of any noncontrolling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

3. New pronouncement issued by the IASB

The following standards and the amendments to the existing standards were published and are mandatory for subsequent accounting periods. There was no early adoption of such standards or their amendments by the Company. We stress that there are no IFRS or IFRIC, neither improvements to the existing IFRS or IFRIC that are effective for first adoption in the year ended December 31, 2011 and that are significant to the Company and its subsidiaries.

- IFRS 7 – "Financial Instruments – Disclosure", issued in October 2010. The amendment to the standard on disclosure of financial instruments aims at promoting transparency in the disclosure of transfer transactions of financial assets to improve the user understanding about the risk exposure in these transfers, and the effect of these risks on the balance sheet, particularly those involving securitization of financial assets. The standard is applicable from January 1, 2013.

- IFRS 9 – "Financial instruments", issued in November 2009. IFRS 9 is the first standard issued as a part of a larger project to replace IAS 39. IFRS 9 maintains, however, it simplifies the measurement and establishes two main measurement categories of financial assets: amortized cost and fair value.

The classification basis depends on the business model of the entity and of the contractual characteristics of the cash flow of financial assets. The guidance included in IAS 39 on impairment of financial assets and recording of hedge continues to be applied. Prior years do not need to be restated if the entity adopts the standard for periods beginning on or before January 1, 2012. The standard is applicable from January 1, 2013.

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3. New pronouncements issued by IASB (Continued)

- IFRS 10 – “Consolidated financial statements”, issued in May 2011. This standard is based on principles existing relating to the identification of the concept of control as a determining factor whether an entity shall be consolidated in the financial statements. The standard provides additional guidance to assist in the determination of control when there are doubts in its assessment. The standard is applicable from January 1, 2013.

- IAS 28 – “Investments in associates”, IFRS 11 – “Joint arrangements” and IFRS 12 – “Disclosures of interests in other entities”, all of them issued in May 2011. The main change introduced by these standards is the removal of the option for proportionate consolidation of entities for which control is shared by an two or more parties and that is classified as a joint venture.

    - IFRS 11 defines the concepts of two classification types for arrangements:

(i) Joint operations – when the parties jointly control assets and liabilities, whether these assets are in a separate vehicle or not, according to the contractual provisions and the essence of the operation. In these arrangements, assets, liabilities, revenues and expenses are accounted for by the entities that participate in the joint operator arrangement in proportion to their rights and obligations.

(ii) Joint ventures – when the parties jointly control an entity and the profit or loss from this entity is divided between the parties. In these arrangements, the entity interest shall be accounted for using the equity method.

- IFRS 12 establishes qualitative disclosures that shall be made by the entity in relation to its interests in subsidiaries, joint arrangements or non-consolidated entities, which include the significant judgments and assumptions used to determine whether their interests provide control, significant influence or the type of joint arrangements, whether Joint Operations or Joint Ventures, as well as other information on the nature and extent of significant restrictions and associated risks. The standard is not applicable before January 1, 2013.

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3. New pronouncements issued by IASB (Continued)

- IFRS 13 – "Fair value measurement", issued in May 2011. The standard has the objective of improving the consistency and reducing the complexity of the disclosure required by the IFRSs. The requirements do not increase the fair value in accounting, however, it guides how it should be applied when its use is required or permitted by another standard. The standard is applicable from January 1, 2013, and there is no exemption for the application of the new disclosure requirements for comparative periods.

There are no other standards or interpretation issued until the issue of these financial statements.

The Company does not expect significant impacts on the consolidated financial statements in the first adoption of the new pronouncements and interpretations, except in relation to IFRS 11, as the Company currently uses the proportionate consolidation for ventures under joint control. The Company is assessing the potential impacts on its consolidated financial statements.

The Accounting Pronouncements Committee (CPC) has not issued the respective pronouncements and amendments related to the previously presented new and revised IFRS. Because of CPC and CVM's commitment to keeping the set of standards issued that were based on the updates made by the IASB updated, these pronouncements and amendments are expected to be issued by CPC and approved by CVM before the date of their mandatory application.

4. Cash and cash equivalents and short-term investments

4.1 Cash and cash equivalents

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Cash and banks	86,628	172,336	143,799
Securities purchased under agreement to resell (a)	50,970	84,046	109,762
Bank deposit certificates	-	-	39,379
Total cash and cash equivalents	137,598	256,382	292,940

(a) Securities purchased under agreement to resell are securities issued by Banks with at the repurchase commitment by the bank, and resale commitment by the customer, at rates and terms agreed upon, backed by private or government securities, depending on the bank and are registered with the CETIP.

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4. Cash and cash equivalents and short-term investments (Continued)

4.1 Cash and cash equivalents (Continued)

As of December 31, 2011 the securities purchased under agreement to resell earn interest from 70% to 102% of Interbank Deposit Certificates (CDIs) rate (from 98.25% to 104.00% of CDI in 2010 and from 98.25% to 102.00% of CDI in 2009). All transactions are made with financial institutions considered by management to be first class.

4.2 Short-term investments

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Investment funds	2,686	3,016	2,020
Government securities (LFT, LTN, NTN)	-	117,001	146,646
Bank deposit certificates (a)	466,753	183,562	152,309
Restricted cash in guarantee to loans (b)	59,497	453,060	732,742
Restricted credits (c)	306,268	171,627	97,396
Other (d)	10,858	16,500	-
Total short-term investments, restricted cash in guarantee to loans and restricted credit	846,062	944,766	1,131,113

(a) In 2011, Bank Deposit Certificates (CDBs) include interest earned varying from 75% to 110% (from 98% to 108.5% in 2010 and from 95% to 102% in 2009) of Interbank Deposit Certificates (CDIs). The CDBs in which the Company invests earn interest that is usually above 98% of CDI. However, we invest in short term (up to 20 working days) through securities purchased under agreement to resell for which interest is lower (from 75% of CDI). On the other hand, these investments are exempt from the tax on financial transactions (IOF), which is not the case of CDBs.

(b) Restricted cash in guarantee to loans are investments in fixed-income funds, whose shares represent investments only in federal government bonds, indexed to fixed rates or price indexes inflation variation, and made available when the ratio of restricted receivables in guarantee to debentures reaches 120% of the debt balance (Note 11). R$41,456 of total refers to financial investments, with fixed interest at 101% of CDI, with grace period of 90 days, related to the assignment of receivables described in Note 5 (v).

(c) Restricted credits are represented by onlending of the funds from associate credit (“crédito associativo”), a type of government real estate financing, which are in process of approval at the Caixa Econômica Federal (a federally owned Brazilian bank used for real estate financing). These approvals are made to the extent that contracts signed with clients at the financial institutions are regularized, which the Company expects to be in up to 90 days.

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4. Cash and cash equivalents and short-term investments (Continued)

4.2 Short-term investments (Continued)

(d) Additional Construction Potential Certificates (CEPACs). In fiscal year 2010, the Company acquired 22,000 Additional Construction Potential Certificates (CEPACs) in the Seventh Session of the Fourth Public Auction conducted by the Municipal Government of São Paulo, related to the consortium of Água Espraiada urban operation, totaling R$16,500. At December 31, 2011, the CEPACs, recorded in the account "Other", in the amount of R$10,799, have liquidity, with estimated fair value approximating cost, and are not planned to be used in project to be launched in the future. During 2011, the Company allocated a portion of CEPACs to new ventures. Such issue was registered with the CVM under the No. CVM/SER/TIC/2008/002, and according to CVM Rule No. 401/2003, CEPACs are put up for public auction with as intermediaries the institutions that take part in the securities distribution system.

As of December 31, 2011, 2010 and 2009, the amount recognized relating to open-end and assets of exclusive consolidated investment funds are classified as held for trading at fair value with movements being recorded against income for the year.

5. Trade accounts receivable, net

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Real estate development and sales (i)	5,438,850	5,217,792	3,812,004
(-) Allowance for doubtful accounts and cancelled contracts (i)	(514,654)	(227,542)	(48,102)
(-) Adjustments to present value	(109,152)	(104,666)	(86,925)
services and construction	11,404	59,737	96,005
Other receivables	-	6,653	3,664
	4,826,448	4,951,974	3,776,646
Current	3,962,574	3,704,709	2,252,474
Non-current	863,874	1,247,265	1,524,172

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5. Trade accounts receivable, net (Continued)

The current and non-current portions fall due as follows:

Maturity	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
2010	-	-	2,143,491
2011	-	4,036,917	1,144,940
2012	4,586,380	758,432	313,171
2013	545,882	311,042	98,783
2014	208,766	72,179	65,954
2015	27,429	35,358	145,334
2016 onwards	81,797	70,254	-
	5,450,254	5,284,182	3,911,673
(-) Adjustment to present value	(109,152)	(104,666)	(86,925)
(-) Allowance for doubtful account and cancelled contracts	(514,654)	(227,542)	(48,102)
	4,826,448	4,951,974	3,776,646

(i)The balance of accounts receivable from units sold and not yet delivered is not fully reflected in financial statements. Such receivables are only recorded to the extent that revenues have been recognized, net of installments already received.

Advances from clients (development and services), which exceed the revenues recorded in the period, at December 31, 2011, amount to R$215,042 (R$158,145 in 2010 and R$222,284 in 2009) without effect of adjustment to present value, and are classified in “Payables for purchase of land and advances from customers” (Note 16).

Accounts receivable from completed real estate units delivered are in general subject to annual interest of 12% plus IGP-M variation, the financial income being recorded in income under the account “Revenue”; the amounts recognized for the years ended December 31, 2011, 2010 and 2009 totaled R$44,016, R$26,229 and R$52,159, respectively.

The balance of allowance for doubtful account and cancelled contracts, net of real estate cost accounted for as properties for sale, is recorded in the amount of R$119,824 at December 31, 2011 (R$52,768 in 2010 and R$42,864 in 2009), and is considered sufficient by Company management to cover the estimate of future losses on realization of the accounts receivable balance.

The movements are summarized as follows:

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5. Trade accounts receivable, net (Continued)

	Allowance for doubtful accounts and cancelled contracts	Real estate cost in the recognition of the provision for cancelled contracts (Note 6)	2011 Net	2010 Net (restated)	2009 Net (restated)
Beginning balance	(227,542)	174,774	(52,768)	(42,864)	(30,012)
Additions	(287,112)	220,056	(67,056)	(9,904)	(12,852)
Closing balance	(514,654)	394,830	(119,824)	(52,768)	(42,864)

The reversal of the adjustment to present value recognized in revenue from real estate development for the year ended December 31, 2011 totaled R$4,486 (R$17,741 in 2010 and R$42,149 in 2011), respectively.

Receivables from real estate units not yet finished were measured at present value considering the discount rate determined according to the criterion described in Note 2.22. The rate applied by the Company and its subsidiaries stood at 4.18% for 2011 (5.02% in 2010 and 5.22% in 2009), net of Civil Construction National Index (INCC).

(ii) On March 31, 2009, the Company entered into a Credit Rights Investment Funds (FIDC) transaction, which consists of assignment of a portfolio comprising select residential and commercial real estate receivables arising from Gafisa and its subsidiaries. This portfolio was assigned and transferred to "Gafisa FIDC" which issued Senior and Subordinate shares. This first issuance of senior shares was made through an offering restricted to qualified investors. Subordinated shares were subscribed for exclusively by Gafisa. Gafisa FIDC acquired the portfolio of receivables with a discount rate equivalent to the interest rate on financing contracts.

Gafisa was hired by Gafisa FIDC and will be remunerated for performing, among other duties, the reconciliation of the receipt of receivables owned by the fund and the collection of past due receivables. The transaction structure provides for the substitution of the Company as a collection agent in case of non-fulfillment of the responsibilities described in the collection service contract.

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5. Trade accounts receivable, net (Continued)

The Company assigned its receivables portfolio amounting to R$119,622 to Gafisa FIDC in exchange for cash, at the transfer date, discounted to present value, for R$88,664. The subordinated shares represented approximately 21% of the amount issued, totaling R$18,958 (present value). At December 31, 2011, it totaled R$17,466 (R$16,895 in 2010 and R$14,977 in 2009) (Note 2.1.1. (a)). Senior and Subordinated shares receivable are indexed by IGP-M and incur interest at 12% per year.

In the consolidated financial statements as of December 31, 2011, receivables amounting to R$20,416 (R$34,965 in 2010 and R$55,349 in 2009) classified as trade accounts receivable, and R$2,950 (R$18,070 in 2010 and R$41,308 in 2009) classified as “Other payable” (Note 14). The balance of subordinated shares held by the Company is eliminated in the consolidation process.

(iii) On June 26, 2009, the Company entered into a CCI transaction, which consists of an assignment of a portfolio comprising select residential real estate credits from Gafisa and its subsidiaries. The Company assigned its receivables portfolio amounting to R$89,102 in exchange for cash, at the transfer date, discounted to present value, of R$69,315, classified under the account “Obligations assumed on assignments of receivable”. At December 31, 2011, it amounts to R$24,791 (R$35,633 in 2010 and R$55,479 in 2009) (Note 12).

On June 26, 2009, eight CCIs were issued, amounting to R$69,315 at the date of the issuance, for which were backed by receivables (“CCI-Investor”).

A CCI-Investor, pursuant to Article 125 of the Brazilian Civil Code, has general guarantees represented by statutory liens on real estate units, as soon as the following occurs: (i) the suspensive condition included in the registration takes place, in the record of the respective real estate units; (ii) the assignment of receivables from the assignors to SPEs, as provided for in Article 167, item II, (21) of Law No. 6015, of December 31, 1973; and (iii) the issue of CCI – Investor by SPEs, as provided for in Article 18, paragraph 5 of Law No. 10931/04.

Gafisa was hired and will be remunerated for performing, among other duties, 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 Gafisa as collection agent in case of non-fulfillment of the responsibilities described in the collection service contract.

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5. Trade accounts receivable, net (Continued)

(iv) On June 27, 2011, the Company and its subsidiaries entered into a Definitive Assignment of Real Estate Receivables Agreement - CCI. The purpose of said Assignment Agreement is the definitive assignment by the Assignor to the benefit of the Assignee. The assignment relates to a portfolio comprising select residential real estate receivables performed and to be performed arising out of Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$203,915 (R$185,210 – Gafisa's interest) in exchange for cash, at the transfer date, discounted to present value, for R$171,694 (R$155,889 – Gafisa's interest), recorded under the account "Obligations assumed on assignment of receivables" (Note 12). As of December 31, 2011, the balance of this transaction is R$169,793 in the consolidated statement (Note 12).

The Assigned Credits has criteria of eligibility for the acquisition on the date of signature of the Assignment Contract. After the settlement, the Company shall undertake to regularize the assigned contracts according to the eligibility criteria in up to 18 months.

During the regularization period, Gafisa was hired in a discretionary way and will be remunerated for performing, among other duties, receivables collection management, guarantee of the Assignment, and collection of past due receivables. After the regularization period, receivable management will be performed by an outsourced company, as provided under the transaction contract.

(v) On September 29, 2011, the Company and its subsidiaries entered into a Private Instrument for Assignment of Real Estate Receivables and Other Covenants. The purpose of said Assignment Agreement is the assignment by the Assignor ("Company") to the Assignee of a select portfolio of residential real estate receivables performed or to be performed from Gafisa and its subsidiaries, comprising the financial flow of the portfolio (installments, charges and the portion related to the handover of keys). The amount of real estate receivables assignment paid by the Assignee amounts to R$238,356 (R$221,376 – 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 and the remaining balance will be settled by issuance of Bank Deposit Certificate (CDB) in favor of the Company in the amount of R$41,456 (Note 4.2 (b)). The financial investment - CDB – has grace period of 90 days before released, as mentioned in Note 4.2 (a). As of December 31, 2011, the balance of this transaction amounts to R$188,191 in the consolidated statements (Note 12).

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5. Trade accounts receivable, net (Continued)

(vi) The Company and its subsidiaries entered into on December 22, 2011 a Contract for the Definitive Assignment of Real Estate Receivables (CCI). The subject of such Assignment Contract is the definitive assignment by the Assignor to the Assignee. The assignment relates to a portfolio comprising select residential real estate receivables performed and to be performed from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$72,384 in exchange for cash at the transfer date, discounted to present value, by R$60,097, classified into the account "Obligations with assignment of receivables". As of December 31, 2011, the balance of this transaction is R$72,384 in the consolidated statements (Note 12).

Gafisa was engaged to perform, among other duties, the management of the receipt of receivables, CCIs underlying assets, and the collection of defaulting customers.

The cost of these transactions was recorded in the statement of operations for the year in which the transaction was made under the account "Financial expenses".

The total balance of the assignment of receivables, recorded in current liabilities as of December 31, 2011 is R$501,971 (R$88,442 in 2010 and R$122,360 in 2009) (Note 12).

6. Properties for sale

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Land	1,209,400	854,652	744,200
(-) Provision for realization of land	(50,049)	-	-
(-)Adjustment to present value	(8,183)	(20,343)	(11,962)
Property under construction	1,181,950	924,066	870,661
Completed units	119,342	272,923	121,134
Real estate cost in the recognition of the provision for cancelled contracts (Note 5 (i))	394,830	174,774	24,424
	2,847,290	2,206,072	1,748,457
Current portion	2,049,084	1,707,892	1,332,374
Non-current portion	798,206	498,180	416,083

Gafisa S.A.

Notes to the consolidated financial statements--Continued
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6. Properties for sale (Continued)

The Company has undertaken commitments to build units in exchange for land, accounted for based on the fair value of the bartered units. At December 31, 2011, the balance of land acquired through barter transactions totaled R$83,506 (R$86,228 in 2010 and R$40,054 in 2009) (Note 16).

As disclosed in Note 10 the balance of financial charges at December 31, 2011 amounts to R$221,814 (R$146,542 in 2010 and R$91,568 in 2009).

The adjustment to present value in the property for sale balance refers to the contra-entry to the adjustment to present value of payables for purchase of land with no income statement effect (Note 16). The total amount of the reversal of the adjustment to value recognized in the costs of real estate development in the year ended December 31, 2011 amounts R$602 (R$837 in 2010).

7. Other accounts receivable

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Advances to suppliers	7,309	16,965	65,016
Credit assignment receivable	-	7,896	4,087
Customer financing to be released	-	1,309	5,266
Recoverable taxes (IRRF, Pis, Cofins, among other)	85,057	63,546	39,732
Judicial deposit (Note 15)	108,436	89,271	48,386
Other	3,426	44,229	39,284
	204,228	223,216	201,771
Current portion	60,378	103,109	101,569
Non-current portion	143,850	120,107	100,202

8. Land available for sale

The Company, in line with the new strategic direction implemented in the end of 2011, opted to sell land not included in the Business Plan approved for 2012. Therefore, it devised a specific plan for the sale of such land in 2012. The carrying amount of such land, adjusted to market value when applicable, after the test for impairment (Note 6), is shown by company as follows:

Segment	Cost	Provision for impairment	Net Balance

Gafisa	93,464	(27,495)	65,969
Tenda	41,730	(14,511)	27,219
	135,194	(42,006)	93,188

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9. Intangible assets

The breakdown is as follows:

Goodwill	12/31/2009	Additions	Write-down / amortization	12/31/2010 (restated)	Additions	Write-down / amortization	Provision for impairment	12/31/2009 (restated)
AUSA	152,856	-	-	152,856	-	-	-	152,856
Cipesa	40,686	-	-	40,686	-	-	(10,430)	30,257
	193,542	-	-	193,543	-	-	(10,430)	183,113
Software (a)	11,144	20,370	(3,227)	28,286	35,892	(17,807)	-	46,371
	204,686	20,370	(3,227)	221,829	35,892	(17,807)	(10,430)	229,484

(a) Refers to expenditures on acquisition and implementation of information systems and software licenses, amortized in five years (20% per year).

Goodwill arises from the acquisition of subsidiaries, being the difference between the consideration transferred and the fair value of net assets of acquired, calculated on acquisition date, and is based on expected future economic benefits. These amounts are annually tested for impairment purposes (see details in Note 2.1.1).

The Company evaluated the recovery of the carrying amount of goodwill using the “value in use” concept, through discounted cash flow models of the cash-generating units. The process for determining the value in use involves the use of assumptions, judgments and estimates on cash flows, such as growth rate of revenues, costs and expenses, estimates of investment and future working capital, and discount rates. The assumptions on projections of growth, cash flow and future cash flows are based on the Company’s business plan, approved by the management, as well as on comparable market data, and represent the Management’s best estimate of the economic conditions that will prevail during the economic life of the different cash-generating units, group of assets that provides the generation of cash flows. The future cash flows were discounted based on the rate representative of the cost of capital (as mentioned in Note 5(i)). Consistent with the economic valuation techniques, the evaluation of the value in use is made for a five-year period, and after such period, considering the perpetuity of assumptions in view of the capacity for indefinite business continuity. The main assumptions used in the estimate of value in use are the following: revenue – revenues were projected between 2012 and 2016 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. The recovery test of Company’s intangible assets resulted in the need for recognizing a provision for impairment in the year ended December 31, 2011 in the amount of R$10,430, related to the goodwill on acquisition of CIPESA.

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10. Loans and financing

Type of operation	Original Maturity	Annual interest rate	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Certificate of Bank Credit – CCB (i)	August 2013 to June 2017	1.30 % to 2.20% + CDI	937,019	664,471	736,736
Promissory notes (ii)	December 2012	125% to 126% of CDI	231,068	-	-
National Housing System (i)	February 2012 to August 2015	TR + 8.30 % to 12.68%	684,642	745,707	467,019
Other	April 2013	TR + 12%	3,881	-	-
			1,856,610	1,410,178	1,203,755
Current portion			1,135,543	797,903	678,312
Non-current portion			721,067	612,275	525,443

Rates

- CDI - Interbank Deposit Certificate;
- TR - Referential Rate.

The current and non-current installments fall due as follows at present value, considering the loans and financing reclassified into short term due to the Company’s default position on certain debt covenants as at December 31, 2011.

Maturity	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
2010	-	-	678,312
2011	-	797,903	413,583
2012	1,135,543	245,166	71,854
2013	215,263	119,912	40,006
2014	222,693	247,197	-
2015	152,006	-	-
2016 forwards	131,105	-	-
	1,856,610	1,410,178	1,203,755

(i) Funding for real estate projects – National Housing System (SFH) and for working capital and CCB correspond to credit lines from financial institutions using the funding necessary for the development of the Company's ventures and subsidiaries;

On June 27, 2011, eight certificates of bank credit (CCBs) were issued in the Company, totaling R$65,000. CCBs are guaranteed by 30,485,608 shares issued by Gafisa SPE-89 Empreendimentos Imobiliários S.A. In AUSA, eight CCBs

were issued, totaling R$55,000. CCBs are guaranteed by 500,000 units shares issued by Alphaville Ribeirão Preto Empreendimentos Imobiliários S.A.

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10. Loans and financing (Continued)

Funds from the aforementioned CCBs were allocated to develop residential projects. The CCBs contain restrictive covenants related mainly to the leverage and liquidity ratios of the Company. Except the cross restrictive covenants mentioned below, these covenants were complied with on December 31, 2011.

(ii) On December 5, 2011, the public distribution with restrict efforts of the 2nd issuance of Commercial Promissory Notes was approved in two series, the first in the amount of R$150,000 and the second in the amount of R$80,000, totaling R$230,068. As of December 31, 2011, the issuance balance is R$231,000. The issuance count on covenants mainly related to the fulfillment of leverage and liquidity ratios of the Company. Except for the cross restrictive covenants mentioned below, these covenants were complied with on December 31, 2011.

Loans and financing are guaranteed by sureties of the Company, mortgage of the units, as well as collaterals of receivables, and the inflow of contracts already signed on future delivery of units. Additionally, the Company has credit lines approved by financial institutions for venture construction and not used.

The Company and its subsidiaries have restrictive covenants under certain loans and financing that limit its ability to perform certain actions, such as the issuance of debt, and that could require the early redemption or refinancing of loans if the Company does not fulfill such covenants. The ratio and minimum and maximum amounts required under such restrictive covenants at December 31, 2011, 2010 and 2009 are disclosed in Note 11.

In view of the cross restrictive covenants of some CCB issuances and the non-compliance with the covenants of the Seventh Placement of Gafisa and the First Placement of Tenda (Note 11) of the Debenture Placement Program, the non-current portions of such placements were fully reclassified into short term, as shown below. As described in Note 28, in 2012 the Company renegotiated the covenants of its debentures with debenture holders and is in compliance with the new covenants arising from such renegotiation.

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10. Loans and financing (Continued)

The impact on original maturity of the Company's default of bank covenants as at December 31, 2011 is shown below:

Type of operation	Short term	Long term
Maturity original		
Certificate of Bank Credit (CCB)	141,919	795,100
Promissory notes	231,068	-
Housing Financial System	467,165	217,477
Assumption of debt in connection with inclusion of subsidiaries' debt	3,131	750
	843,283	1,013,327
Reclassification by default		
Certificates of Bank Credit (CCB)	292,260	(292,260)
	1,135,543	721,067

Financial expenses of loans, financing and debentures are capitalized at cost for each project, according to the use of funds, and transferred to the income statement based on the criteria adopted for recognizing revenue, as shown below. The capitalization rate used in the determination of costs of loans eligible to capitalization was 11.61% at December 31, 2011 (11.58% in 2010 and 9.57% in 2009).

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Total financial expenses for the year	491,726	404,172	338,644
Capitalized financial charges	(238,850)	(193,970)	(98,072)
Financial expenses (Note 23)	252,876	210,202	240,572
Financial charges included in "Properties for sale"			
Opening balance (Note 6)	146,542	91,568	88,200
Capitalized financial charges	238,850	193,970	98,072
Charges appropriated to income	(163,578)	(138,996)	(94,704)
Closing balance (Note 6)	221,814	146,542	91,568

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11. Debentures

Program/placement	Principal R$	Annual interest	Original maturity final	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Second program/ first placement – Fourth placement	240,000	CDI + 2% to 3.25%	September 2011 (called away in September 2010)	-	-	198,254
Third program/ First placement – Fifth placement (i)	250,000	107.20% of CDI	June 2013	253,592	253,355	252,462
Sixth placement (ii)	250,000	CDI + 2% to 3.25%	June 2014	124,851	109,713	260,680
Seventh placement (iii)	600,000	TR + 10.20%	December 2014	601,234	598,869	595,725
Eighth placement / First placement (v)	288,427	CDI + 1.95%	October 2015	293,819	293,661	-
Eighth placement / Second placement (v)	11,573	IPCA + 7.96%	October 2016	12,680	11,898	-
First placement (Tenda) (iv)	600,000	TR + 8.22%	April 2014	613,024	612,435	611,256
				1,899,200	1,879,931	1,918,377
Current portion				1,899,200	26,532	122,377
Non-Current portion				-	1,853,399	1,796,000

The impact on original maturity of the Company’s default of bank covenants as at December 31, 2011 is show bellow.

Current and non-current installments are due as follows at present value, considering the debentures classified in short term due to the Company's default position with certain loan covenants as at December 31, 2011:

Maturity	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
2010	-	-	122,377
2011	-	26,532	346,000
2012	1,899,200	272,557	275,000
2013	-	722,557	725,000
2014	-	558,707	450,000
2015	-	293,866	-

2016 onwards	-	5,712	-
	1,899,200	1,879,931	1,918,377

(i) In May, 2008, the Company obtained approval for its Third Debenture Placement Program, which allows it to place R$1,000,000 in simple debentures with a general guarantee maturing in five years.

Under the Second and Third Programs of Gafisa, the Company placed 24,000 and 25,000 series debentures, respectively, corresponding to R$240,000 and R$250,000, with the below features

(ii) In August 2009, the Company obtained approval for its Sixth placement of non-convertible simple debentures in two series, with a general guarantee, maturing in two years and unit face value at the issuance date of R$10,000, totaling R$250,000. In May 2010, the Company made an amendment to change the maturity from four to ten months.

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11. Debentures (Continued)

(iii) In November, 2009, the Company obtained approval for its Seventh placement of nonconvertible simple debentures in a single and undivided lot, sole series, secured by a floating and additional guarantee, in the total amount of R$600,000, maturing in five years.

(iv) In April, 2009, the subsidiary Tenda obtained approval for its First Debenture Placement Program, which allowed it to place up to R$600,000 in non-convertible simple subordinated debentures, in a single and undivided lot, secured by a floating and additional guarantee, with semi-annual maturities between October 1, 2012 and April 1, 2014. The funds raised through the placement will be exclusively used for the financing of real estate ventures focused only in the popular segment.

(v) In September 2010, the Company obtained approval for its Eighth placement of nonconvertible simple debentures, in the amount of R$300,000, in two series, the first maturing on October 15, 2015, and the second on October 15, 2016.

The Company has restrictive debenture covenants which limit its ability to perform certain actions, such as the issuance of debt, and that could require the early redemption or refinancing of loans if the Company does not fulfill these. In view of the cross restrictive covenants and the non-compliance with the covenants of the Fifth and Seventh Placement of Gafisa and the First Placement of Tenda, the non-current portions of all placements were fully reclassified into short term. Such covenants were renegotiated in a subsequent period, according to Note 28.

As mentioned in Note 4.2, the balance of short-term investments in guarantee to loans in investment funds in the amount of R$365,765 at December 31, 2011 (R$624,687 in 2010 and R$830,138 in 2009) is used to cover the ratio of restrictive debenture covenants.

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11. Debentures (Continued)

The actual ratios and minimum and maximum amounts stipulated by these restrictive covenants at December 31, 2011 and 2010 and 2009 are as follows:

Fifth placement	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Total debt less venture debt, less cash and cash equivalents and short-term investments (1) cannot exceed 75% of equity	78.79%	37.62%	1%
Total account receivable plus inventory of finished units required to be 2.2 times over net debt	3.48 times	4.47 times	2.3 times
Seventh placement			
The quotient of the division of EBIT(2) by the net financial expense shall be lower than 1.3, EBIT being positive at all times	3.25 times	-5.2 times	-5.9 times
Total account receivable plus inventory of finished units required to be 2.0 times over net debt less debt of projects (3)	14.27 times	85.4 times	292.3 times
Total debt less debt of projects, less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interest	31.8%	3.6%	1%
Eighth placement – first and second placement			
Total account receivable plus inventory of finished units required to be 2.0 times over net debt less debt of projects	14.27 times	85.4 times	N/A
Total debt less debt of projects, less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interest	31.8%	3.6%	N/A
First placement – Tenda			
The EBIT (2) balance shall be 1.3 times over the net financial expense or equal or lower than zero and EBIT higher than zero	39.35 times	4.3 times	24.8 times
The debt ratio, calculated as total account receivable plus inventory, divided by net debt plus project debt, must be > 2 or < 0, where TR (4) + TE (5) is always > 0	-6.5 times	-11.8 times	-4.7 times
The Maximum Leverage Ratio, calculated as total debt less general guarantees divided by equity, must not exceed 50% of equity.	-40.83%	21.96%	-31%

(1) Cash and cash equivalents and short-term investments refer to cash and cash equivalents, short-term investments, restricted cash in guarantee to loans, and restricted credits.
(2) EBIT refers to earnings less selling, general and administrative expenses plus other net operating income.

(3) Project 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 receivables
(5) Total inventory of properties for sale

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11. Debentures (Continued)

As of December 31, 2011, the Company exceeded what was provided for in the restrictive covenants of the First Placement of Tenda and the Seventh Placement of Gafisa because of the EBIT was lower than zero, and of the Fifth Placement of Gafisa because the ratio was higher than 75% of equity. However, as described in Note 28, the Company renegotiated the restrictive covenants of its debentures with debenture holders and is in compliance with the new covenants arising from such renegotiation.

12. Obligations assumed on assignment of receivables

The Company's transactions of assignment of receivables portfolio, described in Notes 5(iii) to 5(vi) are as follows:

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Assignment of receivables:			
CCI obligation Jun/09 (Note 5(iii))	24,791	35,633	55,479
CCI obligation Jun/11 (Note 5(iv))	169,793	-	-
CCI obligation Sep/11 (Note 5(v))	188,191	-	-
CCI obligation Dec/11 (Note 5(vi))	72,384	-	-
Other	46,812	52,809	66,881
	501,971	88,442	122,360
Current portion	70,745	88,442	122,360
Non-current potion	431,226	-	-

These transactions have right of recourse and, accordingly, are classified into a separate account in current and non-current liabilities.

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13. Payables to venture partners

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Payable to venture partners (a)	401,931	404,264	311,004
Usufruct of shares (b)	71,255	-	-
	473,186	404,264	311,004
Current portion	219,796	24,264	11,004
Non-current portion	253,390	380,000	300,000

(a) In January 2008, the Company formed an unincorporated venture (SCP), the main objective of which is to hold interest in other real estate development companies. As of December 31, 2011, the SCP received contributions of R$313,084 (represented by 13,084,000 Class A units of interest fully paid-in by the Company and 300,000,000 Class B units of interest from the other venture partners). The SCP will preferably use these funds to acquire equity investments and increase the capital of its investees. As a result of this operation, considering that the decision to invest or not is made jointly by all members, thus independent from the Company’s management decision, as of December 31, 2011, payables to venture partners was recognized in the amount of R$300,000 maturing on January 31, 2014. The venture partners receive an annual minimum dividend substantially equivalent to the variation in the Interbank Deposit Certificate (CDI) rate, as of December 31, 2011, the amount accrued totaled R$14,963. The SCP's charter provides for the compliance with certain covenants by the Company, in its capacity as lead partner, which include the maintenance of minimum indices of net debt and receivables. As of December 31, 2011, 2010 and 2009, the SCP and the Company were in compliance with these clauses.

In April 2010 subsidiary Alphaville Urbanismo S.A. paid-in the capital of an entity, the main objective of which is the holding of interest in other companies, which shall have as main objective the development and carrying out of real estate ventures. As of December 31, 2011, this entity subscribed capital and paid-in capital reserve amounting to R$161,720 (comprising 81,719,641 common shares held by the Company and 80,000,000 preferred shares held by other shareholders). As a result of this transaction, taking into consideration the rights to which the holders of preferred shares are entitled, such as payment of fixed dividends and redemption, as of December 31, 2011, payables to investors/venture partners are recognized at R$80,000, with final maturity on March 31, 2014. The preferred shares shall pay cumulative fixed dividends, substantially equivalent to the variation of the General Market Prices Index (IGP-M) plus 7.25% p.a., as of December 31, 2011, the provisioned amount totals R$6,968. The Company’s articles of incorporation sets out that certain matters shall be submitted for approval from preferred shareholders through vote, such as the rights conferred by such shares, increase or reduction in capital, use of profits, set up and use of any profit reserve, and disposal of assets. As of December 31, 2011, 2010 and 2009, the Company is in compliance with the above-described clauses.

Dividend amounts are reclassified as consolidated financial expenses in the financial statements.

(b)

As part of the funding through issuance of Certificates of Bank Credit– CCB, described in Note 10, the Company and subsidiary AUSA entered into a paid usufruct agreement in connection with 100% of the preferred shares in SPE-89 Empreendimentos Imobiliários S.A. and Alphaville Ribeirão Preto Empreendimentos Imobiliários S.A., for a period of six years, having raised R$45,000 and R$35,000, respectively, recorded based on the effective interest method of amortization in the consolidated income statement.

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14. Other payables

	12/31/011	12/31/2010 (restated)	12/31/2009 (restated)
Acquisition of interests	20,560	23,062	21,090
Provision for penalties for delay in construction works	51,211	-	-
Rescission reimbursement payable and provisions	88,279	31,272	28,573
FIDC payable (a)	2,950	18,070	41,308
Provision for warranty	53,715	39,025	25,082
Deferred sales taxes	26,341	29,328	-
Sale taxes payable (Federal VAT)	110,733	101,401	91,709
Other accounts payable	63,282	36,777	73,958
	417,071	278,935	281,720
Current portion	274,214	37,167	72,293
Non-current portion	142,857	241,768	209,427

(a) Refers to the operation on assignment of receivables portfolio (see Note 5(ii))

15. Provisions for legal claims and commitments

The Company and its subsidiaries are party to lawsuits and administrative claims at various courts and government agencies that arise from the ordinary course of business, involving tax, labor, civil lawsuits and other matters. Management, based on information provided by its legal counsel and analysis of the pending claims and, with respect to the labor claims, based on past experience regarding the amounts claimed, recognized a provision in an amount considered sufficient to cover probable losses.

In the year ended December 31, 2011, 2010 and 2009, the changes in the provision are summarized and detailed as follows:

Summary of changes in provision:

Balance at January 1, 2009	57,364
Additions	85,784
Write-offs	(21,809)
Balance at December 31, 2009	121,339
Additions	36,655
Write-offs	(19,302)
Balance at December 31, 2010	138,692
Additions	57,902
Write-offs	(26,805)

Balance at December 31, 2011	169,789
Current portion	34,875
Non-current portion	134,914

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15. Provisions for legal claims and commitments (continued)

Detailed of changes in provision for 2011 and 2010 are as follows:

Consolidated	Civil claims (i)	Tax claims (ii)	Labor claims (iii)	Total
Balance at December 31, 2009 (restated)	92,821	10,894	17,624	121,339
Additional provision	18,432	1,869	16,354	36,655
Payment and reversal of provision not used	(8,425)	(655)	(10,222)	(19,302)
Balance at December 31, 2010 (restated)	102,828	12,108	23,756	138,692
Additional provision	22,874	4,379	30,649	57,902
Payment and reversal of provision not used	(11,525)	(635)	(14,645)	(26,805)
Balance at December 31, 2011	114,177	15,852	39,760	169,789
Current portion				34,875
Non-current portion				134,914

Due to the uncertain nature of a number of the claims, it is not possible to reliably predict the timing of the related cash outflow. Thus, the segregation between current and long term amounts is determined based on historical losses and outflows.

(a) Civil, tax and labor claims

(i) As of December 31, 2011, 2010 and 2009 the provisions related to civil claims include R$73,722, R$72,806 and R$71,322, respectively, related to lawsuits in which the Company is included as successor in enforcement actions, in which the original debtor is a former shareholder of Gafisa, Cimob Companhia Imobiliária ("Cimob"), among other companies. The plaintiff understands that the Company should be liable for the debts of Cimob. Some lawsuits, amounting to R$6,576, R$6,613 and R$17,678, respectively, are backed by guarantee insurance; in addition, there are judicial deposits amounting to R$53,318, R$63,587 and R$64,822, respectively, in connection with the restriction of the usage of the Gafisa's bank account; and there is also the restriction referring to the use of Gafisa's treasury stock to guarantee the enforcement as well.

The Company is filing appeals against all decisions, as it considers that the inclusion of Gafisa in the claims is 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 final decision on the Company's appeal, however, cannot be predicted at present.

(ii) The subsidiary AUSA 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 option.

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15. Provisions for legal claims and commitments (Continued)

The likelihood of loss in the ICMS case is rated by legal counsel as (i) probable in regard to the principal and interest, and (ii) remote in regard to the fine for noncompliance with accessory liabilities. The amount of the contingency rated by legal counsel as a probable loss reaches R$11,801 is provisioned at December 31, 2011 (R$11,029 in 2010 and R$10,438 in 2009).

(iii) As of December 31, 2011, the Company was subject to labor lawsuits, which had the most varied characteristics and at various court levels and is awaiting judgment. These claims corresponded to a total maximum risk of R$116,983 (R$80,671 in 2010). Based on the opinion of the Company's legal counsel and the expected favorable outcome, and the negotiation that shall be made, the provisioned amount is considered sufficient by the management to cover expected losses.

Based on average past outcomes adjusted to current estimates, for which the Company's Management believes it is not necessary to recognize a provision for occasional losses.

(iv) Environmental risk

There are various environmental laws at the federal, state and municipal levels. These environmental laws may result in delays for the Company in connection of adjustments for compliance and other costs, and impede or restrict ventures. Before acquiring a land, the Company assesses all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, residual substance, trees, vegetation and the proximity of the land to permanent preservation areas. Therefore, before acquiring a land, the Company obtains all governmental approvals, including environmental licenses and construction permits.

In addition, the environmental legislation establishes criminal, civil and administrative sanctions to individuals and legal entities for activities considered as environmental infringements or offense. The penalties include the cessation of development activities, loss of tax benefits, confinement and fines.

As of December 31, the Company and its subsidiaries have judicially deposited the amount of R$108,436 (R$89,271 in 2010 and R$48,386 in 2009) in the consolidated statements (Note 7) in connection with the aforementioned legal claims.

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15. Provisions for legal claims and commitments (Continued)

(v) Lawsuits in which likelihood of loss is rated as possible

The Company and its subsidiaries are aware of other claims and civil, labor and tax risks at December 31, 2011, based on the assessment of the legal counsel, in which loss is possible, but not probable, in the approximate amount of R$489,549 (R$209,634 in 2010 and R$91,372 in 2009) based on the historical average of processes, for which the Company understands that it is not appropriate to record a provision.

Civil claims	Tax claims	Labor claims	Total
346,800	54,284	88,465	489,549

(b) Payables related to the completion of real estate ventures

The Company and its subsidiaries are committed to deliver real estate units that will be built in exchange for the acquired land, and to guarantee the release of financing, in addition to guarantee the installments of the financing to clients over the construction period.

The Company is also committed to complete units sold and to comply with the Laws regulating the civil construction sector, including the obtainment of licenses from the proper authorities, and compliance with the terms for starting and delivering the ventures, being subject to legal and contractual penalties.

As described in Note 4.2, at December 31, 2011, the Company and its subsidiaries have resources approved and recorded as financial investments guaranteed which will be released as projects progress in the total amount of R$59,497 (R$453,060 in 2010 and R$732,742 in 2009) to meet these commitments.

(c) Commitments

In addition to the commitments mentioned in Notes 2.1.1, 6, 10 and 11, the Company has the following other commitments:

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15. Provisions for legal claims and commitments (Continued)

(c) Commitments (Continued)

(i) The Company has contracts for the rental of 28 properties where its facilities are located, the monthly cost amounting to R$1,116 adjusted by the IGP-M/FGV variation. The rental term is ten years and there is a fine in case of cancelled contracts corresponding to three-month rent or in proportion to the contract expiration time (2010 – contracts for the rental of 14 properties at a monthly cost of R$1,012 and 2009 – contracts for the rental of 9 properties at a monthly cost of R$525).

(ii) As of December 31, 2011, the Company, through its subsidiaries, has long-term obligations in the amount of R$24,858 (R$15,111 in 2010), related to the supply of the raw material used in the development of its real estate ventures.

16. Payables for purchase of properties and advances from customers

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Obligations for purchase of land	493,176	370,482	373,435
Adjustment to present value	(4,034)	(16,796)	(13,963)
Advances from customers			
development and sales (Note 5(i))	215,042	158,145	222,284
Barter transaction – land (Note 6)	83,506	86,228	40,054
	787,690	598,059	621,810
Current portion	610,555	420,199	475,409
Non-current portion	177,135	177,860	146,401

17. Equity

17.1 Capital

As of December 31, 2011, the Company's authorized and paid-in capital totaled R$2,734,157 (R$2,729,298 in 2010 and R$1,627,275 in 2009), represented by 432,699,559 (431,515,375 in 2010 and 167,077,137 in 2009 before the split) registered common shares without par value, of which 599,486 were held in treasury.

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17. Equity (Continued)

17.1 Capital (Continued)

According to the Company's articles of incorporation, capital may be increased without need of making amendment to it, upon resolution of the Board of Directors, which shall set the conditions for issuance until the limit of 600,000,000 (six hundred million) common shares.

On February 22, 2010, the split of our common shares was approved in the ratio of one existing share to two newly-issued shares, thus increasing the number of shares from 167,077,137 to 334,154,274.

In March 2010, the Company completed an Initial Public Offering of common shares, resulting in a capital increase of R$1,063,750 with the issuance of 85,100,000 common shares, comprising 46,634,420 shares in Brazil and 38,465,580 ADSs (Note 1). The expenditures with public offering was R$33,271 net of taxes, which were recorded in Equity.

On May 27, 2010, the increase in capital was approved in the amount of R$20,282 with the issuance of 9,797,792 common shares, arising from the acquisition of Shertis' shares (Notes 1 and 2).

During 2011, 2010 and 2009, capital increase was approved by R$4,959, R$17,891 and R$20,282, respectively, related to the stock option plan and the exercise of 1,184,184, 2,463,309 and 9,797,792 common shares, respectively.

In 2011, there was no movement in common shares held in treasury.

	Treasury shares - 12/31/2011				
Symbol	GFSA3				
Type	Common	R$	%	R$ thousand	R$ thousand
Acquisition date	Number	Weighted average price	% on shares outstanding	Market value	Carrying amount
11/20/2001	599,486	2.8880	0.14%	2,470	1,731

(*) Market value calculated based on the closing share price at December 30, 2011 of R$4.12, not considering volatilities.

The Company holds shares in treasury in order to guarantee the performance of claims (Note 15).
The change in the number of outstanding shares was as follows:

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17. Equity (Continued)

17.1 Capital (Continued)

	Common shares – in thousands
December 31, 2009 (restated)	166,777
Split of shares on February 22, 2010	166,777
Public offering	85,100
Subscription of Shertis shares	9,798
Exercise of stock option	2,463
December 31, 2010 (restated)	430,915
Exercise of stock option	1,184
December 31, 2011	432,099
Treasury shares	600
Authorized shares at December 31, 2011	432,699
Weighted average shares outstanding	431,586

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17. Equity (Continued)

17.2 Allocation of income for the year

According to the Company's by-laws, net income for the year was allocated as follows: (i) 5% to legal reserve, reaching up to 20% of capital stock or when the legal reserve balance plus that of capital reserves is in excess of 30% of capital stock, and (ii) 25% of the remaining balance to pay mandatory dividends.

As provided for in Article 36 of the Company's Bylaws, amended on March 21, 2007, the setting up of a statutory reserve became a requirement. Accordingly, the setting up of such reserve shall be carried out at an amount not in excess of 71.25% of net income, with the purpose of financing the expansion of the Company and its subsidiaries operations, including through subscription of capital increases or creation of new ventures, in consortia or other types of partnership in order to fulfill corporate objective.

On April 29, 2011, the distribution of declared dividends for 2010 was approved in the amount of R$98,812, which were paid on December 28, 2011. The allocation of net income for 2010 and the absorption of loss for 2011 by profit reserves, legal reserve and capital reserve were as follows:

	2011 (b)	2010 (restated)	2009 (restated)
Net income (loss) for the year	(944,868)	264,565	101,740
Retained earnings	-	-	111,800
(-) Legal reserve (5%)	44,986	(13,228)	(10,677)
(-) Reserve of income	502,418	(152,525)	(152,147)
(-) Capital reserve	295,445	-	-
(-) Declared dividends (a)	-	(98,812)	(50,716)
Balance of accumulated losses	(102,019)	-	-

(a) Declared dividends for 2010, paid in 2011, were held at the same value, even with the restatement of the financial statements for 2010.

(b) Reserves were used to absorb the loss of the year.

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17. Equity (Continued)

17.3 Stock option plan

Expenses for granting stocks recorded under the account "General and administrative expenses" (Note 22) in the years ended December 31 are as follows:

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Gafisa	15,429	8,135	9,764
Tenda	2,203	3,820	4,234
	17,632	11,955	13,998
Alphaville	1,640	969	428
	19,272	12,924	14,426

(i) Gafisa

The Company's Management uses the Binomial and Monte Carlo models for pricing the options granted because of its understanding that these models are capable of including and calculating with a wider range the variables and assumptions comprising the plans of the Company.

A total of six stock option plans are offered by the Company. The first plan was launched in 2000 and is managed by a committee that periodically creates new stock option plans, determining their terms, which, among other things, (i) define the length of service that is required for employees to be eligible to the benefits of the plans, (ii) select the employees that will be entitled to participate, and (iii) establish the purchase prices of the shares to be exercised under the plans.

To be eligible for the 2006 and 2007 plans, employees are required to contribute at least 70% of their annual bonus received to exercise the options, under penalty of losing the right to exercise all options of subsequent lots.

The stock option may be exercised in one to five years subsequent to the initial date of the service period established in each of the plans. The shares are usually available to employees over a period of ten years after their contribution.

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Notes to the consolidated financial statements--Continued
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17. Equity (Continued)

17.3 Stock option plan (Continued)

The Company and its subsidiaries record the amounts received from employees in an account of advances in liabilities. No advances were received in the years ended December 31, 2011, 2010 and 2009.

The stock option may be exercised in one to five years subsequent to the initial date of the service period established in each of the plans. The shares are usually available to employees over a period of ten years after their contribution.

The Company and its subsidiaries may decide to issue new shares or transfer the treasury shares to the employees in accordance with the clauses established in the plans. The Company and its subsidiaries have the right of first refusal on shares issued under the plans in the event of dismissals and retirement. In such cases, the amounts advanced are returned to the employees, in certain circumstances, at amounts that correspond to the greater of the market value of the shares (as established in the rules of the plans) and the amount inflation-indexed (IGP-M) plus annual interest at 3%.

In 2008, the Company and its subsidiaries issued a new stock option plan. In order to become eligible for the grant, employees are required to contribute from 25% to 80% of their annual net bonus to exercise the options within 30 days from the program date.

On June 26, 2009, the Company issued a new stock option plan by granting 1,300,000 options. In addition, the exchange of the 2,740,000 options of the 2007 and 2008 plans for 1,900,000 options granted under this new stock option plan was approved.

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Notes to the consolidated financial statements--Continued
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17. Equity (Continued)

17.3 Stock option plan (Continued)

(i) Gafisa (Continued)

The incremental fair value granted as a result of such modification is R$3,529, recognized to the extent services are provided by employees and management members.

The assumptions adopted for calculating the fair value to be used in the recognition of the stock option plan for 2009 were the following: expected volatility of 63.7% p.a., expected dividends on shares of 1.91%, and risk-free interest rate at 11.8% p.a. The volatility was set based on Gafisa's historical closing price of stock observed between December 28, 2007 and December 30, 2010.

From July 1, 2009, the Company's management opted for using the Binomial and Monte Carlo models for pricing the options granted in replacement for the Black-Scholes model, because on its understanding these models are capable of including and calculating with a wider range of variables and assumptions comprising the plans of the Company. The effect of this model replacement was brought about prospectively on July 1, 2009, with the recording of income amounting to R$6,599 for the year ended December 31, 2010.

On December 17, 2009, the Company issued a new stock option plan for granting 140,000 options. In addition, the exchange of the 512,280 options of the 2007 plan was approved for 402,500 options granted under this new stock option plan. The incremental fair value granted as result of these modifications is R$6,824. The assumptions made in the calculation of incremental value were as follows: expected volatility at 63.7%, expected dividends on shares at 1.91%, and average risk-free interest rate at 11.8%.

On August 4, 2010, a new stock option plan was issued by the Company for granting a total of 626,061 options. The assumptions adopted in the recognition of the stock option plan for 2010 were the following: expected volatility at 63.7%, expected dividends at 1.09%, and average risk-free interest rate at 11.8%. The volatility was determined based on Gafisa's historical closing price of stock observed between December 28, 2007 and December 30, 2010.

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Notes to the consolidated financial statements--Continued
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17. Equity (Continued)

17.3 Stock option plan (Continued)

(i) Gafisa (Continued)

On April 1, 2011, a stock option plan was issued by the Company, granting 1,435,000 options. The assumptions adopted in the recognition of the stock option plan for 2011 were: expected volatility at 61.5%, no dividends expected at 1.90%, and risk-free interest rate at 10.64%. The volatility was determined based on the regression analysis of the relation between the estimated volatility of Gafisa and that of Ibovespa.

On July 13, 2011, a stock option plan was issued by the Company, granting 11,420,000 options. The assumptions adopted in the recognition of the stock option plan for 2011 were: expected volatility at 40%, expected dividends at 1.90%, and risk-free interest rate at 12.16%. The volatility was determined based on the regression analysis of Gafisa's historical closing prices of stock.

As of December 31, 2011, 2010 and 2009, the changes in the number of stock options and corresponding weighted average exercise prices are as follows:

	2011		2010 (restated)		2009 (restated)	
	Number of options (ii)	Weighted average exercise price (Reais)	Number of options (ii)	Weighted average exercise price (Reais)	Number of options (ii)	Weighted average exercise price (Reais)
Options outstanding at the beginning of the year	8,787,331	11.97	10,245,394	12.18	11,860,550	13.12
Transfer of options of Tenda plans	-	-	2,338,380	4.39	-	-
Options granted	12,855,000	10.60	626,061	12.10	7,485,000	7.88
Options exercised (i)	(1,184,184)	12.29	(2,463,309)	8.30	(2,200,112)	7.82
Options exchanged	-	-	-	-	(6,504,560)	15.65
Options expired	(36,110)	8.12	-	-	-	-
Options forfeited	(3,787,063)	13.88	(1,959,195)	4.54	(395,484)	16.50
Options outstanding at the end of the year	16,634,974	8.94	8,787,331	11.97	10,245,394	12.18
Options exercisable at the end of the year	1,991,712	9.81	1,364,232	12.18	3,312,924	13.37

(i) In the years ended December 31, 2011, 2010 and 2009, the amount received through exercised options was R$4,959, R$17,891 and R$9,736, respectively.

(ii) The number of options considers the split of shares approved on February 22, 2010.

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17. Equity (Continued)

17.3 Stock option plan (Continued)

(i) Gafisa (Continued)

The analysis of prices as of December 31, 2011, 2010 and 2009 is as follows, considering the split of shares on February 22, 2010:

	2011	2010 (restated)	2009 (restated)
Exercise price per option at the end of the period	4.57-22.79	4.57-22.79	4.05-20.81
Weighted average exercise price at the option grant date	9.03	10.36	8.62
Weighted average market price per share at the grant date	10.03	10.10	8.10
Market price per share at the end of the period	4.12	12.04	14.12

The options granted will confer their holders the right to subscribe to the Company's shares, after completing one to five years of employment with the Company (strict conditions on exercise of options), and will expire after ten years from the grant date.

The dilution percentage at December 31, 2011 was 0.59% corresponding to a loss of R$(2.2282).

In the year ended December 31, 2011 the Company recognized stock option compensation expense of R$17,642 (R$11,955 in 2010 and R$13,998 in 2009), classified as operating expenses with a corresponding entry to capital reserve in equity.

(ii) Tenda

In June 2008, a stock option plan was issued by the Company for granting 1,090,000 options. The assumptions used in estimating the fair value that will base the recognition of the stock option plan for 2008 were as follows: expected volatility at 63.7% per year, expected dividends on shares at 0.5% and average risk-free interest rate a t 11.8% p.a.

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17. Equity (Continued)

17.3 Stock option plan (Continued)

(ii) Tenda (Continued)

In April 2009, two stock option plans were issued by the Company for granting 3,500,000 options under plan 1, and 1,350,712 options under plan 2. The assumptions used in estimating the fair value that will base the recognition of stock option plan 1 for 2009 were as follows: expected volatility at 63.7% per year, expected dividends on shares at 0.5% and average risk-free intrest rate a t 11.8% p.a. The assumptions used in estimating the fair value that will base the recognition of the stock option plan 2 for 2009 were as follows: expected volatility at 63.7% per year, expected dividends on shares at 0.5% and average risk free interest rate at 11.8% p.a.

As of December 31, 2011, Tenda recorded stock option plan expenses amounting to R$2,213 (R$3,820 in 2010 and R$4,234 in 2009).

Due to the acquisition by Gafisa of the total shares outstanding issued by Tenda, the stock option plans related to Tenda shares were transferred to the Company Gafisa, responsible for share issuance. At December 31, 2011, the amount of R$14,203 (R$11,989 in 2010), related to the reserve for granting options of Tenda is recognized in current accounts related to real estate ventures and in the equity of Gafisa.

(iii) AUSA

The subsidiary AUSA has three stock option plans, the first launched in 2007 which was approved on June 26, 2007 at the Annual Shareholders' Meeting and of the Board of Directors’ Meetings.

On June 1, 2010, two new stock option plans were issued by the Company for granting of a total of 738 options. The assumptions adopted in the recognition of the stock option plan for 2010 were the following: expected volatility at 64.8% per year, expected dividends on shares at 3.2% and average risk-free interest rate at 11.3%. The volatility was determined based on Gafisa's historical closing prices of stock.

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17. Equity (Continued)

17.3 Stock option plan (Continued)

(iii) AUSA (Continued)

On April 1, 2011, a stock option plan was launched by the Company, granting a total of 364 options. The assumptions adopted in the recognition of the stock option plan for 2010 were: expected volatility at 64.2%, and risk-free interest rate at 10.64%. The volatility was determined based on Gafisa's historical closing prices of stocks.

As of December 31, 2011, 2010 and 2009 the changes in the number of stock options and their corresponding weighted average exercise prices for the year are as follows:

	2011		2010 (restated)		2009 (restated)	
	Number of options	Weighted average exercise price (Reais)	Number of options	Weighted average exercise price (Reais)	Number of options	Weighted average exercise price (Reais)
Options outstanding at the beginning of the year	1,932,000	8.01	1,557,000	6.47	2,138,000	6.84
Options granted	364,000	10.48	738,000	10.48	-	-
Options exercised	(133,000)	7.81	(46,000)	7.61	(402,000)	7.61
Options forfeited /sold	(534,000)	7.61	(317,000)	7.61	(179,000)	8.38
Options outstanding at the end of the year	1,629,000	10.48	1,932,000	8.01	1,557,000	6.47

The dilution percentage at December 31, 2011 stood at 0.0005%, corresponding to earnings per share after dilution of R$1.460767 (R$1.460775 before dilution).

The market value of each option granted was estimated at the grant date using the Binomial option pricing model.

AUSA recorded expenses for the stock option plan amounting to R$1,640 in the year ended December 31, 2011 (R$969 in 2010 and R$429 in 2009).

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18. Income tax and social contribution

(i)Current income tax and social contribution

The reconciliation of the effective tax rate for the period ended December 31, 2011, 2010 and 2009, is as follows:

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Income before income tax and social contribution	(762,827)	310,612	180,774
Income tax calculated at the applicable rate – 34%	259,362	(105,608)	(61,463)
Net effect of subsidiaries whose taxable profit is calculated as a percentage of gross sales	(97,474)	96,428	48,073
Tax losses carryforwards	1,142	1,344	183
Stock option plan	(5,877)	(4,394)	(4,905)
Other permanent differences	993	(2,771)	(20,330)
Dividend paid to venture partners	14,233	7,638	-
Deferred income and social contribution taxes not recognized	(314,741)	(14,765)	-
Total tax expenses current	(73,207)	(11,834)	(20,147)
Total tax expenses deferred	(69,155)	(10,294)	(17,665)
Effective tax rate	-	7.12 %	20.92 %

Segregation current tax – standard taxable profit regime and presumed profit regime:

	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Standard taxable profit regime	(11,908)	(6,840)	(2,325)
Presumed profit regime	(61,299)	(4,994)	(17,822)
Total	(73,207)	(11,834)	(20,147)

(ii)Deferred income tax and social contribution

The Company recognized tax assets on losses on income tax and social contribution carryforwards for prior years, which have no expiration, and for which offset is limited to 30% of annual taxable profit, to the extent the taxable profit is likely to be available for offsetting temporary differences, based on the assumptions and conditions established in the business model of the Company.

The initial recognition and subsequent estimates of deferred income tax are carried out when it is probable that a taxable profit for the following years will be available to be used to offset the deferred tax asset, based on projections of results prepared and on internal assumptions and future economic scenarios that enable its total or partial use.

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18. Deferred income and social contribution taxes (Continued)

(ii)Deferred income and social contribution taxes (Continued)

In 2011, the Company has not recognized deferred income taxes assets in the amount of R$343,982 (R$29,241 in 2010 and R$14,476 in 2009) due to cumulative losses in three years ended as of December 31, 2011.

As of December 31, 2011, 2010 and 2009, deferred income and social contribution taxes are from the following sources:

Assets	2011	2010 (restated)	2009 (restated)
Provisions for legal claims	57,728	44,269	41,255
Temporary differences – PIS and COFINS	35,755	43,613	-
Provisions for realization of non-financial assets	31,672		
Temporary differences – CPC adjustments	85,865	45,926	39,733
Other provisions	102,002	31,954	72,809
Income and social contribution tax loss carryforwards	247,872	200,796	128,323
Tax credits from downstream acquisition	8,793	7,472	13,644
Deferred income and social contribution taxes not recognized	(343,982)	(29,241)	(14,476)
	225,705	344,789	281,288
Liabilities			
Negative goodwill	95,125	95,125	90,920
Temporary differences –CPC adjustments	14,862	20,104	26,601
Differences between income taxed on cash basis and recorded on an accrual basis	198,720	243,407	167,320
	308,707	358,636	284,841
Total net	(83,002)	(13,847)	(3,553)

19. Financial instruments

The Company and its subsidiaries participate in operations involving financial instruments. These instruments are managed through operational strategies and internal controls aimed at liquidity, return and safety. The use of financial instruments with objective of hedge is made through a periodical analysis of exposure to the risk that the management intends to cover (exchange, interest rate, etc) which is approved by the Board of Directors for authorization and performance of the proposed strategy. The policy on control consists of permanently following up the contracted

conditions in relation to the conditions prevailing in the market. The Company and its subsidiaries do not invest for speculation in derivatives or any other risky assets. The result from these operations is consistent with the policies and strategies devised by the Company's management. The Company's and its subsidiaries operations are subject to the risk factors described below:

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19. Financial instruments (Continued)

i. Risk considerations

a) Credit risk

The Company and its subsidiaries restrict their exposure to credit risks associated with cash and cash equivalents, investing in financial institutions considered highly rated and in short-term securities.

With regards to accounts receivable, the Company restricts its exposure to credit risks through sales to a broad base of customers and ongoing credit analysis. Additionally, there is no history of losses due to the existence of liens for the recovery of its products in the cases of default during the construction period. As of December 31, 2011, 2010 and 2009, there was no significant credit risk concentration associated with clients. The book value of financing assets represents the maximum credit risk.

b) Derivative financial instruments

The Company adopts the policy of participating in operations involving derivative financial instruments with the objective of mitigating or eliminating currency risks, as described below:

The Company holds derivative instruments to mitigate its exposure to index and interest volatility recognized at their fair value directly as part of the year income. Pursuant to its treasury policies, the Company does not own or issue derivative financial instruments other than for hedging purposes.

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19. Financial instruments (Continued)

i. Risk considerations (Continued)

b) Derivative financial instruments (Continued)

As of December 31, 2011, the Company had derivative contracts for hedging purposes in relation to interest fluctuations, with final maturity in from December 2011 and June 2017. The derivative contracts are as follows:

Swap agreements (Pre for CDI)	Reais Face Value	Percentage Original Index	Swap	Validity Beginning	End	Gain (loss) not realized by derivative instruments – net 12/31/2011
Banco Votorantim S.A.	90,000	Fixed 12.1556%	CDI 0.31%	6/15/2011	12/19/2011	(16)
Banco Votorantim S.A.	90,000	Fixed 13.0074%	CDI 0.31%	12/19/2011	3/30/2012	505
Banco Votorantim S.A.	90,000	Fixed 12.3600%	CDI 0.31%	3/30/2012	9/28/2012	856
Banco Votorantim S.A.	90,000	Fixed 12.7901%	CDI 0.31%	9/28/2012	3/28/2013	815
Banco Votorantim S.A.	90,000	Fixed 12.0559%	CDI 0.31%	3/28/2013	9/30/2013	238
Banco Votorantim S.A.	90,000	Fixed 14.2511%	CDI 2.41%	9/30/2013	3/28/2014	117
Banco Votorantim S.A.	67,500	Fixed 12.6190%	CDI 0.31%	3/28/2014	9/30/2014	251
Banco Votorantim S.A.	67,500	Fixed 15.0964%	CDI 2.41%	9/30/2014	3/30/2015	297
Banco Votorantim S.A.	45,000	Fixed 11.3249%	CDI 0.31%	3/30/2015	9/30/2015	(54)
Banco Votorantim S.A.	45,000	Fixed 14.7577%	CDI 2.41%	9/30/2015	3/31/2016	97
Banco Votorantim S.A.	22,500	Fixed 10.7711%	CDI 0.31%	3/31/2016	9/30/2016	(55)
Banco Votorantim S.A.	22,500	Fixed 17.2387%	CDI 2.41%	9/30/2016	3/30/2017	167
Banco Votorantim S.A.	110,000	Fixed 12.3450%	CDI 0.2801%	6/28/2011	12/29/2011	112
Banco Votorantim S.A.	110,000	Fixed 13.3385%	CDI 0.2801%	12/29/2011	6/20/2012	1,316
Banco Votorantim S.A.	110,000	Fixed 12.4481%	CDI 0.2801%	6/20/2012	12/20/2012	1,074
Banco Votorantim S.A.	110,000	Fixed 12.8779%	CDI 0.2801%	20/12/2012	6/20/2013	836
Banco Votorantim S.A.	110,000	Fixed 12.1440%	CDI 0.2801%	6/20/2013	12/20/2013	324
Banco Votorantim S.A.	110,000	Fixed 14.0993%	CDI 1.6344%	12/20/2013	6/20/2014	324
Banco Votorantim S.A.	82,500	Fixed 11.4925%	CDI 0.2801%	6/20/2014	12/22/2014	19
Banco Votorantim S.A.	82,500	Fixed 13.7946%	CDI 1.6344%	12/22/2014	6/22/2015	284
Banco Votorantim S.A.	55,000	Fixed 11.8752%	CDI 0.2801%	6/22/2015	12/21/2015	(64)
Banco Votorantim S.A.	55,000	Fixed 14.2672%	CDI 1.6344%	12/21/2015	6/20/2016	213
Banco Votorantim S.A.	27,500	Fixed 11.1136%	CDI 0.2801%	6/20/2016	12/20/2016	(45)

Banco Votorantim S.A.	27,500	Fixed 15.1177%	CDI 1.6344%	12/20/2016	6/20/2017	124
						7,735

During the year ended December 31, 2011, the amount of R$7,735 in the consolidated statements, which refers to net result of the interest swap transaction, was recognized in line “financial income (loss)” allowing correlation between the impact of such transactions and interest rate fluctuation on the Company’s balance sheet (Note 23).

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19. Financial instruments (Continued)

i. Risk considerations (Continued)

b) Derivative financial instruments (Continued)

The estimated fair value of derivative financial instruments contracted by the Company was determined based on information available in the market and specific evaluation methodologies. However, considerable judgment was necessary for interpreting market data to produce the estimated fair value of each transaction. Accordingly, the estimates above do not necessarily indicate the actual amounts to be realized upon the financial settlement of transactions in 2011.

In the year ended December 31, 2009, the amount net of R$1,234 related to the net positive result from the swap operations of currency and interest rates was recognized in financial income (expenses), matching the results of these operations with the fluctuation in foreign currencies in the Company's balance sheet. The swap transactions described below were settled in the year ended December 31, 2009:

Swap agreements (Pre for CDI)	Reais Face Value	Percentage Original Index	Swap	Validity		Gain (loss) by settlement of derivative instruments – net
				Beginning	End	12/31/2009 (restated)
Banco ABN Amro Real S.A.	100,000	Yen + 1.4	CDI 105	November 2007	October 2009	1,018
Banco Votorantim S.A.	100,000	Dollar + 7	CDI 104	November 2007	June 2009	4,915

c) Interest rate risk

It arises from the possibility that the Company and its subsidiaries earn gains or incur losses because of fluctuations in the interest rates of its financial assets and liabilities. Aiming to mitigate this kind of risk, the Company and its subsidiaries seek to diversify funding in terms of fixed and floating rates. The interest rates on loans, financing and debentures are disclosed in Notes 10 and 11. The interest rates contracted on financial investments are disclosed in Note 4. Accounts receivable from real estate units delivered, as disclosed in Note 5, are subject to annual interest rate of 12%, appropriated on pro rata basis.

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

i. Risk considerations (Continued)

d) Liquidity risk

The liquidity risk consists of the possibility that the Company and its subsidiaries do not have sufficient funds to meet their commitments in view of settlement terms of their rights and obligations.

To mitigate the liquidity risks, and the optimization of the weighted average cost of capital, the Company and its subsidiaries permanently monitor the indebtedness levels according to the market standards and the fulfillment of covenants provided for in loan, financing and debenture agreements, in order to guarantee that the operating-cash generation and the advance funding, when necessary, are sufficient to maintain the schedule of commitments, not posing liquidity risk to the Company or its subsidiaries (Notes 11 and 28).

The maturities of financial instruments, loans, financing, suppliers and debentures are as follows:

Year ended December 31, 2011	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Loans and financing	1,135,543	437,232	283,835	-	1,856,610
Debentures	1,899,200	-	-	-	1,899,200
Payables to partners	219,796	233,771	19,619	-	473,186
Suppliers	135,720	-	-	-	135,720
	3,390,259	671,003	303,454	-	4,364,716

e) Fair value classification

The Company uses the following classification to determine and disclose the fair value of financial instruments by the valuation technique:

Level 1: quoted prices (without adjustments) in active markets for identical assets or liabilities;
Level 2: other techniques for which all data that may have a significant effect on the recognized fair value are observable, direct or indirectly.
Level 3: techniques that use data which has significant effect on the recognized fair value, not based on observable market data.

The classification level of fair value for financial instruments measured at fair value through profit or loss of the Company, presented in the financial statements for the year ended December 31, 2011, 2010 and 2009, is as follows:

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Notes to the consolidated financial statements--Continued
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(Amounts in thousands of Brazilian Reais, except as stated otherwise)

19. Financial instruments (Continued)

i. Risk considerations (Continued)

As of December 31, 2011	Fair value classification		
	Level 1	Level 2	Level 3
Financial assets			
Cash equivalents (Note 4,1)	-	50,970	-
Short-term investments (Note 4,2)	-	846,062	-
Derivatives	-	7,735	-

As of December 31, 2010 (restated)	Fair value classification		
	Level 1	Level 2	Level 3
Financial assets			
Cash equivalents (Note 4,1)	-	84,046	-
Short-term investments (Note 4,2)	-	944,766	-

As of December 31, 2009 (restated)	Fair value classification		
	Level 1	Level 2	Level 3

Financial assets			
Cash equivalents (Note 4,1)	-	149,141	-
Short-term investments (Note 4,2)	-	1,131,113	-

In the year ended December 31, 2011, 2010 and 2009 there were not any transfers between the levels 1 and 2 fair value valuation, nor transfers between levels 3 and 2 fair value valuation. As permitted by CPC 37, the Company did not disclose any comparative information on fair value classification or liquidity disclosures.

ii. Fair value of financial instruments

a) Fair value measurement

The following estimate fair values were determined using available market information and proper measurement methodologies. However, a considerable judgment is necessary to interpret market information and estimate fair value. Accordingly, the estimates presented in this document are not necessarily indicative of amounts that the Company could realize in the current market. The use of different market assumptions and/or estimates methodology may have a significant effect on estimated fair values.

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

ii. Fair value of financial instruments -- continued

The following methods and assumptions were used in order to estimate the fair value for each financial instrument type for which the estimate of values is practicable. The amounts of cash and cash equivalents, short-term investments, accounts receivable and other receivables and suppliers, and other current liabilities approximate their fair values, recorded in the financial statements.

See below the main carrying amounts and fair values of financial assets and liabilities at December 31, 2011, 2010 and 2009:

	2011		2010		2009	
	Carrying amount	Fair value	Carrying amount (restated)	Fair value (restated)	Carrying amount (restated)	Fair value (restated)
Financial assets						
Cash and cash equivalents (Note 4.1)	137,598	137,598	256,382	256,382	292,940	292,940
Short-term investments (Note 4.2)	846,062	846,062	944,766	944,766	1,131,113	1,131,113
Trade account receivable (Note 5)	4,826,448	4,826,448	4,951,074	4,951,074	3,776,646	3,776,646
Financial liabilities						
Loans and financing (Note 10)	1,856,610	1,860,995	1,410,178	1,412,053	1,203,755	1,204,157
Debentures (Note 11)	1,899,200	1,907,463	1,879,931	1,890,299	1,918,377	1,932,646
Payables to venture partners (Note 13)	473,186	473,186	404,264	404,264	311,004	311,004
Payables for materials and service suppliers	135,720	135,720	190,461	190,461	194,331	194,331

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

ii. Fair value of financial instruments (Continued)

b) Risk of debt acceleration

As of December 31, 2011, the Company has loans and financing in effect, with restrictive covenants related to cash generation, indebtedness ratio and other. These restrictive covenants have been complied with by the Company and do not limit its ability to conduct its business as usual. As mentioned in Notes 10 and 11, in view of the cross restrictive covenants and the non-compliance with the covenants of the Fifth and Seventh Placement of Gafisa and the First Placement of Tenda, the non-current portions of all debenture placements and some CCB issues were fully reclassified into short term. No financial penalty (fine) was imposed or change in the interest rate was made at the renegotiation of covenants, as mentioned in Note 28.

c) Market risk

The Company carries out the development, construction and sales of real estate ventures. In addition to the risks that affect the real estate market as a whole, such as supply disruptions and volatility in the prices of construction materials and equipment, changes in the supply and demand for ventures in certain regions, strikes and environmental rules and zoning, the Company's operations are particularly affected by the following risks:

- The state of the economy of Brazil, which may inhibit the development of the real estate industry as a whole, through the slowdown in economy, increase in interest rates, fluctuation of currency and political instability, besides other factors.

- Impediment in the future, as a result of a new regulation or market conditions, to adjust for inflation receivables using certain inflation indexes, as currently permitted, which could make a venture financially or economically unviable;

- The level of interest of buyers in a new venture launched or the sale price per unit necessary to sell all units may be below expectations, making the venture less profitable than expected.

- In the event of bankruptcy or significant financial difficulties of a large company of the real estate industry, the industry as a whole may be adversely affected, which could decrease the customer confidence in other companies operating in the industry.

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Gafisa S.A.

Notes to the consolidated financial statements--Continued
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(Amounts in thousands of Brazilian Reais, except as stated otherwise)

19. Financial instruments (Continued)

ii. Fair value of financial instruments (Continued)

c) Market risk (Continued)

- Local and regional real estate market conditions, such as oversupply, land shortage or significant increase in land acquisition cost.

- Risk of buyers having a negative perception of the security, convenience and activities of the Company's properties, as well as about their location.

- The Company's profit margins may be affected by the increase in operating costs, including investments, insurance premium, real estate taxes and government rates.

- The opportunities for development may decrease.

- The building and sale of real estate units may not be completed as scheduled, thus increasing the construction costs or cancelled contracts of sale contracts.

- Delinquency after the delivery of units acquired on credit. The Company has the right to file a collection action to receive the amounts due and/or repossess the real estate unit from the delinquent buyer, not being possible to guarantee that it will be able to recover the total amount of the debt balance or, once the real estate unit is repossessed, its sale in satisfactory conditions.

- Occasional change in the policies of the National Monetary Council (CMN) on the investment of funds in the National Housing System (SFH) may reduce the supply of financing to customers.

- Drop in the market value of land held in inventory, before the development of a real estate venture to which it was intended, and the incapacity to maintain the margins that were previously projected for such developments.

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

iii. Capital stock management

The objective of the Company's capital stock management is to guarantee that a strong credit rating is maintained in institutions and an optimum capital ratio, in order to support the Company's businesses and maximize the value to shareholders.

The Company controls its capital structure making adjustments to the current economic conditions. In order to maintain its structure adjusted, the Company may pay dividends, return on capital to shareholders raise new loans, issue debentures.

There were no changes in objectives, policies or procedures during the years ended December 31, 2011, 2010 and 2009.

The Company included in its net debt structure: loans and financing, debentures and obligations to venture partners less cash and cash equivalents and marketable securities (cash and cash equivalents, marketable securities and restricted cash in guarantee to loans):

	2011	2010 (restated)	2009 (restated)
Loans and financing (Note 10)	1,856,610	1,410,178	1,203,755
Debentures (Note 11)	1,899,200	1,879,931	1,918,377
Obligation assumed on assignment of receivables (Note 12)	501,971	88,442	122,360
Payables to venture partners (Note 13)	473,186	404,264	311,004
(-)Cash and cash equivalents and short-term investments(Note 4.1 and 4.2)	(983,660)	(1,201,148)	(1,424,053)
Net debt	3,747,307	2,581,667	2,131,443
Equity	2,747,094	3,632,172	2,384,181
Equity and net debt	6,494,401	6,213,839	4,515,624

iv. Sensitivity analysis

The chart below shows the sensitivity analysis of financial instruments describing the risks that may incur material losses to the Company, considering the most probable scenario (scenario I), according to the assessment made by the Company. In addition, two other scenarios are described as provided for by CVM, through Rule No. 475/08, in order to show a deterioration of 25% and 50% in the risk variable considered, respectively (scenarios II and III).

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

iv. Sensitivity analysis (Continued)

At December 31, 2011, the Company has the following financial instruments:

a) Financial investments, loans and financing, and debentures linked to the Interbank Deposit Certificates (CDI);
b) Loans and financing and debentures linked to the Referential Rate (TR);
c) Trade accounts receivable and properties for sale, linked to the National Civil Construction Index (INCC).

To the sensitivity analysis of the interest rates of investments, loans and accounts receivables, the Company considered the CDI rate at 10.6%, the TR at 1.2% and the INCC rate at 7.5%.

The scenarios considered were as follows:

Scenario I: Probable – management considered a 50% increase in the variables used for pricing
Scenario II: Possible – 25% increase/decrease in the risk variables used for pricing
Scenario III: Remote – 50% decrease in the risk variables used for pricing

The chart below shows the sensitivity analysis of financial instruments describing the risks that may incur material losses to the Company, considering the most probable scenario (scenario I), according to the assessment made by the Management. In addition, two other scenarios are described as provided for by CVM, through Rule No. 475/08, in order to show a deterioration of 25% and 50% in the risk variable considered, respectively (scenarios II and III).

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19. Financial instruments (Continued)

iv. Sensitivity analysis (Continued)

At December 31, 2011:

			Scenario		
		Expected	I	II	III
Instrument	Risk	Increase 50%	Increase 25%	Decrease 25%	Decrease 50%
Short-term investments	Increase/Decrease of CDI	28,366	14,183	(14,183)	(28,366)
Loans and financing	Increase/Decrease of CDI	(48,302)	(24,151)	24,151	48,302
Debentures	Increase/Decrease of CDI	(32,279)	(16,140)	16,140	32,279
Payables to partners	Increase/Decrease of CDI	(15,123)	(7,562)	7,562	15,123
SWAP	Increase/Decrease of CDI	(16,135)	(8,538)	9,613	20,503
Net effect of CDI variation		(83,473)	(42,208)	43,283	87,841
Loans and financing	Increase/Decrease of TR	(3,915)	(1,958)	1,958	3,915
Debentures	Increase/Decrease of TR	(7,051)	(3,526)	3,526	7,051
Net effect of TR variation		(10,966)	(5,484)	5,484	10,966
Loans and financing	Increase/Decrease of IPCA	(318)	(159)	159	318
Net effect of IPCA variation		(318)	(159)	159	318
Trade accounts receivable	Increase/Decrease of INCC	164,861	82,430	(82,430)	(164,861)
Inventory	Increase/Decrease of INCC	75,018	37,509	(37,509)	(75,018)
		(5,964)	(2,982)	2,982	5,964

Assignment of receivables	Increase/Decrease of INCC				
Net effect of INCC variation		233,915	116,957	(116,957)	(233,915)
Assignment of receivables	Increase/Decrease of IGP-M	(4,984)	(2,492)	2,492	4,984
Net effect of IGP-M variation		(4,984)	(2,492)	2,492	4,984

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

iv. Sensitivity analysis (Continued)

At December 31, 2010 (restated):

Instrument	Risk	Expected Increase 50%	Scenario I Increase 25%	II Decrease 25%	III Decrease 50%
Short-term investments	Increase/Decrease of CDI	41,219	20,609	(20,609)	(41,219)
Loans and financing	Increase/Decrease of CDI	(31,913)	(15,956)	15,956	31,913
Debentures	Increase/Decrease of CDI	(31,785)	(15,892)	15,892	31,785
Net effect of CDI variation		(22,479)	(11,239)	11,239	22,479
Loans and financing	Increase/Decrease of TR	(6,151)	(3,076)	3,076	6,151
Debentures	Increase/Decrease of TR	(10,177)	(5,089)	5,089	10,177
Net effect of TR variation		(16,328)	(8,165)	8,165	16,328
Debentures	Increase/Decrease of IPCA	(334)	(167)	167	334
Net effect of IPCA variation		(334)	(167)	167	334
Trade accounts receivable	Increase/Decrease of INCC	113,759	56,880	(56,880)	(113,759)
Inventory	Increase/Decrease of INCC	56,323	28,161	(28,161)	(56,323)
Net effect of INCC variation		170,082	85,041	(85,041)	(170,082)

At December 31, 2009 (restated):

Instrument	Risk	Expected	Scenario I Decrease	Scenario II Increase	Scenario III Decrease
Short-term investments	Increase/Decrease of CDI	46,885	(23,443)	23,443	(46,885)
Loans and financing	Increase/Decrease of CDI	(29,407)	14,703	(14,703)	29,407
Debentures	Increase/Decrease of CDI	(28,308)	14,154	(14,154)	28,308
Net effect of CDI variation		(10,830)	5,414	(5,414)	10,830
Loans and financing	Increase/Decrease of TR	(1,469)	734	(734)	1,469
Debentures	Increase/Decrease of TR	(3,871)	1,936	(1,936)	3,871
Net effect of TR variation		(5,340)	2,670	(2,670)	5,340
Trade accounts receivable	Increase/Decrease of INCC	31,516	(15,758)	15,758	(31,516)
Inventory	Increase/Decrease of INCC	20,907	(10,454)	10,454	(20,907)
Net effect of INCC variation		52,423	(26,212)	26,212	(52,423)

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Notes to the consolidated financial statements--Continued
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19. Financial instruments (Continued)

v. Embedded derivative

The purchase agreement includes an obligation for the Company to purchase in 2012 the remaining 20% of AUSA's ordinary shares which are held by non-controlling interest shareholders. The purchase price will be based on the fair value of the shares and will be settled in cash or shares, at the Company's sole discretion. There is an embedded derivative component to the shareholders' agreement, relating to the obligation to purchase additional AUSA shares. 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 AUSA's capital stock, no derivative asset or liability has been recorded. The future settlement in cash, or shares represented an estimated amount of R$358,985 as at December 31, 2011, R$200,800 as at December 31, 2010 and R$256,000 as at December 31, 2009.

20. Related parties

20.1 Balances with related parties

The balances between parent and jointly-controlled companies are realized under conditions and prices established between the parties.

Current account	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)
Assets			
Current account (c):			
Condominium and consortia (b)	-	16,767	49,270
Purchase/sale of interests	-	(26,318)	(15,459)
Total SPEs	50,694	66,122	(38,189)
Thirty party's works (a)	33,513	18,625	11,600
Loan receivable (d)	104,059	71,163	17,344
	188,266	146,359	24,566
Current portion	84,207	75,196	7,222
Non-current portion	104,059	71,163	17,344
Liabilities			
Current account (c):			
Condominium and consortia (b)	(30,717)	-	-
Purchase/sale of interests	(25,000)	-	-

Total SPEs	(42,220)	-	-
	(97,937)	-	-
Current portion	(97,937)	-	-
Non-current portion	-	-	-

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Notes to the consolidated financial statements--Continued
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20. Related parties

20.1 Balances with related parties -- continued

(a) Refers to operations in third-party's works.

(b) Refers to transactions between the consortium leader and partners and condominiums.

(c) The Company participates in the development of real estate ventures with other partners, directly or through related parties, based on the formation 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 use of resources of the venture are reflected in these balances, observing the respective interest of each investor, which are not subject to indexation or financial charges and do not have a fixed maturity date. Such transactions aim at simplifying business relations that demand the joint management of amounts reciprocally owed by the involved parties and, consequently, the control over the change of amounts reciprocally granted which offset against each other at the time the current account is closed. The average term for the development and completion of the projects in which the resources are invested is between 24 and 30 months. The Company receives a compensation for the management of these ventures.

(d) The loans of the Company and its subsidiaries, shown below, are made because these subsidiaries need cash for carrying out their respective activities, being subject to the respective financial charges. It shall be noted that the Company's operations and businesses with related parties follow the market practices (arm's length). The businesses and operations with related parties are carried out based on conditions that are strictly on arm's length transaction basis and appropriate, in order to protect the interests of the both parties involved in the business. The composition and nature of the loan receivable by the Company is shown below.

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Notes to the consolidated financial statements--Continued
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20. Related parties (Continued)

20.1 Balances with related parties (Continued)

	Consolidated			Nature	Interest rate
	12/31/2011	12/31/2010 (restated)	12/31/2009 (restated)		
Espacio Laguna - Tembok Planej. E Desenv. Imob. Ltda.	-	144	1,380	Construction	12% p.a. fixed rate + IGPM
Laguna Di Mare - Tembok Planej. E Desenv. Imob. Ltda.	9,389	7,340	1,786	Construction	12% p.a. fixed rate + IGPM
Vistta Laguna - Tembok Planej. E Desenv. Imob. Ltda.	7,276	677	-	Construction	12% p.a. fixed rate + IGPM
Gafisa SPE 65 Emp. Imobiliários Ltda.	1,636	1,478	1,252	Construction	3% p.a. fixed rate + CDI
Gafisa SPE-46 Emp. Imobiliários Ltda.	860	-	-	Construction	12% p.a. fixed rate + IGPM
Gafisa SPE-51 Emp. Imobiliários Ltda.	-	567	715	Construction	3% p.a. fixed rate + CDI
Gafisa SPE-73 Emp. Imobiliários Ltda.	3,443	2,503	1,462	Construction	12% p.a. fixed rate + IGPM
Gafisa SPE-71 Emp. Imobiliários Ltda.	2,119	939	817	Construction	3% p.a. fixed rate + CDI
Paranamirim - Planc Engenharia e Incorporações Ltda.	-	1,557	3,756	Construction	3% p.a. fixed rate + CDI
Gafisa SPE- 76 Emp. Imobiliários Ltda.	11	10	9	Construction	4% p.a. fixed rate + CDI
Acquarelle - Civilcorp Incorporações Ltda.	946	791	-	Construction	12% p.a. fixed rate + IGPM
Manhattan Residencial I	29,541	23,342	-	Construction	10% p.a. fixed rate + TR
Manhattan Comercial I	2,622	2,356	-	Construction	10% p.a. fixed rate + TR
Manhattan Residencial II	113	101	-	Construction	10% p.a. fixed rate + TR
Manhattan Comercial II	54	48	-	Construction	10% p.a. fixed rate + TR
Target	1,056	-	-	Construction	IGPM + 12% p.a.

Gafisa SPE-50 Emp. Imobiliários Ltda.	-	-	3,774	Construction	4% p.a. fixed rate + CDI
Gafisa SPE-32 Emp. Imobiliários Ltda.	-	-	1,582	Construction	4% p.a. fixed rate + CDI
Gafisa SPE-46 Empr. Imobiliários Ltda.	-	-	447	Construction	12% p.a. fixed rate + IGPM
Gafisa SPE-72 Emp. Imobiliários Ltda.	-	-	364	Construction	3% p.a. fixed rate + CDI
Fit Jardim Botanico SPE Emp. Imob. Ltda	16,429	15,002	-	Construction	113.5% of 126.5% of CDI
Fit 09 SPE Emp. Imob. Ltda	5,585	4,440	-	Construction	120% of 126.5% of CDI
Fit 08 SPE Emp. Imob. Ltda	875	767	-	Construction	110.65% of 126.5% of CDI
Fit 19 SPE Emp. Imob. Ltda	3,977	3,864	-	Construction	113.5% of 126.5% of CDI
Acedio SPE Emp. Imob. Ltda.	2,908	2,537	-	Construction	113.5% of 126.5% of CDI
Fit 25 SPE Emp. Imob. Ltda.	-	1,609	-	Construction	120% of 126.5% of CDI
Ac Participações Ltda.	1,251	-	-	Construction	12% p.a. fixed rate + IGPM
Jardins da Barra Desenv. Imob. Ltda.	4,800	-	-	Construction	6% p.a. fixed rate
Fit Roland Garros Emp. Imob. Ltda.	4,461	-	-	Construction	
Other	4,707	1,091	-		
Total consolidated	104,059	71,163	17,344		

In the year ended December 31, 2011 the recognized financial income from interest on loans amounted to R$7,667 (R$3,074 in 2010 and R$1,144 in 2009) (Note 23).

Information regarding management transactions and compensation is described in Note 24.

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Notes to the consolidated financial statements--Continued
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20. Related parties (Continued)

20.2 Endorsements, guarantees and guarantees

The financial transactions of the wholly-owned subsidiaries or special purpose entities of the Company have the endorsement or surety in proportion to the interest of the Company in the capital stock of such companies, except certain specific cases in which the Company provide guaranties for its partners in the amount of R$1,486,326 as of December 31, 2011, (R$1,443,637 in 2010 and R$3,536,846 in 2009).

21. Net operating revenue

	2011	2010 (restated)	2009 (restated)
Gross operating revenue			
Real estate development, sale and barter transactions	3,441,279	3,834,230	3,144,983
Provision for cancelled contracts	(301,394)	(182,832)	(48,102)
Construction services	29,607	24,289	47,999
Taxes on sale of real estate and services	(228,986)	(272,637)	(108,523)
Net operating revenue	2,940,506	3,403,050	3,036,357

22. Costs and expenses by nature

These are represented by the following:

	2011	2010 (restated)	2009 (restated)
Cost of real estate development and sale:			
Construction cost	2,292,528	2,089,774	1,770,772
Land cost	283,867	324,813	244,816
Development cost	119,935	66,101	49,985
Capitalized financial charges	163,578	138,996	94,704
Maintenance / warranty	39,625	14,869	7,908
Provision for cancelled contracts	(221,195)	(173,635)	(24,424)
	2,678,338	2,460,918	2,143,762
Commercial expenses:			
Marketing expenses	179,709	124,103	111,990
Brokerage and sale commission	157,762	95,549	86,223
Institutional marketing expenses	25,023	16,923	15,271
Customer Relationship Management expenses	22,748	13,162	11,877
Other	7,939	16,923	15,271
	393,181	266,660	240,632

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22. Costs and expenses by nature (Continued)

General and administrative expenses:	2011	2010 (restated)	2009 (restated)
Salaries and payroll charges	126,635	110,282	112,195
Employee benefits	11,404	9,931	10,103
Travel and utilities	11,115	9,680	9,848
Services	16,947	14,759	15,015
Rents and condominium fees	12,182	10,609	10,793
IT	12,787	11,136	11,329
Organizational development	7,288	6,347	6,457
Stock option plan (Note 17.3)	19,272	12,924	14,427
Reserve for profit sharing (Note 24 (iii))	17,196	36,612	28,237
Other	16,632	14,474	14,725
	251,458	236,754	233,129

23. Financial income

Financial income	2011	2010 (restated)	2009 (restated)
Income from financial investments	62,724	107,225	64,322
Financial income on loan with related parties (Note 20.1)	7,667	3,074	1,144
Other interest income	15,289	7,009	2,688
Other financial income	7,293	10,777	15,936
Derivative transactions	-	-	45,476
	92,973	128,085	129,566
Financial expenses (Note 10)			
Interest on funding, net of capitalization	(184,272)	(149,056)	(153,352)
Amortization of debenture cost	(2,067)	(6,560)	(1,144)
Payables to venture partners	(7,090)	(29,432)	(30,178)
Banking expenses	(13,108)	(10,441)	(5,407)
Derivative transactions (Note 19 (i) (b))	7,735	-	(46,710)
Other financial expenses	(54,074)	(14,713)	(3,781)
	(252,876)	(210,202)	(240,572)

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24. Transactions with management and employees

(i) Management compensation

The amounts recorded in the account "General and administrative expenses" in the years ended December 31, 2011, 2010 e 2009 related to the compensation of the Company's key management personnel are as follows:

	Board of Directors	Fiscal Council	Statutory Board	Total 12/31/2011	Total 12/31/2010 (Restated)	Total 12/31/2009 (Restated)
Number of members	8	3	6	17	14	11
Annual fixed compensation (in R$)	1,473	137	3,497	5,107	3,912	3,533
Salary / Fees	1,473	137	3,294	4,904	3,722	3,340
Direct and indirect benefits	-	-	203	203	190	193
Other	-	-	-	-	-	-
Variable compensation (in R$)	-	-	-	-	5,250	3,459
Bonus	-	-	-	-	5,250	3,459
Profit sharing	-	-	-	-	-	-
Post-employment benefits	-	-	-	-	-	-
Share-based payment	-	-	-	-	3,787	9,452
Monthly compensation (in R$)	123	11	291	425	1,079	1,370
Total compensation	1,473	137	3,497	5,107	12,949	16,444

The annual aggregate amount to be distributed among the Company's key management personnel for 2011, as fixed and variable compensation is R$12,345 according to the Annual Shareholders' Meeting held on April 29, 2011.

(ii) Sales

As of December 31, 2011 the total sales of units sold to the Management is R$3,165 (R$3,673 in 2010 and R$4,888 in 2009), and total receivables is R$4,668 (R$9,842 in 2010 and R$4,543 in 2009).

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24. Transactions with management and employees (Continued)

(iii) Profit sharing

The Company has a profit sharing plan that entitles its employees and those of its subsidiaries to participate in the distribution of profits of the Company that is tied to a stock option plan, the payment of dividends to shareholders and the achievement of specific targets, established and agreed-upon at the beginning of each year. As of December 31, 2011, the Company recorded a provision for profit sharing amounting to R$17,196 in the consolidated statements (R$36,612 in 2010 and R$28,237 in 2009) under the account "General and administrative expenses" (Note 22), related to its subsidiary AUSA.

25. Insurance

Gafisa S.A. and its subsidiaries maintain insurance policies against engineering risk, barter guarantee, guarantee for the completion of the work and civil liability related to unintentional personal damages caused to third parties and material damages to tangible assets, as well as against fire hazards, lightning strikes, electrical damages, natural disasters and gas explosion. The contracted coverage is considered sufficient by management to cover possible risks involving its assets and/or responsibilities.

The chart below shows coverage by insurance policy and respective amounts at December 31, 2011:

Insurance type	Coverage in thousands of R$
Engineering risks and completion guarantee	1,496,085
Policy outstanding	477,287
Directors & Officers liability insurance	93,250
	2,066,622

The assumptions adopted, given their nature, are not included in the scope of the audit of financial statements. Accordingly, they were not audited by our independent public accountants.

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Notes to the consolidated financial statements--Continued
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26. Earnings (loss) per share

In accordance with CPC 41, the Company shall present basic and diluted earnings per share. The comparison data of basic and diluted earnings per share shall be based on the weighted average number of shares outstanding for the year, and all dilutive potential shares outstanding for each year presented, respectively.

Diluted earnings per share is computed similarly to basic earnings per share except that the outstanding shares are increased to include the number of additional shares that would have been outstanding if the potential dilutive shares attributable to stock options and redeemable noncontrolling interest (see Note 2.1.1. Information regarding subsidiary - AUSA) had been issued during the respective periods, utilizing the weighted average stock price.

As mentioned in Note 1, on February 22, 2010, the split of our common shares was approved at the ratio of one share to two new shares issued, increasing the number of shares to 334,154,274 from 167,077,137. All information related to the number of shares was retrospectively adjusted in order to reflect the split of shares of February 22, 2010.

The following table shows the calculation of basic and diluted earnings (loss) per share. In view of the loss for the year, according to CPC 41, shares with dilutive potential are not considered when there is a loss, because the impact would be antidilutive.

	2011	2010 (restated)	2009 (restated)
Basic numerator			
Proposed dividends	-	98,812	50,716
Undistributed earnings (loss)	(944,868)	165,753	51,024
Undistributed earnings (loss), available for the holders of common shares	(944,868)	264,565	101,740
Basic denominator (in thousands of shares)			
Weighted average number of shares (i)	431,586	412,434	267,174
Basic earnings (loss) per share – R$	(2.1893)	0.6415	0.3808
Diluted numerator			
Proposed dividends	-	98,812	50,716
Undistributed earnings (loss)	(944,868)	165,753	51,024
Undistributed earnings (loss), available for the holders of common shares	(944,868)	264,565	101,740
Diluted denominator (in thousands of shares)			
Weighted average number of shares	431,586	412,434	267,174

Stock options	2,566	3,198	-
Noncontrolling interest shares	70,352	17,465	46,602
Antidilutive effect	(72,918)	-	-
Weighted average number of shares	431,586	433,097	313,776
Diluted earnings (loss) per share –R$	(2.1893)	0.6109	0.3242

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Gafisa S.A.

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27. Segment information

Starting in 2007, following the respective acquisition, formation and merger of AUSA, FIT Residencial, Bairro Novo and Tenda, the Company's management assesses segment information on the basis of different business segments and economic data rather than based on the geographical regions of operations.

The Company operates in the following segments: Gafisa for ventures targeted at high and medium income; Alphaville for land subdivision; and Tenda for ventures targeted at low income.

The Company's chief executive officer, who is responsible for allocating resources to businesses and monitoring their progresses, uses economic present value data, which is derived from a combination of historical and forecasted operating results. The Company provides below a measure of historical profit or loss, segment assets and other related information for each reporting segment.

This information is gathered internally in the Company and used by management to develop economic present value estimates, provided to the chief executive officer for making operating decisions, including the allocation of resources to operating segments. The information is derived from the statutory accounting records which are maintained in accordance with the accounting practices adopted in Brazil. The reporting segments analyze operating expenses, total assets and depreciation. No revenues from an individual client represented more than 10% of net sales and/or services.

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27. Segment information (Continued)

	Gafisa S.A. (i)	Tenda	AUSA	2011
Net operating revenue	1,821,925	445,982	672,599	2,940,506
Operating costs	(1,601,727)	(725,459)	(351,152)	(2,678,338)
Gross profit (loss)	220,198	(279,477)	321,447	262,168
Depreciation and amortization	(67,653)	(14,444)	(1,331)	(83,428)
Financial expenses	(206,638)	(13,147)	(33,091)	(252,876)
Financial income	51,986	28,804	12,183	92,973
Tax expenses	(78,409)	(39,339)	(24,614)	(142,362)
Net income (loss) for the year	(413,727)	(660,058)	128,917	(944,868)
Customers (short and long term)	2,793,045	1,476,882	556,521	4,826,448
Inventories (short and long term)	1,420,194	1,188,319	238,777	2,847,290
Other assets	851,265	813,610	168,011	1,832,886
Total assets	5,064,504	3,478,811	963,309	9,506,624
Total liabilities	4,185,308	1,949,379	624,843	6,759,532

	Gafisa S.A. (i)	Tenda	AUSA	2010 (restated)
Net operating revenue	1,894,498	1,061,588	446,964	3,403,050
Operating cost	(1,477,751)	(731,991)	(251,176)	(2,460,918)
Gross profit	416,747	329,597	195,788	942,132
Depreciation and amortization	(19,224)	(13,588)	(1,004)	(33,816)
Financial expenses	(146,539)	(40,159)	(23,504)	(210,202)
Financial income	106,869	12,542	8,674	128,085
Tax expenses	(13,084)	5,982	(15,026)	(22,128)
Net income for the year	116,824	82,495	65,246	264,565
Customers (short and long term)	2,752,589	1,835,541	363,844	4,951,974
Inventories (short and long term)	1,323,170	695,663	187,239	2,206,072
Other assets	1,241,859	524,045	116,841	1,882,745

Total assets	5,317,618	3,055,249	667,924	9,040,791
Total liabilities	3,556,134	1,386,320	466,165	5,408,619

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Notes to the consolidated financial statements--Continued
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27. Segment information (Continued)

	Gafisa S.A. (i)	Tenda	AUSA	2009 (restated)
Net operating revenue	1,771,206	988,444	276,707	3,036,357
Operating cost	(1,297,036)	(671,629)	(175,097)	(2,143,762)
Gross profit	474,170	316,815	101,610	892,595
Depreciation and amortization	(19,455)	(13,874)	(841)	(34,170)
Financial expenses	(191,926)	(35,679)	(12,967)	(240,572)
Financial income	92,946	32,042	4,578	129,566
Tax expenses	(7,915)	(21,929)	(7,968)	(37,812)
Net income for the year	39,304	38,670	23,766	101,740
Customers (short and long term)	2,338,464	1,203,001	235,181	3,776,646
Inventories (short and long term)	1,114,339	478,520	155,598	1,748,457
Other assets	1,268,000	562,127	100,191	1,930,318
Total assets	4,720,803	2,243,648	490,970	7,455,421
Total liabilities	3,567,360	1,112,753	391,127	5,071,240

(i) Includes all direct subsidiaries, except Tenda and Alphaville Urbanismo S.A.;

28. Subsequent events

Renegotiation of the restrictive debenture covenants

As mentioned in Notes 10 and 11, as of December 31, 2011, the Company and its subsidiary Tenda are in default on the contractual covenants provided for in the Debenture Placement Programs, with side effects on loan contracts and other debenture placements. Immediately thereafter, the Company started to renegotiate with debenture holders a waiver for not complying with the ratios provided for such covenants.

On March 13, 2012, at the Debenture holders' Meeting was held and debenture holders approved the following resolutions on the First Placement of Tenda and the Seventh Placement of Gafisa:

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28. Subsequent events (Continued)

Renegotiation of the restrictive debenture covenants (Continued)

1. Approval of a new definition of the Coverage Ratio of the Debt Service, thus amending the wording of line (n) of item 6.2.1 of the Indenture as follows:

“6.2.1.
(...)
(n) “the non-compliance with the Coverage Ratio of the Debt Service, calculated according to the formula below, and determined based on the audited and reviewed consolidated financial statements of the Issuer for each quarter until (and including) the quarter ended March 31, 2014:

$$\frac{\text{Total Receivables + Unappropriated Income + Total Inventory}}{\text{Net Debt + Properties Payable + Unappropriated Cost}} > 1.5$$

The amendment above does not imply accelerated maturity of the agreed-upon obligations in view of such Indenture, even in relation to the occasional non-fulfillment during the last quarter of 2011.

2. Approval of the fixed percentage, as provided for in Covenant 4.4.5 of the Indenture, from 130% to 145% (First Placement of Tenda) and 125% (Seventh Placement of Gafisa).

3. As condition to the approval of the above items, for the First Placement of Tenda, the Company shall present the approval of the personal guarantee by the Board of Directors of Gafisa, attested by the presentation of the minutes of the Board of Directors Meeting duly registered and published in the appropriated authorities, where the Parties shall amend the Indenture. On March 28, 2012, the Debenture Holders’ Meeting approved the following resolutions on the Fifth Placement of Gafisa:

I. Amend the formula provided in line “m” of item 4.12.1 of the Covenant Four of the Indenture, which will have a new wording, as mentioned below, so that the calculation of the financial ratios provided for in the Indenture for the first quarter of 2012 are made by adopting the new methodology “m) non-compliance, by the Issuer, while there are Debentures outstanding, with the following financial ratios and limits (“Financial Ratios and Limits”):

1. $$\frac{\{\text{Total Debt – (Venture Debts + Short-term investments and Cash and Cash Equivalents)}\}}{\text{Equity}} \leq 75\% \ ;$$

2. $$\frac{\{\text{Total Receivables + Inventory of Finished Properties}\}}{\text{Total Debt}} \geq 2.2 \text{ or } < 0 \ ;$$

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28. Subsequent events (Continued)

Renegotiation of the restrictive debenture covenants (Continued)

A. For the purposes of the provisions of line (m):
(...)

(c) "Venture Debt" – the sum of all contracts for purpose of funding the construction and which funds provided by the National Housing System (SFH) or the Severance Indemnity Fund for Employees (FGTS). Accordingly: Venture Debt = SFH Debt + FGTS Debt".

II. Amend the interest of Debenture provided for in item 4.9.1 of the Covenant Four of the Indenture to 120% of CDI, so that the new wording of this item is as follows, and the new interest shall be effective from March 30, 2012, according to the DI released by the CETIP:

"4.9.1. Debentures will entitle to the payment of interest equivalent to the accumulation of 120% (one hundred and twenty per cent) of the daily average rates of one-day Interbank Deposits (DI), Extra Group, expressed as a percentage per year, based on 252 (two hundred fifty two) working days, calculated and released by CETIP."

The ratios and amounts required by these renegotiated and presented restrictive covenants are retroactively as follows as of December 31, 2011:

	12/31/2011
Fifth Placement	
(Net debt – Venture Debt /Equity < or = 75%)	32.94%
Seventh Placement	
(Total de Receivables + Unappropriated Income + Total Inventory of Finished Units) / (Net Debt + Properties Payable + Unappropriated Cost) > 1.5	1.74 time
First Placement – Tenda	
(Total de Receivables + Unappropriated Income + Total Inventory of Finished Units) / (Net Debt + Properties Payable + Unappropriated Cost) > 1.5	2.57times

Early Redemption of the FDIC investment

On March 12, 2012, the holders of shares of Gafisa FIDC (Note 5(ii)) unanimously approved at a meeting held on that date, amendments to the fund rules, comprising the inclusion of a provision that allows for extraordinary amortization of subordinated shares; replacement of the rating agency; possibility of selling subordinated shares and changes to the amortization flow of shares to cash basis.

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Notes to the consolidated financial statements--Continued
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28. Subsequent events (Continued)

Early Redemption of the FDIC investment (Continued)

At this same meeting, the extraordinary amortization was approved in the amount of R$10,000 until March 23, 2012.

Default on the CCB restrictive covenants and waiver

In January 2012, the Company was in default on the restrictive covenants of a CCB in the amount of R$100,000 because of the corporate rating downgrading. Immediately thereafter, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual covenant.

In April 2012, the Company was in default on the restrictive covenants of a CCB in the amount of R$100,000 because of the corporate rating downgrading. Immediately thereafter, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual covenant.

In June 2012, the Company was in default on the restrictive covenants of a CCB in the amount of R$100,000 because of the corporate rating downgrading. Immediately thereafter, the Company negotiated and obtained from the financial institution a waiver related to early redemption in view of the non-compliance of the contractual covenant.

Annual Shareholders' Meeting

Gafisa S.A

On May 11, 2012, the Annual Shareholders' Meeting of the Gafisa was held, in which the following main resolutions were taken: (i) approval of the financial statements for the year ended December 31, 2011; (ii) election of members to the Board of Directors and to the Fiscal Council; and (iii) setting of the annual aggregate amount to be distributed among its key management personnel and fiscal council members.

Construtora Tenda S.A.

On April 27, 2012, the Annual Shareholders' Meeting of the subsidiary Tenda was held, in which the following main resolutions were taken: (i) approval of the financial statements for the year ended December 31, 2011; (ii) election of members to the Board of Directors and to the Fiscal Council; and (iii) setting of the annual aggregate amount to be distributed among its key management personnel and fiscal council members.

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28. Subsequent events (Continued)

Acquisition of the remaining 20% of AUSA

As per material fact released on June 8, 2012 regarding the Third Phase of the Investment Agreement and Other Covenants entered into on October 2, 2006 ("Investment Agreement"), which established rules and conditions for Gafisa acquiring and holding shares of the corporate capital of Alphaville Urbanismo S.A. ("AUSA"), the Company informs that the final amount of the operation (acquisition of remaining 20%) was established as R$359.0 million which will be settled by the issuance of an estimated 70,251,551 common shares, issued by Gafisa, as set forth in the Investment Agreement. The number of shares that will be issued to settle this transaction is going to be decided in an arbitration process, initiated by the other shareholders of AUSA, as per material fact release on July 3, 2012.

Subpoena from the SEC

On June 14, 2012, Gafisa 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 Gafisa produce all documents from January 1, 2010 to the present related to the preparation of the company's financial statements, including, among other things, copies of the companies 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.

Communication from New York Exchange

The Company's annual report on Form 20-F for the year ended December 31, 2010 was due to be filed with the United States Securities and Exchange Commission ("SEC") on June 30, 2011. That filing deadline was subsequently extended for two weeks under Form 12(b)-25, although the 2010 Form 20-F filing was not made within that period of time. The Company's annual report on Form 20-F for the year ended December 31, 2011 was due to be filed with the SEC on April 30, 2012. That filing deadline was subsequently extended for two weeks under Form 12(b)-25, although the 2011 Form 20-F filing was not made within that period of time.

The Company has made and received various communications with the New York Stock Exchange ("NYSE") related to its delinquent SEC filings, and the need for the Company to become current with such filings to maintain its NYSE listing.

In its most recent communications with the Company dated May 17, 2012, the NYSE indicated that it will closely monitor the status of the Company's late filings and related public disclosures for up to six months from its due date (December 31, 2011 with respect to the 2010 Form 20-F). The NYSE has explained that if an issuer fails to file its annual report within six months from the filing due date, the NYSE may at its sole discretion, allow the issuer to trade on the NYSE for up to an additional six months depending on specific circumstances, as outlined in the rule. In its

letter, the NYSE went on to explain that it is expected that an issuer will submit an official request for consideration in such circumstances. If the NYSE determines that an additional six month period is appropriate, and the issuer fails to file the report by the end of that period, suspension and de-listing procedures will generally commence. Regardless of the standard procedures, the NYSE may commence de-listing procedures at any time during the period if circumstances warrant.

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29. Supplemental Information - Summary of Principal Differences between Brazilian GAAP and US GAAP for the years ended December 31, 2011, 2010 and 2009

(a) Description of the GAAP differences

The Company's accounting policies comply with, and its consolidated financial statements are prepared in accordance with Brazilian GAAP.

A summary of the Company's principal accounting policies under Brazilian GAAP that differ significantly from US GAAP is set forth below.

On July 1, 2009, the United States Financial Accounting Standards Board (the “FASB”) issued the FASB Accounting Standards Codification (the “ASC” or “Codification”), which became the single source of authoritative non-SEC US GAAP for non governmental entities. The FASB no longer issues new standards in the form of Statements, FASB Staff Positions, or EITF Abstracts. New US GAAP standards are issued in the form of an Accounting Standards Update (“ASU”), which includes revisions to the Codification. ASU’s are not authoritative in their own right; only the content in the Codification itself, as revised by the FASB, is authoritative. United States Securities and Exchange Commission (“SEC”) rules and interpretive releases are also authoritative for SEC registrants, including the Company.

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29. Supplemental Information - Summary of Principal
Differences between Brazilian GAAP and US GAAP for the years ended December 31, 2011, 2010 and 2009 -- continued

(a) Description of the GAAP differences (Continued)

Principles of consolidation

Under Brazilian GAAP, the consolidated financial statements include the accounts of Gafisa S.A. and those of all its subsidiaries listed in Note 2. The proportional consolidation method is used for investments in jointly-controlled investees, which are all governed by shareholders' agreements; accordingly, the assets, liabilities, revenues and costs are consolidated based on the proportion of the equity interest held in the capital of the corresponding investee.

Under US GAAP, because such investments provide substantive participating rights granted to the noncontrolling shareholder, they preclude the Company from consolidating the entities. Accordingly, for purposes of US GAAP these investments are accounted for on the equity method of accounting.

Under US GAAP, proportional consolidation is permitted only in limited circumstances, including for the construction sector. Accordingly, for purposes of US GAAP the remaining investments are accounted for on the equity method of accounting. Although these differences in GAAP do not affect the Company's net income or shareholders' equity, the line items in the consolidated balance sheet and statement of income are affected.

(i) Cash equivalents and short-term investments

Brazilian GAAP does not consider the maturity date to determine if a financial instrument should be classified as cash equivalent or a short-term investments. For US GAAP all highly liquid investments with a maturity of three months or less from the date of purchase are considered to be cash equivalent.

The Company has designated its short-term investments as trading for US GAAP purposes. For Brazilian GAAP purposes such financial instruments are classified as cash equivalents. For both Brazilian and US GAAP, these changes in fair value are recorded through income.

(ii) Revenue recognition

Under Brazilian GAAP, real estate development and retail land sales revenues, costs and related expenses are recognized using the percentage-of-completion method of accounting, by project measuring progress towards completion in terms of actual costs incurred versus total budgeted expenditures for each stage of a development. Land is treated as a portion of budgeted construction costs and is appropriated proportionally to each real estate development. Under the percentage-of-completion method of accounting, revenues for work completed are recognized prior to receipt of actual cash proceeds or vice-versa. Revenues starts to be recognized under the percentage-of-completion, when the Company is no longer able to cancel the launched project, after the sales period established by law.

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(a) Description of the GAAP differences (Continued)

Under US GAAP for sale of individual units in a building the Company follows the guidance of ASC 360-20-40-50 to recognize the sale by the percentage-of-completion method, only when the individual units in condominium projects are sold separately and all the following criteria are met:

a. Construction is beyond a preliminary stage: Construction is not beyond a preliminary stage if engineering and design work, execution of construction contracts, site clearance and preparation, excavation, and completion of the building foundation are incomplete.

b. The buyer is committed to the extent of being unable to require a refund except for non delivery of the unit.

c. Sufficient units have already been sold to assure that the entire property will not revert to rental property.

d. Sales prices are collectible.

e. Aggregate sales proceeds and costs can be reasonably estimated.

Collectability of the sales price is demonstrated by the buyer’s commitment to pay for the property, and there is a reasonable likelihood that the Company will collect the receivable which in turn is supported by substantial initial and continuing investments. When determining if he buyer’s initial and continuing investments are adequate, the potentially refundable amount, through judicial or other means, is considered determined based on contractual termination clauses, is excluded, pursuant to U.S. GAAP ASC 360.20.40, This standard requires amounts potentially refundable to a customer to be excluded from the initial and continuing investment test required by ASC 306.20.20, applicable prospectively as from January 1, 2008.

Under US GAAP for retail land sales of lots that are subdivisions of large tracts of land the Company recognize the sale by the percentage-of-completion method following ASC 976 605-25-4 and 25-6 – Retail Land, which criteria are as follows:

a. The period of cancellation with refund has expired;
b. Cumulative payments equal or exceed 10 percent;
c. Receivables are collectible;
d. Receivables are not subject to subordination;
e. There has been progress on improvements. The project's improvements have progressed beyond preliminary stages, and there are indications that the work will be completed according to plan;

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(a) Description of the GAAP differences (Continued)

f. Development is practical. There is a reasonable expectation that the land can be developed for the purposes represented and the properties will be useful for those purposes at the end of the normal payment period.

Additionally, as part of the analysis of this adjustment, the Company also determined the effect over the minority interest from their consolidated subsidiaries. The reclassification to the minority interest for this adjustment was R$11,894, R$2,704 and R$28,832 for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company also determined the effect for their investments in afiliates that are recognized trough the equity method under US GAAP. This reclassification resulted in R$(1,514) in 2011 as a consequence of the increased affiliated entities in 2011 that are recognized trough the equity method.

(iii) Capitalized interest

Under Brazilian GAAP and US GAAP - ASC 835-20 – Capitalization Interest (formerly FAS 34) the Company capitalizes interest as a part of the historical cost of acquiring or construction of assets. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of expenditures for the asset is a part of the historical cost of acquiring or construction of the asset intended for sale that are constructed as separate and discrete projects. The Company capitalizes interest at the date of acquisition of the land, if there is any activity in progress.

Before 2006, the Company capitalized interest under Brazilian GAAP only for the loans directly attributed to an ongoing project of construction of a real estate venture. From 2006 for US GAAP purposes, the capitalization of interest was recorded as a weighted-average of the total loans that the Company had for the years ended of the financial statements. Due to the fact above a difference of GAAP was created for the projects that exist in 2006. The GAAP difference is amortizing year to year based on the sales and conclusion of the projects for which the interests were capitalized.

(iv) Stock option plan

Under Brazilian GAAP, the rights to acquire shares granted to employees and executive officers under the stock options plan were recorded as an expense as from January 1, 2006, the transition date for the adoption of Law 11638/2007. Previously, under Brazilian GAAP, the stock option plans did not result in any expense being recorded. The purchase of the stock by the employees is recorded as an increase in capital stock for the amount of the purchase price. Under Law 11638/2007 and the accounting guidance provided by CPC No. 10, the stock option plans are treated as equity awards and measured at fair value at the grant date, no further adjustments are made at the balance

sheet dates to reflect changes in fair values.

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(a) Description of the GAAP differences (Continued)

Under US GAAP, beginning in 2006, the Company adopted the new US GAAP standard for Share-based Payment. As the awards are indexed to the IGP-M plus annual interest of 3%, the employee share options have been accounted for as liability awards under the terms of US GAAP. The liability-classified awards are remeasured at fair value through the statement of income at each reporting period until settlement. Remeasurement of liability awards can either result in the recognition of additional, or the reversal of compensation expense. The fair value of employee share options and similar instruments is estimated using the Black-Scholes option-pricing model for the years ended December 31, 2008 and 2007, and thereafter using the Binomial and Monte Carlo models.

For purposes of the US GAAP net income (loss) and equity reconciliations, stock option compensation expenses of R$23,750 and R$10,106 for the years ended December 31, 2011 and 2010, comprised of (i) a reversal of stock option expenses recognized under Brazilian GAAP of R$19,272 and R$12,924 for the years ended December 31, 2011 and 2010, respectively; and (ii) recording of stock option compensation expense under US GAAP of R$4,478 and R$2,818 for the years ended December 31, 2011 and 2010, respectively. A reduction of equity of R$7,804 and R$12,272 was recorded at December 31, 2011 and 2010.

(v) Earnings (loss) per share

Under US GAAP, the presentation of earnings (loss) per share is required for public companies, including earnings per share from continuing operations and net income (loss) per share on the face of the statement of income (loss), and the per share effect of changes in accounting principles, discontinued operations and extraordinary items either on the face of the income statement or in a note. A dual presentation is required: basic and diluted. Computations of basic and diluted earnings per share data should be based on the weighted average number of shares outstanding during the period and all dilutive potential shares outstanding during each period presented, respectively.

In addition, considering the company has the option to settle the future purchase of the AUSA non-controlling interest in shares there is a potential dilutive effect on earnings per shares. For earnings per share calculation the company includes 100% of its share in the income or loss of AUSA, which affects the numerator. Also the denominator was affected by the increase in weighted numbers per share, incorporating the number of shares necessary to purchase the AUSA non-controlling interest . The impact of these potential shares was not reflected for 2009, as the impact would be anti-dillutive. See for the impact of dilutive effect on the earnings per share calculation, the column “adjustment due to dilutive effect AUSA” in the tables on the next page.

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(a) Description of the GAAP differences (Continued)

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 then outstanding shares from 167,077,137 to 334,154,274. As required by BR and US GAAP and, all information relating to the numbers of shares and ADSs have been adjusted retroactively to reflect the stock split on February 22, 2010.

The Company has issued employee stock options (Note 16.3), the dilutive effects of which are reflected in diluted earnings per share by application of the "treasury stock method". Under the treasury stock method, earnings per share are calculated as if options were exercised at the beginning of the period, or at time of issuance, if later, and as if the funds received were used to purchase the Company's own stock. When the stock options' exercise price was greater than the average market price of shares, diluted earnings per share are not affected by the stock options. Under US GAAP, potentially dilutive securities are not considered in periods where there is a loss as the impact would be anti dilutive. For the year ended December 31, 2011, 3,198,261 potentially dilutive stock options were not considered.

The table below presents the determination of net income available (loss allocated) to Common shareholders and weighted average Common shares outstanding used to calculate basic and diluted earnings (loss) per share.

	2011	2010	2009
Basic numerator		(restated)	(restated)
Dividends proposed	-	98,812	50,716
U.S. GAAP undistributed loss	(755,769)	(193,595)	(185,095)
Allocated U.S. GAAP undistributed loss available forCommon shareholders	(755,769)	(94,783)	(134,379)
Basic denominator (in thousands of shares)			
Weighted-average number of shares (i)	431,586	412,434	267,174
Basic earnings (loss) per share – U.S. GAAP - R$	(1.7511)	(0.2298)	(0.5030)

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(a) Description of the GAAP differences (Continued)

(v) Earnings per share (Continued)

	2011	2010 (restated)	2009 (restated)
Diluted numerator			
Dividends proposed	-	98,812	50,716
U.S. GAAP undistributed loss	(755,770)	(193,595)	(185,095)
Allocated U.S. GAAP undistributed loss available for Common shareholders	(755,770)	(94,783)	(134,379)
Diluted denominator (in thousands of shares)			
Weighted-average number of shares (i)	431,586	412,434	267,174
Stock options	2,566	3,198	-
Noncontrolling interest shares	70,352	17,465	46,602
Antidilutive effect	(72,918)	(20,663)	(46,602)
Diluted weighted-average number of shares	431,586	412,434	267,174
Diluted loss per share – U.S. GAAP - R$	(1.7511)	(0.2298)	(0.5030)

(i) All share amounts have been adjusted retrospectively to reflect the 1:2 stock split approved by the shareholders' meeting on February 22, 2010.

(vi) Business combinations

Under Brazilian GAAP, goodwill arises from the difference between the amount paid and the Brazilian GAAP book value (normally also the tax basis) of the net assets acquired. This goodwill is normally attributed to the difference between the book value and the market value of assets acquired or justified based on expectation of future profitability and is amortized over the remaining useful lives of the assets or up to ten years. As indicated in Note 3, effective January 1, 2009, goodwill is no longer amortized under Brazilian GAAP. Negative goodwill arises under Brazilian GAAP when the book value of assets acquired exceeds the purchase consideration; negative goodwill is not generally amortized but is realized upon disposal of the investment, except when it is based on future results. For US GAAP purpose, when a business combination process generates negative goodwill, this amount is allocated first to

non-current assets acquired and any remaining amount is recognized as an extraordinary gain. Additionally, investments in affiliates, including the corresponding goodwill on the acquisition of such affiliates are tested, at least, annually for impairment.

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

Under US GAAP, fair values are assigned to acquired assets and liabilities in business combinations, including identifiable assets. Any residual amount is allocated to goodwill. Goodwill is not amortized but, instead, is assigned to an entity's reporting unit and tested for impairment at least annually. The differences in relation to Brazilian GAAP arise principally from the measurement of the consideration paid under US GAAP using the fair value of shares and put options issued, and the effects of amortization which are not recorded for US GAAP purposes (goodwill amortization is also no longer recorded for Brazilian GAAP purposes effective January 1, 2009).

For Brazilian GAAP purposes, the net balance of goodwill at December 31, 2011 was R$183,113 (2010 – R$193,543), which was being amortized to income over a period of up to 10 years until December 31, 2008.

For US GAAP purposes, the total net balance of goodwill at December 31, 2011 2010 and 2009 was R$62,536.

(a) Tenda transaction

Under Brazilian GAAP, the acquisition was consummated on October 21, 2008. As part of the acquisition of a controlling interest in Tenda, the Company contributed the net assets of FIT Residencial amounting to R$411,241, acquiring 60% of the shareholders' equity of Tenda (book value of the 60% interest representing an investment in net assets of R$621,643), which had a total shareholders' equity book value of R$1,036,072.

Under Brazilian GAAP, the sale of the 40% ownership interest in FIT Residencial to Tenda shareholders in exchange for the Tenda shares generated negative goodwill of R$210,402, reflecting the gain on the sale of the interest in FIT Residencial. From October 22 to December 31, 2008 under Brazilian GAAP, the Company amortized the total amount of R$210,402 of the negative goodwill, represented by the gain on the partial sale of Fit Residencial, as required by the adoption of the new CPC’s.

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

Under US GAAP, the Company recorded the transfer of Fit Residencial as a partial sale to the noncontrolling shareholders of Tenda and a gain of R$205,527 was recorded in the net income for the year ended December 31, 2008. The recognition of gain upon exchange of 40% ownership interest in FIT Residencial for 60% ownership interest in Tenda is presented as follows:

Tenda purchase consideration	367,703
FIT Residencial US GAAP book value (40%)	(162,176)
	205,527

Under US GAAP, the total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Acquired intangible assets include, R$73,038 assigned to existing development contracts, which are amortized over the estimated useful lives up to 5 years. For the years ended December 31, 2011 and 2010, the amount of R$11,851 were amortized per year. At December 31, 2011, accumulated amortization was R$37,890, and the remaining net book value of R$35,149 will be amortized ratably through October 2013. And R$54,741 was assigned to registered trademarks, which were determined to have indefinite useful lives, and are not amortized, but are tested for impairment at least annually.

The fair value allocation on the assets acquired and liabilities assumed at the acquisition date are as follows:

	Fair value - %	
	At 100	At 60
Current assets	539,741	323,845
Long-term receivables	252,453	151,472
Properties for sale - non current	174,168	104,501
Intangible assets	42,449	25,469
Other assets	101,191	60,714
Total assets acquired	1,110,002	666,001
Total liabilities assumed	(497,164)	(298,298)
Net assets acquired	612,838	367,703

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continued

(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

As mentioned in Note 1, on December 31, 2009, the shareholders of Gafisa and Tenda approved the merger by Gafisa of total outstanding shares issued by Tenda. Because of the merger, Tenda became a wholly-owned subsidiary of Gafisa on this date.

(b) Alphaville transaction

Alphaville redeemable non-controlling interest

On October 2, 2006, the Company signed an agreement to acquire 100% of the capital of Alphaville, a company which develops and sells residential lots throughout Brazil. This transaction was consummated on January 8, 2007 and was approved by the Brazilian anti-trust authority (CADE) on June 18, 2007 without any restriction. The Company initially acquired 60% of Alphaville's shares for R$198,400, of which R$20,000 was paid in cash and the remaining R$178,400 in the Company's own shares. In connection with the acquisition, the Company issued 6,358,616 new Common shares with a book value of R$134,029 which were contributed in full settlement of the amount due in shares as part of the purchase consideration. For purpose of determining the purchase consideration, the fair value of these shares was based on the average BM&FBOVESPA quoted stock price over a thirty day period prior to the date the agreement was signed.

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

(b) Alphaville transaction (continued)

The Company reevaluated the Alphaville Urbanismo S.A. (AUSA) purchase contract and determined that the non-controlling interest was redeemable. The non-controlling interest is redeemable in two blocks of 20% of the shares in 2010 and 2012. The company has the option to redeem the non-controlling interest either in shares or in cash. This redeemable non-controlling interest falls within the scope of ASC 480-10-S99-3A and is recorded as mezzanine equity. The initial recognition should be its issuance date fair value, with a corresponding entry in retained earnings. Subsequent re-measurements to fair value of the redemption amount following the allocation of NCI profit or loss for the period are adjusted against retained earnings of the company in accordance with ASC 480-10-S99-3A-15 and 3A-16C.

On March 8, 2010, the Company announced the increase of its participation in Alphaville's capital in 20%, as per the purchase agreement. The acquisition of 20% of Alphaville's capital corresponds to an amount of R$126,490 which will be paid based on issuance of 9,797,792 common shares (after the effect of the February 22, 2010 stock split) of Gafisa's capital.

Under US GAAP, the total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill, none of which is deductible for tax purposes, and other intangibles recorded in connection with the acquisition totaled R$20,902 and R$184,656, respectively.

Under US GAAP, acquired intangible assets include, R$168,072 assigned to existing development contracts, which is being amortized as developments are sold and R$20,902 assigned to registered trademarks, which were determined to have indefinite useful lives, and are not amortized, but are tested for impairment at least annually.

The fair values of assets acquired and liabilities assumed at the acquisition date are as follows:

	Fair value - %	
	At 100 (restated)	At 60 (restated)
Current assets	69,371	41,623
Long-term receivables	73,478	44,087
Other assets	17,379	10,427
Intangible assets	307,760	184,656

Total assets acquired	467,988	280,793
Total liabilities assumed	(144,064)	(86,438)
Income taxes	(28,095)	(16,857)
Total liabilities assumed	(172,159)	(103,295)
Net assets acquired	295,829	177,498

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

(b) Alphaville transaction (continued)

For the year ended December 31, 2011, the Company amortized R$23,584 (2010 - R$33,115 and 2009 – R$24,305) of the fair value assigned in the purchase price allocation.

(c) Cipesa transaction

On October 26, 2007, the Company acquired 70% of Cipesa. The Company and Cipesa formed a new company, Cipesa Empreendimentos Imobiliários Ltda. ("Nova Cipesa"), in which Gafisa has 70% of the capital and Cipesa has 30%. Gafisa contributed to Nova Cipesa R$50,000 in cash and acquired shares of Cipesa in Nova Cipesa in the amount of R$15,000 payable over one year. Additionally, Cipesa is entitled to receive from the Company a variable portion of 2% of the Total Sales Value ("VGV") of the projects launched by Nova Cipesa through 2014, not to exceed R$25,000, totaling the acquisition amount of R$90,000 and goodwill amounting to R$40,687 was recorded, based on expected future profitability under BR GAAP.

Under US GAAP, the total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill, none of which is deductible for tax purposes, and inventory recorded in connection with the acquisition totaled R$41,634 and R$51,597, respectively.

The fair values of assets acquired and liabilities assumed at the acquisition date are as follows:

	Fair value - %	
	At 100 (restated)	At 70 (restated)
Current assets	96,675	67,673
Other assets	8	5
Total assets acquired	96,683	67,678
Total liabilities assumed	(2,527)	(1,769)
Income taxes	(25,061)	(17,543)

Total liabilities assumed	(27,588)	(19,312)
Net assets acquired	69,095	48,366

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

(c) Cipesa transaction (continued)

For the year ended December 31, 2011, the Company amortized no amount (R$9,119 in 2010) of the fair value assigned in the purchase price allocation.

(d) Redevco transaction

Through November 2007, the Company held interests in investees together with Redevco through special purpose entities, as follow: Blue I (66.67%), Blue II (50%), Jardim Lorena (50%) and Sunplace (50%). In November 2007, the Company acquired the remaining interests in each entity for R$40,000.

Under US GAAP, the total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Negative goodwill for those entities totaled R$11,434, which was allocated as a pro rata reduction to the acquired assets. This negative goodwill results primarily from market and business conditions, in which the fair value assigned mainly to inventories and receivables exceeded the respective acquisition cost.

The combined fair values of assets acquired and liabilities assumed at the acquisition date are as follows:

	Combined fair value at 100%
Current assets	139,983
Long-term receivables	16,813
Other assets	170
Total assets acquired	156,966
Total liabilities assumed	(76,745)
Net assets acquired	80,221

Fair value option for financial liabilities

Under Brazilian GAAP, pursuant to CPC No. 14, the Company elected to apply the "fair value option" for certain working capital loans since 2007.

US GAAP permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted the new USGAAP standard at January 1, 2008 and elected to adopt the fair value option for working capital loans denominated in foreign currency (Note 10). The difference in relation to Brazilian GAAP arises from the adoption date for the fair value measurement. For purposes of the US GAAP shareholders' equity and net income reconciliation, R$ 207 was adjusted as at and for the year ended December 31, 2007, and was reversed in the net income reconciliation for the year ended December 31, 2008.

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

(d) Redevco transaction (continued)

(vii) Classification of balance sheet line items

Under Brazilian GAAP, the classification of certain balance sheet items is presented differently from US GAAP. The Company has recast its consolidated balance sheet under Brazilian GAAP to present a condensed consolidated balance sheet in accordance with US GAAP (Note 29(f)(i)). The reclassifications are summarized as follows:

- Under US GAAP, the proportional consolidation of investees and subsidiaries is eliminated and in its place the associated companies are presented using the equity method of accounting and controlled subsidiaries are fully consolidated presenting their respective noncontrolling interests.

- Under Brazilian GAAP, restricted cash is presented as short term investment in the balance sheet. For US GAAP purposes, restricted cash is presented separately outside of short-term investment.

- Under BR GAAP accounts receivable present value adjustment and monetary variation are recorded in the operating revenue. For US GAAP purpose the realization of accounts receivable present value adjustment and monetary variation are classified in the financial income/expense.

- For purposes of US GAAP, the sale of receivables is not considered a true sale, if the entities do not meet the pre-requisites of a qualifying special purpose entity, as defined by US GAAP. These receivables from clients continue to be reported as receivable balances. The cash proceeds received from the transfer of the receivables are presented as a liability. For purpose of the presentation of the balance sheet, R$11,410 was adjusted for US GAAP as at December 31, 2009, reflecting an increase in receivables from clients, which is offset by an increase of a liability.

- Under Brazilian GAAP, debt issuance costs are netted against the loan balance, whereas under US GAAP such costs are presented net of accumulated amortization, as deferred expenses in current and non-current assets.

    - Under Brazilian GAAP, deferred income taxes are netted and classified as non-current liabilities. For US GAAP purposes, deferred tax assets and liabilities are netted and classified as current or non-current based on the classification of the underlying temporary difference.

-

As of December 31, 2011, the Company and its subsidiary Tenda were in default on the contractual covenants provided for in certain debentures, including debentures with cross default provisions, for which a waiver was obtained and certain covenant ratios were renegotiated in March 2012. For Brazilian GAAP purposes, such debt was classified as a current liability as required since the violations were not cured as of the balance sheet date. For US GAAP, such amounts are not classified as current, as provided for in ASC 470.10, as the waiver and amendment were obtained prior to issuance of the financial statements.

Temporary equity

Under BR GAAP, as described in Note 18 (v), the Company has recorded as noncontrolling interest the portion of AUSA's capital stock for which it does not have legal ownership at December 31, 2010. Although it has a forward contract to acquire these equity interests at set dates in the future at fair value, no liability has been recorded for the redemption value as there is no liability to transfer cash or financial assets as the Company can use its own equity instruments as consideration. The Company has therefore accounted for this transaction based on embedded derivative component. As the fair value of this embedded derivative has no significant value, no derivative asset or liability is recorded.

Under US GAAP, as described in Note 29 a) b), the redeemable noncontrolling interest falls within the scope of ASC 480-10-S99-3A and is recorded as temporary equity. At issuance the initial recognition based on fair value was recorded as temporary equity with a corresponding entry in retained earnings; subsequent re-measurements to fair value of the redemption amount are adjusted against retained earnings.

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(a) Description of the GAAP differences (Continued)

(vi) Business combinations (Continued)

(d) Redevco transaction (continued)

(viii) Classification of statement of income (operations) line items

Under Brazilian GAAP, in addition to the issues noted above, the classification of certain income and expense items is presented differently from US GAAP. The Company has recast its statement of income prepared under the Brazilian GAAP to present a condensed consolidated statement of income (loss) in accordance with US GAAP (Note 29(f)(ii)). The reclassifications are summarized as follows:

- Brazilian listed companies are required to present the investment in jointly-controlled associated companies on the proportional consolidation method. For purposes of US GAAP, the Company has eliminated the effects of the proportional consolidation and reflected its interest in the results of investees on a single line item (Equity in results) in the recast consolidated statement of income (loss) under US GAAP.

- Interest income and interest expense, together with other financial charges, are displayed within operating income in the statement of income presented in accordance with Brazilian GAAP. Such amounts have been reclassified to non-operating income and expenses in the condensed consolidated statement of income (loss) in accordance with US GAAP.

- The net income differences between Brazilian GAAP and US GAAP (Note 29(b)(i)) were incorporated in the statement of income (loss) in accordance with US GAAP.

(ix) Tenda's share issuance cost

Under US GAAP, the share's issuance cost incurred for the acquisition of the remaining 40% of TENDA for R$11,072 is recorded directly as a reduction of equity. The accounting is the same under Brazilian GAAP, the Company recorded the amount as an expense. Accordingly, this expense is eliminated in the reconciliation to net income prepared in accordance with US GAAP.

(x) Reclassification of noncontrolling interest

As disclosed in Note 12, in January 2008, the Company formed an unincorporated venture (SCP), the main objective of which is to hold interests in other real estate development companies. The venture partner receives an annual dividend substantially equivalent to the variation in the Interbank Deposit Certificate (CDI) rate. Under BR GAAP

such amounts are reflected as a component of financial expense. See Note 26.

Under US GAAP this amount is presented as a component of net income attributable to noncontrolling interest. The reclassification of noncontrolling interest for this adjustment was R$30,178 for the year ended December 31, 2009.

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(b) Reconciliation of significant differences between Brazilian GAAP and US GAAP

(i) Net income (loss)

	Note	2011	2010 (restated)	2009 (restated)
Net income (loss) under Brazilian GAAP attributable to owners of Gafisa S.A.		(944,857)	264,565	101,740
Revenue recognition - net operating revenue	29(a)(ii)	711,821	(1,049,492)	(1,089,473)
Revenue recognition - operating costs	29(a)(ii)	(312,409)	655,186	754,150
Amortization of capitalized interest	29(a)(iii)	-	-	(5,771)
Stock compensation (expense) reversal	29(a)(iv)	23,750	10,106	7,194
Reversal of negative goodwill amortization of Redevco and Tenda	29(a)(vi)	-	-	(9,114)
Business Combination of Tenda, Redevco and Cipesa	29(a)(vi)	(10,575)	(14,964)	(2,973)
Business Combination of Alphaville	29(a)(vi)	(25,348)	(34,960)	(16,786)
Other, net		-	-	141
Reclassification of noncontrolling interest	29(a)(x)	-	-	30,178
Noncontrolling interests on adjustments above	29(a)(ii)	11,894	2,704	28,832
Tenda's share issuance cost	29(a)(ix)	-	-	11,072
Equity pick-up	29(a)(ii)	(1,512)	(34,114)	(24,330)
Deferred income tax on adjustments above		(208,523)	106,186	80,762
Net loss under US GAAP		(755,769)	(94,783)	(134,379)
Net loss attributable to the noncontrolling interests under US GAAP		27,784	21,214	30,333
Net loss attributable to Gafisa under US GAAP		(727,985)	(73,569)	(104,046)
Weighted-average number of shares outstanding in the year (in thousands) (i)				
Common shares		431,586	412,434	267,174
Loss per share				
Common (i)				
Basic		(1.7511)	(0.2298)	(0.5030)
Diluted		(1.7511)	(0.2298)	(0.5030)

(i) All share amounts have been adjusted retrospectively to reflect the 1 for 2 share split on February 22, 2010.

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29. Supplemental Information - Summary of Principal Differences between Brazilian GAAP and US GAAP for the years ended December 31, 2011, 2010 and 2009 -- continued

(b) Reconciliation of significant differences between Brazilian GAAP and US GAAP (Continued)

(ii) Equity

	Note	2011	2010 (restated)	2009 (restated)
Equity under Brazilian GAAP		2,648,472	3,570,750	2,325,634
Revenue recognition - net operating revenue	29(a)(ii)	(2,476,959)	(3,188,782)	(2,164,311)
Revenue recognition - operating costs	29(a)(ii)	1,804,912	2,117,322	1,462,135
Liability-classified stock options	29(a)(iv)	(7,804)	(12,272)	(3,939)
Reversal of goodwill amortization of Alphaville	29(a)(vi)	18,234	18,234	18,234
Reversal of negative goodwill amortization of Redevco and Tenda	29(a)(vi)	(232,327)	(232,327)	(232,327)
Gain on the transfer of FIT Residencial	29(a)(vi)	205,527	205,527	205,527
Business Combination – Tenda, Redevco and Cipesa	29(a)(vi)	53,986	64,560	79,524
Business Combination – Alphaville	29(a)(vi)	(99,196)	(73,848)	(38,888)
Other, net		(1,117)	(1,844)	(446)
Noncontrolling interests on adjustments above		63,668	51,773	49,069
US GAAP adjustment equity accounted investees		(59,958)	(58,441)	(24,330)
AUSA – redeemable noncontrolling interest	29(a)(vii)	(319,802)	(179,303)	(246,498)
Deferred income tax on adjustments above		122,312	330,495	225,012
Gafisa equity under US GAAP		1,719,948	2,611,844	1,679,418
Noncontrolling interests under US GAAP		21,174	20,833	18,826
Equity under US GAAP		1,741,122	2,632,677	1,697,844

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29. Supplemental Information - Summary of Principal Differences between Brazilian GAAP and US GAAP for the years ended December 31, 2011, 2010 and 2009 -- continued

(b) Reconciliation of significant differences between Brazilian GAAP and US GAAP (Continued)

(ii) Equity (Continued)

Condensed changes in total equity under US GAAP

	2011	2010 (restated)	2009 (restated)
At beginning of the year	2,632,677	1,697,844	1,886,031
Capital increase, net of issuance expenses	20,121	1,062,439	9,736
Stock options	(15,946)	2,166	-
Sale of treasury shares	-	-	82,046
Net loss attributable to Gafisa	(755,769)	(94,783)	(134,379)
Tenda's shares issuance cost	-	-	(11,072)
Minimum mandatory dividend	-	(102,932)	(50,716)
Noncontrolling interests	341	2,407	16,927
AUSA – redeemable noncontrolling interest	(140,499)	67,195 (1)	(100,729)
Other	197	(1,659)	-
At end of the year	1,741,122	2,632,677	1,697,844

(1) Refers to redemption of noncontrolling interest of 20% in the amount of R$123,164 net of restatement of the fair value in the amount of R$55,969.

Condensed equity under US GAAP

Equity	2011	2010 (restated)	2009 (restated)
Common shares, comprising 432,100,073 shares outstanding (2010 – 430,915,889; 2009 – 333,554,788)	2,734,157	2,654,836	1,664,665
Treasury shares	(1,731)	(1,731)	(1,731)
Retained earnings (accumulated losses)	(1,012,478)	(41,261)	16,484
Total Gafisa equity	1,719,948	2,611,844	1,679,418
Noncontrolling interests	21,174	20,833	18,426

Total equity	1,741,122	2,632,677	1,697,844

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29. Supplemental Information - Summary of Principal
Differences between Brazilian GAAP and US GAAP for the years ended December 31, 2011, 2010 and 2009 -- continued

(c) US GAAP supplemental information (Continued)

(i) Recent US GAAP accounting pronouncements

The Financial Accounting Standards Board ("FASB") recently issued a number of Statements of Financial Accounting Standards and interpretations; the standards and interpretations described below have not had or are not expected to have a material impact on the financial position and results of operations of the Company, unless otherwise indicated.

a) Accounting pronouncements adopted

The FASB issued ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets (FASB Statement No. 166, Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140) in December 2009. ASU 2009-16 removes the concept of a qualifying special-purpose entity ("QSPE") from ASC Topic 860, Transfers and Servicing, and the exception from applying ASC 810-10 to QSPEs, thereby requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered QSPEs. Transferor-imposed constraints on transferees whose sole purpose is to engage in securitization or asset-backed financing activities are evaluated in the same manner under the provisions of the ASU as transferor-imposed constraints on QSPEs were evaluated under the provisions of Topic 860 prior to the effective date of the ASU when determining whether a transfer of financial assets qualifies for sale accounting. The ASU also clarifies the Topic 860 sale-accounting criteria pertaining to legal isolation and effective control and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. There is no material impact in the financial statements adoption of this standard on January 1, 2010.

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29. Supplemental Information - Summary of Principal
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(c) US GAAP supplemental information (Continued)

a) Accounting pronouncements adopted -- continued

The FASB issued ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R)) in December 2009. ASU 2009-17, which amends the Variable Interest Entity ("VIE") Subsections of ASC Subtopic 810-10, Consolidation – Overall, revises the test for determining the primary beneficiary of a VIE from a primarily quantitative risks and rewards calculation based on the VIE’s expected losses and expected residual returns to a primarily qualitative analysis based on identifying the party or related-party group (if any) with (a) the power to direct the activities that most significantly impact the VIE’s economic performance and (b) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. The ASU requires kick-out rights and participating rights to be ignored in evaluating whether a variable interest holder meets the power criterion unless those rights are unilaterally exercisable by a single party or related party group. The ASU also revises the criteria for determining whether fees paid by an entity to a decision maker or another service provider are a variable interest in the entity and revises the Topic 810 scope characteristic that identifies an entity as a VIE if the equity-at-risk investors as a group do not have the right to control the entity through their equity interests to address the impact of kick-out rights and participating rights on the analysis.

Finally, the ASU adds a new requirement to reconsider whether an entity is a VIE if the holders of the equity investment at risk as a group lose the power, through the rights of those interests, to direct the activities that most significantly impact the VIE’s economic performance, and requires a company to reassess on an ongoing basis whether it is deemed to be the primary beneficiary of a VIE. There is no material impact in the financial statements adoption of this standard on January 1, 2010.

b) Accounting pronouncements not yet adopted

The FASB issued ASU 2010-25 Plan Accounting – Defined Contribution Pension Plan (Topic 962) which amends the requirement that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The Company is evaluating if the adoption of ASU 2010-20 will not have a material impact on its consolidated financial statements.

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29. Supplemental Information - Summary of Principal
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(c) US GAAP supplemental information (Continued)

b) Accounting pronouncements not yet adopted -- continued

The FASB issued ASU 2010-20 Receivables (Topic 310) which improves the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The Company is evaluating if the adoption of ASU 2010-20 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2010-18 Receivables (Topic 310) which clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The Company is evaluating if the adoption of ASU 2010-18 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2010-11 Derivatives and Hedging (Topic 815) which clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The Company is evaluating if the adoption of ASU 2010-11 will not have a material impact on its consolidated financial statements.

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(c) US GAAP supplemental information (Continued)

b) Accounting pronouncements not yet adopted -- continued

The FASB issued ASU 2010-10 Consolidation (Topic 810) which defers the effective date of the amendments to the consolidation requirements made by FASB Statement 167 to a reporting entity's interest in certain types of entities and clarifies other aspects of the Statement 167 amendments. As a result of the deferral, a reporting entity will not be required to apply the Statement 167 amendments to the Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. This Update also clarifies how a related party's interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the Update also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. The Company is evaluating that the adoption of ASU 2010-10 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2010-09 Subsequent Events (Topic 855) which addresses both the interaction of the requirements of Topic 855, Subsequent Events, with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events (paragraph 855-10-50-4). The amendments in this Update have the potential to change reporting by both private and public entities, however, the nature of the change may vary depending on facts and circumstances. The Company is evaluating that the adoption of ASU 2010-09 will not have a material impact on its consolidated financial statements.

Accounting Standards Update (ASU) number 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 and are expected to provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The Company is evaluating that the adoption of ASU 2010-09 will not have a material impact on its consolidated financial statements.

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(c) US GAAP supplemental information (Continued)

b) Accounting pronouncements not yet adopted -- continued

The FASB issued ASU 2010-28, Intangibles – Goodwill and Others (Topic 350): When to perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts in December 2010. This ASU specifies that an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the revised guidance should be included in the earnings as required by Section 350-20-35. The revised guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. . The Company is evaluating the adoption of ASU 2010-28 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU addresses that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The revised guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

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29. Supplemental Information - Summary of Principal
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continued

(c) US GAAP supplemental information (Continued)

b) Accounting pronouncements not yet adopted --continued

The revised guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company applied the revised disclosure provisions in the notes to its consolidated financial statements prospectively, as applicable. The Company is evaluating if the adoption of ASU 2009-29 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2011-04, Fair Value Measurements (Topic 820), which amends the fair value measurement guidance and includes some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standard is effective for fiscal years beginning after December 15, 2011. The Company is evaluating if the adoption of ASU 2011-04 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2011-08, Intangibles – Goodwill and other (Topic 350), which provides entities an option to perform a qualitative assessment to determine whether further impairment testing on goodwill is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company is evaluating if the adoption of ASU 2011-08 will not have a material impact on its consolidated financial statements.

The FASB issued ASU 2011-10, Property, Plant and Equipment (Topic 360), which the objective of this update is to resolve the diversity in practice about whether the guidance in Subtopic 360-20 applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10) in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt. This update does not address whether the guidance in Subtopic 360-20 would apply to other circumstances when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate. The Company is evaluating if the adoption of ASU 2011-10 will not have a material impact on its consolidated financial statements.

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continued

(c) US GAAP supplemental information (Continued)

The FASB issued ASU 2011-11, Balance Sheet (Topic 210), which determines that the new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. This ASU will not have a material effect on the Company’s financial position or results of operations, but will change the Company’s disclosure policies for financial derivative instruments. The Company is evaluating if the adoption of ASU 2011-11 will not have material impact and its consolidated financial statement.

(ii) Additional information - stock option plan

The Company has adopted the modified prospective transition method and the liability-classified awards were measured at fair market value as of January 1, 2006. The assumptions were: weighted historical volatility of 29%; expected dividend yield of 0%; annual risk-free interest rate of 8%, and; expected average total lives of 1.6 years.

As of December 31, 2010, all the liability-classified awards were remeasured at their fair value and amounted to R$12,272 (2009 – R$3,939). The reversal of stock compensation expense (General and administrative expenses) related to the stock option plans totaled an expense of R$12,924 in the year ended December 31, 2010 (2009 – reversal of R$7,233). The assumptions were: weighted historical volatility of 64% (2009 – 69%); expected dividend yield of 1.9% (2009 – 1.1%); average annual risk-free interest rate of 11% (2009 – 9%), and; expected average total lives of 2.0 years in 2010 (2009 – 2.0 years). As of December 31, 2011, the compensation cost related to nonvested stock options to be recognized in future periods was R$13,367 (2010 – R$14,676) and its weighted average recognition period was approximately 2.0 years in 2011 (2010 – 2.0 years).

(d) US GAAP condensed consolidated financial information

Based on the reconciling items and discussion above, the Gafisa S.A. consolidated balance sheets, statements of income (loss), and statement of changes in shareholders' equity (see b(ii)) under US GAAP have been recast in condensed format as follows:

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(i) Condensed consolidated balance sheets under US GAAP

	2011	2010 (restated)	2009 (restated)
Assets			
Current assets			
Cash and cash equivalents	82,592	217,328	292,940
Short-term investments	409,993	285,367	1,005,882
Restricted short-term investments	365,766	624,687	96,846
Receivables from clients	2,444,323	1,753,908	811,834
Properties for sale	3,049,652	3,219,903	2,703,790
Prepaid expenses	55,001	18,637	14,122
Deferred income tax	-	-	79,101
Other accounts receivable	100,141	191,518	88,900
Investments	394,221	314,132	115,407
Property and equipment, net	96,669	79,576	58,969
Intangibles, net	235,151	259,244	274,528
Goodwill	62,536	62,536	62,536
Other assets			
Receivables from clients	421,640	580,813	1,048,573
Properties for sale	798,206	470,425	364,948
Deferred income tax	-	219,942	117,234
Other	345,254	184,251	184,447
Total assets	8,861,145	8,482,267	7,320,057

	2011	2010 (restated)	2009 (restated)
Liabilities and equity			
Current liabilities			
Short-term debt, including current portion of long-term debt	650,306	639,265	653,070
Debentures	311,875	29,488	132,077
Obligations for purchase of land	361,268	239,980	241,396
Payables for materials and services suppliers	110,985	160,275	169,085
Taxes and labor contributions	128,402	99,704	193,694
Advances from clients - real estate and services	866,428	886,055	586,883
Credit assignments	54,825	72,572	201,376
Acquisition of investments	20,560	23,062	21,090
Dividends payable	11,774	99,424	50,716

Others	637,937	120,947	81,863
Long-term liabilities			
Loans, net of current portion	886,336	551,546	476,645
Debentures, net of current portion	1,595,961	1,860,977	1,796,000
Deferred income tax	97,380	-	80,919
Obligations for purchase of land	140,227	118,456	141,563
Obligations assumed on the assignment of receivables	431,226	-	-
Payables to venture partners	253,390	380,000	300,000
Commitments and provisions for contingencies	134,914	124,537	110,073
Other payables and provision	67,244	242,502	129,763
Alphaville redeemable non-controlling interest	358,985	200,800	256,000
Equity			
Total Gafisa equity	1,719,948	2,611,844	1,679,418
Noncontrolling interests	21,174	20,833	18,426
Total equity	1,741,122	2,632,677	1,697,844
Total liabilities and equity	8,861,145	8,482,267	7,320,057

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(ii) Condensed consolidated statements of operations under US GAAP

	2011	2010 (restated)	2009 (restated)
Gross operating revenue			
Real estate development and sales	3,452,131	2,116,375	1,713,419
Construction and services rendered	29,583	24,892	48,662
Taxes on services and revenues	(231,487)	(212,137)	(61,142)
Net operating revenue	3,250,227	1,929,130	1,700,940
Operating costs (sales and services)	(2,743,144)	(1,472,085)	(1,256,317)
Gross profit	507,083	457,045	444,623
Operating expenses			
Selling, general and administrative	(610,055)	(477,146)	(439,385)
Other	(252,920)	(98,630)	(135,639)
Operating loss before financial results and income tax	(355,892)	(118,731)	(130,401)
Financial income	80,760	120,419	125,913
Financial expenses	(178,130)	(218,229)	(228,838)
Loss before income tax	(453,262)	(216,541)	(233,326)
Taxes on income			
Current	(89,495)	(2,498)	(18,398)
Deferred	(244,915)	103,309	56,765
Income tax benefit (expense)	(334,410)	100,811	40,367
Loss before equity in results and noncontrolling Interests	(787,672)	(115,730)	(192,959)
Equity pick-up in associates	59,687	42,161	88,913
Loss for the year	(727,985)	(73,569)	(104,046)
Net loss attributable to the noncontrolling interests	(27,784)	(21,214)	(30,333)
Net loss attributable to Gafisa	(755,769)	(94,783)	(134,379)

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(iii) Additional information – income taxes

Change in the valuation allowance for net operating losses was as follows:

	2011	2010 (restated)	2009 (restated)
Opening balance at January 1	(29,241)	(14,476)	(19,325)
Change in valuation allowance	(382,307)	(14,765)	4,849
Closing balance at December 31	(411,548)	(29,241)	(14,476)

The Company adopted the provisions of FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), on January 1, 2007 which requires it to record the financial statement effects of an income tax position when it is more likely than not, based on the technical merits, that it will be sustained upon examination. A tax position that meets the more-likely-than-not recognition threshold is measured and recorded as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority.

As of December 31, 2011, 2010 and 2009 the Company has no amount recorded for any uncertainty in income taxes.

Gafisa S.A. and its subsidiaries file income tax returns in Brazil and other foreign federal and state jurisdictions. Brazilian income tax returns are normally open to audit for five years.

(iv) Statement of comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) that include charges or credits directly to equity which are not the result of transactions with owners. In the case of the Company, comprehensive income (loss) is the same as net income.

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Notes to the consolidated financial statements--Continued
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(Amounts in thousands of Brazilian Reais, except as stated otherwise)

(v)Statement of cash flows

For each period for which an income statement is presented and required to be reconciled to US GAAP, SEC rules require that the Company provide either a statement of cash flows prepared in accordance with US GAAP or IFRS; or furnish in a note to the financial statements a qualified description of the material differences between cash or funds flows reported in the primary financial statements and cash flows that would be reported in a statement of cash flows prepared in accordance with US GAAP.

The Company's primary differences in net income (loss) between Brazilian GAAP and net loss for US GAAP are explained in items 29(a)(ii) to (vii) above. The statement of cash flows for new Brazilian GAAP was prepared based on CPC 3(R2) - Statement of Cash Flows which conforms with IAS 7.

(vi)Statement of value added

The statement of value added for new Brazilian GAAP was prepared based on CPC 09 - "Demonstração do Valor Adicionado." For US GAAP, this statement is not required.

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