

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

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

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____ .

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number: 001-33356

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

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

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

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

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

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

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

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

None

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

None

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

The number of outstanding shares as of December 31, 2014 was:

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

* Includes 29,881,286 common shares that are held in treasury.

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

U.S. GAAP

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

Other

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

Item 17 Item 18

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

Yes No

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INTRODUCTION

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

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

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, Brazilian Law No. 11,638/07, Brazilian Law No. 12,431/11 and Brazilian Law No. 12,973/14, which we refer to hereinafter as “Brazilian corporate law;”
- the rules and regulations of the Brazilian Securities Commission (Comissão de Valores Mobiliários), or the “CVM;” and
- the accounting standards issued by the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade), or the “CFC” and the Accounting Standards Committee (Comitê de Pronunciamentos Contábeis), or the “CPC.”

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

Through December 31, 2009, our financial statements were prepared in accordance with Brazilian GAAP in effect at that time. We elected January 1, 2009 as a transition date to full adoption of the new accounting standards (“new CPCs”). Our financial statements as of and for the year ended December 31, 2009 and as of January 1, 2009 have been restated to reflect these adjustments. In preparing our financial statements, we have applied: (1) Guideline OCPC 04 – Application of the Technical Interpretation of ICPC 02 to the Brazilian Real Estate Development Entities – regarding revenue recognition, and the respective costs and expenses arising from real estate development operations over the course of the construction period (percentage of completion method), and (2) CPC 37 (R1), which requires that an entity develops accounting policies based on the standards and interpretations of the CPC. We have adopted all pronouncements, guidelines and interpretations of the CPC issued through December 31, 2014. As a result, our financial statements are prepared in accordance with Brazilian GAAP, which allows revenue recognition on a percentage of completion basis for construction companies (i.e., revenue is recorded in accordance with the percentage of financial evolution of the construction project), and are therefore not compliant with IFRS as issued by the International Accounting Standards Board (“IASB”), which require revenue recognition on a delivery basis (i.e., revenue is recorded upon transferring the ownership risks and benefits to the purchaser of real estate, usually after the construction is completed and the unit is delivered).

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

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

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

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

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

Market Information

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

Rounding and Other Information

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

In this annual report, all references to “contracted sales” are to the aggregate amount of sales resulting from all agreements for the sale of units (including residential communities and land subdivisions) entered into during a certain period, including new units and units in inventory. Further, in this annual report we use the term “value of launches” as a measure of our performance. Value of launches is not a GAAP measurement. Value of launches, as used in this annual report, is calculated by multiplying the total numbers of units in a real estate development by the average unit sales price.

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- changes in the overall economic conditions, including employment levels, population growth and consumer confidence;
- changes in real estate market prices and demand, estimated budgeted costs and the preferences and financial condition of our customers;
 - demographic factors and available income;
- our ability to repay our indebtedness and comply with our financial obligations;
- our ability to arrange financing and implement our expansion plan;
- our ability to compete and conduct our businesses in the future;
 - changes in our business;
 - inflation and interest rate fluctuations;
- changes in the laws and regulations applicable to the real estate market;
- government interventions, resulting in changes in the economy, taxes, rates or regulatory environment;
- other factors that may affect our financial condition, liquidity and results of our operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected financial data for 2014, 2013, 2012 and 2011 has been derived from our audited consolidated financial statements presented herein. As explained in footnote 9 below, our selected Brazilian GAAP financial data for 2010 was derived from our previously issued consolidated financial statements for such year, not presented herein, after adjusting such previously reported amounts for certain recently issued Brazilian GAAP accounting standards.

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

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

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

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

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

Consolidated Income Statement

Data:

Brazilian GAAP:

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

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

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

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

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

* Common shares held in Treasury are not included.

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

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

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

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

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

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

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

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

(9)

As explained in Note 8.2 to our consolidated financial statements for the year ended December 31, 2014, the results of operations of Alphaville have been presented as discontinued operations under Brazilian GAAP in the Company's 2013 and 2012 consolidated statements of operations given its disposal during 2013. Under Brazilian GAAP, previous period balance sheet information is not retrospectively adjusted. Brazilian GAAP selected consolidated statement of operations financial data for the years ended December 31, 2011 and 2010 have also been retrospectively adjusted to also reflect discontinued operations for comparability purposes. Previously reported U.S. GAAP selected financial information is not impacted by this matter as Alphaville is reflected as a component of continuing operations for all periods presented, given the Company's significant continuing involvement in those operations via its 30% retained ownership interest.

(10) While our financial statements and the financial information presented in this annual report have been restated to apply this change retrospectively to the comparative periods of December 31, 2012 and 2011, the operating information presented in this annual report has not been restated and reflects our percentage interest in such jointly-controlled investees as management believes it provides a better view of our operating performance.

Exchange Rates

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

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The Central Bank has allowed the real to float freely against the U.S. dollar since January 15, 1999. Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the real declined relative to the U.S. dollar, primarily due to financial and political instability in Brazil and Argentina. According to the Central Bank, in 2005, 2006 and 2007, however, the period-end value of the real appreciated in relation to the U.S. dollar 13.4%, 9.5% and 20.7%, respectively. In 2008, the period-end value of the real depreciated in relation to the U.S. dollar by 24.2%. In 2009 and 2010, the period-end value of the real appreciated in relation to the U.S. dollar by 34.2% and 4.3%. In 2011, the real depreciated against the U.S. dollar by 11.2%. In 2013 and 2012, the real depreciated by 13.2% and 8.9% against the U.S. dollar, respectively. On December 31, 2012, the period-end real/U.S. dollar exchange rate was R\$2.0435 per U.S. \$1.00, and on December 31, 2013 it was R\$2.3420 per U.S.\$1.00. In 2014, the period-end value of the real depreciated in relation to the U.S. dollar by 13.4%. On December 31, 2014, the period-end real/U.S. dollar exchange rate was R\$2.6562 per U.S. \$1.00. Although the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of this instability or other factors, and, therefore, the real may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

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

	Period-end	Average for period(1)	Low	High
	(per U.S. dollar)			
Year Ended:				
December 31, 2010	1.665	1.759	1.655	1.880
December 31, 2011	1.876	1.718	1.535	1.902
December 31, 2012	2.044	1.907	1.702	2.112
December 31, 2013	2.342	2.199	1.925	2.445
December 31, 2014	2.656	2.469	2.197	2.740
Month Ended:				
October 2014	2.444	2.463	2.391	2.534
November 2014	2.560	2.549	2.484	2.614
December 2014	2.656	2.651	2.561	2.740
January 2015	2.662	2.643	2.575	2.711
February 2015	2.878	2.785	2.689	2.881
March 2015	3.208	3.067	2.866	3.268
April 2015 (through April 24, 2015)	2.975	3.065	2.975	3.156

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

Source: Central Bank.

On April 24, 2015, the selling rate was R\$2.975 to US\$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at April 24, 2015 may not be indicative of future exchange rates.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to foresee such imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. For approximately six months in 1989, and early 1990, for example, the Federal Government froze all dividend and

capital repatriations that were owed to foreign equity investors. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that similar measures will not be taken by the Federal Government in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of the more detailed discussion included elsewhere in this annual report. Our business, results of operations, financial condition or prospects could be adversely affected if any of these risks occurs, and as a result, the trading price of our common shares and ADSs could decline. The risks described below are those known to us and those that we currently believe may materially affect us.

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

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

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

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

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

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

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

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

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

profitability.

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

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

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

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

We expect that the continued expansion and development of our business will require significant capital, including working capital, which we may be unable to obtain on acceptable terms, or at all, to fund our capital expenditures and operating expenses, including working capital needs. We may fail to generate sufficient cash flow from our operations to meet our cash requirements. Furthermore, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated, or we may have to delay some of our new development and expansion plans or otherwise forgo market opportunities. Future borrowing instruments such as credit facilities are likely to contain restrictive covenants, particularly in light of the recent economic downturn and unavailability of credit, and/or may require us to pledge assets as security for borrowings under those facilities. Our inability to obtain additional capital on satisfactory terms may delay or prevent the expansion of our business, which would have an adverse effect on our business. As of December 31, 2014, our net debt plus payable to venture partners (indebtedness from debentures, loans and financing, project financing and payables to venture partners balance, net of our cash and short term investments position) was R\$1,440 million: our cash and cash equivalents and short-term investments were R\$1,157 million and our total debt was R\$2,597 million including obligations to venture partners of R\$11 million.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As part of our strategy to focus our future operations on regions where our developments have historically been successful, and where we believe there is homebuilding potential based on market opportunities, we may sell portions of our landbank located outside of these regions. As a result, we will prepare an annual impairment analysis of our landbank based on the acquisition cost of the land in our portfolio. Starting in 2011, we decided to sell a portion of our landbank and our evaluation of impairment on landbank and properties for sale resulted in provisions for impairment in the amount of R\$63.5 million in 2014, R\$68.5 million in 2013, R\$53.8 million in 2012 and R\$92.1 million in 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We anticipate that we will need additional financing to implement our expansion strategy and we may not have access to the funding required for the expansion of our business or such funding may not be available to us on acceptable terms. We may finance the expansion of our business with additional indebtedness or by issuing additional debt or equity securities. For example, in 2012, we issued R\$360.0 million in subordinated indebtedness, including: (1) R\$150 million in bank credit certificates, or CCBs, on September 5, 2012, (2) R\$80 million in our third restricted public issuance of commercial paper in a single series in December 2012 and (3) R\$130 million in CCBs issued by Alphaville secured by a pledge of sales receivables and certain ventures. In addition, on October 31, 2012, we amended the terms of certain CCBs in the amount of R\$100 million to provide additional security, including a first-priority mortgage of certain real estate ventures, a pledge of sales receivables and to adjust the payment terms of the CCBs.

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

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

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

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

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

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

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

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

As of December 31, 2014, our total debt (loans, financing and debentures) and payables to venture partners was R\$2,597 million and our short-term debt and payables to venture partners was R\$1,061 million. In addition, as of December 31, 2014 our cash and cash equivalents and short-term investments available was R\$1,157 million and our net debt represented 47.1% of our shareholders’ equity including the non-controlling interest. Our indebtedness has variable interest rates. Our level of indebtedness could have important negative consequences for us. For example, it could:

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

- increase our vulnerability to adverse general economic or industry conditions;

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- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
 - restrict us from making strategic acquisitions or exploring business opportunities; and
 - place us at a competitive disadvantage compared to our competitors that have less debt.

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

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

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

We cannot guarantee that we will be successful in obtaining any waivers. As of December 31, 2014, the Company and its subsidiaries were in compliance with the contractual covenants provided for in our debentures and other credit instruments.

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

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

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

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

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

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

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

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

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

We may be held responsible for the labor liabilities of our third party contractors and obligated to pay for fines imposed by the relevant authorities in the event that our third party contractors do not comply with applicable legislation. As of December 31, 2014, R\$36.1 million of our R\$81.3 million of total labor liabilities and provisions were for such liabilities. Approximately 44% of the labor claims were commenced by employees of our third party contractors. An adverse result in such claims would cause an adverse effect on our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Brazil

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

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of the Brazilian economy. For example, the government's actions to control inflation have at times involved setting wage and price controls, blocking access to bank accounts, imposing exchange controls and limiting imports into Brazil. We have no control over, and cannot predict, what policies or actions the Brazilian government may take in the future.

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

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

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

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

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

At times in the past, Brazil has experienced high rates of inflation. According to the General Market Price Index (Índice Geral de Preços—Mercado), or “IGP-M”, inflation rates in Brazil were 3.8% in 2006, 7.8% in 2007, 9.8% in 2008, (1.7)% in 2009, 11.3% in 2010, 5.1% in 2011, 7.8% in 2012, 5.5% in 2013, 3.7% in 2014 and 0.8% in the one month period ended January 31, 2015. In addition, according to the Expanded Consumer Price Index (Índice de Preços ao Consumidor Ampliado), or “IPCA,” Brazilian consumer price inflation rates were 3.1% in 2006, 4.5% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012, 5.9% in 2013, 6.4% in 2014 and 1.2% in the one month period ended January 31, 2015. Our term sales agreements usually provide for an inflation adjustment linked to the National Construction Cost Index (Índice Nacional de Custo de Construção), or “INCC”. The INCC increased by 6.2% in 2007, 11.9% in 2008, 3.14% in 2009, 7.77% in 2010, 7.49% in 2011, 7.12% in 2012, 8.1% in 2013 and 6.9% in 2014. The Brazilian government’s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

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

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

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

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

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

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

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

As of December 31, 2014, our indebtedness was denominated in reais and subject to Brazilian floating interest rates, such as the Reference Interest Rate (Taxa Referencial), or “TR,” and the Interbank Deposit Certificate Rate (Certificado de Depósito Interbancário), or “CDI rate.” Any increase in the TR rate or the CDI rate may have an adverse impact on our financial expenses, our results of operations and on the market price of our common shares or the ADSs. We are not a party to any hedging instruments with respect to our indebtedness.

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

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

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

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers’ tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. Since April 2003, the Brazilian government has presented several tax reform proposals, which were mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposals provided for changes in the rules governing the federal Social Integration Program (Programa de Integração Social), or “PIS,” the federal Contribution for Social Security Financing (Contribuição para Financiamento da Seguridade Social), or “COFINS,” the state Tax on the Circulation of Merchandise and Services (Imposto Sobre a Circulação de Mercadorias e Serviços), or “ICMS,” and other taxes. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot

be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Risks Relating to Our Common Shares and the ADSs

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

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

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

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

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

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

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may limit your ability to sell our common shares and the common shares underlying your ADSs at the price and time at which you wish to do so. The BM&FBOVESPA, the only Brazilian stock exchange, had a market capitalization of US\$844.5 billion as of December 31, 2014 and an average daily trading volume of US\$3.5 billion for 2014. In comparison, the NYSE had a domestic market capitalization of US\$20.2 trillion (excluding funds and non-U.S. companies) as of December 31, 2014 and an average daily trading volume of approximately US\$40.5 billion for 2014.

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

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

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

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

We may need additional funds in the future, in order to expand more rapidly, develop new markets, respond to competitive pressures or make acquisitions. Any necessary additional financing may not be available on terms

favorable to us. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If additional funds are raised by our issuing new equity securities existing shareholders may be diluted. See “Item 4. Information on the Company—A. History and Development of the Company.”

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

According to our bylaws, we must generally pay our shareholders at least 25% of our annual net profit as dividends or interest on shareholders' equity, as calculated and adjusted under the Brazilian corporate law method. This adjusted net profit may be used to absorb losses or for the payment of statutory participation on profits to debenture holders, employees or members of our management, which would ultimately reduce the amount available to be paid as dividends or interest on shareholders' equity. Additionally, the Brazilian corporate law allows a publicly traded company like us to suspend the mandatory distribution of dividends in any particular year if our board of directors informs our shareholders that such distributions would be inadvisable in view of our financial condition or cash availability. For 2003, 2004 and 2005, we did not distribute dividends. We distributed dividends in each of 2007, 2008, 2009 and 2010 with respect to the prior respective fiscal year. Based on the negative results of the fiscal year 2012, on April 19, 2013, our shareholders did not approve any distribution of dividends. On December 20, 2013, with the completion of the sale of the Alphaville interest, as fully detailed in item "4. Information on the Company—A. History and Development of the Company", our board of directors approved the payment of interest on equity in the amount of R\$130.2 million, representing R\$0.31112217224 per share. Such payment was effective February 12, 2014. On April 25, 2014, our shareholders approved a distribution of dividends in the amount of R\$32.9 million, representing R\$0.082486835998 per share. Based on the negative results of the fiscal year 2014, our shareholders did not approve any distribution of dividends at the shareholders meeting held on April 16, 2015. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy."

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

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

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

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

No single shareholder or group of shareholders holds more than 50% of our capital stock. There is no guidance in Brazilian corporate law for publicly-held companies without an identified controlling shareholder. Due to the absence of a controlling shareholder, we may be subject to future alliances or agreements between our shareholders, which may result in the exercise of a controlling power over our company by them. In the event a controlling group is formed and decides to exercise its controlling power over our company, we may be subject to unexpected changes in our corporate governance and strategies, including the replacement of key executive officers. Additionally, we may be more vulnerable to a hostile takeover bid. The absence of a controlling group may also jeopardize our

decision-making process as the minimum quorum required by law for certain decisions by shareholders may not be reached and, as a result, we cannot guarantee that our business plan will be affected. Any unexpected change in our management team, business policy or strategy, any dispute between our shareholders, or any attempt to acquire control of our company may have an adverse impact on our business and result of operations.

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

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

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

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

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

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

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

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

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

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

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

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