Gafisa S.A.
Form 20-F
June 18, 2008

As filed with the Securities and Exchange Commission on June 18, 2008
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2007

OR

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

OR

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

Date of the event requiring this shell company report……………………

For the transition period from ________________ to ________________

Commission file number: 001-33356

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

GAFISA S.A.
(Translation of Registrant's name into English)
The Federative Republic of Brazil
(Jurisdiction of incorporation or organization)
Av. Nações Unidas No. 8,501, 19th Floor
05425-070 - São Paulo, SP - Brazil
phone: + 55 (11) 3025-9000
fax: + 55 (11) 3025-9348
e-mail: ri@gafisa.com.br
Att.: Alceu Duílio Calciolari - Chief Financial Officer and Investor Relations Officer
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

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

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

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 of each class as of December 31, 2007.

Title of Class	Number of Shares Outstanding
Common Stock	132,577,093*

* Includes 3,124,972 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. x Yes o 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. o Yes x 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. x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
x Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: o U.S GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board x 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. o Item 17 x 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). o Yes x 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" are to generally accepted accounting principles in Brazil and references to "U.S. GAAP" are to generally accepted accounting principles in the United States. All references to "American Depositary Shares" or "ADSs" are to Gafisa's American Depositary Shares, each representing two common shares.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

We maintain our books and records in reais. We prepare our financial statements 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 and Brazilian Law No. 11,638/07, which we refer to hereinafter as "Brazilian corporate law";

- the rules and regulations of the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários), or the "CVM;" and

- the accounting standards issued by the Brazilian Institute of Independent Accountants (Instituto dos Auditores Independentes do Brasil), or the "IBRACON," and the Brazilian Federal Accounting Council (Conselho Federal de Contabilidade), or the "CFC."

The Brazilian Central Bank and the CVM set 2010 as the deadline for adoption of International Financial Reporting Standards, or IFRS, for the consolidated financial statements of financial institutions and publicly-held companies. As a result, on December 28, 2007, Law No. 11,638/07 was enacted, amending the Brazilian corporate law regarding the accounting practices adopted in Brazil as from the year ended on December 31, 2008. When we reconcile our financial statements to IFRS to comply with this requirement and Brazilian GAAP migrates toward IFRS, percentage of completion accounting is unlikely to be acceptable (IFRIC D21). As a result, our financial statements may be materially different from those presented under Brazilian GAAP.

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

Our consolidated financial statements reflect income statement and balance sheet information for all of our subsidiaries, and also break out the interest of minority shareholders therein. With respect to our jointly-controlled entities, as a result of the existence of shareholders agreements, we consolidate income statement and balance sheet information relating to those entities in proportion to the equity interest we hold in the capital of such investee.

In 2006, we changed the Brazilian GAAP accounting practice adopted with respect to the deferral of selling expenses and presentation of construction costs and have amended our Brazilian GAAP financial statements for the years ended

December 31, 2006, (retrospectively). See note 3(v) to our financial statements included elsewhere in this annual report for this amendment and other reclassifications to our Brazilian GAAP financial statements. All periods presented have been modified to reflect such new accounting practices.

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

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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 Brazilian Association of Real Estate Credit and Savings Entities (Associação Brasileira das Entidades de Crédito Imobiliário e Poupança), or the "ABECIP," the Real Estate Companies' Union (Sindicato das Empresas de Compra, Venda, Locação e Adminsitração 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.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this annual report in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several risks and 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 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.D. Key Information—Risk Factors.”

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to 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 ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected financial data have been derived from our financial statements. The selected financial data as of December 31, 2007, 2006 and 2005 and for the three years ended December 31, 2007 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected financial data as of December 31, 2004 and 2003 and for the two years ended December 31, 2004 have been derived from our audited consolidated financial statements that are not included in this annual report.

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 and shareholders' equity from Brazilian GAAP to U.S. GAAP, see notes to our audited consolidated financial statements included elsewhere in this annual report. In 2006, we changed the Brazilian GAAP accounting practice adopted with respect to the deferral of selling expenses and presentation of construction costs and have amended our Brazilian GAAP financial statements for the years ended December 31, 2006 (retrospectively). See note 3(v) to our financial statements included elsewhere in this annual report for this amendment and other reclassifications to our Brazilian GAAP financial statements. All periods presented have been modified to reflect such new accounting practices.

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

Solely for convenience of the reader, certain amounts included in the tables below and elsewhere in this annual report have been converted from reais into U.S. dollars using the exchange rate as reported by the Central Bank as of December 31, 2007 of R$1.771 to US$1.00 or the indicated dates (subject to rounding adjustments). These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate as of that or any other date. In addition, translations should not be construed as representations that the real amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

	As of and For the Year Ended December 31,					
	2007(1)	2007	2006	2005	2004(2)	2003
	(in thousands except per share, per ADS and operating data)(3)					
Income statement data:						

Brazilian GAAP:						
Gross operating revenue	US$ 687,573	R$ 1,217,692	R$ 697,479	R$ 480,774	R$ 439,254	R$ 428,721
Net operating revenue	661,871	1,172,174	663,847	457,024	416,876	410,621
Operating costs	(449,980)	(796,914)	(465,795)	(318,211)	(292,391)	(268,672)
Gross profit	211,891	375,260	198,052	138,813	124,485	141,949
Operating expenses, net(4)	(115,213)	(204,042)	(103,371)	(79,355)	(59,688)	(70,952)
Stock issuance expenses	(17,038)	(30,174)	(27,308)	—	—	—
Financial income (expenses), net	7,993	14,155	(11,943)	(31,162)	(34,325)	(17,095)
Non-operating income (expenses), net	—	—	—	(1,024)	(1,450)	—
Income before taxes on income, statutory profit sharing and minority interest	87,633	155,199	55,430	27,272	29,022	53,902

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	As of and For the Year Ended De			
	2007(1)	2007	2006	20
		(in thousands except per share, per ADS an		
Taxes on income	(17,474)	(30,946)	(6,024)	
Statutory profit sharing	(1,265)	(2,240)	(3,350)	
Minority interest	(4,749)	(8,410)	—	
Net income	64,145	113,603	46,056	
Share and ADS data(3):				
Earnings per share—R$ per share	0.4955	0.8775	0.4455	
Number of preferred shares outstanding as at end of period	—	—	—	16,2
Number of common shares outstanding as at end of period	129,452,121	129,452,121	103,369,950	8,4
Earnings per ADS—R$ per ADS (pro forma)(5)	0.9910	1.7551	0.8911	
U.S. GAAP:				
Net operating revenue	615,828	1,090,632	674,740	4
Operating costs	(488,852)	(865,756)	(503,172)	(3
Gross profit	126,976	224,876	171,568	1
Operating expenses, net	(107,527)	(190,430)	(139,188)	(
Financial income (expenses), net	15,383	27,243	4,022	(
Income before income taxes, equity in results and minority interest	34,832	61,689	36,402	
Taxes on income	(1,122)	(1,988)	(11,187)	
Equity in results	4,799	8,499	894	
Minority interest	(2,675)	(4,738)	(1,125)	
Cumulative effect of a change in an accounting principle:	-	—	(157)	
Net income(6)	35,834	63,462	24,827	
Per share and ADS data(3):				
Per preferred share data—R$ per share				
Earnings per share—Basic	—	—	0.1518	
Earnings per share—Diluted	—	—	0.1498	
Weighted average number of shares outstanding – in thousands	—	—	1,701	
Dividends declared and interest on shareholders' equity	—	—	—	
Per common share data—R$ per share:				
Earnings per share—Basic	0.2844	0.5036	0.2487	
Earnings per share—Diluted	0.2831	0.5013	0.2458	
Weighted average number of shares outstanding – in thousands	126,032	126,032	98,796	
Dividends declared and interest on shareholders' equity	15,235	26,981	10,938	
Per ADS data—R$ per ADS(5):				
Earnings per ADS—Basic (pro forma)(5)	0.5687	1.0072	0.4974	
Earnings per ADS—Diluted (pro forma)(5)	0.5661	1.0026	0.4916	
Weighted average number of ADSs outstanding – in thousands	63,016	63,016	48,398	
Dividends declared and interest on shareholders' equity	15,235	26,981	10,938	
Balance sheet data:				
Brazilian GAAP:				
Cash, bank and financial investments	US$ 290,484	R$ 514,447	R$ 266,159	R$ 1
Properties for sale	521,915	924,311	440,989	3
Working capital(7)(12)	781,787	1,384,544	802,810	4

Total assets	1,666,004	2,950,493	1,494,217	9
Total debt(8)	389,247	689,356	295,443	3
Total shareholders’ equity	864,350	1,530,763	814,087	2

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	As of and For the Year Ended December 31,					
	2007(1)	2007	2006	2005	2004(2)	2003
	(in thousands except per share, per ADS and operating data)(3)					
U.S. GAAP:						
Cash, bank and financial investments	294,769	522,036	260,919	136,153	42,803	—
Properties for sale	643,862	1,140,280	483,411	376,613	214,744	—
Working capital(7)(12)	731,325	1,295,176	788,351	473,794	195,392	—
Total assets	1,631,304	2,889,040	1,633,886	901,387	601,220	—
Total debt(8)	387,648	686,524	289,416	294,149	141,476	—
Total shareholders' equity	814,156	1,441,870	795,251	290,604	160,812	—
Cash flow provided by (used in):						
Brazilian GAAP						
Operating activities	(280,073)	(496,010)	(306,243)	(112,947)	23,616	—
Investing activities	(63,381)	(112,247)	(8,577)	(5,576)	(1,509)	—
Financing activities	483,650	856,545	447,087	206,526	10,601	—
Operating data:						
Number of new developments	—	53	30	21	11	20
Number of units launched(9)	—	10,315	3,052	2,363	1,132	1,790
Launched usable area (m2)(10)	—	1,927,821	407,483	502,520	233,393	179,437
Sold usable area (m2)(10)	—	2,364,173	357,723	372,450	131,275	185,273
Units sold	—	6,120	3,049	1,795	1,192	1,595
Average sales price (R$/m2)(10)(11)	—	2,835	3,045	2,878	2,934	2,822

(1) Translated using the exchange rate as reported by the Central Bank as of December 31, 2007 for reais into U.S. dollars of R$1.771 to US$1.00.

(2) The financial information in relation to receivables from clients, properties for sale, real estate development obligations, other current liabilities, working capital, total assets and unearned income from property sales from 2004 and thereafter is not comparable to prior periods as a result of the adoption of CFC Resolution No. 963 for real estate developments launched after January 1, 2004. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Critical Accounting Policies and Estimates."

(3) On January 26, 2006, all our preferred shares were converted into common shares. On January 27, 2006, a stock split of our common shares was approved, giving effect to the split of one existing share into three newly issued shares, increasing the number of shares from 27,774,775 to 83,324,316. All information relating to the numbers of shares and ADSs have been adjusted retroactively to reflect the share split on January 27, 2006. All U.S. GAAP earnings per share and ADS amounts have been adjusted retroactively to reflect the share split on January 27, 2006. Brazilian GAAP earnings per share and ADS amounts have not been adjusted retrospectively to reflect the share split on January 27, 2006.

(4) Excludes stock issuance expenses.

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

(6) The following table sets forth reconciliation from U.S. GAAP net income to U.S. GAAP net income available to common shareholders:

	As of and For the Year Ended December 31,			
	2007	2006	2005	2004
Reconciliation from U.S. GAAP net income to U.S. GAAP net income available to common shareholders (Basic):				
U.S. GAAP net income (Basic)	63,462	24,827	34,383	27,241
Preferred Class G exchange*	—	—	(9,586)	—
Undistributed earnings for Preferred Shareholders (Basic earnings)	—	(258)	(16,334)	(16,260)
U.S. GAAP net income available to common shareholders (Basic earnings)	63,462	24,569	8,463	10,981
Reconciliation from US GAAP net income to US GAAP net income available to common shareholders (Diluted):				
US GAAP net income	63,462	24,827	34,383	27,241

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	As of and For the Year Ended December 31, 2007	2006	2005	2004
Preferred Class G exchange*	—	—	(9,586)	—
Undistributed earnings for Preferred Shareholders (Diluted earnings)	—	(259)	(16,373)	(16,260)
US GAAP net income available to common shareholders (Diluted earnings)	63,462	24,568	8,424	10,981

* Pursuant to EITF Topic D-42 "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," following the exchange of Class A for Class G Preferred shares, the excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the balance sheet was subtracted from net income to arrive at net earnings available to common shareholders in the calculation of earnings per share. For purposes of displaying earnings per share, the amount is treated in a manner similar to the treatment of dividends paid to the holders of the preferred shares. The conceptual return or dividends on preferred shares are deducted from net earnings to arrive at net earnings available to common shareholders.

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

(8) Total debt comprises loans, financings and short term and long term debentures. Amounts exclude loans from real estate development partners.

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

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

(11) The average sales price in reais per square meter excludes land subdivisions. The average sales value in reais per square meter, including land subdivisions, was R$1,137, R$2,776, R$1,291, R$2,061 and R$2,580 in 2007, 2006, 2005, 2004 and 2003, respectively.

(12) With the objective of improving the presentation of the classification between current and non current assets, we reclassified certain amounts to non current. Amounts were not considered to have materially affected the presentation of the financial statements taken as a whole. See note 3 (v) of our financial statements.

Exchange Rates.

Until March 4, 2005, there were two legal foreign exchange markets in Brazil, the commercial rate exchange market, or the "Commercial Market," and the floating rate exchange market, or the "Floating Market." The Commercial Market was reserved primarily for foreign trade transactions and transactions that generally required prior approval from Brazilian monetary authorities, such as registered investments by foreign persons and related remittances of funds abroad (including the payment of principal and interest on loans, notes, bonds and other debt instruments denominated in foreign currencies and registered with the Central Bank). The Floating Market rate generally applied to specific transactions for which Central Bank approval was not required. Both the Commercial Market rate and the Floating Market rate were reported by the Central Bank on a daily basis.

On March 4, 2005, the Central Bank issued Resolution No. 3,265, providing for several changes in Brazilian foreign exchange regulation, including: (1) the unification of the foreign exchange markets into a single exchange market; (2)

the easing of several rules for acquisition of foreign currency by Brazilian residents; and (3) the extension of the term for converting foreign currency derived from Brazilian exports. It is expected that the Central Bank will issue further regulations in relation to foreign exchange transactions, as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of reais), including those made through the so-called non-resident accounts (also known as CC5 accounts).

From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the real against the U.S. dollar under an exchange rate policy that established a band within which the real/U.S. dollar exchange rate could fluctuate. Responding to pressure on the real, on January 13, 1999, the Central Bank widened the foreign exchange rate band. Because the pressure did not ease, on January 15, 1999, the Central Bank abolished the band system and allowed the real to float freely.

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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 2004, 2005, 2006 and 2007, however, the period-end value of the real appreciated in relation to the U.S. dollar 8.8%, 13.4%, 9.5% and 20.7%, respectively. 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, 2003	R$ 2.889	R$ 3.242	R$ 2.822	R$ 3.662
December 31, 2004	2.654	2.930	2.654	3.205
December 31, 2005	2.341	2.463	2.163	2.762
December 31, 2006	2.138	2.215	2.059	2.371
December 31, 2007	1.771	1.793	1.762	1.823
Month Ended:				
January 2008	1.760	1.786	1.741	1.830
February 2008	1.683	1.720	1.672	1.768
March 2008	1.749	1.716	1.679	1.753
April 2008	1.687	1.705	1.657	1.753
May 2008	1.629	1.662	1.629	1.694
June 2008 (through June 17)	1.613	1.628	1.613	1.643

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

Source: Central Bank.

On June 17, 2008, the selling rate was R$1.613 to US$1.00. The real/dollar exchange rate fluctuates and, therefore, the selling rate at June 17, 2008 may not be indicative of future exchange rates.

We have translated certain amounts included in "Item 3.A. Key Information—Selected Financial Data" and elsewhere in this annual report from reais into U.S. dollars using the exchange rate as reported by the Central Bank as of December 31, 2007 of R$1.771 to US$1.00 or the indicated dates (subject to rounding adjustments). These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate as of that or any other date. In addition, translations should not be construed as representations that the real amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

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 and results of operations 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 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 2003 and 2004, high interest rates in Brazil adversely affected consumer confidence which negatively impacted the sales of our units. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. We may be particularly affected by changes in local market conditions in São Paulo and Rio de Janeiro, where we derive a large portion of our revenue.

The real estate industry in Brazil is highly competitive. Failure to compete successfully could have a material adverse effect on our business, our financial condition and the results of our operations.

The Brazilian real estate industry is highly competitive and fragmented. We compete with Brazilian as well as international developers on availability and location of land, 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 partnerships 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 and Rio de Janeiro, 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 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 determine our reputation, and therefore our sales and growth. Delays in the construction of our projects or defects in materials and/or workmanship may occur. 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. Construction projects often involve delays in obtaining, or the inability to obtain, permits or approvals from

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the relevant authorities. In the past, we have encountered circumstances where we had obtained the necessary environmental permits from state authorities, but we were prevented from commencing our construction due to investigations by the local prosecutor's office in response to complaints regarding our tree-cutting activities. Such investigations delayed the start of construction by us and the delivery of completed units to our customers. 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, 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.

Construction delays, cost overruns and addressing newly discovered conditions may 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. We may also incur construction and other development costs for a project that exceed our original estimates due to increases over time in interest rates, material costs, labor costs or other costs. We may not be able to pass these increased costs on to purchasers and thus the increases may decrease our profitability.

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

We expect that the continuing expansion and development of our business will require significant 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. We may not be able to obtain future equity or debt financing on favorable terms, if at all. Future borrowing instruments such as credit facilities are likely to contain restrictive covenants and 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.

Changing market conditions may adversely affect our ability to sell our home inventories at expected prices, which could reduce our margins.

As a homebuilder, 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 developed home sites and the time that we can bring the properties to market and sell homes. Lag time varies on a project-by-project basis; however, historically, we have experienced a lag time of 12 to 24 months. 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 home inventories 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 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 GAAP if values decline.

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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 that 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. As of December 31, 2007, our receivables relating to such financing amounted to R$2.4 billion. Our customer default rate in the last five years was 2% and as a result, on average, we recovered 98 cents of every dollar loaned that is overdue. Our term sales agreements usually provide for an inflation adjustment linked to the National Index of Construction Cost (Índice Nacional de Custo da Construção), or "INCC," during the construction phase of the projects, to the General Market Price Index (Índice Geral de Preços—Mercado), or "IGP-M," after completion of the construction and 12% per annum fixed-rate interest rate after delivery of the units. 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, which usually takes two years, and involves additional costs. It is uncertain that we can recover the full amount owed to us or that if we repossess the unit, we can re-sell the unit at favorable terms or at all.

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 we participate in are subject to various federal, state and municipal laws and regulations, including those relating to construction, zoning, use of soil, environmental protection, historical patrimony and consumer protection. 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. If we are unable to maintain or achieve compliance with these laws and regulations, 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 financial condition. In addition, our contractors and subcontractors are required to comply with various labor and environmental regulations and tax 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.

Regulations governing the Brazilian real estate industry as well as environmental laws have tended to become more restrictive over time. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. For example, we have encountered circumstances where we had obtained the necessary environmental permits from state authorities, but subsequently became subject to investigations by the local prosecutor's office in response to complaints regarding our tree-cutting activities based on a different interpretation of the applicable regulations. 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.

If there is a scarcity of financing and/or increased interest rates, this may decrease the demand for real estate properties, which could negatively affect our business.

The scarcity of financing and/or an increase in interest rates may adversely affect the ability or willingness of prospective buyers to purchase our products and services. A majority of the bank financing obtained by prospective buyers comes from the Housing Financial System (Sistema Financeiro de Habitação), or “SFH,” which is financed by funds raised from savings account deposits. The Brazilian Monetary Council (Conselho Monetário Nacional), or the “CMN,” might change 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 financial position and results of operations.

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Because we recognize sales income from our real estate properties under the percentage of completion method of accounting, an adjustment in the cost of a development project may reduce or eliminate previously reported revenue and income.

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

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

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

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 or decreased supply. 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.

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

The basic raw materials 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 to the extent we are unable to pass on these increased costs to our buyers.

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

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acceptable terms. We may finance the expansion of our business with additional indebtedness or by issuing additional equity securities. We could face financial risks 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.

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, 2007, our total debt was R$689.4 million. For the fiscal year 2007, our annual debt service obligation was approximately R$68.7 million.

Our level of indebtedness could have important negative consequences for us. For example, it could:

- require us to dedicate a large portion of our cash flow from operations to fund payments on our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse general economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- limit our ability to raise additional debt or equity capital in the future or increase the cost of such funding;
- restrict us from making strategic acquisitions or exploring business opportunities;
- make it more difficult for us to satisfy our obligations with respect to our debt; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

Our indebtedness has variable interest rates. At December 31, 2007, the principal amount of our aggregate outstanding variable rate indebtedness was R$689.4 million. A hypothetical 1% adverse change in interest rates would have had an annualized unfavorable impact of approximately R$6.9 million on our earnings and cash flows, based on the debt level at December 31, 2007.

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 Brazil’s 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;

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- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product, or "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.

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.

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 IGP-M, the inflation rates in Brazil were 1.2% in 2005, 3.8% in 2006 and 7.7% in 2007 and 4.7% for the five month period ended in May 2008. In addition, according to the National Extended Consumer Price Index (Índice Nacional de Preços ao Consumidor Amplo), or "IPCA," published by the IBGE, the Brazilian price inflation rates were 5.7% in 2005, 3.1% in 2006 and 4.5% in 2007 and 2.9% for the five month period ended in May 2008. 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. Any decline in our net sales 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.

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

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

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At December 31, 2007, all of 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 and our results of operations.

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

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

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

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers' tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In April 2003, the Brazilian government presented a tax reform proposal, which was mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposal provided for changes in the rules governing the federal Social Integration Program (Programa de Integração Social), or "PIS," the federal Contribution for Social Security Financing (Contribuição para Financiamento da Seguridade Social), or "COFINS," the state Tax on the Circulation of Merchandise and Services (Imposto Sobre a Circulação de Mercadorias e Serviços), or "ICMS," and some 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 politic crisis especially in the United States, such as the subprime mortgage lending crisis in 2007 and 2008, have at times resulted in significant negative impacts on the market price of our ADSs. Despite the fact that our clients, whether financed by us or by Brazilian banks through resources obtained in the local market, are not directly exposed to the mortgage lending crisis in the United States, there are still uncertainties as to whether such crisis may indirectly affect homebuilders worldwide. The uncertainties generated by the subprime crisis may affect the market prices of our ADSs and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

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

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

The Brazilian economy is also affected by international economic and market conditions generally, especially economic and market conditions in the United States. Share prices on the São Paulo Stock Exchange (Bolsa de Valores de São Paulo S.A. – BVSP), or the "BOVESPA," for example, have historically been sensitive to fluctuations in U.S. interest rates as well as movements of the major U.S. stock indexes. 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 BOVESPA, the only Brazilian stock exchange, had a market capitalization of approximately US$1.4 trillion as of December 31, 2007 and an average daily trading volume of approximately US$2.6 billion for 2007. In comparison, "NYSE," had a market capitalization of US$30.5 trillion as of December 31, 2007 and an average daily trading volume of approximately US$141 billion for 2007.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented approximately 61.4% of the aggregate market capitalization of the BOVESPA as of December 31, 2007. The top ten stocks in terms of trading volume accounted for approximately 14.9% of all shares traded on the BOVESPA in 2007. Gafisa's average daily trading volume on the BOVESPA and in the NYSE in 2007 were US$13.8 million and US$13.6 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, if any, 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 and, in the case public or private financing is unavailable or if our shareholders decide, we may issue additional common shares. Any additional funds obtained by such a capital increase may dilute your interest in our company. Moreover, because we may pay the remaining 40% of Alphaville's acquisition price with our common shares, you may experience additional dilution of your investment in our company. See "Item 4.A. Information on the Company—History and Development of the Company."

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

According to our by-laws, 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 capitalized, used to absorb losses or otherwise retained as allowed under the Brazilian corporate law method and may not be available to be paid as dividends or interest on shareholders' equity. Additionally, the Brazilian corporate law allows a publicly traded company like ours to suspend the mandatory

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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. In 2007, we distributed dividends in the total amount of approximately R$11 million, or R$0.11 per share, for fiscal year 2006. In April 2008, our shareholders approved the distribution of dividends for the fiscal year 2007 in the amount of approximately R$ 27 million, or R$0.21 per share, which were fully paid to our shareholders on April 29, 2008. See "Item 8.A. Financial Information—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 depositary following our notice to the depositary requesting the depositary to do so. To exercise their voting rights, holders of ADSs must instruct the ADR depositary 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 depositary from the holders of ADSs shall not be voted.

Holders of ADSs also may not receive the voting materials in time to instruct the depositary to vote the common shares underlying their ADSs. In addition, the depositary 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 new 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. 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. 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.

Holders of ADSs will not be able to enforce the rights of shareholders under our by-laws 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 will not be direct shareholders of our company and will be unable to enforce the rights of shareholders under our by-laws and Brazilian corporate law.

Our corporate affairs are governed by our by-laws 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 (sociedade anônima) 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. In these terms, 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 of tax. There is no case law regarding the application of Law No. 10,833 of December 29, 2003 and, accordingly, we are unable to predict whether Brazilian courts would apply it to dispositions of our ADSs between non-residents of Brazil. However, if a disposition of our ADSs is considered a disposition of assets, this tax law would result in the imposition of withholding taxes on the disposition of our ADSs by a non-resident of Brazil to another non-resident of Brazil. See "Item 10.E. Additional Information—Taxation—Brazilian Tax Considerations—Gains."

Because any gain or loss recognized by a U.S. Holder (as defined in "Item 10.E. Additional Information—Taxation—Material U.S. Federal Income Tax Considerations") will generally be treated as U.S. source gain or loss unless such credit can be applied (subject to applicable limitations) against tax due on the other income treated as derived from foreign sources, such U.S. Holder would not be able to use the foreign tax credit arising from any Brazilian tax imposed on the disposition of our common shares.

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 the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then, prevailing exchange 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.

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

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

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holders may receive only the net proceeds from the sale of their preemptive rights by the depositary, or if they are not sold, their preemptive rights will be allowed to lapse.

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

The ADSs benefit from the certificate of foreign capital registration, which permits Citibank N.A., as depositary, to convert dividends and other distributions with respect to our common shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for common shares will then be entitled to rely on the depositary’s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under Resolution CMN 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration.

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

If we are not able to adequately implement the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and are the subject of sanctions or investigation, our results of operations and our ability to provide timely and reliable financial information may be adversely affected.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and related regulations implemented by the SEC are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We are evaluating our internal control over financial reporting to allow management to report on, and our registered - independent public accounting firm to attest to, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, which we are required to comply with in our annual report which we will file in 2009 for our 2008 fiscal year. As a result, we expect to incur substantial additional expenses and diversion of management’s time. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by our deadline, we cannot be certain as to the timing of completion of our evaluation, testing and any remediation actions or the impact of the same on our operations since there is presently no precedent available by which to measure compliance adequacy. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities such as the SEC. Any such action could adversely affect our financial results or investors’ confidence in our company and could cause the price of our securities to fall. In addition, if we fail to develop and maintain effective controls and procedures, we may be unable to provide the financial information in a timely and reliable manner.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

General

Gafisa S.A. is a corporation (sociedade anônima) organized under the laws of Brazil. We were incorporated on December 16, 1997 for an indefinite term. Our registered and principal executive offices are located at Av. Nações Unidas No. 8,501, 19th floor, 05425-070, São Paulo, SP, Brazil, and our general telephone and fax numbers are + 55 (11) 3025-9000 and + 55 (11) 3025-9348, respectively.

We are one of Brazil's leading homebuilders. Over the last 50 years, we have been recognized as one of the foremost professionally-managed and geographically-diversified homebuilders in Brazil. Our core business is the development of high-quality residential buildings in attractive locations. We are also engaged in the development of land subdivisions, also known as residential communities, and affordable entry-level housing. In addition, we provide construction services to third parties.

Our agent for services of process in the United States is National Corporation Research, Ltd. located at 225 West 34th Street, Suite 910, New York, NY.

Historical Background and Recent Developments

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

In September 2006, we created a new subsidiary, Gafisa Vendas Intermediação Imobiliária Ltda., or "Gafisa Vendas," to function as our internal sales division in the state of São Paulo. Gafisa Vendas has strengthened our market position and reduced our need for external brokerage companies. This wholly-owned subsidiary promotes sales of our projects in the state of São Paulo. Gafisa Vendas focuses its efforts on: (1) launches – our internal sales force focuses on promoting launches of our developments; however, we also use outside brokers, thus creating what we believe is a healthy competition between our sales force and outside brokers; (2) inventory – Gafisa Vendas has a team focused on selling units launched in prior years; and (3) web sales – Gafisa Vendas has a sales team dedicated to internet sales as an alternative source of revenues with lower costs.

In October 2006, we entered into an agreement to acquire 100% of Alphaville Urbanismo S.A., or "Alphaville," one of the largest residential community development company in Brazil focused on the identification, development and sale of high quality residential communities in the metropolitan regions throughout Brazil targeted at upper and upper-middle income families. On January 8, 2007, we successfully completed the acquisition of 60% of Alphaville's shares for R$198.4 million, of which R$20 million was paid in cash and the remaining R$178.4 million was paid in exchange for 6.5 million common shares of Gafisa. The acquisition agreement provides that we will purchase the remaining 40% over the next five years (20% within three years from the acquisition date and the remaining 20% within five years from the acquisition date) in cash or shares, at our sole discretion. Alphaville is operating as one of our subsidiaries based in the city of Barueri, within the metropolitan region of São Paulo.

On February 1, 2007 we created a branch of Gafisa Vendas in Rio de Janeiro, or “Gafisa Vendas Rio,” to function as our internal sales division in the metropolitan region of Rio de Janeiro. Gafisa Vendas Rio has strengthened our market position and reduced our need for external brokerage companies in the metropolitan region of Rio de Janeiro. Gafisa Vendas Rio focuses its efforts in the same activities of Gafisa Vendas.

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On February 14, 2007, we entered into an agreement with Odebrecht Empreendimentos Imobiliários Ltda., or "Odebrecht Empreendimentos," to form a partnership for the development, construction and management of low income residential projects in large scale each with more than 5,000 units. In connection with the partnership, we have incorporated a company called Bairro Novo Empreendimentos Imobiliários S.A., or "Bairro Novo," in respect of which we and Odebrecht Empreendimentos each own 50% equity stake. Upon the formation of such holding company, we have also entered into a shareholders' agreement with Odebrecht Empreendimentos which govern, among other matters, our respective voting rights and management of the partnership. In December 2007, Bairro Novo launched its first development, which is comprised of five phases and around 2,400 units, in the city of Cotia, state of São Paulo. The first phase of the development has 503 units and was launched in December 2007.

On March 15, 2007, we created a new wholly-owned subsidiary, Fit Residencial Empreendimentos Imobiliários Ltda., or "FIT," for the development, construction and management of low and mid low income residential projects. FIT is increasing its national presence by leveraging our existing national partnerships and expanding our presence throughout Brazil. With the launch in September of FIT Coqueiro in Belém in the state of Pará and FIT Cittá in Salvador in the state of Bahia, FIT is providing our local partners with an entry strategy into the affordable entry-level segment while building on our overall strategy of segment and geographic diversification.

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

On October 26, 2007, Gafisa acquired 70% of Cipesa Engenharia S.A., or "Cipesa," the leading homebuilder in the state of Alagoas. Since 2006, Cipesa has been an important partner to Gafisa, and under our current partnership agreement, Gafisa and Cipesa established a new company named Cipesa Empreendimentos Imobiliários Ltda., or "Nova Cipesa," in which 70% interest ownership is held by Gafisa and the remaining 30% by Cipesa. Gafisa capitalized Nova Cipesa with R$50 million in cash and acquired shares of Nova Cipesa held by Cipesa in the amount of R$15 million (which will be payable over a period of one year). Cipesa is entitled to an earn-out of 2% of the potential sales value launched by Nova Cipesa until 2014. This earn-out is capped at R$25 million.

In June 2008, we filed with CVM our third debenture program under which we can issue up to R$1.0 billion in non-convertible debentures. The first issuance under the third debenture program will be comprised of 25,000 nominal, non convertible debentures with a face value of R$10,000, to be issued in two series totaling R$250 million. The debentures provide for the payment of annual interest equivalent to 107.2% of the CDI rate,calculated from the subscription date, with a maturity of 10 years.

Capital Expenditures

In 2004, we invested R$1.5 million in property and equipment to update our information technology system and to purchase furniture for our new corporate headquarters.

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In 2005, we invested R$1.6 million in property and equipment, mainly to update our information technology system and office facilities.

In 2006 we invested R$4.6 million in property, equipment and investments, primarily information technology equipment and new office facilities in Rio de Janeiro and in São Paulo to accommodate our recently created internal sales force. See "— Business Overview—Sales of Units Through Our Brokerage Subsidiaries."

In 2007 we invested R$24.2 million in property, equipment and investments, primarily information technology equipment, software and new office facilities in Rio de Janeiro and São Paulo. Our main investment during the period was the SAP implementation project that amounted to R$7.5 million. In addition, investments in information technology equipment and software totaled R$1.5 million, and office facilities totaled R$2.3 million.

B. Business Overview

General Overview

We are one of Brazil's leading homebuilders. Over the last 50 years, we have been recognized as one of the foremost professionally-managed homebuilders, having completed and sold more than 950 developments and constructed over 40 million square meters of housing, which we believe is more than any other residential development company in Brazil. We believe our brands "Gafisa," "Alphaville," "FIT" and "Bairro Novo" are well-known brands in the Brazilian real estate development market, enjoying a reputation among potential homebuyers, brokers, lenders, landowners and competitors for quality, consistency and professionalism.

Our core business is the development of high-quality residential buildings in attractive locations. For the year ended December 31, 2007, approximately 70% of our launches were derived from residential developments under the Gafisa brand. We are also engaged in the development of land subdivisions, also known as residential communities, and affordable entry-level housing. In addition, we provide construction services to third parties.

We are one of Brazil's most geographically-diversified homebuilders currently operating in 49 markets, including São Paulo, Rio de Janeiro, Salvador, Fortaleza, Natal, Curitiba, Belo Horizonte, Manaus, Porto Alegre and Belém, across 17 states, representing approximately 88% of the national population and 86% of the gross domestic product on December 31, 2007. Many of these developments are located in markets where few large competitors currently operate. For the year ended December 31, 2007, approximately 33% of our launches were derived from our operations outside the states of São Paulo and Rio de Janeiro.

We believe we are one of the few Brazilian homebuilders with developments outside of Brazil. We have developed three residential communities in Portugal: "Quinta da Beloura" and "Quinta da Beloura II" in the city of Sintra and "Quinta dos Alcountins" in Lisbon.

Our Markets

We have already launched projects in 49 markets Ananindeua, Aparecida de Goiânia, Barueri, Belém, Cabo Frio, Cajamar, Camaçari, Campinas, Campo Grande, Cotia, Cuiabá, Curitiba, Duque de Caxias, Eusébio, Fortaleza, Goiânia, Gramado, Gravataí, Guarulhos, Iguaraçu, Itu, João Pessoa, Londrina, Macaé, Maceió, Manaus, Natal, Niterói, Nova Iguaçu, Nova Lima, Osasco, Parnamirim, Pinhais, Porto Alegre, Recife, Rezende, Jaboatão dos Guararapes, Ribeirão Preto, Rio das Ostras, Rio de Janeiro, Salvador, Santana de Parnaíba, Santo André, Santos, São Caetano, São Luiz do Maranhão, São Paulo, Serra and Volta Redonda, across 17 states throughout Brazil.

Our Real Estate Activities

Our real estate business includes the following activities:

- developments for sale of:
  - residential units,

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

The table below sets forth the amounts generated for each of our real estate activities and as a percentage of total real estate amount generated during the periods presented:

	For Year Ended December 31,					
	2007 (in thousands of R$)	2007 (% of total)	2006 (in thousands of R$)	2006 (% of total)	2005 (in thousands of R$)	2005 (% of total)
Residential Buildings	1,348,811	81.2	824,812	81.1	371,031	76.8
Land Subdivisions	249,916	15.0	32,172	3.2	62,663	13.0
Commercial	27,877	1.7	138,090	13.6	16,460	3.4
Pre Sales	1,626,604	97.9	995.074	97.9	450,154	93.1
Construction Services	35,121	2.1	21,480	2.11	33,118	6.9
Total Real Estate Sales	1,661,725	100.0	1,016,554	100.0	483,272	100.0

Developments for Sale.

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

	As of and For Year Ended December 31,		
	2007	2006	2005
	(in thousands of R$, unless otherwise stated)		
São Paulo			
Developments launched	11	11	10
Usable area (m2)(1)	250,185	198,732	140,722
Units launched(2)	2,040	1,452	1,120
Average sales price (R$/m2)(1)	2,969	2,813	2,771
Rio de Janeiro			
Developments launched	11	7	5
Usable area (m2)(1)	177,428	87,032	172,254
Units launched(2)	2,020	1,116	696
Average sales price (R$/m2)(1)(3)	2,878	3,427	2,809
Other States			
Developments launched	14	12	6
Usable area (m2)(1)	166,321	121,718	189,543
Units launched(2)	1,804	483	547
Average sales price (R$/m2)(1)(3)	2,675	2,776	2,720
Total Gafisa			

Developments launched	36	30	21
Usable area (m2)(1)	593,935	407,483	502,520
Units launched(2)	5,864	3,052	2,363
Average sales price (R$/m2)(1)(3)	2,859	2,963	2,776
Alphaville			
Developments launched	6	—	—
Usable area (m2)(1)	1,160,427	—	—
Units launched(2)	1,489	—	—

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	As of and For Year Ended December 31,		
	2007	2006	2005
	(in thousands of R$, unless otherwise stated)		
Average sales price (R$/m2)(1)(3)	686		
FIT			
Developments launched	10	—	—
Usable area (m2)(1)	149,842	—	—
Units launched(2)	2,459	—	—
Average sales price (R$/m2)(1)(3)	1,896	—	—
Bairro Novo			
Developments launched	1	—	—
Usable area (m2)(1)	23,618	—	—
Units launched(2)	503	—	—
Average sales price (R$/m2)(1)(3)	1,567	—	—

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

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

(3) Average sales price per square meter excludes the land subdivisions. Average sales price per square meter (including land subdivisions) was R$1,137, R$2,776 and R$1,291 in 2007, 2006 and 2005, respectively.

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

Residential Buildings

We have over 50 years of experience in the development of residential buildings. Since our inception, we have developed more than 950 residential buildings and more than 40 million square meters of total residential usable area.

In the residential buildings product category, we develop three main types of products: (1) luxury buildings targeted at upper-income customers; (2) buildings targeted at middle-income customers; and (3) affordable entry-level housing targeted at lower-income customers. Quality residential buildings for middle- and upper-income customers are our core products and we have developed them since our inception. A significant portion of our residential developments is located in São Paulo and Rio de Janeiro where we have held a leading position over the past five years based upon area of total construction. However, we began our national expansion to pursue highly profitable opportunities in residential buildings outside these cities. For the year ended December 31, 2007, approximately 26% of our launches were derived from our operations outside the states of São Paulo and Rio de Janeiro.

Luxury Buildings

Luxury buildings are a high margin niche. Units usually have over 180 square meters of private area, at least four bedrooms and three parking spaces. Typically, this product is fitted with modern, top-quality materials designed by brand-name manufacturers. The development usually includes swimming pools, gyms, visitor parking, and other amenities. Average price per square meter generally is higher than R$3,600 (US$2,033). Luxury building developments are targeted to families with monthly household incomes in excess of R$20,000 (US$11,293).

The table below sets forth our luxury building developments launched between January 1, 2005 and December 31, 2007:

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Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (As of December 31, 2007)
VP—Jazz Duet	2005	100	13,400	2008	50	98
VP—Domaine du Soleil	2005	100	8,225	2008	25	100
The Gold	2005	100	10,465	2008	28	86
Vistta Ibirapuera	2006	100	9,963	2008	41	100
Espacio Laguna	2006	80	16,364	2008	80	63
Riviera Nice	2006	50	6,761	2009	31	31
VP—Parides	2006	100	13,093	2009	50	100
Península Fit B 01	2006	100	11,845	2008	93	65
Supremo	2007	100	34,864	2010	192	61
Vision	2007	100	19,712	2010	284	21
Horto	2007	50	44,563	2010	180	94

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

Middle Income Buildings

Buildings targeted at middle-income customers account for the majority of our sales since our inception. Units usually have between 90 and 180 square meters of private area, three or four bedrooms and two to three underground parking spaces. Buildings are usually developed in large tracts of land as part of multi-building developments and, to a lesser extent, in smaller lots in attractive neighborhoods. Average price per square meter ranges from R$2,000 to R$3,600 (US$1,129 to US$2,033). Developments in Rio de Janeiro tend to be larger due to the large tracts of land available in Barra da Tijuca. Middle-income building developments are tailored to customers with monthly household incomes between R$5,000 and R$20,000 (US$2,823 and US$11,293).

The table below sets forth our middle-income building developments launched between January 1, 2005 and December 31, 2007:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (As of December 31, 2007)
Lumiar	2005	100	7,193	2007	31	97
CSF—Saint Etiene	2005	100	11,261	2007	111	97
Weber Art	2005	100	5,812	2007	57	96
The House	2005	100	5,313	2008	28	100
Olimpic Condominium Resort	2005	100	21,851	2008	213	99
Palm D'Or	2005	100	8,493	2008	77	100
Arena	2005	100	29,256	2008	274	100
Sunpecial	2005	100	21,189	2007	115	64
Peninsula Fit—Bl 2	2005	100	12,235	2008	99	67
Blue Land—Bl. 2	2005	100	9,083	2008	80	46
Blue Star	2005	50	9,367	2008	78	72
Beach Park	2005	90	9,770	2008	180	91

Campo D'Ourique	2005	50	11,775	2008	53	32
Bem Querer	2005	100	11,136	2007	186	100
Town Home	2005	100	8,319	2008	40	90
Paço das Águas	2006	45	24,080	2008	184	90
VP—Mirabilis	2006	100	23,355	2008	100	94
Blue Vision—Sky e Infinity	2006	50	18,514	2008	178	79
Blue Land—Bl.01	2006	100	9,169	2008	120	73
Beach Park—Living	2006	80	14,913	2009	130	62
Belle Vue—Porto Alegre	2006	100	4,264	2008	22	86

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (As of December 31, 2007)
Espaço Jardins	2006	100	28,926	2008	235	100
Forest Ville	2006	50	15,556	2008	110	100
Garden Ville	2006	50	11,998	2008	112	100
Quinta Imperial	2006	100	8,422	2008	128	80
CSF—Santtorino	2006	100	14,979	2009	160	99
Olimpic Chácara	2006	100	24,988	2009	219	98
Fit Niterói	2006	100	8,523	2008	72	63
Felicitá	2006	100	11,323	2009	91	78
Ville Du Soleil	2006	100	8,920	2008	64	34
Mirante do Rio	2006	60	8,125	2009	96	99
Paradiso	2006	100	16,286	2009	144	79
Collori	2006	50	39,462	2009	333	85
VP—Agrias	2006	100	21,390	2009	100	80
Vivance Residence Service	2006	100	14,717	2008	187	78
Isla	2007	100	31,423	2010	240	77
Grand Valley	2007	100	16,908	2009	240	58
Acqua Residence (Phase 1)	2007	100	28,400	2009	380	43
Celebrare	2007	100	14,679	2009	188	74
Reserva do Lago	2007	50	16,800	2009	96	73
CFS – Prímula	2007	100	13,897	2009	96	68
CSF – Dália	2007	100	9,000	2009	68	72
CSF – Acácia	2007	100	23,461	2009	192	85
Jatiuca Trade Residence	2007	50	32,651	2010	500	54
Horizonte	2007	60	7,505	2010	29	98
Secret Garden	2007	100	15,344	2009	252	55
Evidence	2007	50	23,487	2010	144	38
Acquarelle	2007	85	17,742	2009	259	39
Palm Ville	2007	50	13,582	2009	112	91
Art Ville	2007	50	16,157	2009	263	94
Jatiuca Trade Residence (Phase 2)	2007	50	8,520	2010	140	8
Orbit	2007	100	11,332	2010	185	13
Enseada das Orquídeas	2007	80	52,589	2010	475	40
London Green	2007	50	28,998	2010	300	56
Privilege	2007	80	16,173	2010	194	51
Parc Paradiso (Phase 2)	2007	60	10,427	2010	108	66
Parc Paradiso	2007	60	35,987	2010	324	90
Solares da Vila Maria	2007	100	13,376	2010	100	66
Acqua Residence (Phase 2)	2007	100	7,136	2009	72	4
Bella Vista (Phase 1)	2007	100	15,406	2010	116	26
Grand Park - Parque das Águas (Phase 1)	2007	50	20,854	2010	240	38
Grand Park - Parque Árvores (Phase 2)	2007	50	29,932	2010	400	31
London Green Stake Acquisition	2007	100	—	2010	—	46

Parc Paradiso Stake Acquisition	2007	90	—	2010	—	79
SunValley	2007	100	7,031	2010	58	16
Reserva Santa Cecília	2007	80	15,854	2010	122	20
Olimpic Bosque da Saude	2007	100	19,150	2010	148	67
Magic	2007	100	31,487	2010	268	15
GrandValley Niteroi	2007	100	17,905	2010	161	76

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

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We have made an initial successful entry into lower income housing developments. In November 1999, we launched our first project for lower income customers named "Reserva do Bosque" in the neighborhood of Cambuci in the state of São Paulo, with an average sale value of R$55,000 (US$31,056) per unit. In Rio de Janeiro, our first project intended for lower income development was "Colinas de Campo Grande", launched in 2000 in the neighborhood of Campo Grande, with an average sale value of R$38,000 (US$21,457). Affordable entry-level housing consists of building and house units. Units usually have between 42 to 60 square meters of indoor private area and two to three bedrooms. Average price per square meter ranges from R$1,500 to R$2,000 (US$847 to US$1,130). Affordable entry-level housing developments are tailored to families with monthly household incomes between R$1,600 and R$5,000 (approximately US$903 and US$2,823)

As part of our strategy of expanding our foothold in the affordable entry-level residential market, we incorporated on March 15, 2007 a new wholly-owned subsidiary, FIT, to focus exclusively on this market. The principal emphasis of FIT is on five standardized residential developments in the outer parts of large metropolitan regions. Financing for FIT's developments primarily come from one of the Brazilian largest government-owned banks called Caixa Econômica Federal, or the "CEF," and such financing is structured so that customers pay low monthly installments without increasing our credit risk. Since its inception, FIT has launched ten developments comprising 2,459 units (our stake) throughout the states of São Paulo, Bahia, Maranhão, Goiania and Pará.

On February 14, 2007, we entered into an agreement with Odebrecht Empreendimentos to form a partnership for the development, construction and management of large-scale low income residential projects with more than 5,000 units. In connection with the partnership, we have incorporated a company called Bairro Novo, in respect of which we and Odebrecht Empreendimentos each own 50% equity stake. Financing for Bairro Novo's Cotia development come from ABN AMRO. Such financing is structured so that customers pay low monthly installments without increasing our credit risk. In December 2007, Bairro Novo launched its first development, which is comprised of five phases and around 2,400 units, in the city of Cotia, state of São Paulo. The first phase of the development, which has 503 units that were launched in December 2007.

The table below sets forth our affordable entry-level housing developments launched between January 1, 2005 and December 31, 2007:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (as of December 31, 2007)
Side Park—Ed. Style	2006	100	3,862	2008	63	89
FIT Jaçana	2007	100	9,164	2008	184	91
FIT Maceió	2007	50	4,207	2009	54	45
FIT Cittá	2007	50	13,389	2009	204	66
FIT Coqueiro	2007	60	30,095	2009	621	21
FIT Mirante do Sol	2007	100	18,661	2009	56	0
FIT Taboão	2007	100	16,041	2009	374	3
FIT Maria Inês	2007	60	14,535	2009	270	10
MA - Grand Park	2007	50	53,041	2010	894	10
Jd Botânico	2007	55	22,107	2009	432	0
FIT Jaraguá	2007	100	11,582	2009	260	17
FIT Vila Augusta	2007	100	16,223	2010	264	12
Bairro Novo Cotia (Phases 1-2)	2007	50	47,235	2009	1,006	33

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

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Land Subdivisions under our Gafisa Brand

In 2001, we started developing residential land subdivisions for sale upon which residential buildings can be developed. Land subdivisions under our Gafisa brand are usually smaller than our Alphaville residential communities and do not include some of the facilities available in our Alphaville residential communities, such as various amenities, shopping centers and schools. We usually provide the infrastructure for a given land subdivision planning such as the electric, water and sewage systems, paved streets, and common recreational areas. Our land subdivisions are typically located in affluent suburban areas close to major highways leading to the states of São Paulo and Rio de Janeiro. A typical lot has between 250 and 1,500 square meters. Average price per square meter ranges from R$150 to R$800 (approximately US$85 to US$452). We target clients with monthly household incomes in excess of R$5,000 (approximately US$2,823) for these land subdivisions.

The table below sets forth our land subdivision developments launched between January 1, 2005 and December 31, 2007:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (as of December 31, 2007)
Costa Paradiso	2005	100	63,041	2006	255	55
Montenegro Boulevard	2005	100	174,862	2007	358	100
Del Lago Residências	2005	80	62,022	2008	108	80
Alta Vistta	2006	50	95,584	2009	173	34
O Bosque	2006	30	89,260	2007	76	30

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

Land Subdivision under our Alphaville Brand

On January 8, 2007, we successfully completed the acquisition of 60% of our subsidiary Alphaville, the largest residential community development company in Brazil focused on the identification, development and sale of high quality residential communities in the metropolitan regions throughout Brazil targeted at upper and upper-middle income families. Following this acquisition, our new residential communities are sold exclusively under the Alphaville brand.

The Alphaville brand was created in the 1970s when the first Alphaville community was developed in the cities of Barueri and Santana do Paranaíba in the metropolitan region of São Paulo. Beginning in the 1990s, Alphaville developed residential communities in several other cities in Brazil, such as Campinas, Goiânia, Curitiba, Londrina, Maringá, Salvador, Fortaleza, Belo Horizonte, Natal, Gramado, Manaus, Cuiabá and São Luis, as well as Sintra and Lisbon in Portugal.

Whenever we develop a new Alphaville community, we provide all the basic civil works for supporting the construction on the lots, such as electrical, telephone and data communications cabling, hydraulic (water and sewer) mains and treatment facilities, landscaping and gardening, lighting and paving of the streets and driveways and security fencing. In most Alphaville communities, we also build a social and sports club for the residents, with soccer, golf and tennis fields, jogging and bicycle tracks, saunas, swimming pools, ballrooms, restaurants and bars, and other facilities. In addition, most Alphaville projects have a shopping center where residents can shop for clothes and groceries. Additionally, whenever we develop a new Alphaville community far from large urban centers, we seek to assist in establishing schools near the community by forming partnerships with renowned educational institutions. Throughout our Alphaville communities, we also seek to stimulate the local economy by drawing new businesses to that area.

We believe that the maintenance of a development's quality is essential. For this reason, we impose on every Alphaville community a series of building and occupancy standards that are more rigorous than those required by applicable local legislation. Every Alphaville community has an Alphaville association (the "Association") formed by us before delivery of the community starts, and is funded by maintenance fees paid by the residents. The purpose

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of the Association is to allow community involvement in the management and maintenance of the premises and to ensure orderly and harmonious relationships among the residents.

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

The table below sets forth our residential communities launched between January 1, 2005 and December 31, 2007:

Project Description	Year Launched	Gafisa Participation (%)	Usable Area (m2)(1)(100%)	Completion Year	Number of Units (100%)	Units Sold (%) (As of December 31, 2007)
Alphaville Natal	2005	63	493,620	2007	941	100
Alphaville Burle Marx	2005	50	274,516	2008	585	30
Residencial Ivaí—Alphaville Maringá	2005	67	82,056	2007	163	23
Alphaville Manaus	2005	63	221,426	2008	404	100
Alphaville Eusébio	2005	65	248,529	2008	504	70
Alphaville Salvador 2	2006	55	354,982	2008	527	93
Alphaville Gravataí	2006	64	216,180	2008	487	42
Alphaville Francisco Brennand	2006	65	272,361	2008	402	94
AlphaVille - Campo Grande	2007	67	225,342	2009	489	57
AlphaVille - Rio Costa do Sol	2007	58	313,400	2009	616	87
AlphaVille – Cajamar	2007	55	674,997	n/a	2	100
AlphaVille – Araçagy	2007	38	236,118	2009	332	83
Alphaville Jacuhy	2007	65	374,290	2010	775	76
Alphaville Londrina II	2007	62.5	214,591	2010	277	14

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

Commercial Buildings

We have in the past launched commercial building developments for sale. As of December 31, 2007, we had two commercial buildings under development for sale: Sunplaza Personal Office and Icaraí Corporate, both in the state of Rio de Janeiro.

In December 2007, we delivered the Eldorado Business Tower in São Paulo, a triple A standard office building developed in partnership with São Carlos Empreendimentos e Participações S.A. and Banco Modal S.A. The Eldorado Business Tower brings together cutting edge technology and environmental innovation. The building is the fourth building in the world and the only building in Latin America to be pre-certified by U.S. Green Building Council as a Leed CS 2.0 Platinum building for leadership in energy and environmental design.

As part of our strategy, we do not intend to develop further corporate buildings in order to focus on our core residential housing business.

Construction Services.

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

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developers that do not build their own projects. We also provide construction services on certain developments where we retain an equity interest.

The table below sets forth the real estate building developments we have constructed exclusively for third parties between January 1, 2005 and December 31, 2007:

Project	First Year of Construction	Client	Type of Project
Cinemark (Eldorado Shopping)	2005	Verpar Com. Participações Ltda.	Theater
Genesis II	2005	Takaoka Empreendimentos S.A.	Land Subdivisions
Piazza Del´acqua	2004	Civilcorp Incorporações Ltda.	Residential
Tendency	2005	Rezende Imóveis e Construção Ltda.	Residential
Edge	2006	Sequóia Desenvolvimento Imobiliário Ltda	Residential
Forte do Golf	2006	Camargo Corrêa Desenvolvimento Imobiliário S.A.	Residential
Boulevard Jardins	2006	Contrutora MKF Ltda	Residential
Porto Pinheiros	2007	Camargo Corrêa Desenvolvimento Imobiliário S.A.	Residential
Holiday Inn	2007	Ypuã Empreendimentos Imobiliários SPE Ltda.	Hotel
Wave	2007	Camargo Corrêa Desenvolvimento Imobiliário S.A.	Residential

The table below sets forth the real estate developments we have constructed for third parties, in which we also have an equity interest, between January 1, 2005 and December 31, 2007:

Project	First Year of Construction	Gafisa Participation (%)	Partner	Type of Project
Villaggio Panamby—Double View	2005	100	Atlântica Residencial	Residential
Grand Vue	2005	50	MC - Mauricio Cukierkorn Construtora Ltda.	Residential
Belle Vue	2005	70	Modal Participações Ltda.	Residential
Icon Residence Service	2005	50	Redevco do Brasil Ltda.	Residential
Hype Residence Service	2005	50	Redevco do Brasil Ltda.	Residential
Illuminato Perdizes	2005	70	MC - Mauricio Cukierkorn Construtora Ltda.	Residential
Blue One	2005	100	Redevco do Brasil Ltda.	Residential
Riv. Ponta Negra - Ed.Nice	2005	50	RN Incorporações Ltda.	Residential
Riv. Ponta Negra - Ed.Cannes	2005	50	RN Incorporações Ltda.	Residential
Campo D'Ourique	2006	50	MELF Empreendimentos	Residential
Del Lago	2006	80	Plarcon Engenharia S/A	Land Subdivisions
Beach Park – Living	2006	80	Aquatic Resort Desenvolvimento Imobiliário Ltda.	Residential
Belle Vue Porto Alegre	2006	80	Ivo Rizzo Construtora e Incorporadora Ltda	Residential
O Bosque	2006	30	Ivo Rizzo Construtora e Incorporadora Ltda	Land Subdivisions
Beach Park – Acqua	2006	90	Aquatic Resort Desenvolvimento Imobiliário Ltda.	Residential

Tiner Campo Belo	2007	45	Tiner Empreendimentos e Participações Ltda.	Residential
Forest Ville - Salvador	2007	50	OAS Empreendimentos Imobiliários Ltda.	Residential
Garden Ville - Salvador	2007	50	OAS Empreendimentos Imobiliários Ltda.	Residential
Reserva do Lago – 1st. phase	2007	50	Invest Empreendimentos & Participações Ltda.	Residential
Alta Vista – 1st. phase	2007	50	Cipesa Engenharia S/A	Residential
Collori	2007	50	Park Empreendimentos Ltda.	Residential
Jatiuca Trade Residence	2007	50	Cipesa Engenharia S/A	Residential
Espacio Laguna	2007	80	Tembok Desenvolvimento Imobiliário Ltda.	Residential
Del Lago Res. Casas	2007	80	Plarcon Engenharia S.A	Residential

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Sale of Units Through Our Brokerage Subsidiaries

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

Our Clients

Our clients consist of development and construction service clients. Development clients are those who purchase units in our developments. As of December 31, 2007, our development-client database was compromised of more than 48,000 individuals. We currently have approximately 30,000 active clients. Our construction-services clients are large companies, many of them developers that do not build their own projects. On December 31, 2007, we had, among our main construction services clients, the following companies: Cyrela Brazil Realty S.A., Empreendimentos e Participações, Rossi Residencial S.A., Redevco do Brasil Ltda., Tiner Empreendimentos e Participações Ltda., Camargo Correa Desenvolvimento Imobiliário S.A., AK Realty Participação e Incorporação Ltda., Takaoka Empreendimentos S.A., Maurício Cukierkorn Construtora Ltda. and Multiplan—Planejamento, Participações e Administração Ltda. No individual client represents more than 5% of our revenues from residential developments or construction services.

Our Operations

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

Land Acquisition

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

Whenever we identify an attractive tract of land, we first conduct a study of the project to define the most appropriate use of the space. Afterwards, the basic design of the project enters the economic feasibility study stage, where we consider preliminary revenues and expenses associated with the project. This study will determine project profitability. We will initiate a legal due diligence of the property to identify liens, encumbrances and restrictions. Before acquiring the land, we conduct a thorough due diligence process including an environmental review. We collect and analyze information on competition, construction budget, sales policy and funding structure to ensure economic viability of the new development. Each decision to acquire land is analyzed and approved by our

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investment committee. See "Item 6.C. Directors, Senior Management and Employees —Board Practices—Investment Committee" elsewhere in this annual report for further information on the activities of our committees and boards.

The stages of our land acquisition process are summarized in the diagram below:

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

As of December 31, 2007, we had an inventory of 136 land parcels in which we estimate we could develop a total of 56,911 residential units with sales value of approximately R$10,195 billion (US$5,757 billion), of which 82% represents land acquired through swaps. The table below sets forth the breakdown of our land reserves by location and by the type of development.

	Gafisa		Alphaville		FIT		Bairro Novo	
	Future Sales (% Gafisa)	% Swap	Future Sales (% Gafisa)	% Swap	Future Sales (% Gafisa)	% Swap	Future Sales (% Gafisa)	% Swap
Land bank - Per geographic location:								
São Paulo	2,741	32.5	1,049	98	713	16	48	0
Rio de Janeiro	956	73	131	100	55	0	230	81
Other states	2,033	70	1,750	96	205	4	285	89
Total	5,730	63	2,930	97	973	12	563	77

Project Design

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

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to obtain all the necessary licenses and regulatory approvals from local authorities, which usually takes three to six months in the case of our residential buildings and three years in the case of our residential communities.

Marketing and Sales

Our marketing efforts are coordinated by our internal dedicated staff of approximately 15 professionals. Our specialized team leads 24 independent brokerage companies with a combined sales force of more than 5,000 representatives, monitoring them in order to gain their loyalty and ensure performance. Our marketing team is also responsible for gathering information on the needs and preferences of potential customers to provide guidance on our land acquisition and project design activities. Gafisa Vendas was created as our internal sales division consisting of 154 sales consultants and 8 sales managers. Most of our competitors rely exclusively on third-party brokers.

The creation of Gafisa Vendas was intended to establish a strategic channel for us to access our clients and to reduce our dependence on outside brokers for marketing. Because the sales force at Gafisa Vendas are trained to sell our products exclusively, we believe that they are able to focus on the sale of our developments, articulate the unique features of our development better, manage our current customer and capture new customers more effectively. Gafisa Vendas was initially established in São Paulo and in 2007 rolled-out in Rio de Janeiro. In 2007, Gafisa Vendas was our number one sales team, responsible for 39% of our sales in the states of São Paulo and Rio de Janeiro.

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

We initiate our marketing efforts simultaneously with the launch of a development. We normally have a showroom on or near the construction site, which includes a model unit furnished with appliances and furniture. We leverage on our reputation for quality, consistency, on-time delivery and professionalism to increase sales velocity. We have been successful with this strategy, usually selling approximately 70% of the units before construction starts.

Our subsidiary Alphaville has also been successful in its sales and marketing efforts; for example, in Natal, it took the sales force only 16 hours to market and sell all of its residential lots; in Manaus, 100% of the Alphaville lots available were sold in one day; in Minas Gerais, 70% of the "Alphaville Lagoa dos Ingleses" lots were sold on the first day of their launch; and in Salvador, all of the Alphaville lots available were sold in 48 hours, before the launch of the sales activities commenced.

We market our developments through newspapers, direct mail advertising and by distributing leaflets in neighboring areas, as well as through telemarketing and websites. In addition, on a quarterly basis, we publish magazines named "Revista Living News" and "Revista Vero Alphaville" which are distributed to our customers and offers news on our most recent developments and progress updates on buildings under construction.

FIT marketing and sales efforts include direct sales, telemarketing, websites, newspapers, busdoor and distribution leaflets in neighboring areas. FIT has also initiated a training sales program with the brokerage company to improve its sales.

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Although Bairro Novo has been in operations for only a few months now, it has already achieved successful market and sales results. In its first development launched in December 2007 Bairro Novo sold 168 units out of 503 by that same month. In order to be the first choice for the low income consumer, Bairro Novo's strategy is based on the following principles: (1) reaching the low income consumer through different sales channels (i.e. different points of purchase and not only a single show room near the construction site); (2) proving to the consumer that Bairro Novo is really affordable, due to exclusive financing, provided by ABN AMRO on special mortgage terms for Cotia´s development; (3) gaining credibility through Gafisa and Odebrecht brand's strength, in a institutional campaign before each launch; and (4) offering a unique concept in the market which include: (i) more than just a house or apartment, but a new location to live; and (ii) infra-structure: projects generally include recreational areas and are near public transportation and commercial centers.

Under Brazilian law, we may establish a term within and the conditions under which we are entitled to cancel the development. According to our regular purchase contracts, if we are not able to sell at least 60% of the units within 180 days of launching, we can cancel the development. Under those circumstances, we usually consider changing the project or selling the land, but, in any of those cases, we have to return the cash payment made by our customers adjusted for inflation but with no interest. Customers, however, are not entitled to other remedies. During the three years ended December 31, 2007, we have only cancelled one out of over 100 developments.

Construction

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

We use strict quality control methods. Procedures manuals describe in significant detail each task of each stage of the construction project. These manuals are also used for the training sessions we require all our workers to attend. In addition, we make quarterly reviews of projects delivered. The reviews focus on identifying problems, in order to take corrective and preventive actions in projects underway and thus avoid costly repetition. We have adopted a quality management system that was certified for ISO 9002 by Fundação Carlos Alberto Vanzollini, from Universidade de São Paulo. We received in 2007 a certification from Programa Brasileiro de Qualidade e Produtividade do Habitat (PBQP-H), which is part of the Ministry of Cities. In addition,the Eldorado Business Tower building was certified as a Green Building, category Platinum, by U.S. Green Building Council, which attests that it is environmentally sustainable, through the rational use of energy, natural lighting, pollution control and recycling. There are only three other buildings in the world that have achieved this category.

We invest in technology. Our research and development costs amounted to approximately R$1.5 million, R$1.2 million and R$0.8 million in each of 2007, 2006 and 2005, respectively. We believe we have pioneered the adoption of cutting-edge construction techniques such as dry wall and plane pre-stressed slabs, which present numerous advantages over traditional techniques. Dry wall, for instance, is a wall made of lighter material that is faster to install, allowing for easy layout changes. We also optimize costs by synchronizing our projects' progress so as to coordinate the purchase of raw material and benefit from economies of scale. We have long-term arrangements with a number of suppliers which allow us to build our developments with quality, brand name construction materials and equipments, and advanced technology. Moreover, our centralized procurement center enables us to achieve significant economies of scale in the purchase of materials and retention of services.

We do not own heavy construction equipment and we employ directly only a small fraction of the labor working on our sites. We generally act as a contractor, supervising construction while subcontracting more labor-intensive activities. Substantially all on-site construction is performed for a fixed price by independent subcontractors. We hire reputable, cost-oriented and reliable service providers that are in compliance with labor laws and have performed their work diligently and on time in the past. Hiring subcontractors instead of employing them

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directly has some financial and logistical advantages. For instance, we do not need to incur fixed costs to maintain a specialized labor force even when they are not actively working at a construction site and we do not need to pay for frequent transfers of labor to different construction locations.

Our construction engineering group coordinates the activities of service providers and suppliers, guarantees compliance with safety and zoning codes, and ensures completion of the project on a timely basis. We provide a five-year limited warranty covering structural defects in all our developments. In the past three years, we have not had any material litigation or claims involving warranties rendered on the construction of our developments.

Risk Control

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

Customer Financing

The availability of financing for our potential customer, especially during the construction of the development, is of fundamental importance to our business. The scarcity of real estate financing sources requires us to finance a significant proportion of our sales. We offer several financing plans to prospective customers with our own capital or with the financing provided by the bank of our customer’s choice, tailored for each of our developments. We have developed a strict credit policy in order to minimize risks. Our credit analysis process is summarized below:

- trained independent brokers interview each potential customer to collect personal and financial information and fill out a registration form;

- registration forms are delivered, along with a copy of the property deed, to us and, if the bank providing the financing requests, to an independent company specialized in real estate credit scoring;

- credit is automatically extended by us to customers if their credit analysis is favorable. However, if the credit analysis report raises concerns, we will carefully review issues and accept or reject the customer’s application depending on the degree of risk. To the extent the financing is provided by a bank, such financial institution will follow their own credit review procedures; and

- after approving the application, our staff prepares the sale files and deposits the upfront payment check given as a guarantee for the purchase of a unit.

We often offer customers two basic financing alternatives: (1) a “short-term plan,” in which financing is extended up to the end of construction; and (2) a “long-term plan,” in which we finance the purchase for up to 120 months after the end of the construction. The “short-term plan” consists of a down payment of 20-30% and financing of the balance on monthly installments up to the delivery of the unit. The “long-term plan” for finished units requires a down payment of 30% and financing of the remaining balance in up to 120 monthly installments. The “long-term plan” for units under construction requires a down payment of 10% and provides financing of 20-30% in up to 30 monthly installments until delivery of the unit and financing of the remaining 60-70% in up to 120 additional monthly installments. All of our financing plans are guaranteed by a conditional sale (alienação fiduciária) of the unit, with the transfer of the full property rights relating to the unit to the customer upon the condition of full payment of the outstanding installments.

Financing for FIT's developments primarily come from one of Brazil's largest government-owned financial institutions called Caixa Econômica Federal, or the "CEF." The financing is structured so that customers with monthly income of up to ten times the Brazilian minimum wage pay low monthly installments without increasing our credit risk. Additionally, FIT is currently working with three private banks in addition to CEF to provide financing to

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homebuyers with monthly income between five to 20 times Brazilian minimum wage (which was R$415.00 as of December 31, 2007) under similar terms to CEF`s financing.

Financing for the Bairro Novo Cotia´s development is available from ABN AMRO Real S.A. through special mortgage terms such as: (1) 90% loan-to-value; (2) interest rates beginning at TR plus 6.0 to 8.16% per annum; and (3) 25 year term.

The table below provides details about the current terms of financing of a given project in each type of our developments:

Sales Term	Luxury	Middle Income	Affordable Entry-Level(1)	Land Subdivisions (2)
36 months	45	20	—	50
60 months	40	5	—	50
Mortgage Lending (delivery)	10	65	90	—
120 months	5	10	10	—

(1) Includes both FIT and Bairro Novo developments.

(2) Includes both Gafisa and Alphaville land subdivisions.

Our sales contracts generally provide for adjustment of the sales price according to the INCC during construction and at an annual interest rate of 12% plus IGP-M over the receivables balance only after the release of the certificate of acceptance of occupancy by the relevant local authority. We have historically experienced a low rate of customer default on our sales. In the last five years, we had 2% customer default. We attribute our low default rate to the fact that:(1) we conduct database research on the socio-economic background of our prospective customers; (2) our agreements discourage default and cancellation of the purchase by imposing immediate penalty fees and interests and liquidated damages which are adjusted for inflation (correção monetária); (3) we only return 80% of the amount that the defaulted clients have already paid us and we hold a claim to the unpaid portion of the purchase price; and (4) we offer several options to our customers if they experience financial difficulties, such as allowing for a greater number of installment payments or exchanging the unit bought for a less expensive one. In case of default, we endeavor to renegotiate the outstanding debt with our customers before taking legal action. In any case, we will only transfer title of the units to a buyer after the release of the certificate of acceptance of occupancy by local authority and/or the full payment of all outstanding installments. We have decreased the percentage of mortgage that our customers obtain from us from 84% in 2005 to 36% in 2007. This decrease reflects the growing interest of commercial banks in financing the Brazilian housing industry.

We release capital for new projects by seeking not to maintain receivables after our projects are completed. We may choose one of the following options (or a combination thereof):

- Receivables securitization. We have been active in the securitization market. We are capitalizing on an increasing investor demand for mortgage-backed securities. The securitization (mortgage-backed securities) market in Brazil is relatively new but we believe it is rapidly expanding. This expansion is helped significantly by the development in Brazilian foreclosure laws.

- Bank mortgages. Our customers can also obtain a mortgage loan from a financial institution. In these cases, a bank pays us the total amount outstanding on the date the unit is delivered. Commercial banks offer residential financing to their customers, giving them the opportunity to borrow money on a longer term than the financing arrangements we offer.

The following table sets forth the limits established by the real estate credit sources available nationally:

Credit Lines	Typical Interest rate	Maximum Home Value	Maximum Loan Value
Mortgage portifolio (Carteira Hipotecária) or CH	≤ 13% annually + TR(1) Or	No limit	No limit

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Credit Lines	Typical Interest rate	Maximum Home Value	Maximum Loan Value
Housing Finance System (Sistema Financeiro da Habitação) or SFH	Fixed rate (limited to 14.2% annually) ≤ 12% annually + TR Or Fixed rate (limited to 14.2% annually)	R$350,000	R$245,000
Government Severance Indemnity Fund for Employees (Fundo de Garantia sobre Tempo de Serviços) or FGTS.	≤ 9% annually + TR	R$130,000	R$130,000

(1) TR refers to the daily reference rate.

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

Main Raw Materials and Suppliers

We purchase a wide variety of raw materials for our operations. Even though these raw materials have represented on average, over the last three years, 35% of our total costs of development, aside from land, the only raw material that represents more than 7% of our total costs is steel. Prices of some raw materials have significantly increased over the last two years at a rate much higher than inflation. The index that measures the fluctuation of construction costs, the INCC, increased 19.1% during the three year period ended December 31, 2007. During that same period, prices for units, which are adjusted for inflation at IGP-M, increased 13.2%. We have been working on the development of new construction techniques and the utilization of alternative materials in order to reduce costs.

We contract with major suppliers for the materials used in the construction of the buildings. We receive general pricing proposals from various suppliers of raw materials, we then enter into specific written agreements with a particular supplier to fulfill the needs of each development. In addition to pricing, we select our suppliers by the quality of their materials. We set forth specific minimum quality requirements for each construction, and the chosen supplier must meet this quality requirement. The materials for our developments are readily available from multiple sources.

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

We achieve significant economies of scale in our purchases because we

- use standard construction techniques,

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

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Customer Services

In our industry, customer satisfaction is based in large part on our ability to respond promptly and courteously to buyers before, during and after the sale of our properties, including providing an owner's guide containing all the documents of the unit delivered. We use innovative and personalized customer service techniques beginning with the initial encounter with a potential customer. Our customer service techniques are innovative as we believe we were one of the first homebuilders in Brazil to introduce services such as breakfast for customers at construction sites and providing monthly photos to customers on the progress of the construction. These services are provided with the objective of educating customers on the progress of the construction and improving customers' experience with the purchase of our units. Other customer services efforts include:

- a dedicated outsourced call center with consultants and specialists trained to answer our customers' inquiries;
- the development of the "Gafisa Open Door" portal, through which our customers can, for example, follow the project's progress, alter their registration information, simulate unit designs and check their outstanding balances; and
- the development of the "Comunidade Alphaville" portal, which aims to foster a sense of community among the residents of our residential communities.

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

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

Competition

The real estate market in Brazil is highly fragmented and competitive with low barriers to entry. The main competitive advantages include price, financing, design, quality, reputation, reliability, meeting delivery expectations, partnerships with developers and the availability and location of the land. In particular, certain of our competitors have greater financial resources than we do, which could be an advantage over us in the acquisition of land using cash. In addition, some of our competitors have a better brand recognition in certain regions, which could give them a competitive advantage in increasing the velocity of their sales. Because of our geographic diversification, we believe that we have access to different markets within Brazil that have different demand drivers. We believe that the economy in the northern region is driven by iron and electronic goods exports, the northeastern region by tourism and hence has a high demand for second homes, the southeastern and southern regions have a high per capita income and therefore are strategically important to us and the mid-west region is driven by agriculture.

Because of the high fragmentation of the markets we operate in, no single developer or construction company is likely to obtain a significant market share. With the exception of São Paulo and Rio de Janeiro where we face competition from major competitors such as Cyrela Brazil Realty S.A., Empreendimentos e Participações, Rossi Residencial S.A., Even Construtora e Incorporadora S.A. and Klabin Segall S.A., in other regions we generally face

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competition from small and medium-sized local competitors that are not as well-capitalized. We expect additional entrants, including foreign companies in partnership with Brazilian entities, into the real estate industry in Brazil, particularly the São Paulo and Rio de Janeiro markets.

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

São Paulo (1) – Gafisa's Market Share

	Year Ended December 31,		
Year	2007	2006	2005
	(Launches in R$ million)		
Local Market	17,537	11,513	9,048
Gafisa(2)	747	498	340
Gafisa's Market Share	4.3%	4.3%	3.8%

Source: EMBRAESP and SECOVI.

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

	Year Ended December 31,		
Year	2007	2006	2005
	(Launches in R$ million)		
Local Market	3,464	2,887	2,275
Gafisa(2)	265	204	186
Gafisa's Market Share	7.7%	7.1%	8.2%

Source: ADEMI.

(1) Metropolitan region.

(2) Gafisa stake.

We believe we are the leader in residential community developments with no major competitors to date. Our subsidiary Alphaville has a sizable and what we believe to be non-replicable land reserves, which will foster our future growth in the upcoming years with relatively low risk.

Seasonality

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

Subsidiaries

We carry out our real estate developments directly or through our subsidiaries and our jointly-controlled entities in partnership with third parties. As of December 31, 2007, we had 28 subsidiaries and 24 jointly-controlled entities under operations, all of them incorporated as special purpose entities and headquartered in Brazil. Our subsidiaries and jointly-controlled entities operate exclusively in the real estate sector, except for Gafisa SPE 33 Empreendimentos Imobiliários Ltda. and FIT, which are wholly-owned subsidiaries that also invest in other companies.

Intellectual Property

Trademarks

Our trademarks are filed or registered in Brazil with the Brazilian Institute of Industrial Property (Instituto Nacional de Propriedade Industrial), or the "INPI." Currently, the registration process takes approximately 60 months from the date of filing of the application for a definitive registration to be granted. From the date of filing of the application to the date of the definitive registration, the applicant has an expectation of right for the use of the trademark in connection with the products and services for which the trademark was applied for.

Each trademark registration is effective for a 10-year period and is renewable for equal and successive periods. Renewal of registration is granted by request accompanied by payment of renewal fees during the final year of the trademark's registration or within the 6-month waiting period after the registration has expired. In the latter case, if the request is not accompanied by due payment, the registration is cancelled by the INPI.

A trademark registration is terminated by (i) expiration of its term; (ii) the trademark holder's total or partial waiver of the rights granted by registration; (iii) forfeiture, in the case of the applicant's or the holder's failure to use a registered trademark in connection with goods or services for a period of more than five years; or (iv) failure to appoint a Brazilian resident with powers to represent the applicant or holder in administrative or judicial proceedings, in cases where the applicant or the holder resides abroad.

As of the date of this annual report, we had approximately 77 pending trademark applications and 47 trademark registrations in Brazil with the INPI, including our subsidiaries (except for (i) Alphaville, which had 123 pending trademark applications and 9 trademark registrations under its name; and (ii) FIT, which had six trademarks applications). Our most significant trademark is "Gafisa", which is duly registered with the INPI in the relevant market segment. Our trademark registrations will expire, unless renewed, between July 2008 and December 2016. Alphaville's trademark registrations will expire, unless renewed, between July 2008 and November 2017.

Our only trademark application outside Brazil is an application for "Gafisa" filed in the United States. We are awaiting our certificate of registration for the trademark "Gafisa," nº 827279582, so that we can present it to the USPTO for registration in the United States.

Domain Name

As of the date of this annual report, we together with our subsidiaries were the owner of approximately 200 domain names including our and our subsidiaries principal websites. The term of each domain name registration is one year and is renewable for equal and successive periods. An annual fee payment is necessary for the maintenance of the domain name registrations. Other than non-payment of the annual fee, domain name registration may be cancelled by: (1) express waiver of the owner; (2) irregularities in the data form as requested by the respective agency; (3) non-compliance with applicable regulations; (4) judicial order; or (5) in the case of foreign companies, non-compliance with the obligation to initiate the company's activities in Brazil. Our domain names will, unless renewed, expire between June 2008 and December 2010.

Patents

We have no patents registered in our name.

Insurance

We maintain insurance policies with leading and financially sound Brazilian insurance companies, such as AGF Brasil Seguros S.A., UBF Garantias & Seguros S.A. and Áurea Seguros S.A. Our insurance policies cover potential risks from the commencement of construction, including property damages, business interruption, engineering risks, fire, falls, collapse, lightning, gas explosion, and possible construction errors. Such insurance policies contain customary specifications, limits and deductibles. We do not maintain any insurance policy for our properties after construction is completed. Our management believes that the insurance coverage for our properties is adequate. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material loss in the future.

Regulatory Framework

Brazilian Government and Real Estate Sector Regulations

The real estate sector is directly regulated by the Brazilian government and is indirectly impacted by the government's regulations on the availability of credit. Regulations include development policies, zoning restrictions and environmental laws which can determine the availability of different products offered in the market. For example, city master plans restrict the types of real estate developments that can be constructed in a given area. The development policies of the cities are governed by Law No. 10,257 of July 10, 2001 (Estatuto da Cidade) and also by the municipal zoning code of each city.

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

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

Real Estate Development

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

The construction of the real estate units may be contracted and paid for by the developer or by the final owners of the units. Brazilian law provides for two pricing methods in real estate development: (1) construction under contract and (2) construction under a system of management. In construction under contract, the contracting parties will either set a fixed price, stipulated before the construction begins, or agree on an adjustable price pegged to an index determined by the contracting parties. In construction under a system of management, an estimated price is agreed upon by the contracting parties, but no fixed final price is provided at the beginning of the construction process. The actual amount that purchasers of the units pay depends on the monthly costs of the developer or contractor.

Urban Land Subdivisions

Urban land subdivisions consist of subdivisions of urban land parcels into building lots, and the construction of new roads and other infrastructure. The Urban Land Subdivision Act governs urban land subdivisions and establishes, among other things, the planning and technical requirements for this form of land parceling and the obligations of the developers, and also provides for fines and sanctions in the event of violation of its provisions.

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Under the Urban Land Subdivision Act, land subdivisions are intended for the creation of lots in urban areas or urban expansion zones, as defined by the planning director or approved by municipal law.

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

In addition to the approval of the project by the municipality in which the development will be located, the approval of other governmental bodies may be necessary in cases where the land subdivision: (i) is located in an area of particular interest, such as a protected cultural heritage site, as defined by state or federal legislation; (ii) is located in the boundary area of a city, belongs to more than one municipality, or is in a metropolitan region as defined in state or federal law; or (iii) has an area greater than 1,000,000 m², in which case the state where the development will be located will be responsible for reviewing and approving it prior to the approval by the municipality, and will also determine the regulations to which the development must be subject.

The legal requirements for the approval of the land subdivision by a municipality include: (1) the developer must preserve a percentage of the land used for residential communities as open spaces for public use and for municipal or community properties, with the percentage determined by each municipal zoning code; (2) each lot must have a minimum area of 125 m² and the distance between the building and the street must be at least five meters; and (3) the developer must reserve 15 meters of land on either side of running or still water and of strips of public domain land for roads and highways.

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

In order to offer greater security to the property market, the Urban Land Subdivision Act prohibits the sale or promise of sale of any lot that is the result of a subdivision where the developer has not previously obtained approval by the appropriate municipality and the development has not been recorded with the respective Real Estate Registry Office.

Assets for Appropriation (Patrimônio de Afetação)

Law No. 4,591 provides for certain protection of real estate assets. Accordingly, such protected assets are segregated from other properties, rights and obligations of the developer, including other assets previously appropriated, and such appropriated assets can only be used to guarantee debts and obligations related to the respective development. The appropriated assets are considered bankruptcy free and will not be affected in the event of bankruptcy or insolvency of the developer. In the event of a bankruptcy or insolvency of the developer, joint ownership of the construction may be instituted by a resolution of the purchasers of the units or by judicial decision. The joint owners of the construction will decide whether the project will proceed or the assets appropriated will be liquidated. Developers may also opt to submit a project to appropriation in order to benefit from a special tax system. Under this system, land and objects built on the land, financial investments in the land, and any other assets and rights with respect to the land are considered to be protected for benefit of the construction of that development and the delivery of the units to the final owners, and are thus separate from the remaining assets of the developer.

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

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Credit Policy Regulations

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

Housing Finance System, or "SFH"

Law No. 4,380 of August 21, 1964, as amended, created the SFH to promote the construction and ownership of private homes, especially for low income earners. Financing resources under the SFH's control are provided by the Government Severance Indemnity Fund for Employees (Fundo de Garantia por Tempo de Serviço), or "FGTS", and from savings account deposits. The FGTS, created by Law No. 5,107 of September 13, 1966 and regulated by Law No. 8,036 of May 11, 1990, imposes a mandatory 8% employee payroll deduction on all employees in Brazil. Employees maintain FGTS accounts, which are similar to pension funds, and are allowed, among other, to use the funds deposited in the accounts for the acquisition of real estate property under certain circumstances, as set forth by applicable law. CEF is the agency responsible for managing the funds deposited in the FGTS. The amount of the FGTS funds that an employee may use to finance the acquisition of a real estate property is limited to (1) the lower of R$55 thousand or 60% of the real estate price for units under construction; and (2) the lower of R$245 thousand or 70% of the real estate price for units already built. In both cases, in order to be eligible for the financing, the beneficiary must: (1) not own or be the committed purchaser of, any residential real estate financed by SFH within Brazil; (2) not own or be the committed purchaser of, any real estate property built or under construction in both his or her current city of residence and the city where the beneficiary conducts his or her main activities; (3) reside for at least one year in the city where the property is located; (4) pay the FGTS; and (5) be registered for at least three years with the FGTS regime. The unemployed also have access to the FGTS to purchase real estate property provided that he or she still has funds on the FGTS account (where the 8% payroll deduction was deposited while employed).

Financings that originate from savings account deposits in the entities comprising the Brazilian Saving and Loan System (Sistema Brasileiro de Poupança e Empréstimo), or "SBPE," are regulated by the Central Bank. Such financings can be obtained through the SFH, which is strictly regulated by the Brazilian government, or through the mortgage portfolio system, where banks are free to set the financing conditions. SFH financing offers fixed interest rates lower than the market rates, capped at 12% per year, and SFH financing contract terms vary, in general, between 15 and 30 years. The mortgage portfolio system financing offers market interest rates as determined by the financial institutions, generally varying between 12% and 14% per year.

CMN Resolution No. 3,347 of February 8, 2006, as amended, or Resolution No. 3,347, provides for the allocation of the funds deposited in savings accounts in the entities comprising SBPE and states that the following conditions must be met for SFH financing: (1) loans, including principal and related expenses, are limited to R$245,000; (2) the maximum sale prices for the units financed is R$350,000; (3) the maximum actual cost for the borrower, which includes charges such as interest, fees and other financial costs, except insurance, may not exceed 12% per year; and (4) in the event of an outstanding balance at the end of the financing term, such term will be extended by half of the initial term.

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

The federal government has recently announced changes in the regulations on financing and construction in order to promote growth in the real estate market. Among the measures announced are: (1) financial institutions

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

Mortgage Portfolio

While a large portion of the funds in the deposits in saving accounts are allocated to SFH, some of the funds are allocated to loans granted at market rates. CMN Resolution No. 3,005 of July 30, 2002, as amended, before the enactment of Resolution No. 3,347, increased the financing of new real estate projects from R$2 billion in 2003 to R$3 billion in 2004 and established that at least 65% of these deposits should be used for real estate financing, with a minimum of 80% of the financing going to housing loans under the SFH and the remaining balance for loans granted at market rates which are usually higher than in SFH loans, including mortgage portfolio used by banks for the concession of housing loans.

In early 2005 the Brazilian government took a number of measures to better regulate the use of the funds raised in savings account deposits in order to promote growth of the real estate sector, these measures included: (1) cancellation of payment to the Central Bank of funds not invested in real estate financing in January, February and March; (2) creation of a real estate interbank deposit market to allow financial institutions with excessive investments in real estate to trade with financial institutions that has capacity for more real estate credits; (3) increase of the operating limits of the SFH to R$350,000 and the maximum financing amount to 70% of this amount, or R$245,000; (4) review of the factors used in the calculation guidelines of the SFH in order to stimulate financing for the acquisition of new real estate properties at a low cost, applicable as of January 1, 2005; and (5) authorization for the SFH to provide financing to legal entities for the construction of development projects for their employees, provided that such entities follow all SFH guidelines. These changes have significantly increased the funds available for investments in the Brazilian real estate sector.

Real Estate Finance System, or “SFI”

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

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

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

Law No. 9,514 also reformed securitizations of real estate assets provisions, making them less expensive and more attractive. The securitization of credits in the context of the SFI is made through real estate securitization companies, non-financial institutions formed as joint stock companies whose objective is to acquire and securitize real estate credits. Funds raised by the securitizing companies can be made through the issuance of debentures or notes, or the creation of a new type of Real Estate Receivable Certificates (Certificados de Recebíveis Imobiliários), or “CRIs.” According to applicable law, CRIs are nominative credit securities issued exclusively by securitizing companies, backed by real estate credits, freely negotiated, and payable in cash. CRIs tend to have, among others,

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the following characteristics: they are issued in book-entry form, they may have fixed or floating interest rates and can be paid in installments, they may contain adjustment provisions, they are registered and traded through centralized systems of custody and financial settlement of private securities and they can be secured by the assets of the issuing company.

Municipal Legislation

Municipal planning is regulated by articles 182 and 183 of the Federal Constitution and by Law No. 10,257 of July 10, 2001 (Estatuto da Cidade). Law No. 10,257 provides, among other things, for the establishment of (1) rules for the parceling, use and occupation of urban tracts of land in each municipality for the collective welfare and environmental balance of the community; and (2) a master plan (the “Master Plan”), which shall be reviewed every 10 years.

The Master Plan is the guiding tool used to plan developments in the urban areas of each municipality and is used as a reference by all public and private agents acting within the municipality. It establishes the strategic goals and general guidelines for urban construction, the objectives and guidelines for differentiated areas of planning and the instruments for their deployment.

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

São Paulo Municipality

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

Municipal Law No. 13,430 of September 13, 2002, approved the master plan and created the Planning System of the municipality of São Paulo. In addition, Law No. 11,228 of June 25, 1992, approved the Code of Works and Construction, regulated by Decree 32,329 of September 23, 1992, which governs administrative and executive procedures and sets forth the rules to be followed in the planning, licensing, execution, maintenance and use of public works and construction within properties in the municipality of São Paulo, and provides for sanctions and fines applicable in cases of non-compliance with these rules.

Rio de Janeiro Municipality

Decree 322 of March 3, 1976, of the municipality of Rio de Janeiro, and Decree “E” 3,800 of April 20, 1970, of the then State of Guanabara, jointly created the municipality’s Zoning Regulation, Land Parceling Regulation and Construction Regulation. These regulations control the use of the municipality land, including urban zoning, use of properties, development of construction sites and conditions for the use of each zone in the municipality. The Ten-Year Master Plan of the municipality, approved pursuant to Supplementary Law 16 of June 4, 1992, establishes rules and procedures related to urban policy of the municipality, determines guidelines, provides instruments for its execution and defines area policies and their related programs, aiming at meeting the social needs of the city.

Environmental Issues

We are subject to a variety of Brazilian federal, state and local laws and regulations concerning the protection of the environment, as described below. Applicable environmental laws may vary according to the development's location, the site's environmental conditions and the present and former uses of the site. These environmental laws may result in delays, cause us to incur substantial compliance and other costs, and prohibit or severely restrict development. Before we purchase any real estate property, we conduct investigations of all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, waste substances, springs,

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trees, vegetation and the proximity of the real estate property to permanent preservation areas. We generally condition the consummation of real estate property acquisitions on obtaining the required regulatory approvals prior to closing.

We have adopted certain practices to further our commitment to environmental protection and landscape development. As of December 31, 2007, we believe we were the only company in our industry to recycle cement bags used in our projects, making us a pioneer in our industry on recycling. Through our Selective Collection Project, we have partnered with private and governmental entities, including non-governmental organizations (Reviverde, Papel da Gente and Associação Ecos da Vitória), the Secretariat of Environment of the State of São Paulo, the Sub-municipality of the State of Rio de Janeiro, the Technical Assistance and Rural Extension Institute and the Urban Cleaning Municipal Company of the State of Rio de Janeiro, among others, to educate others about the environment. For example, through our partnership with Reviverde and Associação Ecos da Vitória, we provide training to all of our outsourced workers before we begin work on any particular project that focuses on the importance of preserving the environment and how to effectively collect, store and control recycling materials. In recognition of our commitment to environmental preservation, we were awarded the Selo Verde Award (Green Seal Award) in 2003. In addition, our subsidiary Alphaville was given the "ECO Award" in 2006 and 2007 by the American Chamber of Commerce and the "Top Ambiental Award" (Top Environmental Award) in 2007 by the Brazilian Association of Marketing and Sales Agents, in recognition for its socially responsible practices. Our Eldorado Business Tower building is the fourth building in the world , and the only building in Latin American, to be pre-certified by U.S. Green Building Council as a Leed CS 2.0 Platinum building for leadership in energy and environmental design.

Environmental Licenses and Authorizations

Brazilian environmental policy requires environmental licenses and permits for the construction of development projects. This procedure is necessary for both initial constructions and improvements of existing developments, and the licenses must be periodically renewed. The Brazilian Institute of Environment and Renewable Natural Resources (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis), or the IBAMA, is responsible for granting such licenses in regional or national developments affecting the environment of more than one state or the country borders. In other cases, state entities are responsible for granting such environmental licenses.

The environmental licensing process is comprised of three stages: initial license, construction license and operational license. The licensing process imposes a fee of at least 0.5% of the total cost of construction for all projects significantly affecting the environment and constructed since July 2000. If an environmental license is mandatory for a project, starting work without such a license is an environmental crime, and is subject to injunctions from continuing the development activities and fines of up to R$10 million. The construction, maintenance and sale of our projects may be hampered or halted by delays in or a failure to receive the applicable licenses, or by our inability to meet the requirements set forth in the licenses or otherwise established by the environmental authorities.

The construction of real estate developments often requires land moving activities, and in many cases, the cutting down of trees. These activities may require prior authorization of the relevant environmental authorities. As conditions to granting these authorizations, the relevant environmental authorities may require the licensees to plant new trees or acquire forests to repair the areas affected. Unauthorized activity in these protected areas or the cutting down of protected trees are environmental crimes, and could also result in administrative and legal penalties or other liabilities.

Solid Residues

Brazilian environmental legislation regulates the treatment of solid residues, including those arising from construction. A violation of these regulations could result in penalties. See "—Environmental Responsibility."

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Contaminated Areas

We develop and construct projects in several states within Brazil. Each state member has its Environmental Secretary and/or Environmental Agency. The São Paulo State Secretary of Environment (Secretaria de Estado do Meio Ambiente de São Paulo), or the SMA, and the Environmental Sanitation Technology Company (Companhia de Tecnologia de Saneamento Ambiental), or CETESB, are the principal environmental regulatory entities of the State of São Paulo, and they have adopted procedures with regard to the management of contaminated areas, including the creation of environmental standards to preserve the quality of land and underground water. In addition, the Rio de Janeiro State Secretary of Environment (Secretaria de Estado do Meio Ambiente e Desenvolvimento Urbano do Rio de Janeiro) and the State Environmental Foundation, or FEEMA, also maintain quality standards established by CONAMA Resolutions. Other member states have similar requirements. Non-compliance with the guidelines established by the environmental and health entities may result in criminal as well as administrative and legal penalties. Moreover, the owners of properties may be required to pay for costs relating to the clean-up of any contaminated soil or groundwater at their properties, even if they did not cause the contamination.

To ensure that we will be able to comply with these and other environmental requirements, we conduct investigations of all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, waste substances, springs, trees, vegetation and the proximity of the real estate property to permanent preservation areas, and we work towards ensuring the proper solutions to any environmental issues given the relevant requirements of law.

Environmental Responsibility

The Brazilian environmental legislation establishes criminal, civil and administrative penalties for individuals and legal entities carrying out activities considered to be environmental infringements or crimes, independent of the obligation to repair any environmental damage. The penalties to which we may be subject as a result of environmental crimes and infringements include the following:

- the imposition of fines that, at the administrative level, may amount to R$50 million, depending on the infringer’s financial condition, the facts of the case, and any prior violations by the infringer. Fines may be doubled or tripled in the case of repeated infringements;
- suspension of development activities;
- loss of tax benefits and incentives; and
- imprisonment.

The directors, executive officers and other individuals acting as our representatives or attorneys-in-fact are jointly responsible for the environmental crimes related to us, and are subject, according to their relative level of responsibility, to penalties and possibly the loss of their rights and liberty.

In Brazil, environmental damages involve strict liability. This means that the costs of remedying the problems may be imposed on all persons directly or indirectly involved, without regard to who was responsible for the damage or contamination. Accordingly, we may be responsible for any environmental damages or costs relating to projects developed by subsidiaries or by jointly-controlled entities. In addition, we are responsible for costs relating to environmental damages on our projects caused by third parties who are rendering services for us, such as cutting trees or moving soil, if they are not in compliance with environmental requirements. Moreover, Brazilian environmental legislation provides that the controlling legal entity can be found liable despite a limited liability legal status if this will assist in the collection of damages.

C. Organizational Structure

The following chart shows our organizational structure for our principal subsidiaries, all of them incorporated in Brazil, as of December 31, 2007:

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

D. Property, Plants and Equipment

We lease our headquarters located at Av. Nações Unidas No. 8,501, 19th floor, São Paulo, SP – Brazil. We also lease our branch office located at Avenida das Américas, 500, block 19—rooms 101 and 102, in Rio de Janeiro, RJ- Brazil. Our subsidiary Alphaville leases its headquarters located at Avenida Cauaxi,293, in Barueri, SP – Brazil. Our subsidiary FIT leases its headquarters located at Rua Dr. Eduardo de Souza Aranha,153, blocks 1 and 2, São Paulo, SP - Brazil. Our subsidiary Bairro Novo leases its headquarters located at Rua Paes Leme,524, 13th floor, São Paulo, SP – Brazil. As of December 31, 2007, we and our main subsidiaries leased approximately 7,800 square meters. We believe our current facilities are adequate for the full development of our operations.

Our properties for sale, including both completed and uncompleted units, are recorded as current assets at their cost of purchase and construction plus capitalized interest from project-specific financing, provided that it does not exceed their expected realizable value.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements as of and for the years ended December 31, 2007, 2006 and 2005 and the related notes thereto and with the financial information presented under "Item 3.A. Key Information— Selected Consolidated Data" included elsewhere in this annual report. The following discussion contains estimates and forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in these estimates and forward-looking statements as a result of various factors, including, without limitation, those set forth under "Cautionary Statement Regarding Forward-Looking Statements" and "Item 3.D. Key Information—Risk Factors" included elsewhere in this annual report. Our financial statements as of and for the years ended December 31, 2007, 2006 and 2005 included in this annual report, together with the report of our independent registered public accounting firm, have been prepared in accordance with Brazilian GAAP.

Overview

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

Brazilian Economic Environment

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

In September 2004, the Central Bank implemented a policy of increasing interest rates because inflation targets for 2005 were not being reached. The increase of interest rates had immediate consequences on the country's economic activity, which did not grow in 2005 at the same pace as it did in 2004. GDP grew by approximately 2.3% in 2005. In September 2005, after one year of tightened monetary policy, the Central Bank started a process of gradual loosening of the Sistema Especial de Liquidação e Custódia, or "SELIC," which is the Brazilian Central Bank's system for performing open market operations, as the estimated inflation rates for 2005 and the following 12 months started to converge to the established target. The SELIC closed the 2005 year at the rate of 18%. The principal reason for the lower growth of the GDP in 2005 was the maintenance of SELIC at high levels. The inflation rate, as measured by the IPCA, was 5.7%, above the target established by the Central Bank of 5.1%. The real appreciated by 13.4% against the U.S. dollar. Notwithstanding the real's appreciation, Brazil achieved a trade surplus of US$44.7 billion, its highest trade surplus ever.

In 2006, the Central Bank continued to reduce the SELIC rate, which attained 13.25% as of December 31, 2006. During this period, average inflation according to the IPCA was 3.1%. The real appreciated 9.5% in relation to the dollar, reaching R$2.1380 per US$1.00 as of December 31, 2006. Notwithstanding the real's appreciation, Brazil's account balance was US$46.5 billion in 2006.

The global economic scenario remained favorable and global growth continued to be strong throughout the year ended December 31, 2007. Favorable liquidity conditions continue despite the recent increase in the international markets' long-term interest rates. However, the recent crisis in the United States mortgage market affected credit markets, which had a negative impact on emerging markets and on stock exchanges throughout the world. During this period, average inflation according to the IPCA was 4.5%. The SELIC rate closed the 2007 year at the rate of 11.25%. The real appreciated 20.7%in relation to the dollar, reaching R$1.77 per US$1.00 as of December 31, 2007. Notwithstanding the real's appreciation, Brazil's account balance was US$40 billion in 2007.

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

	Year Ended December 31,		
	2007	2006	2005
		(%)	
Real growth in GDP	5.4	3.8	2.3
Inflation rate (IPCA)(1)	4.5	3.1	5.7
Inflation rate (IGP–M)(2)	7.7	3.8	1.2
National Construction Index (INCC)(3)	6.2	5.0	6.8
TJLP rate (4)	6.3	6.8	9.6
CDI rate (5)	11.8	15.0	18.2
Appreciation of the real vs. US$	20.7	9.5	13.4
Exchange rate (closing) — US$1.00	R$ 1.77	R$ 2.14	R$ 2.34
Exchange rate (average)(6) — US$1.00	R$ 1.95	R$ 2.18	R$ 2.43

(1) IPCA: consumer price index measured by the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística), or “IBGE.”

(2) General Market Price Index (Índice Geral de Preços—Mercado) measured by Getulio Vargas Foundation (Fundação Getulio Vargas), or “FGV.”

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

(4) Represents the interest rate used by the National Bank of Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social), or “BNDES” for long-term financing (end of period).

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

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

Brazilian Real Estate Sector

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

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

The significant features of this incentive package include:

- Provisional Measure No. 321 enacted on September 12, 2006, later converted into Law No. 11,434 enacted on December 28, 2006, gave banks the option to charge fixed interest rates on mortgages;

- Decree No. 5,892 enacted on September 12, 2006, amended Decree No. 4,840 enacted on September 17, 2003, allowing payroll deductible mortgage loans to employees of both public and private entities; and

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- the tax terms of this incentive program were consolidated in Decree No. 6,006 enacted on December 28, 2006 through a 50% tax cut on Tax on Manufactured Products (Imposto sobre Produtos Industrializados), or IPI, levied on the acquisition of important construction products, including certain types of tubes, ceilings, walls, doors, toilets and other materials.

Critical Accounting Policies and Estimates

Our financial statements included elsewhere in this annual report were prepared in accordance with Brazilian GAAP. The preparation of financial statements in accordance with Brazilian GAAP requires management to make judgments and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, among other things, the selection of the useful lives of movable assets and equipment, provisions necessary for contingent liabilities, taxes, budgeted costs and other similar charges. Although we believe that our judgments and estimates are based on reasonable assumptions that are subject to several risks and uncertainties and are made in light of information available to us, our actual results may differ from these judgments and estimates.

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

Recognition of Revenues and Costs

Development and Sale of Real Estate

In installment sales of finished units, revenue and costs are recognized when the sale is made, regardless of the term for receipt of the contractual price, provided that the following conditions are met: (a) the value thereof can be estimated, i.e. the receipt of the sale price is known or the sum that will not be received may be reasonably estimated, and (b) the process of recognition of the sales revenues is substantially completed, i.e. we are released from our obligation to perform a considerable part of our activities that will generate future expenses related to the sale of the finished unit.

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

- the cost incurred (including the cost of land) corresponding to the units sold is fully appropriated to the result;
- the percentage of the cost incurred in the units sold (including land) is calculated in relation to the total estimated cost, and this percentage is applied on the revenues from units sold, as adjusted pursuant to the conditions of the sales agreements, and on selling expenses, thus determining the amount of revenues and selling expenses to be recognized;
- the amounts of sales revenues determined, including monetary correction, net of the installments already received, are accounted for as accounts receivable, or as advances from customers, when applicable;
- interest monetary variation on accounts receivable as from the delivery of the keys, are appropriated to the result from the development and sale of real estate using the accrual basis of accounting;
- the financial charges on accounts payable from the acquisition of land and real estate credit operations incurred during the construction period are appropriated to the cost incurred, and recognized in results upon the sale of the

units of the venture to which they are directly related;

- the taxes on the difference between the revenues from real estate development and the accumulated revenues subject to tax are calculated and recognized in the books when the difference in revenues is recognized; and

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- the other income and expenses, including advertising and publicity, are appropriated to the results as they are incurred using the accrual basis of accounting.

Construction Services

Revenues from supply of real estate services consist basically of amounts received related to the management of construction work for third parties, technical management and management of real estate. The revenues are recognized, net of the corresponding costs incurred, as services are provided.

Consolidation

We structure some of our projects through either our subsidiaries or jointly-controlled entities in partnership with third parties both incorporated as special purposes vehicles. Our consolidated financial statements include our accounts and those of all our subsidiaries, with separate disclosure of the participation of minority shareholders. The proportional consolidation method is used for investments in jointly-controlled entities, which are all governed by shareholder agreements; as a consequence, the assets, liabilities, revenues and costs are consolidated based on the proportion of the equity interest we hold in the capital of the investee.

Sales of Receivables for Securitization

When we sell our accounts receivables, the amount of the mortgage-backed securities, or “CRI,” issued by the real estate securitization company, is recorded as a reduction of accounts receivable on our balance sheet. The financial discount, which represents the difference between the amounts received and the book value of the CRI on the date of the assignment, and the fee paid to the issuer of the CRI, are reflected in the Receivables from clients account and are reflected on our income statement as “Financial expense.” Receivables from clients are only removed from the balance sheet when a true sale has been concluded and no beneficial interests are retained in the receivables sold.

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Properties For Sale

Completed units for sale are recorded at construction cost, which does not exceed their net realizable value. In the case of uncompleted units, the portion in inventories corresponds to the cost incurred in units that have not yet been sold.

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

Land is recorded at acquisition cost. See "Item 4.B. Information on the Company—Business Overview — Land Acquisition." We acquire part of the land through swaps in which, in exchange for the land acquired, we undertake (1) to deliver real estate units of developments in progress; or (2) part of the sales revenues originating from the sale of the real estate units of the developments. The effective construction cost of the exchanged units is diluted in the other unsold units.

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

Taxes on Income

Deferred income and social contribution taxes are calculated to take into account all tax timing differences as follows: (1) amounts not yet taxed due to the fact that net income from real estate activities is taxed when the sales price is collected in cash as opposed to when revenue is recognized on an accrual basis; (2) income or expenses which are not yet taxable or deductible, such as provisions for contingencies; and (3) net operating losses, when realization or recovery in future periods is considered probable. In the event our jointly-controlled subsidiaries elect to change from the "taxable profit" regime to the "presumed profit" regime, accumulated tax loss carryforwards will be forfeited.

New Developments and Contracted Sales

New Developments

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

	As of and For the Year Ended December 31,		
	2007	2006	2005
New developments			
Number of projects launched	53	30	21
Number of units launched(1)	10,315	3,052	2,363
Launched usable area (m2)(2)	1,927,812	407,483	502,520
Average price of new developments (R$/m2)(2)(3)	2,835	3,045	2,878
Percentage of Gafisa investment	77%	82%	96%

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

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

(3) The average sales price in reais per square meter excludes land subdivisions. The average sales value in reais per square meter including land subdivisions was R$1,137, R$2,776, R$1,291 in 2007, 2006, and 2005, respectively.

In 2007 we launched 53 residential developments with total sales value (Valor Geral de Vendas, i.e., sales value of projects launched) of R$2.2 billion. This sales value was 122% higher than that achieved in 2006, during which we launched residential developments amounting to R$1.0 billion. This increase is a reflection of our strategy of segment (primarily high-potential and less explored markets) and geographic diversification.

Seventeen of the 53 developments launched by us during 2007 were located in the state of São Paulo, while another 11 developments were located in the state of Rio de Janeiro. The remaining 25 residential developments launched were located in the cities of Goiânia and Aparecida de Goiânia, both in the state of Goias; Maceio, in the state of Alagoas; São Luis, in the state of Maranhão; Belem, in the state of Pará; Manaus, in the state of Amazonas; Salvador, in the state of Bahia; Curitiba and Londrina in the state of Paraná; Campo Grande in the state of Mato Grosso do Sul; and Serra, in the state of Espírito Santo.

During 2007, 33% of our total sales value derived from launches outside the states of São Paulo and Rio de Janeiro. Our segment diversification through our entrance into the affordable entry level (through our subsidiaries FIT and Bairro Novo) accounted for 13% of our total sales value for the year ended December 31, 2007.

The average sale price per square meter for the developments launched during 2007 was R$2,835, compared to R$3,045 in 2006. This represented a 4.3% decrease in the average price of the units sold, and is a result of the different characteristics of the developments launched by us during these periods, mainly in the affordable entry segment (developments launched by FIT and Bairro Novo).

In 2006 we launched 28 residential developments and 2 commercial developments, with total sales value of R$1,005.1 million. This sales value was 54.2% higher than that achieved in 2005, during which we launched 21 residential developments amounting to R$651.8 million. This increase is a reflection of our sales strategy, which aims to support sales growth through the increase in the number of developments we launch. We also believe that our sales growth is a result of the rise in consumer confidence, decrease in interest rates and strong inflow of commercial bank mortgages to the industry.

Eleven of the 30 developments launched by us during 2006 were located in the state of São Paulo, while another seven developments were located in the state of Rio de Janeiro. The remaining twelve residential developments launched were located in the cities of Gramado and Porto Alegre, both in the state of Rio Grande do Sul, Fortaleza, in the state of Ceará, Salvador, in the state of Bahia, Curitiba, in the state of Paraná, Manaus, in the state of Amazonas, Belém, in the state of Pará, and Maceió, in the state of Alagoas. The launches outside of São Paulo and Rio de Janeiro reflect our strategy towards geographical diversification.

The average sale price per square meter for the developments launched during 2006 was R$3,045, compared to R$2,878 in 2005. This represented a 7% increase in the average price of the units sold, and is a result of the different characteristics of the developments launched by us during these periods.

Contracted Sales

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

	For the Year Ended December 31,		
	2007	2006	2005
	(in thousands of R$, unless otherwise stated)		
Type of development			
Luxury buildings	R$ 255,855	R$ 144,882	R$ 31,675
Middle-income buildings	1,028,907	647,062	315,579

Affordable entry-level housing	64,026	32,868	23,777
Commercial	27,900	138,090	16,460
Lots	249,916	32,172	62,663
Total contracted sales	1,626,604	995,074	450,154

	For the Year Ended December 31,		
	2007	2006	2005
	(in thousands of R$, unless otherwise stated)		
Sale of units launched in the year	R$ 1,139,113	R$ 555,264	R$ 294,888
Percentage of total contracted sales	70.0%	55.8%	65.5%
Sale of units launched during prior years	487,491	439,809	155,266
Percentage of total contracted sales	30.0%	44.2%	34.5%

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

	For the Year Ended December 31,		
	2007	2006	2005
	(in thousands of R$, unless otherwise stated)		
Company			
Gafisa	R$ 1,328,785	R$ 995,074	R$ 450,154
AlphaVille	238,317	—	—
FIT	47,143		