Gafisa S.A.
Form 6-K
March 27, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934

For the month of March, 2013

(Commission File No. 001-33356),

Gafisa S.A.

(Translation of Registrant's name into English)

Av. Nações Unidas No. 8501, 19th floor
São Paulo, SP, 05425-070
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)

Yes ______ No ___X___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ______ No ___X___

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ______ No ___X___

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Financial Statements

(A free translation from Portuguese into English of individual and consolidated financial statements)

Gafisa S.A.

December 31, 2012

with Independent Auditor's Report

on the Financial Statements

Gafisa S.A.

Financial Statements

December 31, 2012

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Gafisa S.A.

Balance sheet

December 31, 2012

(In thousands of Brazilian Reais)

		Company		Consolidated	
	Notes	**2012**	2011	**2012**	2011
Assets					
Current assets					
Cash and cash equivalents	4.1	**95,836**	32,226	**627,137**	137,598
Short-term investments	4.2	**307,704**	90,962	**1,054,151**	846,062
Trade accounts receivable	5	**826,531**	1,390,694	**2,915,253**	3,962,574
Properties for sale	6	**730,869**	504,489	**2,130,195**	2,049,084
Receivables from related parties	22.1	**156,494**	118,146	**188,817**	84,207
Land available for sale	8	**14,000**	65,969	**173,931**	93,188
Derivative financial instruments	21.i.b	**5,088**	4,418	**9,224**	7,735
Prepaid expenses	-	**40,470**	41,947	**63,694**	73,532
Other accounts receivable and other	7	**16,259**	26,503	**56,288**	60,378
Total current assets		**2,193,251**	2,275,354	**7,218,690**	7,314,358
Non-current assets					
Trade accounts receivable	5	**237,485**	169,666	**976,253**	863,874
Properties for sale	6	**194,765**	405,958	**330,488**	798,206
Receivables from related parties	22.1	**80,327**	59,066	**76,002**	104,059
Derivative financial instruments	21.i.b	**5,480**	-	**10,443**	-
Other accounts receivable	7	**119,948**	95,869	**182,185**	143,850
		638,005	730,559	**1,575,371**	1,909,989
Investments	9	**3,547,195**	3,616,333	**-**	-
Property and equipment	10	**16,908**	12,074	**46,846**	52,793
Intangible assets	11	**39,847**	30,969	**230,087**	229,484
		3,603,950	3,659,376	**276,933**	282,277
Total non-current assets		**4,241,955**	4,389,935	**1,852,304**	2,192,266

Total assets	**6,435,206**	6,665,289	**9,070,994**	9,506,624

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Gafisa S.A.

		Company		Consolidated	
	Notes	**2012**	2011	**2012**	2011
Liabilities					
Current liabilities					
Loans and financing	12	**356,781**	468,455	**812,483**	843,2
Loans and financing – reclassified as current due to default	12	**-**	253,333	**-**	292,2
Debentures	13	**184,279**	140,215	**346,360**	303,2
Debentures – reclassified as current due to default	13	**-**	1,145,961	**-**	1,595,9
Payable for purchase of properties and advances from customers	18	**246,218**	232,792	**527,111**	610,5
Payables for materials and service suppliers	-	**44,484**	54,295	**167,008**	135,7
Income and social contribution tax	-	**27,919**	50,868	**259,160**	250,5
Salaries, payroll charges and profit sharing	-	**46,901**	26,996	**105,372**	75,0
Minimum mandatory dividends	-	**-**	-	**13,389**	11,7
Provision for legal claims	17	**58,570**	34,875	**58,570**	34,8
Obligations assumed on the assignment of receivables	14	**70,360**	32,567	**175,874**	70,7
Payables to venture partners	15	**110,513**	139,907	**161,373**	219,7
Payables to related parties	22.1	**473,214**	198,197	**75,562**	97,9
Other payables	16	**90,953**	98,773	**177,328**	274,2
Total current liabilities		**1,710,192**	2,877,234	**2,879,590**	4,815,9
Non-current					
Loans and financing	12	**818,973**	444,705	**1,367,960**	721,0
Debentures	13	**989,620**	-	**1,389,543**	
Payables for purchase of properties and advances from customers	18	**34,189**	53,467	**91,706**	177,1
Deferred income and social contribution tax	20	**63,926**	66,801	**81,477**	83,0
Provision for legal claims	17	**69,797**	73,722	**149,790**	134,9
Obligations assumed on the assignment of receivables	14	**62,423**	264,342	**160,906**	431,2
Payables to venture partners	15	**119,535**	200,056	**162,333**	253,3
Other payables	16	**22,047**	36,489	**95,322**	142,8
Total non-current liabilities		**2,180,510**	1,139,582	**3,499,037**	1,943,5
Equity					
Capital	19.1	**2,735,794**	2,734,157	**2,735,794**	2,734,1
Treasury shares	19.1	**(1,731)**	(1,731)	**(1,731)**	(1,73
Capital reserves and reserve for granting stock options		**36,964**	18,066	**36,964**	18,0
Accumulated losses	19.2	**(226,523)**	(102,019)	**(226,523)**	(102,01
		2,544,504	2,648,473	**2,544,504**	2,648,4
Noncontrolling interest		**-**	-	**147,863**	98,6
Total equity		**2,544,504**	2,648,473	**2,692,367**	2,747,0
Total liabilities and equity		**6,435,206**	6,665,289	**9,070, 994**	9,506,6

See accompanying notes to the financial statements.

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Gafisa S.A.

Statement of operations

Year ended December 31, 2012

(In thousands of Brazilian Reais, except if stated otherwise)

	Notes	C 201
Net operating revenue	23	**1,202,**
Operating costs		
Real estate development and sales	24	**(906,3**
Gross profit		**296,**
Operating (expenses) income		
Selling expenses	24	**(113,0**
General and administrative expenses	24	**(138,8**
Equity pick-up	9	**75,**
Depreciation and amortization	10 and 11	**(49,1**
Other income (expenses), net	24	**(26,4**
Expenses for impairment of non-financial assets	6, 8 and 11	
Income (loss) before financial income and expenses and income and social contribution taxes		**44,**
Financial expenses	25	**(190,4**
Financial income	25	**18,**
Income (loss) before income and social contribution taxes		**(127,3**
Current income and social contribution taxes		**(**
Deferred income and social contribution taxes		**2,**
Total income and social contribution taxes	20.i	**2,**
Loss for the year		**(124,5**
(-)Attributable to:		

Noncontrolling interests		
Owners of Gafisa		**(124,5**
Weighted average number of shares(in thousands)	28	**432,**
Basic loss per thousand shares - In Reais (Company)	28	**(0.28**
Diluted loss per Thousand shares - In Reais (Company)	28	**(0.28**

See accompanying notes to the financial statements.

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Gafisa S.A.

Statement of comprehensive income

Year ended December 31, 2012

(In thousands of Brazilian Reais, except if stated otherwise)

	Company		**Consolidated**	
	2012	2011	**2012**	2011
Loss for the year	**(124,504)**	(944,868)	**(76,363)**	(905,189)
Total comprehensive income, net of taxes	**(124,504)**	(944,868)	**(76,363)**	(905,189)
Attributable to:				
Owners of Gafisa	**(124,504)**	(944,868)	**(124,504)**	(944,868)
Noncontrolling interests	**-**	-	**48,141**	39,679

See accompanying notes to the financial statements.

Gafisa S.A.

Statement of changes in equity

Year ended December 31, 2012

(In thousands of Brazilian Reais)

					Attributable to owners					
						Income reserves				
	Notes	**Capital**	**Treasury shares**	**Legal reserve**	**Reserve for granting shares**	**Legal reserve**	**Statutory reserve**	**Retained earnings**	**Accumulated losses**	**Total company**
Balances at December 31, 2010 (restated)		2,729,198	(1,731)	295,445	434	44,986	463,885	38,533	-	3,570,750
Capital increase	19.1	4,959	-	-	-	-	-	-	-	4,959
Stock option plan	19.3	-	-	-	17,632	-	-	-	-	17,632
Noncontrolling interest in SPEs of subsidiaries	-	-	-	-	-	-	-	-	-	-
Minimum mandatory dividends	-	-	-	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	-	-	-	(944,868)	(944,868)
Absorption of loss for the year with income and capital reserves	19.2	-	-	(295,445)	-	(44,986)	(463,885)	(38,533)	842,849	-

Balances at December 31, 2011		**2,734,157**	**(1,731)**	**-**	**18,066**	**-**	**-**	**-**	**(102,019)**	**2,648,473**
Capital increase	**19.1**	**1,637**	-	-	-	-	-	-	-	**1,637**
Stock option plan	**19.3**	**-**	-	-	**18,898**	-	-	-	-	**18,898**
Minimum mandatory dividends	**-**	**-**	-	-	-	-	-	-	-	**-**
Loss for the year	**-**	**-**	-	-	-	-	-	-	**(124,504)**	**(124,504)**
Accumulated losses	**19.2**	**-**	-	-	-	-	-	-	**-**	**-**
Balances at December 31, 2012		**2,735,794**	**(1,731)**	**-**	**36,964**	**-**	**-**	**-**	**(226,523)**	**2,544,504**

See accompanying notes to the financial statements.

Gafisa S.A.

Statement of cash flows

Year ended December 31, 2012

(In thousands of Brazilian Reais)

	Company		**Conso**
	2012	**2011**	**2012**
Operating activities			
Loss before income and social contribution tax	**(127,317)**	(900,520)	**(35,135)**
Expenses (income) not affecting cash and cash equivalents:			
Depreciation and amortization (Notes 10 and 11)	**49,194**	50,603	**87,584**
Expenses for stock option plans (Note 19.3)	**18,319**	15,429	**27,640**
Unrealized interests and charges, net	**81,425**	83,908	**114,956**
Warranty provision (Note 16)	**3,336**	2,619	**20,633**
Provision for legal claims and commitments (Note 17)	**50,956**	37,467	**94,887**
Provision for profit sharing	**29,433**	71	**64,011**
Allowance for doubtful accounts and cancelled contracts (Note 5)	**11,444**	5,585	**(39,755)**
Provision for realization of non-financial assets:			
Properties for sale (Note 6)	**(6,643)**	6,643	**(8,744)**
Land for sale (Note 8)	**(21,941)**	27,495	**(28,876)**
Intangible assets (Note 11)	**11,690**	10,430	**11,690**
Equity pick-up (Note 9)	**(75,711)**	443,758	**-**
Financial instruments (Note 21)	**(6,150)**	(4,418)	**(12,014)**
Provision for penalties due to delay in construction works (Note 16)	**(3,792)**	12,675	**(13,946)**
Write-off of property and equipment, net (Notes 10 e 11)	**6,456**	6,646	**9,471**
Write-off of investments (Note 9)	**13,400**	-	**-**
Decrease (increase) in operating assets			
Trade accounts receivable	**242,962**	106,913	**580,455**
Properties for sale and land available for sale	**65,366**	(128,663)	**343,484**
Other accounts receivable	**(1,069)**	65,051	**(24,229)**
Prepaid expenses	**1,477**	(29,467)	**9,838**
Increase (decrease) in operating liabilities			
Payables for purchase of properties and advances from customers	**(5,852)**	116,969	**(168,873)**
Taxes and contributions	**(22,949)**	(28,899)	**39,439**
Materials and service suppliers	**(9,811)**	(5,040)	**31,288**

Salaries, payable charges and bonus payable	**(9,527)**	(11,493)	**(33,641)**
Other obligations	**(88,323)**	(23,970)	**(218,766)**
Transactions with related parties	**349,901**	271,156	**(126,842)**
Paid income and social contribution tax	**-**	-	**(73,610)**
Cash and cash equivalents from (used in) operating activities	**556,274**	**130,948**	**650,945**
Investing activities			
Purchase of property and equipment and intangible assets (Notes 10 and 11)	**(69,362)**	(51,877)	**(114,805)**
Purchase of short-term investments	**(1,246,017)**	(2,521,132)	**(4,781,462)**
Redemption of short-term investments	**1,029,275**	2,921,464	**4,573,373**
Increase in investments	**(5,640)**	(931,940)	**-**
Dividends received (Note 9)	**25,333**	26,317	**-**
Cash used in investing activities	**(266,411)**	**(557,168)**	**(322,894)**
Financing activities			
Capital increase	**1,637**	4,959	**1,637**
Redeemable shares of Credit Rights Investment Fund (FIDC)	**-**	-	**6,642**
Increase in loans, financing and debentures	**667,115**	706,176	**1,419,044**
Payment of loans, financing and debentures - principal	**(621,293)**	(290,770)	**(1,035,853)**
Payment of loans, financing and debentures - interest	**(230,263)**	(211,144)	**(337,610)**
Assignment of receivables	**77,812**	259,195	**229,051**
Payables to venture partners	**(100,000)**	39,963	**(149,480)**
Dividends paid	**-**	(98,812)	**-**
Loan transactions with related parties	**(21,261)**	(17,213)	**28,057**
Cash and cash equivalents from financing activities	**(226,253)**	**392,354**	**161,488**
Net increase (decrease) in cash and cash equivalents	**63,610**	**(33,866)**	**489,539**
Cash and cash equivalents			
At the beginning of the year	**32,226**	66,092	**137,598**
At the end of the year	**95,836**	32,226	**627,137**
Net increase (decrease) in cash and cash equivalents	**63,610**	(33,866)	**489,539**

See accompanying notes to the financial statements.

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Gafisa S.A.

Statement of value added

Year ended December 31, 2012

(In thousands of Brazilian Reais)

	Company		Consolidated	
	2012	**2011**	**2012**	**2011**
Revenues	**1,324,761**	1,107,721	**4,245,202**	3,169,492
Real estate development and sales	**1,336,205**	1,113,306	**3,992,209**	3,470,886
Allowance for doubtful accounts and cancelled contracts	**(11,444)**	(5,585)	**252,993**	(301,394)
Inputs acquired from third parties (including ICMS and IPI)	**(905,887)**	(977,015)	**(3,136,857)**	(2,910,803)
Operating costs - Real estate development and sales	**(834,468)**	(863,106)	**(2,544,674)**	(2,735,955)
Materials, energy, outsourced labor and other	**(88,313)**	(69,341)	**(404,875)**	(293,558)
Provision for contract cancellation	**-**	-	**(213,238)**	221,195
Provision for realization of non-financial assets	**16,894**	(44,568)	**25,930**	(102,485)
Gross added value	**418,874**	130,706	**1,108,345**	258,689
Depreciation and amortization	**(49,194)**	(50,603)	**(87,584)**	(83,428)
Net added value produced (distributed) by the Company	**369,680**	80,103	**1,020,761**	175,261
Added value received on transfer	**94,005**	(407,237)	**80,629**	92,973
Equity pick-up	**75,711**	(443,758)	**-**	-
Financial income	**18,294**	36,521	**80,629**	92,973
Total added value to be distributed	**463,685**	(327,134)	**1,101,390**	268,234
Added value distribution	**463,685**	(327,134)	**1,101,390**	268,234
Personnel and payroll charges	**173,367**	174,252	**380,055**	344,443

Taxes and contributions	**147,405**	178,762	**362,200**	439,418
Interest and rents	**267,417**	264,720	**483,639**	429,241
Retained earnings (absorbed losses) attributable to noncontrolling interests	**-**	-	**(48,141)**	(39,679)
Retained earnings (absorbed losses)	**(124,504)**	(944,868)	**(76,363)**	(905,189)

See accompanying notes to the financial statements.

Gafisa S.A.

Management Report

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

Dear Shareholders,

The Management of Gafisa S.A. ("Gafisa" or the "Company") is proud to submit to your examination this Management Report and the accompanying Financial Statements, Reports of Independent Auditors and Fiscal Council, for the year ended December 31, 2012. All information is reported in millions of Reais and on consolidated basis, except when otherwise indicated, and in accordance with the accounting practices adopted in Brazil, and the consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and in accordance with the accounting practices adopted in Brazil.

MESSAGE FROM MANAGEMENT

The beginning of 2012 was very challenging to Gafisa. We started with a structured plan, which included several measures of strategic nature, aiming at significantly changing the Company's positioning. At that moment, when we had just reported a negative result for 2011, the priorities that should be take were clear: attain a new strategic positioning, prioritize the operating cash generation in order to reduce net indebtedness, and have a healthier balance sheet.

The first steps included the establishment of a new operational structure organized by brand, with the appointment of the respective executive officers in charge of their results, and the redesign of operations, as follows:

§ **Gafisa**: concentration of operations in its key markets, São Paulo and Rio de Janeiro, regions that have delivered a good performance because of experience, accumulated knowledge and excellent supply chain, as well as the completion of ventures launched in other markets;

§ **Tenda**: temporary reduction in its operations until gaining full control over the entire financial, operational and construction cycle, in order to adjust the business model to new launches based on the new rationale – which depends on fulfilling the basic conditions in each strategic marketplace (São Paulo, Rio de Janeiro, Northeastern region and Minas Gerais): mastering the financial cycle (launch contracted ventures and sell units that can be immediately transferred to financial institutions), mastering the construction cycle (building using aluminum molds, with shorter cycle and higher standardization), and appropriate land bank to give continuity to operations (area for development of ventures with minimum scale); and

§ **Alphaville**: give priority to maximum capital allocation to the business, maintaining balance between growth and return.

Gafisa S.A.

Management Report

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

§ **Corporate:** creation of the Gafisa Service Center (CSG, in portuguese), responsible for supporting the brands in carrying out back office activities (accounts payable, accounts receivables, accounting, collection, credit analysis, among others), thus allowing each brand to focus 100% on the operation.

Once the basic assumptions are defined, we took action and the first results of our strategy started to be shown already in the second quarter, which confirmed that our corrective measures were right, of which we highlight the following:

§ We ended 2012 with the delivery of 27.1 thousand units, 20% up on the 22.6 thousand units delivered in 2011.

§ We obtained operating cash generation of approximately R$1.02 billion and cut down our net indebtedness of approximately R$700 million.

Our sales totaled R$ 2.63 billion, 21% down on the previous year, of which 66% were launches, while inventory sales accounted for the remaining 34%. In the end of the period, consolidated inventories at market value increased 3%, reaching R$3.6 billion, as compared to R$3.5 billion in the end of 2011.

In the end of 2012, net revenue for the year rose by 34% year-on-year, totaling R$ 3.95 billion. The gross profit for the period reached R$1.01 billion, as compared to the R$262 million for 2011. Gross margin increased to 25.6%, or 30.6%, excluding the impacts of Tenda, while it stood at 8.9% and 21.7%, respectively, for the previous year.

Net income for the period, plus taxes on income, financial expenses net of financial income and depreciation, amortization and depletion totaled R$ 211.248 million, as compared to the loss of R$ 559.175 million for the previous year.

Adjusted EBITDA reached R$ 470.14 million, as compared to the negative adjusted EBITDA of R$ 338.63 million for the previous year. Gafisa and Alphaville recorded an adjusted EBITDA of R$ 243.58 million and R$273.72 million, respectively. Tenda recorded a negative adjusted EBITDA of R$ 47.15 million for 2012. In 2012, the adjusted EBITDA margin reached 11.9%, or 18.3% without Tenda, higher than the -11.5% and 10.3%, respectively, reported for 2011.

Net income does not fully reflect these improvements, because in 2012 we also had the impact of older ventures of Gafisa out of the key markets, reduced margins in Tenda because of the deviation of costs and high financial expenses due to the indebtedness that continued high. In view of these facts, we recorded a net loss of R$ 124 million for 2012, as compared to the net loss of R$ 945 million for 2011.

Gafisa S.A.

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December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

Our key indicators of the balance sheet have significantly improved. The Gafisa Group ended 2012 with R$1.68 billion in cash and cash equivalents and short-term investments, higher than the R$ 984 million at the end of 2011.

The Company's total indebtedness (excluding obligations assumed on assignment of receivables) remained stable at R$ 4.24 billion, as compared to R$ 4.17 billion at the end of 2011, while net indebtedness (excluding obligations assumed on assignment of receivables) dropped to R$ 2.56 billion as of December 31, 2012, as compared to R$ 3.24 billion for the previous year, in view of the operating cash generation of the Company.

The leverage level, calculated by the net debt-to-equity ratio, dropped to 0.95x as of December 31, 2012, as compared to 1.18x as of December 31, 2011. Excluding the venture funding, the net debt-to equity ratio stood at 15%, 31% down on the 46% recorded at the end of 2011.

While we focused on improving our balance sheet, we did not stop looking for opportunities for new businesses, which allowed us to launch nearly R$ 3 billion of Total Sales Value, of which Gafisa accounted for 54%, and Alphaville, 46%, a volume that in our understanding is adequate to the moment that the Company is going through and to its current capital structure. This amount of launches is 16% down on 2011, reflecting a slowdown in Tenda, and is in line with the guidance of the beginning of the year.

Finally, 2012 was marked by our positive response to big challenges. The financial results for the year reflect the correct implementation of adopted corrective actions, including the appointment of the executive officers responsible for the P&L of each division, positioning the Company for long-time sustainable growth.

We also highlight that Gafisa won a financial disclosure award of its industry granted by IR Global Rankings in 2012. Gafisa also ranked third in the global corporate governance category, which takes into account the quality of the participation of the board and its committees, shareholders rights and corporate and social responsibility.

OPERATIONAL PERFORMANCE BY SEGMENT

Gafisa Segment

Launches for the year totaled R$1.61 billion, considering that the Gafisa segment accounted for 54% of the consolidated launches of the group for the period, and included ventures concentrated in São Paulo and Rio de Janeiro, a decrease by 25% year-on-year.

Contracted sales for the year totaled R$ 1.60 billion, 27% down on 2011. Sales of units launched over the year accounted for 52% of total, while sales of inventories accounted for the other 48%. The sale speed stood at 20.0%, as compared to 8.8% in 2011. The sale speed of the Gafisa segment launches in 2012 stood at 42%.

Gafisa S.A.

Management Report

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

In 2012, Gafisa delivered 44 ventures/stages and 7,505 units. The completion of ventures under construction in markets other than São Paulo - Rio de Janeiro is scheduled to 2013.

The market value of Gafisa inventories, which account for 55% of total inventories, remained stable at R$1.98 billion at the end of 2012.

Alphaville segment

The results for 2012 show a higher share of Alphaville in the mix of products, accounting for 46% of consolidated launches for 2012, 28% up on the previous year.

Launches in 2012 totaled R$ 1.34 billion, a growth by 38% year-on-year. Contracted sales for 2012 totaled R$ 1.11 billion, 32% up on the previous year. For the first time, Alphaville sales were in excess of R$1 billion in a year.

Contracted sales totaled R$ 1.11 billion, 32% up on the previous year. In 2012, the segment of residential lots accounted for 42% of consolidated contracted sales, as compared to 25% of sales for 2011. Sales of launches in 2012 accounted for 81% of total sales, while the other 19% were sales of inventories.

The net income for the year reached R$ 158 million, 22% up on the R$129 million reported for 2011.

In 2012, Alphaville delivered 8 ventures/stages and 2,713 units.

The market value of Alphaville inventories totaled R$812 million at the end of 2012, an increase of 43% as compared to R$567 million at the end of 2011.

Tenda Segment

Reflecting the purpose of remediating problems at Tenda and focusing on construction and delivery, no venture was launched in 2012. Over 2012, the complexity of Tenda operations was reduced, by improving all of its processes, reducing the financial cycle and adoption of more efficient building standards.

In 2012, gross contracted sales totaled R$1.17 billion, 32% down on previous year. Since the first quarter of 2012, the recognition of contracted sales and the compensation of the sales team were set based on the ability of transferring the debt balance of customers to financial institutions.

Gafisa S.A.

Management Report

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Net contracted sales for the year totaled a loss of R$74.3 million, as compared to R$330.2 million for 2011. Net contracted sales reflect the cancellations over the year with potential owners who are not eligible for financing. Despite the cancellations for 2012, a good demand for resale of these units targeted at the low-income segment was noted. Of the 9,200 units that were cancelled and returned to the inventory of the Tenda brand, 68% has already been resold to eligible clients in the same period.

Since June 2011, the volume of units contracted by financial institutions has increased, because of a new business unit of Caixa Econômica Federal that serve the major construction companies. In 2012, Tenda transferred nearly 13,000 units to financial institutions, or 108% of the average guidance for the year, which was between 10,000 and 14,000 customers, positively contributing to the operating cash generation of the Company.

Throughout 2012, Tenda delivered 87 ventures/stages and 16,889 units.

The market value of Tenda inventories totaled R$827 million at the end of 2012, 11% down on the R$932 million at the end of 2011.

Human Resources

Gafisa's management is composed of a professional and committed team, with extensive experience in the Brazilian real estate sector. Some of them are in the Company since the beginning of their careers, an example of excellence in the management training program of Gafisa. People who have a differential and are unique, aligned with our vision, values and culture.

We foster our values everyday, in attitudes, decision making. We make selection, assessment and compensation based on these guidelines. We believe that they should be perceived by all in all strategic actions involving our Gafisa, Tenda and Alphaville brands.

The Company's compensation policy for its employees, including the Board of Director's members, the Statutory and non-Statutory Officers and Fiscal Council's members, is in line with the best corporate governance practices. We aim at attracting and retaining the best professionals in the market. The compensation is established based on market surveys and is directly related to the alignment of the interests of the executives with those of the Company's shareholders.

Our meritocratic model favors variable compensation. A significant percentage of total compensation is tied to the fulfillment of corporate results and individual goals. All employees have individual objective goals directly related to the Company's strategies and our main business indicators.

In the case of Officers and Managers, besides the practice of short-term variable compensation, we adopt the long-term compensation (in the case of the second, by granting stock options), which enable sharing the risk and result of the Company with its main executives, a characteristic of a policy that is transparent and focused on the fulfillment of long-lasting results and the Company's perpetuity.

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We are a Company that believes in training our employees, in professional development. In our personnel, 70% of our leaders – Officers, Managers and Coordinators – were trained in house, through Talent development programs: Internships, Trainees and International MBA.

§ Internship: program that involves 600 civil engineers by year.

§ Trainees: about 30 recently graduates are employed every year. They are trained over a year, period in which they are prepared to be the next executives of the Company.

§ International MBA: recruiting of Brazilian International MBA graduates who want to build their career in Brazil.

We are committed to the prevention of occupational accidents. Accordingly, we have a risk prevention program aimed at maintaining and improve the health and physical condition of our employees, by anticipating, recognizing, assessing and controlling existing or potential environmental risks in the workplace.

We make significant investments in this area, offering training programs to employees at our construction sites, as well as to subcontracted workers, who are required to follow strict guidelines.

The Company currently counts on the collaboration of 4,024 own employees.

Investments

In 2012, the Company invested nearly R$26 million. Most of this fund was allocated to the development of new IT projects, followed by investments in CSG and improvements.

Research & Development

Gafisa, with the objective of exercising its leading role, has since 2006 an area named Operations and Technology Development (DOT, in portuguese), mainly focused on the search for technological innovation and process improvements that bring competitive market advantage in the market. In order to approve a development project it is necessary analyze if the project will:

- Enhance the quality perceived by the customer,

- Reduce the construction period,

- Cut cost.

At present, DOT is composed of ten professionals who also use the resources allocated to all areas of the company in order to implement and provide feedback to development projects. Such structure requires an investment of approximately R$ 1 million per year.

Administrative Restructuring

Gafisa management carried out a thorough evaluation of each of its business units, which resulted in a new organizational structure that includes the appointment of a manager to each brand, responsible for its results. The executive officers of each business unit are Sandro Gamba (Gafisa), Rodrigo Osmo (Tenda), and Marcelo Willer (Alphaville).

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And to Finance and Investor Relations Officers André Bergstein was appointed. In addition, Luis Carlos Siciliano was appointed to Supply, Shared Services Area (CSG), IT and Legal Counsel Officer. The Officers Fernando Calamita and Rodrigo Pádua continue focused on Controllership and Control, and Personnel and Management, respectively.

Environmental protection

For each project to be launched there is a different approval dynamics, and several authorizations are required by the proper authorities, including environmental ones, once each municipality follows a specific land use regulation, and in many times their own environmental legislation. In this context, AlphaVille has a fundamental role, as it contributes to the regulation of many municipalities that do not require important licenses, raising the standard and getting a closer relationship with such authorities.

At each beginning of the project, a complete research is conducted about the city's legislation, so that the Company may operate within its own standards, always considering and abiding by the local environmental legislation in the preparation of the Environmental Impact Study.

In order to assure the performance of the commitments assumed in the licensing process and minimize the environmental impacts, AlphaVille created in 2008 the environmental management, which is, among other things, responsible for providing advisory on environmental licensing and monitoring construction works, mainly with the engineers in charge.

Giving continuity to the improvement of internal processes, the Company purchased environmental management software and started to store data of all stages of each venture, from licensing from proper authorities to the construction. Information such as hiring, agreements, costs and compliance with conditions are fed to the software. Therefore we created an easily accessible database, which will facilitate the preparation and setting of controls and goals. The objective is to implement over the next years an Environmental Management System in the Company and, in this process, the employees will be trained to use and maintain (feed with data) this system.

CORPORATE GOVERNANCE

Board of Directors

The Board of Directors of Gafisa is the body responsible for making decisions and formulating general guidelines and policies related to the Company's businesses, including its long-term strategies. In addition, the Board also appoints executive officers and supervises their activities.

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The Board of Directors' decisions are taken by the majority vote of its members. In case of a tie, the Board Chairman, besides his personal vote, must cast the tie-breaking vote.

The Board is formed by nine members, elected at the Annual Shareholders' Meeting, of which eight (89%) are independent, in compliance with the rules of the New York Stock Exchange (NYSE), which sets forth that all listed companies must have a board of directors composed of a majority of independent members, while the Company's By-laws and the Bovespa listing rules establish a minimum of 20% of independent members. The term of office of each member is two years, with reelection permitted, and subject to removal by shareholders at a shareholders' meeting.

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The following table shows the members of the Board of Directors.

Odair Garcia Senra*	Effective member	May 11, 2012
Nelson Machado	Effective member	May 11, 2012
Guilherme Affonso Ferreira	Effective member	May 11, 2012
Maurício Marcellini Pereira	Effective member	May 11, 2012
Cláudio José Carvalho de Andrade	Effective member	April 11, 2012
José Écio Pereira da Costa Junior	Effective member	May 11, 2012
Gerald Dinu Reis	Effective member	May 11, 2012
Rodolpho Amboss	Effective member	May 11, 2012
Henri Philippe Reichstul	Effective member	May 11, 2012

* Odair G. Senra is a member not independent of the board of directors, according to the Brazilian Law and the NYSE rules.

Fiscal Council

Gafisa's By-laws provides for a non-permanent Fiscal Council, which can be established upon the request of the shareholders, and its members must be elected at a shareholders' meeting in the events set forth by the Law. The Fiscal Council, when established, must be composed of three members, and an equal number of alternates.

The operation of the Fiscal Council, when established, ends at the first annual shareholders' meeting after its establishment, and its members can be reelected. The compensation of fiscal council members is set at the shareholders' meeting that elects them.

At the Annual Shareholders' Meeting held on May 11, 2012, in view of the request provided for in paragraph 2 of article 161 of Law No. 6,404/76 and article 31 of the Company's By-laws, a Fiscal Council was established, which will operate until the next Annual Shareholders' Meeting of the Company in 2013.

The Fiscal Council is currently composed of Messrs. Olavo Fortes Campos Rodrigues Junior, Adriano Rudek de Moura and Luis Fernando Brum de Melo as effective members, and Messrs. Marcello Mascotto Iannalfo and Paulo Ricardo de Oliveira, and Ms. Laiza Fabiola Martins de Santa Rosa as alternates.

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Board of Executive Officers

Gafisa's Board of Executive Officers must be composed of a minimum of two and a maximum of eight members, including the CEO and the Financial Officer, elected by the Board of Directors for a three-year term, their reelection being permitted, as provided for by the By-laws.

In the current term of office, five members compose the Board of Executive Officers, the legal representative body of the Company and mainly responsible for the management and daily monitoring of the general policies and guidelines formulated at the Annual Shareholders' Meeting and the Board of Directors.

Alceu Duílio Calciolari	CEO	May 25, 2012	May 25, 2015
Andre Bergstein	Officer	May 25, 2012	May 25, 2015
Sandro Rogério da Silva Gamba	Officer	May 25, 2012	May 25, 2015
Luiz Carlos Siciliano	Officer	May 25, 2012	May 25, 2015
Fernando Cesar Calamita	Officer	May 25, 2012	May 25, 2015
Rodrigo Ferreira Coimbra Pádua	Officer	May 25, 2012	May 25, 2015

Committees

The Board of Directors is supported by the following Executive Committees:

§ **Nominating and Corporate Governance Committee:** it has the purpose of considering and periodically reporting on matters related to the size, identification, selection and qualification of the Board of Directors, and the candidates nominated for the Board of Directors and its Committees, as well as preparing and recommending Governance principles applicable to the Company.

§ **Audit Committee:** it is responsible for planning and reviewing the annual and quarterly reports of the Company – which is submitted to the review and final approval of the Board of Directors –, for the involvement of the auditors in the process and put special focus on the legal provisions and accounting standards, ensuring the maintenance of an effective internal controls system.

§ **Compensation Committee:** it has the duty to evaluate and make recommendations to the members of the Board of Directors regarding the policies on compensation and all forms of bonus to be provided to the Executive Officers and other employees of the Company.

§ **Ethics Executive Committee:** it has the duty to monitor the practices adopted by the entire organization, assuring that they are compatible with the beliefs and values that represent Gafisa and the principles and instructions on conduct provided for in the Code of Ethics.

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§ **Investment Executive Committee:** has the duty to analyze, discuss and recommend land acquisitions and new real estate developments; advise the executive officers during the negotiation of new deals and the structuring of new developments; follow-up the approval of budgets and the cash flow; and, in special cases, participate in the negotiation and structuring of new types of businesses.

§ **Finance Executive Committee:** it operates by evaluating and making recommendations to the members of the Board of Directors regarding risk and financial investments policies of the Company.

The members of each one of these committees can be found on the Investor Relations website of the Company: www.gafisa.com.br/ri.

Dividends, Shareholders' Rights and Share Data

In order to protect the interest of all of its shareholders equally, the Company establishes, according to the effective legislation and the best governance practices, the following rights to the holders of Gafisa's shares:

§ Vote at a Shareholders' Meeting, either Annual or Extraordinary, and make recommendation and give instructions to the Board of Directors related to decision making;

§ Receive dividends and share of profit or other distribution related to shares, in proportion to their interests in capital;

§ Oversee the management of Gafisa, according to the By-Laws, and resign from the Company in the events provided for in the Brazilian Corporate Law; and

§ Receive at least 100% of the price paid for common share of the controlling block, according to the “Novo Mercado” listing rules, in case of tender offer as a result of the disposal of the Company’s control.

According the terms of Article 36, Paragraph 2 (b) of the Bylaws, the net income for the year, calculated after the deductions prescribed in the Bylaws and adjusted as provided in Article 202 of the Brazilian Corporate Law, shall have 25% of its balance allocated to the payment of mandatory dividends to all shareholders of the Company.

Because of the loss for the year ended December 31, 2012, the management proposal, to be voted on April 19, 2013, will not include the distribution of dividends for 2012.

CAPITAL MARKETS

The Company, which has diluted capital, continues to be the only Brazilian real estate development company to have its shares traded on the New York Stock Exchange, and has the most liquid share in the sector. In 2012, we reached an average daily trading volume of R$ 55.0 million at BM&FBovespa, in addition to an amount equivalent to approximately R$ 20.7 million at NYSE, totaling R$ 75.7 million in daily average volume.

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In 2012, the Bovespa index recorded a 1.27% high, and the Company's shares ended the year at a closing price of R$4.21 (GFSA3) and US$3.93 (GFA), which represents an appreciation of 2.18% and a drop of 14.57%, respectively, as compared to the closing price in 2011.

In 2012, Gafisa renewed the agreement with Banco Itaú for market maker services.

We also inform that the Company is bound upon arbitration in the market's arbitration chamber, according to the covenant included in its Bylaws.

Gafisa's shares are included in the following indexes: IBOV - Bovespa, IBX - Bovespa, IBX50 – Bovespa.

Outlook for 2013

Throughout 2012, we built the foundation to achieve solid and consistent returns to our shareholders. We adopted a conservative position, prioritized cash generation and reduced net indebtedness, restructured the profile of our financial liabilities, decreased the volume of launches, although we have produced a business volume considered adequate.

As a result of these initiatives, we currently have a confortable and sufficient cash position to finance our operations and meet our debts that are expected to fall due in 2013. With these actions, we are clearly reaching a turning point in the recent history of the.

In this sense, we estimate for 2013 a higher balance among investments and unleverage our balance sheet. We believe that we are better positioned to increase, even conservatively, the pace of our launches, getting back into launching Tenda brand products, and necessarily getting back into our investment process through acquisition of land compatible with the size of our operation.

The result of this process will be more visible from 2014, when we believe that we will be substantially operating in line with the strategy devised in the beginning of 2012.

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Therefore, we are introducing a new guidance on launches for 2013, between R$ 2.7 and R$ 3.3 billion, reflecting the continuity of the regional focus on Gafisa and on strategic markets of Tenda. Gafisa and Alphaville shall account for about 88% of launches, of which Gafisa business unit shall account for 42% and the Alphaville segment, 46%, while the Tenda segment shall account for 12% of the launches for the year.

Guidance on Launches (2013E)

Consolidated Launches	R$2.7 – R$3.3 bi
Breakdown by Brand	
Gafisa launches	R$1.15 – R$1.35bi
Alphaville launches	R$1.3 – R$1.5bi
Tenda launches	R$250 – R$450mn

The focus on cash generation led to a confortable liquidity position for Gafisa in 2013, after having restructured its debt and diversified the sources of funds and cash instruments. As of December 31, 2012, the net debt-to-equity ratio stood at 95%. We expect that this leverage level remain stable in 2013, as compared to 2012.

Leverage Guidance (2013E)

Consolidated data	Stable

We expect an adjusted consolidated EBITDA margin between 12% - 14% in 2013, once the margins are still impacted (1) by the legacy of the older ventures of Tenda, which includes the delivery of about 7,000 units in 2013, and (2) by the delivery of ventures with lower margins launched out of the key markets of the Gafisa segment, which shall be substantially completed in 2013.

Adjusted Consolidated EBITDA Margin Guidance (2013E)

Consolidated data

The Gafisa Group plans to deliver between 13,500 and 17,500 units in 2013, of which 27% shall be delivered by Gafisa, 45% by the Tenda segment, and the other 27% by the Alphaville segment.

Other Significant Indicators –Unit Delivery Estimate (2013E)

Consolidated data	13,500 – 17,500
Breakdown by brand	
# Gafisa delivery	3,500 – 5,000
# Alphaville delivery	3,500 – 5,000
# Tenda delivery	6,500 – 7,500

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Independent Auditors

The policy on the Company's conduct in contracting services unrelated to external audit from our independent auditors is based on principles that preserve the autonomy of the independent auditor. These internationally accepted principles consist of the following: (a) an auditor cannot audit its own work; (b) an auditor cannot serve a management function in its client; and (c) an auditor shall not promote the interests of its clients.

According to Article 2 of CVM Instruction No. 381/03, Gafisa informs that Ernest & Young Terco Auditores Independentes, the independent audit firm of the Company and its subsidiaries, did not provide services other than independent audit in 2012.

Statement of the Board of Executive Officers

The Board of Executive Officers states, in accordance with Article 25, paragraph 1, items V and VI, of CVM Instruction 480/2009, that it revised, discussed and agrees with the Financial Statements contained in this Report and the related opinion issued in the Report of Independent Auditors.

Acknowledgements

Gafisa thanks the valuable contribution of its employees, clients, suppliers, partners, shareholders, financial institutions, governmental bodies, regulating authorities and other stakeholders for their support throughout 2012.

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Notes to the individual and consolidated financial statements

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1. Operations

Gafisa S.A. ("Gafisa" or "Company") is a publicly traded company with headquarters at Avenida das Nações Unidas, 8.501, 19º andar, in the City of São Paulo, State of São Paulo, Brazil and started its operations in 1997 with the objectives of: (i) promoting and managing all forms of real estate ventures on its own behalf or for third parties, taking into consideration that in the case of the later, as construction company and proxy; (ii) selling and purchasing real estate properties in general; (iii) carrying out civil construction and civil engineering services and (iv) developing and implementing marketing strategies related to its own or third party real estate ventures; and (v) investing in other companies which have similar objectives as the Company’s.

Real estate development projects entered into by the Company with third parties are structured through specific purpose partnerships (“Sociedades de Propósito Específico” or– “SPEs”) or the formation of consortia and condominiums. Controlled entities substantially share the managerial and operating structures and the corporate, managerial and operating costs with the Company. SPEs, condominiums and consortia operate solely in the real estate industry and are linked to specific ventures.

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Notes to the individual and consolidated financial statements

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2. Presentation of financial statements and summary of significant accounting policies

2.1. Basis of presentation and preparation of individual and consolidated financial statements

On March 8, 2013, the Company's Board of Directors approved these individual and consolidated financial statements of the Company and has authorized their issuance. The Board of Directors of the Company has power to amend the individual and consolidated financial statements of the Company after they are issued.

The individual financial statements ("Company"), and consolidated financial statements for the years ended December 31, 2012 and 2011, were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities and Exchange Commission ("CVM"), and the pronouncements, interpretations and guidelines of the Brazilian FASB ("CPC"). The consolidated financial statements are specifically in compliance with the International Financial Reporting Standards (IFRS) applicable to real estate development entities in Brazil, including the Guideline OCPC 04 - Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities, in relation to the treatment of the recognition of revenue from this sector and involves certain matters related to the meaning and application of the continuous transfer of the risks, benefits and control over the real estate unit sales.

Certain matters related to the meaning and application of the continuous transfer of the risks, benefits and control over the real estate unit sales have been analyzed by the International Financial Reporting Interpretation Committee (IFRIC), at the request of some countries, including Brazil. However, in view of the project for issuing a revised standard relating to revenue recognition, IFRIC has been discussing this topic in its agenda, understanding that the concept for recognizing revenue is included in the standard that is currently under discussion. Accordingly, this issue is expected to be resolved only after the revised standard relating to revenue recognition is issued.

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Notes to the individual and consolidated financial statements

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(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies -- Continued

2.1. Basis of presentation and preparation of individual and consolidated financial statements -- Continued

The individual and consolidated financial statements were prepared based on historical cost basis, except if otherwise stated in the summary of accounting policies. The historical cost is usually based on the considerations paid in exchange for assets.

The financial statements have been prepared on a going concern basis. Management makes an assessment of the Company's ability to continue as going concern when preparing the financial statements. The Company is in compliance with all its debt covenants at the date of issue of these Financial Statements and management have not identified any material uncertainties over the Company's ability to continues as a going concern over the next 12 months..

All amounts reported in the accompanying financial statements are in thousands of Reais, except as otherwise stated.

The non-accounting and/or non-financial information included in the accompanying financial statements, such as sales volume, contractual data, revenue and costs not recognized in units sold, economic projections, insurance and environment, were not audited.

2.1.1. Consolidated financial statements

The consolidated financial statements of the Company include the financial statements of the Company and its direct and indirect subsidiaries, and share of jointly-controlled investees. Control over subsidiaries is obtained when the Company has power to control their financial and operating policies, and is able to enjoy their benefits and is exposed to the risks of their activities. The subsidiaries and jointly-controlled companies are fully and proportionally consolidated, respectively, from the date the full or joint control begins until the date it ceases. As of December 31, 2012 and 2011, the Consolidated Financial Statements include the full consolidation of the following companies, respectively:

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2. Presentation of financial statements and summary of significant accounting policies --Continued

2.1. Basis of presentation and preparation of individual and consolidated financial statements -- Continued

2.1.1. Consolidated financial statements --Continued

	Interest %	
	2012	**2011**
Gafisa and subsidiaries (*)	100	100
Construtora Tenda and subsidiaries ("Tenda") (*)	100	100
Alphaville Urbanismo and subsidiaries ("AUSA") (*) (a)	80	80

(*) It does not include jointly-controlled investees, as detailed below:

(a) The acquisition of the remaining 20% interest in the capital of AUSA is going through arbitration process, as described in Note 9.

The accounting practices were uniformly adopted in all subsidiaries and jointly-controlled investees included in the consolidated financial statements and the fiscal year of these companies is the same of the Company. See further details on these subsidiaries and jointly-controlled investees in Note 9.

The Company carried out the proportionate consolidation of the financial statements of the direct jointly-controlled investees listed below. For more details in relation to significant information on these companies, see Note 9.

	% - Interest	
Investees	**2012**	2011
Gafisa SPE 48 S.A.	**80%**	80%
SPE Reserva Ecoville/Office - Emp Im. S.A.	**50%**	50%
Sítio Jatiuca Emp Im.SPE Ltda.	**50%**	50%
GAFISA SPE-116 Emp. Imob. Ltda.	**50%**	50%
FIT 13 SPE Emp. Imob. Ltda.	**50%**	50%
Gafisa SPE 47 Emp. Imob. Ltda.	**80%**	80%
Gafisa SPE 85 Emp. Imob. Ltda.	**80%**	80%
Città Ville SPE Emp. Imob. Ltda.	**50%**	0%
SPE Pq Ecoville Emp Imob. S.A.	**50%**	50%
Gafisa SPE 71 Emp. Imob. Ltda.	**80%**	80%
Manhattan Square Emp. Imob. Coml. 1 SPE Ltda.	**50%**	50%
Gafisa SPE 65 Emp. Imob. Ltda.	**80%**	80%
Alto da Barra de São Miguel Em. Imob SPE Ltda.	**50%**	50%
Apoena SPE Emp Imob. S.A.	**80%**	80%
Costa Maggiore Emp. Imob. Ltda	**50%**	50%
Gafisa SPE 73 Emp. Imob. Ltda.	**80%**	80%
Gafisa SPE 46 Emp. Imob. Ltda.	**60%**	60%
Dubai Residencial Emp. Imob. Ltda.	**50%**	50%
Gafisa SPE 113 Emp. Imob. Ltda.	**60%**	60%
Aram SPE Emp. Imob. Ltda	**80%**	80%
Grand Park-Parque das Arvores Em. Im. Ltda	**50%**	50%
O Bosque Empr. Imob. Ltda.	**60%**	60%
Parque do Morumbi Incorporadora Ltda.	**80%**	80%
Grand Park - Parque das Aguas Emp Im Ltda.	**50%**	50%
Other (*)	Several	Several

(*) Includes companies with investment balance below R$3,000.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies --Continued

2.1. Basis of presentation and preparation of individual and consolidated financial statements --Continued

2.1.2. Functional and presentation currency

The individual (Company) and consolidated financial statements are presented in Reais (presentation currency), which is also the functional currency of the Company and its subsidiaries.

2.2. Summary of significant accounting policies

2.2.1. Accounting judgments, estimates and assumptions

(i) *Judgments*

The preparation of the individual and consolidated financial statements of the Company requires management to make judgments, estimates and adopt assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent liabilities, at the financial statements reporting date. Assets and liabilities subject to estimates and assumptions include the useful life of property and equipment, allowance for doubtful accounts and cancelled contracts, provision for fines due to delay in construction works, impairment of assets, deferred tax assets, provision for warranty, provision for tax, labor and civil risks, and the measurement of the estimated cost of ventures and financial instruments.

(ii) *Estimates and assumptions*

The main assumptions related to sources of uncertainty over future estimates and other important sources of uncertainty over estimates at the reporting date, which may result in different amounts upon settlement are discussed below:

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Notes to the individual and consolidated financial statements --Continued

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(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of the main accounting policies--Continued

2.2. Summary of the main accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions* --Continued

a) *Impairment of non-financial assets*

Management reviews annually and/or when a specific event occurs the carrying amount of assets with the objective of evaluating events or changes in the economic, operational or technological circumstances that may indicate a decrease or loss of its recoverable amount. Should such evidences exist, and the carrying amount exceeds the recoverable amount, a provision for impairment loss is recognized by adjusting the carrying amount to the recoverable amount. These impairment losses are recorded in statement of operations when found. A test for impairment of intangible assets with indefinite useful lives and goodwill is performed at least annually or when circumstances indicate a decrease in the carrying amount.

The carrying amount of an asset or of a certain cash-generating unit is defined as the highest between the value in use and the fair value less costs to sell.

When estimating the value in use of an asset, the estimated future cash flows are discounted to present value using a discount rate before taxes that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary accounting policies--Continued

2.2. Summary accounting policies --Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

a) *Impairment of non-financial assets--Continued*

Cash flows are derived from the budget for the following five years, and do not include restructuring activities for which the Company has not yet committed or future significant investments that will improve the asset basis of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate adopted under the discounted cash flow method, as well as the estimated future cash inflows and to the growth rate used for purposes of extrapolation.

The fair value less costs to sell is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between the knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset, or, in the absence of a binding sale agreement, based on the market price in an active market, or on a recent transaction with similar assets.

The main assumptions used for determining the recoverable amount of cash-generating unit are detailed in Note 11.

b) *Inventories of properties for sale*

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

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

b) *Inventories of properties for sale*--Continued

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

Land can be acquired in cash, in installments, bartered for units that are completed or in construction of other ventures, or bartered for receivables from future sales of ventures. The cost of land related to bartered units is formed by the estimated sale price in cash, this fair value being recorded as contra-entry to the advances from customers-barter.

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

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

b) *Inventories of properties for sale*--Continued

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

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

c) *Share-based payment transactions*

The Company measures the cost of transactions with employees to be settled with shares based on the fair value of equity instruments on the grant date. The estimate of the fair value of share-based payments requires the determination of the most adequate pricing model to grant equity instruments, which depends on the grant terms and conditions. It also requires the determination of the most adequate data for the pricing model, including the expected option life, volatility and dividend income, and the corresponding assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 19.3.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

d) Provision for legal claims

The Company recognizes a provision for tax, labor and civil claims (Note 17). The assessment of the probability of a loss includes the evaluation of the available evidences, the hierarchy of Laws, existing case laws, the latest court decisions and their significance in the judicial system, as well as the opinion of external legal counsel. The provisions are reviewed and adjusted to take into account the changes in circumstances, such as the applicable expiration term, findings of tax inspections, or additional exposures found based on new court issues or decisions. The settlement of transactions involving these estimates may result in amounts different from those estimated in view of the inaccuracies inherent in the process for estimating them. The Company reviews its estimates and assumptions at least annually.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

e) Fair value of financial instruments

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained in the active market, it is determined using valuation techniques, including the discounted cash flow method.

The data for such methods is based on those practiced in the market, when possible; however, when it is not viable, a certain level of judgment is required to establish the fair value. The judgment includes considerations on the data used, such as interest rates, liquidity risk, credit risk, and volatility. Changes in the assumptions about these factors may affect the presented fair value of financial instruments.

f) *Estimated cost of construction*

Estimated costs, mainly comprising the incurred and future costs for completing the construction works, are regularly reviewed, according to the construction progress, and adjustments arising from reviews are made to the statement of operations of the Company. The effects of such estimate reviews affects the statement of operations, according to the Technical Pronouncement CPC 23 - Accounting Practices, Changes in Accounting Estimates and Errors.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.1. Accounting judgments, estimates and assumptions--Continued

(ii) *Estimates and assumptions*--Continued

g) Taxes

There are uncertainties in relation to the interpretation of complex tax rules and to the value and timing of future taxable income. The Company and its subsidiaries are subject in the ordinary course of their businesses to assessments, audits, legal claims and administrative proceedings in tax and labor matters. Depending on the subject of the investigations, legal claims or administrative proceedings that are filed against the Company and/or its subsidiaries, we may be adversely affected, regardless of the respective final outcome.

h) Realization of deferred income tax

The initial recognition and subsequent estimates of deferred income tax are carried out when it is probable that a taxable profit for the following years will be available to offset the deferred tax asset, based on projections of results prepared and based on internal assumptions and future economic scenarios that enable its total or partial use should a full credit be recognized.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.2. Recognition of revenue and expenses

(i) *Real estate development and sales*

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

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

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

- The incurred cost (including cost of land, and other directly related expenditure with inventory production) that corresponds to the units sold is fully appropriated to the statement of operations. For the units not yet sold, the incurred cost is appropriated to inventory (Note 2.2.8);

- Incurred costs of units sold (including land) is measured as a percentage of total estimated cost, and this percentage is applied to the total revenues of the units sold, adjusted in accordance with the terms established in the sales contracts, thus determining the amount of revenues to be recognized in directly proportion to cost;

- Any amount of revenue recognized that exceeds the amount actually received from customers is recorded as either a current or non-current asset in the account “Trade accounts receivable”. Any amount received in connection with the sales of units that exceeds the amount of revenues recognized is recorded as “Payables for purchase of land and advances from customers”;

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.2. Recognition of revenues and expenses--Continued

(i) *Real estate development and sales*--Continued

- Interest and inflation-indexation charges on accounts receivable as from the time the units are delivered, as well as the adjustment to present value of account receivable, are appropriated to the statement of operations on a pro rata basis using the accruals basis of accounting;

- The financial charges on account payable for acquisition of land and those directly associated with the financing of construction are capitalized and recorded in properties for sale and appropriated to the incurred cost of finished units until their completion, and follow the same appropriation criteria for the recognition of the cost of real estate units sold while under construction, through deferred taxes, assets and liabilities;

- The taxes levied and deferred on the difference between real estate development revenues and the cumulative revenue subject to tax are calculated and recognized when the difference in revenues is recognized;

- The other expenses, including the advertising and publicity ones, are appropriated to statement of operations when incurred.

(ii) *Construction services*

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

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.2. Recognition of revenues and expenses--Continued

(iii) *Barter transactions*

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

(iv) *ICPC 02 – Paragraphs 20 and 21*

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

2.2.3. Financial instruments

Financial instruments are recognized only from the date the Company becomes a party to the contractual provisions of financial instruments, which mainly consist of cash and cash equivalents, short-term investments, account receivable, loans and financing, suppliers, and other debts. Financial instruments that are not recognized at fair value through profit or loss are added by any directly attributable transactions costs.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.3. Financial instruments--Continued

After initial recognition, financial instruments are measured as described below:

(i) *Financial instruments through profit or loss*

A financial instrument is classified into fair value through profit or loss if held for trading, that is, designated as such when initially recognized.

Financial instruments are designated at fair value through profit or loss if the Company manages these investments and makes decisions on purchase and sale based on their fair value according to the strategy of investment and risk management. After initial recognition, attributable transaction costs are recognized in the statement of operations when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and their fluctuations are recognized in the statement of operations.

In the year ended December 31, 2012, the Company held derivative instruments with the objective of mitigating the risk of its exposure to the volatility of indices and interest rates, recognized at the fair value directly in statements of operations. In accordance with its treasury policies, the Company does not have or issue derivative financial instruments for purposes other than for protective hedging. Derivative instruments are initially recognized at fair value, and attributable transaction costs are recognized in statement of operations when incurred.

After the initial recognition at fair value, derivatives continued to be measured at fair value and the changes are recognized in the consolidated statement of operations. As of December 31, 2012, the Company has R$10,568 (R$4,418 in 2011) in the Company's statements and R$19,667 (R$7,735 in 2011) in the consolidated statements, recorded in assets under the account "Derivative financial instruments" related to the interest rate swap transaction described in Note 21. The Company does not adopt the hedge accounting practice.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.3. Financial instruments--Continued

(ii) *Financial assets*

Financial assets are classified into financial assets at fair value through profit or loss, borrowings and receivables, held-to-maturity investments and available-for-sale financial assets. The Company determines the classification of its financial assets at their initial recognition, when they are included in the contractual provisions of the instrument.

Financial assets are initially recognized at fair value, plus, in the case of investments not designated at fair value through profit or loss, the transaction costs that are directly attributable to the acquisition of the financial asset.

The financial assets of the Company include cash and cash equivalents, short-term investments, trade accounts receivable and other accounts receivable, borrowings and other receivables and derivative financial instruments.

Derecognition (write-off)

A financial asset (or, as the case may be, a portion of the financial asset or a portion of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset has expired;
- The Company transfers its rights of receiving cash flows of the asset or assumes an obligation of fully paying the cash inflows, without significant delay, to a third party due to a "transfer"; and (a) the Company substantially transfers all risks and rewards of the asset, or (b) the Company does not substantially transfer or retain all risks and rewards of the asset, but transfers the control over the asset.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.3. Financial instruments--Continued

(ii) *Financial assets* --Continued

When the Company has transferred its rights to receive cash inflows of an asset and signed an agreement to transfer it, and has not substantially transferred or retained all risks and rewards of the asset, an asset is recognized at the extent of the continuous involvement of the Company with the asset. In this case, the Company also recognized an related liability. The transferred asset and related liability are measured based on the rights and obligations that the Company maintained.

The continuous involvement by guaranteeing the transferred asset is measured at the original carrying value of the asset, or the highest consideration that may be required from the Company, whichever is the lowest.

(iii) *Financial liabilities at fair value through profit or loss*

Financial liabilities through profit or loss include trading financial liabilities and financial liabilities designated at the initial recognition at fair value through profit or loss.

Financial liabilities are classified into held for trading when they are acquired with the objective of selling them in the short term.

Loans and financing

After initial recognition, loans and financing accruing interest are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in statement of operations, at the time liabilities are written-off, as well as during the amortization process using the effective interest rate method.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.3. Financial instruments --Continued

(iii) *Financial liabilities at fair value through profit or loss*--Continued

Derecognition (write-off)

A financial liability is written-off when the obligation is revoked, cancelled or expires.

When an existing financial liability is substituted by other of the same creditor, under substantially different terms, or when the terms of an existing liability are significantly changed, this substitution or change is treated as a derecognition of the original liability and recognition of a new liability, the difference in the corresponding carrying values being recognized in statement of operations.

Financial instrument – presentation of net value

Financial assets and liabilities are stated at their net amounts in the balance sheet if, and only if, there is a current and executable legal right to offset the recognized amounts, and if there is intention of offsetting, or making the simultaneous realization of the asset and settlement of the liability.

(iv) *Available-for-sale financial instruments*

For available-for-sale financial instruments, the Company assesses if there is any objective evidence that the investment is recoverable at each balance sheet date. After the initial measurement, the available-for-sale financial assets are measured at fair value, with unrealized gains and losses directly recognized in other comprehensive income, when applicable; except for impairment losses of interests calculated using the effective interest rate method, and the exchange gains or losses on monetary assets that are directly recognized in statement of operations.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.4. Cash and cash equivalents and short-term investments

Cash and cash equivalents are substantially composed of demand deposits and bank deposit certificates held under resale agreements, denominated in Reais, with high market liquidity and purchased maturities that do not exceed 90 days or in regard to which there are no penalties or other restrictions for the immediate redemption thereof.

Cash equivalents are classified into financial assets at fair value through profit or loss and are recorded at the original amounts plus income earned through, on a “pro rata basis", which are equivalent to their market values, not having any impact to be accounted for in the Company’s shareholders’ equity.

Short-term investments include bank deposit certificates, government bonds, exclusive investment funds that are fully consolidated, and collaterals, whose fair values approximate their carrying amounts (Note 4.2).

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.5. Trade account receivable

Trade account receivables are stated at cost plus accrued interest and indexation adjustments, net of adjustment to present value. The allowance for doubtful account is recorded at an amount considered sufficient by management to cover estimated losses on realization of accounts receivable that are not secured.

The installments due are indexed based on the National Civil Construction Index (INCC) during the period of construction, and based on the General Market Prices Index (IGP-M) and interest, after the delivery of the units.

The balance in current assets is represented by the financial flow of installments receivable in 12 months. The remaining balance is recorded in long term, limited to the amount recorded for the financial progress.

The fair value of the revenue from units sold is stated at present value based on the discount rate which fundamentals and assumption are the average rate of the financing obtained by the Company, net of the adjustment for inflation, between the contract signature date and the estimated date to handover the keys to the completed property to the buyer (from the handover of keys, an interest of 12% p.a. plus adjustment for inflation is applied to the accounts receivable).

The discount rates adopted by the Company and its subsidiaries are 1.92% to 4.83% for the year ended December 31, 2012 (4.18% in 2011), net of INCC;

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

Subsequently, as interests accrue over time on the new fair value to calculate the revenue to be appropriated, on which the percentage of completion method will be applied.

In compliance with the provisions of item 9 of CPC 30, items 33 and 34 of OCPC01, and item 33 of CPC 12, the Company, in relation to installment sale of unfinished units, recognizes receivables adjusted for inflation, including the portion related to the handover of keys, without interest charges, and are discounted to present value, once the agreed-upon inflation indexes do not include the interest component. The reversal of the present value adjustment, considering that an important part of the Company operations consists of financing its clients until key delivery, was carried out as contra-entry to the group of real estate development revenue, consistently with interest incurred on the portion of receivables balance related to period subsequent to the handover of keys. The discount rate adopted is based on fundamentals and assumption of an average rate of loans and financing obtained by the Company, net of the inflation effect, as mentioned in Note 2.2.20.

2.2.6. Mortgage-backed Securities (CRIs) and Housing Loan Certificate (CCI)

The Company and its subsidiaries carry out the assignment and/or securitization of receivables related to completed real estate projects. This securitization is carried out through the issuance of the “Housing loan certificate (“Cédula de Crédito Imobiliário” or “CCI”), which is assigned to financial institutions that grant loans. When there is no right of recourse, this assignment is recorded as a charge to accounts receivable. When there is right of recourse against the Company, the assigned receivable is maintained in the balance sheet. The funds from assignment, when it does not have right of recourse, are classified into the account “Obligations assumed on assignment of receivable”, until certificates are settled by customers.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.6. Mortgage-backed securities (CRIs) and Housing Loan Certificate (CCI) --Continued

In this situation, the cost of this transaction was recorded in “financial expenses” in the statement of operations for the year in which is made.

The financial guarantees, when a participation is acquired (subordinated CRI) and maintained to secure assigned receivables, are recorded in the balance sheet as “short-term investments” at the realization value, which is equivalent to fair value. As of December 31, 2012 and 2011, the Company did not have subordinated CRIs in its balance sheet.

2.2.7. Credit Rights Investment Fund (FIDC)

The Company consolidates Credit Rights Investment Fund (FIDC) in which it holds subordinated shares, subscribed and paid in by the Company in receivables.

When consolidating the FIDC in its financial statements, the Company records the receivables in the group of accounts trade accounts receivable and the balance of the FIDC net assets are recorded in other accounts payable, with the shares held by the Company being eliminated in the consolidation process. The financial costs of these transactions are appropriated on “pro rata” basis under the account “financial expenses” in statement of operations.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.8. Properties for sale

Land is initially stated at cost of acquisition only once the property deeds have been transferred to the Company. Amounts advanced for the acquisition of land are recorded under the account "Advances to suppliers" when there has been no transfer of the property deeds, not being recognized as land in the financial statements while under negotiation, regardless of the likelihood of success or construction stage. The Company and its subsidiaries acquire a portion of their land through barter transactions, which, in exchange for the land acquired, they undertake to deliver (a) real estate units under development or (b) a portion of the revenues originating from the sale of the real estate units. Land acquired through barter transaction is stated at fair value on the acquisition date, and the revenue and cost are recognized according to the criteria described in Note 2.2.2(iii). Subsequently, the interest on payables for barter transactions is capitalized to the cost of bartered land, net of the effects of the adjustment to present value.

Properties are stated at construction cost, which cannot exceed net realizable value. In the case of real estate developments in progress, the portion in inventories corresponds to the cost incurred for units that have not yet been sold. The incurred cost comprises construction costs (materials, own or outsourced labor, and other related items), and legal expenses relating to the acquisition of land and projects, land costs and financial charges which relate to a project over the construction period.

The Company capitalizes interest on developments during the period of the construction, and also land, while the activities for the preparation of assets for resale are being carried out, as long as there are loans outstanding, which are recognized in statement of operations in the proportion to the units sold, using the same criteria as for other costs.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.8. Properties for sale--Continued

When the cost of construction of properties for sale exceeds the expected cash flow from sales, once completed or still under construction, an impairment charge is recognized in the year when the carrying amount is considered no longer to be recoverable.

Properties for sale are annually reviewed, at the closing date of the year, to assess the recoverability of the carrying amount of each real estate development, regardless of any events or changes in macroeconomic scenarios indicating that the carrying amount may not be recoverable. If the carrying amount of a real estate development is not recoverable, compared to its realizable value through expected cash flows, a provision for impairment is recorded.

2.2.9. Selling expenses - commissions

Brokerage expenditures and sales commissions are recorded in the statement of operations under the account “Selling expenses” following the same percentage-of-completion criteria adopted for the recognition of revenues. The charges related to sales commission of the buyer are not recognized as revenue or expense of the Company.

2.2.10. Prepaid expenses

These are appropriated to statement of operations when incurred using the accruals basis of accounting.

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.11. Land available for sale

Land available for sale is measured based on the lower between the carrying amount and the fair value, less the cost to sell and is classified into held for sale if its carrying amount is recovered through a sale transaction of the land, and not through the development that was supposed to be built. This condition is considered fulfilled only when the sale is highly probable and the group of asset or of disposal is available for immediate sale in its current condition. Management shall undertake to sell it in a year after the classification date.

2.2.12. Investments in subsidiaries and jointly-controlled investees

The Company has control over an entity when it has the power to control the financial and operating policies and has the capacity of earning the rewards and being exposed to the risks of its activities. In situations in which agreements grant the other company veto rights, significantly affecting business decisions with regards to its investee, the latter is considered to a jointly-controlled investee. Investments in subsidiaries and jointly-controlled investees are recorded in the Company under the equity method. The jointly-controlled investees are recorded under proportionate consolidation, based on the ownership interest of the Company.

When the Company's interest in the losses of subsidiaries is equal to or higher than the amount invested, the Company recognizes the residual portion in the net capital deficiency since it assumes obligations, make payments on behalf of these companies or makes advances for future capital increase. For this purpose, the Company recognizes a provision at an amount considered appropriate to meet the obligations of the subsidiary (Note 9).

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Notes to the individual and consolidated financial statements --Continued

December 31, 2012

(Amounts in thousands of Brazilian Reais, except as otherwise stated)

2. Presentation of financial statements and summary of significant accounting policies--Continued

2.2. Summary of significant accounting policies--Continued

2.2.13. Property and equipment

Property and equipment are recorded at cost, less any applicable accumulated depreciation and any accumulated impairment losses, if applicable.

A property and equipment item is derecognized when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recorded in statement of operations when the asset is derecognized.

Depreciation is calculated based on the straight-line method considering the estimated useful life of the assets (Note 10).

The residual value, useful life, and depreciation methods are reviewed at the end of each year; no change was made in relation to the information for the prior year.

Expenditures incurred for the construction of sales stands, facilities, display apartments and related furnishings are capitalized as property and equipment of the Company and its subsidiaries. Depreciation of these assets commence