

**C. Material Contracts**

In October 2006, we entered into an agreement to acquire 100% of Alphaville the largest residential community development company in Brazil focused on the identification, development and sale of high quality residential communities in the metropolitan regions throughout Brazil targeted at upper and upper-middle income families. On January 8, 2007, we successfully completed the acquisition of 60% of Alphaville's shares for R\$198.4 million, of which R\$20 million was paid in cash and the remaining R\$178.4 million was paid in exchange for 6.5 million common shares of Gafisa. The acquisition agreement provides that we will purchase the remaining 40% by January 2012 (20% within three years from the acquisition date and the remaining 20% within five years from the acquisition date) in cash or shares, at our sole discretion. Alphaville is operating as one of our subsidiaries based in the city of Barueri, within the metropolitan region of São Paulo.

In October 2008, Gafisa and Tenda concluded a business combination in which Gafisa's wholly-owned subsidiary FIT was merged into Tenda. The purpose of the merger was to consolidate the activities of FIT and Tenda in the low income sector in Brazil and to develop real estate units with an average value of less than R\$200,000. As a result of the business combination, Gafisa now owns 60.0% of the total and voting capital stock of Tenda and FIT was merged into Tenda.

**D. Exchange Controls**

There are no restrictions on ownership of our common shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment legislation which generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM. See "Item 3.D. Key Information—Risk Factors—Risk Relating to Brazil—Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on, or the proceeds of any sale of, our common shares or the ADS" and "Item 9.C. The Offer and Listing – Markets—Investment in Our Common Shares by Non-Residents of Brazil."

**E. Taxation**

The following discussion contains a description of material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of common shares or ADSs. The discussion is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as of the date hereof, which are subject to change.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders (as defined below) of common shares or ADSs. Prospective holders of common shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of common shares or ADSs in their particular circumstances.

**Brazilian Tax Considerations**

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of our common shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a "Non-Resident holder"). This discussion is based on Brazilian law as currently in effect. Any change in that law may change the consequences described below.

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. Please note that Brazil has not entered into any tax treaty with the United States. The discussion also does not address any tax consequences under the tax laws of any state or municipality of Brazil. The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our common shares or ADSs.

## **Income tax**

**Dividends.** Dividends paid by a Brazilian corporation, such as our company, including stock dividends and other dividends paid to a Non-Resident holder of common shares or ADSs, are currently not subject to withholding income tax in Brazil to the extent that such amounts are related to profits generated after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, according to the tax legislation applicable to each corresponding year. We generally expect to pay dividends from profits generated after January 1, 1996.

**Interest on Shareholders' Equity.** Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as our company, to make distributions to shareholders of interest on shareholders' equity as an alternative to making dividend distributions. These distributions may be paid in cash. For tax purposes, the deductible amount of interest on shareholders' equity is limited to the daily pro rata variation of the TJLP, as determined by the Central Bank from time to time, and the amount of this interest may not exceed the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits but before taking into account the provision for income tax and the interest on shareholders' equity) for the period in respect of which the payment is made; and
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payments of interest on shareholders' equity to a Non-Resident holder may be deducted for Brazilian corporate income tax as far as the limits described above are observed. Such payments are subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident holder is domiciled in a tax haven.

The legal definition of a "tax haven jurisdiction" was recently broadened by Law No. 11,727, and may vary depending on the type of transaction which is carried out. For purposes of payment of interest on shareholders' equity, a payee's country or location should be deemed a tax-haven jurisdiction when it (a) does not tax income, (b) taxes income at a rate lower than 20%, or (c) imposes restrictions on the disclosure of shareholding composition, ownership of investments, or the ultimate beneficiary of earnings that are attributed to non-residents.

The Brazilian tax authorities regularly issue a list of jurisdictions which are considered tax-haven jurisdictions ("black-list")<sup>1</sup>. This "black-list," however, has not been updated after the recent modifications introduced by Law No. 11,727/08. There is no assurance that, when and if the Brazilian tax authorities issue a new "black-list," it will not comprise, for the purpose of interest on shareholders' equity, countries or locations other than those which meet the criteria described in items (a), (b) and (c) above.

These payments may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

## **Gains**

According to Law No. 10,833/03, the disposition or sale of assets located in Brazil by a Non-Resident holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to capital gains taxes in Brazil.

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<sup>1</sup> The countries currently included in this list, according to Normative Instruction of the Brazilian Federal Revenue Service No. 188/02, are: American Samoa, Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Campione D'Italia, Cayman Islands, Channel Islands (Jersey, Guernsey, Alderney and Sark), Cook Islands, Costa Rica, Cyprus, Djibouti, Dominica, Gibraltar, Grenada, Hong Kong, Isle of Man, Lebanon, Lebuan, Liberia, Liechtenstein, Luxembourg (only to holding companies governed by Law dated 7/31/1929), Macau, Madeira Islands, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, Netherland Antilles, Niue, Oman, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and The Grenadines, San Marino, Seychelles, Singapore, Tonga, Turks and Caicos Islands, United Arab Emirates, U.S. Virgin Islands, Vanuatu and Western Samoa.

With respect to the disposition of common shares, as they are assets located in Brazil, the Non-Resident holder may be subject to income tax on the gains assessed, following the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident.

As to the ADSs, although the matter is not entirely clear, arguably the gains realized by a Non-Resident holder upon the disposition of ADSs to another Non-Resident holder are not taxed in Brazil, on the basis that ADSs are not “assets located in Brazil” for the purposes of Article 26 of Law No. 10,833. We cannot be sure that the Brazilian tax authorities will agree with this interpretation. For more information, please refer to “Item 3.D. Key Information—Risks Factors—Risks Relating to Our Common Shares and the ADSs—Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs.”

As a general rule, gains realized as a result of a disposition or sale transaction of common shares or ADSs are the positive difference between the amount in *reais* realized on the sale or exchange of the security and its acquisition cost measured in *reais* (without correction for inflation).

Under Brazilian law, however, income tax rules on such gains can vary, depending on the domicile of the Non-Resident holder, the type of registration of the investment by the Non-Resident holder with the Central Bank and how the disposition is carried out, as described below.

Gains assessed on a disposition of common shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are subject to the following rules:

- Gains are exempt from income tax when assessed by a Non-Resident holder that (1) has registered its investment in Brazil with the Central Bank under rules of Resolution No. 2,689/01 (“2,689 Holder”) and (2) is not a Tax Haven Resident for purposes of income tax on gains; or
- Gains are subject to income tax at a rate of up to 25% in any other case, including a case of gains assessed by a Non-Resident holder that is not a 2,689 Holder, or is a Tax Haven Resident for purposes of income tax on gains.

In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain. This 0.005% withholding income tax is not levied in day trade transactions.

Any other gains assessed on a disposition of the common shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, except for Tax Haven Residents for purposes of income tax on gains, which, in this case, are subject to income tax at the rate of 25%. In the case that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain. This 0.005% withholding income tax is not levied in day trade transactions.

The statutory definition of a tax-haven jurisdiction for the purposes of income tax on gains differs depending on whether or not the investment in common shares or ADSs is registered under Law No. 4,131 or under Resolution No. 2,689.

In the case of gains arising from an investment under Law No. 4,131, a country or location is defined as a tax-haven jurisdiction whenever such country or location (a) does not tax income, (b) taxes income at a rate lower than 20%, or (c) imposes restrictions on the disclosure of shareholding composition, ownership of investments, or the ultimate beneficiary of earnings that are attributed to non-residents.

In the case of gains arising from an investment registered under Resolution No. 2,689, criterion (c) above does not apply. In these cases, a country or location is defined as a tax-haven jurisdiction solely when such country or location: (a) does not tax income, or (b) taxes income at a rate lower than 20%.

The Brazilian tax authorities regularly issue a list of countries and locations considered to be “tax haven jurisdictions.” The same comments relating to the issuance of this “black list” made under “Item 8.A. Consolidated Statements and Other Financial Information—Interest on Shareholders’ Equity” above apply both to investments registered under Law No. 4,131 and under Resolution No. 2,689.

In the case of a redemption of common shares or ADSs or a capital reduction by a Brazilian corporation, such as our company, the positive difference between the amount received by the non-resident and the acquisition cost of the common shares or ADSs redeemed in *reais* is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

Any exercise of preemptive rights relating to the common shares or ADSs will not be subject to Brazilian income tax. Gains realized by a Non-Resident holder on the disposition of preemptive rights in Brazil will be subject to Brazilian income tax according to the same rules applicable to the sale or disposition of common shares.

As a Non-Resident holder of ADSs, you may cancel your ADSs and exchange them for common shares and no income tax may be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment with the Central Bank.

The deposit of common shares by the Non-Resident holders in exchange for ADSs may be subject to Brazilian income tax if the acquisition cost of the common shares is lower than (a) the average price per common share on a Brazilian stock exchange on which the greatest number of such common shares were sold on the day of deposit; or (b) if no common shares were sold on that day, the average price on a Brazilian stock exchange on which the greatest number of common shares were sold in the 15 trading sessions immediately preceding such deposit. The difference between the acquisition cost and the average price of the common shares will be considered to be a capital gain subject to income tax at a rate of 15% or 25%, as the case may be. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a Non-Resident holder that is a 2,689 Holder and is not a Tax Haven Resident.

There can be no assurance that the current favorable treatment of 2,689 Holders will continue in the future.

#### ***Tax on Foreign Exchange and Financial Transactions***

*Foreign Exchange Transactions.* Brazilian law imposes a Tax on Foreign Exchange Transactions, or "IOF/Exchange Tax," on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. As from January, 2008, IOF/Exchange Tax rate applicable to almost all foreign currency exchange transactions was increased from zero to 0.38%, although the zero percent rate still applies in some cases, such as:

- (1) inflow and outflow related to transactions carried out on the Brazilian stock exchange by 2,689 Holders; and
- (2) payment of dividends and interest on shareholders' equity related to the investment mentioned under item (1) above.

Notwithstanding these rates in force as of the date hereof, the Minister of Finance is legally entitled to increase the rate of the IOF/Exchange to a maximum of 25% of the amount of the currency exchange transaction, but only on a prospective basis.

*Tax on Transactions Involving Bonds and Securities.* Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or "IOF/Bonds Tax," due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds Tax applicable to transactions involving common shares is currently zero, although the Minister of Finance is permitted to increase such rate at any time up to 1.5% of the transaction amount per day, but only in respect of future transactions.

#### ***Temporary Contribution on Financial Transactions***

As a general rule, until December 31, 2007 transactions carried out in Brazil that resulted in the transfer of *reais* from an account maintained with a Brazilian financial institution were subject to the Temporary Contribution on Financial Transactions, or "CPMF tax," at the rate of 0.38%. Therefore, transactions carried out by the depositary or by a holder of common shares which involved the transfer of Brazilian currency through Brazilian financial institutions could be subject to the CPMF.

From January 1, 2008, the CPMF has ceased to exist.

## Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares or ADSs, except for gift and inheritance taxes that may be imposed by some Brazilian states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common shares or ADSs.

## U.S. Federal Income Tax Considerations

The following are the material U.S. federal income tax consequences to U.S. Holders described herein of owning and disposing of common shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion applies only if you hold common shares or ADSs as capital assets for U.S. federal tax purposes and it does not describe all of the tax consequences that may be relevant to holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding common shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the common shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, including an "individual retirement account" or "Roth IRA";
- persons that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired our ADSs or common shares pursuant to the exercise of any employee stock option or otherwise as compensation; or
- persons holding shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds common shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partnerships holding common shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the common shares or ADSs.

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

You are a "U.S. Holder" if you are a beneficial owner of our common shares or ADSs and if you are, for U.S. federal tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The summary of U.S. federal income tax consequences set out below is intended for general informational purposes only. U.S. Holders of common shares or ADSs are urged to consult with their own tax advisers with respect to the particular tax consequences to them of owning or disposing of common shares or ADSs, including the applicability and effect of state, local, non-U.S. and other tax laws and the possibility of changes in tax laws.

In general, if you own ADSs, you will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before shares are delivered to the depositary ("pre-release") or intermediaries in the chain of ownership between U.S. holders and the issuer of the security underlying the American depositary shares may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of American depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Brazilian taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by such parties or intermediaries.

Please consult your tax advisers concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of common shares or ADSs in your particular circumstances.

This discussion assumes that the Company is not, and will not become, a passive foreign investment company, as described below.

#### *Taxation of Distributions*

Distributions paid on ADSs or common shares other than certain *pro rata* distributions of ordinary shares will generally be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will be reported to U.S. holders as dividends.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by qualified foreign corporations to certain non-corporate U.S. holders in taxable years beginning before January 1, 2011, are taxable at favorable rates, up to a maximum rate of 15%. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NYSE where our ADSs are traded. You should consult your tax advisers to determine whether the favorable rate will apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at this favorable rate.

The amount of a dividend will include any amounts withheld by us in respect of Brazilian taxes on the distribution. The amount of the dividend will be treated as foreign-source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code. Dividends will be included in your income on the date of your, or in the case of ADSs, the Depositary's, receipt of the dividend. The amount of any dividend income paid in *reais* will be a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of such receipt regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss if the amount of such dividend is converted into U.S. dollars after the date of such receipt. See "Brazilian Tax Considerations—Tax on Foreign Exchange and Financial Transactions."

Subject to applicable limitations that may vary depending upon your circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian income taxes withheld from dividends on common shares or ADSs will be creditable against your U.S. federal income tax liability. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the availability of foreign tax credits in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct such Brazilian taxes in computing your taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of

claiming foreign tax credits must apply to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

#### *Sale and Other Disposition of Common Shares or ADSs*

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of common shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if you held the common shares or ADSs for more than one year. The amount of your gain or loss will equal the difference between your tax basis in the common shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. If a Brazilian tax is withheld on the sale or disposition of common shares or ADSs, a U.S. Holder's amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See "*Brazilian Tax Considerations—Gains*" for a description of when a disposition may be subject to taxation by Brazil. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. U.S. Holders should consult their tax advisers as to whether the Brazilian tax on gains would be creditable against the holder's U.S. federal income tax on foreign-source income from other sources.

#### *Passive Foreign Investment Company Rules*

The Company believes that it was not a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes for its 2008 taxable year. However, because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, which may be determined in large part by reference to the market value of the Company's stock, there can be no assurance that the Company will not be a PFIC for any taxable year. If the Company were a PFIC for any taxable year during which a U.S. Holder held common shares or ADSs, gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the common shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the common shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the amount allocated to that taxable year. Further, to the extent that any distribution received by a U.S. Holder on its common shares or ADSs exceeds approximately 125% of the average of the annual distributions on common shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as a mark-to-market treatment) of the common shares or ADSs. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

#### *Information Reporting and Backup Withholding*

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding unless (1) you are a corporation or other exempt recipient or (2) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

U.S. HOLDERS OF OUR COMMON SHARES OR ADSs SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE BRAZILIAN, U.S. FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF OUR COMMON SHARES OR ADSs BASED UPON THEIR PARTICULAR CIRCUMSTANCES.

#### **F. Dividends and Paying Agents**

Not applicable.