Gafisa S.A.
Form 6-K
April 10, 2017

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 April, 2017

(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

Gafisa S.A.

December 31, 2016

and Report of Independent Registered Public Accounting Firm

Gafisa S.A.

Financial Statements

December 31, 2016

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MANAGEMENT REPORT 2016

Dear Shareholders,

The Management of Gafisa S.A. ("Gafisa" or "Company") submits for your review the Management Report and the related Financial Statements, accompanied by the Independent Auditors and the Fiscal Council reports for the fiscal year ended December 31, 2016. The Management Report information is reported on a consolidated basis, unless if specified otherwise, and in accordance with the accounting practices adopted in Brazil and pursuant to the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

MESSAGE FROM MANAGEMENT

2016 was marked by continued macroeconomic challenges as the political and economic crisis significantly impacted the Brazilian real estate market. At Gafisa, our conservative new product development strategy and metropolitan focused business model, in SP and RJ, allowed us to partially offset the headwinds we experienced during this period.

The middle and upper-middle income segments were the most affected by the deterioration of the macroeconomic environment in Brazil. In this context, the Company focused on improving its operational performance and business management, and prudently developed new projects despite current macroeconomic conditions.

In the year, the Company reached R$920.8 million in new projects launched. The Company's assertiveness in the development and marketing of these launches resulted in a record sales speed of launches of 54.5% in 2016. It may also reflect a slight improvement in the consumer confidence index.

We would like to highlight Square Ipiranga's, launched in the last quarter of the year, with average speed of sales was well above the recent industry average. Such evolution in the sales speed of launched projects is evidence of the Company's success in improving its operating processes over the past years, particularly in development, sales and construction.

Net pre-sales totaled R$810.5 million, with total cancelled PSV of R$508.8 million, in line with R$512.9 million recorded in 2015. While the level of dissolutions slightly improved, it continues to be impacted by current market conditions and the solid volume of projects delivered during the past 18 months.

Despite the good performance of projects launched in the period, the Gafisa segment's SoS continues to be impacted by current market conditions, as reflected by low inventory sales volumes. In 2016, Gafisa's SoS reached 31.5%, compared to 31.1% in the last year.

The Company also remained focused on the sale of existing units. As a result, 45.5% of net sales in 12M16 comprised products launched prior to the current year. Considering the higher volume of dissolutions related to legacy projects, however, net sales were still concentrated in more recent projects, impacting the Company segment's revenues and gross sales.

It is also important to note that backlog increased y-o-y, due to the good sales performance, mainly in the last quarter of the year and the maintenance of launch volumes over the past three years.

Gafisa ended 2016 with 19 projects under construction, all on schedule and within the delivery timeframe, reinforcing Gafisa's commitment to its clients.

Conservative cash management remained an important area of focus throughout the year. We delivered a PSV of R$1.7 billion in the period and the volume of transfers reached R$515.3 million. These results show an appropriate level of control and operating efficiency. Despite current credit restrictions, Gafisa has an efficient transfer process, contributing mainly to a 4Q16 cash generation result that reached the highest level in three years.

As a result of this transfer performance and conservative cash management strategy, operating cash generation totaled R$300.9 million in the year.

Despite the first signs of stability in the market and the Company's improved operating performance in the period, it will take time for better operating performance to be reflected in financial results, as the protracted recession has taken its toll on product pricing and inventory sales. The expectation of improved

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political and economic conditions over the next quarters, combined with a likely upturn in the middle and upper income segments, should allow a gradual recovery in the Company's financial results over the next periods.

In view of these factors, we will maintain a conservative approach in early 2017, seeking to balance the placement of new products on the market, prioritizing those with higher liquidity to achieve an appropriate level of sales and profitability, and maintaining focus on decreasing inventory.

The sale of Tenda's shares, as announced on December 14, 2016, had the following effects on our financial results: (i) R$610.5 million impairment from discontinued operations; and (ii) R$90.3 million due to the reversal of deferred tax assets previously recorded, as a result of the fiscal loss generated by the transaction, resulting in an impact of R$650.0 million on net income for the year, excluding elimination effects and Tenda's previous result.

Besides the impacts related to Tenda, adjusted gross profit in the period was impacted by R$159.9 million related to pricing adjustments on inventory commercial units, as the market price declined below accounting cost for commercial projects, as a result of the market environment, and also to adjustments in the market value of certain land that will not be developed in the coming years.

Given the deconsolidation of Tenda, and the expected receipt of proceeds from the sale of the 50% stake in Tenda by May 2017, Gafisa's Shareholders' Equity was impacted excluding this cash consideration. The Net Debt/ Shareholders' Equity ratio reached 71.8%, however at the conclusion of the transaction, Gafisa should receive approximately R$319.5 million in new funds, enabling the Company to reduce leverage and increase liquidity.

2016' net cash generation reached R$70.0 million, underscoring management's prudent financial management. We will continue to focus on cash generation and capital discipline in 2017. In this context, the Company was successful in reducing gross debt by R$268.6 million.

The end of 2016 marks the conclusion of a strategic shift for Gafisa, which commenced three years ago with the sale of our 70% interest in Alphaville. In February 2014, we initiated studies to separate the Gafisa and Tenda segments, a process which began when the Company's management determined that these units would be more efficient and profitable if they operated independently, and culminating in the imminent Tenda spinoff.

We have reaped the benefits of Tenda's business restructuring and the strategy to separate the business units. With a dedicated management team, Tenda refined its business model and positioned itself to benefit from the growth in the low-income market. At Gafisa, after the separation process and resulting cash inflow providing a greater cushion and balance in the capital structure, the segment will continue to focus on the middle and upper-middle income segments concentrated in the markets of São Paulo and Rio de Janeiro. The maintenance of launch volume over the past three years is already creating a foundation for future years' results.

We will maintain our conservative approach in early 2017, seeking to balance the placement of new products on the market while remaining focused on inventory sales, both complete and under construction. Gafisa is navigating the challenging economic conditions to be well positioned for a potential upswing in the economy over the coming periods, while maintaining a conservative and balanced approach.

The Company continues to advance guided by capital discipline, its profitability goals, and value creation for shareholders.

GAFISA AND TENDA SEPARATION

Over the past three years, the Company was able to advance with several steps concerned with the effective separation of the Gafisa and Tenda administrative structures, so that both would be ready to carry on their operations independently. The conclusion of operations and resulting cash inflow deriving from this operation will contribute to Gafisa's improving liquidity condition and capital structure.

With the conclusion of the purchase and sale of Tenda's shares, subject-matter of the agreement entered into with Jaguar Growth Asset Management, LLC, once all the condition precedents are met, Gafisa shall monetize a total amount of at least R$231.7 million, including an amount of R$100.0 million in Tenda capital reduction in favor of Gafisa, approved on December 14, 2016.

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In addition, and as one of the condition precedents mentioned above, we have the consolidation of corporate separation and resulting distribution of 50% of Tenda's shares to Gafisa's shareholders base, envisaging relevant interest in Tenda's capital stock after the operation is concluded.

Gafisa's current shareholder also relies on the option to exercise the preemptive right, at the same price per share tendered and pursuant to prevailing laws over 50% of Tenda's shares currently held by Gafisa. Therefore, Gafisa's shareholder maximizes the capacity of generating value, due to the exposure to Tenda's operating excellence, reduced risk level, a consistent level of profitability, expansion plan and development of Tenda's businesses in the low-income segment.

If the 20% additional to the offer submitted by Jaguar is also sold within the context of this operation, Gafisa will receive additional funds of R$87.8 million, reaching an overall amount of R$319.5 million in this operation.

The conclusion of this operation and resulting distribution of Tenda's capital stock to Gafisa's shareholders, settles the final stage of a process initiated in 2011, with the development of a new strategic plan for Gafisa and Tenda; sale of 70% equity interest in Alphaville which improved Gafisa's liquidity condition and capital structure, and finally, the effective operational and corporate separation between the Gafisa and Tenda business units. The Company's Management estimates that the conclusion of this process over the upcoming months and the resulting new corporate structure will deliver to Gafisa's shareholders by means of operating strength, brand recognition and strategic consolidation of both business units a valuable opportunity to capture return in the Brazilian real estate market.

OPERATING AND FINANCIAL PERFORMANCE

The total volume launched by the Company amounted to R$920.8 million in 2016, a decrease of 7.6% over 2015, represented by 10 projects/phases in the State of São Paulo.

Consolidated pre-sales totaled R$810.5 million in 2016, down 11.4% compared to R$914.8 million recorded in 2015. Consolidated sales from launches in the year represented 54.5% of the total, while inventory sales comprised the remaining 45.5%. Inventory at market value decreased 11.1%, reaching R$1.8 billion, compared to R$2.0 billion recorded at the end of 4Q15.

Consolidated sales over supply (SoS) was up 16.8% in 4Q16, compared to 10.9% y-o-y. For the year, consolidated SoS was 31.5%, compared to 31.1% in 2015.

Throughout 2016, the Company delivered 16 projects/phases, representing 3,747 units and R$1.7 billion in PSV.

In 2016, our net revenue reached R$915.7 million, a decrease of 36.6% y-o-y. Reported gross profit for the year was a loss of R$113.5 million, compared to a positive result of R$381.4 million in 2015, impacted by

R$159.9 million pricing adjustments of inventory units, below the cost of accounting for commercial developments, due to the current market price level, and in the result of updating costs of some of our landbank (impairment). Adjusted gross margin was 4.7% compared to 36.9% in previous year.

Adjusted EBITDA totaled a negative result of R$896.6 million in 2016, with a margin of -97.9%, impacted by the impairment of discontinued operations, and by the pricing adjustments mentioned above.

The Company recorded a net loss R$1.2 billion in 2016. In addition to the factors mentioned above, this result was impacted by: (i) lower revenues level due to the higher volume of dissolutions in legacy units; (ii) sales mix with higher concentration in the projects launched in 2016, and accordingly, lower capacity to generate revenue, and; (iii) gross profit impacted by current market conditions, impacting the products price level. Excluding Alphaville's equity income, we recorded a net loss of R$1.1 billion.

The Company ended 2016 with R$253.2 million in cash.

The Company's consolidated gross debt was reduced to R$1.6 billion at the end of 2016, compared to R$2.2 billion at the end of 2015, while net debt came in line with 2014, at R$1.4 billion.

The Company's leverage, measured by the Net Debt/Equity ratio, reached 71.8% at the end of 2016. Excluding project finance, the Net Debt/Equity ratio was 3.2%.

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Human Resources

Gafisa's personnel is its greatest asset. Our team is made up of individuals with a unique purpose, reflecting our corporate vision, values and culture, built up over 60 years of history. People's commitment to delivering results, with quality and respect for customer, are the bases of the brand's competitive advantage.

We have an experienced professional team who is at the forefront of the Brazilian real estate market. Many of our professionals of our workforce initiated their careers at the Company.

Approximately 70% of our leaders were trained at the Company through attraction and talent training programs.

Our CEO started his career as an intern of the Company and nearly half of the current officers followed the same path of success, starting in our Trainee Program.

Currently, our Trainee program relies on approximately 100 students and 90% of them are studying civil engineering. Although the great majority will become engineers and permanence at the construction sites is a natural way, we encourage them to work in other technical areas - such as budget, procurement, technical assistance, besides the cases where they become permanent employees in the development, commercial, financial and customer relationship areas.

The selection, evaluation and compensation of our employees are based on their daily commitment to our values, which must be perceived by everyone in daily attitudes, decision-making process, strategic actions and in the relationship with customers, suppliers, investors and the community.

The Company's compensation policy applies to its employees, including members of the Board of Directors, Fiscal Council and Executive Board (statutory and non-statutory), is in line with the best corporate governance practices. Thus, the Company aims attracting and retaining the best professionals of the market. Compensation is established based on market research and is directly related to the alignment of executives' interest with the Company's shareholders.

The meritocracy model is based on the variable compensation. A significant percentage of total compensation is connected with the achievement of corporate results and individual goals. All employees have objective individual targets directly related to the Company's strategy and key indicators of its business.

In case of Officers and Managers, in addition to the short-term variable compensation, there is also long-term incentive amount (as stock option grant), allowing greater sharing of risk and the Company's results with its top executives, a characteristic of a transparent policy concerned with achieving long-lasting results.

Occupational safety and accident prevention are vital. Therefore, we maintain an ongoing program to identify, prevent and mitigate risks, which aims at, besides preserving employees' physical integrity, offering the foundation for a healthier life. For us, investing in safety is to ensure welfare inside and outside the workplace. We offer training programs for the field team (working at our construction sites) and for outsourced companies' employees working at our construction sites.

The Company has 776 own employees (basis of Dec/16), as well as the trainees mentioned above.

Research and Development

Gafisa, aiming at maintaining its leading position has and encourages multiple fronts concerned with innovation, such as fronts of work with multidisciplinary teams focused on project development and disruptive innovations, thus allowing the Company to play its leading role in the real estate market.

We understand that the multidisciplinary contribution is essential for evolution of new ideas at Gafisa.

CORPORATE GOVERNANCE

Board of Directors

Gafisa's Board of Directors is the decision-making body responsible for formulating general guidelines and policies relating to the Company's business, including long-term strategies. In addition, the Board also appoints the executive officers and oversees their activities.

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The Board of Directors' decisions are ratified by the majority vote of its members. In case of tie vote, the casting vote shall be incumbent upon the Chairman of the Board of Directors, in addition to his/her individual vote.

The Board consists of seven members elected at the General Meeting, all of them are independent members (100%), considering the concept of independent board member of BM&FBOVESPA' *Novo Mercado* and New York Stock Exchange (NYSE), which is more restricted and requires all listed companies to have a board of directors mostly composed of independent members, while BM&FBOVESPA's *Novo Mercado* rules establish a minimum of 20% of independent members. As required by the *Novo Mercado* Rules, the members' term of office is two years, re-election is allowed and they can be removed from office by shareholders at the General Meeting.

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

Odair Garcia Senra	Sitting Member and Chairman of the Board of Directors	04/25/2016	AGM 2018
Guilherme Affonso Ferreira	Sitting Member	04/25/2016	AGM 2018
Maurício Marcellini Pereira	Sitting Member	04/25/2016	AGM 2018
Cláudio José Carvalho de Andrade	Sitting Member	04/25/2016	AGM 2018
José Écio Pereira da Costa Junior	Sitting Member	04/25/2016	AGM 2018
Rodolpho Amboss	Sitting Member	04/25/2016	AGM 2018
Francisco Vidal Luna	Sitting Member	04/25/2016	AGM 2018

Fiscal Council

Gafisa's Bylaws provide for a non-permanent Fiscal Council, and the General Meeting may determine its installation and members, as provided for by laws. The Fiscal Council, if installed, will consist of 3 to 5 members, with equal number of alternates.

The operation of the Fiscal Council, when installed shall end at the first Annual General Meeting ("AGM") held after its installation, and its members can be re-elected. The Fiscal Council members' compensation is established at the General Meeting to elect them.

The Fiscal Council was installed by the AGM of April 25,2016, which will operate until the Company's next Annual General Meeting to be held in April 2017.

Currently, the Fiscal Council is composed of Messrs. Olavo Fortes Campos Rodrigues Junior, Peter Edward Cortes Marsden Wilson and Laiza Fabiola Martins de Santa Rosa as sitting members and Messrs.

Marcello Mascotto Iannalfo, Marcelo Martins Louro and Alessandro de Oliveira Nascimento as alternate members.

Executive Board

The Executive Board is the Company's body mainly in charge of the daily management and monitoring of the general policies and guidelines established at the General Meeting and by the Board of Directors.

Gafisa’s Executive Board must consist of a minimum of two and a maximum of eight members, including the Chief Executive Officer, the Chief Financial Officer and the Investor Relations Officer, elected by the Board of Directors for a three-year term of office, re-election is allowed, pursuant to the Company’s Bylaws. Currently, three members comprise the Executive Board:

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Sandro Rogério da Silva Gamba	CEO	05/05/2014	05/04/2017
André Bergstein	CFO and Investor Relations Officer	05/05/2014	05/04/2017
Katia Varalla Levy	Operating Executive Officer	05/05/2014	05/04/2017

Committees

The Company has two advisory committees to the Board of Directors, on a permanent and statutory basis, which must be composed of three independent members of the Board of Directors.

§ **Compensation and Corporate Governance Committee**: originated from the merger of the Compensation Committee with the Nominating and Corporate Governance Committee, this committee accumulates the role of the previous committees and aims at periodically analyzing and reporting issues regarding the size, identification, selection and appointment of the Board of Directors, Executive Board and candidates nominated to the Board and its Committees, developing and recommending governance principles applicable to the Company, evaluating and making recommendations to the Board of Directors as to the compensation policies and all forms of bonus to be offered to the Executive Officers and other Company's employees. Currently, the committee is presided over by Claudio José Carvalho de Andrade, and Rodolpho Amboss and Guilherme Affonso Ferreira as members of this committee.

§ **Audit Committee**: it is in charge of planning and reviewing the Company's annual and quarterly reports and accounts with the involvement of auditors in the process and is specially focused on the compliance with legal requirements and accounting standards, ensuring the maintenance of an effective internal controls system. This Committee must be composed of members experienced in matters relating to accounting, auditing, finance, taxation and internal controls, and one of the members must have vast experience in accounting and financial management. It is currently presided over by Francisco Vidal Luna, and José Écio Pereira da Costa Júnior and Odair Garcia Senra as members.

The Company also has three non-statutory advisory committees to the Board of Directors, composed of Officers and Managers of the Company:

§ **Ethics Executive Committee**: it is in charge of monitoring the practices adopted by entire organization, ensuring that these are compatible with Gafisa's vision and values and with the principles and conduct guidelines provided for in the Code of Ethics. This Committee is supervised by the Audit Committee.

§ **Investment Executive Committee**: it is in charge of analyzing, discussing and advising on the acquisition of new properties and real estate launches; advising the Officers in the negotiation of new contracts and project structuring; monitoring releases of funds and the Company's cash flow; and, in special cases, participating in the negotiation and structuring of new types of agreements. This Committee is only composed of the Company's statutory officers.

§ **Finance Executive Committee**: it is responsible for evaluating and advising the Board of Directors on the risk policies and the Company's financial investments. This Committee is composed of the Company's statutory officers.

The composition of these committees can be accessed at the Company's Investor Relations website: www.gafisa.com.br/ri.

Dividends, Shareholder Rights and Shares Data

In order to equally protect the interest of all its shareholders, the Company, pursuant to prevailing laws and the best governance practices, sets forth the following rights to Gafisa's shareholders:

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§ vote at the annual or extraordinary general meeting, make recommendations and guidelines to the Board of Directors as to the decision-making process;

§ receive dividends and participate in the profit sharing or other distributions relating to shares, in proportion to their interest in the Company's capital stock;

§ oversee Gafisa's Management, pursuant to the Company's Bylaws, and withdraw from the Company in cases provided for by Brazilian Corporation Law; and

§ receive, at least, 100% of the price paid per common share of the controlling interest, according to the *Novo Mercado* rules, in case of public tender offer due to the sale of the Company's control.

Under Article 47, Paragraph 2 (b) of the Company's Bylaws, 25% of the balance of net income for the fiscal year, recorded after deductions provided for by the Bylaws and adjusted pursuant to Article 202 of Brazilian Corporation Law, will be destined to pay mandatory dividends to all the Company's shareholders.

Since the Company recorded net loss in the fiscal year ended at December 31, 2016, we cannot mention a proposal for allocation of net income and distribution of dividends.

CAPITAL MARKETS

The Company with widely held stock remains as the sole Brazilian real estate company to have its shares traded on ADRs Level 3 at the New York Stock Exchange (NYSE), with the most liquid real estate stocks. In 2016, we reached an average daily trading volume of R$12.8 million at BM&FBOVESPA, besides the equivalent amount in US dollars of approximately US$1.5 million at NYSE, totaling R$14.3 million average daily trading volume.

In 2016, the Bovespa index fell by 38.9%, and the Company's shares ended quoted at R$1.86 (GFSA3) and US$1.11 (GFA), a decrease of 23.5% and 1.8%, respectively, compared to 2015.

Gafisa's shares are included in the IBRA, IGCX, IGNM indexes, amongst others.

Independent Auditors

The Company's operating policy when contracting services unrelated to external audit with the independent auditors is based on the principles preserving the autonomy of the independent auditor. These internationally accepted principles consist of: (a) the auditor should not audit his/her own work, (b) the auditor should not perform managerial duties for his/her client, and (c) the auditor should not promote the interests of his/her clients.

According to Article 2 of CVM Instruction nº 381/03, Gafisa informs that KPMG Auditores Independentes, the independent auditor of the Company and its subsidiaries, did not provide services unrelated to independent auditing in 2016.

Management Statement

The Management declares, in compliance with Article 25, Paragraph 1, items V and VI of CVM Instruction nº 480/2009, that they reviewed, discussed and agreed with the Financial Statements contained herein and with the opinion expressed by the Independent Auditors referring thereto.

Acknowledgements

Gafisa thanks the valuable contribution of its employees, customers, suppliers, partners, shareholders, financial institutions, governmental agencies, regulators and other stakeholders for their support throughout 2016.

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Report of Independent Registered Public Accounting Firm

To Board Members and Shareholders of

Gafisa S.A.

São Paulo – SP

Opinion

We have audited the individual and consolidated financial statements of Gafisa S.A. ("Gafisa" or "Company"), respectively referred to as Company and Consolidated, which comprise the statement of financial position as of December 31, 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

Opinion on the individual financial statements

In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of Gafisa S.A. as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Gafisa S.A. as of December 31, 2016, and of its consolidated financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), applicable to real estate development entities in Brazil, and approved by the Accounting Pronouncements Committee (CPC), the Brazilian Securities and Exchange Commission (CVM) and the Federal Accounting Council (CFC).

Basis for Opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis - OCPC 04 Guideline issued by the Accounting Pronouncements Committee

As mentioned in Note 2.1, the individual and consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil. The consolidated financial statements prepared in accordance with the IFRS applicable to the Brazilian Real Estate Development Entities, also considers the Technical Orientation - OCPC 04 issued by the Accounting Pronouncements Committee (CPC). This technical orientation refers to the revenue recognition of this sector and involves matters related to the meaning and application of the concept of continuous transfer of the risks, benefits and control over real estate unit sales, as described in further details in Note 2.2.2 (i) (b). Our opinion is not modified regarding this matter.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

§ **Revenue recognition – estimate of construction costs and Percentage-of-Completion (POC) – Company and Consolidated**

As mentioned in Note 2.2.1 (f) and 2.2.2 (i) (b), the Company uses the Percentage-of-Completion method (POC) to account for real estate sales revenue. In view of the materiality of construction costs to be incurred and the high judgment level involved in determining this estimate, used for determining the calculation of the percentage-of-completion of the construction, which is the basis for recognizing revenue, we consider it a key audit matter. This estimate may affect the individual and consolidated financial statements and the investment value recorded using the equity method in the Company's financial statements.

How our audit conducted this matter

We evaluated the design, implementation, and, on sampling basis, the operational effectiveness of the key internal controls related to the approval and follow-up of estimates, evaluation of the methodology, indexes and assumptions adopted by Gafisa for calculating the budget of construction adjustment by project. Based on a sample of projects, we inspected the construction budget and the respective approvals, we also compared, on sampling basis, the amount of costs incurred with the respective supporting documentation, evaluated the nature and reasonableness of the changes made in the estimated cost, and made a substantive analysis of the reasonableness of the percentage-of-completion of the work. With the assistance of our experts in property appraisal, we evaluated the stage of completion of the constructions. We also evaluated the adequacy of the disclosures made by the Company.

§ **Impairment of assets – Company and Consolidated**

The individual and consolidated financial statements of Gafisa include goodwill arising from the acquisition of investments which realization is supported by the estimates of future profitability prepared by the Company based on its judgment and supported by the business plan, according to the Notes 2.2.1 (a) and 9.

Additionally, as mentioned in Notes 2.2.1.(d) and 2.2.22, the Company periodically reviews its portfolio of trade accounts receivable and properties for sale aimed at estimating the need for recognizing a provision for impairment loss in its operations. The determination of the impairment of trade accounts receivable and properties for sale is documented in internal policies and requires, due to its nature, the use of judgment and assumptions by the Company.

In view of the materiality of the goodwill amount, trade accounts receivable and properties for sale, and the high judgment level to determine the assumptions related to the test for impairment of such assets, which may affect the amounts recognized in the individual and consolidated financial statements, and the investment amount recorded using the equity method in the financial statements of the Company, we consider it a key audit matter.

How our audit conducted this matter

We evaluated the design, implementation, and, on sampling basis, the operational effectiveness of the key internal controls related to the approval and recognition of impairment losses on the goodwill arising from acquisition of investments, trade accounts receivable, and inventories. We analyzed, with the technical support of our corporate finance experts, the reasonableness and consistency of data and assumptions, such as the growth and discount rates used in the schedules for calculating the recoverable value prepared by the Company, as well as the business plans, budgets, cash flow projections, and technical studies supporting such schedules, approved by the Board of Directors, regarding the recorded goodwill, as well as evaluated the reasonableness of the criteria, assumptions and data used by the Company for measuring impairment losses on trade accounts receivable as a whole, including the mathematical recalculation of the provisions for losses and evaluation of the history of default of trade accounts receivable. For inventories, we analyzed, on sampling basis, the documentation and the assumptions supporting the Company’s decision on the recoverable value of such assets, including the comparison of estimates with the history of prices adopted in the sales of real estate units, and independent quotations of land value. We also evaluated the adequacy of the disclosures made by the Company.

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§ **Provisions and contingent liabilities – tax, labor and civil – Company and Consolidated**

The measurement, recognition and disclosure of Provisions and Contingent Liabilities, mentioned in Notes.2.2.1 (c), 2.2.22 (i) and 16, requires Gafisa's professional judgment. The classification of the risks of such claims involves significant judgments, which may produce significant impacts on the amount recognized in the individual and consolidated financial statements, including their disclosures, and on the investment amount recorded using the equity method in the Company’s financial statements. In view of the materiality, complexity and judgment involved in the evaluation and measurement of Provisions and Contingent Liabilities, we consider it a key audit matter.

How our audit conducted this matter

We evaluated the design, implementation, and, on sampling basis, the operational effectiveness of the key internal controls related to the identification, evaluation, measurement and disclosure of Provisions and Contingent Liabilities. Additionally, we evaluated the sufficiency of the recognized provisions and disclosed contingent amounts, the reasonableness of criteria and assumptions used in the methodology for measuring provisioned and/or disclosed amounts, also considering the evaluation of Gafisa's internal and external legal counsel, as well as history data and information. We also analyzed the adequacy of the Company’s disclosures related to the information on the nature, exposure and amounts of risks in the main claims involving Gafisa.

§ **Transaction of sale and distribution of asset, shares of Tenda S.A., to respective shareholders– Company and Consolidated**

As mentioned in Note 8.2, in December 2016, Gafisa announced its plan for disposal from 30% to 50% of its shares in the subsidiary Construtora Tenda S.A. (Tenda) aimed at maximizing value to its shareholders. The completion of this transaction is estimated for the first half of 2017. Additionally, Gafisa will deliver, as a capital reduction (distribution of non-financial assets to own shareholders), 50% of the remaining shares of Tenda to its current shareholders, which resulted in the reclassification of the investment into non-current asset held for sale, and of the income from equity method investments into discontinued operations in the individual financial statements, and of the assets, liabilities and profit or loss in the consolidated financial statements, into discontinued operations. As it refers to a material fact in the year, and with impacts on individual and consolidated financial statements, we consider this transaction a key audit matter.

How our audit conducted this matter

Our audit procedures included, among others, periodical meetings with the Company and the Audit Committee in order to understand the impact of such disposal on the Company’s assets and liabilities in the individual and consolidated financial statements as of December 31, 2016. We read the contract and other documentation related to the transaction of sale of the subsidiary Tenda, and considered the existence of clauses precedent not fulfilled on the reporting date of these financial statements. We also conducted tests of the controls related to such transactions. We evaluated (i) the reclassification of the investment (in Tenda) and the respective income from equity method investments in the individual statements, and the respective assets, liabilities and profit or loss in the consolidated financial statements into the line item Non-current assets held for sale/Discontinued operations, as well as (ii) the other accounting impacts arising from such reclassification. We also analyzed the documentation and assumptions regarding the market value of the asset that support the Company's decision on the recoverable value of such asset. We evaluated whether the disclosures made in the individual and consolidated financial statements are in accordance with the applicable rules.

(A free translation from the original in Portuguese into English)

Other matters – Statements of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for the other information comprising the management report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion about this report.In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Brazilian accounting practices and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and subsidiaries financial reporting process.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 23, 2017

KPMG Auditores Independentes

CRC 2SP014428/O-6

Giuseppe Masi

CRC 1SP176273/O-7

(original report signed in Portuguese)

(A free translation from the original in Portuguese into English)

Gafisa S.A.

Balance sheet

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais)

		Company		Consolidated	
	Note	2016	2015	2016	2015
Current assets					
Cash and cash equivalents	4.1	**19,811**	44,044	**29,534**	82,640
Short-term investments	4.2	**163,562**	350,343	**223,646**	629,671
Trade accounts receivable	5	**524,337**	723,950	**722,640**	1,395,273
Properties for sale	6	**870,201**	1,135,137	**1,122,724**	1,880,377
Receivables from related parties	21.1	**46,187**	78,410	**57,455**	95,118
Prepaid expenses	-	**2,102**	1,901	**2,548**	7,171
Non-current assets held for sale	8.1	**3,306**	4,367	**3,306**	105,857
Assets from discontinued operations	8.2	**439,020**	-	**1,189,011**	-
Other assets	7	**39,280**	46,621	**49,336**	120,657
Total current assets		**2,107,806**	2,384,773	**3,400,200**	4,316,764
Non-current assets					
Trade accounts receivable	5	**225,270**	262,092	**271,322**	407,091
Properties for sale	6	**535,376**	387,375	**592,975**	750,240
Receivables from related parties	21.1	**25,529**	78,818	**25,529**	109,193
Derivative financial instruments	20.i.b	**9,030**	-	**9,030**	-
Other assets	7	**156,358**	80,948	**58,917**	82,880
		951,563	809,233	**957,773**	1,349,404
Investments	9	**2,116,509**	3,242,765	**799,911**	993,122
Property and equipment	10	**21,720**	22,819	**23,977**	49,176
Intangible assets	11	**27,778**	33,311	**28,228**	51,866
		2,166,007	3,298,895	**852,116**	1,094,164
Total non-current assets		**3,117,570**	4,108,128	**1,809,889**	2,443,568
Total assets		**5,225,376**	6,492,901	**5,210,089**	6,760,332

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

(A free translation from the original in Portuguese into English)

Gafisa S.A.

		Company		Consolidated	
	Note	**2016**	2015	**2016**	2015
Current liabilities					
Loans and financing	12	**639,733**	595,817	**669,795**	672,365
Debentures	13	**314,139**	187,744	**314,139**	389,621
Payable for purchase of properties and advances from customers	17	**146,522**	148,989	**205,388**	361,420
Payables for goods and service suppliers	-	**61,177**	32,115	**79,120**	57,335
Taxes and contributions	19	**35,819**	40,902	**51,842**	102,057
Salaries, payroll charges and profit sharing	-	**28,041**	26,758	**28,880**	60,102
Minimum mandatory dividends	18.2	**-**	17,682	**-**	17,682
Provision for legal claims and commitments	16	**79,054**	100,312	**79,054**	100,312
Obligations assumed on the assignment of receivables	14	**24,907**	12,631	**34,698**	23,482
Payables to related parties	21.1	**1,073,255**	801,375	**85,611**	87,100
Derivative financial instruments	20.i.b	**5,290**	14,056	**5,290**	14,056
Other payables	15	**50,660**	127,123	**69,921**	163,437
Liabilities related to assets from discontinued operations	8.2	-	**-**	**651,812**	**-**
Total current liabilities		**2,458,597**	2,105,504	**2,275,550**	2,048,969
Non-current					
Loans and financing	12	**367,197**	542,843	**516,505**	620,470
Debentures	13	**137,129**	468,337	**137,129**	468,337
Payables for purchase of properties and advances from customers	17	**90,311**	143,216	**90,309**	248,514
Deferred income tax and social contribution	19	**100,405**	10,085	**100,405**	16,489
Provision for legal claims and commitments	16	**79,288**	82,563	**83,904**	142,670
Obligations assumed on the assignment of receivables	14	**50,906**	22,216	**64,332**	35,811
Payables to related parties	21.1	**-**	-	**-**	41,002
Derivative financial instruments	20.i.b	**-**	7,618	**-**	7,618
Other payables	15	**13,218**	15,028	**11,502**	33,216
Total non-current liabilities		**838,454**	1,291,906	**1,004,086**	1,614,127
Equity					
Capital	18.1	**2,740,662**	2,740,662	**2,740,662**	2,740,662
Treasury shares	18.1	**(32,524)**	(25,980)	**(32,524)**	(25,980)
Capital reserves and reserve for granting stock options	-	**81,948**	76,834	**81,948**	76,834
Income reserve	-	**-**	303,975	**-**	303,975
Accumulated losses	-	**(861,761)**	-	**(861,761)**	-
		1,928,325	3,095,491	**1,928,325**	3,095,491
Noncontrolling interest		**-**	-	**2,128**	1,745
Total equity		**1,928,325**	3,095,491	**1,930,453**	3,097,236
Total liabilities and equity		**5,225,376**	6,492,901	**5,210,089**	6,760,332

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

(A free translation from the original in Portuguese into English)

Gafisa S.A.

Statement of profit or loss

Years ended December 31, 2016 and 2015

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

		Company		**Consolidated**	
	Note	**2016**	2015	**2016**	2015
ontinuing operations					
et operating revenue	22	**673,866**	1,107,262	**915,698**	1,443,35
perating costs					
eal estate development and sales of properties	23	**(821,892)**	(832,236)	**(1,029,213)**	(1,061,92
ross profit (loss)	-	**(148,026)**	275,026	**(113,515)**	381,43
perating (expenses) income					
elling expenses	23	**(79,528)**	(82,550)	**(94,946)**	(97,94
eneral and administrative expenses	23	**(84,961)**	(97,440)	**(106,585)**	(97,44
come from equity method investments	9	**(63,901)**	125,023	**(48,332)**	40,01
epreciation and amortization	10 and 11	**(32,359)**	(29,994)	**(33,892)**	(32,58
ther income (expenses), net	23	**(77,031)**	(104,121)	**(78,992)**	(107,63
rofit (loss) before financial income and expenses and income tax nd social contribution	-	**(485,806)**	85,944	**(476,262)**	85,84
nancial expenses	24	**(83,332)**	(121,072)	**(84,118)**	(127,72
nancial income	24	**49,317**	67,530	**58,439**	77,30
rofit (loss) before income tax and social contribution		**(519,821)**	32,402	**(501,941)**	35,41
urrent income tax and social contribution	-	**-**	(4,314)	**(10,722)**	(14,76
eferred income tax and social contribution	-	**(90,320)**	16,041	**(89,358)**	14,10
otal Income tax and social contribution	19.i	**(90,320)**	11,727	**(100,080)**	(65
et income (loss) from continuing operations	-	**(610,141)**	44,129	**(602,021)**	34,76
et income (loss) from discontinued operations	8.2	**(553,455)**	30,320	**(559,704)**	36,21
et income (loss) for the year	-	**(1,163,596)**	74,449	**(1,161,725)**	70,97

) Attributable to:						
oncontrolling interests	-		-	-	1,871	(3,47
wners of Gafisa	-		**(1,163,596)**	74,449	**(1,163,596)**	74,44
/eighted average number of shares (in thousands)		27	**26,921**	27,262		
asic earning (loss) per thousand shares - In Reais (Company)		27	**(43.222)**	2.731		
rom continuing operations		-	**(22.664)**	1.619		
rom discontinued operations		-	**(20.558)**	1.112		
iluted earning (loss) per thousand shares - In Reais (Company)		27	**(43.222)**	2.712		
rom continuing operations		-	**(22.664)**	1.608		
rom discontinued operations		-	**(20.558)**	1.105		

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

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(A free translation from the original in Portuguese into English)

Gafisa S.A.

Statement of comprehensive income (loss)

Years ended December 31, 2016 and 2015

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

	Company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Net income (loss) for the year	**(1,163,596)**	74,449	**(1,161,725)**	70,979
Total comprehensive income (loss), net of taxes	**(1,163,596)**	74,449	**(1,161,725)**	70,979
Attributable to:				
Owners of Company	**(1,163,596)**	74,449	**(1,163,596)**	74,449
Noncontrolling interests	**-**	-	**1,871**	(3,470)

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

(A free translation from the original in Portuguese into English)

Gafisa S.A.

Statement of changes in equity

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais)

			Attributed to Owners of the Company					
					Income Reserve			
	Note	**Capital**	**Treasury shares**	**Reserve for granting shares**	**Legal reserve**	**Reserve for investments**	**Retained earnings (accumulated losses)**	**C**
Balances at December 31, 2014		**2,740,662**	**(79,059)**	**69,897**	**31,593**	**292,252**	**-**	**3,**
Capital increase	**-**	-	-	-	-	-	-	
Stock option plan	**18.3**	-	-	6,937	-	-	-	
Treasury shares acquired	**18.1**	-	(24,157)	-	-	-	-	
Treasury shares sold	**18.1**	-	3,022	-	-	(2,423)	-	
Treasury shares cancelled	**18.1**	-	74,214	-	-	(74,214)	-	
Profit for the year	**-**	-	-	-	-	-	74,449	
Allocation:	**18.2**							
Legal reserve	**-**	-	-	-	3,722	-	(3,722)	
Declared dividends	**-**	-	-	-	-	-	(17,682)	
Reserve for investments	**-**	-	-	-	-	53,045	(53,045)	
Balances at December 31, 2015		**2,740,662**	**(25,980)**	**76,834**	**35,315**	**268,660**	**-**	**3,**
Capital increase	**-**	-	-	-	-	-	-	
Stock option plan	**18.3**	-	-	5,114	-	-	-	
Treasury shares acquired	**18.1**	-	(8,693)	-	-	-	-	
Treasury shares sold	**18.1**	-	2,149	-	-	(2,140)	-	
Loss for the year	**-**	-	-	-	-	-	(1,163,596)	(1
Allocation:	**18.2**							
Legal reserve	**-**	-	-	-	(35,315)	-	35,315	
Reserve for investments	**-**	-	-	-	-	(266,520)	266,520	
Declared dividends	**-**	-	-	-	-	-	-	
Balances at December 31, 2016		**2,740,662**	**(32,524)**	**81,948**	**-**	**-**	**(861,761)**	**1,**

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

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(A free translation from the original in Portuguese into English)

Gafisa S.A.

Cash flow statement

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais)

	Company		**Co**
	2016	**2015**	**2016**
Operating activities			
Income (loss) before income tax and social contribution	**(519,821)**	32,402	**(501,9**
Expenses/(income) not affecting cash and cash equivalents			
Depreciation and amortization (Notes 10 and 11)	**32,359**	29,994	**33,**
Stock option expense (Note 18.3)	**6,821**	7,826	**6,**
Unrealized interests and charges, net	**81,189**	73,142	**100,**
Warranty provision (Note 15)	**(12,390)**	11,100	**(12,3**
Provision for legal claims and commitments (Note 16)	**69,605**	88,067	**70,**
Provision for profit sharing (Note 26 (iii))	**18,750**	14,000	**18,**
Allowance for doubtful accounts and cancelled contracts (Note 5)	**6,950**	6,749	**6,**
Provision for realization of non-financial assets:			
Properties and land for sale (Note 6 and 8)	**97,873**	(618)	**160,**
Income from equity method investments (Note 9)	**63,901**	(125,023)	**48,**
Financial instruments (Note 20)	**(13,404)**	17,151	**(13,4**
Provision for penalties due to delay in construction works (Note 15)	**(1,404)**	(2,137)	**(1,4**
Write-off of property and equipment and intangible assets, net (Notes 10 and 11)	**6,435**	4,030	**7,**
Write-off of goodwill supported by inventory surplus (Notes 6 and 9)	**62,343**	-	
Decrease/(increase) in operating assets			
Trade accounts receivable	**205,413**	18,948	**288,**
Properties for sale and land available for sale	**19,062**	(99,773)	**21,**
Other assets	**39,718**	16,646	**29,**
Prepaid expenses	**(201)**	6,135	**(4**
Increase/(decrease) in operating liabilities			
Payables for purchase of properties and advances from customers	**(55,372)**	(10,808)	**(73,6**
Taxes and contributions	**(5,083)**	2,516	**(9,8**
Payables for goods and service suppliers	**25,684**	(25,760)	**31,**
Salaries, payroll charges and profit sharing	**(17,494)**	(25,750)	**(17,7**
Other payables	**(155,853)**	(127,021)	**(152,2**
Transactions with related parties	**252,038**	192,047	**100,**
Paid taxes	**-**	(4,314)	**(10,7**

Cash and cash equivalents from (used in) operating activities	**207,119**	99,549	**132,**
Investing activities			
Purchase of property and equipment and intangible assets (Notes 10 and 11)	**(32,162)**	(29,319)	**(35,8**
Purchase of short-term investments	**(987,368)**	(3,092,210)	**(1,417,7**
Redemption of short-term investments	**1,174,149**	3,323,910	**1,611,**
Investments	**(4,468)**	(2,917)	**(1**
Cash from (used in) investing activities	**150,151**	199,464	**157,**
Financing activities			
Increase in loans, financing and debentures	**403,262**	680,737	**579,**
Payment of loans, financing and debentures - principal	**(610,564)**	(704,578)	**(719,3**
Payment of loans, financing and debentures - interest	**(210,430)**	(248,116)	**(225,4**
Assignment of receivables	**65,038**	13,053	**72,**
Investors obligations	**(3,573)**	(6,081)	**(3,6**
Payment of dividends and interest on equity	**(17,682)**	-	**(17,6**
Loan transactions with related parties	**1,130**	(218)	**1,**
Disposal of treasury shares (Note 18.1)	**2,149**	3,022	**2,**
Result of the disposal of treasury shares (Note 18.1)	**(2,140)**	(2,423)	**(2,1**
Repurchase of treasury shares (Note 18.1)	**(8,693)**	(24,157)	**(8,6**
Cash and cash equivalents from financing activities	**(381,503)**	(288,761)	**(321,5**
Net increase/(decrease) in cash and cash equivalents	**(24,233)**	10,252	**(31,4**
Cash and cash equivalents			
At the beginning of the year	**44,044**	33,792	**60,**
At the end of the year	**19,811**	44,044	**29,**
Net increase (decrease) in cash and cash equivalents	**(24,233)**	10,252	**(31,4**

(A free translation from the original in Portuguese into English)

Gafisa S.A.

Statement of value added

Years ended December 31, 2016 and 2015

(In thousands of Brazilian Reais)

	Company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Revenues	**734,810**	1,213,220	**983,664**	1,561,815
Real estate development and sales	**741,760**	1,219,969	**990,614**	1,568,564
Reversal (recognition) of allowance for doubtful accounts and cancelled contracts	**(6,950)**	(6,749)	**(6,950)**	(6,749)
Inputs acquired from third parties (including taxes on purchases)	**(1,358,313)**	(810,320)	**(1,569,281)**	(1,010,112)
Operating costs - Real estate development and sales	**(697,626)**	(707,515)	**(872,401)**	(910,736)
Materials, energy, outsourced labor and other	**(107,232)**	(133,125)	**(137,176)**	(135,594)
Discontinued operation result	**(553,455)**	30,320	**(559,704)**	36,218
Cross value added	**(623,503)**	402,900	**(585,617)**	551,703
Depreciation and amortization	**(32,359)**	29,994)	**(33,892)**	(32,585)
Net value added produced (distributed) by the Company	**(655,862)**	72,906	**(619,509)**	519,118
Value added received on transfer	**(14,584)**	192,553	**10,107**	117,321
Income from equity method investments	**(63,901)**	125,023	**(48,332)**	40,015
Financial income	**49,317**	67,530	**58,439**	77,306
Total value added to be distributed	**(670,446)**	565,459	**(609,402)**	636,439
Value added distribution	**(670,446)**	565,459	**(609,402)**	636,439
Personnel and payroll charges	**107,988**	117,933	**115,054**	124,920
Taxes and contributions	**171,672**	118,235	**190,173**	144,770
Interest and rents	**213,490**	254,842	**248,967**	292,300
Dividends	**-**	17,682	**-**	17,682
Retained earnings attributable to noncontrolling interests	**-**	-	**(1,871)**	3,470
Retained earnings (incurred losses)	**(1,163,596)**	56,767	**(1,161,725)**	53,297

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

Gafisa S.A.

Notes to the financial statements

December 31, 2016

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

1. Operations

Gafisa S.A. ("Gafisa" or "Company") is a publicly traded company with registered office at Avenida das Nações Unidas, 8.501, 19th floor, in the city and state of São Paulo, Brazil and commenced 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 (in the latter case, as construction company or proxy); (ii) selling and purchasing real estate properties; (iii) providing civil construction and civil engineering services; (iv) developing and implementing marketing strategies related to its own and third party real estate ventures; and (v) investing in other companies who share similar objectives.

The Company has stocks traded at BM&FBovespa S.A. – Bolsa de Valores, Mercadorias e Futuros and the New York Stock Exchange (NYSE), reporting its information to the Brazilian Securities and Exchange Commission (CVM) and the U.S. Securities and Exchange Commission (SEC).

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

On December 14, 2016, the Company disclosed a material fact informing about the signature of the contract for purchase and sale of shares with Jaguar Real Estate Partners LP for disposal of up to 30% of the shares issued by Tenda, for the price of R$ 8.13 per share, with a total estimate of R$539,020 for paying-in Tenda’s capital. The completion of the transaction is subject to the verification of certain conditions precedent (Note 8.2). The contract also has representations and guarantees, and indemnity obligations typical of transactions of such nature, which may give rise to the future obligation of a party to indemnify the other.

The completion of the transaction, expected to be due until the end of the first half of 2017, and the consequent inflow of funds will contribute to the improvement in the liquidity condition and capital structure of the Company. This contract was entered into subsequently to the Board of Directors' decision on abandoning the efforts to carry out a secondary offering of Tenda's shares, with the consequent cancellation of the application for registering such offering at CVM.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

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

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 23, 2017, the Company's Board of Directors approved these individual and consolidated financial statements of the Company and authorized their disclosure.

The individual financial statements, identified as "Company", have been prepared and are being presented according to the accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM) and are disclosed together with the consolidated financial statements.

The consolidated financial statements of the Company have been prepared and are being presented according to the accounting practices adopted in Brazil, including the pronouncements issued by the CPC, approved by the Brazilian Securities and Exchange Commission (CVM), and according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The individual financial statements of the Company are not considered in compliance with the International Financial Reporting Standards (IFRS), once they consider the capitalization of interest on qualifying assets of investees in the financial statements of the Company. In view of the fact that there is no difference between the Company's and the consolidated equity and profit or loss, the Company opted for presenting such individual and consolidated information in only one set.

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 application of the continuous transfer of the risks, rewards and control over the real estate units sold.

All material information characteristic of the financial statements, and only them, is being evidenced, and corresponds to those used by Management in its administration.

The presentation of the individual and consolidated Statement of Value Added (DVA) is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil applicable to publicly-held companies and was prepared according to CVM Resolution 557, of November 12, 2008, which approved the accounting pronouncement CPC 09 – Statement of Value Added. The IFRS does not require the presentation of this statement. Consequently, under the IFRS, this statement is presented as additional information, without causing harm to the financial statements as a whole.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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 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.

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

2.1.1. Consolidated financial statements

The consolidated financial statements of the Company include the financial statements of Gafisa and its direct and indirect subsidiaries. The Company controls an entity when it is exposed or is entitled to variable returns arising from its involvement with the entity and has the ability to affect those returns through the power that it exerts over the entity. The existence and the potential effects of voting rights, which are currently exercisable or convertible, are taken into account when evaluating whether the Company controls other entity. The subsidiaries are fully consolidated from the date the control is transferred and the consolidation is discontinued from the date control ceases.

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

2.1.2. Functional and presentation currency

The functional and presentation currency of the Company is Real.

2.1.3. Presentation of segment information

The presentation of operating segment information is consistent with the internal reports provided to the main decision makers of operational matters, the Board of Executive Officers and the Board of Directors, who are responsible for allocating resources, assessing the performance of operating segments, and making strategic decisions.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.1. Accounting judgments, estimates and assumptions

Accounting estimates and judgments are evaluated on an ongoing basis based on historical experience and other factors, including expectations on future events, considered reasonable under the circumstances.

The preparation of the individual and consolidated financial statements of the Company requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent liabilities, at the reporting date of financial statements.

Assets and liabilities subject to estimates and assumptions include the provision for impairment of asset, transactions with share-based payment, provision for legal claims, fair value of financial instruments, measurement of the estimated cost of ventures, deferred tax assets, among others.

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:

a) Impairment loss of non-financial assets

An impairment loss exists when the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use.

The calculation of the fair value less cost to sell is based on available information on sale transactions of similar assets or market prices less additional costs of disposal. The calculation of the value in use is based on the discounted cash flow model.

Cash flows are derived from the budget for the following five years, and do not include uncommitted restructuring activities 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 used under the discounted cash flow method, the estimated future cash inflows, and to the growth rate used for purposes of extrapolation.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

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

Indefinite lived intangible assets and goodwill attributable to future economic benefit are tested at least annually, and/or when circumstances indicate a decrease in the carrying value. The main assumptions used for determining the recoverable amount of cash-generating units are detailed in Note 9.

b) Share-based payment transactions

The Company measures the cost of transactions with employees to be settled with shares based on the fair value of equity instruments on the grant date. For cash-settled share-based transactions, the liability is required to be remeasured at the end of each reporting period through the settlement date, recognizing in profit or loss possible changes in fair value, which requires revaluation of the estimates used at the end of each reporting period. 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 for estimating the fair value of share-based payments are disclosed in Note 18.3.

c) *Provision for legal claims*

The Company recognizes a provision for tax, labor and civil claims (Note 16). The assessment of the probability of a loss includes the evaluation of the available evidences, the hierarchy of laws, existing case law, the latest court decisions and their significance in the judicial system, and the opinion of external legal counsel. Provisions are reviewed and adjusted to take into account the changes in circumstances, such as applicable statutes of limitations, findings of tax inspections, or additional exposures found based on new court issues or decisions.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

c) Provision for legal claims--Continued

There are uncertainties inherent in the interpretation of complex tax rules and in the value and timing of future taxable income. In the ordinary course of business, the Company and its subsidiaries are subject to assessments, audits, legal claims and administrative proceedings in civil, tax and labor matters.

d) Allowance for doubtful accounts and cancelled contracts

The Company measures the allowance for doubtful accounts and cancelled contracts based on assumptions which consider the history of its current operations and its estimates. Such estimates are annually reviewed to consider any changes in circumstances and histories.

e) Warranty provision

The measurement of the warranty provision, to cover expenditures for repairing construction defects covered during the warranty period, is based on the estimate that considers the history of incurred expenditures adjusted by the future expectation, which is regularly reviewed.

f) *Estimated cost of construction*

Estimated costs, mainly comprising the incurred and estimated costs for completing the construction projects, are regularly reviewed, based on the progress of construction, and any resulting adjustments are recognized in profit or loss of the Company. The effects of such estimate reviews affect profit or loss.

g) *Realization of deferred income tax*

The initial recognition and further analysis of the realization of a deferred tax asset is carried out when it is probable that a taxable profit will be available in subsequent years to offset the deferred tax asset, based on projections of results, and based on internal assumptions and future economic scenarios that enable its total or partial use.

The other provisions recognized in the Company are described in Note 2.2.22.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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. <u>Recognition of revenue and expenses</u>

(i) *Real estate development and sales*

(a) For the sales of completed units, revenues are recognized upon completion of the sale, and the transfer of significant risks and rewards, regardless of the timing of receipt from the customer.

(b) For the pre-sale of completed units during construction phase:

- The incurred cost (including cost of land, and other directly related expenditure) that corresponds to the units sold is included in profit or loss. For the units not yet sold, the incurred cost is included in inventory (Note 2.2.7);

- Sales revenues are appropriated to profit or loss, using the percentage-of-completion method for each venture, this percentage being measured in view of the incurred cost in relation to the total estimated cost of the respective ventures;

- Sales revenues recognized in excess of actual payments received from customers is recorded as either a current asset or long-term receivables in “Trade accounts receivable”. Any payment received in connection with the sales of units that exceeds the amount of revenues recognized is recorded as “Payables for purchase of land and advances from customers ";

- Interest and inflation-indexation charges on accounts receivable, as well as the adjustment to present value of account receivable, are included in the real estate development and sales when incurred, on a pro rata basis using the accrual basis of accounting;

- 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 included in the incurred cost of units under construction until their completion, and follow the same recognition criteria as the cost of real estate development for units sold while under construction;

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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--Continued

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

- 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 this difference in revenues is recognized; and

- Other expenses, including advertising and publicity, are recognized in profit or loss when incurred.

(ii) *Construction services*

Revenues from real estate services are recognized as services are rendered and tied to the construction management activities for third parties and technical advisory services.

(iii) *Barter transactions*

Barter transactions have the objective of receiving land from third parties that are settled with the delivery of real estate units or transfer of portions of the revenue from the sale of real estate units of ventures. The land acquired by the Company and its subsidiaries is determined based on fair value, as a component of inventories, with a corresponding entry to advances from customers in liabilities. Revenues and costs incurred from barter transactions are included in profit or loss over the course of construction period of ventures, as previously described in item (b).

2.2.3. Financial instruments

Financial instruments are recognized from the date the Company becomes a party to the contractual provisions of financial instruments, and mainly comprise cash and cash equivalents, short-term investments, account receivable, loans and financing, suppliers, and other debts.

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

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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. <u>Financial instruments</u>--Continued

(i) *Financial instruments through profit or loss*

A financial instrument is classified into fair value through profit or loss if it is held for trading, or 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 purchase and sale decisions based on their fair value in accordance with the Company's documented investment strategy or risk management. After initial recognition, related transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and their fluctuations are recognized in profit or loss.

In the year ended December 31, 2016, the Company held derivative financial instruments with the objective of mitigating the risk of its exposure to the volatility of indices and interest rates, recognized at fair value directly in profit or loss. In accordance with its treasury policies, the Company does not have or issue derivative financial instruments for purposes other than for hedging.

The Company does not adopt the hedge accounting practice.

(ii) *Financial assets*

Financial assets are classified into financial assets at fair value through profit or loss, 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 it becomes a party to 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 are directly attributable to their acquisition.

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

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Notes to the financial statements

December 31, 2016

(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

Derecognition (write-off)

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

- The rights to receive cash inflows of an asset expire;

- The Company transfers its rights to receive cash inflows of an asset or assume an obligation of fully pay the cash inflows received, without significant delay, to a third party because of a "transfer" agreement; and (a) the Company substantially transfers the risks and rewards of the asset, or (b) the Company does not substantially transfer or retain all risks and rewards related to the asset, but transfers the control over the asset.

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

The continuous involvement by means of a guarantee on the transferred asset is measured at the lower of the original carrying value of the asset and the highest consideration that may be required from the Company.

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

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

Loans and financing

Subsequent to initial recognition, loans and financing accruing interest are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in statement of profit or loss, at the time liabilities are derecognized, as well as during the amortization process using the effective interest rate method.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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 derecognized when its contractual obligations are discharged, cancelled or expire.

When an existing financial liability is substituted for another from the same creditor, under substantially different terms, or when the terms of an existing liability are significantly modified, 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 profit or loss.

2.2.4. Cash and cash equivalents and short-term investments

Cash and cash equivalents substantially comprise demand deposits and bank certificates of deposit held under resale agreements, denominated in Reais, with high market liquidity and original contractual maturities of 90 days or less, and for which there are no penalties or other restrictions for the immediate redemption thereof.

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

Short-term investments include bank deposit certificates, federal government bonds, exclusive investment funds that are fully consolidated, and collaterals, which are classified at fair value through profit or loss (Note 4.2).

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

These are presented at present and realization values. The classification between current and non-current is made based on the expected maturity of contract installments, considering current those falling due in one year or less.

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 at 12% p.a., after the delivery of the units.

The adjustment to present value is calculated between the contract signature date and the estimated date to transfer the completed property' keys to the buyer, using a discount rate represented by the average rate of the financing obtained by the Company, net of inflation, as mentioned in Note 2.2.19.

Considering that financing its customers is an important part of the Company operations, the reversal of the present value adjustment 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 the period subsequent to the handover of keys.

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 receivables with collateral of completed projects and those still under construction. 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. When there is no right of recourse, this assignment is recorded as reduction of accounts receivable. When there is right of recourse against the Company, the assigned receivable is maintained in the statement of financial position and the funds from assignment are classified into the account “Obligations assumed on assignment of receivable”, until certificates are settled by customers.

In this situation, the transaction cost is recorded in “financial expenses” in the statement of profit or loss for the year in which it is made.

When there are financial guarantees, represented by the acquisition of subordinated CRI, they are recorded on the statement of financial position as “short-term investments” at the realizable value, which is equivalent to fair value.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.7. Properties for sale

The Company and its subsidiaries acquire land for future real estate developments, on payment conditions in current currency or through barter transactions. Land acquired through barter transaction is stated at fair value of the units to be delivered, and the revenue and cost are recognized according to the criteria described in Note 2.2.2 (iii).

Properties are stated at construction cost, and decreased by the provision when it exceeds its net realizable value. In the case of real estate under construction, 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 classification of land between current and non-current assets is made by Management based on the expected period for launching real estate ventures. Management periodically revises the estimates of real estate ventures launches.

2.2.8. Prepaid expenses

These are recognized in profit or loss as incurred using the accrual basis of accounting.

2.2.9. Land available for sale

Land available for sale is measured at the lower of the carrying value and the fair value less costs to sell, and is classified as held for sale if its carrying value is to be recovered through a sale transaction of the land. This condition is considered fulfilled only when the sale is highly probable, and the asset is available for immediate sale under its current condition. Management shall commit to sell it within one year of the classification date.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.10. Investments in ownership interests

Investments in ownership interest are recorded in the Company balance using the equity method.

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

2.2.11. Property and equipment

Items of property and equipment are measured at cost, less accumulated depreciation and/or any accumulated impairment losses, if applicable.

An item of property and equipment 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 value of the asset) is recognized in profit or loss upon derecognition.

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

Expenditures incurred in the construction of sales stands, display apartments and related furnishings are capitalized as property and equipment of the Company and its subsidiaries. Depreciation of these assets commences upon launch of the development and is recorded over the average term the stand is in use, and is written-off when it is retired.

Property and equipment are subject to periodic assessments of impairment.

2.2.12. Intangible assets

(i) Expenditures related to the acquisition and implementation of computer systems and software licenses are recorded at acquisition cost, and amortized on straight-line basis over a period of up to five years, and are subject to periodic assessments of impairment of assets.

(ii) The Company's investments in subsidiaries include goodwill when the acquisition cost exceeds the market value of net assets of the acquiree.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.12. Intangible assets--Continued

Impairment testing of goodwill is performed at least annually, or whenever circumstances indicate an impairment loss.

2.2.13. Payables for purchase of properties and advances from customer due to barter

Payables for purchase of land are recognized at the amounts corresponding to the contractual obligations assumed. Subsequently they are measured at amortized cost, plus interest and charges proportional to the incurred period (“pro rata” basis), net of present value adjustment.

The obligations related to barter transactions of land in exchange for real estate units are stated at fair value of the units to be delivered.

2.2.14. Income tax and social contribution

(i) *Current income tax and social contribution*

Current tax is the expected tax payable or receivable/to be offset in relation to taxable profit for the year.

Income taxes in Brazil comprise income tax (25%) and social contribution (9%), for entities on the standard profit regime, for which the composite statutory rate is 34%. Deferred taxes for these entities are recognized on all temporary tax differences at the reporting date between the tax bases of assets and liabilities, and their carrying values.

As permitted by tax legislation, certain subsidiaries opted for the presumed profit regime, a method under which the taxable profit is calculated as a percentage of gross sales. For these companies, the income tax is calculated on estimated profits at rate of 8% and 12% of gross revenues, respectively, on which the rates of the respective tax and contribution are levied.

As permitted by legislation, the development of certain ventures are subject to the “afetação” regime, based on which the land and its features where a real estate will be developed, as well as other binding assets, rights and obligations, are separated from the developer’s assets, and comprise the “patrimônio de afetação” (detached assets), intended for the completion of the corresponding development, and delivery of real estate units to the respective buyers. In addition, certain subsidiaries made the irrevocable option for the Special Taxation Regime (RET), according to which the income tax and social contribution are calculated at 1.92% on gross revenues (4% also considering PIS and COFINS on revenues).

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.14. Income tax and social contribution--Continued

(ii) *Deferred income tax and social contribution*

Deferred taxes are recognized in relation to tax losses and temporary differences between the amount of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes.

They are recognized to the extent that it is probable that future taxable profit will be available to be used for offsetting deferred tax assets, based on profit projections made using internal assumptions, and considering future economic scenarios that make it possible their full or partial use, upon the recognition of a provision for the non-realization of the balance. The recognized amounts are periodically reviewed, and the impacts of realization or settlement are reflected in compliance with tax legislation provisions.

Deferred tax on accumulated tax losses does not have an expiration date, however, they can only be offset against up to 30% of the taxable profit for each year. Companies that opt for the presumed profit tax regime cannot offset tax losses for a period in subsequent years.

Deferred tax assets and liabilities are stated at net amount in the statement of financial position when there is the legal right and intention to offset them when determining the current taxes, related to the same legal entity and the same tax authority.

2.2.15. Other current and non-current liabilities

These liabilities are stated at their known or estimated amounts, plus, when applicable, adjustment for charges and inflation-indexed variations through the reporting date of the statement of financial position, which contra-entry is recorded in profit or loss. When applicable, current and non-current liabilities are recorded at present value based on interest rates that reflect the term, currency and risk of each transaction.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.16. Stock option plans

As approved by its Board of Directors, the Company offers executives and employees share-based compensation plans ("Stock Options"), as payments for services received.

The fair value of options is determined on the grant date, considering that it is recognized as expense in profit or loss (as contra-entry to equity), to the extent services are provided by employees and management members.

In an equity-settled transaction, in which the plan is modified, a minimum expense is recognized corresponding to the expense as if the terms have not been changed. An additional expense is recognized for any modification that increases the total fair value of granted options, or that otherwise benefits the employee, measured on the modification date.

In case of cancellation of a stock option plan, this is treated as if it had been granted on the cancellation date, and any unrecognized plan expense is immediately recognized. However, if a new plan substitutes the cancelled plan, and a substitute plan is designated on the grant date, the cancelled plan and the new plan are treated as if they were a modification of the original plan, as previously mentioned.

The Company annually revises its estimates of the amount of options that shall be vested, considering the vesting conditions not related to the market and the conditions based on length of service. The Company recognizes the impact of the revision of the initial estimates, if any, in the statement of profit or loss, as contra-entry to equity.

2.2.17. Share-based payment – Phantom Shares

The Company has a cash-settled share-based payment plan (phantom shares) under fixed terms and conditions. There is no expectation of the effective negotiation of shares, once there shall be no issue and/or delivery of shares for settling the plan.

According to CPC 10 (R1) – Share-based Payment, these amounts are recorded as a reserve payable, with contra-entry in profit or loss for the year, based on the fair value of the phantom shares granted, and during the vesting period. The fair value of this liability is remeasured and adjusted every reporting period, according to the change in the fair value of the benefit granted and vesting.

Gafisa S.A.

Notes to the financial statements

December 31, 2016

(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

2.2.18. Other employee benefits

The salaries and benefits granted to the Company's employees and executives include fixed compensation (salaries, social security contributions (INSS), Government Severance Indemnity Fund for Employees (FGTS), vacation pay, and 13th monthly salary, among other) and variable compensation such as profit sharing, bonus, and stock option-based payments. These benefits are recorded in profit or loss for the year, under the account "General and administrative expenses", as they are incurred.

The bonus system operates with individual and corporate targets, structured based on the efficiency of corporate goals, followed by the business goals and, finally, individual goals.

The Company and its subsidiaries do not offer private pension or retirement plans.

2.2.19. Present value adjustment – assets and liabilities

Assets and liabilities arising from long or short-term transactions are adjusted to present value if significant.

In installment sales of not completed units, real estate development entities present receivables adjusted for inflation, including the installment related to the delivery of units, without accrual of interest, and shall be discounted to present value, as the agreed inflation rates do not include interest.

Borrowing costs and those related to finance the construction of real estate ventures are capitalized. Therefore, the reversal of the present value adjustment of an obligation related to these items is included in the cost of real estate unit sold or in the inventories of properties for sale, as the case may be, until the period of construction of the project is completed.

Accordingly, certain assets and liabilities are adjusted to present value based on discount rates that reflect the best estimate of the value of the money over time.

The applied discount rate's underlying economic basis and assumption is the average rate of the financing and loans obtained by the Company, net of the inflationary effect (Notes 5 and 12).

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Notes to the financial statements

December 31, 2016

(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

2.2.20. Debenture and public offering costs

Transaction costs and premiums on issuance of securities are accounted for as a direct reduction in the amount raised by the Company. In addition, transaction costs and premiums on issuance of securities are amortized over the terms of the instrument and the net balance is classified as reduction in the respective transaction (Note 13).

2.2.21. Borrowing costs

The borrowing costs directly attributable to ventures during construction phase, and to land during the development of assets for sale are capitalized as part of the cost of that asset during the construction period, since there is borrowings outstanding, which are recognized in profit or loss to the extent units are sold. All other borrowing costs are recorded as expense when incurred. Borrowing costs comprise interest and other related costs incurred, including those for raising finance.

Charges that are not recognized in profit or loss of subsidiaries are recorded in the financial statements of the Company, in the account investments in non-current assets (Note 9).

2.2.22. Provisions

(i) *Provision for legal claims*

The Company is party to various lawsuits and administrative proceedings. Provisions are recognized for all demands related to lawsuits which expectation of loss is considered probable.

Contingent liabilities for which losses are considered possible are only disclosed in a note to financial statements, and those for which losses are considered remote are neither accrued nor disclosed.

Contingent assets are recognized only when there are secured guarantees or favorable final and unappealable court decisions. Contingent assets with probable favorable decisions are only disclosed in the notes. As of December 31, 2016 and 2015 there are no claims involving contingent assets recorded in the statement of financial position of the Company.

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Notes to the financial statements

December 31, 2016

(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

2.2.22. Provisions--Continued

(ii) *Allowance for doubtful account and cancelled contracts*

The Company annually reviews its assumptions related to the establishment of its allowance for doubtful account and cancelled contracts, taking into account the review of the histories of its current operations and improvement of estimates.

The Company records an allowance for doubtful accounts and cancelled contracts for customers whose installments are past due, based on the assumptions made about each segment of the Company. This allowance is calculated based on the percentage-of-completion of the construction work, a methodology adopted for recognizing profit or loss for the year (Note 2.2.2).

(iii) Provision for penalties due to delay in construction work

As contractually provided, the Company has the practice of provisioning the charges payable to eligible customers for projects whose delivery is delayed over 180 days, in line with the respective contractual clause and history of payments.

(iv) Warranty provision

The Company and its subsidiaries recognize a provision to cover expenditures for repairing construction defects covered during the warranty period, based on the estimate that considers the history of incurred expenditures adjusted by the future expectation, except for the subsidiaries that operate with outsourced companies, which are the direct guarantors of the construction services provided. The warranty period is five years from the delivery of the venture.

(v) Provision for impairment of non-financial assets

When there is evidence of impairment of asset, and the net carrying value exceeds the recoverable amount, a provision for impairment is recorded, adjusting the net carrying value to the recoverable value. Goodwill and intangible assets with indefinite useful lives have the recovery of their amounts tested annually, regardless whether there is any indication of impairment, by comparing to the realization value measured by cash flows discounted to present value, using a discount rate before taxes, which reflects the weighted average cost of capital of the Company.

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Notes to the financial statements

December 31, 2016

(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

2.2.23. Sales taxes

For companies under the taxable profit regime, levied on non-cumulative basis, the PIS and COFINS contribution rates levied at 1.65% and 7.6%, respectively, on gross revenue and discounting certain credits determined based on incurred costs and expenses. For companies that opt for the presumed profit taxation regime, under the cumulative taxation regime, the PIS and COFINS contribution rates levied at 0.65% and 3%, respectively, on gross revenue, without discounts of credits in relation to incurred costs and expenses.

2.2.24. Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and charged to equity. No gain or loss is recognized in the statement of profit or loss upon purchase, sale, issue, or cancellation of the Company’s own equity instruments.

2.2.25. Interest on equity and dividends

The proposal for distributing dividends and interest on equity made by Management that is in the portion equivalent to the minimum mandatory dividend is recorded as current liabilities in the heading “Dividends payable”, as it is considered a legal obligation provided for in the By-laws of the Company.

2.2.26. Earnings (loss) per share – basic and diluted

Basic earnings (loss) per share are calculated by dividing the net income (loss) available (allocated) to ordinary shareholders by the weighted average number of common shares outstanding over the period.

Diluted earnings per share are calculated in a similar manner, except that the shares outstanding are increased, to include the additional shares that would be outstanding, in case the shares with dilutive potential attributable to stock option had been issued over the respective periods, using the weighted average price of shares.

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Notes to the financial statements

December 31, 2016

(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

2.2.27. Non-current asset for sale and profit or loss from discontinued operations

The Company classifies a non-current asset as held for sale if its carrying value is recovered by sale transaction. In such case, the asset or group of assets held for sale shall be available for immediate sale on its current conditions, subject only to the terms that are usual and common for sale of such assets held for sale. With this, the sale shall be highly probable.

For a sale to be highly probable, Management shall be committed to the plan to sell the asset, and shall have initiated an active program to locate a buyer and complete the plan. In addition, the asset held for sale shall also be effectively marketed for sale at a sales price that is reasonable in relation to its current fair value. Also, the sale is expected to be completed within one year of the classification date, unless events beyond the control of the Company change such period.

The asset held for sale is measured at the lower of its carrying value and the fair value less cost to sell. In case the carrying value is higher than the fair value, an impairment loss is recognized in statement of profit or loss for the year. Any reversal or gain will only be recorded within the limit of the recognized loss.

The assets and liabilities of the group of discontinued assets are shown in single lines in assets and liabilities. The profit or loss of discontinued operations is presented as a single amount in the statement of profit or loss, contemplating the total post-tax profit or loss of such operations less any impairment-related loss. The net cash flows attributable to operating, investing and financing activities of discontinued operations are shown in Note 8.2.

According to Note 1, on December 14, 2016, the Company disclosed a material fact informing about the signature of the disposal of up to 30% of the shares issued by Tenda. The completion of the transaction is subject to the verification of certain conditions precedent, among which the decrease in the Company’s capital with effect of distribution to its shareholders of the shares corresponding to 50% of Tenda’s capital, as detailed in Note 8.2.

As required by the CPC 31 – Non-current Assets Held for Sale and Discontinued Operations, for comparability purposes, the information of the statement of profit or loss as of December 31, 2015 is being presented on the same basis of the current year, and its retrospective effects are shown in Note 2.3.

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Notes to the financial statements

December 31, 2016

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

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

2.3. Restatement of Financial Statements

As required by CPC 31 – Non-current Assets Held for Sale and Discontinued Operations, for comparability purposes, the information of the statements of profit or loss, cash flows and value added as of December 31, 2015 are being presented on the same basis of the current year, and its retrospective effects are as follows:

	Company			**Consolidated**		
	Balances originally reported as of 12/31/2015	**Impact of the adoption of CPC 31 (Note 2.2.27)**	**Balances after the adoption of CPC 31**	**Balances originally reported as of 12/31/2015**	**Impact of the adoption of CPC 31 (Note 2.2.27) (a)**	**Balanc after th adoptio of CPC**
<u>Statement of profit or loss</u>						
Net operating revenue	1,107,262	-	1,107,262	2,294,319	(850,962)	1,443
Operating costs	(832,236)	-	(832,236)	(1,667,505)	605,584	(1,061,
Operating (expenses) income	(314,105)	-	(314,105)	(552,294)	216,684	(335,
Income from equity method investments	155,343	(30,320)	125,023	41,766	(1,751)	40
Financial income (expenses)	(53,542)	-	(53,542)	(38,127)	(12,295)	(50,
Income tax and social contribution	11,727	-	11,727	(7,180)	6,522	(
Non-controlling interests	-	-	-	(3,470)	-	(3,
Profit or loss of discontinued operations (Note 8.2)	-	30,320	30,320	-	36,218	36
Net income for the year	**74,449**	**-**	**74,449**	**74,449**	**-**	**74,**
<u>Cash flow</u>						
Operating activities	99,549	-	99,549	91,748	98,310	190
Investing activities	199,464	-	199,464	361,466	(199,090)	162
Financing activities	(288,761)	-	(288,761)	(480,469)	140,742	(339,

Statement of value added						
Net value added produced by the entity	342,586	30,320	372,906	709,284	(190,166)	519
Value added received on transfer	222,873	(30,320)	192,553	165,897	(48,576)	117
Total value added to be distributed	565,459	-	565,459	875,181	(238,742)	636

(a) Amounts after elimination of consolidation items.

Additionally for purposes of improving the presentation of the consolidated financial statements for the year ended December 31, 2015, the Company reclassified the goodwill supporting future profitability of Intangible assets (Note 11) into Investments (Note 9) in the amount of R$25,476, as it refers to an investment in associate.

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Notes to the financial statements

December 31, 2016

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

3. New standards, changes and interpretation of standards issued and not yet adopted

- IFRS 9 – Financial Instruments (CPC 48)

IFRS 9 replaces the guidance of IAS 39 (CPC 38) Financial Instruments: Recognition and Measurement, and includes the new models for classification and measurement of financial instruments, and measurement of expected credit losses for financial and contractual assets, as well as new requirements for hedge accounting. The standard maintains the existing guidance on the recognition and derecognition of financial instruments of IAS 39. IFRS 9 is effective for years beginning on or after January 1, 2018.

The effective impact of the adoption of IFRS 9 on the Company's financial statements in 2018 cannot be reliably estimated, because it will depend on the financial instruments that the Company holds and the economic conditions in 2018, as well as the accounting decisions and judgments that the Company will make in the future. The new standard will require Management to review its accounting processes and internal controls related to the classification and measurement of financial instruments, and these changes has not been completed yet.

- IFRS 15 – Revenue from Contracts with Customers (CPC 47)

This standard introduces new requirements for measurement and recognition of revenue under both IFRS and U.S. GAAP. The IFRS 15 – Revenue from Contracts with Customers, requires an entity to recognize the amount of revenue reflecting the consideration it expects to receive in exchange for the control over such goods or services. The new standard is going to replace most of the detailed guidance on the recognition of revenue that currently exists under the IFRS, including the CPC 30 (IAS 18) Revenue and CPC 17 (IAS 11) Construction Contracts, and U.S. GAAP when adopted. For the specific case of the real estate development sector, maintaining the POC revenue recognition method or the adoption of the method of keys, for example, will result of the contractual analyses made by Management. The Company has evaluated the effects of such standard and not yet concluded its analyses on the impact of its adoption.

The new standard is applicable beginning on or after January 1, 2018. The standard can be applied retrospectively, adopting a cumulative effect approach.

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Notes to the financial statements

December 31, 2016

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

3. New standards, changes and interpretation of standards issued and not yet adopted--Continued

- IFRS 16 – Leases

This standard replaces the previous lease standard, IAS 17/CPC 06 (R1) – Leases, and related interpretation, and establishes the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is, the customers (lessees) and providers (lessors). Lessees are required to recognize a lease liability reflecting the future lease payments and a "right-of-use assets" for practically all lease contracts, except certain short-term leases and contracts of low-value assets. For lessors, the criteria for recognition and measurement of leases in the financial statements are substantially maintained. This standard is effective beginning on January 1, 2019.

The Company is evaluating the effects of the IFRS 16 on its financial statements and has not yet concluded its analysis on the impact of their adoption.

The entities that disclose their financial statements according to the accounting practices adopted in Brazil are not permitted to early adopt such IFRS.

There is no other standard, changes to standards or interpretation issued and not yet adopted that could, on the Management's opinion, have significant impact arising from their adoption on its financial statements.

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Notes to the financial statements

December 31, 2016

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

4. Cash and cash equivalents and short-term investments

4.1. Cash and cash equivalents

	Company		Consolidated	
	2016	2015	**2016**	2015
Cash and banks	**19,811**	31,823	**29,534**	69,560
Securities purchased under resale agreements (a)	**-**	12,221	**-**	13,080
Total cash and cash equivalents				
(Note 20.ii.a and 20.iii)	**19,811**	44,044	**29,534**	82,640

(a) Securities purchased under resale agreement comprise securities issued by Banks with a repurchase commitment by the bank, and resale commitment by the customer, at rates and terms agreed upon, backed by corporate or government securities, depending on the bank, and are registered with the CETIP.

As of December 31, 2016, the securities purchased under resale agreement include interest earned through the reporting date of the statement of financial position, ranging from 75% to 101.5% of Interbank Deposit Certificates (CDI) (from 75% to 100.5% of CDI in 2015). All investments are carried out with what management considers to be top tier financial institutions.

4.2. Short-term investments

	Company		Consolidated	
	2016	2015	**2016**	2015
Fixed-income funds (a)	**95,672**	192,409	**123,868**	279,486

Government bonds (LFT) (a)	**3,762**	10,081	**6,018**	18,631
Corporate securities (LF/DPGE) (a)	**19,845**	51,835	**31,742**	95,801
Securities purchased under resale agreements (Note 4.1 (a))	**11,600**	11,890	**11,935**	25,548
Bank certificates of deposit (a) / (b)	**17,332**	54,491	**27,834**	101,733
Restricted cash in guarantee to loans (c)	**10,669**	20,515	**10,669**	31,633
Restricted credits (d)	**4,682**	9,122	**11,580**	76,839
Total short-term investments				
(Note 20.i.d, 20.ii.a and 20.iii)	**163,562**	350,343	**223,646**	629,671

(a) Structure of exclusive Investment funds aimed at earning interest on funds in excess of the variation in the Interbank Deposit Certificate (CDI). These funds have mandates of risks that are periodically monitored and observe the internal investment policies in effect.

(b) As of December 31, 2016, Bank Certificates of Deposit (CDBs) include interest earned through the reporting date of the statement of financial position, varying from 90% to 100.8% (from 90% to 107% in 2015) of Interbank Deposit Certificates (CDI) rate. The CDBs earn an average income in excess of those from securities purchased under resale agreements; however, the Company invests in short term (up to 20 working days) through securities purchased under resale agreements taking into account the exemption of IOF, which is not granted in the case of CDBs.

(c) Restricted cash in guarantee to loans are investments in fixed-income funds, with appreciation of shares through investments only in federal government bonds, indexed to fixed rates or to price indexes, and pledged to guarantee a portion of the Company's issuances. These amounts are periodically released, when there is a surplus of guarantee in the issuance and/or as provided for in the indenture. See further information in Notes 13 and 16(b).

(d) Restricted credits are represented by onlending of the funds from associate credit ("*crédito associativo*"), a type of government real estate financing, which are in process of approval at the Caixa Econômica Federal (a Federally owned Brazilian bank used for real estate financing purpose). These approvals are made to the extent the contracts signed with customers at the financial institutions are regularized, which the Company expect to be in up to 90 days.

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Notes to the financial statements

December 31, 2016

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

5. Trade accounts receivable of development and services

	Company		Consolidated	
	2016	2015	**2016**	2015
Real estate development and sales	**769,743**	1,001,351	**1,019,359**	1,895,795
(-) Allowance for doubtful accounts and cancelled contracts	**(19,315)**	(12,365)	**(19,315)**	(100,530)
(-) Present value adjustments	**(21,235)**	(21,527)	**(26,816)**	(31,052)
Services and construction and other receivables	**20,414**	18,583	**20,734**	38,151
Total trade accounts receivable of development and services				
(Note 20.ii.a)	**749,607**	986,042	**993,962**	1,802,364
Current portion	**524,337**	723,950	**722,640**	1,395,273
Non-current portion	**225,270**	262,092	**271,322**	407,091

The current and non-current portions fall due as follows:

	Company		Consolidated	
Maturity	**2016**	2015	**2016**	2015
Overdue:				
Up to 90 days	**46,235**	116,229	**64,830**	207,838
From 91 to 180 days	**41,705**	14,568	**45,442**	50,985
Over 180 days	**73,652**	74,727	**93,265**	290,247
	161,592	205,524	**203,537**	549,070
Falling due:				
2016	**-**	543,781	**-**	925,543
2017	**383,477**	148,568	**544,292**	286,138
2018	**94,231**	62,256	**111,007**	83,266
2019	**97,079**	20,254	**120,367**	34,518
2020	**41,775**	39,551	**45,552**	55,411

2021 onwards	**12,003**	-	**15,338**	-
	628,565	814,410	**836,556**	1,384,876
(-) Present value adjustment	**(21,235)**	(21,527)	**(26,816)**	(31,052)
(-) Allowance for doubtful account and cancelled contracts	**(19,315)**	(12,365)	**(19,315)**	(100,530)
	749,607	986,042	**993,962**	1,802,364

The balance of accounts receivable from units sold and not yet completed is not fully reflected in the financial statements. Its recording is limited to the portion of the recognized revenues net of the amounts already received, according to the accounting practice mentioned in Note 2.2.2(i)(b).

As of December 31, 2016, the amount received from customers in excess of the recognized revenues totaled R$24,295 (R$19,337 in 2015) in the Company's statements, and R$35,024 (R$39,743 in 2015) in the consolidated financial statements, and are classified in the heading "Payables for purchase of properties and advances from customers" (Note 17).

Accounts receivable from completed real estate units financed by the Company are in general subject to IGP-M variation plus annual interest of 12%, with revenue being recorded in profit or loss in the account "Revenue from real estate development and sale, barter transactions and construction services". The interest amounts recognized in the Company and consolidated statements for the year ended December 31, 2016 totaled R$23,802 (R$29,866 in 2015), and R$28,230 (R$40,089 in 2015), respectively.

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Notes to the financial statements

December 31, 2016

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

5. Trade accounts receivable of development and services--Continued

The balances of allowance for doubtful accounts and cancelled contracts are considered sufficient by the Company's management to cover the estimate of future losses on realization of the accounts receivable.

During the years ended December 31, 2016 and 2015, the changes in the allowance for doubtful accounts and cancelled contracts are summarized as follows:

	Company	
	2016	2015
Balance at December 31	**(12,365)**	(5,616)
Additions (Note 22)	**(8,438)**	(6,749)
Write-offs / Reversals (Note 22)	**1,488**	-
Balance at December 31	**(19,315)**	(12,365)

	Consolidated		
	Receivables	**Properties for sale (Note 6)**	**Net**
Balance at December 31, 2014	(109,893)	52,309	**(57,584)**
Additions	(6,749)	-	**(6,749)**
Write-offs	16,112	(30,545)	**(14,433)**
Balance at December 31, 2015	(100,530)	21,764	**(78,766)**
Reclassification to discontinued operations	88,165	(21,764)	**66,401**
Additions (Note 22)	(8,438)	-	**(8,438)**
Write-offs / Reversals (Note 22)	1,488	-	**1,488**
Balance at December 31, 2016	**(19,315)**	**-**	**(19,315)**

The reversal of the present value adjustment recognized in revenue from real estate development for the year ended December 31, 2016 totaled R$(292) (R$4,432 in 2015), in the Company's statements and R$(3,762) (R$6,106 in 2015) in the consolidated statements.

Receivables from units not yet completed were measured at present value using a discount rate determined according to the criteria described in Note 2.2.2. The discount rate applied by the Company and its subsidiaries was 9.00% for the year 2016 (6.78% in 2015), net of Civil Construction National Index (INCC).

The Company entered into the following Housing Loan Certificate (CCI) transactions, which are aimed at the assignment by the assignor to the assignee of a portfolio comprising select residential and business real estate receivables performed and to be performed arising out of Gafisa and its subsidiaries. The assigned portfolios, discounted to present value, are recorded under the heading "obligations assumed on the assignment of receivables".

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Notes to the financial statements

December 31, 2016

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5. Trade accounts receivable of development and services--Continued

	Transaction date	Assigned accounting portfolio	Portfolio discounted to present value	Transaction balance Company (Nota 14) 2016	2015	Transaction balance Consolidated (Note 14) 2016	2015
(i)	Jun 27, 2011	203,915	171,694	1,208	3,164	2,148	4,775
(ii)	Dec 22, 2011	72,384	60,097	1,405	2,071	1,471	2,236
(iii)	Jul 06, 2012	18,207	13,917	68	368	68	368
(iv)	Nov 14, 2012	181,981	149,025	-	-	4,651	4,351
(v)	Dec 27, 2012	72,021	61,647	5,402	7,541	5,402	7,541
(vi)	Nov 29, 2013	24,149	19,564	1,666	2,858	4,307	6,362
(vii)	Nov 25, 2014	15,200	12,434	2,530	4,646	4,344	6,696
(viii)	Dec 03, 2015	32,192	24,469	8,005	13,053	15,988	24,558
(ix)	Mar 04, 2016	27,954	27,334	16,091	-	17,178	-
(x)	May 09, 2016	17,827	17,504	11,481	-	14,407	-
(xi)	Aug 16, 2016 (a)	15,418	14,943	9,164	-	9,164	-
(xii)	Dec 21, 2016	21,102	19,532	18,343	-	18,948	-

(a) The consolidated balance of the transaction as of December 31, 2016 (Note 14) does not include the jointly-controlled entities, which are accounted for using the equity method, according to CPCs 18(R2) and 19(R2).

In the transactions above, the Company and its subsidiaries are jointly responsible until the time of the transfer of the collateral to the securitization company.

For the items (i) to (iii) and (viii) to (xii) above, the Company was engaged to perform, among other duties, the management of the receipt of receivables, the assignment's underlying assets, collection of defaulting customers, among other, according to the criteria of each investor, being paid for these services.

The difference between the face value of the portfolio of receivables and the amount discounted to present value was recorded in profit or loss in the account “Discount related to Securitization Transaction” under financial expenses.

6. Properties for sale

	Company		
	2016	2015	
Land	**667,805**	775,814	**8**
(-) Provision for loss on realization of land	**(43,505)**	-	**(**
(-) Provision for loss on realization of inventory surplus (Note 9)	**-**	-	**(**
(-) Adjustment to present value	**(8,089)**	(9,639)	
Property under construction	**328,783**	545,701	**5**
Real estate cost in the recognition of the provision for cancelled contracts (Note 5)	**-**	-	
Completed units	**520,246**	216,073	**5**
(-) Provision for loss on realization of properties under construction and completed units	**(59,663)**	(5,437)	**(**
Total properties for sale	**1,405,577**	1,522,512	**1,7**
Current portion	**870,201**	1,135,137	**1,1**
Non-current portion	**535,376**	387,375	**5**

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Notes to the financial statements

December 31, 2016

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

6. **Properties for sale**--Continued

In the years ended December 31, 2016 and 2015, the change in the provision for loss on realization is summarized as follows:

	Company	**Consolidated**
Balance at December 31,2014	**(7,760)**	**(12,309)**
Additions	-	(1,236)
Write-offs / Reversals	2,323	5,054
Balance at December 31,2015	**(5,437)**	**(8,491)**
Reclassification to discontinued operations	**-**	**3,054**
Additions:		
Land (Note 23)	**(43,505)**	**(43,505)**
Property under construction and completed units (Note 23)	**(54,226)**	**(54,226)**
Inventory surplus (Notes 9 and 23)	**-**	**(62,343)**
Balance at December 31,2016	**(103,168)**	**(165,511)**

As disclosed in Note 12, the balance of capitalized financial charges as of December 31, 2016 amounts to R$329,651 (R$287,806 in 2015) in the Company’s statements and R$343,231 (R$299,649 in 2015) in the consolidated statements.

7. **Other accounts receivable and others**

	Company		Consolidated	
	2016	2015	**2016**	2015
Advances to suppliers	**1,758**	1,582	**2,567**	7,102
Recoverable taxes (IRRF, PIS, COFINS, among other)	**15,708**	20,712	**25,901**	66,289
Judicial deposit (Note 16)	**78,172**	105,275	**79,785**	125,358
Repayment of Tenda's capital (Notes 8.2 and 31(ii))	**100,000**	-	**-**	-
Other	**-**	-	**-**	4,788
Total other accounts receivable and others	**195,638**	127,569	**108,253**	203,537
Current portion	**39,280**	46,621	**49,336**	120,657
Non-current portion	**156,358**	80,948	**58,917**	82,880

8. Assets held for sale

8.1 Land available for sale

The Company, in line with its strategic direction, opted to sell land not included in the Business Plan approved for 2017. Likewise, it devised a specific plan for the sale of such land. The carrying value of such land, adjusted to market value when applicable, after the test for impairment, is as follows:

	Company			Consolidated		
	Cost	**Provision for impairment**	**Net balance**	**Cost**	**Provision for impairment**	**Net balance**
Balance at December 31, 2014	**19,457**	**(13,385)**	**6,072**	**161,737**	**(51,174)**	**110,563**
Additions	-	-	-	9,735	(19,152)	(9,417)
Transfer from (to) properties for sale, net	-	-	-	(617)	-	(617)
Reversal/Write-offs	-	(1,705)	(1,705)	(23,182)	28,510	5,328
Balance at December 31, 2015	**19,457**	**(15,090)**	**4,367**	**147,673**	**(41,816)**	**105,857**
Reclassification to discontinued operations	-	-	-	(128,216)	26,726	(101,490)
Additions	2,269	(142)	2,127	2,269	(142)	2,127
Reversal/Write-offs	(9,490)	6,302	(3,188)	(9,490)	6,302	(3,188)
Balance at December 31, 2016	**12,236**	**(8,930)**	**3,306**	**12,236**	**(8,930)**	**3,306**

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Notes to the financial statements

December 31, 2016

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

8. Assets held for sale--Continued

8.2 Assets held for sale and profit or loss of discontinued operations

	Company		Consolidated	
	2016	2015	**2016**	2015
Investment portion	**1,049,125**	-	**-**	-
Impairment loss (i)	**(610,105)**		**(610,105)**	
Assets of discontinued operations (ii)	**-**	-	**1,799,116**	-
Total assets of discontinued operations	**439,020**		**1,189,011**	
Repayment of capital receivable (Note 7)	**100,000**	-	**-**	-
Total (Nota 9 (h))	**539,020**		**1,189,011**	
Liabilities related to the assets of discontinued operations(ii)	**-**	-	**651,812**	-
Impairment loss (i)	**(610,105)**	**-**	**(610,105)**	**-**
Tenda's profit or loss (ii)	**56,650**	**30,320**	**50,401**	**36,218**
Profit or loss of discontinued operations	**(553,455)**	**30,320**	**(559,704)**	**36,218**

(i) The measurement of non-current asset held for sale at the lower of its carrying value and the fair value less cost to sell, considering the price of R$8.13 per share, according to the contract.

(ii) The amounts of the assets of discontinued operations, liabilities related to discontinued operations, and profit or loss of discontinued operations, net of the eliminations related to intercompany transactions.

According to Note 1, on December 14, 2016, the Company disclosed a material fact informing about the contract for purchase and sale of shares with Jaguar Real Estate Partners LP, aimed at the disposal of up to 30% of the shares issued by Tenda, with the latter being estimated at R$539,020, at the price of R$8.13

per share.

The completion of the transaction is subject to the fulfillment of certain conditions precedent, among which the following is worth noting: (i) decrease in Tenda's capital, with no cancellation of shares, and repayment to the Company, its only shareholder, of R$ 100,000, indexed to the country's base rate (Selic), of which (a) R$ 50,000 shall be paid until December 31, 2018, and (b) the remaining balance shall be paid until December 31, 2019, with possibility of paying it in advance due to the fulfillment of certain targets set in the contract (Note 31(ii)); (ii) decrease in Company's capital, with the effect of the distribution to its shareholders of the shares corresponding to 50% of Tenda's capital (Note 31(i)(c)); and (iii) the completion of the procedure related to the exercise, by Gafisa's shareholders, of the preemptive right to share acquisition, for the price per share set for the transaction, having observed that in this context the Company will offer to its shareholders 50% of the shares representing Tenda's capital that it holds, and not only the 30% which had been the subject of Jaguar's offer, given its decision to make the disposal of such shares, even in multiple transactions.

For purposes of compliance with paragraph 38 of CPC 31 – Non-current Asset Held for Sale and Discontinued Operations, the Company shows below the main classes of assets and liabilities classified as held for sale of the subsidiary Tenda as of December 31, 2016, after eliminations of consolidation items, demonstrated as follows:

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December 31, 2016

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

8. Assets held for sale--Continued

8.2 Assets held for sale and profit or loss of discontinued operations--Continued

Assets	**2016**	**Liabilities**	**2016**
Current assets		Current liabilities	
Cash and cash equivalents	28,414	Loans and financing	41,333
Short-term investments	195,073	Payables for purchase of properties and advance from customers	131,280
Trade accounts receivable	250,474		
Properties for sale	563,576	Other payables	150,663
Land for sale	75,227		
Other current assets	104,606		
Total current assets	**1,217,370**	**Total current liabilities**	**323,276**
Non-current		Non-current liabilities	
Trade accounts receivable	176,673	Loans and financing	93,661
Properties for sale	211,711	Payables for purchase of properties and advance from customers	104,343
Other non-current assets	60,556		
Investments	84,798	Provisions for legal claims	44,951
Property and equity and intangible assets	48,008	Other payables	85,581
Total non-current assets	**581,746**	**Total non-current liabilities**	**328,536**
Total assets	**1,799,116**	**Total liabilities**	**651,812**

The main lines of the statement of profit or loss and cash flow of the subsidiary Tenda are as follows:

Statement of profit or loss	**2016**	2015	**Cash flow**	**2016**	2015
Net operating revenue	1,052,710	850,962	Operating activities	137,055	(85,495)
Operating costs	(729,705)	(605,584)	Investing activities	4,997	222,288
Operating expenses, net	(216,973)	(201,849)	Financing activities	(135,291)	(176,755)

Depreciation and amortization	(12,298)	(14,835)
Income from equity method investments	(5,456)	1,751
Financial income (expenses)	(20,043)	5,774
Income tax and social contribution	(20,966)	(6,522)
	47,269	**29,697**
Non-controlling interests	(9,381)	(623)
Net income for the year	**56,650**	**30,320**

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December 31, 2016

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

9. Investments in subsidiaries and jointly controlled investees

(i) <u>Ownership interests</u>

(a) *Information on subsidiaries and jointly-controlled investees*

	Interest in capital - %		Total assets	Total liabilities	Equity and advance for future capital increase		Profit (loss) for the year		Company				Cons	
									Investments		Income from equity method investments		Investment	
	2016	2015	2016	2016	2016	2015	2016	2015	2016	2015	2016	2015	2016	201
-	**100%**	100%	**1,862,148**	**813,023**	**1,049,125**	1,090,935	**56,650**	30,320	**-**	1,090,935	**-**	-	-	
-	**30%**	30%	**2,607,994**	**2,011,373**	**596,620**	728,519	**(108,298)**	148,144	**178,986**	218,556	**(32,490)**	50,478	**178,986**	218,5
-	**100%**	100%	**176,469**	**9,982**	**166,487**	167,361	**(873)**	(585)	**166,487**	167,361	**(873)**	(585)	**-**	
-	**100%**	100%	**167,238**	**84,666**	**82,572**	53,323	**5,481**	6,236	**82,572**	53,323	**5,481**	6,236	**-**	
a)	**50%**	50%	**193,080**	**72,286**	**120,794**	103,372	**17,421**	22,864	**60,397**	51,686	**8,711**	11,432	**60,397**	51,6
-	**100%**	100%	**121,352**	**58,841**	**62,511**	79,764	**(17,253)**	13,127	**62,511**	79,764	**(17,253)**	13,127	**-**	
-	**100%**	100%	**119,892**	**62,513**	**57,379**	48,883	**8,495**	1,442	**57,379**	48,883	**8,495**	1,442	**-**	

-	**100%**	100%	**81,230**	**28,517**	**52,713**	60,362	**(2,949)**	2,361	**52,713**	60,362	**(2,949)**	2,361	**-**	
-	**100%**	100%	**150,335**	**100,703**	**49,632**	31,624	**15,052**	20,420	**49,632**	31,624	**15,052**	20,420	**-**	
-	**100%**	100%	**98,945**	**52,532**	**46,413**	35,718	**296**	8,386	**46,413**	35,718	**296**	8,386	**-**	
-	**100%**	100%	**54,269**	**8,420**	**45,849**	46,825	**(976)**	581	**45,849**	46,825	**(976)**	581	**-**	
-	**100%**	100%	**91,660**	**46,692**	**44,968**	46,897	**(1,929)**	20,150	**44,968**	46,897	**(1,929)**	20,150	**-**	
-	**100%**	100%	**55,398**	**11,566**	**43,832**	44,275	**(443)**	172	**43,832**	44,275	**(443)**	172	**-**	
-	**100%**	100%	**44,916**	**4,738**	**40,178**	40,879	**(701)**	(1,223)	**40,178**	40,879	**(701)**	(1,223)	**-**	
-	**100%**	100%	**42,185**	**4,665**	**37,520**	36,621	**899**	6,384	**37,520**	36,621	**899**	6,384	**-**	
-	**100%**	100%	**36,165**	**216**	**35,949**	35,424	**-**	(1)	**35,949**	35,424	**-**	(1)	**-**	
-	**100%**	100%	**90,170**	**55,424**	**34,746**	34,984	**(238)**	(1,689)	**34,746**	34,984	**(238)**	(1,689)	**-**	
-	**100%**	100%	**106,122**	**75,177**	**30,945**	3,428	**116**	(898)	**30,945**	3,428	**116**	(898)	**-**	
-	**100%**	100%	**52,774**	**23,235**	**29,539**	24,012	**5,526**	6,260	**29,539**	24,012	**5,526**	6,260	**-**	
-	**100%**	100%	**32,563**	**3,034**	**29,529**	29,442	**87**	248	**29,529**	29,442	**87**	248	**-**	
-	**100%**	100%	**28,203**	**1,635**	**26,568**	26,469	**98**	83	**26,568**	26,469	**98**	83	**-**	
-	**100%**	100%	**26,024**	**95**	**25,929**	26,225	**(296)**	(5)	**25,929**	26,225	**(296)**	(5)	**-**	
a)	**80%**	80%	**32,657**	**506**	**32,151**	31,749	**6**	(26)	**25,721**	25,399	**5**	(21)	**25,721**	25,3

c)	**50%**	50%	**88,517**	**62,692**	**25,826**	43,588	**(20,707)**	(2,197)	**12,913**	21,794	**(9,877)**	(1,704)	**12,913**	21,7
-	**100%**	100%	**29,643**	**7,809**	**21,834**	21,736	**97**	(6)	**21,834**	21,736	**97**	(6)	**-**	
-	**100%**	100%	**49,193**	**28,484**	**20,709**	2,083	**1,284**	2,082	**20,709**	2,083	**1,284**	2,111	**-**	
-	**100%**	100%	**71,372**	**50,999**	**20,373**	22,834	**(2,461)**	8,904	**20,373**	22,834	**(2,461)**	8,904	**-**	
a)	**50%**	50%	**42,000**	**3,816**	**38,184**	41,470	**3,116**	3,680	**19,092**	20,735	**1,558**	1,840	**19,092**	20,7
-	**100%**	100%	**17,958**	**-**	**17,958**	17,955	**-**	(1)	**17,958**	17,955	**-**	(1)	**-**	
-	**100%**	100%	**30,852**	**12,940**	**17,912**	17,740	**173**	274	**17,912**	17,740	**173**	274	**-**	
c)	**50%**	50%	**32,038**	**5,423**	**26,615**	33,378	**(6,774)**	1,684	**13,308**	16,689	**(3,381)**	1,724	**13,308**	16,6
-	**100%**	100%	**63,834**	**47,476**	**16,358**	16,196	**162**	56	**16,358**	16,196	**162**	56	**-**	
-	**100%**	100%	**30,884**	**14,816**	**16,068**	17,454	**(1,386)**	(1,292)	**16,068**	17,454	**(1,386)**	(1,292)	**-**	
-	**100%**	100%	**16,766**	**1,121**	**15,645**	15,474	**171**	(73)	**15,645**	15,474	**171**	(73)	**-**	
-	**100%**	100%	**16,662**	**1,056**	**15,606**	15,623	**(18)**	(19)	**15,606**	15,623	**(18)**	(19)	**-**	
-	**100%**	100%	**17,862**	**2,948**	**14,914**	14,962	**(49)**	(118)	**14,914**	14,962	**(49)**	(118)	**-**	
-	**100%**	100%	**16,529**	**2,766**	**13,763**	14,060	**(297)**	(183)	**13,763**	14,060	**(297)**	(183)	**-**	
-	**100%**	100%	**15,170**	**1,611**	**13,559**	13,385	**175**	(883)	**13,559**	13,385	**175**	(883)	**-**	
-	**100%**	100%	**94,132**	**82,163**	**11,969**	15,683	**(3,713)**	(7,918)	**11,969**	15,683	**(3,713)**	(7,918)	**-**	

-	**100%**	100%	**20,061**	**8,345**	**11,716**	11,602	**115**	112	**11,716**	11,602	**115**	112	**-**	
-	**100%**	100%	**11,568**	**599**	**10,969**	11,051	**(82)**	189	**10,969**	11,051	**(82)**	189	**-**	
-	**100%**	100%	**55,415**	**44,559**	**10,856**	-	**(3,253)**	-	**10,856**	-	**(3,253)**	(27)	**-**	
o)	**50%**	50%	**21,544**	**653**	**20,892**	34,487	**(13,596)**	3,010	**10,446**	17,244	**(6,798)**	1,505	**10,446**	17,8
a)	**50%**	50%	**25,316**	**7,114**	**18,202**	15,777	**58**	(183)	**9,101**	7,888	**29**	(92)	**9,101**	7,8
-	**100%**	100%	**26,039**	**17,109**	**8,930**	8,857	**73**	851	**8,930**	8,857	**73**	851	**-**	

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9. Investments in subsidiaries and jointly controlled investees--Continued

(i) Ownership interest--Continued

(a) *Information on subsidiaries and jointly-controlled investees*--Continued

											Company			Co
	Interest in capital - %		**Total assets**	**Total liabilities**	**Equity and advance for future capital increase**		**Profit (loss) for the year**		**Investments**		**Income from equity method investments**		**Investme**	
	2016	**2015**	**2016**	**2016**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2**
	100%	100%	**85,777**	**77,059**	**8,718**	8,978	**(260)**	2,946	**8,718**	8,978	**(260)**	2,946	**-**	
c)	**50%**	50%	**14,685**	**3,368**	**11,317**	15,263	**(3,558)**	805	**5,658**	7,632	**(1,973)**	388	**5,658**	
	50%	50%	**18,363**	**2,031**	**16,332**	22,195	**(5,864)**	1,071	**8,166**	11,098	**(2,932)**	536	**8,166**	
	100%	100%	**8,014**	**60**	**7,954**	7,967	**(13)**	(4)	**7,954**	7,967	**(13)**	(4)	**-**	
	65%	65%	**21,056**	**9,773**	**11,283**	9,552	**5,981**	1,401	**7,334**	6,209	**3,979**	2,283	**-**	
	100%	100%	**8,993**	**1,838**	**7,155**	7,189	**(34)**	(103)	**7,155**	7,189	**(34)**	(103)	**-**	
	100%	100%	**7,846**	**1,094**	**6,752**	6,727	**25**	34	**6,752**	6,727	**25**	34	**-**	
	100%	100%	**11,375**	**4,903**	**6,472**	6,477	**(4)**	(60)	**6,472**	6,477	**(4)**	(60)	**-**	

	100%	100%	41,685	35,890	5,795	-	(10,505)	-	5,795	-	(10,505)	-	-
	60%	60%	59,616	50,178	9,438	7,521	(11,679)	(9,600)	5,663	4,513	(7,007)	(5,760)	5,663
	50%	0%	27,074	16,272	10,802	-	(172)	-	5,401	-	(86)	-	5,401
	100%	100%	23,605	18,351	5,254	5,393	(139)	2,278	5,254	5,393	(139)	2,278	-
			-	-	-	-	-	-	34,111	31,675	2,436	4,438	-
			329,218	219,142	110,076	133,964	(17,226)	(4,874)	67,923	95,098	(6,451)	(7,037)	27,615
	50%	50%	2,061	119	1,942	2,314	(310)	(102)	-	-	-	-	971
	60%	60%											
			1,413	118	1,295	1,662	330	869	-	-	-	-	777
			248	78	170	466	358	(704)	-	-	-	-	14,367
			3,722	315	3,407	4,442	378	63	-	-	-	-	16,115
-	55%	55%	5,393	4,030	1,363	676	687	(1,973)	-	-	-	-	-
-	60%	60%	21,058	42	21,016	21,050	(10)	137	-	-	-	-	-
-	60%	60%	12,301	1	12,300	9,882	2,715	(2,060)	-	-	-	-	-
-	55%	55%	8,812	233	8,579	9,999	(1,521)	(5,639)	-	-	-	-	-
-	70%	70%	33,339	4,384	28,955	32,062	(526)	253	-	-	-	-	-
-	70%	70%	15,074	654	14,420	16,455	(1,869)	(2,529)	-	-	-	-	-
-	70%	70%	35,719	1,332	34,387	33,634	768	2,131	-	-	-	-	-
-	80%	80%	11,691	310	11,381	11,404	(23)	597	-	-	-	-	-
-	50%	50%	9,263	294	8,968	8,723	246	(90)	-	-	-	-	-

-	**50%**	50%	**12,705**	**876**	**11,828**	11,761	**69**	(2)	**-**	-	**-**	-	**-**	
-	**50%**	50%	**39,608**	**2,219**	**37,389**	22,466	**2,146**	(3,997)	**-**	-	**-**	-	**-**	1
-	**50%**	50%	**18,639**	**1,588**	**17,052**	18,015	**(964)**	8,463	**-**	-	**-**	-	**-**	
-	**50%**	50%	**54,920**	**6,089**	**48,832**	47,831	**527**	18,180	**-**	-	**-**	-	**-**	2
o)	**50%**	50%	**21,544**	**653**	**20,892**	34,487	**(13,596)**	3,010	**-**	-	**-**	-	**-**	1
-			**97,349**	**2,409**	**94,940**	69,986	**(3)**	41,128	**-**	-	**-**	-	**-**	
-														
			397,415	**25,114**	**372,302**	348,431	**(11,354)**	57,609	**-**	-	**-**	-	**-**	16
			8,123,588	**4,399,726**	**3,723,864**	3,816,584	**(125,165)**	342,286	**1,714,718**	2,779,093	**(63,824)**	148,527	**398,582**	59
e)									**25,476**	25,476	**-**	-	**25,476**	2
									462	62,343	**-**	-	**-**	
									375,853	375,853	**-**	-	**375,853**	37
									2,116,509	3,242,765	**(63,824)**	148,527	**799,911**	99

(*)Includes companies with investment balances below R$ 5,000.

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9. **Investments in subsidiaries and jointly controlled investees**--Continued

(i) Ownership interest--Continued

(a) *Information on subsidiaries and jointly-controlled investees*--Continued

									Company				**Consolidated**		
	Interest in capital - %		**Total assets**	**Total liabilities**	**Equity and advance for future capital increase**		**Profit (loss) for the year**		**Investments**		**Income from equity method investments**		**Investments**		**Incom equity investi**
ct	**2016**	**2015**	**2016**	**2016**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
ees															
n for al y PE															
da.	100%	100%	**819**	**1,089**	**(270)**	(1,526)	**(349)**	(1,355)	**(270)**	(1,526)	**(349)**	(1,355)	**-**	-	**-**
an (h) al 01 a.	50%	50%	**-**	**-**	**-**	(7,887)	**-**	(9,408)	**-**	(4,350)	**-**	(4,704)	**-**	(4,350)	**-**
an (h) cial Ltda.	50%	50%	**-**	**-**	**-**	(89,319)	**-**	(21,261)	**-**	(44,627)	**-**	(10,631)	**-**	(44,627)	**-**
			7,546	**7,618**	**(73)**	(9,270)	**(94)**	(7,236)	**(73)**	(9,224)	**272**	(6,814)	**-**	(5,424)	**952**
n for tal cy			**8,365**	**8,707**	**(343)**	(108,002)	**(443)**	(39,260)	**(343)**	(59,727)	**(77)**	(23,504)	**-**	(54,401)	**952**

come uity ents	**(63,901)**	125,023	**(48,332)**

(a) Jointly-controlled entities.

(b) Entity jointly controlled with Tenda associates.

(c) The Company recorded expense of R$354 in Income from equity method investments for 2016 related to the recognition, by jointly-controlled entities, of adjustments in prior years, in accordance with the ICPC09 (R2) – Individual, Separate, and Consolidated Financial Statements and the Equity Method of Accounting.

(d) Charges of the Company not appropriated to the profit or loss of subsidiaries, as required by paragraph 6 of OCPC01.

(e) The test of recovery of goodwill based on the inventory surplus of the Company resulted in requirement for impairment at R$ 62,343 in the year ended December 31, 2016 (Note 6). The main adopted assumptions are detailed below.

(f) Amount related to the goodwill resulting of the remeasurement of the portion of the remaining investment of 30% in the associate AUSA, in the amount of R$375,853, arising from the sale of control over the entity. At December 31, 2016 and 2015, the impairment test, which is performed annually based on the estimate of future profitability, or when circumstances indicate impairment of carrying value, did not identify the need for recognizing an impairment provision for loss on realization. The main assumptions adopted for determining the recoverable amount of the remaining investment of AUSA are detailed below.

(g) The provision for net capital deficiency is recorded in “Other payables” (Note 15).

(h) In the year ended December 31, 2016, there was increase in capital, paid-in with the balance of loan amounting to R$50,500 (Note 21 (a)).

(b) *Change in investments*

	Company	**Consolidated**
Balance at December 31, 2015	**3,242,765**	**993,122**
Income from equity method investment	**(63,824)**	**(49,284)**
income from equity method investment of discontinued operations	**56,651**	**-**
Payment of (decrease in) capital	**129,065**	**5,445**
Payment of Loan receivable (h)	**50,500**	**50,500**
Transfer from provision for net capital deficiency to Investment (h)	**(50,342)**	**(45,726)**
Acquisition/Sale of Interest	**(9,980)**	**(10,442)**

Dividends receivable	**(21,483)**	**(16,009)**
Usufruct of shares (Note 15)	**(4,700)**	**-**
Write-off of goodwill based on inventory surplus	**(62,343)**	**-**
Asset of discontinued operations (Note 8.2)	**(539,020)**	**(120,527)**
Impairment of asset of discontinued operations (Note 8.2)	**(610,105)**	**-**
Other investments	**(675)**	**(7,168)**
Balance at December 31, 2016	**2,116,509**	**799,911**

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Notes to the financial statements

December 31, 2016

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

9. Investments in ownership interests--Continued

The presented goodwill arises from the difference between the consideration and the equity of acquirees, calculated on acquisition date, and is based on the expectation of future economic benefits.

The Company evaluated the recovery of the carrying value of goodwill using the “value in use” concept, applying discounted cash flow models of the cash-generating units. The process for determining the value in use involves the use of assumptions, judgments and estimates relating to cash flows, such as growth rate of revenues, costs and expenses, estimates of investment and future working capital, and discount rates. The assumptions relating to projections of growth, cash flow and future cash flows are based on the Company’s business plan, approved by the Management, as well as on comparable market data, and represent the Management’s best estimate of the economic conditions that will prevail during the economic life of the different cash-generating units, group of assets that provides the generation of cash flows. The future cash flows were discounted based on the rate representative of the cost of capital. Consistent with the economic valuation techniques, the evaluation of the value in use is made for a five-year period, and after such period, considering the perpetuity of assumptions in view of the capacity for indefinite business continuity. The main assumptions used in the estimate of value in use are the following: (a) revenue – revenues were projected between 2017 and 2021 considering the growth in sales and client base of the different cash-generating units; (b) Operating costs and expenses – costs and expenses were projected in line with the Company’s historical performance, as well as the historical growth of revenues. The key assumptions were based on the Company’s historical performance over the past five years, and on reasonable macroeconomic assumptions, and supported by the financial market projections.

10. Property and equipment

	Company					Consolic		
Type	**2015**	**Addition**	**Write-off**	**100% depreciated items**	**2016**	**2015**	**Addition**	**Writ**

Cost								
Hardware	14,018	3,409	(4,311)	(5)	**13,111**	28,143	3,408	(4
Leasehold improvements and installations	9,367	451	-	(3,557)	**6,261**	17,449	686	
Furniture and fixtures	675	-	-	-	**675**	5,503	-	
Machinery and equipment	2,640	-	-	-	**2,640**	4,039	-	
Molds	-	-	-	-	**-**	13,067	-	
Sales stands	12,041	8,585	(1,510)	(6,589)	**12,527**	15,724	10,799	(2
	38,741	**12,445**	**(5,821)**	**(10,151)**	**35,214**	83,925	**14,893**	**(7**
Accumulated depreciation								
Hardware	(7,191)	(2,641)	4,311	5	**(5,516)**	(13,474)	(2,722)	4
Leasehold improvements and installations	(4,838)	(1,622)	-	3,557	**(2,903)**	(7,918)	(1,836)	
Furniture and fixtures	(282)	(68)	-	-	**(350)**	(3,664)	(110)	
Machinery and equipment	(1,344)	(264)	-	-	**(1,608)**	(1,898)	(264)	
Molds	-	-	-	-	**-**	(3,379)	-	
Sales stands	(2,267)	(8,955)	1,516	6,589	**(3,117)**	(4,416)	(10,103)	2
	(15,922)	**(13,550)**	**5,827**	**10,151**	**(13,494)**	(34,749)	**(15,035)**	**6**
Total property and equipment	22,819	**(1,105)**	**6**	**-**	**21,720**	49,176	**(142)**	6

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Notes to the financial statements

December 31, 2016

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

10. Property and equipment--Continued

The following useful lives and rates are used for calculating depreciation:

	Useful life	**Annual depreciation rate - %**
Leasehold improvements and installations	4 years	25
Furniture and fixture	10 years	10
Hardware	5 years	20
Machinery and equipment	10 years	10
Molds	5 years	20
Sales stands	1 year	100

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

Property and equipment are subject to periodic analysis of impairment. At December 31, 2016 and 2015 there was no indication of impairment of property and equipment.

11. Intangible assets

	Company				
	2015				**2016**
	Balance	**Addition**	**Write-down / amortization**	**100% amortized items**	**Balance**
Software – Cost	75,409	7,820	(614)	(17,325)	**65,290**
Software – Depreciation	(47,187)	-	(12,958)	17,325	**(42,820)**
Other	5,089	6,070	(5,851)	-	**5,308**

Total intangible assets	**33,311**	**13,890**	**(19,423)**	-	**27,778**

	Consolidated					
	2015					**2016**
	Balance	**Addition**	**Write-down / amortization**	**100% amortized items**	**Reclassification discontinued operations**	**Balance**
Software – Cost	110,559	8,261	(625)	(17,408)	(34,774)	**66,023**
Software – Depreciation	(65,408)	-	(13,012)	17,408	17,915	**(43,102)**
Other	6,715	6,070	(5,845)	-	(1,628)	**5,307**
Total intangible assets	**51,866**	**14,331**	**(19,482)**	-	**(18,487)**	**28,228**

Other intangible assets comprise expenditures on the acquisition and implementation of information systems and software licenses, amortized over the average term of five years (20% per year).

The test of recovery of the intangible assets of the Company resulted in the need for recognizing a provision for impairment for the year ended December 31, 2016 in the amount of R$614 (zero in 2015), related to the Company's software.

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Notes to the financial statements

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

12. Loans and financing

Type	Maturity	Annual interest rate	Company 2016	Company 2015	Consolidated 2016	Consolidated 2015
National Housing System - SFH /SFI (i)	February 2017 to April 2021	8.30% to 14.00% + TR 129% of CDI	**842,678**	1,014,092	**1,022,038**	[illegible]
Certificate of Bank Credit - CCB (ii)	June 2017 to September 2019	125% of CDI 0.59%/ 3%/ 3.95/ 4.25%+CDI INCC	**164,252**	124,568	**164,262**	[illegible]
Total loans and financing (Note 20.i.d, 20.ii.a and 20.iii)			**1,006,930**	1,138,660	**1,186,300**	[illegible]
Current			**574,733**	595,817	**604,795**	[illegible]
Current – reclassification for non-fulfillment of covenant			**65,000**	-	**65,000**	-
Current portion			**639,733**	595,817	**669,795**	[illegible]
Non-current portion			**367,197**	542,843	**516,505**	[illegible]

(i) The SFH financing is used for covering costs related to the development of real estate ventures of the Company and its subsidiaries, and backed by secured guarantee by the first-grade mortgage of real estate ventures and the fiduciary assignment or pledge of receivables.

(ii) In the year ended December 31, 2016, the Company made payments in the total amount of R$48,827, of which R$15,122 related to principal and R$33,705 related to the interest payable. Additionally, on September 28, 2016, the Company entered into a CCB transaction in the amount of R$65,000, with final maturity on September 27, 2019, amortization of principal in five equal quarterly installments as from the 24th month (including), or observed the possibility of extraordinary amortization, payment of quarterly interests from the issue date, with secured guarantee of the mortgage of the real estate pledged.

Rates

- CDI - Interbank Deposit Certificate;
- TR - Referential Rate.

The current and non-current installments fall due as follows:

	Company		**Consolidated**	
Maturity	**2016**	2015	**2016**	2015
2016	-	595,817	-	672,365
2017	**639,733**	385,555	**669,795**	440,418
2018	**354,770**	153,288	**422,523**	166,996
2019	**10,937**	4,000	**59,763**	12,049
2020	**1,490**	-	**27,126**	1,007
2021 onwards	**-**	-	**7,093**	-
	1,006,930	1,138,660	**1,186,300**	1,292,835

The Company and its subsidiaries have restrictive covenants under certain loans and financing that limit their ability to perform certain actions, such as the issuance of debt, and that could require the early maturity or refinancing of loans if the Company does not fulfill such restrictive covenants. The ratio and minimum and maximum amounts required under such restrictive covenants as of December 31, 2016 and 2015 are disclosed in Note 13. In view of the restrictive covenants and the non-fulfillment of the covenants of a CCB transaction, the non-current portions of this transaction were reclassified into short term in the amount of R$65,000. The Company obtained, on March 22, 2017, a waiver from the bank, agreeing with the non-fulfillment of the limit of net debt in relation to the financial statements as of December 31, 2016 and March 31, 2017, thus not requiring mandatory early payment and/or declaration of early maturity (Note 31 (iii)).

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December 31, 2016

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

12. Loans and financing--Continued

Financial expenses of loans, financing and debentures (Note 13) are capitalized at the cost of each venture and land, according to the use of funds, and recognized in profit or loss for the year, according to the criteria for revenue recognition. The capitalization rate used in the determination of costs of loans eligible to capitalization ranges from 13.59% to 15.48% as of December 31, 2016 (10.54% to 14.42% in 2015).

The following table shows the summary of financial expenses and charges and the capitalized rate in the account properties for sale.

	Company		**Consolidated**	
	2016	2015	**2016**	2015
Total financial charges for the year	**209,875**	256,413	**235,153**	279,632
Capitalized financial charges	**(166,111)**	(191,568)	**(200,394)**	(223,396)
Financial expenses (Note 24)	**43,764**	64,845	**34,759**	56,236
Financial charges included in “Properties for sale”:				
Opening balance	**287,806**	220,959	**299,649**	227,438
Capitalized financial charges	**166,111**	191,568	**200,394**	223,396
Charges recognized in profit or loss (Note 23)	**(124,266)**	(124,721)	**(156,812)**	(151,185)
Closing balance (Note 6)	**329,651**	287,806	**343,231**	299,649

13. Debentures

Company Consolidated

Program/placement	**Principal - R$**	**Annual interest**	**Final maturity**	**2016**	2015	**2016**	2015
Seventh placement (i)	300,000	TR + 10.38%	December 2017	**302,363**	452,568	**302,363**	452,568
Eighth placement / second series (ii)	--		-	**-**	8,395	**-**	8,395
Ninth placement (iii)	80,393	CDI + 1.90%	July 2018	**79,693**	130,394	**79,693**	130,394
Tenth placement (iv)	55,000	IPCA + 8.22	January 2020	**69,212**	64,724	**69,212**	64,724
First placement (Tenda) (v)	--		-	**-**	-	**-**	201,877
Total debentures (Note 20.i.d, 20.ii.a and 20.iii)				**451,268**	656,081	**451,268**	857,958
Current portion				**314,139**	187,744	**314,139**	389,621
Non-current portion				**137,129**	468,337	**137,129**	468,337

In the year ended December 31, 2016, the Company made the following payments:

	Principal	**Interest payable**	**Total amortization**
(i)	150,000	49,658	**199,658**
(ii)	5,787	3,686	**9,473**
(iii)	51,634	15,743	**67,377**
(iv)	-	4,775	