(A free translation of the original report in Portuguese as published in Brazil)

Financial Statements

Construtora Tenda S.A.

December 31, 2016
Independent Auditors' Report on the Financial Statements

(A free translation of the original report in Portuguese as published in Brazil)

Construtora Tenda S.A.

Financial Statements

December 31, 2016 and 2015

Contents

2016 MANAGEMENT REPORT

Dear Shareholders:

Construtora Tenda S.A. presents its Management Report and the Consolidated Financial Statements for the fiscal year ended on December 31, 2016.

MESSAGE FROM MANAGEMENT

2016 has been marked by a severe political and economic distress and still very difficult scenario for the Brazilian real estate market. However, performance within the low-income segment has been more resilient amid such scenario and allowed us to reap the benefits of our appropriate strategy.

Also in 2013, Tenda adopted a new Business Model, based on four strategic pillars: (1) utilization of aluminum forms in its works, ensuring high quality and cost efficiency; (2) transfer sales system, in which units sold are immediately transferred to financial institutions; (3) launches contracted, which facilitates the transfer of sales and mitigates project's technical and legal risks; and (4) sales at own store, thus, allowing greater efficiency in sales and marketing expenses.

Since then, Tenda has been sought gains of scale, by intensifying the volume of launches and the use of strategies to ensure a solid sales speed. The consolidation of the New Model has allowed Tenda to improve its operating and financial performance over time, as confirmed by results obtained in 2016.

Over the past four years, Tenda launched 91 projects or additional phases, accounting for approximately R$3.4 billion in PSV, already including the R$1.3 billion launched in 2016. Of this total, Tenda has delivered R$1.8 billion in PSV, comprised of 44 projects/phases, always achieving the performance and profitability drivers set out for the New Model. All projects launched in 2013 have been completed and delivered on schedule and out of 14 projects launched in 2014, there is only one to be delivered over the upcoming months. Only in 2016, Tenda doubled total building sites. The Company started 2016 with 18 and ended the year with 36 works in progress.

Thus, we are making real for our clients the dream of home ownership, in more than 18 cities, located in six metropolitan regions where we focus our performance. Currently, we have over 36 owned stores and a qualified sales team to orient each client in the property acquisition process, offering a customized service.
The New Model enabled not only a consistent increase in the number of launches, but also a continued good sales speed index, measured by SoS indicator in the last 12 months

sustained at a level above 50% during 2016. Such sales speed is the highest in our market, and we have been able to sustain it over the past two years with higher marketing and sales efforts, which up to date, were sufficient to deal with a more adverse market scenario.

In 2016, Tenda reviewed its unilateral dissolution process for sales not transferred after a period exceeding three months of sales, which caused a temporary increase in the volume of dissolutions as of the second half of the year. We estimate that this new process should uphold the number of dissolutions at levels above normal, approximately 25% of gross sales for the next quarters, subsequently returning to the level of 15% expected for the New Model.

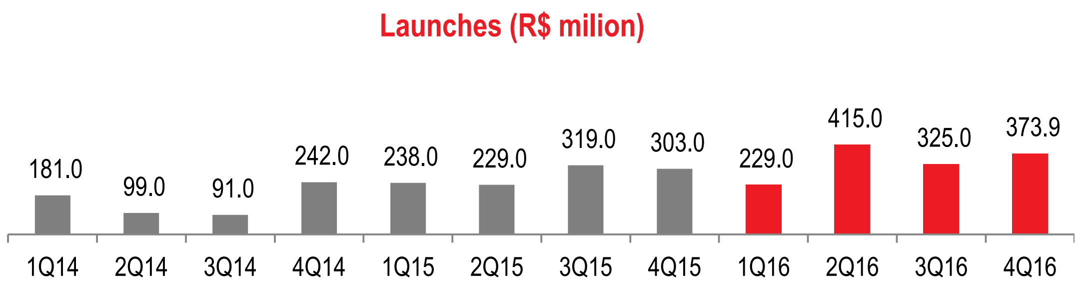
One of the positive effects of higher sales revenue was the improved adjusted gross margin, which achieved 33.3% in 2016, with 2.8 percentage points gain compared to previous year. The adjusted EBITDA totaled R$130.2 million, with a margin of 12.4%, almost the double of margin recorded in 2015. These results directly derive from Tenda's New Model, which combines the efficiency of a streamlined operating structure with gains of scale and productivity.

A good operating performance allowed us to see a recovery of net income over the years, ending 2016 with a net income of R$56.7 million, up 86.8% over 2015, even amid a year in which we absorbed the negative impact of non-recurring expenses of R$12.3 million referring to the separation of the Tenda and Gafisa business units.

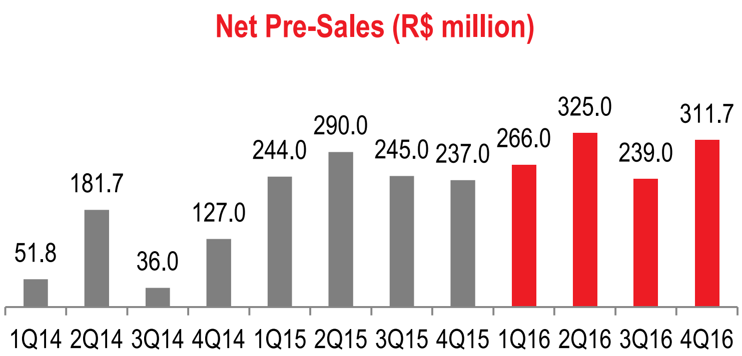
Tenda keeps its vision of being a company in Brazil's low-income segment which delivers the best return to its shareholders. This is our commitment.

Operating Results | Launches and Sales

In 2016, 41 projects/phases were launched totaling R$1,342.5 million, in the states of São Paulo, Rio de Janeiro, Minas Gerais, Bahia, Pernambuco and Rio Grande do Sul. The launches value increased 23.3% compared to 2015.



Gross sales reached R$1,417.9 million in 2016, while volume of dissolutions was R$276.0 million, resulting in net pre-sales of R$1,141.9 million. Net pre-sales increased 12.4% over the previous year. From the total, 51.1% were related to the remaining units.



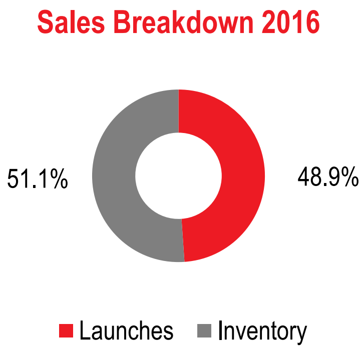
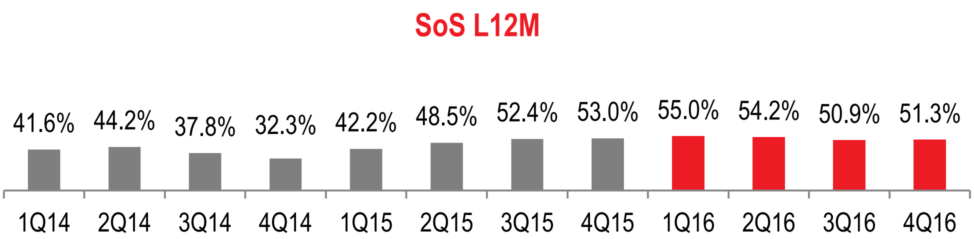


Table 3 – Launches and Pre-sales (R$ 000)

	2016	2015	Y/Y(%)
Launches	1,342,490	1,088,941	23.3%
Pre- Sales	1,141,866	1,016,131	12.4%

Sales Over Supply (SoS)

Sales speed (measured by "sales over supply" indicator or "SoS") was 51.3% in the last 12 months. Throughout 2016, we managed to keep the SoS above 50%, despite launches acceleration. This indicator evidences the good operational performance provided by Tenda's New Model.



SoS is naturally higher in New Model projects than in legacy projects, as shown in Tables 4 and 5 below. With the end of the legacy project units' inventory, the tendency is that SoS remains at a high level.

Table 4. SoS Gross Revenue (Ex-Dissolutions)

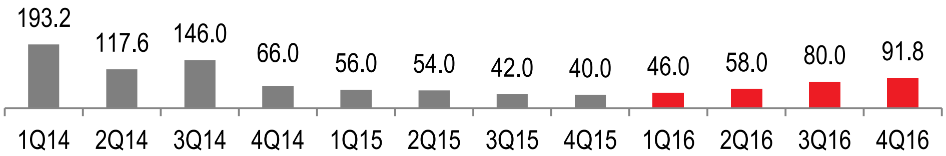
	4Q15	1Q16	2Q16	3Q16	4Q16
New Model	27.4%	29.7%	32.2%	26.5%	30.3%
Legacy	13.3%	20.7%	25.0%	16.0%	17.9%
Total	24.4%	28.0%	31.1%	25.1%	28.9%

Table 5. SoS Net Revenue

	4Q15	1Q16	2Q16	3Q16	4Q16
New Model	24.9%	26.9%	28.9%	21.2%	24.8%
Legacy	5.2%	10.7%	11.9%	3.2%	2.9%
Total	20.9%	23.9%	26.4%	18.8%	22.3%

Dissolutions

Tenda's volume of dissolutions totaled R$276.0 million in 2016, up 43.7% over total dissolutions in 2015.



Such increase in the volume of dissolutions is a result of the changes in the unilateral dissolution process performed by Tenda, which directly impacted sales not transferred for a period exceeding three months. The previous process was being ineffective and an above-expected number of units remained for dissolution after a period deemed appropriate by the Company. In this new process, Tenda proactively initiates the cancellation of contracts after confirmation of client's ineligibility before the financial institution. We anticipate that this factor should temporarily keep the Company's level of dissolutions at a higher level than expected over the upcoming quarters before returning to the levels appropriate to Tenda's New Business Model.

Table 6. PSV Dissolutions (R$ 000 and % over total gross sales)

	4Q15	% GS	1Q16	% GS	2Q16	% GS	3Q16	% GS	4Q16	% GS
New Model	22,201	8.0%	25,736	8.2%	33,905	8.9%	58,802	18.5%	67,924	16.8%
Legacy	17,686	6.4%	20,490	6.6%	24,030	6.3%	21,194	6.7%	23,908	5.9%
Total	**39,887**	**14.4%**	**46,226**	**14.8%**	**57,934**	**15.1%**	**79,995**	**25.1%**	**91,832**	**22.8%**

Tenda is still concluding legacy projects sales (pre-2013), maintaining the sales cancellation of ineligible clients with financial institutions, for subsequent resale to new qualified buyers. In 2016, 1,862 units were cancelled and returned to inventory and 1,412 units deriving from dissolutions were resold to new qualified buyers over the same period.

Transfers

In the New Model, Tenda has as one of its pillars the transferred sales, which allows for a period of only 90 days from the sales contract and the effective transfer to the financial institution.

In 2016, 8,271 units were transferred to financial institutions, accounting for R$1,058.2 million in net pre-sales, a 19.0% increase compared to 2015. Of this total, R$913.1 million refer to the New Model, with volume 35.3% higher than 2015.

Table 7 –Tenda PSV Transferred (R$ 000)

	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
New Model	67,621	114,939	199,423	194,719	165,692	236,120	205,410	179,807	291,716
Legacy	74,773	59,110	61,566	53,912	40,050	30,642	56,184	29,020	29,349
Total	**142,393**	**174,049**	**260,989**	**248,631**	**205,741**	**266,762**	**261,594**	**208,827**	**321,064**

1) PSV transferred refers to the conclusion of the transfer operation.
2) PSV = Potential sales volume of the units.

Delivered Projects

During 2016 Tenda delivered 34 projects/phases, totaling 6,838 units, and R$973.3 million in Pre-Sales Volume ("PSV").

Inventory

The inventory was appraised at the market value of R$1,085.4 million at the end of 2016, up 20.6% compared to R$899.8 million in 2015. Inventory related to the legacy projects totaled R$154.9 million, or 14.3% of total inventory, down 31.5% over 2015. In the same period, the inventory of units within the *Minha Casa Minha Vida* (MCMV) Program totaled R$1,067.8 million, or 98.4% of total inventory, while inventory of units out of program totaled R$17.5 million, down 82.4% y-o-y.

Table 8 - Inventory at Market Value (R$ 000) – by Region

	Inventory 2015	Launches	Dissolutions	Pre-Sales	Adjustments	Inventory 2016	% Q/Q
São Paulo	251,501	265,640	47,370	(363,879)	2,828	203,460	9%
Rio Grande do Sul	76,811	260,226	39,794	(183,569)	4,515	197,776	13%
Rio de Janeiro	246,844	246,038	76,508	(347,441)	(12,007)	209,942	-28%
Bahia	133,795	282,786	34,601	(220,144)	6,276	237,315	29%
Pernambuco	68,351	149,988	15,022	(124,516)	(2,455)	106,391	76%
Minas Gerais	71,890	137,812	42,560	(140,819)	(4,861)	106,581	5%
Other Markets	50,621	0	20,134	(37,487)	(9,375)	23,894	-12%
Total Tenda	899,813	1,342,490	275,988	(1,417,855)	(15,079)	**1,085,357**	**6%**
MCMV	800,486	1,342,490	186,367	(1,274,797)	13,297	1,067,843	6%
Out of MCMV	99,327	0	89,621	(143,058)	(28,376)	17,515	-19%

1) The period adjustments reflect updates related to project scope, expected launch date and price adjustments in the period.

Table 9 – Inventory at Market Value – Work Status (R$ 000)

	Not Initiated	Up to 30% Built	30% to 70% built	More than 70% built	Built	Total 2016
New Model – MCMV	410,424	182,228	208,860	101,365	27,605	930,483
Legacy – MCMV	0	0	64,316	0	73,045	137,360
Legacy – Out of MCMV	0	0	0	0	17,515	17,515
Total Tenda	**410,424**	**182,228**	**273,176**	**101,365**	**118,164**	**1,085,357**

1) Inventory at market value includes projects in partnership. This index is not comparable to the accounting inventory, due to the implementation of new accounting practices pursuant to CPCs 18, 19 and 36.

Regarding inventory of legacy projects, Tenda is still awaiting the regularization of a suspended project with total PSV of R$64.3 million to move forward with construction. Lower relevance of legacy projects inventory is important for the Company's future financial results in view of consequent reduced impact of legacy over gross margin.

Landbank

The landbank for future development (or "landbank") has PSV of approximately R$4.5 billion, and is comprised of 138 different projects/phases, equivalent to more than 32,000 units, with a very diversified mix of regions, 27% in Bahia, 25% in São Paulo, 24% in Rio de Janeiro, 12% in Rio Grande do Sul, 7% in Pernambuco and 6% in Minas Gerais. In 2016, Tenda acquired 46 new land plots with a potential PSV of R$1,414.2 million and acquisition cost of R$112.7 million.

Table 10 - Landbank (R$ 000)

	PSV (% Tenda)	%Swap Total	% Swap Units	% Swap Financial	Potential Units (% Tenda)	Potential Units (100%)
São Paulo	1,239,049	10.9%	6.1%	4.9%	7,969	8,012
Rio Grande do Sul	506,105	24.5%	12.5%	12.0%	3,829	3,880
Rio de Janeiro	1,047,065	27.8%	17.9%	9.9%	7,682	7,771
Bahia	1,128,007	8.5%	7.8%	0.7%	8,893	8,932
Pernambuco	284,699	18.2%	0.0%	18.2%	2,256	2,256
Minas Gerais	256,836	23.5%	23.5%	0.0%	1,822	1,856
Total	**4,461,760**	**17.2%**	**10.4%**	**6.8%**	**32,451**	**32,707**

[1] Swap percentage over the historical cost of land acquisition.
[2] Potential Units are net of swaps and refer to Tenda's and/or its partners' stake in the projects.

Table 11 – Changes in the Landbank (2015 x 2016 - R$ 000)

	Landbank 2015	Land Acquisition	Launches	Adjustments	Landbank 2016
São Paulo	1,088,294	526,830	(265,640)	(110,436)	1,239,049
Rio Grande do Sul	653,968	113,740	(260,226)	(1,377)	506,105
Rio de Janeiro	1,043,191	298,508	(246,038)	(48,596)	1,047,065
Bahia	1,209,478	274,186	(282,786)	(72,871)	1,128,007
Pernambuco	481,380	56,264	(149,988)	(102,957)	284,699
Minas Gerais	256,628	144,695	(137,812)	(6,675)	256,836
Total	**4,732,938**	**1,414,224**	**(1,342,490)**	**(342,912)**	**4,461,760**

Financial Result

Tenda's 2016 net revenue reached R$1,052.7 million, an increase of 24% compared to 2015. This strong growth in net revenue is explained by the new launches made under the New Model, which also allows the increase of 278 bps of adjusted gross margin, which reached 33.3% in 2016, also benefited by the sale of few legacy lands and reduced construction costs.

With increased launches volume in 2016, and accordingly higher sales effort, selling, general and administrative expenses (SG&A) totaled R$180.2 million, up 20.7% over 2015. We also recorded a non-recurring effect of R$6.2 million, due to expenses related to the separation between Tenda and Gafisa.

As a result of the effects previously discussed, the adjusted EBITDA for the Stock Options Plan (Stock Options) totaled R$130.2 million, more than the double of R$62.2 million in 2015. Adjusted EBITDA margin was 12.4% in 2016.

As a result of net revenue growth, higher gross margin and adjusted EBITDA margin, due to gains of scale and higher productivity with the maturation of Tenda's New Model, net income in 2016 totaled R$56.7 million, up 86.8% compared to 2015.

These consistent operating results and improved profitability evidence the successful implementation of Tenda's New Model. The consistency of our recent results reinforces our confidence in Tenda's appropriate strategy, execution capacity and our positioning in the Brazilian real estate sector, which has solid fundamentals and offers significant growth opportunities.

We are ready for expansion. We have a landbank with estimated PSV of R$4.5 billion, well diversified and distributed through the six metropolitan regions in which we operate, corresponding to 138 projects and 32,000 units.

UPDATE ON THE SEPARATION PROCESS OF THE GAFISA AND TENDA UNITS

Tenda with over 45 years of history and more than 75,000 units delivered is one of Brazil's leading homebuilders and real estate developers operating in the low-income housing segment. The Company concentrates its activities in 6 of the largest metropolitan regions of the country. Currently, the Company has more than 36 stores and its own sales force.

Tenda is a company controlled by Gafisa, one of Brazil's leading residential and commercial properties development and construction companies. Founded over 60 years ago, Gafisa's brand is also one of the most respected in the Brazilian real estate market. The Group, besides Gafisa brand focused on the middle and upper class segments, also holds a 30% interest in Alphaville, a leading urban developer, operating in the sale of residential lots throughout the country.

During 2016, Gafisa S.A., continued working on the separation process of the Gafisa and Tenda business units. Since studies began in February 2014, several activities have been executed to make these two business units become independent, both from the operational and capital structure viewpoint.

During 4Q16, Gafisa initiated Tenda's secondary tender offer, but the operation was cancelled and culminated with the sale of up to 30% of Tenda's shares to the Private Equity Jaguar Growth Asset Management, LLC, with 20% increase in the preemptive right to acquire the Company's shares under same economic conditions.

As part of the agreement with Jaguar, Gafisa, as Tenda's shareholder, approved on December 14, 2016 a capital reduction of R$100 million, without cancelling the shares and refunding total amount to Gafisa, half payable until December 31, 2018 and the remaining balance until December 31, 2019.

At the Extraordinary Shareholders' Meeting held on February 20, 2017, Gafisa's shareholders approved the reverse split of Gafisa's shares, at the ratio of 13.483023074 to one share, as part of the procedures necessary to conduct Tenda's spin-off process. Subsequently, a second Extraordinary Shareholders' Meeting was held which approved Gafisa's capital reduction, delivering to the Company's shareholders one Tenda's common share for each one Gafisa's common share held thereby after reverse split, excluding the treasury shares and Gafisa's shareholders preemptive right in Tenda's spin-off process.

Preemptive Rights

Gafisa offered to its shareholders the preemptive rights, at the proportion of their respective equity interest in the Company's capital stock, to acquire up to 50% of Tenda's capital stock for R$8.13 per share, payable in cash upon the exercise of Preemptive Right, subject to the conclusion of Gafisa's Capital Reduction of up to 27,000,000 common shares representing 50% of Tenda's capital stock. Those registered as the Company's shareholders as of March 16, 2017, will be eligible to Preemptive Right (after-hours trading).

The term to exercise the preemptive right shall be 30 days as of March 17, 2017, (inclusive), i.e., until April 15, 2017 (inclusive). The Company's shareholders intending to negotiate their Preemptive Rights may do it once initiated the term to exercise the Preemptive Right, and they shall do it with the advance necessary, so that to allow that the subscription rights assigned still may be exercised within referred term.

Conclusion of Operation

The outcome of operation is subject to the conclusion of preemptive rights exercise by Gafisa's shareholders which will offer its shareholders an overallotment corresponding to 20% of Tenda's capital. It is worth mentioning that Jaguar may back down the operation, without any penalties, if less than 20% of Tenda's shares become available for acquisition after the exercise of preemptive right.

The expectation is, once completed the operation, Tenda's shares will be listed at BM&FBovespa.

CORPORATE GOVERNANCE

Board of Directors

Tenda's board of directors is our decision-making body responsible for the formulation and implementation of the general guidelines and policies of our business, including our long-term strategies. Our board of directors also appoints executive officers and oversees their activities.

The decisions of the Board of Directors are made by means of a majority vote of its members. In the event of tie vote, the Chairman of the Board of Directors shall render the casting vote, besides his personal vote.

The board of directors must have a minimum of five and a maximum of seven members, all of them elected and removed by General Meeting, with two-year combined term of office, and reelection is authorized. The members of the Board of Directors appoint, amongst those elected by the General Meeting, who shall hold the position as Chairman of the Board of Directors.

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

Name	Position	Date of Election	Term of Office
Pedro Henrique Oliveira	Sitting board member and Chairman of the Board of Directors	11/22/2016	AGO 2018
Cláudio José Carvalho de Andrade	Sitting board member	11/22/2016	AGO 2018
Rodolpho Amboss	Sitting board member	11/22/2016	AGO 2018
Nelson Machado	Sitting board member	11/22/2016	AGO 2018
Odair Garcia Senra	Sitting board member	11/22/2016	AGO 2018

Fiscal Council

Tenda'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, when installed, will be composed of 3 to 5 members, with the same number of alternates.

The operation of the Fiscal Council, when installed, ends at the first Annual General Meeting ("AGO") held after its installation, and its members may be re-elected. The Fiscal Council's members' compensation is determined at the general meeting to elect them.

At the Annual Shareholders' Meeting held on April 27, 2016, the Fiscal Council was installed, which will operate until the Company's next Annual General Meeting to be held in April 2017.

The table below shows the members of the Fiscal Council.

Name	Role	Date of the last Election	Term of Office
Olavo Fortes Rodrigues	Sitting member	04/27/2016	AGO 2017
Peter Edward Cortes Marsden Wilson	Sitting member	04/27/2016	AGO 2017
Dimitri Lopes Ojevan	Sitting member	04/27/2016	AGO 2017
Marcello Mascotto Iannalfo	Alternate member	04/27/2016	AGO 2017
Marcelo Martins Louro	Alternate member	04/27/2016	AGO 2017
Alexandre Pereira do Nascimento	Alternate member	04/27/2016	AGO 2017

Board of Executive Officers

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

Tenda's Board of Executive Officers shall have a minimum of two and a maximum of twelve 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, who may be re-elected, as provided for in the Company's Bylaws. Currently, our board of executive officers consists of 10 members:

Name	Position	Date of last Investiture	Term of Office
Rodrigo Osmo	Chief Executive Officer	04/22/2015	AGO 2018
Felipe David Cohen	Chief Financial and Investor Relations Officer	04/22/2015	AGO 2018
Daniela Ferrari Toscano de Britto	Chief Operations Officer	04/22/2015	AGO 2018
Fabricio Quesiti Arrivabene	Chief Operations Officer	04/22/2015	AGO 2018
Marcelo de Melo Buozi	Chief Operations Officer	04/22/2015	AGO 2018
Sidney Ostrowski	Chief Operations Officer	04/22/2015	AGO 2018
Alexandre Millen Grzegorzewski	Chief Operations Officer	04/22/2015	AGO 2018
Alex Fernando Hamada	Chief Operations Officer	04/22/2015	AGO 2018
Rodrigo Fernandes Hissa	Chief Operations Officer	04/22/2015	AGO 2018
Ricardo Couto de Prada	Chief Operations Officer	12/01/2015	AGO 2018

RELATIONSHIP WITH INDEPENDENT AUDITORS

The Company's policy of contracting services not related to external auditing with independent auditors is based on the principles that preserve the autonomy of the independent auditor. These principles, internationally accepted, consist of: (a) the auditor should not audit his own work, (b) the auditor should not perform managerial duties on his client, and (c) the auditor should not promote the interests of his client.

According to Article 2 of CVM Instruction No. 381/03, Tenda informs that KPMG Auditores Independentes, independent auditor of the Company and its subsidiaries, did not render services not related to independent auditing in 2016.

MANAGEMENT'S STATEMENT

The Board of Executive Officers hereby declares, in compliance with Article 25, Paragraph 1, items V and VI, of CVM Instruction No. 480/2009 that reviewed, discussed and agreed with the Financial Statements contained in this Report, as well as with the opinion expressed in the Independent Auditor's report referring thereto.

ACKNOWLEDGMENT

Tenda thanks the valuable contribution of its employees, customers, suppliers, partners, shareholders, financial institutions, government entities, regulatory agencies and other stakeholders for the support received during 2016.

São Paulo, March 13, 2017

The Management

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To Board Members and Shareholders of
Construtora Tenda S.A.
São Paulo – SP

Opinion
We have audited the individual and consolidated financial statements of Construtora Tenda S.A. ("Tenda" 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 the Construtora Tenda 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 the Construtora Tenda 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.

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.

- **Estimate of construction costs and Percentage Of Completion (POC)**

  As mentioned in Note 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 construction is the basis for recognizing revenue, 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 controls related to the approval and follow-up of estimates, evaluation of the methodology, indexes and assumptions adopted by Tenda 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 performed substantive analysis of the reasonableness of the percentage of completion of the work. With the assistance of our experts in property appraisal, we evaluate the stage of completion of the constructions. We also evaluated the adequacy of the disclosures made by the Company.

- **Impairment of trade accounts receivable and properties for sale**

  As mentioned in Notes 2.2.1.(f) and 2.2.21, the Company periodically reviews its portfolio of trade accounts receivable and properties for sale to assess the need to recognize a provision for impairment. 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 trade accounts receivable and the high judgment level to determine the assumptions related to the impairment test related to such accounts, 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 controls related to the approval and recognition of trade accounts receivable and properties for sale. We tested the reasonableness of criteria, assumptions and data used by the Company for measuring impairment losses on the portfolio of trade accounts receivable as a whole, including the mathematical recalculation of the provisions for losses. Based on a sample of properties for sale, we analyzed 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, independent quotations of the land value, and history of default of trade accounts receivable. We also evaluated the adequacy of the disclosures made by the Company.

- **Provisions and contingent liabilities – tax and civil**
  The measurement, recognition and disclosure of Provisions and Contingent Liabilities, mentioned in Note 2.2.1 (d) and 18, requires Tenda's professional judgment. The classification of the risks of such claims involves significant judgments and may result in material impacts on the financial statements, including their disclosures. 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 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 Tenda'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 Tenda.

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 individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information 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 of this other information, 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.

- 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 13, 2017
KPMG Auditores Independentes
CRC 2SP014428/O-6

Giuseppe Masi
CRC 1SP176273/O-7
(original report signed in Portuguese)

Construtora Tenda S.A.

Statement of financial position
December 31, 2016 and 2015
(In thousands of Brazilian Reais)

Assets	Notes	Company 2016	Company 2015	Consolidated 2016	Consolidated 2015
Current assets					
Cash and cash equivalents	4.1	**12,124**	6,248	**28,414**	21,653
Short-term investments	4.2	**101,217**	160,769	**195,073**	212,621
Trade accounts receivable	5	**51,674**	119,184	**250,474**	438,226
Properties for sale	6	**177,838**	155,443	**563,576**	490,484
Receivables from related parties	7	**216,393**	271,148	**55,733**	53,933
Land for sale	8	**43,487**	69,271	**75,227**	101,490
Judicial deposits	18	**2,426**	2,305	**2,545**	2,329
Other receivables		**32,182**	35,633	**46,328**	48,394
Total current assets		**637,341**	820,001	**1,217,370**	1,369,130
Non-current assets					
Trade accounts receivable	5	**37,940**	25,150	**176,673**	41,189
Properties for sale	6	**55,094**	39,045	**211,711**	243,520
Receivables from related parties	7	**47,044**	38,857	**37,745**	30,030
Judicial deposits	18	**22,806**	15,073	**22,806**	15,073
Other receivables		**-**	-	**5**	253
		162,884	118,125	**448,940**	330,065
Investments	9	**1,409,681**	1,432,302	**147,831**	163,349
Property and equipment	10	**30,107**	24,586	**30,143**	24,629
Intangible assets	11	**17,865**	18,487	**17,865**	18,487
		1,457,653	1,475,375	**195,839**	206,465
Total non-current assets		**1,620,537**	1,593,500	**644,779**	536,530
Total assets		**2,257,878**	2,413,501	**1,862,149**	1,905,660

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

Construtora Tenda S.A.

Statement of financial position
December 31, 2016 and 2015
(In thousands of Brazilian Reais)

		Company		Consolidated	
Liabilities	Notes	2016	2015	2016	2015
Current liabilities					
Loans and financing	12	**28,690**	3,978	**41,333**	8,899
Debentures	13	**-**	201,877	**-**	201,877
Payables for goods and service suppliers	-	**7,827**	4,257	**31,664**	13,669
Taxes and contributions	14	**13,066**	18,884	**30,510**	40,341
Salaries, payroll charges and profit sharing	15	**4,994**	16,049	**29,598**	32,265
Payables for purchase of properties and advances from customers	16	**9,256**	14,774	**131,280**	138,223
Provisions and cancelled contracts payable	-	**2,441**	3,386	**4,711**	4,917
Payables to related parties	7	**877,802**	914,956	**49,665**	32,640
Provision for net capital deficiency of equity accounted investees	9	**22,824**	11,689	**5,396**	5,394
Other payables		**19,566**	17,254	**29,381**	24,724
Total current liabilities		**986,466**	1,207,104	**353,538**	502,949
Non-current liabilities					
Loans and financing	12	**16,216**	7,004	**93,661**	37,554
Payables for purchase of properties and advances from customers	16	**13,033**	6,986	**104,343**	102,412
Provision for legal claims	18	**28,665**	37,271	**44,950**	55,716
Deferred income tax and social contribution	17	**-**	-	**11,437**	5,045
Payables to related parties	7	**150,599**	55,967	**155,052**	55,967
Other payables		**13,773**	8,233	**23,546**	19,203
Total non-current liabilities		**222,286**	115,461	**432,989**	275,897
Equity					
Capital	19.1	**1,094,000**	1,194,000	**1,094,000**	1,194,000
Capital reserves and reserve for granting stock options		**100.725**	99,186	**100,725**	99,186
Accumulated losses	19.2	**(145,599)**	(202,250)	**(145,599)**	(202,250)
		1,049,126	1,090,936	**1,049,126**	1,090,936
Non-controlling interests		**-**	-	**26,496**	35,878
Total equity		**1,049,126**	1,090,936	**1,075,622**	1,126,814
Total liabilities and equity		**2,257,878**	2,413,501	**1,862,149**	1,905,660

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

Construtora Tenda S.A.

Statements of profit or loss
Years ended December 31, 2016 and 2015
(In thousands of Brazilian Reais, except if otherwise stated)

		Company		Consolidated	
	Notes	2016	2015	2016	2015
Continuing operations					
Net operating revenue	23	**179,064**	193,581	**1,052,710**	850,962
Operating costs					
Real estate development and sales	24	**(109,487)**	(144,650)	**(729,705)**	(605,584)
Gross profit		**69,577**	48,931	**323,005**	245,378
Operating (expenses) income					
Selling expenses	24	**(27,521)**	(26,616)	**(90,490)**	(65,311)
General and administrative expenses	24	**(31,957)**	(34,601)	**(89,739)**	(83,971)
Share of profit/(loss) of equity method investments	9	**78,145**	74,420	**(5,456)**	1,751
Other income (expenses), net	24	**(34,177)**	(51,397)	**(49,042)**	(67,402)
Income before financial income and expenses and income tax and social contribution		**54,067**	10,737	**88,278**	30,445
Financial expenses	25	**(17,413)**	(27,797)	**(47,300)**	(41,051)
Financial income	25	**21,834**	47,380	**27,257**	46,825
Income before income tax and social contribution		**58,488**	30,320	**68,235**	36,219
Current income tax and social contribution	17	**(1,837)**	-	**(16,089)**	(9,835)
Deferred income tax and social contribution	17	**-**	-	**(4,877)**	3,313
Total income tax and social contribution		**(1,837)**	-	**(20,966)**	(6,522)
Net income from continuing operations		**56,651**	30,320	**47,269**	29,697
Net income for the year	19.2	**56,651**	30,320	**47,269**	29,697
(-)Attributable to:					
Non-controlling interests		**-**	-	**(9,382)**	(623)
Shareholders of the Company		**56,651**	30,320	**56,651**	30,320
Weighted average number of shares (in thousands of shares)	21	**54,000**	633,037	**54,000**	633,037
Basic earnings per thousand shares - In Reais	21	**1.0491**	0.0479	**1.0491**	0.0479
Diluted earnings per thousand shares - In Reais	21	**0.9815**	0.0461	**0.9815**	0.0461

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

Construtora Tenda S.A.

Statements of comprehensive income
Years ended December 31, 2016 and 2015
(In thousands of Brazilian Reais, except if otherwise stated)

	Company		Consolidated	
	2016	2015	**2016**	2015
Net income for the year	**56,651**	30,320	**47,269**	29,697
Total comprehensive income for the year, net of taxes	**56,651**	30,320	**47,269**	29,697
Attributable to:				
Shareholders of the Company	**56,651**	30,320	**56,651**	30,320
Non-controlling interests	**-**	-	**(9,382)**	(623)

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

Construtora Tenda S.A.

Statements of changes in equity
Years ended December 31, 2016 and 2015
(In thousands of Brazilian Reais)

	Notes	Attributed to Shareholders of the Company				Non-controlling interests	Total Consolidated
		Capital	Capital reserves	Accumulated losses	Total Company		
Balances at December 31, 2014		**1,194,000**	**97,047**	**(232,570)**	**1,058,477**	**23,869**	**1,082,346**
Capital increase	**19.1**	-	-	-	-	12,632	12,632
Stock option plan	**19.3**	-	2,139	-	2,139	-	2,139
Net income for the year		-	-	30,320	30,320	(623)	29,697
Balances at December 31, 2015		**1,194,000**	**99,186**	**(202,250)**	**1,090,936**	**35,878**	1,126,814
Capital decrease	**19.1**	**(100,000)**	**-**	**-**	**(100,000)**	**-**	**(100,000)**
Stock option plan	**19.3**	**-**	**1,539**	**-**	**1,539**	**-**	**1,539**
Net income for the year		**-**	**-**	**56,651**	**56,651**	**(9,382)**	**47,269**
Balances at December 31, 2016		**1,094,000**	**100,725**	**(145,599)**	**1,049,126**	**26,496**	**1,075,622**

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

Construtora Tenda S.A.

Statements of cash flows
Years ended December 31, 2016 and 2015
(In thousands of Brazilian Reais)

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Operating activities				
Income before income tax and social contribution	**58,488**	30,320	**68,234**	36,218
Expenses/(income) not affecting cash and cash equivalents:				
Depreciation and amortization (Notes 10 and 11)	**15,450**	15,236	**15,455**	15,349
Allowance (reversal) for doubtful accounts and cancelled contracts (Note 5)	**24,647**	7,739	**22,600**	14,433
Provision for realization of non-financial assets	**(15,476)**	584	**(14,774)**	911
Share of profit/(loss) of equity method investments (Note 9)	**(78,145)**	(74,420)	**5,456**	(1,751)
Provision for legal claims and commitments (Note 18)	**(7,103)**	8,797	**(10,646)**	27,256
Unrealized interests and charges, net	**18,060**	34,548	**24,181**	36,173
Warranty provision	**3,510**	2,799	**4,892**	10,847
Provision for profit sharing (Note 26)	**817**	791	**11,121**	11,502
Stock option expenses (Note 19.3)	**1,539**	2,139	**1,539**	2,139
Write-off of property and equipment and intangible assets, net	**2,266**	1,979	**2,266**	1,979
Provision for penalties due to delay in construction works	**597**	(2,868)	**137**	(3,471)
Provision for cancelled contracts and cancelled contracts payable	**(945)**	(449)	**(206)**	(7,877)
Write-off of investments (Note 9)	**-**	(2,372)	**-**	(2,364)
Decrease/(increase) in operating assets				
Trade accounts receivable	**10,352**	15,269	**15,075**	(158,063)
Properties for sale and land for sale	**22,538**	63,790	**14,347**	45,792
Other receivables	**(4,404)**	19,912	**(5,634)**	15,649
Increase/(decrease) in operating liabilities				
Payables for goods and service suppliers	**3,570**	(10,233)	**17,995**	(9,792)
Taxes and contributions	**(7,655)**	(9,894)	**(13,248)**	(5,172)
Salaries, payroll charges and profit sharing	**(11,872)**	(7,441)	**(13,788)**	(4,976)
Payables for purchase of properties and advances from customers	**529**	(21,183)	**(5,012)**	8,949
Other payables	**13,377**	(37,750)	**5,368**	(36,634)
Related parties transactions	**2,636**	(11,318)	**4,369**	(72,757)
Paid income tax and social contribution	**-**	-	**(12,672)**	(9,835)
Cash and cash equivalents from (used in) operating activities	**52,776**	25,975	**137,055**	(85,495)
Investing activities				
Increase in investments (Note 9)	**(9,118)**	(13,695)	**10,064**	10,643
Purchase of property and equipment and intangible assets (Notes 10 and 11)	**(22,615)**	(23,014)	**(22,615)**	(23,014)
Purchase of short-term investments and restricted cash in guarantee to loans	**(1,649,477)**	(1,671,290)	**(1,903,123)**	(1,858,878)
Redemption of short-term investments and restricted cash in guarantee to loans	**1,709,029**	1,816,185	**1,920,671**	2,079,215
Proceeds from sale of investments	**-**	4,768	**-**	4,768
Dividends received (Note 9)	**109,884**	22,706	**-**	9,554
Cash from (used in) investing activities	**137,703**	135,660	**4,997**	222,288
Financing activities				
Increase in loans, financing and debentures	**68,970**	21,801	**290,481**	78,670
Payment of loans, financing and debentures – principal	**(235,561)**	(222,286)	**(404,142)**	(261,226)
Payment of loans, financing and debentures – interest	**(19,422)**	(42,523)	**(23,856)**	(43,836)
Loan transactions with related parties	**1,410**	40,343	**2,226**	49,637
Net cash and cash equivalents from (used in) financing activities	**(184,603)**	(202,665)	**(135,291)**	(176,755)
Net increase (decrease) in cash and cash equivalents	**5,876**	(41,030)	**6,761**	(39,962)
Cash and cash equivalents				
At the beginning of the year	**6,248**	47,278	**21,653**	61,615
At the end of the year	**12,124**	6,248	**28,414**	21,653
Net increase in cash and cash equivalents	**5,876**	(41,030)	**6,761**	(39,962)

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

Construtora Tenda S.A.

Statements of value added
Years ended December 31, 2016 and 2015
(In thousands of Brazilian Reais)

	Company		Consolidated	
	2016	2015	2016	2015
Revenues	**204,799**	213,007	**1,133,462**	923,474
Real estate development and sales	**249,167**	203,761	**1,170,655**	907,362
Reversal (recognition) of allowance for doubtful accounts and cancelled contracts	**(44,368)**	9,246	**(37,193)**	16,112
Inputs acquired from third parties (including taxes on purchases)	**(109,491)**	(165,578)	**(778,576)**	(681,741)
Operating costs - Real estate development and sales	**(94,921)**	(139,535)	**(701,648)**	(590,801)
Materials, energy, outsourced labor and other	**(14,570)**	(26,043)	**(76,928)**	(90,940)
Gross value added	**95,308**	47,429	**354,886**	241,733
Depreciation and amortization	**(15,450)**	(15,236)	**(15,455)**	(15,349)
Net value added produced, (distributed) by the Company	**79,858**	32,193	**339,431**	226,384
Value added received on transfer	**99,978**	121,800	**21,801**	48,576
Share of profit/(loss) of equity method investments	**78,145**	74,420	**(5,456)**	1,751
Financial income	**21,833**	47,380	**27,257**	46,825
Total value added to be distributed	**179,836**	153,993	**361,232**	274,960
Value added distribution	**179,836**	153,993	**361,232**	274,960
Personnel and payroll charges	**50,394**	57,013	**113,268**	91,257
Taxes and contributions	**40,812**	33,749	**125,337**	98,171
Interests and rents	**31,979**	32,911	**75,358**	55,835
Absorbed losses attributable to non-controlling interests	**-**	-	**(9,382)**	(623)
Retained earnings	**56,651**	30,320	**56,651**	30,320

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

1. Operations

Construtora Tenda S.A. ("Company" or "Tenda") is a corporation with registered office at Rua Álvares Penteado, 61, in the city and state of São Paulo, Brazil.

The operations of Tenda and its subsidiaries comprise the carry out of civil construction works, real estate development, real estate purchase and sales, civil construction administration services, intermediation of consortia shares sales, and holding of interests in other companies.

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

On December 13, 2016, the Company, together with its parent company Gafisa S.A., disclosed a material fact to the market, complementing the Material Facts disclosed on August 16 and September 26, 2016, informing that Gafisa’s Board of Directors resolved to request the cancellation of the application for registering the Offering at the Brazilian Securities and Exchange Commission as a result of the current market situation, unfavorable to the performance of a secondary offering of Tenda’s shares.

On December 14, 2016, the Company, together with its parent company Gafisa S.A., disclosed a material fact to the market, informing that Gafisa’s Board of Directors received a proposal from Jaguar Growth Asset Management, a company to which Jaguar Real Estate Partners is affiliated, for acquisition of Tenda’s shares, and decided to go on with the negotiations as an alternative to the public offering of shares which was cancelled. On such date, Gafisa entered into a contract for purchase and sale of shares with Jaguar Real Estate Partners for disposal of up to 30% of the shares issued by Tenda, which the latter estimates at R$ 539.02 million, for the price of R$ 8.13 per share. The transaction is subject to the fulfillment of some conditions, among which the following is worth noting: (i) reduction in Tenda’s capital stock, with no cancellation of shares, and repayment to Gafisa, of R$ 100 million, indexed to the country’s base rate (Selic). Out of the total amount, R$ 50 million, plus indexation, shall be paid until December 31, 2018, whereas the remaining balance shall be paid until December 31, 2019; (ii) the reduction in Gafisa’s capital stock by repayment to its shareholders for shares corresponding to 50% of Tenda’s capital stock, 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, under the terms of article 253, I, of Act 6,404/76, having observed that, (a) in addition to the shares, Gafisa will offer to its shareholders additional shares corresponding to 20% of Tenda’s capital stock; and (b) in case, after the exercise of the Preemptive Right, less them 20% of the shares issued by Tenda remain available for acquisition by Jaguar, Jaguar will not be obliged to acquire them, and the operation will continue with the shareholders who exercised the Preemptive Right.

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

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

The individual and consolidated financial statement of the Company were approved and authorized for issue by the Company's Board of Directors on March 9, 2017.

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 Pronouncement Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM) and are disclosed together with the consolidated financial statements.

The individual financial statements of the Company differs from International Financial Reporting Standards (IFRS), once they consider the capitalization of interest on qualifying assets of investees in the separate 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 the accompanying individual and consolidated information in only one set.

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 Accounting Pronouncements Committee (CPC), ratified by the Brazilian Securities and Exchange Commission (CVM), and according to the IFRS issued by the International Accounting Standard Board (IASB) 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 concept of continuous transfer of the risks, rewards and control over the real estate units sold.

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.

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

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

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

2.1.1. Consolidated financial statements

The consolidated financial statements of the Company include the individual financial statements of the Company and its direct and indirect subsidiaries. The Company controls an entity when it is exposed or has right to the 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 on which control commences until the date on which control ceases.

The accounting practices have been applied consistently by all subsidiaries included in the consolidated financial statements of Company. See further details in Note 9.

2.1.2. Functional and presentation currency

The functional and presentation currency of the Company is the Brazilian Real.

2.2. Summary of significant accounting policies

2.2.1. Accounting judgments, estimates and assumptions

In the preparation of the accompanying financial statements, Management made judgments, estimates and assumptions that affect the adoption of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may diverge from such estimates.

Estimates and assumptions are continuously reviewed. The reviews of estimates are recognized on forward-looking basis.

The information on the uncertainties related to assumptions and estimates that have significant risk of resulting in a material adjustment in the year ended December 31, 2016 is included in the following Notes:

a) <u>Impairment of non-financial assets</u>

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.

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 of non-financial assets --Continued

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.

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 payment transactions, the liability has to be remeasured at the end of each disclosure period until its settlement date, recognizing in profit or loss any change in fair value, which requires the remeasurement of the estimates used at the end of each disclosure 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 19.3.

c) Allowance for doubtful accounts and cancelled contracts

The Company reviews annually its assumptions related to the recognition of its allowance for doubtful accounts and cancelled contracts, taking into account the history of current operations in order to improve the accuracy of its estimates.

The Company records an allowance for doubtful accounts and cancelled contracts for customers who show intention to formalize cancellation and by average volume of cancellations on net sales of the resale speed of such units. 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.

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

d) Provision for legal claims

The Company recognizes a provision for tax, labor and civil claims (Note 18). 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 any changes in circumstances, such as applicable statutes of limitations, findings of tax inspections, or additional exposures found based on new court issues or decisions.
There are uncertainties inherent in the interpretation of complex tax rules and in the value and timing of future taxable income.

e) Fair value of financial instruments

When the fair values of the financial assets and liabilities presented in the statement of financial position cannot be obtained in the active market, they are determined using valuation techniques, including the discounted cash flow method.
The data for such methods is based on available market information; however, when it is not viable, judgment is required to establish the fair value. The judgment includes considerations regarding the data used, such as interest rates, liquidity risk, credit risk, and volatility. Changes in the assumptions about these factors may affect the stated fair value of financial instruments.

f) Estimated cost of construction

The estimated costs, mainly comprising incurred and future 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 effect of such estimate reviews affects the recognition of revenue, as mentioned in Note 2.2.2.i.b.

g) 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 recorded at fair value, as a component of inventory, 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 mentioned in Note 2.2.2.ii.

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

h) Realization of deferred income tax

The initial recognition and subsequent analyses of realization of deferred income tax are made 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 prepared and supported by internal assumptions and future economic scenarios that enable its full or partial use.

2.2.2. Recognition of revenue and expenses

(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 benefits, regardless of the timing of receipt of the contractual amount.

(b) For the construction phase of units sold, but not yet completed:

- The incurred cost (including cost of land, and other directly related expenditure with inventory) 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 2.2.6);

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

- Revenues recognized in excess of actual payments received from customers are recorded as either a current or non-current assets in “Trade accounts receivable”. Any payment received in connection with the sales of units that exceeds the amount of revenue recognized is recorded as “Payables for purchase of property and advances from customers ";

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

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

2.2.2. Recognition of revenue and expenses --Continued

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

- Financial charges on accounts payable for acquisition of land and those directly associated with the financing of construction are capitalized and recorded in inventory of 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;

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

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

(ii) *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 recognized at fair value, as a component of inventory, 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

The Company classifies non-derivative financial assets in the following categories: financial assets measured at fair value through profit or loss and loans and receivables.

The Company classifies non-derivative financial liabilities in the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial instruments are recognized and measured as follows:

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

2.2.3. Financial instruments --Continued

(i) *Non-derivative financial assets and liabilities - recognition and derecognition*

The Company recognizes loans and receivables, and debt instruments initially at the date they were originated. All other financial assets and liabilities are recognized on the negotiation date when the Company becomes party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company transfers the rights to the receipt of the contractual cash flows of a financial asset in a transaction in which substantially all the risks and rewards from the ownership of the financial asset are transferred. Any share that is created or retained by the Company in such transferred financial assets, is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset, and the net amount is shown in the statement of financial position when, and only when, the Company has a current and enforceable legal right to offset the amounts, and intention to settle them on net basis or realize the asset and settle the liability simultaneously.

(ii) *Non-derivative financial assets - measurement*

Financial assets measured at fair value through profit or loss

A financial asset is classified as measured at fair value through profit or loss in case it is classified as held for trading or designated as such at the time of its initial recognition. The transaction costs are recognized in profit or loss as incurred. These assets are measured at fair value, and the changes in fair value, including gains on interests and dividends, are recognized in profit or loss for the year.

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

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) *Non-derivative financial assets – measurement--Continued*

Cash and cash equivalents

In the statements of cash flows, cash and cash equivalents include overdrafts that are immediately due, and are an integral part of the Company's cash management.

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

(iii) *Non-derivative financial liabilities - measurement*

A financial liability is classified as measured at fair value through profit or loss in case it is classified as held for trading or designated at such at the time of its initial recognition. Transaction costs are recognized in profit or loss as incurred. These financial liabilities are measured at fair value, and the changes in fair value, including gains on interests and dividends, are recognized in profit or loss for the year.

Other non-derivative financial liabilities are initially measured at fair value deducted for any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

The Company's financial liabilities include loans and financing, debentures, suppliers, payable for purchase of properties and advance from customers and loans payable.

(iv) *Derivative financial instruments, including hedge accounting*

As of December 31, 2016 and 2015, the Company did not have any transaction involving derivative financial instruments.

The Company does not adopt the Hedge Accounting practice.

2.2.4. Cash and cash equivalents and short-term investments

Cash and cash equivalents substantially comprise demand deposits and bank certificates of deposit ("CDB") 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.

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

2.2. Summary of significant accounting policies --Continued

2.2.4. Cash and cash equivalents and short-term investments --Continued

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 to the unitholders of Gafisa S.A. and also guarantees, which are classified at fair value through profit or loss (Note 4.2).

2.2.5. Trade accounts receivable

These are presented at present and realizable values. The classification between current and non-current is made based on the expected maturity of contract installments.

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

The present value adjustment is calculated between the contract signature date and the estimated date to deliver the 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 2.2.18.

The reversal of the present value adjustment, considering that an important part of the Company operations consists of financing its customers until key delivery, was carried out as contra-entry to the group of real estate development revenue, consistently with interest accrued on the portion of receivables balance related to the period subsequent to the handover of keys.

2.2.6. Properties for sale

The Company and its subsidiaries acquire land for future real estate developments, on payment conditions in currency or through barter transactions. Land acquired through barter transaction is recorded 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 (ii).

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

2.2. Summary of significant accounting policies --Continued

2.2.6. Properties for sale --Continued

Properties are measured at construction cost, less provision when such amount exceeds the 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 noncurrent 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.

2.2.7. Selling expenses - commissions

When the sale is consummated, the brokerage become due, and the expenses are recorded in profit or loss under the account “Selling expenses” employing the same percentage-of-completion criteria used for revenue recognition. The charges related to sales commission paid by the buyer to their broker are not recognized as revenue or expense of the Company.

2.2.8. Prepaid expenses

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

2.2.9. Land for sale

Land for sale is measured at the lower of the carrying value and the fair value less the 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 on its current condition.

2.2.10. Investments in ownership interests

Investments in ownership interests are recorded in the parent company using the equity method.

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 --Continued

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).

Property and equipment are subject to periodical analysis of asset impairment.

2.2.12. Intangible assets

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.

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

Payables for purchase of properties are recognized at the amounts corresponding to the contractual obligations assumed. Subsequently they are measured at amortized cost, that is, plus, if applicable, 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. 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

(i) *Current income tax and social contribution*

The Company and subsidiaries determine the income tax (IRPJ) and social contribution on net income (CSLL) based on taxable profit, presumed profit or "patrimônio de afetação" (detached assets) with the Special Taxation Regime (RET), as detailed below:

- **Taxable profit** – Adopted by the Company. In this systematics, the IRPJ is calculated at the rate of 15%, plus an additional 10% on taxable profit in excess of R$240, and the CSLL is calculated at the rate of 9% on taxable profit, and consider the offset of tax and CSLL loss carryforwards, limited to 30% of the taxable profit of each fiscal year.

- **Presumed profit** – Adopted by certain subsidiaries. In this systematics, the IRPJ and CSLL tax base is calculated at the rates of 8% and 12% on gross revenues (100% of financial income), respectively. Regarding presumed profit, income tax and social contribution rates in effect on the closing date of each period (15% plus 10% for annual profit in excess of R$240 for IRPJ, and 9% for CSLL) are applied.

- **Special Taxation Regime (RET)** – Adopted for certain ventures of the Company. As permitted by Act 12,024 of August 27, 2009, which amended Act 10,931/2004, which established the RET, they opted for submitting them to the "patrimônio de afetação" (detached assets) and the RET. For such ventures, the consolidated burden related to the IRPJ and CSLL, the Contribution to Social Security Financing (COFINS) and the Contribution to the Social Integration Program(PIS), is calculated at the global rate of 4% applied to gross revenue received, according to the limit established by the Law. The total IRPJ and CSLL rate is 1.92%, and the total PIS and COFINS rate is 2.08% applied to gross revenue under the RET.

(i) Deferred income tax and social contribution

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

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

(i) Deferred income tax and social contribution --Continued

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available to be used to offset against 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 expiration date, however, it only be offset against up to 30% of the taxable profit for each year. The subsidiaries 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.

2.2.16. Stock option plans

As approved by its Board of Directors, the Company offers management members 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.

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 --Continued

In a settled transaction, for the equity which the plan is modified, a minimum expense is recognized corresponding to the expense that would have been recorded 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 vested 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. 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 salary, among others) and variable compensation such as profit sharing, bonus, and share-based payments. These benefits are recorded in the line items “Cost of Real Estate Development and Sales, Selling Expenses and General and Administrative Expenses” as they are incurred.

The bonus system operates with individual 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.

2.2.18. Present value adjustment – assets and liabilities

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

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

2.2. Summary of significant accounting policies --Continued

2.2.18. Present value adjustment – assets and liabilities --Continued

The real estate development entities, in installment sales of units not yet completed, record receivables adjusted for inflation, including the installment of keys, without interest, and shall be discounted to present value, once the inflation indexes established in the contract do not include the interest component.

Borrowing costs and other financing costs directly attributable to 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 inflation-index effect (Notes 5 and 12).

2.2.19. Borrowing costs

Borrowing costs which are directly attributable to projects during the construction period and to land during the development of assets for sale are capitalized as part of the cost of the corresponding asset, which are recognized in profit or loss to the extent units are sold. All other borrowing costs are expensed as incurred. Borrowing costs comprise interest and other related costs incurred, including those for raising finances.

The charges not included 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. Presentation of financial statements and summary of significant accounting policies --Continued

2.2. Summary of significant accounting policies --Continued

2.2.20. Provisions

Provisions are recorded when considered probable, and based on the best estimates of the involved risk. The recognized provisions mainly refer to the following:

(i) *Provision for legal claims*

The Company is party to various lawsuits and administrative proceedings. Provisions are recognized for all contingencies related to lawsuits which expectation of unfavorable outcome 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 provided nor disclosed.

Contingent assets are recognized only when there are real guarantees or favorable final and unappealable court decisions. Contingent assets with probable likelihood of 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.

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

The Company annually reviews its assumptions to recognize the allowance for doubtful accounts and cancelled contracts, in view of the review of the history of its current operations and improvement in its estimates.

The Company records an allowance for doubtful accounts and cancelled contracts for customers whose installments are past due, based on the assumptions made by 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 adopts the practice of provisioning the contractual charges payable to eligible customers for projects whose delivery is delayed over 180 days, pursuant to the respective contractual clause and history of payments.

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

2.2. Summary of significant accounting policies --Continued

2.2.20. Provisions --Continued

(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 subsidiaries that operate with outsourced companies, which are the own 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 net carrying amounts tested annually, regardless whether there is any indication of impairment, by comparing the net 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.

2.2.21. Sales taxes

Under the non-cumulative taxation regime, the PIS and COFINS contribution rates are 1.65% and 7.6%, respectively, for companies under the taxable profit taxation regime, levied 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 are 0.65% and 3%, respectively, on gross revenue, without discounts of credits in relation to incurred costs and expenses.

2.2.22. Interest on equity and dividends

Management’s proposal for distribution of dividends and interest on equity (JCP) that is within the mandatory minimum dividend are recorded as current liabilities in the line item “Dividends payable”, since it is considered a legal obligation provided for in the articles of incorporation of the Company.

For corporate and accounting purposes, the interest on equity is reported as allocation of profit directly to equity at gross amount.

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

2.2. Summary of significant accounting policies --Continued

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

Basic earnings (loss) per share are calculated by dividing the net income (loss) attributable (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, however, 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.

3. New standards and interpretations not yet in effect

A series of new standards or changes to standards and interpretations will be effective for the years beginning after January 1, 2017. The Company has not adopted such changes in the preparation of the accompanying financial statements, nor has planned to early adopt such standards.

- IFRS 15 - Revenue from Contracts with Customers

The IFRS15 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 revenue recognition that currently exists under the IFRS when it is adopted. For the real estate development sector, the evaluation will result from the recognition of revenue by maintaining the percentage of completion (POC) method, or adopting the method of delivery of keys to be defined.

The new standard is applicable beginning on or after January 1, 2018, with early adoption being permitted by the IFRS. The standard can be applied retrospectively, adopting a cumulative effect approach.

The Company is evaluating the effects that the IFRS 15 will have on the financial statements and its disclosures. The Company has not yet chosen the method of transition to the new standard, or determined the effects of the new standard on the current financial reports.

3. New standards and interpretations not yet in effect--Continued

- IFRS 9 - Financial Instruments

  IFRS 9 replaces the guidance of IAS 39 (CPC 38) Financial Instruments: Recognition and Measurement. IFRS 9 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 new standard maintains the existing guidance on the recognition and derecognition of financial instruments of IAS 39.

  IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption being permitted only for the financial statements according to the IFRS.

  The effective impact of the adoption of IFRS 9 on the Group'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 the Company 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 16 - Leases

  IFRS 16 introduces a single lessee accounting model in the statement of financial position for lessees. The lessee recognizes a right-of-use asset that represents its right to use the leased asset, and a lease liability that represents its obligation to make lease payments. Optional exemptions are available for short-term leases and low value items. The lessor accounting remains similar to the current standard, that is, lessors continue to classify leases as finance or operating leases.

  IFRS 16 replaces the existing lease standards, including the CPC 06 (IAS 17) Leases, and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Leases.

  The standard is effective for annual periods beginning on or after January 1, 2019. The early adoption is permitted only for the financial statements according to the IFRS, and only for entities that apply the IFRS 15 Revenue from Contracts with Customers on or before the initial date of IFRS 16 application.

  The Company started an initial evaluation of the potential impact on its financial statements. Thus far, the most significant identified impact is that the Company will recognize new assets and liabilities for its operating leases of administrative offices. In addition, the nature of the expenses related to such leases will be changed, because IFRS 16 substitutes the expense on a straight-line basis for depreciation expenses of the right-of-use and interests on lease liabilities. The Company has not yet decided whether it will use the optional exemptions. No significant impact on the finance lease contracts of the Company is expected.

(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	**12,093**	6,248	**27,835**	21,591
Securities purchased under resale agreements (a)	**31**	-	**579**	62
Total cash and cash equivalents (Note 22.b.i)	**12,124**	6,248	**28,414**	21,653

(a) Securities purchased under resale agreement comprise securities issued by Banks (CDB) with a repurchase commitment guaranteed by the issuer, and resale commitment by the customer, at rates and maturities agreed upon, backed by corporate and government securities, depending on the bank's condition, and are registered with the Central de Custódia e de Liquidação Financeira de Títulos ("CETIP").

As of December 31, 2016, the securities purchased under resale agreement earned interest through the reporting date of the statement of financial position, varying from 75% to 100% of Interbank Deposit Certificates (CDI) (from 75% of CDI in 2015). All investments are made 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)	**36,325**	56,665	**37,647**	56,665
Government bonds (LFT) (a)	**4,043**	5,913	**4,091**	5,913
Corporate securities (a)	**21,327**	30,403	**21,579**	30,403
Securities purchased under resale agreements (a)	**1,061**	10,547	**1,068**	10,547
Bank certificates of deposit (a)/(b)	**10,844**	35,050	**27,996**	36,166
Restricted cash in guarantee to loans (c)	**33**	11,118	**33**	11,118
Restricted credits (d)	**27,584**	11,073	**102,659**	61,809
Total short-term investments (Note 22.b.i)	**101,217**	160,769	**195,073**	212,621

(a) Structure of exclusive Investment funds to the unitholders of Gafisa S.A., aimed at earning interest 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 incurred through the reporting date of the statement of financial position, varying from 85% to 104.5% (90% to 107% in 2015) of Interbank Deposit Certificates (CDI) rate.

(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 note 13.

(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.

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

5. Trade accounts receivable from real estate development and services

	Company		Consolidated	
	2016	2015	**2016**	2015
Real estate development and sales	**170,830**	185,780	**532,176**	548,984
(-) Allowance for doubtful accounts and cancelled contracts	**(103,865)**	(59,497)	**(125,358)**	(88,165)
(-) Present value adjustments	**(1,460)**	(34)	**(2,901)**	(653)
Other	**24,109**	18,085	**23,230**	19,249
	89,614	144,334	**427,147**	479,415
Current	**51,674**	119,184	**250,474**	438,226
Non-current	**37,940**	25,150	**176,673**	41,189

The current and non-current portions have the following maturities:

	Company		Consolidated	
Maturity	**2016**	2015	**2016**	2015
Overdue:				
Up to 90 days	**1,680**	1,024	**53,779**	32,555
From 91 to 180 days	**4,153**	8,560	**17,371**	19,101
Over 180 days	**97,041**	129,125	**170,336**	195,867
Subtotal – Overdue	**102,874**	138,709	**241,486**	247,523
Falling due				
2016	**-**	43,968	**-**	240,371
2017	**52,834**	7,280	**121,965**	49,814
2018	**18,704**	3,728	**96,543**	11,435
2019	**9,893**	2,955	**63,211**	7,494
2020 onwards	**10,634**	7,225	**32,201**	11,596
Subtotal – Falling due	**92,065**	65,156	**313,920**	320,710
(-) Present value adjustment	**(1,460)**	(34)	**(2,901)**	(653)
(-) Allowance for doubtful accounts and cancelled contracts	**(103,865)**	(59,497)	**(125,358)**	(88,165)
	89,614	144,334	**427,147**	479,415

(a) Of the amount more than 180 days past due, the amounts in process of transfer to financial institutions total R$25,433 in the Company, and R$55,492 in the Consolidated (R$40,361 in the Company and R$69,464 in the Consolidated as of December 31, 2015)

The balance of accounts receivable from units sold and not yet completed is not fully reflected in the financial statements. The balance 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 installments received from customers who have made payments in excess of the recognized revenues totaled R$2,216 (R$3,506 in 2015) in the Company's balance, and R$2,513 (R$11,374 in 2015) in the consolidated balance and are classified in the heading "Payables for purchase of properties and advances from customers" (Note 16).

Accounts receivable from completed real estate units financed by the Company are indexed to the change in the IGP-M, this revenue being appropriated to profit or loss, in the line item "Real estate development, sale, barter transactions and construction services". The amounts recognized for interests, in the Company and Consolidated balance, in the year ended December 31, 2016 totaled R$6,864 (R$432 in 2015) and R$7,088 (R$246 in 2015), respectively.

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

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

5. Trade accounts receivable from real estate development and services-- Continued

The change in the allowance for doubtful accounts and cancelled contracts for the years ended December 2016 and 2015, is summarized below:

	Company			Consolidated		
	Receivables	Properties for sale (Note 6)	Net balance	Receivables	Properties for sale (Note 6)	Net balance
Balance at December 31, 2014	(68,743)	31,778	**(36,965)**	(104,277)	52,309	**(51,968)**
Additions	(61,503)	14,793	**(46,710)**	(91,570)	21,764	**(69,806)**
Reversal	70,749	(31,778)	**38,971**	107,682	(52,309)	**55,373**
Balance at December 31, 2015	(59,497)	14,793	**(44,704)**	(88,165)	21,764	**(66,401)**
Additions	(108,086)	34,514	**(73,572)**	(131,927)	36,357	**(95,570)**
Reversal	63,718	(14,793)	**48,925**	94,734	(21,764)	**72,970**
Balance at December 31, 2016	(103,865)	34,514	**(69,351)**	(125,358)	36,357	**(89,001)**

The present value adjustment recognized in revenue from real estate development for the year ended December 31, 2016 totaled R$1,426 (R$1 in 2015), in the Company's balance and R$2,248 (R$482 in 2015) in the consolidated balance.

Receivables from units not yet completed were measured at present value, considering the discount rate determined according to the criteria described in Note 2.2.2. The discount rate applied by the Company and its subsidiaries was 7.01% in 2016 (2.95% in 2015), net of Civil Construction National Index (INCC).

6. Properties for sale

	Company		Consolidated	
	2016	2015	2016	2015
Land	**95,374**	68,629	**454,183**	470,746
Property under construction	**72,886**	68,777	**227,940**	146,851
Real estate cost in the recognition of the provision for cancelled contracts - Note 5	**34,514**	14,793	**36,357**	21,764
Completed units	**34,557**	45,371	**74,407**	103,886
(-)Present value adjustment	**(2,132)**	(492)	**(14,637)**	(6,189)
(-)Provision for impairment non-realization of properties for sale	**(2,267)**	(2,590)	**(2,963)**	(3,054)
	232,932	194,488	**775,287**	734,004
Current portion	**177,838**	155,443	**563,576**	490,484
Non-current portion	**55,094**	39,045	**211,711**	243,520

For the years ended December 31, 2016 and 2015, the change in the provision for non-realization of properties for sale is summarized as follows:

	Company	Consolidated
Balance at December 31, 2014	**(4,549)**	**(4,549)**
Additions	(1,236)	(1,236)
Write-offs	760	2,731
Transfer to SPE	2,435	-
Balance at December 31, 2015	**(2,590)**	**(3,054)**
Additions	-	(552)
Write-offs	323	643
Balance at December 31, 2016	**(2,267)**	**(2,963)**

The Company has commitments of construction of bartered units, related to the acquisition of land, recognized based on the fair value of bartered units at the acquisition date. As of December 31, 2016, the balance of payables for land acquired through barter transaction totals R$2,505 (R$3,218 in 2015) in the Company's balance, and R$42,802 (R$44,496 in 2015) in the Consolidated balance (Note 16).

As of December 31, 2016, the Company has land recorded in the line items "Properties for sale" and "Land for sale" that were used as guarantee to loan and financing contracts which total R$84,077 (R$11,890 in 2015) in the Company's and Consolidated balances.

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

6. Properties for sale -- Continued

As disclosed in Note 12, the balance of capitalized financial charges as of December 31, 2016 amounts to R$12,845 (R$23,522 in 2015) in the Company's balances, and R$42,802 (R$54,902 in 2015) in the consolidated balance.

7. Related parties

7.1. Balances with related parties

The balances with related parties, assets and liabilities are as follows:

	Company		Consolidated	
	2016	2015	**2016**	2015
Assets				
Related parties Current account (a)	**216,393**	257,996	**55,733**	53,589
Loan receivable (b)	**47,044**	38,857	**37,745**	30,374
Dividends receivable (c)	**-**	13,152	**-**	-
Total assets	**263,437**	310,005	**93,478**	83,963
Current portion	**216,393**	271,148	**55,733**	53,933
Non-current portion	**47,044**	38,857	**37,745**	30,030

	Company		Consolidated	
	2016	2015	**2016**	2015
Liabilities				
Related parties Current account (d)	**877,802**	914,956	**54,118**	32,640
Loan payable (b)	**50,599**	41,002	**50,599**	41,002
Payables to Shareholder (e)	**100,000**	-	**100,000**	-
Current account SOP (f)	**-**	14,965	**-**	14,965
Total liabilities	**1,028,401**	970,923	**204,717**	88,607
Current portion	**877,802**	914,956	**49,665**	32,640
Non-current portion	**150,599**	55,967	**155,052**	55,967

(a) The Company participates in the development of real estate ventures with other partners, directly or through related parties. The management structure of these ventures and the cash management are centralized in the lead partner of the venture, which manages the construction schedule and budgets. Thus, the lead partner ensures that the investments of the necessary funds are made and allocated as planned. The sources and use of resources of the venture are reflected in these balances, observing the respective interest of each investor, which are not subject to indexation or financial charges and do not have a fixed maturity date. Such transactions aim at simplifying business relations that demand the joint management of amounts reciprocally owed by the involved parties and, consequently, the control over the change of amounts reciprocally granted which offset against each other at the time the current account is closed. The average term for the development and completion of the ventures in which the resources are invested is between 18 and 24 months;

(b) The loans of the Company with its subsidiaries, shown below, are made to provide subsidiaries with cash to carry out their respective activities, subject to the respective agreed-upon financial charges. The businesses and operations with related parties are carried out in extremely commutative conditions, in order to protect the interests of the both parties involved in the business. The composition, nature and condition of loan receivable and payable by the Company are shown in the table below;

(c) As provided in the articles of incorporation of the companies FGM Incorporações S.A and Tenda Negócios Imobiliários S.A., mandatory minimum dividends of 25% of adjusted net income was recorded, in the amount of R$13,152 as of December 31, 2015, eliminated for consolidated statements purposes.

(d) Amount related to the funds transferred between the companies of the group, which will be written-off through capital decrease and distribution of dividends of the SPEs;

(e) On December 14, 2016, the Extraordinary Shareholders' Meeting approved the decrease in the Company's capital, with no cancellation of shares, and with repayment to Gafisa, of R$100 million, adjusted by the country's base rate (Selic) from the completion of the transaction of the disposal of the Company's shares. Out of the total amount, R$ 50 million, plus adjustment, shall be paid until December 31, 2018, whereas the remaining balance shall be paid until December 31, 2019, taking into account that a portion may be advanced in case certain favorable conditions are met.

(f) The amount of R$14,965 of the Current Account SOP with Gafisa was settled on December 20, 2016.

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

7. Related parties--Continued

7.1. Balances with related parties --Continued

Breakdown and balance of the loans receivable and payable of the Company:

	Company		Consolidated			
	2016	2015	**2016**	2015	**Nature**	**Interest rate**
Atua Construtora e Incorporadora S.A. (a)	**12,167**	12,168	**12,167**	12,168	Construction	112% of 113.5% of CDI
Interativa Empreendimentos & Participações Ltda.(b)	**4,548**	-	**4,548**	-	Construction	12% p.a.
Fit 09 SPE Empreendimentos Imobiliários Ltda. (c)	**9,299**	9,332	**-**	-	Construction	120% of 126.5% of CDI
Fit 19 SPE Empreendimentos Imobiliários Ltda. (c)	**17,002**	14,097	**17,002**	14,097	Construction	100% of CDI
Acedio SPE Empreendimentos Imobiliários Ltda. (c)	**4,028**	3,260	**4,028**	3,260	Construction	100% of CDI
Other	**-**	-	**-**	849	Construction	
Loans receivable	**47,044**	38,857	**37,745**	30,374		

(a) Amount related to the loan of the company with the company Atua Construtora e Incorporadora S.A., which is being disputed in arbitration, at the Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada (CAM/CCBC). The amount is adjusted with the agreed-upon financial charges in view of the arbitration.

(b) Loan with the company Interativa Empreendimentos & Participações Ltda which will be adjusted for inflation by 12% p.a. until its due settlement.

(c) Amounts receivable among the SPEs that are adjusted through August 2014 (date of last request in arbitration) with the financial charges agreed upon in the terms of contracts. These amounts are being disputed in arbitration, at the Center for Arbitration and Mediation of the Chamber of Commerce Brazil-Canada (CAM/CCBC). The loan with the company Fit 09 SPE Empreendimentos Imobiliários Ltda. was eliminated for purposes of the consolidated financial statements.

	Company		Consolidated			
	2016	**2015**	**2016**	**2015**	**Nature**	**Interest rate**
Parque dos Pássaros (d)	**5,765**	2,725	**5,765**	2,725	Construction	6% p.a.
Fit 11 SPE Empreendimentos Imobiliários Ltda. (d)	**6,285**	5,910	**6,285**	5,910	Construction	6% p.a.
Fit 31 SPE Empreendimentos Imobiliários Ltda (d)	**1,381**	1,298	**1,381**	1,298	Construction	6% p.a.
Fit 34 SPE Empreendimentos Imobiliários Ltda (d)	**23,318**	21,925	**23,318**	21,925	Construction	6% p.a.
Fit 03 SPE Empreendimentos Imobiliários Ltda (d)	**8,412**	7,912	**8,412**	7,912	Construction	6% p.a.
Araçagy (Franere Gafisa 08)(d)	**5,438**	1,232	**5,438**	1,232	Construction	6% p.a.
Loans receivable	**50,599**	41,002	**50,599**	41,002		

(d) Loans with subsidiaries and joint ventures that will be adjusted for inflation at 6% p.a. plus IOF levied on the transaction, until its settlement.

In the year ended December 31, 2016 the recognized financial income from interest on loans receivable amounted R$161 (R$15,457 in 2015) in the Company's balance and R$178 (R$7,337 in 2015) in the Consolidated balance (Note 25).

In the year ended December 31, 2016 the recognized financial expenses from interest on loans payable amounted R$1,341 in the Company and Consolidated balances (Note 25). As of December 31, 2015 no financial expenses were recorded as the loans payable had been agreed-upon on December 282015.

The information related to Management transactions and compensation is described in Note 26.

7.2. Endorsements, guarantees and sureties

The financial transactions of the subsidiaries are guaranteed by the endorsement or surety in proportion to the interest of the Company in the capital stock of such companies, in the amount of R$346,250 (R$412,875 as of December 31, 2015).

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

8. Non-current assets for sale

8.1. Land for sale

The Company, in line with its strategic direction, opted to sell land not included in the Business Plan approved for 2017. Therefore, 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	**94,544**	**(21,963)**	**72,581**	**128,809**	**(24,320)**	**104,489**
Additions	7,744	(17,360)	(9,616)	9,735	(17,445)	(7,710)
Transfer from properties for sale	29,166	-	29,166	31,937	(590)	31,347
Transfer to properties for sale	(27,353)	2,520	(24,833)	(32,554)	2,520	(30,034)
Transfer to SPE	-	-	-	-	1,452	1,452
Reversal/Write-off	(9,459)	11,432	1,973	(9,711)	11,657	1,946
Balance at December 31, 2015	**94,642**	**(25,371)**	**69,271**	**128,216**	**(26,726)**	**101,490**
Additions	1,546	-	1,546	2,725	-	2,725
Transfer from properties for sale	2,046	-	2,046	11,786	-	11,786
Transfer to properties for sale	(30,687)	-	(30,687)	(39,037)	-	(39,037)
Reversal/Write-off	(13,842)	15,153	1,311	(16,420)	14,683	(1,737)
Balance at December 31, 2016	**53,705**	**(10,218)**	**43,487**	**87,270**	**(12,043)**	**75,227**

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

9. Investments

As of December 31, 2016:

(i) Ownership interest

									Company				Consolidated			
	Interest in capital - %		Total assets	Total liabilities	Equity and advance for future capital increase		Profit (loss) for the year		Investments		Share of profit/(loss) of equity method investments		Investments		Share of profit/(loss) of equity method investments	
Direct investees	**2016**	**2015**	**2016**	**2016**	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
TENDA NEGOCIOS IMOB	**100%**	100%	**1,065,390**	**591,080**	**474,310**	402,926	**71,383**	21,792	**474,310**	402,926	**71,383**	21,792	**-**	-	**-**	-
COTIA1 - EMP. IMOB.	**100%**	100%	**154,159**	**261**	**153,898**	157,165	**(3,266)**	78	**153,898**	157,165	**(3,266)**	78	**-**	-	**-**	-
FIT SPE 05 EMP. IMOB	**100%**	100%	**96,387**	**148**	**96,239**	97,442	**(1,203)**	584	**96,239**	97,442	**(1,203)**	584	**-**	-	**-**	-
JARDIM SÃO LUIZ	**100%**	100%	**76,611**	**1,547**	**75,064**	49,298	**25,766**	41,244	**75,064**	49,298	**25,766**	41,244	**-**	-	**-**	-
FGM INCORPORACOES S.A.	**100%**	100%	**50,776**	**39**	**50,737**	52,479	**51**	183	**50,737**	52,479	**51**	183	**-**	-	**-**	-
FIT 07 SPE EMP. IMOB	**100%**	100%	**47,241**	**63**	**47,178**	43,655	**(172)**	(133)	**47,178**	43,655	**(172)**	(133)	**-**	-	**-**	-
FIT SPE 01 EMP. IMOB	**100%**	100%	**38,372**	**291**	**38,081**	38,473	**(392)**	102	**38,081**	38,473	**(392)**	102	**-**	-	**-**	-
ASPLENIUM SUGAYA	**100%**	100%	**36,720**	**1,439**	**35,281**	14,701	**20,579**	11,045	**35,281**	14,701	**20,579**	11,045	**-**	-	**-**	-
FIT 24 SPE EMP. IMOB	**100%**	100%	**31,626**	**81**	**31,545**	31,817	**(273)**	(23)	**31,545**	31,817	**(273)**	(23)	**-**	-	**-**	-
FIT 16 SPE EMP. IMOB	**100%**	100%	**30,733**	**739**	**29,994**	29,649	**345**	552	**29,994**	29,649	**345**	552	**-**	-	**-**	-
SPE FRANERE GAFISA 08	**50%**	50%	**47,863**	**5,027**	**42,836**	47,831	**(5,469)**	18,180	**21,418**	23,916	**(2,735)**	9,090	**21,418**	23,916	**(2,735)**	9,090
FIT 40 SPE EMP. IMOB	**100%**	100%	**24,505**	**275**	**24,230**	24,043	**187**	4,187	**24,230**	24,043	**187**	4,187	**-**	-	**-**	-
FIT 34 SPE EMP. IMOB	**70%**	70%	**35,718**	**1,331**	**34,387**	33,634	**768**	2,131	**24,071**	23,544	**538**	1,492	**24,071**	23,544	**538**	1,492
GUAIANAZES LIFE EMP.	**100%**	100%	**20,415**	**31**	**20,384**	21,740	**(46)**	(270)	**20,384**	21,740	**(46)**	(270)	**-**	-	**-**	-
FIT SPE 11 EMP. IMOB	**70%**	70%	**33,339**	**4,384**	**28,955**	32,062	**(526)**	253	**20,269**	22,443	**(368)**	177	**20,269**	22,443	**(368)**	177
AC PARTICIPAÇÕES	**100%**	100%	**20,736**	**859**	**19,877**	20,688	**(811)**	(116)	**19,877**	20,688	**(811)**	(116)	**-**	-	**-**	-
SPE TENDA SP VILA PARK	**100%**	100%	**19,378**	**175**	**19,203**	19,891	**(687)**	11	**19,203**	19,891	**(687)**	11	**-**	-	**-**	-
PARQUE DOS PÁSSAROS	**50%**	50%	**33,115**	**2,892**	**30,223**	22,466	**(5,020)**	(3,997)	**15,112**	11,233	**(2,510)**	(1,998)	**15,112**	11,233	**(2,510)**	(1,998)
SPE TENDA SP OSASCO	**100%**	100%	**18,297**	**21**	**18,276**	27,368	**(26)**	(483)	**18,276**	27,368	**(26)**	(483)	**-**	-	**-**	-
TENDA SP JARDIM SÃO LUIZ	**100%**	100%	**16,038**	**112**	**15,926**	23,169	**127**	(617)	**15,926**	23,169	**127**	(617)	**-**	-	**-**	-
FIT 32 SPE EMP. IMOB	**100%**	100%	**13,912**	**601**	**13,311**	19,110	**2,645**	3,906	**13,311**	19,110	**2,645**	3,906	**-**	-	**-**	-
MARIA INES SPE EMP.	**60%**	60%	**21,058**	**41**	**21,017**	21,050	**(10)**	137	**12,610**	12,630	**(6)**	82	**12,610**	12,630	**(6)**	82
TENDA 25 SPE	**70%**	70%	**15,379**	**-**	**15,379**	13,297	**473**	(1,032)	**10,765**	9,308	**332**	(722)	**-**	-	**-**	-
FIT 22 SPE EMP. IMOB	**100%**	100%	**10,504**	**4**	**10,500**	10,503	**(3)**	(16)	**10,500**	10,503	**(3)**	(16)	**-**	-	**-**	-
CONSOLIDATED FIT 13 SPE	**50%**	50%	**21,544**	**652**	**20,892**	34,487	**(13,596)**	3,010	**10,446**	17,244	**(6,798)**	1,505	**3,565**	17,840	**292**	(534)
SPE TENDA SP ITAQUERA	**100%**	100%	**10,337**	**32**	**10,305**	14,952	**80**	174	**10,305**	14,952	**80**	174	**-**	-	**-**	-
FIT 31 SPE EMP. IMOB	**70%**	70%	**15,074**	**654**	**14,420**	16,455	**(1,869)**	(2,529)	**10,094**	11,518	**(1,308)**	(1,771)	**10,094**	11,518	**(1,308)**	(1,771)
CIPESA PROJETO 02	**50%**	50%	**19,238**	**148**	**19,090**	18,230	**860**	374	**9,545**	9,115	**431**	187	**-**	-	**-**	-
FIT SPE 03 EMP. IMOB	**80%**	80%	**11,691**	**310**	**11,381**	11,404	**(23)**	597	**9,105**	9,123	**(18)**	476	**9,105**	9,123	**(18)**	476
CITTÁ ITAPOAN	**50%**	50%	**19,079**	**1,726**	**17,353**	18,015	**(661)**	8,463	**8,677**	9,007	**(331)**	4,231	**8,677**	9,007	**(331)**	4,231
CITTÁ VILLE	**50%**	50%	**18,363**	**2,031**	**16,332**	22,195	**(5,864)**	1,071	**8,166**	11,098	**(2,931)**	536	**-**	-	**-**	-
FIT SPE 10 EMP. IMOB	**100%**	100%	**8,190**	**685**	**7,505**	8,603	**(1,097)**	1,356	**7,505**	8,603	**(1,097)**	1,356	**-**	-	**-**	-
FIT SPE 02 EMP. IMOB	**60%**	60%	**12,301**	**1**	**12,300**	9,882	**2,715**	(2,060)	**7,380**	5,929	**1,629**	(1,236)	**7,380**	5,929	**1,629**	(1,236)
FIT SPE 06 EMP. IMOB	**100%**	100%	**7,535**	**348**	**7,187**	7,072	**115**	(83)	**7,187**	7,072	**115**	(83)	**-**	-	**-**	-
TENDA SPE-19 EMP. IMOB.	**100%**	100%	**6,438**	**129**	**6,309**	6,223	**85**	(66)	**6,309**	6,223	**85**	(66)	**-**	-	**-**	-
CITTA LAURO DE FREITAS	**50%**	50%	**12,355**	**738**	**11,617**	11,761	**(143)**	(2)	**5,809**	5,880	**(72)**	(1)	**5,809**	5,880	**(72)**	(1)
OCPC01 adjustment – capitalized interest (a)			**-**	**-**	**-**	-	**-**	-	**9,781**	11,134	**(1,357)**	(1,874)	**-**	-	**-**	-
Other (*)			**37,627**	**7,803**	**29,824**	127,423	**(6,736)**	(9,705)	**21,093**	118,213	**(6,253)**	(6,203)	**9,721**	10,286	**(565)**	(4,203)
Total Investments			**2,158,044**	**626,698**	**1,531,346**	**1,561,159**	**78,286**	**98,298**	**1,409,681**	**1,432,302**	**91,630**	**87,378**	**147,831**	**163,349**	**(5,454)**	**5,805**

(*) Includes companies with investment balances below R$ 5 million.
(a) The Company's financial charges are not included in the profit or loss of subsidiaries, according to paragraph 6 of the OCPC01.

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

9. **Investments** --Continued

(ii) Ownership interest - net capital deficiency

	Interest in capital - %		Total assets	Total liabilities	Equity and advance for future capital increase		Profit (loss) for the year		Company: Investments		Company: Share of profit/(loss) of equity method investments		Consolidated: Investments		Consolidated: Share of profit/(loss) of equity method investments	
Direct investees	**2016**	2015	**2016**	**2016**	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Provision for net capital deficiency:																
Other (*)			11,809	40,866	(29,057)	(11,687)	(13,710)	(12,958)	(22,824)	(11,689)	(13,485)	(12,958)	(5,396)	(5,394)	(2)	(4,054)
Total provision for net capital deficiency			**11,809**	**40,866**	**(29,057)**	**(11,687)**	**(13,710)**	**(12,958)**	**(22,824)**	**(11,689)**	**(13,485)**	**(12,958)**	**(5,396)**	**(5,394)**	**(2)**	**(4,054)**
Total share of profit/(loss) of equity method investments											**78,145**	74,420			**(5,456)**	1,751

(iii) Change in investments

	Company	Consolidated
Balance at December 31, 2014	**2,842,633**	**179,432**
Share of profit/(loss) of equity method investments	74,420	1,751
Dividends	(22,706)	(9,554)
Advance future capital increase	16,580	(13,674)
Capital decrease (a)	(1,478,112)	-
Acquisition/sale of interests	(11,971)	-
Provision for net capital deficiency	11,458	5,394
Balance at December 31, 2015	**1,432,302**	**163,349**
Share of profit/(loss) of equity method investments	78,145	(5,456)
Dividends	(109,884)	-
Advance for future capital	(90,091)	(6,614)
Capital contribution	91,408	3,694
Capital decrease (b)	(11,339)	-
Provision for net capital deficiency	11,135	2
Other investments	8,005	(7,144)
Balance at December 31, 2016	**1,409,681**	**147,831**

(a) Such decrease in the capital of the Company was resolved in the Minutes of the Shareholders' Meeting held on June 24, 2015.
(b) Such decrease in the capital of the companies that were shutdown in the year 2016

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

10. Property and equipment

	Company					Consolidated				
Type	2015	Addition	Write-off	100% depreciated items	2016	2015	Addition	Write-off	100% depreciated items	2016
Cost										
Hardware	13,582	7,085	(455)	(1,550)	**18,662**	13,582	7,085	(455)	(1,550)	**18,662**
Leasehold improvements and installations	8,020	1,453	-	(135)	**9,338**	8,020	1,453	-	(135)	**9,338**
Furniture and fixtures	4,247	17	-	(93)	**4,171**	4,315	17	-	(93)	**4,239**
Machinery and equipment	1,400	53	-	(3)	**1,450**	1,400	53	-	(3)	**1,450**
Molds	13,067	5,614	-	-	**18,681**	13,067	5,614	-	-	**18,681**
Sales stands	1,483	-	-	(1,483)	**-**	1,599	-	-	(1,599)	**-**
	41,799	14,222	(455)	(3,264)	**52,302**	41,983	14,222	(455)	(3,380)	**52,370**
Accumulated depreciation										
Hardware	(5,886)	(3,048)	-	1,550	**(7,384)**	(5,886)	(3,048)	-	1,550	**(7,384)**
Leasehold improvements and installations	(3,375)	(1,381)	-	135	**(4,621)**	(3,069)	(1,381)	-	135	**(4,315)**
Furniture and fixtures	(2,926)	(431)	-	93	**(3,264)**	(2,952)	(438)	-	93	**(3,297)**
Machinery and equipment	(554)	(143)	-	3	**(694)**	(554)	(143)	-	3	**(694)**
Molds (a)	(3,074)	(3,158)	-	-	**(6,232)**	(3,379)	(3,158)	-	-	**(6,537)**
Sales stands	(1,398)	(85)	-	1,483	**-**	(1,514)	(85)	-	1,599	**-**
	(17,213)	(8,246)	-	3,264	**(22,195)**	(17,354)	(8,253)	-	3,380	**(22,227)**
	24,586	5,976	(455)	-	**30,107**	24,629	5,969	(455)	-	**30,143**

(a) The depreciation expense of molds is recorded in the line item "construction cost".

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
Sales stands	1 year	100
Molds	5 years	20

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

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

11. Intangible assets

	Company/Consolidated				
	2015				2016
	Balance	Addition	Write-down / amortization	100% amortized items	Balance
Software – Cost	34,774	8,393	(1,821)	(12,181)	**29,165**
Software – Amortization	(17,915)	(6,141)	10	12,181	**(11,865)**
Other	1,628	-	(1,063)	-	**565**
	18,487	2,252	(2,874)	-	**17,865**

These refer to expenditure with the acquisition and implementation of information systems and software licenses, amortized over the average term of five years (20% per year).

For intangible assets with finite life, the Company makes amortization throughout their economic useful lives, which are assessed for impairment whenever there is indication of loss of economic value of the asset. The amortization period and method for intangible asset with finite life are reviewed at least at the end of each fiscal year.

(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)	October /2017 to August/2021	TR + 8.3% p.a. to 9.5% p.a.	**11,254**	10,982	**82,974**	39,893
Certificate of Bank Credit - CCB (ii)	December /2017 to June/2019	CDI + 3.95% p.a. to 4.25%p.a. INCC- DI variation	**33,652**	-	**52,020**	6,560
			44,906	10,982	**134,994**	46,453
Current portion			**28,690**	3,978	**41,333**	8,899
Non-current portion			**16,216**	7,004	**93,661**	37,554

(i) The SFH financing is used for covering costs related to the development of real estate ventures of the Company and its subsidiaries, and are guaranteed with the conditional sale of land (Note 6) and sureties (Note 7.2).

(ii) In the year 2016, the Company entered into a CCB transaction amounting to R$46,005, with maturity between December 2017 and June 2019, guaranteed by the conditional sale of land (Note 6).

The maturities of the current and non-current installments are as follows:

Maturity	Company 2016	Company 2015	Consolidated 2016	Consolidated 2015
2016	-	3,978	-	8,899
2017	**28,690**	3,647	**41,333**	14,791
2018	**10,371**	2,035	**37,242**	13,708
2019	**4,636**	1,322	**38,446**	8,049
2020	**1,209**	-	**17,111**	1,006
2021 onwards	**-**	-	**862**	-
	44,906	10,982	**134,994**	46,453

Financial expenses of loans, financing and debentures (Note 13) are capitalized at the construction cost of each venture and land, according to the use of funds, and recognized in profit or loss for the year in proportion to the units sold, as shown below. The capitalization rate used in the determination of costs of loans eligible to capitalization ranges from 8.30% to 9.50% as of December 31, 2016 (8.30% to 9.92% as of December 31, 2015).

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

	Company 2016	Company 2015	Consolidated 2016	Consolidated 2015
Total financial charges for the year	**20,277**	33,238	**34,934**	47,501
Capitalized financial charges	**(3,888)**	(6,247)	**(15,957)**	(20,510)
Financial expenses (Note 25)	**16,389**	26,991	**18,977**	26,991
Financial charges included in “Properties for sale”:				
Opening balance	**23,523**	22,390	**54,902**	49,176
Capitalized financial charges	**3,888**	6,247	**15,957**	20,510
Charges recognized in profit or loss (Note 24)	**(14,566)**	(5,115)	**(28,057)**	(14,784)
Closing balance	**12,845**	23,522	**42,802**	54,902

13. Debentures

Program/placement	Principal - R$	Annual interest	Final maturity	Company/Consolidated 2016	Company/Consolidated 2015
First placement	-	TR + 9.00%	November 2016	**-**	201,877
				-	201,877
Current portion				**-**	201,877
Non-Current portion				**-**	-

As mentioned in Note 4.2, as of December 31, 2015, the balance of investments in restricted cash in guarantee to loans in the amount of R$33 as of December 31, 2016 (R$11,118 in 2015) is pledged to cover the debenture covenant ratio.

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

13. Debentures--Continued

In the year ended December 31, 2016, the Company made payments in the total amount of R$215,335, of which R$200,000 related to the Face Value of the Placement, and R$15,335 related to the interest due, thus settling all obligations of the first Debenture Placement.

14. Taxes and contributions

	Company		Consolidated	
	2016	2015	2016	2015
Taxes and contributions:				
Deferred PIS and COFINS	**4,037**	5,729	**11,776**	19,865
Current PIS and COFINS	**2,202**	757	**3,454**	944
Other labor and tax obligations	**6,827**	12,398	**15,280**	19,532
	13,066	18,884	**30,510**	40,341

15. Salaries, payroll charges and profit sharing

	Company		Consolidated	
	2016	2015	2016	2015
Salaries, payroll charges and profit sharing:				
Salaries and payroll charges	**2,392**	5,449	**6,154**	8,588
Labor provisions	**2,522**	6,365	**11,218**	8,730
Profit sharing (a)	**80**	4,235	**12,226**	14,947
Subtotal	**4,994**	16,049	**29,598**	32,265

(a) The Company has a variable compensation program that entitles its employees and management members and those of its subsidiaries to profit sharing of the Company. This program is tied to the fulfillment of specific goals, which are set, agreed and approved by the Board of Directors in the beginning of each year.

16. Payables for purchase of properties and advances from customers

	Company		Consolidated	
	2016	2015	2016	2015
Payables for purchase of properties	**17,568**	15,036	**190,308**	184,765
Advances from customers :				
Development and services (Note 5)	**2,216**	3,506	**2,513**	11,374
Barter - Land(Note 6)	**2,505**	3,218	**42,802**	44,496
	22,289	21,760	**235,623**	240,635
Current portion	**9,256**	14,774	**131,280**	138,223
Non-current potion	**13,033**	6,986	**104,343**	102,412

The maturities of the current and non-current installments are as follows:

	Company		Consolidated	
Maturity	2016	2015	2016	2015
2016	-	14,774	-	138,223
2017	**9,256**	3,090	**131,280**	45,123
2018	**5,649**	2,614	**55,236**	22,966
2019	**5,264**	1,282	**26,897**	12,704
2020 onwards	**2,120**	-	**22,210**	21,619
	22,289	21,760	**235,623**	240,635

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

17. Income tax and social contribution

(a) Current income tax and social contribution

The reconciliation of the effective tax rate for the years ended December 31, 2016 and 2015, is as follows:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit (loss) before income tax and social contribution, and statutory interest	**58,488**	30,320	**68,235**	36,219
Income tax calculated at the applicable rate - 34 %	**(19,886)**	(10,309)	**(23,200)**	(12,313)
Net effect of subsidiaries taxed by presumed profit	**-**	(7,473)	**11,822**	13,270
Charges on payables to venture partners	**-**	(328)	**-**	(328)
Tax losses (tax loss carryforwards used)	**798**	-	**1,582**	-
Stock option plan	**-**	(727)	**-**	(727)
Other permanent differences	**(7,761)**	(14,961)	**(7,761)**	(14,978)
Tax credits not recognized	**(2,018)**	7,688	**(1,554)**	6,911
Share of profit/(loss) of equity method investments	**27,030**	25,303	**(1,855)**	595
Effects of assets held for sale	**-**	807	**-**	1,048
	(1,837)	-	**(20,966)**	(6,522)
Tax expenses (income) - current	**(1,837)**	-	**(16,089)**	(9,835)
Tax expenses (income) - deferred	**-**	-	**(4,877)**	3,313

(b) Deferred income tax and social contribution

As of December 31, 2016 and 2015, deferred income tax and social contribution are from the following sources:

	Company		Consolidated	
Description	**2016**	**2015**	**2016**	**2015**
Assets				
Income tax and social contribution loss carryforwards	**228,567**	234,056	**234,837**	235,706
Temporary differences – CPC adjustment	**1,008**	2,587	**2,758**	4,659
Temporary differences – deferred PIS and COFINS	**2,380**	2,003	**5,708**	5,349
Provisions for legal claims	**9,746**	12,672	**14,568**	18,942
Provisions for losses of accounts receivable	**20,802**	14,773	**22,468**	18,788
Provisions for realization of non-financial assets	**4,245**	9,507	**4,017**	9,927
Other provisions	**19,223**	3,838	**24,408**	7,861
Tax credits not recognized (a)	**(265,560)**	(267,578)	**(271,830)**	(268,354)
Subtotal	**20,411**	11,858	**36,934**	32,878
Liabilities				
Deferred income tax and social contribution (detached assets)	**-**	-	**(2,482)**	(880)
Income taxed between cash and accrual basis	**(20,411)**	(11,858)	**(45,889)**	(37,043)
Subtotal	**(20,411)**	(11,858)	**(48,371)**	(37,923)
Total	**-**	-	**(11,437)**	(5,045)

The Company has income tax and social contribution loss carryforwards for offset against 30% of annual taxable profits, with no expiration period, in the following amounts:

	Company					
	2016			2015		
Description	**Income tax**	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Balance of income tax and social contribution loss carryforwards	**672,257**	**672,257**	**-**	688,400	688,400	-
Deferred tax asset (25%/9%)	**168,064**	**60,503**	**228,567**	172,100	61,956	234,056
Recognized deferred tax asset	**-**	**-**	**-**	-	-	-
Unrecognized deferred tax asset	**168,064**	**60,503**	**228,567**	172,100	61,956	234,056

	Consolidated					
	2016			2015		
Description	**Income tax**	**Social contribution**	**Total**	**Income tax**	**Social contribution**	**Total**
Balance of income tax and social contribution loss carryforwards	**690,697**	**690,697**	**-**	693,252	693,252	-
Deferred tax asset (25%/9%)	**172,674**	**62,163**	**234,837**	173,313	62,393	235,706
Recognized deferred tax asset	**-**	**-**	**-**	-	-	-
Unrecognized deferred tax asset	**172,674**	**62,163**	**234,837**	173,313	62,393	235,706

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

18. Provisions for legal claims and commitments

The Company and its subsidiaries are parties to lawsuits and administrative proceedings at various courts and government agencies that arise from the ordinary course of business, involving tax, labor, civil and other matters. Management, based on information provided by its legal counsel and analysis of the pending legal claims and, with respect to the labor claims, based on past experience regarding the amounts claimed, recognized a provision in an amount considered sufficient to cover the losses on future settlements.

In the years ended December 31, 2016 and 2015, the changes in the provision for legal claims are summarized as follows:

	Company					
	Civil lawsuits	Labor claims	Tax proceedings	Environmental proceedings	Administrative proceedings	Total
Balance at December 31, 2014	**33,023**	**35,872**	**196**	**195**	**448**	**69,734**
Addition (Note 24)	20,880	8,664	-	-	29	29,573
Write-off	(22,986)	(17,966)	(16)	-	(292)	(41,260)
Transfers (Note 24)	(11,690)	(9,073)	-	-	(13)	(20,776)
Balance at December 31, 2015	**19,227**	**17,497**	**180**	**195**	**172**	**37,271**
Addition (Note 24)	20,121	13,208	30	-	-	33,359
Write-off (Note 24)	(24,139)	(16,191)	(2)	(130)	-	(40,462)
Transfers (Note 24)	3,959	(5,049)	(176)	(65)	(172)	(1,503)
Balance at December 31, 2016	**19,168**	**9,465**	**32**	**-**	**-**	**28,665**

	Consolidated					
	Civil lawsuits	Labor claims	Tax proceedings	Environmental proceedings	Administrative proceedings	Total
Balance at December 31, 2014	**33,023**	**35,872**	**196**	**195**	**448**	**69,734**
Addition (Note 24)	19,589	7,655	-	-	12	27,256
Write-off	(22,993)	(17,973)	(16)	-	(292)	(41,274)
Balance at December 31, 2015	**29,619**	**25,554**	**180**	**195**	**168**	**55,716**
Addition (Note 24)	30,168	19,743	45	-	-	49,956
Write-off (Note 24)	(36,201)	(24,202)	(4)	(195)	-	(60,602)
Transfers (Note 24)	6,755	(6,792)	(173)	258	(168)	(120)
Balance at December 31, 2016	**30,341**	**14,303**	**48**	**258**	**-**	**44,950**

As of December 31, 2016, the Company and its subsidiaries have deposited in court the amount of R$25,232 (R$17,378 in 2015) in the Company's balance and R$25,351(R$17,402 in 2015) in the consolidated balance.

	Company		Consolidated	
	2016	2015	2016	2015
Civil lawsuits	**16,125**	9,873	**16,202**	9,887
Environmental proceedings	**87**	-	**87**	-
Tax proceedings	**2,790**	477	**2,803**	478
Labor claims	**6,230**	7,028	**6,259**	7,037
	25,232	17,378	**25,351**	17,402

Civil lawsuits, tax proceedings, labor claims, and environmental and administrative proceedings

As of December 31, 2016, the Company's provision related to civil lawsuits include R$30,341 (R$29,619 in 2015) related to 1,717 lawsuits (2,469 lawsuits in 2015), considering that in most of them the Company and its subsidiary are defendants in lawsuits arising from consumer relation with customers.

As of December 31, 2016, the Company's provision related to labor claims include R$14,303 (R$25,554 in 2015) related to 418 claims (612 claims in 2015), considering that in most of them the Company and its subsidiaries are defendants in claims filed by the employees of outsourced companies. However, the main contingency involves claims filed by its former employees.

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

18. Provisions for legal claims and commitments --Continued

Civil lawsuits, tax proceedings, labor claims, and environmental and administrative proceedings --Continued

The Company is party to some tax and social security proceedings involving a provision totaling R$ 48 (R$180 in 2015) as of December 31, 2016, related to seven proceedings (eight proceedings in 2015). The Company is also party to environmental proceedings involving a provision totaling R$258 as of December 31,2016 (R$195 in 2015), related to three proceedings in 2016 and 2015.

Environmental risk

There are various environmental laws at the federal, state and municipal levels. These environmental laws may result in delays for the Company in connection with adjustments for compliance and other costs, and impede or restrict ventures. Before acquiring a land, the Company assesses all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, residual substance, trees, vegetation and the proximity of the land to permanent preservation areas. Therefore, before acquiring land, the Company obtains all governmental approvals, including environmental licenses and construction permits.

In addition, the environmental legislation establishes criminal, civil and administrative sanctions to individuals and legal entities for activities considered as environmental infringements or offense. The penalties include the stop of development activities, loss of tax benefits, confinement and fines. The environmental proceedings being disputed in court by the Company which likelihood of unfavorable outcome are considered possible by the attorneys handling them amount to R$3,537 (R$3,604 in 2015) in the Company and Consolidated balance.

Legal claims in which likelihood of loss is rated as possible

As of December 31, 2016, the Company and its subsidiaries are aware of other civil, labor and tax claims and risks. Based on the history of probable claims and the specific analysis of the main ones, those which likelihood of unfavorable outcome are rated as possible are estimated at R$474,544 (R$497,620 in 2015), based on the historical average of claims adjusted to current estimates, for which the Company’s Management believes it is not necessary to recognize a provision for losses. The change in the period was caused by the review of the involved amounts.

	Company/Consolidated	
	2016	2015
Civil lawsuits	**241,486**	230,103
Tax proceedings	**209,557**	228,619
Labor claims	**19,964**	35,294
Environmental proceedings	**3,537**	3,604
	474,544	497,620

Payables related to the completion of real estate developments

The Company commits to complete units sold and to comply with the laws regulating the civil construction sector, including the obtainment of licenses from the proper authorities, and compliance with the terms for starting and the delivering the real estate developments, being subject to legal and contractual penalties.

As of December 31, 2016, the Company and its subsidiaries have restricted cash in guarantee to loans which will be released to the extent the guarantee ratios described in Note 4.2 are met, which also include land and receivables pledged in guarantee to make up 120% of the debt balance outstanding.

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

18. Provisions for legal claims and commitments --Continued

Commitments

In addition to the commitments mentioned in Notes 6, 12 and 13, the Company has the following commitments:

(i) The Company has contracts related to the rental of 31 properties where its facilities are located, at a monthly cost of R$440 adjusted by the IGP-M/FGV variation.
The rental terms are from one to five years and there is a fine in case of contract termination corresponding to three-month rent or in proportion to the contract expiration time. The estimate of future minimum rent payments of office space (cancellable leases) total R$7,690 (R$9,957 in 2015), as follows.

	Consolidated	
Estimate of payment	**2016**	2015
2016	**-**	4,057
2017	**4,359**	3,463
2018	**2,613**	1,837
2019	**683**	600
2020 onwards	**35**	-
	7,690	9,957

(ii) As of December 31, 2016, the Company, by means of its subsidiaries, has long-term commitments in the amount of R$3,723 (R$6,778 in 2015), related to the supply of raw materials used for developing real estate ventures.

19. Equity

19.1 Capital

As of December 31, 2016 and 2015, the Company's authorized and paid-in capital amounts to R$1,094,000, represented by 54,000,000 registered common shares, with no par value.

On November 14, 2016, the Extraordinary Shareholders' Meeting approved the reverse split of 633,037,801 book-entry shares representing the Company's subscribed and realized capital at the ratio of 11.72292224 shares to one share of the capital after the reverse split, with no decrease in Capital. As a result of the reverse split, the amount of common shares changed from 633,037,801 to 54,000,000.

On December 14, 2016, the Extraordinary Shareholders' Meeting approved the decrease in the Company's capital, in the total amount of R$100,000, under the terms of article 173 of the Brazilian Corporate Law, as it was considered excessive, with no cancellation of shares, so that the Company's capital changed from the current R$1,194,000 to R$1,094,000. The capital decrease will be paid as described in item (e) of Note 7.1, accordingly, there was no impact on the cash flows of the Company for the year 2016.

19.2 Allocation of profit for the year

According to the Company's articles of incorporation, the net income for the year will be allocated as follows: (i) 5% to legal reserve, until it reaches 20% of paid-in capital or the limit provided in paragraph 1, article 193 of Act 6,404/76. Of the net income for the year, obtained after the deduction to which item "a" of such article refers, and adjusted as provided for article 202, of Act 6,404/76, 25% of the remaining balance will be allocated to the payment of mandatory dividends to shareholders.

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

19. Equity --Continued

19.2 Allocation of profit for the year --Continued

Art. 45 of the Articles of Incorporation of the Company establishes that the profit or loss for the year will be deducted, before any profit sharing, for any accumulated losses and provision for income tax, as follows:

Balance of accumulated losses for 2014	**(232,570)**
Net income for the year 2015	30,320
(-)Capital reserves	
Balance of accumulated losses for 2015	**(202,250)**
Net income for the year 2016	56,651
(-)Capital reserves	
Balance of accumulated losses for 2016	**(145,599)**

19.3 Stock option plan

The Company has a total of two stock option plans for common shares, launched in 2014 and 2016, that follow the rules set out in the Stock Option Plan of the Company.

The granted options entitle their holders (management members and employees appointed by the board of executive officers, and approved by the board of directors) to purchase common shares of the Company's capital, after periods that vary from three to ten years in the Company (essential condition to exercise the option), and expire ten years after the grant date.

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), during the grace period of the program, to the extent services are provided by employees and management members.

For the effect of the 2014 and 2016 Stock Option Plans, the adopted assumption was that the amount of Tenda's shares would be equal to Gafisa's (420,959,715 shares), already considering the effects from the spin-off of the two companies, so that at the time the Plan is approved, the maximum amount of shares that could be subject to the grant of options (10% of the Company's capital, considering, in this total, the dilution effect arising from the exercise of all granted and not exercised options, of all programs in effect), not considering the treasury shares, would correspond to 46,773,302 common shares issued by the Company.

On November 14, 2016, the reverse split of shares was performed in the ratio of 11.72292224 shares to one share of the capital after the reserve split, with no decrease in Capital (Note 19.1). Considering the new shareholding composition arising from the reverse split of shares, the Company adjusted the number of shares and exercise price of the Stock Option Plan at the ratio of 7.79555 shares to one share of capital, thus the maximum amount of shares that could be granted as options changed from 46,773,302 to 6,000,000 shares, the exercise price of the stock option plan for 2014 was adjusted from R$0.85 per share to R$6.62622 per share; and the exercise price of the stock option plan for 2016 was adjusted from R$0.88 per share to R$6.86008 per share.

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

19. Equity --Continued

19.3 Stock option plan --Continued

The changes in options outstanding in the year ended December 31, 2016 and 2015, which include their respective weighted average exercise prices, are as follows:

	2016		2015	
	Number of options (*)	Weighted average exercise price (Reais)	Number of options	Weighted average exercise price (Reais)
Options outstanding at the beginning of the period	**5,421,000**	**6.52**	42,259,687	0.84
Options forfeited	**(141,152)**	**6.52**	-	-
Options granted	**210,000**	**6.83**	-	-
Options outstanding at the end of the period	**5,489,848**	**6.53**	42,259,687	0.84

(*) The Company adjusted retrospectively the number of options outstanding at the beginning of the year, considering the new shareholding composition arising from the reverse split of shares, so that 42,259,687 started to represent to 5,421,000 options (ratio of 7.79555 shares to one share).

The fair value of the options granted in 2014 and 2016 totaled R$8,297, estimated based on the Black & Scholes option pricing model, adopting the following assumptions:

Plan	Grant date	Exercise price	Weighted average	Expected volatility (%) (*)	Expected option life (years)	Risk-free interest rate (%) (**)
1	08/11/2014	6.63	6.52	31.02%	2.04 years	11.66% to 11.81%
1	11/12/2014	6.63	6.53	31.30%	2.05 years	12.77% to 12.84%
2	05/09/2016	6.86	6.83	26.70%	4.01 years	12.67% to 12.77%

(*) The volatility was determined based on the history of the BM&FBOVESPA Real Estate Index (IMOBX).
(**) The market risk-free interest rate for the option term at the grant moment.

As of December 31, 2016, options outstanding are as follows:

Options outstanding			Exercisable options	
Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price (R$)	Number of options (*)	Weighted average exercise price (R$) (*)
5,489,848	2.11	6.53		

(*) As of 12/31/2016 no option had been exercised.

The total expenses recorded in the year ended December 31, 2016 was R$1,539 (R$2,139 in 2015), shown in Note 24.

20. Insurance

Construtora Tenda S.A. and its subsidiaries maintain insurance policies against engineering risk, barter guarantee, guarantee for the completion of construction work and civil liability related to unintentional personal damages caused to third parties and material damages to tangible assets, as well as against fire hazards, lightning strikes, electrical damages, natural disasters and gas explosion. The taken out coverage is considered sufficient by management to cover possible risks involving its assets and/or responsibilities.

The liabilities covered by insurance and the respective amounts as of December 31, 2016 are as follows:

Insurance type	Coverage - R$ thousand
Engineering risks and guarantee for completion of construction work	1,482,815
Civil liability (Directors and Officers – D&O) - (*)	162,955
	1,645,770

(*)Policy shares between Gafisa and Tenda S.A.

21. Earnings per share

In accordance with CPC 41, the Company adjusted retrospectively the basic and diluted earnings per share considering the new shareholding composition arising from the reverse split of shares mentioned in Note 19.1. The comparison data of basic and diluted earnings per share is based on the weighted average number of shares outstanding for the year, and all dilutive potential shares outstanding for each reported year, respectively.

Diluted earnings per share is computed similarly to basic earnings per share except that the outstanding shares are increased to include the number of additional shares that would have been outstanding if the potential dilutive shares attributable to stock options and redeemable shares of non-controlling interest had been issued during the respective periods, using the weighted average share price.

The following table shows the calculation of basic and diluted earnings per share.

	2016	2015
Basic numerator		
Undistributed earnings	**56,651**	30,320
Undistributed earnings, available to holders of common shares	**56,651**	30,320
Basic denominator (in thousand shares)		
Weighted average number of shares (*)	**54,000**	633,037
Basic earnings per share in Reais	**1.0491**	0.0479
Diluted numerator		
Undistributed earnings	**56,651**	30,320
Undistributed earnings, available to holders of common shares	**56,651**	30,320
Diluted denominator (in thousands of shares)		
Weighted average number of shares (*)	**54,000**	633,037
Stock options (*)	**3,719**	25,232
	57,719	658,269
Basic earnings per share in Reais	**0.9815**	0.0461

(*) On November 14, 2016, the reverse split of shares was performed in the ratio of 11.72292224 shares to one share of the capital after the reserve split, with no decrease in Capital.

22. Financial instruments

The Company and its subsidiaries engage in operations involving financial instruments. These instruments are managed through operational strategies and internal controls aimed to providing liquidity, return and safety. The use of financial instruments with the objective of hedging is achieved through a periodical analysis of exposure to the risk that the management intends to cover (exchange, interest rate, etc.) which is submitted to the corresponding Management bodies for approval and performance of the proposed strategy. The control policy consists of permanently monitoring the contracted conditions in relation to the prevailing market conditions. The Company and its subsidiaries do not use derivatives or any other risky assets for speculative purposes. The results from these operations are consistent with the policies and strategies devised by the Company’s management. The Company and its subsidiaries operations are subject to the following risk factors:

(a) Risk considerations

i) *Credit risk*

The Company and its subsidiaries restrict their exposure to credit risks associated with cash and cash equivalents, investing only in short-term securities of top tier financial institutions.

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

22. Financial instruments --Continued

(a) Risk considerations --Continued

i) *Credit risk --Continued*

With regards to accounts receivable, the Company restricts its exposure to credit risks through sales to a broad base of customers and ongoing credit analysis. Additionally, there is no relevant history of losses due to the existence of guarantee, represented by real estate unit, for the recovery of its products in the cases of default during the construction period. As of December 31, 2016 and 2015, there was no significant credit risk concentration associated with customers.

ii) *Derivative financial instruments*

As of December 31, 2016, the Company does not have transactions with derivative financial instruments.

iii) *Interest rate risk*

Interest rate risk arises from the possibility that the Company and its subsidiaries may experience gains or losses because of fluctuations in the interest rates of its financial assets and liabilities. Aiming to mitigating this risk, the Company and its subsidiaries seek to diversify funding in terms of fixed and floating rates. The interest rates on loans, financing and debentures are mentioned in Notes 12 and 13. The interest rates contracted on financial investments are mentioned in Note 4. Accounts receivable from completed real estate units (Note 5) are subject to annual interest rate of 12%, on a *pro rata* basis.

iv) *Liquidity risk*

Liquidity risk refers to the possibility that the Company and its subsidiaries do not have sufficient funds to meet their commitments because of the settlement terms of its rights and obligations.

To mitigate liquidity risks, and to optimize the weighted average cost of capital, the Company and its subsidiaries monitor on an on-going basis the indebtedness levels according to the market standards and the fulfillment of covenants provided for in loan, financing and debenture agreements, in order to guarantee that the operating-cash generation and the advance funding, when necessary, are sufficient to meet the schedule of commitments, not giving rise to liquidity risk to the Company and its subsidiaries (Notes 12 and 13).

Most of the Company's financing is carried out with Caixa Econômica Federal by means of associate credit ("crédito associativo"), a type of government real estate financing, under the "Minha Casa, Minha Vida" program and transfer at the end of the construction work.

The maturities of the financial instruments of loans, financing, suppliers and debentures are as follows:

	Company				
Year ended December 31, 2016	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Loans and financing (Note 12)	28,690	15,007	1,209	-	44,906
Suppliers	7,827	-	-	-	7,827
Payables for purchase of properties and advances from customers (Note 16)	9,256	10,913	2,120	-	22,289
Loans payable (Note 7.1)	-	-	-	50,599	50,599
	45,773	**25,920**	**3,329**	**50,599**	**125,621**

	Company				
Year ended December 31, 2015	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Loans and financing (Note 12)	3,978	5,682	1,322	-	10,982
Debentures (Note 13)	201,877	-	-	-	201,877
Suppliers	4,257	-	-	-	4,257
Payables for purchase of properties and advances from customers (Note 16)	14,774	5,704	1,282	-	21,760
Loans payable (Note 7.1)	-	-	-	41,002	41,002
	224,886	**11,386**	**2,604**	**41,002**	**279,878**

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

22. Financial instruments --Continued

(a) Risk considerations --Continued

iv) *Liquidity risk --Continued*

	Consolidated				
Year ended December 31, 2016	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Loans and financing (Note 12)	41,333	75,688	17,973	-	134,994
Suppliers	31,664	-	-	-	31,664
Payables for purchase of properties and advances from customers (Note 16)	131,280	82,133	22,210	-	235,623
Loans payable (Note 7.1)	-	-	-	50,599	50,599
	204,277	**157,821**	**40,183**	**50,599**	**452,880**

	Consolidated				
Year ended December 31, 2015	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**More than 5 years**	**Total**
Loans and financing (Note 12)	8,899	28,499	9,055	-	46,453
Debentures (Note 13)	201,877	-	-	-	201,877
Suppliers	13,669	-	-	-	13,669
Payables for purchase of properties and advances from customers (Note 16)	138,223	68,089	12,704	21,619	240,635
Loans payable (Note 7.1)	-	-	-	41,002	41,002
	362,668	**96,588**	**21,759**	**62,621**	**543,636**

v) *Fair value classification*

The Company uses the following classification to determine and disclose the fair value of financial instruments by the valuation technique:

Level 1: quoted prices (without adjustments) in active markets for assets or liabilities identical;

Level 2: input different from the quoted prices in active markets included in Level 1 which are observable for asset or liability, directly (as prices) or indirectly (prices derivate); and

Level 3: inputs to asset or liability not based on observable market data (unobservable inputs).

The classification level of the fair value for financial instruments measured at fair value through profit or loss of the Company as of December 31, 2016 and 2015 is as follows.

	Company			Consolidated		
	Fair value classification					
As of December 31, 2016	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Short-term investments (Note 4.2)	**-**	**101,217**	**-**	**-**	**195,073**	**-**

	Company			Consolidated		
	Fair value classification					
As of December 31, 2015	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Short-term investments (Note 4.2)	-	160,769	-	-	212,621	-

In the years ended December 31, 2016 and 2015, there was no transfer between the Levels 1 and 2 fair value classifications, nor were any transfers between Levels 3 and 2 fair value classifications.

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

22. Financial instruments --Continued

(b) Fair value of financial instruments

i) *Fair value measurement*

The following estimate fair values were determined using available market information and proper measurement methodologies. However, a considerable amount of judgment is necessary to interpret market information and estimate fair value. Accordingly, the estimates presented in this document are not necessarily indicative of amounts that the Company could realize in the current market. The use of different market assumptions and/or estimation methodology may have a significant effect on estimated fair values.

The following methods and assumptions were used in order to estimate the fair value for each financial instrument type for which the estimate of values is practicable:

(i) The amounts of cash and cash equivalents, short-term investments, accounts receivable and other receivables, suppliers, and other current liabilities approximate to their fair values, recorded in the financial statements.

(ii) The fair value of bank loans and other financial debts is estimated through future cash flows discounted using benchmark rates available for similar and outstanding debts or terms.

The main carrying values and fair values of financial assets and liabilities as of December 31, 2016 and 2015 are as follows:

	Company			
	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents (Note 4.1)	**12,124**	**12,124**	6,248	6,248
Short-term investments and restricted cash in guarantee to loans (Note 4.2)	**101,217**	**101,217**	160,769	160,769
Trade accounts receivable (Note 5)	**89,614**	**89,614**	144,334	144,334
Loans receivable (Note 7.1)	**47,044**	**47,044**	38,857	38,857
Financial liabilities				
Loans and financing (Note 12)	**44,906**	**42,492**	10,982	9,896
Debentures (Note 13)	**-**	**-**	201,877	195,149
Suppliers	**7,827**	**7,827**	4,257	4,257
Payable for purchase of real estate and advance from customer (Note 16)	**22,289**	**22,289**	21,760	21,760
Loans payable (Note 7.1)	**50,599**	**50,599**	41,002	41,002

	Consolidated			
	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents (Note 4.1)	**28,414**	**28,414**	21,653	21,653
Short-term investments and restricted cash in guarantee to loans (Note 4.2)	**195,073**	**195,073**	212,621	212,621
Trade accounts receivable (Note 5)	**427,147**	**427,147**	479,415	479,415
Loans receivable (Note 7.1)	**37,745**	**37,745**	30,374	30,374
Financial liabilities				
Loans and financing (Note 12)	**134,994**	**126,781**	46,453	39,634
Debentures (Note 13)	**-**	**-**	201,877	195,149
Suppliers	**31,664**	**31,664**	13,669	13,669
Payables for purchase of properties and advances from customers (Note 16)	**235,623**	**235,623**	240,635	240,635
Loan receivable (Note 7.1)	**50,599**	**50,599**	41,002	41,002

ii) *Risk of debt acceleration*

As of December 31,2016, the Company has loans and financing, with restrictive covenants related to cash generation, indebtedness ratios and other. These restrictive covenants have been complied with by the Company and do not limit its ability to conduct its business as usual.

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

22. Financial instruments --Continued

(c) Capital management

The objective of the Company's capital management is to guarantee that a strong credit rating is maintained in institutions and an optimum capital ratio, in order to support the Company's business and maximize value to shareholders.

The Company controls its capital structure by making adjustments and adapting to current economic conditions. In order to maintain its structure adjusted, the Company may pay dividends, return on capital to shareholders, take out new loans and issue debentures.

There were no changes in objectives, policies or processes during the years ended December 31, 2016 and 2015.

The Company includes in its net debt structure: loans and financing, and debentures less cash and banks (cash and cash equivalents, short-term investments, and restricted cash in guarantee to loans):

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Loans and financing (Note 12)	**44,906**	10,982	**134,994**	46,453
Debentures (Note 13)	**-**	201,877	**-**	201,877
(-) Cash and cash equivalents and short-term investments (Note 4.1 and 4.2)	**(113,341)**	(167,017)	**(223,487)**	(234,274)
Net debt	**(68,435)**	45,842	**(88,493)**	14,056
Equity	**1,049,125**	1,090,936	**1,075,622**	1,126,814
Equity and net debt	**980,690**	1,136,778	**987,129**	1,140,870

(d) Sensitivity analysis

The sensitivity analysis of financial instruments for the year ended December 31, 2016 describes the risks that may cause material changes in the Company's profit or loss, as provided for by CVM, through Instruction No. 475/08, in order to show 10%, 25% and 50% increase/decrease in the risk variable considered.

As of December 31, 2016, the Company has the following financial instruments:

a) Short-term investments, loans and financing, and debentures linked to Interbank Deposit Certificates (CDI);
b) Loans and financing and debentures linked to the Referential Rate (TR);
c) Accounts receivable, linked to the National Civil Construction Index (INCC) and General Market Price Index (IGP-M).

For the sensitivity analysis in the year December 31, 2016, the Company considered the interest rates of investments, loans and accounts receivables, CDI rate at 13.63%, TR at 2.27%, INCC at 7.21% and IGP-M at 7.17%.

The scenarios considered were as follows:

Scenario I – Probable: 10% increase/decrease in risk variables used for pricing
Scenario II – Possible: 25% increase/decrease in risk variables used for pricing
Scenario III - Remote: 50% increase/decrease in risk variables used for pricing

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

22. Financial instruments --Continued

(d) Sensitivity analysis --Continued

As of December 31, 2016:

		Scenario					
		I	II	III	III	II	I
Instrument	**Risk**	**Increase 10%**	**Increase 25%**	**Increase 50%**	**Decrease 50%**	**Decrease 25%**	**Decrease 10%**
Short-term investments	Increase/decrease of CDI	1,138	2,844	5,688	(5,688)	(2,844)	(1,138)
Certificate of Bank Credit – CCB	Increase/decrease of CDI	(543)	(1,359)	(2,717)	2,717	1,359	543
Net effect of CDI variation		**595**	**1,485**	**2,971**	**(2,971)**	**(1,485)**	**(595)**
Financial Housing System – SFH	Increase/decrease of TR	(184)	(460)	(920)	920	460	184
Net effect of TR variation		**(184)**	**(460)**	**(920)**	**920**	**460**	**184**
Trade accounts receivable	Increase/decrease of INCC	612	1,530	3,061	(3,061)	(1,530)	(612)
Certificate of Bank Credit – CCB	Increase/decrease of INCC	(45)	(113)	(226)	226	113	45
Net effect of INCC variation		**567**	**1,417**	**2,835**	**(2,835)**	**(1,417)**	**(567)**
Trade accounts receivable	Increase/decrease of IGP-M	405	1,013	2,027	(2,027)	(1,013)	(405)
Net effect of IGP-M variation		**405**	**1,013**	**2,027**	**(2,027)**	**(1,013)**	**(405)**

23. Net operating revenue

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gross operating revenue				
Real estate development, sale, barter transactions and construction services	**249,167**	203,761	**1,170,655**	907,362
(Recognition) Reversal of allowance for doubtful accounts and provision for cancelled contracts (Note 5)	**(44,368)**	9,246	**(37,193)**	16,112
Taxes on sale of real estate and services	**(25,735)**	(19,426)	**(80,752)**	(72,512)
Net operating revenue	**179,064**	193,581	**1,052,710**	850,962

24. Costs and expenses by nature

These are represented by the following:

	Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cost of real estate development and sale:				
Construction cost	**(84,943)**	(84,796)	**(529,349)**	(409,243)
Land cost	**(6,434)**	(16,238)	**(112,305)**	(84,516)
Development cost	**(19,755)**	(18,717)	**(69,695)**	(55,649)
Capitalized financial charges (Note 12)	**(14,566)**	(5,115)	**(28,057)**	(14,784)
Maintenance / warranty	**(3,510)**	(2,799)	**(4,892)**	(10,847)
Cost of properties in the recognition of the provision for cancelled contracts (Note 6)	**19,721**	(16,985)	**14,593**	(30,545)
	(109,487)	(144,650)	**(729,705)**	(605,584)
Selling expenses:				
Product marketing expenses	**(15,046)**	(14,032)	**(49,472)**	(34,431)
Brokerage and sale commission expenses:	**(11,823)**	(14,378)	**(38,873)**	(35,282)
Selling	**(81)**	(236)	**(267)**	(580)
Transfer	**(5,547)**	(8,645)	**(18,234)**	(21,213)
Registration	**(2,608)**	(2,334)	**(8,577)**	(5,727)
Brokerage	**(3,587)**	(3,163)	**(11,795)**	(7,762)
Customer Relationship Management (CRM) and corporate marketing expenses	**(362)**	(455)	**(1,191)**	(1,116)
Other	**(290)**	2,249	**(954)**	5,518
	(27,521)	(26,616)	**(90,490)**	(65,311)

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

24. Costs and expenses by nature --Continued

	Company		Consolidated	
	2016	2015	2016	2015
General and administrative expenses:				
Salaries and payroll charges	**(14,986)**	(16,385)	**(39,023)**	(36,663)
Employee benefits	**(1,442)**	(1,487)	**(3,756)**	(3,328)
Travel and utilities	**(581)**	(541)	**(1,512)**	(1,210)
Services	**(6,104)**	(6,358)	**(15,896)**	(14,226)
Rents and condominium fees	**(2,102)**	(1,968)	**(5,474)**	(4,403)
Information Technology	**(3,592)**	(4,317)	**(9,355)**	(9,659)
Stock option plan (Note 19.3)	**(1,539)**	(2,139)	**(1,539)**	(2,139)
Provision for profit sharing (Note 26.2)	**(817)**	(9,964)	**(11,121)**	(11,502)
Transfer of provision for profit sharing (Note 26.2)	**-**	9,173	**-**	-
Other	**(794)**	(615)	**(2,063)**	(841)
	(31,957)	**(34,601)**	**(89,739)**	**(83,971)**
Other income (expenses), net:				
Depreciation and amortization	**(4,094)**	(7,717)	**(12,299)**	(14,835)
Expenses with payment of legal claims	**(28,313)**	(35,967)	**(31,994)**	(40,303)
Provisions for legal claims (Note 18)	**7,103**	8,729	**10,646**	13,047
Transfers with legal claims (Note 18)	**1,503**	18,441	**120**	-
Other income/(expenses)	**(10,376)**	(34,883)	**(15,515)**	(25,311)
	(34,177)	(51,397)	**(49,042)**	(67,402)

25. Financial income (expenses)

	Company		Consolidated	
	2016	2015	2016	2015
Financial income				
Income from financial investments	**19,890**	27,941	**22,511**	33,398
Financial income on loans (Note 7.1)	**161**	15,457	**178**	7,337
Other financial income	**1,783**	3,982	**4,568**	6,090
	21,834	47,380	**27,257**	46,825
Financial expenses				
Interest on funding, net of capitalization (Note 12)	**(16,389)**	(26,991)	**(18,977)**	(26,991)
Financial expense on loan contract (Note 7.1)	**(1,341)**	-	**(1,341)**	-
Banking expenses	**(1,069)**	(852)	**(2,906)**	(2,563)
Transfer of financial expenses	**3,949**	1,595	**-**	-
Other financial expenses	**(2,563)**	(1,549)	**(24,076)**	(11,497)
	(17,413)	(27,797)	**(47,300)**	(41,051)
Financial income (expenses)	**4,421**	19,583	**(20,043)**	5,774

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

26. Transactions with management and employees

26.1 Management compensation

For the years ended December 31,2016 and 2015, the amounts recorded in the account "general and administrative expenses" related to the compensation of the Company's key management personnel are as follows:

	Management compensation			
Year ended December 31, 2016	**Board of Directors**	**Executive Officers**	**Total**	**Fiscal Council**
Number of members	**9.08**	**10.25**	**19.33**	**3.00**
Annual fixed compensation (in R$)	**344**	**5,828**	**6,172**	**60**
Salary / Fees	**344**	**5,108**	**5,452**	**60**
Direct and indirect benefits	**-**	**720**	**720**	**-**
Monthly compensation (in R$)	**29**	**486**	**515**	**5**
Total compensation	**344**	**5,828**	**6,172**	**60**
Profit sharing	**-**	**5,663**	**5,663**	**-**

	Management compensation			
Year ended December 31, 2015	**Board of Directors**	**Executive Officers**	**Total**	**Fiscal Council**
Number of members	10.00	10.33	20.33	3.00
Annual fixed compensation (in R$)	336	5,662	5,998	57
Salary / Fees	336	4,959	5,295	57
Direct and indirect benefits	-	703	703	-
Monthly compensation (in R$)	28	472	500	5
Total compensation	336	5,662	5,998	57
Profit sharing	-	6,178	6,178	-

The amount related to the stock option expenses of the Company's management members was R$1,405 in the year ended December 31, 2016 (R$1,977 in 2015).

The maximum aggregate compensation of the Company's management members for the year 2016, was established at R$18,143, as fixed and variable compensation, as approved at the Annual Shareholders' Meeting held on April 27, 2016.

On the same occasion the compensation limit of the Fiscal Council members for their next term of office that ends in the Annual Shareholders' Meeting to be held in 2017, was set at R$188.

26.2 Profit sharing

The Company has a profit sharing program that entitles its employees and management members, and those of its subsidiaries, to participate in the distribution of profits of the Company.

This plan is tied to the achievement of specific targets, established, agreed-upon and approved by the Board of Directors at the beginning of each year.

	Company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Executive officers	-	2,323	5,663	6,178
Other employees	-	4,132	7,486	10,988
Complement (Reversal) of profit sharing	817	(5,664)	(2,028)	(5,664)
	817	791	11,121	11,502

Profit sharing is calculated and reserved based on the achievement of the Company's targets for the year. After the end of the year, the achievement of the targets of both the Company and each employee are assessed, and the payment should be made in April 2017.

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

27. Segment information

The Company's management analyses its internal managerial reports to make decisions on the consolidated financial statements, on the same basis that these statements are disclosed, that is only one segment.
Consequently, in view of the fact that the Management does not use information system other than the quarterly information as of December 31, 2016 and 2015, no specific report will be presented, as defined in CPC 22.
As to the information on its main customers, in view of the residential real estate activity targeted at the economic segment, the Company does not have individual customer that represents 10% or more of its total consolidated revenue.

28. Real estate ventures under construction – information and commitments

In order to meet the provisions of paragraphs 20 and 21 of ICPC 02, the recognized revenue amounts and incurred costs are shown in the statement of profit or loss, and the advances received in the account "Payables for purchase of property and advances from customer". The Company shows below information on the ventures under construction as of December 31, 2016:

	Consolidated
	2016
Unappropriated sales revenue of real estate sold	**255,448**
Estimated cost to be incurred of units sold	**(136,566)**
Estimated cost to be incurred of units in inventory	**(535,343)**
(i) Unappropriated sales revenue of units sold	
Ventures under construction:	
Contracted sales revenue	**891,295**
Appropriated sales revenue	**(635,847)**
Unappropriated sales revenue (a)	**255,448**
(ii) Estimated costs to be incurred of units sold	
Ventures under construction:	
Estimated cost of units	**(537,058)**
Incurred cost of units	**400,492**
Estimated cost to be incurred (b)	**(136,566)**
(iii) Estimated costs to be incurred of units in inventory	
Ventures under construction:	
Estimated cost of units (c)	**(786,954)**
Incurred cost of units (d)	**251,611**
Estimated cost to be incurred (b)	**(535,343)**

a) The unappropriated revenue of units sold is measured by the face value of contracts, plus the contract adjustments and deducted for cancellations not considering the effects of the levied taxes and present value adjustment, and do not include ventures that are subject to restriction due to a suspensive clause (legal period of 180 days in which the Company can cancel a development) and therefore is not appropriated to profit or loss.

b) The estimated costs of units sold do not include financial charges, which are appropriated to properties for sale and profit or loss (cost of real estate sold) in proportion to the real estate units sold to the extent they are incurred, and also the warranty provision, which is appropriated to real estate units as the construction work progresses.

c) The amount of R$90,319 (R$167,895 in 2015) refers to the estimated cost of cancelled venture units which contracts are not yet cancelled with the respective customers.

d) The amount of R$23,669 (R$58,899 in 2015) refers to the incurred cost of cancelled venture units which contracts are not yet cancelled with the respective customers.

As of December 31, 2016, the percentage of consolidated assets in the financial statements related to real estate ventures included in the asset segregation structure was 83.80% (53.73% in 2015).

29. Subsequent Events

On January 26, 2017, the Company entered into a CCB transaction amounting to R$21.8 million linked to floating rate corresponding to CDI + 2.30% p.a. with Banco Votorantim, falling due on January 31, 2018.