Gafisa S.A.
Form 20-F
April 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ____________ to ____________.**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Date of event requiring this shell company report ________________**

Commission file number: 001-33356

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

GAFISA S.A.
(Translation of Registrant's name into English)

**The Federative Republic of Brazil**
(Jurisdiction of incorporation or organization)

Av. Nações Unidas No. 8,501, 19th Floor
05425-070 – São Paulo, SP – Brazill
phone: + 55 (11) 3025-9000
fax: + 55 (11) 3025-9348
e mail: ri@gafisa.com
Attn: Carlos Eduardo Moraes Calheiros – Chief Financial Officer and Investor Relations Officer
(Address of principal executive offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

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

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

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares as of December 31, 2017 was:

| Title of Class | Number of Shares Outstanding |
| --- | --- |
| Common Stock | 28,040,162* |

*Includes 938,044 common shares that are held in treasury.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

In this annual report, references to "Gafisa," "we," "our," "us," "our company" and "the Company" are to Gafisa S.A. and its consolidated subsidiaries (unless the context otherwise requires). In addition, the term "Brazil" refers to the Federative Republic of Brazil, and the phrase "Brazilian government" refers to the federal government of Brazil. All references to "*real*," "*reais*" or "R$" are to the Brazilian *real*, the official currency of Brazil, and all references to "U.S. dollar," "U.S. dollar or "US$" are to U.S. dollars, the official currency of the United States. References to "Brazilian GAAP" or "BR GAAP" are to accounting practices adopted in Brazil and references to "U.S. GAAP" are to generally accepted accounting principles in the United States. Any reference to "financial statement" is related to our consolidated financial statements.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

We maintain our books and records in *reais*. Our financial statements were prepared in accordance with Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, Brazilian Law No. 11,638/07, Brazilian Law No. 12,431/11 and Brazilian Law No. 12,973/14, which we refer to hereinafter as "Brazilian corporate law;"

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

- the accounting standards issued by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*), or the "CFC", and the Accounting Standards Committee (*Comitê de Pronunciamentos Contábeis*), or the "CPC."

Brazilian corporate law was amended by Law No. 11,638, dated December 28, 2007, in order to facilitate the convergence of Brazilian GAAP with International Financial Reporting Standards, or "IFRS," and thereafter, the CPC issued new accounting standards that generally converged Brazilian GAAP with IFRS, except for revenue recognition related to real estate transactions.

In preparing our financial statements, we have applied: (1) Guideline OCPC 04 – Application of the Technical Interpretation of ICPC 02 to the Brazilian Real Estate Development Entities – regarding revenue recognition, and the respective costs and expenses arising from real estate development operations over the course of the construction period (percentage of completion revenue recognition method), and (2) CPC 37 (R1), which requires that an entity develops accounting policies based on the standards and interpretations of the CPC. We have adopted all pronouncements, guidelines and interpretations of the CPC issued through December 31, 2017. As a result, our financial statements are prepared in accordance with Brazilian GAAP, which allows revenue recognition on a percentage of completion basis for construction companies (i.e., revenue is recorded in accordance with the percentage of financial evolution of the construction project), and are therefore not compliant with IFRS as issued by the International Accounting Standards Board ("IASB"), which require revenue recognition on a delivery basis (i.e., revenue is recorded upon transferring the ownership risks and benefits to the purchaser of real estate, usually after the construction is completed and the unit is delivered).

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

Our consolidated financial statements reflect statement of operations and balance sheet information for all of our subsidiaries, and also separately disclose the interest of non-controlling shareholders.

As set forth in "Item 4. Information on the Company—A. History and Development of the Company", on December 9, 2013, we completed the sale of a controlling stake in Alphaville Urbanismo S.A., or "Alphaville", the leading residential community development company in Brazil. The transaction involved the sale of 50% interest by Gafisa and 20% interest by our subsidiary Construtora Tenda S.A., or "Tenda", with Gafisa retaining the remaining

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30% of Alphaville capital stock. As a result, since November 30, 2013, Alphaville is no longer consolidated in the financial statements of the Company. In this annual report, while financial information related to Alphaville is treated as discontinued operations, all operating information related to our business includes full operating information for Alphaville through December 9, 2013.

As explained in Notes 1 and 8.2 to our consolidated financial statements for the year ended December 31, 2017, the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP in the Company's 2017, 2016, 2015 and 2014 consolidated statements of operations. Under Brazilian GAAP, previous period balance sheet information is not retrospectively adjusted. Brazilian GAAP selected consolidated statements of operations financial data for the year ended December 31, 2013 has also been retrospectively adjusted to also reflect the results of operations of Tenda as discontinued operations for comparability purposes. Additionally, earnings per share amounts have been adjusted retroactively to reflect the reverse split of our common shares at the ratio of 13.483023074 to 1, which was consummated on March 23, 2017.

The table below sets forth the line items in our statements of profit or loss for the year ended December 31, 2013 that have been reclassified to reflect Tenda as discontinued operations, as previously mentioned:

| | **For the Year ended December 31,** | | |
|---|---|---|---|
| | **2013** | | |
| | Balances originally reported as of 12/31/2013 | Impact of discontinued operations | Balances restated after reclassification |
| **Statement of profit or loss** | | | |
| Net operating revenue | 2,481,211 | (817,461) | 1,663,750 |
| Operating costs | (1,863,766) | 752,216 | (1,111,550) |
| Operating (expenses) income | (215,574) | 179,951 | (35,623) |
| Financial income (expenses) | (162,503) | 3,812 | (158,691) |
| Income tax and social contribution | (2,812) | 8,651 | 5,839 |
| Non-controlling interests | 235 | — | 235 |
| Profit or loss of discontinued operations | 631,122 | (127,169) | 503,953 |
| **Net income (loss) for the year** | **867,443** | **—** | **867,443** |

Market Information

Certain industry, demographic, market and competitive data, including market forecasts, used in this annual report were obtained from internal surveys, market research, publicly available information and industry publications. We have made these statements on the basis of information from third-party sources that we believe are reliable, such as the Brazilian Property Studies Company (*Empresa Brasileira de Estudos de Patrimônio*), or "EMBRAESP," the

Association of Managers of Real Estate Companies (*Associação de Dirigentes de Empresas do Mercado Imobiliário*), or "ADEMI," the Getulio Vargas Foundation (*Fundaçao Getulio Vargas*), or "FGV," the National Bank of Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or "BNDES," the Real Estate Companies' Union (*Sindicato das Empresas de Compra, Venda, Locação e Administração de Imóveis Residenciais e Comerciais*), or "SECOVI," the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or "IBGE," and the Brazilian Central Bank (*Banco Central do Brasil*), or the "Central Bank," among others. Industry and government publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Although we have no reason to believe that any of this information or these reports are inaccurate in any material respect, such information has not been independently verified by us. Accordingly, we do not make any representation as to the accuracy of such information.

Rounding and Other Information

Some percentages and certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables in this annual report may not be an arithmetic aggregation of the figures that precede them.

In this annual report, all references to "contracted sales" are to the aggregate amount of sales resulting from all agreements for the sale of units (including residential communities and land subdivisions) entered into during a certain period, including new units and units in inventory. Further, in this annual report we use the term "value of launches" as a measure of our performance. Value of launches is not a GAAP measurement. Value of launches, as used in this annual report, is calculated by multiplying the total numbers of units in a real estate development by the average unit sales price.

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All references to “potential sales value” are to our estimates of the total amount obtained or that can be obtained from the sale of all launched units of a certain real estate development, calculated by multiplying the number of units in a development by the sale price of the unit. Investors should be aware that our potential sales value may not be realized or may significantly differ from the amount of contracted sales, since the total number of units actually sold may be lower than the number of units launched and/or the contracted sales price of each unit may be lower than the launching price.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this annual report in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. Our estimates and forward-looking statements are mainly based on our current expectations and estimates on projections of future events and trends, which affect or may affect our businesses and results of operations. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to several uncertainties and are made in light of information currently available to us. Our estimates and forward-looking statements may be influenced by the following factors, among others:

- changes in overall economic conditions, including employment levels, population growth and consumer confidence;
- changes in real estate market prices and demand, estimated budgeted costs and the preferences and financial condition of our customers;
- demographic factors and available income;
- our ability to repay our indebtedness and comply with our financial obligations;
- our ability to arrange financing and implement our expansion plan;
- our ability to compete and conduct our businesses in the future;

- changes in our business;
- inflation and interest rate fluctuations;
- changes in the laws and regulations applicable to the real estate market;
- government interventions, resulting in changes in the economy, taxes, rates or regulatory environment;
- other factors that may affect our business, market share, financial condition, liquidity and results of our operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to estimates and forward-looking statements. Estimates and forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this annual report might not occur and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive of, but not limited to, the factors mentioned above.

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# PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

### A. Selected Financial Data

The following selected financial data for 2017, 2016, 2015 and 2014 has been derived from our audited consolidated financial statements presented herein. As explained in footnote 7 below, our selected Brazilian GAAP and U.S. GAAP financial data for 2013 has been retrospectively reclassified to reflect the results of operations of Tenda as discontinued operations for comparability purposes.

Our financial statements are prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. For a discussion of the significant differences relating to these consolidated financial statements and a reconciliation of net income (loss) and equity from Brazilian GAAP to U.S. GAAP, see notes to our consolidated financial statements included elsewhere in this annual report. See also "Presentation of Financial and Other Information."

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

As explained in Notes 1 and 8.2 to our consolidated financial statements for the year ended December 31, 2017, and Notes 2.3 and 8.2 to our consolidated financial statements for the year ended December 31, 2016, the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP in the Company's 2017, 2016, 2015 and 2014 consolidated statements of operations. Under Brazilian GAAP, previous period balance sheet information is not retrospectively adjusted. Brazilian GAAP selected consolidated statements of operations financial data for the year ended December 31, 2013 has also been retrospectively adjusted to also reflect the results of operations of Tenda as discontinued operations for comparability purposes. Additionally, earnings per share amounts have been adjusted retroactively to reflect the reverse split of our common shares at the ratio of 13.483023074 to 1, which was consummated on March 23, 2017.

The following table sets forth financial information as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, which has been prepared in accordance with Brazilian GAAP in effect as of December 31, 2017. Certain information below is presented in accordance with U.S. GAAP.

| | As of and for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017(4) | 2016(4) | 2015(4) | 2014(4) | 2013(4) |
| | (in thousands of *reais*, except per share, per ADS and operating data) | | | | |
| Consolidated Statement of Operations Data: | | | | | |
| Brazilian GAAP: | | | | | |
| Net operating revenue | 608,823 | 915,698 | 1,443,357 | 1,580,861 | 1,663,750 |
| Operating costs | (818,751) | (1,029,213) | (1,061,921) | (1,164,997) | (1,111,550) |
| Gross profit (loss) | (209,928) | (113,515) | 381,436 | 415,864 | 552,200 |
| Operating expenses, net | (654,216) | (362,747) | (295,595) | (324,211) | (35,623) |
| Financial expenses, net | (107,268) | (25,679) | (50,422) | (16,250) | (158,691) |
| Income (loss) before income tax and social contribution | (971,412) | (501,941) | 35,419 | 75,403 | 357,886 |
| Income tax and social contribution | 23,100 | (100,080) | (658) | (8,949) | 5,839 |
| Net income (loss) from continuing operations | (948,312) | (602,021) | 34,761 | 66,454 | 363,725 |
| Net income (loss) from discontinued operations | 98,175 | (559,704) | 36,218 | (110,179) | 503,953 |
| Net income (loss) for the year attributable to non-controlling interest | (281) | 1,871 | (3,470) | (1,176) | 235 |
| Net income (loss) for the year attributable to owners of Gafisa | R$(849,856) | R$(1,163,596) | R$74,449 | R$(42,549) | R$867,443 |

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| | As of and for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017(4) | 2016(4) | 2015(4) | 2014(4) | 2013(4) |
| | (in thousands of *reais*, except per share, per ADS and operating data) | | | | |
| Share and ADS data (1): | | | | | |
| Per common share data—R$ per share: | | | | | |
| Earnings (loss) per weighted average number of shares—Basic | (31.6037) | (43.2218) | 2.7309 | (1.4274) | 27.4355 |
| From continuing operations | (35.2546) | (22.6637) | 1.6187 | 2.2439 | 11.4965 |
| From discontinued operations . | 3.6509 | (20.5581) | 1.1122 | (3.6714) | 15.9390 |
| Earnings (loss) per weighted average number of shares —Diluted | (31.6037) | (43.2218) | 2.7123 | (1.4274) | 27.2708 |
| From continuing operations | (35.2546) | (22.6637) | 1.6077 | 2.2439 | 9.8628 |
| From discontinued operations | 3.6509 | (20.5581) | 1.1046 | (3.6714) | 17.4079 |
| Weighted average number of shares outstanding—in thousands | 26,891 | 26,921 | 27,262 | 29,808 | 31,618 |
| Dividends and interest on shareholders' equity declared—*in thousands of reais* | — | — | 17,682 | — | 163,112 |
| Earnings (loss) per share—R$ per share | (31.3577) | (43.4518) | 2.7316 | (1.5170) | 28.0837 |
| Number of common shares outstanding as at end of period—in thousands* | 27,102 | 26,779 | 27,255 | 28,049 | 30,888 |
| Earnings (loss) per ADS—R$ per ADS(1) | (62.7154) | (86.9036) | 5.4631 | (3.0339) | 56.1675 |
| U.S. GAAP: | | | | | |
| Net operating revenue | 750,616 | 854,572 | 1,464,591 | 1,805,140 | 1,714,599 |
| Operating costs | (916,211) | (985,789) | (1,072,817) | (1,316,588) | (1,184,210) |
| Gross profit (loss) | (165,595) | (131,217) | 391,774 | 488,552 | 530,389 |
| Operating expenses, net | (449,353) | (316,182) | (335,369) | (322,473) | 21,067 |
| Financial expenses, net | (105,091) | (14,609) | (52,923) | (37,350) | (183,487) |
| Income from disposal on controlling interests | — | — | — | — | 1,228,429 |
| Income (loss) before income tax and social contribution and income from equity method investments | (720,039) | (462,008) | 3,482 | 128,729 | 1,596,398 |
| Income tax and social contribution | 22,695 | 45,492 | (27,242) | (14,512) | (52,215) |
| Equity pick-up | (130,165) | (63,616) | (14,430) | 30,887 | (91,028) |
| Net income (loss) from continuing operations | (827,509) | (480,132) | (38,190) | 145,104 | 1,453,155 |
| Net income (loss) from discontinued operations | 98,175 | (506,185) | 25,014 | (104,870) | (117,225) |
| Net income (loss) for the year | (729,334) | (986,317) | (13,176) | 40,234 | 1,335,930 |
| Net income (loss) attributable to non-controlling interests | 2,732 | (1,161) | (3,092) | (2,071) | 13,462 |
| Net income (loss) attributable to owners of Gafisa | (732,066) | (985,156) | (10,084) | 42,305 | 1,322,468 |
| Per share and ADS data (1): | | | | | |
| Per common share data—R$ per weighted average number of shares: | | | | | |
| Earnings (loss) per weighted average number of shares—Basic | (27.2235) | (36.5943) | (0.3699) | 1.4192 | 41.8270 |
| | (27.2235) | (36.5943) | (0.3699) | 1.4133 | 41.5749 |

| | | | | | |
|---|---|---|---|---|---|
| Earnings (loss) per weighted average number of shares—Diluted | | | | | |
| Weighted average number of shares outstanding — in thousands | 26,891 | 26,921 | 27,262 | 29,808 | 31,618 |
| Dividends declared and interest on equity | — | — | 17,682 | — | 163,112 |
| Per ADS data—R$ per ADS(1): | | | | | |
| Profit (loss) per ADS —Basic(1) | (54.4469) | (73.1886) | (0.7398) | 2.8384 | 83.6540 |
| Profit (loss) per ADS —Diluted(1) | (54.4469) | (73.1886) | (0.7398) | 2.8266 | 83.1498 |
| Weighted average number of ADSs outstanding—in thousands | 13,446 | 13,461 | 13,631 | 14,874 | 15,809 |
| Dividends and interest on equity declared | — | — | 17,682 | — | 163,112 |

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| | As of and for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 (4) | 2016(4) | 2015(4) | 2014(4) | 2013(4) |
| | (in thousands of *reais*, except per share, per ADS and operating data) | | | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Brazilian GAAP: | | | | | |
| Cash, cash equivalents and short-term investments | 147,462 | 253,180 | 712,311 | 1,157,254 | 2,024,163 |
| Current and non-current properties for sale | 1,221,986 | 1,715,699 | 2,630,617 | 2,512,342 | 2,094,414 |
| Working capital(2) | 519,239 | 1,124,650 | 2,267,795 | 2,420,342 | 2,996,884 |
| Total assets | 2,878,138 | 5,210,089 | 6,760,332 | 7,205,852 | 8,183,030 |
| Total debt(3) | 1,104,898 | 1,637,568 | 2,150,793 | 2,586,524 | 3,059,528 |
| Total Gafisa equity | 755,557 | 1,928,325 | 3,095,491 | 3,055,345 | 3,190,724 |
| Equity of non-controlling interests | 3,847 | 2,128 | 1,745 | 3,058 | 23,759 |
| Total equity | 759,404 | 1,930,453 | 3,097,236 | 3,058,403 | 3,214,483 |
| U.S. GAAP: | | | | | |
| Cash and cash equivalents, short-term investments and restricted short-term investments | 147,462 | 253,180 | 478,037 | 662,682 | 1,381,509 |
| Current and non-current properties for sale | 1,490,576 | 2,082,207 | 2,219,226 | 2,044,627 | 1,844,254 |
| Working capital(2) | 486,486 | 1,034,762 | 2,389,212 | 2,430,100 | 2,862,274 |
| Total assets | 2,885,724 | 5,206,314 | 6,688,848 | 7,225,112 | 8,477,587 |
| Total debt(3) | 1,104,898 | 1,637,568 | 1,902,463 | 2,147,974 | 2,428,982 |
| Total Gafisa equity | 656,971 | 1,711,614 | 2,702,234 | 2,747,532 | 2,799,171 |
| Equity of non-controlling interests | 4,084 | (961) | — | 2,648 | 3,339 |
| Total equity | 661,055 | 1,710,653 | 2,704,882 | 2,750,871 | 2,822,245 |
| Consolidated cash flow provided by (used in): | | | | | |
| Brazilian GAAP | | | | | |
| Operating activities | 206,865 | 269,666 | 104,563 | 41,893 | 297,652 |
| Investing activities | 445,448 | 162,455 | 384,664 | 751,953 | 53,464 |
| Financing activities | (528,609) | (456,813) | (516,842) | (899,145) | (568,124) |

* Common shares held in Treasury are not included.

(1) Earnings (loss) per ADS is calculated based on each ADS representing two common shares. On March 23, 2017, we consummated a reverse split of our common shares at the ratio of 13.483023074 to 1, decreasing the number of our total common shares from 378,066,162 common shares to 28,040,162 common shares. All Brazilian GAAP and U.S. GAAP information relating to the number of shares and ADSs has been adjusted retroactively for the periods ended December 31, 2016, 2015, 2014 and 2013 to reflect the reverse split of our common shares.

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

(3) Total debt comprises current and non-current portion of loans and financings and debentures.

(4) As explained in Notes 1 and 8.2 to our consolidated financial statements for the year ended December 31, 2017, the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP and U.S. GAAP in the Company's 2017, 2016, 2015 and 2014 consolidated statements of operations. Under Brazilian GAAP, previous period balance sheet information is not retrospectively reclassified. Brazilian GAAP and U.S. GAAP selected consolidated statements of operations financial data for the year ended December 31, 2013 has also been retrospectively reclassified to also reflect the results of operations of Tenda as discontinued operations for comparability purposes.

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operating performance. The information as of and for the years ended December 31, 2017 and 2016 does not include developments launched under the Tenda brand, the results of which have been presented as discontinued operations in our consolidated statements of operations as of December 31, 2017 and 2016.

Exchange Rates

All transactions involving foreign currency in the Brazilian market, whether carried out by investors resident or domiciled in Brazil or investors resident or domiciled abroad, must now be conducted on the consolidated exchange market through institutions authorized by the Central Bank and subject to the rules of the Central Bank.

The Central Bank has allowed the *real* to float freely against the U.S. dollar since January 15, 1999. Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the *real* declined relative to the U.S. dollar, primarily due to financial and political instability in Brazil and Argentina. According to the Central Bank, in 2005, 2006 and 2007, however, the period-end value of the *real* appreciated in relation to the U.S. dollar 13.4%, 9.5% and 20.7%, respectively. In 2008, the period-end value of the *real* depreciated in relation to the U.S. dollar by 24.2%. In 2009 and 2010, the period-end value of the *real* appreciated in relation to the U.S. dollar by 34.2% and 4.3%. In 2011, the *real* depreciated against the U.S. dollar by 11.2%. In 2013 and 2012, the *real* depreciated by 13.2% and 8.9% against the U.S. dollar, respectively. On December 31, 2012, the period-end *real*/U.S. dollar exchange rate was R$2.0435 per U.S. $1.00, and on December 31, 2013 it was R$2.3420 per U.S. $1.00. In 2014, the period-end value of the *real* depreciated in relation to the U.S. dollar by 13.4%. On December 31, 2014, the period-end *real*/U.S. dollar exchange rate was R$2.6562 per U.S. $1.00. In 2015, the period-end value of the *real* depreciated in relation to the U.S. dollar by 47.0%. On December 31, 2015, the period-end *real*/U.S. dollar exchange rate was R$3.9048 per U.S. $1.00. On December 31, 2016, the period-end *real*/U.S. dollar exchange rate was R$3.2591 per U.S. $1.00. On December 31, 2017, the period-end *real*/U.S. dollar exchange rate was R$3.308 per U.S. $1.00. Although the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of this instability or other factors, and, therefore, the *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

The following table shows the selling rate, expressed in *reais* per U.S. dollar (R$/US$), for the periods and dates indicated.

| | Period-end | Average for period(1) | Low | High |
|---|---|---|---|---|
| | (per U.S. dollar) | | | |
| Year Ended December 31: | | | | |
| 2013 | 2.343 | 2.160 | 1.953 | 2.446 |
| 2014 | 2.656 | 2.355 | 2.197 | 2.740 |
| 2015 | 3.905 | 3.339 | 2.575 | 4.195 |

| | | | | |
|---|---|---|---|---|
| 2016 | 3.259 | 3.483 | 3.119 | 4.156 |
| 2017 | 3.308 | 3.193 | 3.051 | 3.381 |
| **Month Ended:** | | | | |
| October 2017 | 3.277 | 3.142 | 2.200 | 3.280 |
| November 2017 | 3.262 | 3.259 | 3.214 | 3.292 |
| December 2017 | 3.308 | 3.292 | 3.232 | 3.333 |
| January 2018 | 3.162 | 3.211 | 3.139 | 3.270 |
| February 2018 | 3.245 | 3.237 | 3.173 | 3.270 |
| March 2018 | 3.324 | 3.279 | 3.225 | 3.282 |
| April 2018 (through April 25, 2018) | 3.504 | 3.395 | 3.310 | 3.504 |

(1) Annually, represents the average of the exchange rates on the last day of each month during the periods presented; monthly, represents the average of the end-of-day exchange rates during the periods presented.

Source: Central Bank.

On April 25, 2018, the selling rate was R$3.504 to US$1.00. The *real*/dollar exchange rate fluctuates and, therefore, the selling rate at April 25, 2018, may not be indicative of future exchange rates.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or serious reasons to foresee such imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. For approximately six months in 1989, and early 1990, for example, the Federal Government froze all dividend and capital repatriations that were owed to foreign equity investors. These amounts were subsequently released in

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accordance with Federal Government directives. There can be no assurance that similar measures will not be taken by the Federal Government in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

*This section is intended to be a summary of the more detailed discussion included elsewhere in this annual report. Our business, results of operations, financial condition or prospects could be adversely affected if any of these risks occurs, and as a result, the trading price of our common shares and ADSs could decline. The risks described below are those known to us and those that we currently believe may materially affect us.*

Risks Relating to Our Business and to the Brazilian Real Estate Industry

Our business, results of operations, financial condition and the market price of our common shares or the ADSs may be adversely affected by weaknesses in general economic, real estate and other conditions.

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as:

- employment levels;

- population growth;
- consumer demand, confidence, stability of income levels and interest rates;
- availability of financing for land home site acquisitions and the availability of construction and permanent mortgages;
- inventory levels of both new and existing homes;
- supply of rental properties; and
- conditions in the housing resale market.

Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we will have to sell homes at a loss or hold land in inventory longer than planned.

For example, in 2008, the global financial crisis adversely impacted Brazil's gross domestic product, or "GDP," resulting in a decrease in both the number of developments launched and the rate of sales of our units. Since 2014, weakening economic conditions and political instability in Brazil, leading to fluctuations in interest rates and inflation and an increase in levels of unemployment, among other factors, had an adverse impact on the real estate market, including a decrease in the volume of Gafisa launches and a sharp decrease in the overall volume of real estate launches in Brazil. Worldwide financial market volatility may also adversely impact government plans for the Brazilian real estate industry, which may have a material adverse effect on our business, our financial condition and results of operations.

We operate in a highly competitive industry and our failure to compete effectively could adversely affect our business.

The Brazilian real estate industry is highly competitive and fragmented. We compete with several developers on the basis of land availability and location, price, funding, design, quality, and reputation as well as for partnerships with other developers. Because our industry does not have high barriers to entry, new competitors, including international companies working in partnership with Brazilian developers, may enter into the industry, further intensifying this competition. Some of our current potential competitors may have greater financial and other resources than we do. Furthermore, a significant portion of our real estate development and construction activity is conducted in the states of São Paulo and Rio de Janeiro, areas where the real estate market is highly competitive due to a scarcity of properties in desirable locations and the relatively large number of local competitors. If we are not able to compete effectively, our business, our financial condition and the results of our operations could be adversely affected.

Problems with the construction and timely completion of our real estate projects, as well as third party projects for which we have been hired as a contractor, may damage our reputation, expose us to civil liability and decrease our profitability.

The quality of work in the construction of our real estate projects and the timely completion of these projects are major factors that affect our reputation, and therefore our sales and growth. We may experience delays in the construction of our projects or there may be defects in materials and/or workmanship. Any defects could delay the completion of our real estate projects, or, if such defects are discovered after completion, expose us to civil lawsuits by purchasers or tenants. These factors may also adversely affect our reputation as a contractor for third party projects, since we are responsible for our construction services and the building itself for five years. Construction projects often involve delays in obtaining, or the inability to obtain, permits or approvals from the relevant authorities. In addition, construction projects may also encounter delays due to adverse weather conditions, natural disasters, fires, delays in the provision of materials or labor, accidents, labor disputes, unforeseen engineering, environmental or geological problems, disputes with contractors and subcontractors, unforeseen conditions at construction sites, disputes with surrounding landowners, or other events. In addition, we may encounter previously unknown conditions at or near our construction sites that may delay or prevent construction of a particular project. If we encounter a previously unknown condition at or near a site, we may be required to correct the condition prior to continuing construction and there may be a delay in the construction of a particular project. The occurrence of any one or more of these problems in our real estate projects could adversely affect our reputation and our future sales.

We may incur construction and other development costs for a project that exceeds our original estimates due to increases over time in interest rates, real estate taxes or costs associated with materials and labor, among others. We may not be able to pass these increased costs on to purchasers. Construction delays, scarcity of skilled workers, default and or bankruptcy of third party contractors, cost overruns and adverse conditions may also increase project development costs. In addition, delays in the completion of a project may result in a delay in the commencement of cash flow, which would increase our capital needs.

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

We expect that the continued expansion and development of our business will require significant capital, including working capital, which we may be unable to obtain on acceptable terms, or at all, to fund our capital expenditures and operating expenses, including working capital needs. We may fail to generate sufficient cash flow from our operations to meet our cash requirements. Furthermore, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated, or we may have to delay some of our new development and expansion plans or otherwise forgo market opportunities. Future borrowing instruments such as credit facilities are likely to contain restrictive covenants, particularly in light of the recent economic downturn and unavailability of credit, and/or may require us to pledge assets as security for borrowings under those facilities. Our inability to obtain additional capital on satisfactory terms may delay or prevent the expansion of our business, which would have an adverse effect on our business. As of December 31, 2017, our net debt plus payable to venture partners (indebtedness from debentures, loans and financing, and project financing balance, net of our cash and short term investments position) was R$957.4 million, our cash and cash equivalents and short-term investments were R$147.5 million and our total debt was R$1,104.9 million.

Changing market conditions may adversely affect our ability to sell our property inventories at expected prices, which could reduce our margins and adversely affect the market price of our common shares or the ADSs.

We must constantly locate and acquire new tracts of land for development and development home sites to support our homebuilding operations. There is a lag between the time we acquire land for development or development home sites and the time that we can bring the properties to market and sell homes. As a result, we face the risk that demand for housing may decline, costs of labor or materials may increase, interest rates may increase,

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currencies may fluctuate and political uncertainties may occur during this period and that we will not be able to dispose of developed properties at expected prices or profit margins or within anticipated time frames or at all. Significant expenditures associated with investments in real estate, such as maintenance costs, construction costs and debt payments, cannot generally be reduced if changes in the economy cause a decrease in revenues from our properties. The market value of property inventories, undeveloped tracts of land and desirable locations can fluctuate significantly because of changing market conditions. In addition, inventory carrying costs (including interest on funds unused to acquire land or build homes) can be significant and can adversely affect our performance. Because of these factors, we may be forced to sell homes and other real properties at a loss or for prices that generate lower profit margins than we anticipate. We may also be required to make material write-downs of the book value of our real estate assets in accordance with Brazilian and U.S. GAAP if values decline. The occurrence of any of these factors may adversely affect our business and results of operations.

We are subject to risks normally associated with permitting our purchasers to make payments in installments; if there are higher than anticipated defaults or if our costs of providing such financing increase, then our profitability could be adversely affected.

As is common in our industry, we and the special purpose entities, or “SPEs,” in which we participate permit some purchasers of the units in our projects to make payments in installments. As a result, we are subject to the risks associated with this financing, including the risk of default in the payment of principal or interest on the loans we make as well as the risk of increased costs for the funds raised by us. In addition, our term sales agreements usually bear interest and provide for an inflation adjustment. If the rate of inflation increases, the loan payments under these term sales agreements may increase, which may lead to a higher rate of payment default. If the default rate among our purchasers increases, our cash generation and, therefore, our profitability could be adversely affected.

In the case of a payment default after the delivery of financed units, Brazilian law provides for the filing of a collection claim to recover the amount owed or to repossess the unit following specified procedures. The collection of overdue amounts or the repossession of the property is a lengthy process and involves additional costs. It is uncertain that we can recover the full amount owed to us or that if we repossess a unit, we can re-sell the unit at favorable terms or at all.

If we or the SPEs in which we participate fail to comply with or become subject to more onerous government regulations, our business could be adversely affected.

We and the SPEs in which we participate are subject to various federal, state and municipal laws and regulations, including those relating to construction, zoning, soil use, urban regulations, environmental protection, historical sites, consumer protection and antitrust. We are required to obtain, maintain and renew on a regular basis permits, licenses and authorizations from various governmental authorities in order to carry out our projects. We strive to maintain compliance with these laws and regulations, as well as with conditions of permits, licenses and authorizations. If we are unable to achieve or maintain compliance with these laws, regulations and conditions, we could be subject to fines, project shutdowns, cancellation of licenses and revocation of authorizations or other restrictions on our ability to develop our projects, which could have an adverse impact on our business, financial condition and results of operations. In addition, our contractors and subcontractors are required to comply with various labor and environmental regulations and tax and other regulatory obligations. Because we are secondary obligors to these contractors and subcontractors, if they fail to comply with these regulations or obligations, we may be subject to penalties by the relevant regulatory bodies, and to indemnification claims from affected third parties.

Regulations governing the Brazilian real estate industry as well as environmental laws have tended to become more restrictive over time. We cannot assure that new and stricter standards will not be passed or become applicable to us, or that stricter interpretations of existing laws and regulations will not be adopted. Furthermore, we cannot assure that any such more onerous regulations would not cause delays in our projects or that we would be able to secure the relevant permits and licenses. Any such event may require us to spend additional funds to achieve compliance with such new rules and therefore make the development of our projects more costly, which could adversely affect our business and the market price of our common shares or the ADSs.

Scarcity of financing and/or increased interest rates could cause a decrease in the demand for real estate properties, which could negatively affect our results of operations, financial condition and the market price of our common shares or the ADSs.

The scarcity of financing and/or an increase in interest rates or in other indirect financing costs may adversely affect the ability or willingness of prospective buyers to purchase our products and services, especially prospective low income buyers. A majority of the bank financing obtained by prospective buyers comes from the Housing

Financial System (*Sistema Financeiro de Habitação*), or the "SFH," which is financed by funds raised from savings account deposits. The Brazilian Monetary Council (*Conselho Monetário Nacional*), or the "CMN," often changes the amount of such funds that banks are required to make available for real estate financing. If the CMN restricts the amount of available funds that can be used to finance the purchase of real estate properties, or if there is an increase in interest rates, there may be a decrease in the demand for our residential and commercial properties and for the development of lots of land, which may adversely affect our business, financial condition and results of operations.

We and other companies in the real estate industry frequently extend credit to our clients. As a result, we are subject to risks associated with providing financing, including the risk of default on amounts owed to us, as well as the risk of increased costs of funding our operations. An increase in inflation would raise the nominal amounts due from our clients, pursuant to their sales agreements, which may increase their rates of default. If this were to occur, our cash generation and, therefore, our operating results may be adversely affected. In addition, we obtain financings from financial institutions at different rates and subject to different indexes and may be unable to match our debt service requirements with the terms of the financings we grant to our clients. The mismatch of rates and terms between the funds we obtain and the financings we grant may adversely affect us.

We may sell portions of our landbank located in nonstrategic regions, which is in line with our future strategies. As a result, we will prepare an annual analysis for impairment of our landbank.

As part of our strategy to focus our future operations on regions where our developments have historically been successful, and where we believe there is homebuilding potential based on market opportunities, we may sell portions of our landbank located outside of these regions. As a result, we prepare an annual impairment analysis of our landbank based on the acquisition cost of the land in our portfolio. In 2011, we made a decision to sell a portion of our landbank given our narrowed geographic focus and our evaluation of impairment resulted in recording a provision for impairment on landbank and properties for sale in the amount of R$92.1 million. In December 2012, we had R$53.8 million recorded as a provision for impairment on landbank and properties for sale. As of December 31, 2013, we had R$68.5 million recorded as a provision for impairment on landbank and properties for sale. As of December 31, 2014, we had R$63.5 million recorded as a provision for impairment on landbank and properties for sale. As of December 31, 2015, we had R$50.3 million recorded as a provision for impairment on landbank and properties for sale. Since 2016, our impairment analysis has been negatively impacted by the challenging macroeconomics conditions in the real estate sector and in Brazil as a whole, which has led to a decrease in sales prices for our commercial and residential units. As of December 31, 2016, we had R$174.4 million recorded as a provision for impairment on landbank and properties for sale. As of December 31, 2017, we had R$310.6 million recorded as a provision for impairment on landbank and properties for sale.

The real estate industry is dependent on the availability of credit, especially in the entry-level segment.

One of our main strategies is to expand our operations to the entry-level segment in which clients are strongly dependent on bank financing to purchase homes. This financing may not be available on favorable terms to our clients, or at all. Changes in the Real Estate Financing System (*Sistema de Financiamento Imobiliário*), or the "SFI," and in the SFH rules, the scarcity of available resources or an increase in interest rates may affect the ability or desire of such clients to purchase homes, consequently affecting the demand for homes. These factors would have a material adverse effect on our business, financial condition and results of operations.

Because we recognize sales revenue from our real estate properties under the percentage of completion method of accounting under Brazilian GAAP as generally adopted by construction companies and under U.S. GAAP, when we meet the conditions specified by the respective accounting standards, an adjustment in the cost of a development project may reduce or eliminate previously reported revenue and income.

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

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

We invest in special purpose entities (*Sociedade de Propósito Específico* or "SPEs") with or without other real estate developers and construction companies in Brazil. The risks involved with SPEs include the potential

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bankruptcy of our SPE partners and the possibility of diverging or inconsistent economic or business interests between us and our partners. If an SPE partner fails to perform or is financially unable to bear its portion of the required capital contributions, we could be required to make additional investments and provide additional services in order to make up for our partner’s shortfall. In addition, under Brazilian law, the partners of an SPE may be liable for certain obligations of an SPE, including with respect to tax, labor, environmental and consumer protection laws and regulations. These risks could adversely affect us.

We may experience difficulties in finding desirable land tracts, and increases in the price of land may increase our cost of sales and decrease our earnings.

Our continued growth depends in large part on our ability to continue to acquire land and to do so at a reasonable cost. As more developers enter or expand their operations in the Brazilian home building industry, land prices could rise significantly and suitable land could become scarce due to increased demand, decreased supply or both. A resulting rise in land prices may increase our cost of sales and decrease our earnings on future developments. We may not be able to continue to acquire suitable land at reasonable prices in the future, which could adversely affect our business.

The market value of our inventory of undeveloped land may decrease, thus adversely affecting our results of operations.

We own tracts of undeveloped land that are part of our inventory for future developments. We also intend to increase our inventory and acquire larger tracts of land. The market value of these properties may significantly decrease from the acquisition date to the development of the project as a result of economic downturns or market conditions, which would have an adverse effect on our results of operations.

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

The basic raw materials and fixtures used in the construction of our homes include concrete, concrete block, steel, aluminum, bricks, windows, doors, roof tiles and plumbing fixtures. Increases in the price of these and other raw materials, including increases that may occur as a result of shortages, duties, restrictions, or fluctuations in exchange rates, could increase our cost of sales. Any such cost increases could reduce our earnings and adversely affect our business.

If we are not able to implement our growth strategy as planned, or at all, our business, financial condition and results of operations could be adversely affected.

We plan to grow our business by selectively expanding to meet the growth potential of the Brazilian residential market. We believe that there is increasing competition for suitable real estate development sites. We may not find suitable additional sites for development of new projects or other suitable expansion opportunities. We anticipate that we will need additional financing to implement our expansion strategy and we may not have access to the funding required for the expansion of our business or such funding may not be available to us on acceptable terms. We may finance the expansion of our business with additional indebtedness or by issuing additional debt or equity securities.

In January 2015, we issued R$55 million in non-convertible debentures on a private placement basis. The debentures are secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. The debentures are scheduled to mature on January 20, 2020. The proceeds of the debentures were used to fund the development of such real estate ventures only.

In December 2015, we entered into a real estate sales receivables (*Cédula de Crédito Imobiliário*, or “CCI”) transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$32.2 million in exchange for cash at the transfer date, discounted to present value, for R$24.5 million.

In March 2016, we entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$36.4 million in exchange for cash at the transfer date, discounted to present value, for R$27.3 million.

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In May 2016, we entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$23.0 million in exchange for cash at the transfer date, discounted to present value, for R$17.5 million.

In August 2016, we entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$21.4 million in exchange for cash at the transfer date, discounted to present value, for R$14.9 million.

In September 2016, we issued a certificate of bank credit (*Cédula de Crédito Bancário*, or "CCB") in the amount of R$65 million to finance our operation and to provide working capital for the Company. The CCB is guaranteed by a specific portion of our landbank and real estate receivables.

In December 2016, we entered into a CCI transaction relating to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$27.0 million in exchange for cash at the transfer date, discounted to present value, for R$19.5 million.

In March 2017, we entered into a CCI transaction relating to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$30.2 million in exchange for cash at the transfer date, discounted to present value, for R$23.0 million.

In March 2017, we issued a CCB in the amount of R$47 million to finance our operation and to provide working capital for the Company. The CCB is guaranteed by real estate receivables.

In April 2017, we issued a CCB in the amount of R$12 million to finance our operation and to provide working capital for the Company. The CCB is guaranteed by a specific portion of our landbank.

In November 2017, we issued a CCB in the amount of R$40 million to finance our operation and to provide working capital for the Company. The CCB is guaranteed by real estate receivables.

In November 2017, we issued two series of non-convertible debentures totaling R$120 million on a private placement basis. The first series of debentures totaling R$90 million is secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. In November 2017, the debenture holders assigned their fiduciary rights in the real estate receivables to a real estate securitization special purpose entity, which issued Certificates of Real Estate Receivables (*Certificados de Recebíveis Imobiliários*) or "CRIs", backed by such real estate receivables. The second series of debentures totaling R$30 million, and guaranteed by a fiduciary guarantee, has not been placed with investors as of the date of this annual report. The proceeds of the debentures will be used to fund the development of the aforementioned real estate ventures only.

We could face financial risks, covenant restrictions and restrictions on our ability to employ assets associated with incurring additional indebtedness, such as reducing our liquidity and access to financial markets and increasing the amount of cash flow required to service such indebtedness, or associated with issuing additional stock, such as dilution of ownership and earnings.

There are risks for which we do not have insurance coverage or the insurance coverage we have in place may not be sufficient to cover damages that we may suffer.

We maintain insurance policies with coverage for certain risks, including damages arising from engineering defects, fire, landslides, storms, gas explosions and civil liabilities stemming from construction errors. We believe that the level of insurance we have contracted for accidents is consistent with market practice. However, there can be no assurance that such policies will always be available or provide sufficient coverage for certain damages. In addition, there are certain risks that may not be covered by such policies, such as damages resulting from war, force majeure or the interruption of certain activities and, therefore any requirement to pay amounts not covered by our insurance may have a negative impact on our business and our results of operations. Furthermore, we are required to pay penalties and other fines whenever there is delay in the delivery of our units, and such penalties and fines are not covered by our insurance policies.

Moreover, we cannot guarantee that we will be able to renew our current insurance policies under favorable terms, or at all. As a result, insufficient insurance coverage or our inability to renew existing insurance policies could have an adverse effect on our financial condition and results of operations.

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Our level of indebtedness could have an adverse effect on our financial health, diminish our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or the real estate industry.

As of December 31, 2017, our total debt (loans, financing and debentures) was R$1,104.9 million and our short-term debt was R$569.3 million. In addition, as of December 31, 2017 our cash and cash equivalents and short-term investments available was R$147.5 million and our net debt represented 126.1% of our shareholders' equity including the non-controlling interest. Our indebtedness has variable interest rates. Our level of indebtedness could have important negative consequences for us. For example, it could:

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

Certain of our debt agreements contain financial and other covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain of our existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios, ratings and tests. Our ability to meet these financial ratios, ratings and tests can be affected by events beyond our control and we cannot assure that we will meet those tests, especially given the lower yield environment in which the industry currently operates. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these and other agreements, as a result of cross-default provisions. If we are unable to comply with our debt covenants, we could be forced to seek waivers.

If we are unable to obtain waivers, a large portion of our debt could be subject to acceleration. We do not believe such occurrence to be likely; however, if it were to happen, we could be required to renegotiate, restructure or refinance our indebtedness, seek additional equity capital or sell assets, which could materially and adversely affect us.

We cannot guarantee that we will be successful in obtaining any waivers. As of December 31, 2017, the Company and its subsidiaries were in compliance with the contractual covenants provided for in our debentures and our credit instruments, except for non-compliance with a certain restrictive covenant in one of the Company's CCB's and one of its debentures. This breach occurred mainly as a result of an impairment adjustment of R$127.4 million related to AUSA's goodwill which, together with a loss applying the equity method of R$186.9 million, resulted in an impact of R$314 million on our statement of profit or loss and shareholders' equity. In addition, we recorded an impairment adjustment of R$147.3 million in our landbank and inventory units, which were being sold below their accounting value due to the effects of the challenging macroeconomic conditions in the real estate sector and in Brazil as a whole. Both debt agreements were classified as short term debt in the Company's financial statements. As of the date of this annual report, we are in the process of obtaining the necessary waivers from the relevant creditors for this covenant non-compliance and we have not received an acceleration notice in connection with such non-compliance. The Company analyzed all of its other debt agreements and did not identify any impact on its restrictive covenants in such other debt agreements resulting from this non-compliance. Failures or delays by our third party contractors may adversely affect our reputation and business and expose us to civil liability.

***Failures or delays by our third party contractors may adversely affect our reputation and business and exposes us to civil liability.***

We engage third party contractors to provide services for our projects. Therefore, the quality of work in the construction of our real estate projects and the timely completion of these projects may depend on factors that are beyond our control, including the quality and timely delivery of building materials and the technical skills of the outsourced professionals. Such outsourcing may delay the identification of construction problems and, as a result, the correction of such problems. Any failures, delays or defects in the services provided by our third party

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contractors may adversely affect our reputation and relationship with our clients, which would adversely affect our business and results of operations.

Unfavorable judicial, administrative or arbitration decisions may adversely affect us.

We currently are, and may be in the future, defendants in several judicial, administrative proceedings related to civil, labor and tax matters. We cannot assure you that we will obtain favorable decisions in such proceedings, that such proceedings will be dismissed, or that our provisions for such proceedings are sufficient in the event of an unfavorable decision. Unfavorable decisions that impede our operations, as initially planned, or that result in a claim amount that is not adequately covered by provisions in our balance sheet, may adversely affect our business and financial condition.

We may be held responsible for labor liabilities of our third party contractors.

We may be held responsible for the labor liabilities of our third party contractors and obligated to pay for fines imposed by the relevant authorities in the event that our third party contractors do not comply with applicable legislation. As of December 31, 2017, R$36.0 million of our R$59.0 million of total labor liabilities and provisions were for such liabilities. Approximately 82% of the labor claims were commenced by employees of our third party contractors. An adverse result in such claims would cause an adverse effect on our business.

Failure to keep members of our senior management and/or our ability to recruit and retain qualified professionals may have a material adverse effect on our business, financial condition and results of operations.

Our future success depends on the continued service and performance of our senior management and our ability to recruit and retain qualified professionals. None of the members of our senior management are bound to long-term labor contracts or non-compete agreements and there can be no assurance that we will successfully recruit and retain qualified professionals to our management as our business grows. The loss of any key professionals or our inability to recruit or retain qualified professionals may have an adverse effect on our business, financial condition and results of operations.

Changes in Brazilian GAAP issued by CPC may differ from IFRS and may adversely affect our results.

Brazilian corporate law was amended by Law No. 11,638 dated December 28, 2007 in order to facilitate the convergence of Brazilian GAAP with IFRS, and thereafter, the CPC issued new accounting standards that generally converged Brazilian GAAP to IFRS.

On May 28, 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") (CPC 47), which establishes principles that will apply to the recognition of revenue under IFRS. IFRS 15 will require entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. When adopted, IFRS 15 will supersede most of the guidance on the recognition of revenue that currently applies under IFRS. In connection with the real estate development sector, the maintenance of the percentage of completion revenue recognition method or the adoption of the method of revenue recognition at the time each unit is delivered will be the result of the contractual analysis performed by our management. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018.

In September 2017, the CPC consulted with the IASB – IFRS IC on the application of the percentage of completion revenue recognition method to certain types of commercial contracts entered into in Brazil.

In a letter (CVM/SNC/SEP/No. 01/2018) dated January 10, 2018, the CVM instructed real estate development entities to continue applying Guideline OCPC 04 - Application of the Technical Interpretation ICPC 02. As of the date of this annual report, Guideline OCPC 04 is not yet final and is subject to further amendments.

For a discussion on the impact on our financial statements of changing the revenue recognition method for U.S. GAAP purposes from the percentage of completion revenue recognition method to the method of revenue recognition at the time each unit is delivered, please see note 33(c)(ii) to our consolidated financial statements included elsewhere in this annual report.

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Risks Relating to Brazil

Brazilian economic, political and other conditions, and Brazilian government policies or actions in response to these conditions, may negatively affect our business and results of operations and the market price of our common shares or the ADSs.

The Brazilian economy has been characterized by unstable economic cycles and frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, fiscal, credit, tariff and other policies to influence the course of the Brazilian economy. For example, the government's actions to control inflation have at times involved setting wage and price controls, blocking access to bank accounts, imposing exchange controls and limiting imports into Brazil. We have no control over, and cannot predict, what policies or actions the Brazilian government may take in the future.

Our business, results of operations, financial condition and prospects, as well as the market prices of our common shares or the ADSs, may be adversely affected by, among others, the following factors:

- exchange rate movements;
- exchange control policies;
- expansion or contraction of the Brazilian economy, as measured by rates of GDP;
- inflation;
- tax policies;
- other economic, political, diplomatic and social developments in or affecting Brazil;
- interest rates;
- energy shortages;
- liquidity of domestic capital and lending markets; and

· social and political instability.

Uncertainty over whether the Brazilian government may implement changes in policy or regulations may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets as well as securities issued abroad by Brazilian issuers. As a result, these uncertainties and other future developments in the Brazilian economy may adversely affect us and our business and results of operations and the market price of our common shares and the ADSs.

In addition, the Brazilian Congress commenced impeachment proceedings against then President Dilma Rousseff on December 2, 2015, for violating budgetary laws to prop up the Brazilian economy during her reelection campaign in 2014. On April 17, 2016, more than two-thirds of Brazil's Congress voted to proceed with the impeachment proceedings. The proceedings then moved to the Senate, which on May 12, 2016 voted to commence a trial of President Rousseff, resulting in her suspension from the post for up to 180 days, during which time Vice President Michel Temer assumed the Presidency. On August 31, 2016, President Rousseff was impeached by the Senate and definitively removed from office. On the same date, Michel Temer assumed the Presidency of Brazil until the next general elections, scheduled for October 2018. In this context, it is uncertain whether Mr. Temer will enjoy the support of the Brazilian Congress, or what policies he will be able to implement. We have no control over the political situation in Brazil and cannot foresee what policies or actions the Brazilian government may pursue. Any of these factors may adversely affect the Brazilian economy, our business, financial condition, results of operations and the trading price of our common shares. The Brazilian government may be subject to internal pressure to change its current macroeconomic policies in order the achieve higher rates of economic growth, and has historically maintained a tight monetary policy with high interest rates, thus restricting the availability of credit and reducing economic growth. We cannot foresee what policies the government will adopt. In addition, in the past, the Brazilian economy has been affected by political events in the country, which have also affected the confidence of investors and the general public, which harms the performance of the Brazilian economy. Furthermore, any indecision by the Brazilian government in implementing changes in certain policies or regulations may contribute to economic uncertainty in Brazil, and increase stock market volatility.

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Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and the market prices of our common shares or the ADSs.

At times in the past, Brazil has experienced high rates of inflation. According to the General Market Price Index (*Índice Geral de Preços—Mercado*), or "IGP-M", inflation rates in Brazil were 3.8% in 2006, 7.8% in 2007, 9.8% in 2008, (1.7)% in 2009, 11.3% in 2010, 5.1% in 2011, 7.8% in 2012, 5.5% in 2013, 3.7% in 2014, 10.5% in 2015, 7.2% in 2016 and (0.5)% in 2017. In addition, according to the Expanded Consumer Price Index (*Índice de Preços ao Consumidor Ampliado*), or "IPCA," Brazilian consumer price inflation rates were 3.1% in 2006, 4.5% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012, 5.9% in 2013, 6.4% in 2014, 10.7% in 2015, 6.3% in 2016 and 2.9% in 2017. Our term sales agreements usually provide for an inflation adjustment linked to the National Construction Cost Index (*Índice Nacional de Custo de Construção*), or "INCC". The INCC increased by 6.2% in 2007, 11.9% in 2008, 3.25% in 2009, 7.77% in 2010, 7.49% in 2011, 7.12% in 2012, 8.1% in 2013, 6.9% in 2014, 7.5% in 2015, 6.1% in 2016 and 4.3% in 2017. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our *reais*-denominated debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets. In addition, increases in inflation rates would increase the outstanding debt of our customers, which could increase default levels and affect our cash flows. Any decline in our net operating revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our common shares and the ADSs.

Social, political and economic events and the perception of risks, especially in other emerging economies, may adversely affect the Brazilian economy, and consequently, our business, financial condition, results of operations and the market price of our securities.

The Brazilian capital markets are influenced by the Brazilian market and economic conditions and, to a certain extent, by the conditions in other Latin American countries and other emerging market countries. Investors' reactions to developments in certain countries may have an adverse effect on the market value of the securities of Brazilian issuers. Crises in other Latin American and emerging market countries normally trigger a significant outflow of funds and the reduction of foreign investment in Brazil. For example, in 2001 Argentina announced a moratorium on its public debt after a recession and a period of political instability, which affected investor perceptions towards the Brazilian capital markets for many years. Crises in other Latin American and emerging market countries may diminish investor interest in the securities of Brazilian issuers, including ours, which could negatively affect the market price of our common shares.

The market for securities issued by Brazilian companies is influenced, to a varying degree, by international economic and market conditions generally, especially in the United States. The prices of shares traded on the São Paulo Stock Exchange (B3 S.A. – *Brasil, Bolsa, Balcão* (formerly BM&FBOVESPA – *Bolsa de Valores, Mercadorias e Futuros*)), or the "B3," have been historically affected by the fluctuation of interest rates and stock exchange indexes in the United States. Events in other countries or capital markets could have an adverse effect on the price of our shares, which could make it more difficult for us to access the capital markets and obtain financing on acceptable terms in the future, or at all.

The ongoing "Lava Jato" investigation regarding corruption at and with Petróleo Brasileiro S.A., or Petrobras, may hinder the growth of the Brazilian economy, and could have an adverse effect on our business.

Petrobras and certain other Brazilian companies active in the energy and infrastructure sectors are facing investigations by the CVM, the U.S. Securities and Exchange Commission, the Brazilian Federal Police and the Brazilian Federal Prosecutor's Office, in connection with corruption allegations, or the "Lava Jato" investigations. Depending on the duration and outcome of such investigations, the companies involved may face downgrades from rating agencies, funding restrictions and a reduction in their revenues. Currently, elected officials and other public

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officials in Brazil are also being investigated for allegations of unethical and illegal conduct identified during the new major phase of the Lava Jato investigations, which began in July 2015. The potential outcome of these investigations is unknown, but they have already had an adverse impact on the image and reputation of the companies involved, and on Brazil's economy and growth prospects in the near to medium term.

The allegations under the "Lava Jato" investigations along with the economic downturn resulted in Brazil being downgraded to non-investment grade status by S&P in September 2015, by Fitch Ratings in December 2015, and by Moody's in February 2016, as well as in the downgrade of various major Brazilian companies. Such downgrades have further worsened the conditions of the Brazilian economy and the condition of Brazilian companies, especially those relying on foreign investments.

Such investigations have recently extended to persons in high positions in the executive and legislative branches of the Brazilian government, which has caused considerable political instability. It is difficult to predict the effects of such political instability. Persistent economic hardship in Brazil resulting from, among other factors, such investigations, the developments arising therefrom and a scenario of high political instability may have a material adverse effect on us.

Persistently poor macroeconomic conditions resulting from, among other things, the Lava Jato investigations and their consequences, could have an adverse effect on our business.

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

The Central Bank, through the Monetary Policy Committee (*Comitê de Política Monetária*), or the "COPOM," establishes the Special Clearance and Escrow System rate (*Sistema Especial de Liquidação e Custodia*), or the "SELIC rate," which is the basic interest rate for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. The SELIC rate is also an important policy instrument used by the Brazilian government to achieve inflation targets it established on June 21, 1999 (Decree No. 3,088).

As of December 31, 2011, the SELIC rate was 11%. As of December 31, 2012, the Central Bank had significantly reduced the SELIC rate to 7.25%. As of December 31, 2013, the Central Bank had increased the SELIC rate to 10%. As of December 31, 2014, the Central Bank had further increased the SELIC rate to 11.75%. As of December 31, 2015, the SELIC rate was 14.25%. As of December 31, 2016, the SELIC rate was 13.75%, and as of December 31, 2017, the SELIC rate was 7.0%. As of the date of this annual report, the SELIC rate is 6.5%. Debts of companies in the real estate industry, including ours, are subject to the fluctuation of the SELIC rate. Should the SELIC rate increase, the costs relating to the service of our debt obligations may also increase.

As of December 31, 2017, our indebtedness was denominated in *reais* and subject to Brazilian floating interest rates, such as the Reference Interest Rate (*Taxa Referencial*), or "TR," and the Interbank Deposit Certificate Rate (*Certificado de Depósito Interbancário*), or "CDI rate." Any increase in the TR rate or the CDI rate may have an adverse impact on our financial expenses, our results of operations and on the market price of our common shares or the ADSs. We are not a party to any hedging instruments with respect to our indebtedness.

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

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

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

The Brazilian government regularly implements changes to tax regimes that may increase our and our customers' tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. Since April 2003, the Brazilian government has presented several tax reform proposals, which were mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states and municipalities, and to redistribute tax revenues. The tax reform proposals provided for changes in the rules governing the federal Social Integration Program (*Programa de Integração Social*), or "PIS," the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social*), or "COFINS," the state Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços)*, or "ICMS," and other taxes. The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Risks Relating to Our Common Shares and the ADSs

International economic and market conditions, especially in the United States, may adversely affect the market price of the ADSs.

The market for securities issued by Brazilian companies is influenced, to a varying degree, by international economic and market conditions generally. Because our ADSs are listed on the New York Stock Exchange, or the "NYSE," adverse market conditions and economic and/or political crises, especially in the United States, such as the subprime mortgage lending crisis in 2007 and 2008 and the financial and credit crises in 2008, have at times resulted in significant negative impacts on the market price of our ADSs. Despite the fact that our clients, whether financed by us or by Brazilian banks through resources obtained in the local market, were not directly exposed to the mortgage lending crisis in the United States, there were still uncertainties as to whether such crisis may indirectly affect homebuilders worldwide. The uncertainties generated by the subprime crisis may affect the market prices of our ADSs in future and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

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

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

The Brazilian economy is also affected by international economic and general market conditions, especially economic and market conditions in the United States. Share prices on the B3, for example, have historically been sensitive to fluctuations in U.S. interest rates as well as movements of the major U.S. stock indexes, particularly in the current worldwide economic downturn. Developments in other countries and securities markets could adversely affect the market prices of our common shares and the ADSs and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

The relative volatility and the lack of liquidity of the Brazilian securities market may adversely affect you.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may limit your ability to sell our common shares and the common shares underlying your ADSs at the price and time at which you wish to do so. The B3, the only Brazilian stock exchange, had a market capitalization of US$954.7 billion as of December 31, 2017 and an average daily trading volume of US$2.7 billion for 2017. In comparison, the NYSE had a domestic market capitalization of US$22.1 trillion (excluding funds and non-U.S. companies) as of December 31, 2017 and an average daily trading volume of approximately US$69.6 billion for 2017.

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There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented 52.2% of the aggregate market capitalization of the B3 as of December 31, 2017. Gafisa's average daily trading volume on the B3 and in the NYSE in 2017 was US$3.4 million and US$0.8 million, respectively.

Shares eligible for future sale may adversely affect the market value of our common shares and the ADSs.

Certain of our shareholders have the ability, subject to applicable Brazilian laws and regulations and applicable securities laws in the relevant jurisdictions, to sell our shares and the ADSs. We cannot predict what effect future sales of our shares or ADSs may have on the market price of our shares or the ADSs. Future sales of substantial amounts of such shares or the ADSs, or the perception that such sales could occur, could adversely affect the market prices of our shares or the ADSs.

The economic value of your investment in our company may be diluted.

We may need additional funds in the future, in order to expand more rapidly, develop new markets, respond to competitive pressures or make acquisitions. Any necessary additional financing may not be available on terms favorable to us. If adequate funds are not available on acceptable terms, we may be unable to meet our business or strategic objectives or compete effectively. If additional funds are raised by our issuing new equity securities existing shareholders may be diluted. See "Item 4. Information on the Company—A. History and Development of the Company."

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

According to our bylaws, we must generally pay our shareholders at least 25% of our annual net profit as dividends or interest on shareholders' equity, as calculated and adjusted under Brazilian corporate law method. This adjusted net profit may be used to absorb losses or for the payment of statutory participation on profits to debenture holders, employees or members of our management, which would ultimately reduce the amount available to be paid as dividends or interest on shareholders' equity. Additionally, Brazilian corporate law allows a publicly traded company like us to suspend the mandatory distribution of dividends in any particular year if our board of directors informs our shareholders that such distributions would be inadvisable in view of our financial condition or cash availability. For 2003, 2004 and 2005, we did not distribute dividends. We distributed dividends in each of 2007, 2008, 2009 and 2010 with respect to the prior respective fiscal year. Based on the negative results of the fiscal year 2012, on April 19, 2013, our shareholders did not approve any distribution of dividends. On December 20, 2013, with the completion of the sale of the Alphaville interest, as fully detailed in item "4. Information on the Company—A. History and Development of the Company", our board of directors approved the payment of interest on equity in the amount of R$130.2 million, representing R$0.3111 per share. Such payment was effective February 12, 2014. On April 25, 2014, our shareholders approved a distribution of dividends in the amount of R$32.9 million, representing R$0.0825 per share. Based on the negative results of the fiscal year 2014, on April 16, 2015, our shareholders did not approve any distribution of dividends. On April 25, 2016, our shareholders approved a distribution of dividends in the amount of R$17.7 million, representing R$0.0481 per share. Based on the negative results of the fiscal year 2016, at our annual shareholders' meeting held on April 28, 2017, our shareholders did not approve any distribution of dividends. Based on the negative results of the fiscal year 2017, our shareholders did not approve any distribution of dividends at our annual shareholders' meeting held on April 27, 2018.

For further information, see "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy."

Holders of ADSs may find it difficult to exercise voting rights at our shareholders' meetings.

Holders of ADSs may exercise voting rights with respect to our common shares represented by ADSs only in accordance with the terms of the deposit agreement governing the ADSs. Holders of ADSs will face practical limitations in exercising their voting rights because of the additional steps involved in our communications with ADS holders. For example, we are required to publish a notice of our shareholders' meetings in specified newspapers in Brazil. Holders of our common shares will be able to exercise their voting rights by attending a shareholders' meeting in person or voting by proxy. By contrast, holders of ADSs will receive notice of a shareholders' meeting from the ADR depositary following our notice to the depositary requesting the depositary to do so. To exercise their voting rights, holders of ADSs must instruct the ADR depositary on a timely basis. This voting process necessarily will take longer for holders of ADSs than for holders of our common shares.

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Common shares represented by ADSs for which no timely voting instructions are received by the ADR depositary from the holders of ADSs shall not be voted.

Holders of ADSs also may not receive the voting materials in time to instruct the depositary to vote the common shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the common shares underlying their ADSs are not voted as requested.

No single shareholder or group of shareholders holds more than 50% of our capital stock, which may increase the opportunity for alliances between shareholders as well as conflicts between them.

No single shareholder or group of shareholders holds more than 50% of our capital stock. There is no guidance in Brazilian corporate law for publicly-held companies without an identified controlling shareholder. Due to the absence of a controlling shareholder, we may be subject to future alliances or agreements between our shareholders, which may result in the exercise of a controlling power over our company by them. In the event a controlling group is formed and decides to exercise its controlling power over our company, we may be subject to unexpected changes in our corporate governance and strategies, including the replacement of key executive officers. Additionally, we may be more vulnerable to a hostile takeover bid. The absence of a controlling group may also jeopardize our decision-making process as the minimum quorum required by law for certain decisions by shareholders may not be reached and, as a result, we cannot guarantee that our business plan will be affected. Any unexpected change in our management team, business policy or strategy, any dispute between our shareholders, or any attempt to acquire control of our company may have an adverse impact on our business and result of operations.

Holders of ADSs will not be able to enforce the rights of shareholders under our bylaws and Brazilian corporate law and may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company.

Holders of ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our bylaws and Brazilian corporate law.

Our corporate affairs are governed by our bylaws and Brazilian corporate law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of the ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Holders of ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are a corporation organized under the laws of Brazil, and all of our directors and executive officers and our independent public accountants reside or are based in Brazil. Most of the assets of our company and of these other persons are located in Brazil. As a result, it may not be possible for holders of ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may be enforced in Brazil only if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs.

According to Law No. 10,833 of December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. Thus, gains arising from a disposition of our common shares by a non-resident of Brazil to another non-resident of Brazil are subject to income tax.

Although the matter is not entirely clear, we believe it is reasonable to take the position that ADSs do not constitute assets located in Brazil for the purposes of Law No. 10,833/03. Accordingly, the disposition of our ADSs by a non-resident to either a Brazilian resident or a non-resident should not be subject to taxation in Brazil. We cannot assure you, however, that the Brazilian tax authorities or the Brazilian courts will agree with this interpretation. In the event that a disposition of our ADSs is considered a disposition of assets located in Brazil, gains on a disposition of ADSs by a non-resident of Brazil may be subject to income tax in Brazil. See "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations—Gains."

Any gain or loss recognized by a U.S. Holder (as defined in "Item 10. Additional Information—E. Taxation—U.S. Federal Income Tax Considerations") would generally be treated as U.S. source gain or loss for all foreign tax credit purposes. Consequently, U.S. Holders will not be able to credit any Brazilian income tax imposed on such gains against their U.S. federal income tax liability unless they have other creditable taxable income from foreign sources in the appropriate foreign tax credit basket. U.S. Holders should consult their tax advisers as to whether the Brazilian tax on gain would be creditable against such holder's U.S. federal income tax on foreign-source income from other sources.

There can be no assurance that we will not be a passive foreign investment company, or "PFIC," for any taxable year, which could result in adverse U.S. federal income tax consequences to U.S. holders of our common shares or ADSs.

In general, a non-U.S. corporation is a PFIC for any taxable year if: (1) 75% or more of its gross income consists of passive income (the "income test") or (2) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income (including cash and cash equivalents). Generally, "passive income" includes interest, dividends, rents, royalties and certain gains. For purposes of the above calculations, a non-U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. The Company believes that it was not a "passive foreign investment company," or "PFIC," for U.S. federal income tax purposes for its 2017 taxable year. However, because the Company's PFIC status is an annual determination that can be made only after the end of each taxable year and will depend on the composition of its income and assets for each such year, there can be no assurance that the Company will not be a PFIC for the current or any other taxable year. The Company may become a PFIC for any future taxable year if its financial income exceeds its gross loss or constitutes 75% or more of its gross profit for such year.

If the Company were a PFIC for any taxable year during which a U.S. holder owned its common shares or ADSs, certain adverse U.S. federal income tax consequences could apply to such U.S. holder. See "Item 10. Additional Information—E. Taxation——Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Rules.

Judgments of Brazilian courts with respect to our common shares will be payable only in reais.

If proceedings are brought in the courts of Brazil seeking to enforce our obligations in respect of the common shares, we will not be required to discharge our obligations in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than *reais* may be satisfied in Brazilian currency only at the exchange rate, as determined by the Central Bank, in effect on the date of payment. The exchange rate may not afford non-Brazilian investors with full compensation for any claim arising out of or related to our obligations under our common shares or the ADSs.

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

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

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

The ADSs benefit from the certificate of foreign capital registration, which permits Citibank N.A., as depositary, to convert dividends and other distributions with respect to our common shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for common shares will then be entitled to rely on the depositary's certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit the proceeds abroad unless they obtain their own certificate of foreign capital registration under the terms of Law No. 4,131/62, or unless they qualify under Resolution CMN 4,373, which superseded Resolution CMN No. 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges or organized over-the-counter market and benefit from the certificate of foreign capital registration managed by their authorized representatives in Brazil. See "Item 9. The Offering and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil."

If holders of ADSs do not qualify under Resolution CMN 4,373, they will generally be subject to less favorable tax treatment on distributions with respect to our common shares. There can be no assurance that the depositary's certificate of registration or any certificate of foreign capital registration obtained by holders of ADSs will not be affected by future legislative or regulatory changes, or that additional Brazilian law restrictions applicable to their investment in the ADSs may not be imposed in the future.

A portion of the compensation of our officers and members of the senior management is paid in form of stock options, which could tie their interest to the market price of our shares and ADSs.

We have established stock option plans for our officers and members of our senior management. Potential benefits under the stock option plans are tied to the appreciation of the market price of our shares and ADSs.

As a result, our compensation policy may influence our officers and members of the senior management and their interest to the market price of our shares and ADSs, which may conflict with the interests of our shareholders. Our officers and members of the senior management may be influenced to focus on short-term rather than long-term results because a significant portion of their compensation is tied to our results and the market price of our shares and ADSs. See "Item 6. Directors, Senior Management and Employees—E. Share Ownership—Stock Option Plans" in this annual report.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

General

Gafisa S.A. is a corporation organized under the laws of Brazil. We were incorporated on November 12, 1996 for an indefinite term. Our registered and principal executive offices are located at Av. Nações Unidas No. 8.501, 19th floor, 05425-070, São Paulo, SP, Brazil, and our general telephone and fax numbers are + 55 (11) 3025-9000 and + 55 (11) 3025-9242, respectively.

We are a leading diversified national homebuilder serving all demographic segments of the Brazilian market. Established over 60 years ago, we have completed and sold more than 1,100 developments and constructed over 12 million square meters of housing under the Gafisa brand, which we believe is more than any other homebuilder in Brazil. Recognized as one of the foremost professionally-managed homebuilders, we are also one of the best-known brands in the real estate development market, enjoying a reputation among potential homebuyers, brokers, lenders, landowners, and competitors for quality, consistency and professionalism, offering a variety of residential options to the mid to higher income segments. In addition, we provide construction services to third parties on certain developments where we retain an equity interest, and we also hold an equity interest in Alphaville, which focuses on the identification, development, and sale of high income residential properties.

Our core business is the development of high-quality residential units in attractive locations. For the year ended December 31, 2017, 100% of the value of our launches was derived from high and mid high-level residential developments.

We currently operate mainly in São Paulo and Rio de Janeiro, and have smaller operations in other Brazilian cities. For the year ended December 31, 2017, approximately 10.3% of the value of our launches was derived from our operations outside the states of São Paulo and Rio de Janeiro.

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In the fourth quarter of 2011, we conducted an extensive review of our operations and the operations of our subsidiaries, and our combined business strategy. As a result of this review, the following changes were made: temporary reductions of the activities of the Tenda segment, increase in investments in the Alphaville segment and focus the Gafisa segment on the markets of Sao Paulo and Rio de Janeiro.

2013 marked the completion of Gafisa's strategic repositioning, which commenced in early 2012. Our goal at the time was clear: we needed to reduce the level of debt and restrict the Company's exposure to unprofitable businesses and markets. This process evolved positively throughout the period in several fronts - including improvement in margins and cash generation, and culminated with the sale of a 70% interest in Alphaville, which unlocked significant value and contributed to a reduction in the Company's leverage, adjusting its capital structure. At the end of 2013 we finalized the development of our five-year business plan for the period from 2014 to 2018. During the planning process, we set guidelines for the development of our business for the upcoming years, including the expected size of Gafisa and Tenda operations, appropriate leverage, profitability guidelines, and more importantly, our commitment to capital discipline and shareholder value generation, which are reflected in the guidance released to the market at the end of 2013. Gafisa S.A. completed the sale of a majority interest in Alphaville Urbanismo S.A. ("Alphaville"), the leading residential community development company in Brazil, to Private Equity AE Investimentos e Participações ("Fundo AE"), which has as shareholders Pátria Investimentos and Blackstone Real Estate Advisor, which was announced on June 7, 2013. The transaction values Alphaville at an equity value of R$2.0 billion. The cash sale to Pátria and Blackstone resulted in Fundo AE owning 70% of Alphaville, with Gafisa retaining the remaining 30%. All precedent conditions were met including governmental approval, to the completion of the transaction. The transaction was concluded on December 9, 2013, with a sale of a 50% interest by Gafisa and a 20% interest by Construtora Tenda S.A. ("Tenda"), with Gafisa retaining the remaining 30% of Alphaville capital stock. Following this transaction and since December 2013, Alphaville is no longer consolidated in the financial statements of the Company.

The Company's results of operations reflect the results of operations of Alphaville for the period January 1 to November, 30 2013 which are presented in the line item "Results from discontinued operations".

On February 2, 2014, Gafisa's board of directors authorized management to initiate studies for a potential spin-off of Gafisa and Tenda business units into two independent publicly traded companies. Our management initiated the studies in the first quarter of 2014.

During 2014, we revised our 2014 launch guidance for the Gafisa segment as a result of weakening economic conditions in Brazil. This revision in the projected volume of launches affected guidance for the Administrative Expenses to Launch Volumes ratio for the Gafisa segment, as well as projected consolidated launches.

During 2015, we did not issue a launch guidance for the Tenda segment or the Gafisa segment as a result of the continuing weakening economic conditions and political instability in Brazil. High interest rates, high rates of inflation and an increase in levels of unemployment, among other factors, had an adverse impact on the real estate market, including the Gafisa segment, resulting in a sharp decrease in the overall volume of real estate launches in

Brazil. Consequently, we adopted a conservative approach to launches, seeking to balance the level of launches of new products in the market by prioritizing ventures with more liquidity, with the aim to reach stable sales and profitability levels. In contrast, and despite the continuing weakening economic conditions in Brazil, we were able to expand the Tenda segment of our business, which focuses on the low-income market.

During 2015, as part of the spin-off studies, we (i) separated several joint departments of Gafisa and Tenda, including, among others, the services, personnel and management department and the legal department, (ii) converted Tenda's issuer registration with the CVM from category B to category A, (iii) entered into negotiations with several banks and insurance companies to open lines of credit for Tenda that are independent of Gafisa, and (iv) reviewed our contracts with our third party counterparties and evaluated the potential impact of a spin-off on those contracts. On April 29, 2015, we announced to the market that the spin-off studies were ongoing and would take longer to be concluded than had been initially expected.

During 2016, we did not issue a launch guidance for the Tenda segment or the Gafisa segment as a result of the continuing weakening economic conditions and political instability in Brazil.

On August 16, 2016, we announced to the market that that the spin-off studies were ongoing and that we were evaluating other potential capital structure options and separation alternatives for the Gafisa and Tenda business units, including a potential offer of securities and/or a sale of equity interests, in addition to the spin-off itself.

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In December 2016, following the conclusion of our analysis of certain strategic options, our management decided to sell 50% of Tenda's total capital stock, and transfer the remaining 50% of Tenda's total capital stock to our shareholders in connection with a reduction in our total capital stock. Accordingly, on December 14, 2016, we entered into the SPA with Jaguar pursuant to which we would sell Tenda shares representing up to 30% of the total capital stock of Tenda, at a price equal to R$8.13 per share.

During 2017, we did not issue a launch guidance for Gafisa as a result of the continuing weakening economic conditions and political instability in Brazil. Accordingly, we adopted a conservative approach to launches, focusing on the sale of inventory.

The spin-off of the Tenda business unit was consummated on May 4, 2017, following: (i) a reduction of the capital stock of Tenda (without the cancellation of shares), pursuant to which Gafisa, as sole shareholder at that time, received R$100 million (adjusted by the SELIC); (ii) a reduction of the capital stock of Gafisa, resulting in the distribution to Gafisa shareholders of shares corresponding to 50% of the capital stock of Tenda; (iii) the conclusion of the preemptive rights exercise pursuant to which Gafisa shareholders acquired up to 50% of the total share capital of Tenda, at the price per share set forth in the SPA with Jaguar and for a total amount of R$219.5 million, with no shares being acquired by Jaguar; and (iv) the satisfaction of other conditions precedent for the consummation of the spin-off. In addition, on May 4, 2017, the Tenda shares were listed on the B3 and began to publicly trade.

Our common shares are listed on the B3 under the symbol "GFSA3" and the ADSs are listed on the NYSE under the symbol "GFA."

Our agent for service of process in the United States is National Corporate Research, Ltd. located at 10 East 40th Street, 10th floor, New York, NY 10016.

Historical Background and Recent Developments

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

In September 2006, we created Gafisa Vendas Intermediação Imobiliária Ltda., or "Gafisa Vendas," to function as our internal sales division in the state of São Paulo and in February 2007, we created a branch of Gafisa Vendas in Rio de Janeiro, or "Gafisa Vendas Rio," to function as our internal sales division in the metropolitan region of Rio de Janeiro.

In October 2006, we entered into an agreement with Alphaville Participações S.A. to acquire 100% of Alphaville, one of the largest residential community development companies in Brazil in terms of units and square meters, focused on the identification, development and sale of high quality residential communities in the metropolitan regions throughout Brazil targeted at upper and upper-middle income families. On January 8, 2007, we successfully completed the acquisition of 60% of Alphaville's shares for R$198.4 million, of which R$20 million was paid in cash and the remaining R$178.4 million was paid in exchange for 6.4 million common shares of Gafisa. On May 27, 2010, the shareholders of Gafisa approved the acquisition of 20% of Alphaville's shares for the total amount of R$126.5 million, through the merger of Shertis Empreendimentos e Participações S.A. or "Shertis", which main asset were 20% of Alphaville's shares. As a consequence of such merger, Gafisa issued 9,797,792 common shares, paid to the former shareholders of Shertis.

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

On March 15, 2007, we created a new wholly-owned subsidiary, Fit Residencial Empreendimentos Imobiliários Ltda., or "FIT," for the development, construction and management of lower and lower-middle income residential projects. On October 21, 2008, Gafisa and Tenda concluded a business combination in which FIT was merged into Tenda. The purpose of the merger was to consolidate the activities of FIT and Tenda in the lower-income segment in

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Brazil focused on developing real estate units with an average price of less than R$200.0 thousand. As a result of the business combination, Gafisa became the owner of 60.0% of the total and voting capital stock of Tenda. On December 30, 2009, the shareholders of Gafisa and Tenda approved a corporate restructuring to consolidate Gafisa’s non-controlling share ownership in Tenda. The restructuring was accomplished by exchanging all of the remaining Tenda shares not held by Gafisa into Gafisa shares. As a result of the restructuring, Tenda became a wholly-owned subsidiary of Gafisa. On October 26, 2007, Gafisa acquired 70% of Cipesa Empreendimentos Imobiliários S.A., a leading homebuilder in the State of Alagoas at the time.

On October 1, 2010, Equity International sold its remaining interest in our company.

On June 8, 2012, according to the material fact then disclosed, the third phase of the Investment Agreement and Other Covenants entered into on October 2, 2006 (“Investment Agreement”), established the rules and conditions for Gafisa related to the acquisition of the remaining 20% interest in the capital stock of Alphaville not held by the Company. While the valuation of the capital stock has been agreed by both parties, the number of shares that shall be issued by the Company to settle this transaction is being decided in arbitration proceedings initiated by the minority shareholders of Alphaville, according to the material fact we released on July 3, 2012. There is an embedded derivative component to the Investment Agreement, relating to the Company’s obligation to purchase the Alphaville shares held by the non-controlling interest. As the fair value of this embedded derivative for all reporting periods has no significant value, since the future settlement of the derivative will be based on the fair value of Alphaville’s capital stock, no derivative asset or liability has been recorded. The future settlement to be made in cash or shares represented an amount of R$359.0 million as at December 31, 2012 and 2011. If 70,251,551 common shares of Gafisa are issued to the other shareholders of Alphaville, these shareholders will receive 13.96% of Gafisa’s total capital stock. On June 7, 2013, according to the material fact then disclosed, Gafisa entered into an agreement to sell a 70% interest in Alphaville to Blackstone and Patria and also agreed to complete the purchase of the outstanding 20% interest in Alphaville, finalizing the arbitration process.

On July 3, 2013, Gafisa completed the purchase of the outstanding 20% interest in Alphaville, belonging to Alphapar, resulting in the Company holding 100% of Alphaville’s capital stock. This transaction resulted in a temporary increase in the Company’s leverage to 126% (Net Debt/Equity) and it was financed partially through Company’s cash in addition to funding of R$250 million in June. The total disbursement was made in July in the amount of R$366.6 million.

On December 9, 2013, Gafisa announced the completion of the agreement to sell a 70% interest in Alphaville to private equity firms Blackstone and Pátria. Gafisa retained a 30% interest. The sale valued Alphaville at R$2.0 billion. The proceeds from the transaction totaled R$1.54 billion, of which R$1.25 billion was received through the sale of shares, and R$290 million was received as a dividend distributed by Alphaville.

On February 2, 2014, Gafisa’s board of directors authorized management to initiate studies for a potential spin-off of Gafisa and Tenda business units into two independent publicly traded companies. Our management initiated the studies in the first quarter of 2014.

During 2014, we also revised our 2014 launch guidance for the Gafisa segment as a result of weakening economic conditions in Brazil. We did not issue a launch guidance for the Gafisa segment or the Tenda segment during 2015, 2016 and 2017 due to the continuing weakening economic conditions and political instability in Brazil.

During 2015 and 2016, we implemented several initiatives in connection with the potential spin-off. During 2016, our management decided to sell 50% of Tenda's total capital stock, and transfer the remaining 50% of Tenda's total capital stock to our shareholders in connection with a reduction in our total capital stock, and implement the spin-off. The spin-off of the Tenda business unit was consummated on May 4, 2017. See "—A. History and Development of the Company—General" for further information.

On March 23, 2017, the Company conducted a reverse split of common shares issued by the Company, at the ratio of 13.483023074 to 1, and proportional adjustment to the limit of authorized capital. As of the date of this annual report, the share capital is comprised of 28,040,162 common, registered and non-par value shares.

On December 20, 2017, the Company's shareholders approved at an extraordinary shareholders' meeting a capital increase of up to R$300.0 million, with the option to approve a partial capital increase of up to R$200.0 million to be subscribed for through the issuance of a minimum of 13,333,333 new common shares and a maximum of 20,000,000 new common shares in the Company, all in registered, book-entry form, and with no par value, at a price per share equal to R$15.00, of which R$0.01 per share would be allocated to capital, and R$14.99 per share would be allocated to capital reserves. This capital increase is part of the Company's strategy to reinforce its

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liquidity, strengthen its capital structure and solidify the Company's strategic and operational positioning for a new cycle of the real estate market. Following the preemptive rights exercise period, which expired on January 19, 2018, and the subsequent subscription periods that expired on February 2, 2018 and February 21, 2018, respectively, we issued and sold 16,717,752 new common shares of the Company for a total amount of R$250.8 million, all in registered, book-entry form, and with no par value, at a price per share equal to R$15.00, of which R$0.01 per share was allocated to capital, and R$14.99 per share was allocated to capital reserves. Accordingly, on February 28, 2018, our board of directors approved a capital and capital reserve increase in the amount of R$250.8 million. As of the date of this annual report, the share capital of the Company totaled R$2,521.3 million, represented by 44,757,914 common shares, all in registered, book-entry form, and with no par value.

Capital Expenditures

In 2017, under the Gafisa brand, we invested R$20.5 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to sales stands and software acquisitions, which amounted to R$7.3 million and R$6.4 million, respectively.

In 2016, under the Gafisa brand, we invested R$35.8 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to sales stands and software acquisitions, which amounted to R$10.8 million and R$7.8 million, respectively.

In 2015, under the Gafisa and Tenda brands, we invested R$54.6 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to sales stands and software acquisitions, which amounted to R$9.4 million and R$22.7 million, respectively.

Our capital expenditures are all made in Brazil and are usually funded by financings through local debt capital markets. We currently do not have any significant capital expenditures in progress.

B. Business Overview

General Overview

We believe we are one of Brazil's leading homebuilders. For over more than 60 years, Gafisa has been recognized as one of the foremost professionally-managed homebuilders, having completed and sold more than 1,100 developments and constructed over 12 million square meters of housing, which we believe is more than any other residential development company in Brazil. We believe our brand "Gafisa" is a well-known brand in the Brazilian real estate development market, enjoying a reputation among potential homebuyers, brokers, lenders, landowners and competitors for quality, consistency and professionalism.

Our core business is the development of high-quality residential units in attractive locations. For the year ended December 31, 2017, 100% of the value of our launches was derived from high and mid high-level residential developments. In addition, we also provide construction services to third parties on certain developments where we retain an equity interest. We are currently operating mainly in São Paulo and Rio de Janeiro which represents approximately 5.8% of the national population and approximately 16.2% of the gross domestic product as of December 31, 2015 (latest available information).

Our Markets

We have developed real estate projects in 30 municipalities throughout Brazil, including Barueri, Belém, Campinas, Cuiabá, Curitiba, Goiânia, Gramado, Guarujá, Guarulhos, Itu, Jundiaí, Macaé, Maceió, Manaus, Niterói, Nova Iguaçu, Osasco, Porto Alegre, Porto Velho, Rio de Janeiro, Salvador, Santo André, Santos, São Bernardo do Campo, São Caetano do Sul, São Gonçalo, São Jose dos Campos, São Luís, São Paulo and Volta Redonda.

Our Real Estate Activities

Our real estate business includes the following activities:

· developments for sale of:

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· residential units;

· commercial buildings;

· construction services to third parties on certain developments where we retain an equity interest; and

· sale of units through our brokerage subsidiaries, Gafisa Vendas and Gafisa Vendas Rio, jointly referred to as "Gafisa Vendas."

The table below sets forth our potential sales value, generated from new developments for each of our real estate activities and as a percentage of total real estate amount generated during the periods presented:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | **(in thousands of *reais*)** | (% of total) | **(in thousands of *reais*)** | (% of total) | **(in thousands of *reais*)** | (% of total) |
| Residential buildings | 553,954 | 100.0 | 2,263,336 | 100.0 | 2,060,984 | 98.8 |
| Commercial | — | — | — | — | 24,272 | 1.2 |
| Potential sales (1) | 553,954 | 100.0 | 2,263,336 | 100.0 | 2,085,257 | 100.0 |

(1) The spin-off of the Tenda business unit was concluded on May 4, 2017. As of December 31, 2016 and 2015, the amounts of R$1,342,490 and R$1,088,491, respectively, are related to Tenda, which is disclosed as a discontinued operation.

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

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| | **(in thousands of *reais*)** | (% of total) | **(in thousands of *reais*)** | (% of total) | **(in thousands of *reais*)** | (% of total) |
| Residential buildings | 277,029 | 100.0 | 999,903 | 100.0 | 770,960 | 97.6 |
| Commercial | N/A | N/A | N/A | N/A | 18,679 | 2.4 |
| Sales (1) | 277,029 | 100.0 | 999,903 | 100.0 | 789,639 | 100.0 |

(1) The spin-off of the Tenda business unit was concluded on May 4, 2017. As of December 31, 2016 and 2015, the amounts of R$557,970 and R$507,570, respectively, are related to Tenda, which is disclosed as a discontinued operation.

***Developments for Sale***

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

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (in thousands of *reais*, unless otherwise stated) | | |
| São Paulo | | | |
| Potential sales value of units launched(1) | 496,785 | 920,846 | 884,269 |
| Developments launched(2) | 4 | 10 | 10 |
| Usable area (m2)(3) | 72,406 | 109,117 | 104,678 |
| Units launched(4) | 1,467 | 1,768 | 2,224 |
| Average sales price (R$/m2)(3) (5) | 6,861 | 8,439 | 8,448 |
| Rio de Janeiro | | | |
| Potential sales value of units launched(1) | — | — | 112,047 |
| Developments launched(2) | — | — | 2 |
| Usable area (m2)(3) | — | — | 9,427 |
| Units launched(4) | — | — | 206 |
| Average sales price (R$/m2)(3)(5) | — | — | 11,886 |
| Other Markets | | | |
| Potential sales value of units launched(1) | 57,168 | — | 112,047 |
| Developments launched(2) | 1 | — | 2 |
| Usable area (m2)(3) | 10,534 | — | 9,427 |
| Units launched(4) | 134 | — | 206 |
| Average sales price (R$/m2)(3)(5) | 5,427 | — | 11,886 |
| Total Gafisa | | | |
| Potential sales value of units launched(1) | 553,954 | 920,846 | 996,315 |
| Developments launched(2) | 5 | 10 | 12 |
| Usable area (m2)(3) | 82,940 | 109,117 | 114,105 |
| Units launched(4) | 1,601 | 1,768 | 2,378 |

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| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (in thousands of *reais*, unless otherwise stated) | | |
| Average sales price (R$/m2)(3)(5) | 6,679 | 8,439 | 8,732 |
| Tenda (6) | | | |
| Potential sales value of units launched(1) | — | 1,342,490 | 1,088,941 |
| Developments launched(2) | — | 41 | 29 |
| Usable area (m2)(3) | — | 454,921 | 314,152 |
| Units launched(4) | — | 9,819 | 7,711 |
| Average sales price (R$/m2)(3)(5) | — | 2,951 | 3,466 |

(1) Potential sales value is calculated by multiplying the number of units in a development by the expected sales price of the unit.

(2) Does not consider acquisitions of additional ownership interests in projects or cancelled projects.

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

(4) The units delivered in exchange for land pursuant to barter transactions are not included.

(5) Average sales price per square meter was R$6,679, R$8,439 and R$8,732 in 2017, 2016 and 2015, respectively, for Gafisa's ventures only.

(6) This information is presented for comparison purposes, as we have disclosed Tenda as a discontinued operations as of December 31, 2016 and 2015 and the spin-off of the Tenda business unit was concluded on May 4, 2017.

Our developments for sale are divided into two broad categories: (1) residential buildings and (2) commercial buildings.

Overview of Residential Buildings

In the residential buildings category, we develop three main types of products: (1) luxury buildings targeted at higher-income customers and buildings targeted at middle-income customers; and (2) entry level buildings targeted at middle-low income customers. Quality residential buildings for middle- and upper-income customers are our core products and we have developed them since our inception. A significant portion of our residential developments is located in São Paulo and Rio de Janeiro where we have held a leading position over the past five years based upon area of total construction. In 2006, we began our national expansion to pursue opportunities in residential buildings outside these cities. However in 2012, as a result of the difficulties to manage these projects and to achieve reasonable profits, we shifted our focus back to São Paulo and Rio de Janeiro.

*Luxury and Middle-Income Buildings*

Luxury buildings are a high margin niche. Units usually have over 150 square meters of private area, at least four bedrooms and more than three parking spaces. Typically, this product is fitted with modern, top-quality materials designed by brand-name manufacturers. The development usually includes swimming pools, gyms, visitor parking, and other amenities. Average price per square meter generally is higher than approximately R$15,000. Luxury building developments are targeted to families with monthly household incomes in excess of approximately R$40,000.

Buildings targeted at middle-income customers have accounted for the majority of our sales since our inception. Units usually have between 60 and 150 square meters of private area, between one and three bedrooms and up to three parking spaces. Buildings are usually developed in large tracts of land as part of multi-building developments and, to a lesser extent, in smaller lots in attractive neighborhoods. Average price per square meter ranges from approximately R$9,000 to R$15,000. Middle-income building developments are tailored to customers with monthly household incomes between approximately R$15,000 and R$40,000.

The table below sets forth our luxury and middle-income building developments launched between January 1, 2015 and December 31, 2017:

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| Project Description | Year Launched | Gafisa Participation (%) | Usable Area (m2) (1) (2) | Completion Year | Number of Units (2) | Units Sold (%) (As of December 31, 2017) |
|---|---|---|---|---|---|---|
| J330 Jardins | 2017 | 100 | 3,896 | 2020 | 28 | 20 |
| Parque Ecoville | 2017 | 100 | 10,534 | 2019 | 134 | 62 |
| Marques 2900 | 2016 | 50 | 5,742 | 2020 | 61 | 43 |
| Square Ipiranga | 2016 | 100 | 25,529 | 2019 | 224 | 94 |
| 044 Vila Rica | 2016 | 50 | 5,077 | 2019 | 32 | 35 |
| MN15 Ibirapuera | 2016 | 100 | 5,327 | 2019 | 15 | 13 |
| Gafisa Like Aclimação | 2016 | 100 | 9,299 | 2019 | 137 | 67 |
| Gafisa Like Alto da Boa Vista | 2016 | 100 | 14,509 | 2019 | 220 | 50 |
| Smart Vila Madalena | 2015 | 100 | 7,636 | 2018 | 216 | 62 |
| Vision Capote Valente | 2015 | 100 | 7,950 | 2018 | 143 | 69 |
| 067 Hermann Junior | 2015 | 100 | 6,609 | 2018 | 22 | 60 |
| Scena Alto da Lapa | 2015 | 100 | 5,227 | 2018 | 42 | 58 |
| Smart Santa Cecília | 2015 | 100 | 8,947 | 2018 | 290 | 41 |
| Alphamall | 2015 | 100 | 2,342 | 2018 | 53 | 72 |
| Mood Lapa | 2015 | 100 | 7,085 | 2018 | 141 | 64 |
| Vision Paulista | 2015 | 100 | 7,168 | 2018 | 200 | 82 |

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

(2) Values for 100% of the building development, except on projects with partial interest.

Entry Level Developments

Entry level housing consists of building and house units. Units usually have between 40 to 60 square meters of private area, one to three bedrooms, and are typically located outside the vehicle restriction area of São Paulo and near public transportation points. The average price per square meter ranges from R$6,000 to R$9,000. Entry level housing developments are tailored to customers with monthly household incomes between approximately R$7,000 and R$10,000.

The table below sets forth our entry level developments launched between January 1, 2015 and December 31, 2017:

| Project Description | Year Launched | Gafisa Participation | Usable Area | Completion Year | Number of Units | Units Sold (%) (As of |
|---|---|---|---|---|---|---|

| | | (%) | (m2) (1) (2) | | (2) | December 31, 2017) |
|---|---|---|---|---|---|---|
| Moov Estação Brás | 2017 | 100 | 12,866 | 2020 | 543 | 26 |
| Moov Espaco Cerâmica | 2017 | 100 | 24,396 | 2020 | 396 | 99 |
| Moov Parque Maia | 2017 | 100 | 31,248 | 2020 | 500 | 33 |
| Barra Vista Fase 2 | 2016 | 50 | 5,468 | 2019 | 101 | 27 |
| Square Choice Santo Amaro | 2016 | 100 | 13,704 | 2018 | 227 | 44 |
| Moov Estação Vl. Prudente | 2016 | 100 | 10,307 | 2019 | 150 | 96 |
| Moov Freguesia | 2016 | 100 | 14,157 | 2019 | 276 | 77 |
| Bosque Marajoara | 2015 | 100 | 23,884 | 2018 | 339 | 62 |
| Barra Vista | 2015 | 50 | 15,415 | 2017 | 546 | 69 |
| Barra Vista Fase 1 | 2015 | 50 | 5,468 | 2019 | 101 | 34 |

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

(2) Values for 100% of the building development, except on projects with partial interest.

*Completed developments with percentage of units sold less than 90%*

The table below sets forth our completed developments as of December 31, 2017, with percentage of units sold less than 90%:

| **Project Description** | **As of December 31, 2017 Units Sold (%)** |
|---|---|
| Alphagreen (1) | 82 |
| Americas Avenue (2) | 62 |
| Axis Business Tower (3) | 88 |
| Bambu (4) | 80 |
| Barra Viva (5) | 75 |
| Condominio O Bosque (6) | 40 |
| Gafisa Hi Centro (7) | 86 |
| | 87 |

| | |
|---|---|
| Gafisa Hi Guaca (8) | |
| Gafisa Square Osasco (9) | 64 |
| Go Maraville (10) | 60 |
| Laguna Mall (11) | 73 |
| Sao Gate (12) | 40 |
| Sao Way (13) | 73 |
| Scena Laguna Unidades Avulsas (14) | 80 |
| Target Offices e Mall (15) | 70 |
| Today Modern Residences (16) | 64 |
| Varandas Grand Park F2 (17) | 87 |
| Varandas Grand Park F3 (18) | 82 |
| Varandas Grand Park F4 (19) | 79 |
| Varandas Grand Park F5 (20) | 68 |
| Varandas Grand Park F6 (21) | 71 |

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(1) Alpha Green. This development was 100% completed at December 31, 2017 at which time 82% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(2) Américas Avenue Business Square. This development was 100% completed at December 31, 2017 at which time 62% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within the next 24 months. The relatively low speed at which the units of this development have been sold is mainly due to the challenging macroeconomic conditions in Brazil, particularly in the city of Rio de Janeiro, and their impact on the real estate market in the city of Rio de Janeiro. We are currently working on increasing the sales speed of these units by investing in marketing and sales campaigns for these units and, in some cases, by offering discounts on the sales prices for specific units.

(3) Axis Business Tower. This development was 100% completed at December 31, 2017 at which time 88% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(4) Bambu. This development was 100% completed at December 31, 2017 at which time 80% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(5) Barra Viva. This development was 100% completed at December 31, 2017 at which time 75% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(6) Condominio O Bosque. This development was 100% completed at December 31, 2017 at which time 40% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(7) Gafisa Hi Centro. This development was 100% completed at December 31, 2017 at which time 86% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(8) Gafisa Hi Guaca. This development was 100% completed at December 31, 2017 at which time 87% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(9) Gafisa Square Osasco. This development was 100% completed at December 31, 2017 at which time 64% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the

remaining units will be sold in the next 12 to 18 months.

(10) Go Maraville. This development was 100% completed at December 31, 2017 at which time 60% of the units had been sold. According to the Company’s business plan, this development’s selling forecast indicates the remaining units will be sold within a short time period.

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(11) Laguna Mall. This development was 100% completed at December 31, 2017 at which time 73% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(12) SAO GATE. This development was 100% completed at December 31, 2017 at which time 40% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within the next 24 – 36 months.

(13) SAO WAY. This development was 100% completed at December 31, 2017 at which time 73% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within the next 24 – 36 months.

(14) Scena Laguna Unidades Avulsas. This development was 100% completed at December 31, 2017 at which time 80% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(15) Target Offices & Mall. This development was 100% completed at December 31, 2017 at which time 70% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within the next 24 – 36 months.

(16) Today Modern Residences. This development was 100% completed at December 31, 2017 at which time 64% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within the next 24 – 36 months.

(17) Varandas Grand Park F2. This development was 100% completed at December 31, 2017 at which time 87% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(18) Varandas Grand Park F3. This development was 100% completed at December 31, 2017 at which time 82% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(19) Varandas Grand Park F4. This development was 100% completed at December 31, 2017 at which time 79% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(20) Varandas Grand Park F5. This development was 100% completed at December 31, 2017 at which time 68% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

(21) Varandas Grand Park F6. This development was 100% completed at December 31, 2017 at which time 71% of the units had been sold. According to the Company's business plan, this development's selling forecast indicates the remaining units will be sold within a short time period.

We have evaluated all of our developments and we have recorded reduction to net realizable value and write-offs to net realizable value for the following projects: Alpha Green, Alphaland, Alphagreen, Alphamall, Americas Avenue, Axis Business Tower, Espaço Alpha, Gafisa Hi Guaca, Golden Office, Icon Business & Mall, Laguna Mall, Sao Gate, Sao Way, Scena Laguna, Target Offices and Mall, Today Modern Residences and Vistta Laguna.

Land Subdivisions under Alphaville Brand

As set forth in "—A History and Development of the Company", we completed the sale of a controlling interest in Alphaville, on December 9, 2013. As a result, Alphaville was no longer consolidated in the financial statements of the Company since then. In this annual report, while financial information related to Alphaville is treated as discontinued operations, all operating information related to our business includes full operating information for Alphaville through December 9, 2013.

As a result of the sale of the 70% interest in Alphaville on December 9, 2013, we were not involved in the launch of any residential communities under the Alphaville brand in 2015, 2016 and 2017.

Commercial Buildings

In 2015, we launched one commercial building: Alphamall.

In 2016 and 2017, we did not launch any commercial buildings.

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Construction Services

We provide construction services to third parties on certain developments where we retain an equity interest. This practice allows us to benchmark our construction costs, facilitates our access to new constructions materials, techniques and service providers such as architects and sub-contractors, and provides larger economies of scale.

The table below sets forth the real estate developments for third parties currently under construction, in which we also have an equity interest, between January 1, 2015 and December 31, 2017:

| Project | First Year of Construction | Gafisa Participation (%) | Partner | Type of Project |
|---|---|---|---|---|
| Adamas | 2013 | 50% | GTIS Partners | Residential |
| Eloy Fernandes | 2017 | 50% | Atins Empreendimentos | Residential |

Sale of Units Through Our Brokerage Subsidiaries

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

Our Clients

Our clients mainly consist of development clients. Development clients are clients who purchase units in our developments. As of December 31, 2017, our development-client database was comprised of more than 52,050 individuals. We currently have approximately 19,150 active clients.

We also provide construction services to certain construction-services clients in connection with developments in which we retain an equity interest. As of December 31, 2017, our main construction services client was GTIS

Partners, with whom we retain an equity interest in the Adamas development.

No individual client represents more than 5% of our revenues from residential developments or construction services.

Our Operations

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

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Land Acquisition

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

Whenever we identify an attractive tract of land, we first conduct a study of the project to define the most appropriate use of the space. Afterwards, the basic design of the project enters the economic feasibility study stage, where we consider preliminary revenues and expenses associated with the project. This study will determine project profitability. We collect and analyze information on demand, competition, construction budget, sales policy and funding structure to ensure economic viability of the new development. We then initiate a legal due diligence of the property to identify liens, encumbrances and restrictions, potential solutions to such issues and the relevant costs. Before acquiring the land, we conduct a thorough due diligence process including an environmental review. Each decision to acquire land is analyzed and approved by our investment committee. See "Item 6. Directors, Senior Management and Employees—C. Board Practices" elsewhere in this annual report for further information on the activities of our committees and boards.

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

As a new strategy defined by the end of 2011, the Company is selling landbank located in cities and places where there is no intention to run operations with new developments.

As of December 31, 2017, we had an inventory of 36 land parcels under Gafisa, in which we estimate we could develop a total of 9,189 residential units with a sales value of R$4.3 billion, of which 65.0% represents land acquired through barter transactions. The table below sets forth the breakdown of our land holdings by location and by segment:

| | Gafisa | |
|---|---|---|
| | Future Sales (% Gafisa) (1) | % Bartered |

| | | |
|---|---|---|
| | (in millions of *reais*) | |
| São Paulo | R$2,520.5 | 56.6 % |
| Rio de Janeiro | R$1,774.8 | 73.0 % |
| Other states | R$41.1 | 74.8 % |
| Total | R$4,336.4 | 65.0 % |

(1) Information reflects our interest.

Project Design

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

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Marketing and Sales

Our marketing efforts are coordinated by our internal staff of approximately 12 professionals. Our specialized team generally coordinates with several outsourced brokerage companies with a combined sales force of more than 17 representatives, monitoring such sales representatives in order to promote loyalty and ensure performance. Our marketing intelligence team is also responsible for gathering information on the needs and preferences of potential customers to provide guidance on our land acquisition and project design activities.

Gafisa Vendas was created as our internal sales division and it currently consists of approximately 450 independent Gafisa Vendas brokers, 23 sales consultants and 7 sales managers.

The creation of Gafisa Vendas was intended to establish a strategic channel for us to access our clients and to reduce our dependence on outside brokers for marketing. Because the sales force at Gafisa Vendas is trained to sell our products exclusively, we believe that it is able to focus on the sale of our developments, articulate the unique features of our development, manage our current customers and capture new customers more effectively. Gafisa Vendas was initially established in São Paulo in 2006 and opened a branch in Rio de Janeiro in 2007.

In 2017, 2016, 2015, 2014 and 2013 Gafisa Vendas was responsible for approximately (i) 68.0%, 61.1%, 60.9%, 61.0%, and 51.0% respectively, of our sales in the state of São Paulo, and (ii) 63%, 48.8%, 60.6%, 23.4% and 45.0%, respectively, of our sales in the state of Rio de Janeiro.

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

Under our Gafisa brand, we typically initiate our marketing efforts 60 days before the launch of a development. We typically have a showroom on or near the construction site, which includes a model unit furnished with appliances and furniture. We leverage our reputation for quality, consistency, on-time delivery and professionalism to increase sales velocity. We have been successful with this strategy, usually selling approximately 30% of the units before construction starts.

We market our developments through newspapers, radio, television, direct mail advertising and by distributing leaflets in neighboring areas, as well as through telemarketing and websites. In addition, on a quarterly basis, we publish the magazine “Gafisa Way” which is distributed to our customers and offers news on our most recent developments and progress updates on buildings under construction.

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

Construction

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

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We use strict quality control methods. We have developed proprietary procedure manuals that describe in significant detail each task of each stage of the construction project. These manuals are also used for the training sessions that we require all of our workers to attend. In addition, we keep quarterly records of projects delivered.

The reviews focus on identifying problems in order to take corrective and preventive actions in projects underway and thus avoid costly repetition. We have adopted a quality management system that was certified for ISO 9002 by *Fundação Bureau Veritas*, from Universidade de São Paulo. In 2007, we received a certification from *Programa Brasileiro de Qualidade e Produtividade do Habitat* (PBQP-H), which is part of the Ministry of Cities. In addition, the Eldorado Business Tower building was certified as a Green Building, category Platinum, by the U.S. Green Building Council, which attests that it is environmentally sustainable, through the rational use of energy, natural lighting and pollution control and recycling. Eldorado Business Tower was the first building in Latin America to achieve this category.

We invest in technology. Our research and development costs amounted to R$1.0 million in 2017, 2016, and 2015. We believe that we have pioneered the adoption of advanced construction techniques in Brazil such as dry wall and plane pre-stressed slabs, which present numerous advantages over traditional techniques. We also optimize costs by synchronizing our projects' progress so as to coordinate the purchase of raw material and benefit from economies of scale. We have long-term arrangements with a number of suppliers which allow us to build our developments with quality, using brand name construction materials and equipment, and advanced technology. Moreover, our centralized procurement center enables us to achieve significant economies of scale in the purchase of materials and retention of services.

We do not own heavy construction equipment and we employ directly only a small fraction of the labor working on our sites. We generally act as a contractor, supervising construction while subcontracting more labor-intensive activities. Substantially all on-site construction is performed for a fixed price by independent subcontractors. We have policies in place in order to hire reputable, cost-oriented and reliable service providers that are in compliance with labor laws and have performed their work diligently and on time in the past. Hiring subcontractors instead of employing workers directly has some financial and logistical advantages. For instance, we do not need to incur fixed costs to maintain a specialized labor force even when they are not actively working at a construction site and we do not need to pay for frequent transfers of labor to different construction locations.

Our construction engineering group coordinates the activities of service providers and suppliers, monitors compliance with safety and zoning codes, and monitors completion of the project on a timely basis. We provide a five-year limited warranty covering structural defects in all our developments.

Risk Control

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

Customer Financing

The table below sets forth the percentage of each type of customer financing we typically provide for each type of development as of December 31, 2017:

| Sales Term | Luxury and Middle Income (average) | Entry-Level (average) |
|---|---|---|
| Mortgage lending (delivery) | 75 % | 75 % |
| Gafisa 36 months | 25 % | 25 % |
| Gafisa 60 months | — | — |
| Gafisa 120 months | — | — |

*Mortgages*. In 2017, approximately 70% of our sales value was financed by bank mortgages, where the customer paid us approximately 25% to 60% of the sales price of the property during the period of construction, and upon delivery of the property paid the balance of the sales price through a bank mortgage. We analyze the credit history of each customer at the time of sale to see if the customer would qualify for a bank mortgage based on banks' standard credit rating policies. Although there is no assurance that the customer will qualify for a mortgage at the time of delivery, our analyses have been fairly successful in predicting whether the customer would qualify for a mortgage. The following table sets forth the credit limits established by mortgage sources available in Brazil in 2017:

| Credit Lines | Typical Interest rate | Maximum Home Value | Maximum Loan Value |
|---|---|---|---|
| Mortgage portfolio (*Carteira Hipotecária*) or CH | up to 13% annually + TR(1) | No limit | No limit |
| Housing Finance System (*Sistema Financeiro da Habitação*) or SFH (2) | up to 12% annually + TR | R$1,500,000 | R$1,200,000 |
| Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviços*) or FGTS for *Minha Casa Minha Vida* | up to 9.16% annually + TR | R$240,000 | R$240,000 |

(1) TR refers to the daily reference rate.

(2) The maximum home value and maximum loan value amounts were valid until December 31, 2017. As of January 1, 2018, these amounts will be R$950,000 and R$760,000 for maximum home value and maximum loan value, respectively. For additional information, please refer to "—Regulatory Framework—Credit Policy Regulations—Housing Finance System."

*Financing by Gafisa during construction*. We finance some of our own sales during the construction period, with a down payment of 20-30% and financing of the balance through monthly installments up to the delivery of the unit.

*Financing by Gafisa after delivery*. In addition, we offer financing plans to prospective customers using our own capital, where we finance purchases for up to 120 months after the completion of the construction. For completed units we require a down payment of 30% and financing of the remaining balance with up to 120 monthly installments. For units under construction we require a down payment of 10% and provide financing for the remaining balance of 25-35% with up to 30 monthly installments until the delivery of the unit and financing of the remaining 75-65%, respectively, with up to 120 additional monthly installments. All of our financing plans are guaranteed by a conditional sale of the unit, with the transfer of the full property rights of the unit to the customer upon the full payment of the outstanding installments.

We have developed a strict credit policy in order to minimize risks. We take the following steps whenever we conduct a credit review process:

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

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

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

- after approving the application, our staff accepts the down payment which is given as a deposit on the purchase of the unit.

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*Sales contracts.* Our sales contracts generally provide for adjustment of the sales price according to the INCC during construction and at an annual interest rate of 12% plus IGP-M over the receivables balance after a stated date in our sales contracts. We have historically experienced a low rate of customer default on our sales. On December 31, 2017, our clients' default level, related to amounts overdue for over 30 days, was 14.1% of our accounts receivable for Gafisa.

In order to maintain low rates of customer default, we have adopted a conservative and robust credit and receivables management policy, pursuant to which: (1) we conduct database research on the socio-economic background of our prospective customers; (2) our agreements discourage default and cancellation of the purchase by imposing immediate penalty fees, interest and liquidated damages which are adjusted for inflation, and we retain approximately 40-45% (Gafisa) and 20% (Tenda) of the total amount paid to us plus expenses incurred by us, which in general represents all or a substantial portion of the amount that the defaulted clients have already paid us; and (3) we offer several options to our customers if they experience financial difficulties, such as offering them a greater number of installment payments or exchanging the unit bought for a less expensive one. When a default occurs, we endeavor to renegotiate the outstanding loan with our customers before taking any legal action.

We will only transfer title of the unit to a buyer after the release of the certificate of acceptance of occupancy by local authority and the full payment of all outstanding installments. We have increased the percentage of mortgages that our customers obtain from commercial banks from approximately 33% in 2006 to 61% in 2017. This increase reflects the growing interest of commercial banks in financing the Brazilian housing industry. See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Launches and Contracted Sales—Contracted Sales" for a discussion of the sales value of contracts cancelled by our customers and penalties paid in connection with such cancellations.

The table below sets forth client default levels:

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| Customer default level | 2017 | 2016 | 2015 |
| Gafisa | 14.10 % | 12.40 % | 11.40 % |

The increase in our default levels is mainly due to the weakening economic conditions and political instability in Brazil since 2014.

*Cancelation of sales contracts*. Gafisa and Tenda sales contracts are irrevocable under Brazilian law. That means that a customer does not have the unilateral ability to terminate a contract once it is executed, nor does the customer have an ability to require a refund of amounts previously paid unless we agree. To the extent that a customer is not in compliance with its obligations under a contract, we may at our option either force compliance through the Brazilian courts, or agree to a "default" by the customer. Should we agree at our sole discretion to refund part of the amounts paid to the defaulting party, we will normally apply the penalty set forth in the contract.

In the event either we or the customer do not agree to enter into a commercial negotiation following a customer default there are two courses of action available:

(1) the first option is that we may seek to enforce the agreement in Court to collect the amount outstanding and effectively transfer ownership of the unit to the buyer; or

(2) as provided in the contract and contemplated in Brazilian law we have the right to force the unit to be auctioned. When the unit is purchased in auction by a third party the proceeds from the auction are used in part to settle in full (including interest and penalties for late payments) the amount owed by the customer to Gafisa and the remaining balance is paid to the customer. When no third party is willing to acquire the unit in the auction, the title to the unit returns to Gafisa or Tenda without any disbursement, except for the auctioneers fees. Provisions in the Gafisa contract indicate that when such auction occurs it is without prejudice of the penalties set forth in this contract (meaning that the penalty provisions survive). Upon consultation, our legal counsel advised us that the customer has a right to request that amounts paid by him be returned after the contractual “penalty” has been deducted.

The table below provides the number and sales value of contracts canceled by customers for the periods presented:

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| Year Segment | As of December 31, 2017 | | As of December 31, 2016 | | As of December 31, 2015 | |
|---|---|---|---|---|---|---|
| | **Number of contracts** | **Sales value (in thousands of *reais*)** | **Number of contracts** | **Sales value (in thousands of *reais*)** | **Number of contracts** | **Sales value (in thousands of *reais*)** |
| Gafisa | | | | | | |
| Contracted sales | 2,908 | 1,131,823 | 3,109 | 1,319,292 | 3,305 | 1,427,733 |
| Volume/Sales value of cancelations | (801 ) | (411,658 ) | (931 ) | (508,827 ) | (972 ) | (512,937 ) |
| Percentage | 27.5 % | 36.4 % | 29.9 % | 38.6 % | 29.4 % | 35.9 % |
| Volume/Sales value, net of cancelations | 2,107 | 720,164 | 2,178 | 810,464 | 2,333 | 914,796 |
| Tenda | | | | | | |
| Contracted sales | — | — | 10,059 | 1,417,855 | 8,108 | 1,208,135 |
| Volume/Sales value of cancelations | — | — | (1,921 ) | (275,988 ) | (1,293) | (192,004 ) |
| Percentage | — | — | 19.1 % | 19.5 % | 16.0 % | 15.9 % |
| Volume/Sales value net of cancelations | — | — | 8,138 | 1,141,866 | 6,815 | 1,016,131 |
| Total sales value net of cancelation | 2,107 | 720,164 | 10,316 | 1,952,330 | 9,148 | 1,930,927 |

Receivables securitization

We release capital for new projects by seeking not to maintain receivables after our projects are completed. The securitization (mortgage-backed securities) market in Brazil is expanding. This expansion is helped significantly by recent development in Brazilian foreclosure laws.

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

Main Raw Materials and Suppliers

We purchase a wide variety of raw materials for our operations. Even though these raw materials have represented on average, over the last three years, approximately 41.0% of our total costs of development, aside from land, the only raw materials that represent more than approximately 5% of our total costs are steel and concrete. Prices of some raw materials have increased over the last three years at a rate higher than inflation. The index that measures the fluctuation of construction costs, the INCC, increased 18.9% during the three year period ended December 31, 2017, resulting in an increase in the construction costs of Gafisa over that period. During the three year period ended December 31, 2017 the IGP-M increased 18.6%. We have been working on the development of new construction techniques and the utilization of alternative materials in order to reduce costs and improve our construction process with advanced technology.

We contract with major suppliers for the materials used in the construction of the buildings. We receive general pricing proposals from various suppliers of raw materials and select the proposal with the best terms and conditions for each development. In addition to pricing, we select our suppliers by the quality of their materials. We set forth specific minimum quality requirements for each construction project, and the chosen supplier must meet this quality requirement. The materials for our developments are readily available from multiple sources and, accordingly, we do not rely on any one supplier for our raw materials.

Our five largest suppliers in terms of volume are Gerdau Aços Longos S.A., Votorantim Cimentos Brasil Ltda., Elevadores Atlas Shindler S.A., Portobello S.A. and IBRAP Industria Brasileira de Aluminio e Plastico S.A. In general terms, we purchase products for our construction based on the scheduled requirements, and we are given approximately 60 days to pay. The products we purchase generally come with a five-year warranty. We do not have any exclusive arrangements with our suppliers. We work closely with suppliers, enabling them to schedule their production in order to meet our demand or notify us in advance in the event they anticipate delays. We have good relationships with our suppliers and have experienced no significant construction delays due to shortages of materials in recent years. We do not maintain inventories of construction materials.

We achieve significant economies of scale in our purchases because we:

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

Customer Service

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

- a dedicated outsourced call center with consultants and specialists trained to answer our customers' inquiries;
- the development of the "Gafisa Viver Bem" web portal, through which our customers can, for example, follow the project's progress, alter their registration information, simulate unit designs and check their outstanding balances;
- relationship events to engage the customer with the "Gafisa Viver Bem" program, like the "Open House" (inauguration party in the unit) and the "House UP" (refurbish one room of the unit); and
- the development of the "Gafisa Personal Line," through which buyers of certain units are able to customize their units in accordance with plans and finishing touches offered by Gafisa. Such options vary by development.

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

Competition

The real estate market in Brazil is highly fragmented and competitive with low barriers to entry. The main competitive factors include price, financing, design, quality, reputation, reliability, meeting delivery expectations, partnerships with developers and the availability and location of land. Certain of our competitors have greater financial resources than we do, which could provide them an advantage over us in the acquisition of land using cash. In addition, some of our competitors have better brand recognition in certain regions, which could give them a competitive advantage in increasing the velocity of their sales. Because of our geographic diversification, we believe that we have access to different markets within Brazil that have different demand drivers.

Because of the high fragmentation of the markets in which we operate, no single developer or construction company is likely to obtain a significant market share. With the exception of São Paulo and Rio de Janeiro, where we face competition from major publicly-traded competitors, in other regions we generally face competition from small and medium-sized local competitors that are not as well-capitalized. We expect additional entrants, including foreign companies in partnership with Brazilian entities, into the real estate industry in Brazil, particularly the São Paulo and Rio de Janeiro markets.

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

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São Paulo (1) — Gafisa's Market Share

| Year | Year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| | (Launches in R$ million) | | |
| Local market | 16,582 | 13,078 | 14,410 |
| Gafisa(2) | 497 | 870 | 1,223 |
| Gafisa's market share | 3.0 % | 6.7 % | 8.5 % |

Source: EMBRAESP and SECOVI.

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

| Year | Year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| | (Launches in R$ million) | | |
| Local market | 1,618 | 1,899 | 1,887 |
| Gafisa(2) | 0 | 0 | 365 |
| Gafisa's market share | 0 % | 0 % | 19.3 % |

Source: Geoimovel.

(1) Metropolitan region.

(2) Gafisa interest. In 2017 and 2016, we did not launch any development in Rio de Janeiro.

Seasonality

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

Subsidiaries

We carry out our real estate developments directly or through our subsidiaries or our jointly-controlled entities in partnership with third parties. Many of Gafisa's subsidiaries and joint-ventures are SPEs, many of which have been incorporated by us as joint ventures together with other real estate and construction companies in Brazil.

As of December 31, 2017, Gafisa had 105 direct and indirect subsidiaries, 20 jointly-controlled entities under operations and 7 entities in which it had minority stakes. The majority of such subsidiaries, jointly-controlled entities and entities in which Gafisa has a minority stake are incorporated as special purpose entities, are headquartered in Brazil and operate exclusively in the real estate sector. Gafisa also holds a 30% interest in the capital stock of Alphaville.

Of our 132 SPEs or invested companies, 97 are wholly-owned by us, we hold an interest of 50% or less in 27, and the remaining 8 are majority-owned by us.

Intellectual Property

Trademarks

Our trademarks are filed or registered in Brazil with the Brazilian Institute of Industrial Property (*Instituto Nacional de Propriedade Industrial*), or the "INPI," which is the competent body for, among others, trademarks' and patents' registries in Brazil. Besides, the trademark "Gafisa" is also registered before the competent agency for registering trademarks in the United States.

Currently, the registration process of a trademark takes approximately 24 months from the date of filing of the application until the definitive registration. From the date of filing of the application to the date of the definitive registration, the applicant has an expectation of right for the use of the trademark in connection with the products and services for which the trademark was applied for.

Each trademark registration is effective for a 10-year period and is renewable for equal and successive periods. The renewal of a trademark registration is granted upon request accompanied by payment of renewal fees during the final year of the trademark's registration period or within the 6-month waiting period after its expiration. In case of non-payment, the registration is cancelled by INPI.

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A trademark registration may be terminated in case (1) of expiration of its validity term; (2) the trademark owner or holder waives in whole or in part the rights granted by registration; (3) of forfeiture, or the applicant’s or the holder’s failure to use a registered trademark in connection with related goods or services for a period longer than five years; or (4) failure to appoint a Brazilian resident with powers to represent the applicant or holder in administrative or judicial proceedings, in cases where the applicant or the holder resides abroad.

As of the date of this annual report, we had approximately 73 pending trademark applications and 133 trademarks registered in Brazil with the INPI.

Our most significant trademark is “Gafisa,” which is duly registered with the INPI in the relevant market segment.

Domain Name

As of the date of this annual report, we, together with our subsidiaries, were the owners of approximately 363 domain names including our and our subsidiaries’ principal websites. The term of each domain name registration is one year and is renewable for equal and successive periods. An annual fee payment is necessary for the maintenance of the domain name registrations. Other than non-payment of the annual fee, domain name registration may be cancelled by: (1) express waiver of the owner; (2) irregularities in the data form as requested by the respective agency; (3) non-compliance with applicable regulations; (4) judicial order; or (5) in the case of foreign companies, non-compliance with the obligation to initiate the company’s activities in Brazil. Our domain names will, unless renewed, expire between 2018 and 2023. We will seek to renew our domain names expiring in 2018, after evaluating their continuing applicability.

Patents

We have no patents registered in our name.

Software Licenses

Most of the software we use in our daily business refers to common computer programs, such as Windows, SAP and AutoCAD. Additionally, we own all required licenses of use in connection with such software. The use of computer software without the acquisition of proper licenses is considered a felony subject to both criminal and civil liabilities, including the payment of fines and restrictions of future use of the applicable software.

Licenses

Under Brazilian laws, we are required to obtain a variety of licenses for each of our new developments. As of the date of this annual report, we have obtained all necessary licenses and permits to operate our business.

Insurance

We maintain insurance policies with leading Brazilian insurance companies, such as Allianz Seguros S.A., ACE Seguradora S.A., AXA Seguros S.A., Tokio Marine Seguradora S.A., Porto Seguro Cia de Seguros Gerais, J. Malluceli Seguros S.A., Swiss RE, Fator Seguradora, Zurich Seguros and Pottencial Seguradora with coverage for, among others, (1) potential risks arising from the commencement of construction, including property damages, business interruption, engineering risks, fire, falls, collapse, lightning, and gas explosion; (2) construction errors; (3) performance bonds; and (4) losses arising from damages or defense costs associated with litigation resulting from misconduct of directors and officer. Such insurance policies contain customary specifications, limits and deductibles. Additionally, we do not maintain any insurance policy for our properties after construction is completed.

According to Brazilian Federal Law, it is mandatory that homebuilders have insurance policies in force with coverage for, among others, damages and losses related to civil liabilities and performance bonds. Failure or default in contracting any compulsory insurance required by applicable legislation is subject to a penalty amounting to the higher amount between (1) twice the premium price of the insurance that should have been contracted; and (2) ten percent of the insured property value. Additionally, no operating authorization or license (or the renewal of any existing license) shall be granted to companies subject to compulsory insurance in default of the aforementioned obligations.

Our management believes that the insurance coverage for our properties is adequate and that our insurance policies are customary for our industry in Brazil and adequate for applicable regulations.

Regulatory Framework

Brazilian Government and Real Estate Sector Regulations.

The real estate sector is directly regulated by the Brazilian government and is indirectly impacted by the government's regulations on the availability of credit. Regulations include development policies, zoning restrictions and environmental laws which can determine the availability of different products offered in the market. For example, city master plans and zoning laws restrict the types of real estate developments that can be constructed in a given area.

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

According to applicable law, transfer of real estate title is only deemed effective upon the registration of the transfer with the relevant Real Estate Registry Office. The procedure for the execution of public deeds and also the respective registration with the Real Estate Registry Office (*Registro Imobiliário*) is regulated by the Brazilian Law of Public Registers (*Lei de Registros Públicos*), in particular Law No. 6,015 of December 13, 1973.

Real estate development

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

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

Urban land subdivisions

Urban land subdivisions consist of subdivisions of urban land parcels into building lots and the construction of new roads and other infrastructure, and are regulated by Law No. 6,766 of December 19, 1979 - the Brazilian Law of Urban Land Subdivision (*Lei de Parcelamento do Solo*), as amended, or Law No. 6,766. Law No. 6,766 governs urban land subdivisions and establishes, among other things, the planning and technical requirements for this form of land parceling and the obligations of the developers, and also provides for fines and sanctions in the event of violation of its provisions.

Under Law No. 6,766, land subdivisions are intended for the creation of lots in urban areas or urban expansion zones, as defined by the planning director or approved by municipal law, and must comply with Law No. 6,766.

For the construction of land subdivisions, the developer must proceed through the following steps: (1) prior to developing the land subdivision plan, it must request the municipality in which the development will be located to issue directives on use policies specifically to the land, such as the delineation of lots, road and street systems and areas reserved for municipal or community properties; (2) pursuant to the directives issued by the municipality, it must develop a plan for the proposed land subdivision and present it to the municipality for approval, including the plans, designs, descriptions, and schedule for performance of the work, among other documents; and (3) after approval for the land subdivision project is obtained, it must be submitted for recording in the property registry of the appropriate Real Estate Registry Office within 180 days. The approval may be revoked and treated as expired if it is not submitted for recording within the 180-day period.

In addition to the approval of the project by the municipality in which the development will be located, the approval of other governmental bodies may be necessary in cases where the land subdivision: (1) is located in an area of special interest, such as a protected cultural, historical, landscape and archeological heritages site as defined by state or federal legislation; (2) is located in the boundary area of a city, belongs to more than one municipality, or is in a metropolitan region or urban agglomeration as defined in state or federal law; or (3) has an area greater than 1 million square meters. In the case of land subdivisions located in a municipality area that is within a metropolitan area, the examination and prior consent to the approval of such project will be subject to the metropolitan authority.

The legal requirements for the approval of the land subdivision by a municipality include: (1) the developer must preserve a percentage of the land used for residential communities as open spaces for public use and for municipal or community properties with the percentage determined by each municipal zoning code; (2) each lot must have a minimum area of 125 square meters and the distance between the building and the street must be at least five meters; (3) the developer must reserve 15 meters of land on either side of running or still water and of strips of public domain land for roads and highways; and (4) the allotment procedures must be coordinated with the official adjacent tracks, existing or projected, and harmonized with the local topography.

Law No. 6,766 also sets forth locations where subdivisions are not permitted, such as: (1) on wetlands and lands subject to flooding, until measures have been taken to assure water drainage; (2) on land that has been filled with material that is a public health hazard, unless previously cleaned up; (3) on land that has a slope equal to or greater than 30 degrees, unless the requirements of the appropriate authorities have been met; (4) on lands where geological conditions make buildings inadvisable; and (5) in ecological preserves or areas where pollution creates unacceptable sanitary conditions, until corrected.

In order to offer greater security to the property market, Law No. 6,766 prohibits the sale or promise of sale of any lot that is the result of a subdivision where the developer has not previously obtained approval by the appropriate municipality and the development has not been recorded with the respective Real Estate Registry Office. If any such lot is sold or contracted to be sold, the developer and any person or legal entity benefiting from such sale or promise of sale shall be jointly liable for the resulting damages to the purchaser and the public authorities.

Assets for Appropriation

Law No. 10,931 of August 2, 2004, as amended, provides for certain protection of real estate assets. Accordingly, such protected assets are segregated from other properties, rights and obligations of the developer, including other assets previously appropriated, and such appropriated assets can only be used to guarantee debts and obligations related to the respective development. The appropriated assets are considered bankruptcy free and will not be affected in the event of bankruptcy or insolvency of the developer. In the event of a bankruptcy or insolvency of the developer, joint ownership of the construction may be instituted by a resolution of the purchasers of the units or by judicial decision. The joint owners of the construction will decide whether the project will proceed or the assets appropriated will be liquidated. Developers may also opt to submit a project to appropriation in order to benefit from a special tax system. Under this system, land and objects built on the land, financial investments in the land, and any other assets and rights with respect to the land are considered to be protected for the benefit of the construction of that development and the delivery of the units to the final owners, and are thus separate from the remaining assets of the developer.

In addition, in order to encourage the use of the appropriation system, Laws No. 11,977 of July 7, 2009 (amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011, Law No. 12,693 enacted on July 24, 2012, Law No. 12,722 enacted on October 3, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015) and No. 12,844 of July 13, 2013, which granted tax benefits for the adoption of the system by reducing tax rates on appropriated assets from 7% to 4% and, in the case of the appropriated assets under the public housing program "*Minha Casa, Minha Vida*," the rates were reduced from 7% to 1%, until December 31, 2018, by Law No. 13,097, enacted January 19, 2015.

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

Credit Policy Regulations

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

Housing Finance System, or "SFH"

Law No. 4,380 of August 21, 1964, as amended, created the SFH to promote the construction and ownership of private homes, especially for low income earners. Financing resources under the SFH's control are provided by the Government Severance Indemnity Fund for Employees (*Fundo de Garantia do Tempo de Serviço*), or "FGTS," and from savings account deposits. The FGTS, created by Law No. 5,107 of September 13, 1966 and regulated by Law No. 8,036 of May 11, 1990, imposes a mandatory 8% employee payroll deduction on all employees in Brazil. Employees maintain FGTS accounts, which are similar to pension funds, and are allowed, among other things, to use the funds deposited in the accounts for the acquisition of real estate property under certain circumstances, as set forth by applicable law. The CEF is the agency responsible for managing the funds deposited in the FGTS. In order to be eligible for the financing, the beneficiary must purchase a completed unit or unit under construction priced at up to R$950,000 (price applicable to the States of Rio de Janeiro, São Paulo, Minas Gerais and Distrito Federal) or R$800,000 (price applicable to other Brazilian States). In addition, the beneficiary shall (1) not own or be the committed purchaser of any residential real estate financed by the SFH within Brazil; (2) not own or be the committed purchaser of, any real estate property built or under construction in both his or her current city of residence and the city where the beneficiary conducts his or her main activities; (3) reside for at least one year in the city where the property is located; (4) pay the FGTS; and (5) be registered for at least three years with the FGTS regime. The unemployed also have access to the FGTS to purchase real estate property provided that he still has funds on the FGTS account (where the 8% payroll deduction was deposited while employed).

Financings that originate from savings account deposits in the entities comprising the Brazilian Saving and Loan System (*Sistema Brasileiro de Poupança e Empréstimo*), or "SBPE," are regulated by the Central Bank. Such financings can be obtained through the SFH, which is strictly regulated by the Brazilian government, or through the mortgage portfolio system, where banks are free to set the financing conditions. SFH financing offers fixed interest rates lower than the market rates, capped at around 12% per year, and SFH financing contract terms vary, in general, between 15 and 30 years. The mortgage portfolio system financing offers market interest rates as determined by the financial institutions, generally varying between 18.5% and 12% per year.

CMN Resolution No. 3,932/2010 provides for the allocation of the funds deposited in savings accounts in the entities comprising SBPE and states that the following conditions must be met for SFH financing: (1) the maximum amount of the financing is 80% of the appraisal price of the property, as a general rule; (2) the maximum appraisal price for the financed unit is R$950,000 (applicable to the States of Rio de Janeiro, São Paulo, Minas Gerais and Distrito Federal) or R$800,000 (applicable to other Brazilian States); (3) the maximum actual cost to the borrower, which includes charges such as interest, fees and other financial costs, except insurance and other costs, may not exceed 12% per year; and (4) the borrower is responsible for the potential outstanding balance verified at the end of the financing term, (such term might be extended by half of the initial term).

SFH financings need to be secured by at least one of the following: (1) a first mortgage over the unit that is being financed; or (2) a conditional sale over the unit that is being financed, as prescribed by Law No. 9,514 of November 20, 1997, as amended by Law No. 10,931 of August 2, 2004, Law No. 11,076 of December 30, 2004, Law No. 11,481 of May 31, 2007, Law No. 12,703 of August 07, 2012, Law No. 12,810 of May 15, 2013, Law No. 13,043 enacted on November 13, 2014, Law No. 13,097 enacted on January 19,2015 and Law No. 13,465 enacted on July 11, 2017 (“Law no. 9,514”), (3) a first mortgage or conditional sale, as determined by Law No. 9,514, of other property owned by the borrower or by a third party or (4) other guarantees, as established by the financing agent. SFH funds are only released upon the formalization of one of these methods of guaranteeing the loan.

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As of 2014, the federal government implemented changes to the regulations on financing and construction in order to promote growth in the real estate market. The implemented measures are, among others: (1) all the acts involving immovable property will be entered on the property's record in the land registry office, i.e., unregistered acts and actions enforceable against third parties in good faith, even if the unregistered act or action challenges ownership to the property; (2) the buyer of a real estate property will be able to give property as guarantee to finance another, or to purchase other assets with funds raised in savings accounts; (3) banks can issue Real Estate Covered Bonds (*Letras Imobiliárias Garantidas*, or "LIGs"), pursuant to CMN Resolution No. 4,598, enacted on August 29, 2017, which is exempt from income tax to raise more funds and borrow to finance the purchase of real estate; and (4) banks may grant payroll loans, in which the parcels will be charged to the worker's salary in the private sector with more facilities, resulting in lower interests.

Mortgage portfolio

While a large portion of the funds in the deposits in saving accounts are allocated to the SFH, some of the funds are allocated to loans granted at market rates. CMN Resolution No. 3,932/10, as amended, established that at least 65% of these deposits should be used for real estate financing, with a minimum of 80% of the financing going to housing loans under the SFH and the remaining balance for loans granted at market rates which are usually higher than in SFH loans, including mortgage portfolio used by banks for the concession of housing loans.

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

In 2014, the Brazilian government adopted measures to facilitate the purchase of financed properties, as discussed in SFH above, and in 2016, the increase in the operating limits of the SFH to units with a maximum sales prices of R$800,000 and R$950,000 (applicable only to the States of Rio de Janeiro, São Paulo, Minas Gerais and the *Distrito Federal*). These changes have significantly increased the funds available for investments in the Brazilian real estate sector.

Real Estate Finance System, or "SFI"

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

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

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

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

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

Minha Casa, Minha Vida program

Provisional Measure No. 459 enacted on March 25, 2009, converted into Law No. 11,977 enacted on July 7, 2009, amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011, Law No. 12,693 enacted on July 24, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015, created a public housing program called "*Minha Casa, Minha Vida*." Provisional Measure No. 514 enacted on December 1, 2010, converted into Law No. 12,424 enacted on June 16, 2011, modified the aforementioned legislation, which calls for government investment of more than R$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R$90,000 and R$240,000. Law No. 12,868 enacted on October 15, 2013, released resources for "*Minha Casa Melhor*", in which CEF provides to each beneficiary of the program "*Minha Casa Minha Vida*" subsidized credit up to R$5,000 for the purchase of furniture and appliances, with interest rate of 5% per year and repayable in 48 months.

Municipal Legislation

Municipal planning is regulated by articles 182 and 183 of the Federal Constitution and by Law No. 10,257 of July 10, 2001 (*Estatuto da Cidade*), as amended, or Law No. 10,257. Law No. 10,257 provides, among other things, for the establishment of (1) rules for the parceling, use and occupation of urban tracts of land in each municipality for the collective welfare and environmental balance of the community; and (2) a master plan, which shall be reviewed every 10 years. The master plan is the guiding tool used to plan developments in the urban areas of each municipality and is used as a reference by all public and private agents acting within the municipality. It establishes the strategic goals and general guidelines for urban construction, the objectives and guidelines for differentiated areas of planning and the instruments for their deployment.

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

São Paulo municipality

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

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

On July 31, 2014, Municipal Law No. 16,050 was published, replacing Municipal Law No. 13,430 of September 13, 2002, approving the master plan and creating the Planning System of the municipality of São Paulo and regulating the new master plan of the municipality. The new master plan provides a series of guidelines for the development and growth of the city of São Paulo for the next 16 years, in order to (i) incentivize the use of public and non-motorized forms of transport; (ii) reduce the housing deficit; (iii) improve the access of residential areas to commercial areas of the city; and (iv) incentivize the development of urban areas already equipped with public transportation infrastructure, among other guidelines.

On March 22, 2016, Municipal Law No. 16,402 was published, replacing Municipal Law No. 13,885 of August 25, 2004, regulating the new rules regarding the parceling, use and occupation of land in the municipality of São Paulo.

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Rio de Janeiro municipality

Decree 322 of March 3, 1976, as amended, of the municipality of Rio de Janeiro, and Decree “E” 3,800 of April 20, 1970, as amended, of the then State of Guanabara, jointly created the municipality’s Zoning Regulation, Land Parceling Regulation and Construction Regulation. These regulations control the use of the municipality land, including urban zoning, use of properties, development of construction sites and conditions for the use of each zone in the municipality. The Ten-year master plan of the municipality, approved pursuant to Supplementary Law No. 111 of January 1, 2011, establishes rules and procedures related to urban policy of the municipality, determines guidelines, provides instruments for its execution and defines area policies and their related programs, aiming at meeting the social needs of the city.

Environmental Issues

We are subject to a variety of Brazilian federal, state and local laws and regulations concerning the protection of the environment, as well as urban regulations and zoning restrictions, as described below. Applicable environmental laws may vary according to the development’s location, the site’s environmental conditions and the present and former uses of the site. Compliance with these environmental laws may result in delays, cause us to incur in substantial costs, and prohibit or severely restrict project development. Before we purchase any real estate, we conduct investigations of all necessary and applicable environmental issues, including the possible existence of hazardous or toxic materials, as well as any inadequately disposed waste substances. During the investigations we also identify the existence of water wells and protected vegetation, observing the proximity of the real estate property to permanent preservation areas. We generally condition the real estate property acquisitions on obtaining the required regulatory approvals prior to closing.

We have adopted certain practices to further our commitment to environmental protection and landscape development. Through our Selective Collection Project, we have partnered in environmental education initiatives with private and governmental entities, including non-governmental organizations. We provide training to all of our outsourced workers (before we begin work on any particular project), that focuses on the importance of preserving the environment and how to effectively collect, store and control materials for recycling. Alphaville was given the “ECO Award” in 2006 and 2007 (by the American Chamber of Commerce), the “Top Ambiental Award” (Top Environmental Award) in 2007 and 2008 (by the Brazilian Association of Marketing and Sales Agents, in recognition for its environmentally responsible practices) and the “Top Social Award” in 2008 and 2009 (by the Brazilian Association of Marketing and Sales Agents, in recognition for its socially responsible practices). Our Eldorado Business Tower building is the first building in Latin American, to be pre-certified by the U.S. Green Building Council as a Leed CS 2.0 Platinum building for leadership in energy and environmental design.

Environmental licenses and authorizations

Brazilian environmental policy requires environmental licenses and permits for the construction and operation of real estate projects. Environmental licensing is required for both initial construction and alteration in existing developments, and the licenses must be periodically renewed. The Brazilian Institute of Environment and Renewable Natural Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or the IBAMA, is responsible for granting such licenses for projects developed in two states or in federal conservation units. In other cases, state or municipal environmental agencies are responsible for granting such environmental licenses, depending on the extent of environmental impacts caused by certain projects.

The environmental licensing process is comprised of three stages: preliminary license, installation license and operational license. The preliminary license, issued during the preliminary planning phase of the project, authorizes the location and basic development, and establishes the conditions and technical requirements to be observed in further stages of development. The installation license authorizes the facility's construction. The operating license authorizes the commencement and continuation of operational activities. Operating licenses are subject to compulsory renewal depending on their validity. The licensing of activities that may significantly impact the environment, as determined by the competent environmental agency and according to the Environmental Impact Assessment and its related Report ("EIA/RIMA"), requires environmental offset payments, to be invested in conservation units (e.g. national parks, biological reserves etc.), pursuant to Article 36 of Law No. 9,985/00. The value of the environmental offset is established by the environmental agency conducting the licensing proceeding, according to the "ecosystem impact level" of the proposed activity, pursuant to Article 31-A of Federal Decree No. 6,848/09.

The installation, operation or alteration of projects without proper and valid environmental licensing or the non-compliance with the conditions or technical requirements of the respective environmental licenses, may subject the

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violator to administrative sanctions that may range from fines (R$500 to R$10 million), as well as the suspension of activities and, depending on the specific circumstances, criminal liability (of individuals and/or companies), pursuant to Federal Law No. 9,605/98 and civil liability (in case environmental damage occurs).

The construction, maintenance and sale of our projects may be hampered or halted by delays in the issuance of applicable licenses or even by failure to obtaining such licenses.

The construction of real estate developments often requires land moving activities, and in many cases, the cutting down of trees. In addition to environmental licenses and permits, Brazilian legislation requires specific environmental authorizations for the development of projects, based on the characteristics of the project, its location and the natural features inherent to the area. The development of projects that require the cutting of trees or removing vegetation must receive specific authorizations from environmental agencies. Companies that apply for an authorization for vegetation removal are required to perform the reforestation of other areas as a compensatory measure, such as reforestation or to repair the affected areas, which may imply additional expenses. Brazilian legislation also requires special protections for certain specific types of flora and areas with special ecological purpose, imposing additional legal requirements to removal of such vegetation.

The removal of vegetation without proper and valid authorization, or non-compliance with the authorization requirements, may subject the transgressor to civil liability (in case environmental damage occurs), administrative sanctions (such as fines) and, according to specific circumstances, criminal liability (of individuals and/or companies), pursuant to Federal Law No. 9,605/98.

The licensing of projects with relevant environmental impacts located in a conservation unit or within its buffer zone will depend on prior authorization from the conservation unit's managing office.

In addition, the development of projects that require water abstraction from bodies of water or groundwater, as well as the discharge of effluents into water bodies, are subject to specific water use grants, to be issued by the relevant authorities. Water use grants are subject to certain conditions and technical requirements, including maximum capacity requirements and effluent treatment standards, and are subject to automatic renewal.

Moreover, some of our projects require the transfer of wildlife to other areas, which is subject to specific authorizations issued by the state environmental agencies. To catch, handle and transfer wildlife without the proper authorization may result in administrative sanctions of up to R$5,000.00 per animal, pursuant to Federal Decree 6,514/08.

Waste disposal

Brazilian legislation relies on several standards and procedures for waste management. All waste must be properly stored, treated, transported and disposed of, in order to avoid the occurrence of environmental damages – and as a result, environmental liability.

The Brazilian "National Waste Management Policy" (Federal Law No. 12,305/10) and CONAMA Resolution 307/2002 specifically regulate the handling of solid waste generated by the construction sector. As part of their licensing procedure, companies are required to present and have a solid waste management plan approved by competent environmental agency and must comply with the conditions and obligations set forth in such plan. Failure to comply with such obligations may lead to civil (obligation to repair/indemnify in case of pollution), administrative (e.g. fines, suspension of activities etc.) and, according to specific circumstances, criminal liability.

Regarding civil liability, because Brazilian legislation imposes strict, joint and several liability for environmental damages, companies may be held liable for any environmental damages that may arise as a result of its activities, including waste generated thereof, which must be properly stored, treated, transported and disposed of. Likewise, the hiring of third parties for management of waste generated from our activities does not exempt us from civil environmental liability.

Contaminated areas

We develop and construct projects in several states within Brazil. Each state has its Environmental Secretary and/or Environmental Agency. The São Paulo State Secretary of Environment (*Secretaria de Estado do Meio Ambiente de São Paulo*), or the "SMA," and the State Environmental Agency of São Paulo (*Companhia Ambiental do Estado de São Paulo*), or "CETESB," are the principal environmental regulatory entities of the State of São Paulo, and they have adopted procedures with regard to the management of contaminated areas, including the

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creation of environmental standards to preserve the quality of land and underground water, as well as procedures to be complied with if contamination is confirmed. The standards established by CETESB are used as reference by most Brazilian states that have no specific regulation on contaminated land management.

In addition, the Rio de Janeiro State Secretary of Environment (*Secretaria de Estado do Meio Ambiente e Desenvolvimento Urbano do Rio de Janeiro*) and the Rio de Janeiro State Environmental Agency, or "INEA," also maintain their own quality standards, in combination with those established by the National Environmental Council (*Conselho Nacional do Meio Ambiente*), or "CONAMA." Other states have similar requirements.

If contaminated areas are identified in the development of our projects, we must provide proper disclosure to environmental authorities and registration before real estate property records. Given the strict liability regime, we may be required to proceed with the remedial actions deemed necessary by environmental agencies in order to comply with technical standards set forth for each kind of project, even if we have not caused the contamination, and may result in delays for the project development's completion. Prior approval from environmental agencies before engaging in remedial actions may be necessary. All emergency actions to prevent and mitigate risks to the environment and public health, if required, must be adopted promptly and at our expense.

Non-compliance with the guidelines established by the environmental and health entities may result in criminal, as well as administrative penalties. Moreover, the owners and holders of properties may be required to pay for costs relating to the clean-up of any contaminated soil or groundwater located in their properties, even if they did not cause the contamination.

If there are contaminated areas in the properties where our projects will be developed, this must be disclosed to our clients.

Environmental liability

Article 225 of the Brazilian Federal Constitution, provides that "activities that are harmful to the environment shall subject violators, whether individuals or companies, to criminal and administrative sanctions, regardless of the obligation to repair the damage caused." Therefore, the Brazilian Federal Constitution provided for environmental liability in three distinct fields: civil, administrative and criminal. As an example, payment of an administrative fine does not offer exemption from the duty to make reparations or indemnify for damages that might be caused by harmful conduct, nor does it offer exemption from possible criminal charges prompted by the event.

Civil environmental liability in Brazil is considered by case law as *propter rem*, that is, liability attaches to the real estate property. Therefore, whoever buys or holds environmentally damaged land will succeed in the liability for the clean-up or recovery and for reparation of potential damage to third parties. Although this liability can be contractually allocated between the parties, it cannot be opposed either administratively or before third parties, meaning the concept of a *bona fide* prospective purchaser does not exist in civil environmental liability in Brazil.

In addition, Federal Law No. 6,938/81 establishes strict liability for the recovery of environmental damages or, if not possible, compensation or indemnity for such damages, with joint and several liability established among all those directly or indirectly contributing to environmental degradation, regardless of the degree of participation in the damage. Each of those involved may be held liable for the full amount of the damages. Moreover, pursuant to Article 4 of Federal Law 9,605/1998, Brazilian environmental legislation determines that the corporate veil may be pierced whenever the veil is considered to be an obstacle to recovery for environmental damages. As a result, the controlling legal entity can be found liable despite a limited liability legal status.

At the administrative level, environmental liability may be assigned through administrative sanctions imposed by the competent environmental entities, pursuant to Law No. 9,605/98 which "*rules on the criminal and administrative sanctions deriving from conduct and activities that are harmful to the environment*" and pursuant to Federal Decree No. 6,514/08. These sanctions may include, among others: (1) fines of up to R$50 million, tailored to the economic capacity and track record of the offender, in addition to the severity of the facts and past performance, with the possibility of these fines being imposed at double or triple rates for repeated offenses; (2) suspension or interdiction of the activities of the respective enterprise; and (3) withdrawal of tax incentives and benefits. Administrative liability falls on the person engaged in the conduct described as an administrative offense.

Criminal liability is personal, arising directly from the unlawful conduct of the agent, with the crimes necessarily being specifically addressed in the law. Brazilian law allows criminal liability to be assigned to individual persons as well as corporate entities. When liability is assigned to the latter, the individual persons taking the decision that resulted in the criminal conduct (such as directors, officers, administrators, board members, members of technical entities, auditors, managers, agents or representatives) may also be penalized to the extent of their culpability.

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## C. Organizational Structure

The following chart shows our organizational structure for our principal subsidiaries, all of them incorporated in Brazil, as of December 31, 2017:

(*) We held 30% of this entity at December, 2017, 2016 and 2015.

For more information on our remaining subsidiaries and jointly-controlled entities, see "—B. Business Overview—Subsidiaries."

## D. Property and Equipment

We lease our headquarters located at Av. Nações Unidas No. 8,501, 19th floor, São Paulo, SP — Brazil. Currently, we lease approximately 3,500 square meters. We believe our current facilities are adequate for the full development of our operations.

As of December 31, 2017, our property and equipment recorded on our balance sheet mainly consisted of sales stands, facilities, model apartments, computer equipment, vehicles and leasehold improvements, among others, the balance of which was R$22.3 million.

# ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

# ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

## A. Operating Results

The financial statements for the years ended December 31, 2017, 2016, 2015, 2014 and 2013 were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities Commission (CVM), and the standards, interpretations and guidelines of the Accounting Standards Pronouncements Committee (CPC), and are in compliance with the International Financial Reporting Standards (IFRS) adopted in

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Brazil, including the Guideline OCPC 04—Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities—regarding the revenue recognition, and the respective costs and expenses arising from real estate development operations over the construction progress (percentage of completion revenue recognition method). The Brazilian GAAP applied by us is not in compliance with IFRS as issued by IASB.

Following the acquisition, formation and incorporation of the entities Alphaville, FIT and Bairro Novo in 2007 and following the merger of FIT into Tenda in 2008, our financial results for 2007 and 2008 included the results of the following segments: Gafisa S.A., Alphaville, Tenda, FIT (merged with Tenda in October 2008) and Bairro Novo. Further, following Gafisa's withdrawal from Bairro Novo and the exchange of all the remaining Tenda shares not held by Gafisa into Gafisa shares, our financial results for 2013, 2012 and 2011 included the results of the following segments Gafisa S.A., Alphaville and Tenda. On December 9, 2013, we completed the sale of a majority interest in Alphaville to Private Equity AE Investimentos e Participações ("Fundo AE"), a company controlled by Pátria Investimentos Ltda. and Blackstone Real Estate Advisor L.P., which was previously announced on June 7, 2013. All conditions precedent to the completion of the transaction were met, including governmental approval. The transaction was concluded with a sale of 50% interest by Gafisa and 20% interest by Tenda, with Gafisa retaining the remaining 30% of Alphaville capital stock. As a result, since November 30, 2013, Alphaville results are no longer consolidated in our financial statements.

In October 2014, Shertis Empreendimentos e Participações S.A. or "Shertis", which held a 20% interest in the capital stock of Alphaville, was merged into Gafisa. As a result and as of the date of this annual report, we hold a direct 30% interest in the capital stock of Alphaville.

On November 21, 2014, we acquired the remaining shares of Cipesa Empreendimentos Imobiliários S.A. in the amount of R$6.3 million. As a result of this transaction, the Company recorded a net effect of the write-off of goodwill, in the amount of R$17.6 million.

In December 2016, following the conclusion of our analysis of certain strategic options, our management decided to sell 50% of Tenda's total capital stock, and transfer the remaining 50% of Tenda's total capital stock to our shareholders in connection with a reduction in our total capital stock. Accordingly, on December 14, 2016, we entered into an SPA with Jaguar pursuant to which we agreed to sell Tenda shares representing up to 30% of the total capital stock of Tenda, at a price equal to R$8.13 per share.

The spin-off of the Tenda business unit was consummated on May 4, 2017, following: (i) a reduction of the capital stock of Tenda (without the cancellation of shares), pursuant to which Gafisa, as sole shareholder at that time, received R$100 million (adjusted by the SELIC); (ii) a reduction of the capital stock of Gafisa, resulting in the distribution to Gafisa shareholders of shares corresponding to 50% of the capital stock of Tenda; (iii) the conclusion of the preemptive rights exercise pursuant to which Gafisa shareholders acquired up to 50% of the total share capital of Tenda, at the price per share set forth in the SPA with Jaguar and for a total amount of R$219.5 million, with no shares being acquired by Jaguar; and (iv) the satisfaction of other conditions precedent for the consummation of the spin-off. In addition, on May 4, 2017, the Tenda shares were listed on the B3 and began to publicly trade.

As a result of this transaction, the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP in the Company's 2017, 2016, and 2015 consolidated statements of operations, and the Company recorded an impairment loss in the amount of R$610.1 million for the year ended December 31, 2016, related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell, taking into account the price of R$8.13 per share described above. Additionally, for the period ended May 4, 2017, under Brazilian GAAP, the fair value of discontinued operations was adjusted in the amount of R$215.4 million, considering the weighted average price per share at R$12.12 and the amount of R$107.7 million related to the obligation to sell Tenda shares at a price equal to R$8.13 per share, which was reflected in the profit or loss of discontinued operations, in order to reflect the difference between the fair value of the group of assets held for sale and the effective selling price.

See "Item 4. Information on the Company—A. History and Development of the Company—Historical Background and Recent Developments." Our chief executive officer, who is responsible for allocating resources among these businesses and monitoring their progress, uses economic present value data, which is derived from a combination of historical operating results and forecasted operating results, to assess segment information primarily on the basis of different business segments.

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Overview

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

Brazilian Economic Environment

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

At the end of 2010 and in the beginning of 2011, the Central Bank began implementing more restrictive monetary policies as a precaution against unsustainable economic growth. In the second half of 2011, with growing uncertainty in economic conditions, due in part to ongoing volatility in global financial markets, particularly in Europe, the Central Bank began to implement an easing process. As of December 31, 2011, the Central Bank had set the basic interest rate at 11% and the *real* depreciated by 12.6% relative to the U.S. dollar in 2011. As of December 31, 2011, the *real*/U.S. dollar exchange rate was R$1.87 per US$1.00. During this period, inflation according to the INPC was 6.50%.

By the second half of 2011, the Brazilian economy faced growing uncertainty and economic conditions began to deteriorate, due in part to ongoing volatility in global financial markets, particularly in Europe. In order to avoid a contraction in economic growth, the Central Bank began to implement easing measures combining macroeconomic policies and interest rate decreases in order to stimulate demand.

As of December 31, 2013, the Central Bank set the SELIC rate at 10% and the *real* depreciated 13.2% relative to the U.S. dollar in 2013. As of December 31, 2013, the *real*/U.S. dollar exchange rate was R$2.3575 per US$1.00. During this period, inflation according to the IPCA was 5.9%.

As of December 31, 2014, the Central Bank set the SELIC rate at 11.75% and the *real* depreciated 12.7% relative to the U.S. dollar in 2014. As of December 31, 2014, the *real*/U.S. dollar exchange rate was R$2.6550 per US$1.00. During this period, inflation according to the IPCA was 6.4%.

As of December 31, 2015, the Central Bank set the SELIC rate at 14.25% and the *real* depreciated 47.0% relative to the U.S. dollar in 2015. As of December 31, 2015, the *real*/U.S. dollar exchange rate was R$3.9048 per US$1.00. During this period, inflation according to the IPCA was 10.7%.

As of December 31, 2016, the Central Bank set the SELIC rate at 13.75% and the *real* appreciated 16.5% relative to the U.S. dollar in 2016. As of December 31, 2016, the *real*/U.S. dollar exchange rate was R$3.2591 per US$1.00. During this period, inflation according to the IPCA was 6.3%.

As of December 31, 2017, the Central Bank set the SELIC rate at 7.0% and the *real* depreciated 1.5% relative to the U.S. dollar in 2016. As of December 31, 2017, the *real*/U.S. dollar exchange rate was R$3.308 per US$1.00. During this period, inflation according to the IPCA was 2.9%.

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (%, unless otherwise stated) | | |
| Real growth in GDP | 1.0 | (3.6) | (3.8) |
| Inflation rate (INPC)(1) | 2.1 | 6.6 | 11.3 |
| Inflation rate (IGP—M)(2) | (0.5) | 7.2 | 10.5 |
| National Construction Cost Index (INCC)(3) | 4.3 | 6.1 | 7.5 |
| TJLP rate(4) | 7.0 | 7.5 | 7.0 |
| CDI rate(5) | 9.9 | 14.0 | 13.2 |
| Appreciation (devaluation) of the *real* vs. US$ | (1.5) | 16.5 | (47.0) |
| Exchange rate (closing) — US$1.00 | R$3.31 | R$3.26 | R$3.90 |
| Exchange rate (average)(6) — US$1.00 | R$3.20 | R$3.45 | R$3.39 |

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(1) INPC: consumer price index measured by the IBGE.

(2) General Market Price Index (*Índice Geral de Preços-Mercado*) measured by the FGV.

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

(4) Represents the interest rate used by BNDES for long-term financing (end of period).

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

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

Brazilian Real Estate Sector

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

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

In addition, since 2006, the Brazilian government has enacted incentives in the real estate sector, including the following:

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Provisional Measure No. 321 enacted on September 12, 2006, later converted into Law No. 11,434 enacted on December 28, 2006 and amended by Law No. 12,599 enacted on March 23, 2012, gave banks the option to charge fixed interest rates on mortgages;

- Law No. 10,820 enacted on December 17, 2003, amended by Law No. 10,953 enacted on September 27, 2004, regulated by Decree No. 5,892 enacted on September 12, 2006, as amended by Decree No. 4,840 enacted on September 17, 2003, as amended by Law No. 13,097 enacted on January 19, 2015, allowed payroll deductible mortgage loans to employees of both public and private entities;

- Decree No. 6,006 enacted on December 28, 2006, replaced by Decree No. 7,660 enacted on December 23, 2011, implemented a 50% tax cut on Tax on Manufactured Products (*Imposto sobre Produtos Industrializados*), or IPI, levied on the acquisition of important construction products, including certain types of tubes, ceilings, walls, doors, toilets and other materials. In 2009, other decrees eliminated the IPI levied on the acquisition of similar products, but were implemented for a limited term only and were set to expire in March 2010, but were extended until December 31, 2012;

- Provisional Measure No. 459 enacted on March 25, 2009, converted into Law No. 11,977 enacted on July 7, 2009, amended by Law No. 12,249 enacted on June 11, 2010, Law No. 12,424 enacted on June 16, 2011 and Law No. 12,693 enacted on July 24, 2012, Law No. 12,722 enacted on October 3, 2012, Law No. 13,043 enacted on November 13, 2014 and Law No. 13,097 enacted on January 19, 2015 created a public housing program called "*Minha Casa, Minha Vida*," which calls for government investment of more than R$30 billion and is focused on building one million houses for families with monthly incomes of up to ten times the minimum wage. Under this program, the government is authorized to finance families purchasing houses with assessed values between R$90,000 and R$190,000;

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- Provisional Measure No. 514 enacted on December 1, 2010, converted into Law No. 12,424 enacted on June 16, 2011 confirmed the extension of "*Minha Casa, Minha Vida*" through 2014, and a total investment of R$72 billion, more than doubled the R$34 billion allocated to the initial program. The goal of the second phase of the "*Minha Casa, Minha Vida*" program is to deliver two million homes in four years encompassing an even lower income segment than previously targeted, but also expanded the current resources available to 40% of the total new amount to be destined to the lower-income segments;

- Provisional Measure No. 620 enacted on June 12, 2013, converted into Law No. 12,686 enacted on October 15, 2013, which released resources for "*Minha Casa Melhor*", in which CEF provides to each beneficiary of the program "*Minha Casa Minha Vida*" subsidized credit up to R$5,000 for the purchase of furniture and appliances, with interest rate of 5% per year and repayable in 48 months; and

- Provisional Measure No. 656 enacted on October 7, 2014, converted into Law No. 13,097 enacted on January 19, 2015 ("Law No. 13,097"), which establishes mechanisms for protecting purchasers and recipients of *in rem* rights which enter into legal transactions based on the information contained in the real estate records. In addition, deals with payroll loans, establishing the concentration of acts in the real estate property registration and creates the LIG.

- Normative Instructions No. 30 and No. 31 enacted on December 30, 2015, which establish new interests rates and loan limit subsidies for the 2nd and 3rd brackets of the "National Individual Loan Program" segment of the FGTS.

- CMN Resolution No. 4,598/2017, which regulates the issuance of LIGs by financial institutions, establishing its general characteristics, procedures and applicable requirements, including with regards to underlying assets backing such securities, as well as other guidelines applicable to the LIG trustee and to LIG holders' meetings.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with Brazilian GAAP requires management to make judgments, estimates and adopts assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, as well as the disclosure of contingent liabilities, at the balance sheet date. Assets and liabilities subject to estimates and assumptions include the useful life of property plant and equipment, impairment of assets, deferred tax assets, provision for uncertainty tax positions, labor and civil risks, and the measurement of the estimated cost of ventures and financial instruments. Estimates are used for, among other things, impairment of non-financial assets, transactions with share-based payment, provisions for tax, labor and civil risks, fair value of financial instruments, estimated costs of ventures, realization of deferred income tax and other similar provisions. Although we believe that our judgments and estimates are based on reasonable assumptions, as they are subject to several risks and uncertainties and are made in light of information available to us, our actual results may differ from these judgments and estimates.

In this sense, we set forth below summarized information related to our critical accounting policies. See the note 2.2 to our consolidated financial statements, included elsewhere in this annual report for further information on these and other accounting policies we adopt.

Impairment of non-financial assets

We annually review the carrying amount of assets, with the objective of evaluating events or changes in the economic, operational or technological circumstances that may indicate a decrease or loss in the recoverable amount of such assets. Should such evidence exist, and the carrying amount exceeds the recoverable amount, a provision for impairment loss is recognized in the statement of operations by adjusting the carrying amount to the recoverable amount. A test for impairment of intangible assets with indefinite useful lives and goodwill is performed at least annually or when circumstances indicate a decrease in the carrying amount. As of December 31, 2014, the Company recorded a provision for impairment for land and goodwill related to the acquisition of Cipesa Empreendimentos Imobiliários S.A. As of December 31, 2016, the Company recorded an impairment loss related to Tenda's discontinued operations in the amount of R$610.1 million. As of December 31, 2017, the Company recorded an impairment loss related to the goodwill on the remeasurement of the investment in AUSA in the amount of R$127.4 million.

The recoverable amount of an asset or of a certain cash-generating unit is defined as the greater of its value in use and its fair value less costs to sell. When estimating the value in use of an asset, the estimated future cash flows

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are discounted to present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Cash flows are derived from the budget for the following five years, and do not include restructuring activities for which the Company has not yet committed or future significant investments that will improve the asset basis of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used under the discounted cash flow method, as well as the estimated future cash inflows and the growth rate used. The fair value less costs to sell is determined, whenever possible, based on a binding sale agreement in an arm's length transaction between knowledgeable and willing parties, adjusted for expenses attributable to the sale of the asset, or, in the absence of a binding sale agreement, based on the market price in an active market, or on a recent transaction with similar assets.

The main assumptions used in the estimate of value in use for the AUSA investment are the following: Revenue – revenues were projected between 2018 and 2022 considering the growth in sales and client base of the different cash-generating units. Operating costs and expenses – costs and expenses were projected in line with the Company's historical performance, as well as the historical growth of revenues. Additionally, the pre-tax discount rate used was 14.70% in nominal terms, the growth rate used for extrapolating cash flow projections was at 6.8%, and perpetuity was calculated by considering a growth of 4.1% per annum, equivalent to the long-term inflation estimate projected by the Brazilian Central Bank. The key assumptions were based on the Company's historical performance and on reasonable macroeconomic assumptions, and supported by the financial market projections, documented and approved by the Company's management.

Properties for sale

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

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

Land is recorded at acquisition cost. See "Item 4. Information on the Company—B. Business Overview—Our Real Estate Activities—Land Acquisition". Land can be acquired for cash, in installments, through barter for units that are completed or in construction of other ventures, or through barter for receivables from future sales of ventures. The cost of land related to bartered units comprises the estimated sale price in cash, this fair value being recorded as contra-entry to the advances from customers-barter.

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

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

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

In accordance with our internal policy, each individual project launched has been internally evaluated taking into consideration the following: (1) assumptions for market, sales forecast, economics and operating conditions; (2) cash flow analysis using the discounted cash flow method; (3) approval by an investment committee; and (4) inclusion in the business plan regarding the timetable and backlog for development releases. This process is part of our corporate governance practices. We update the assumptions on an annual basis and consider the continuing viability for each project for impairment test purposes.

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Transactions with share-based payment

We measure the cost of transactions with employees to be settled with shares based on the fair value of equity instruments on the grant date. The estimate of the fair value of share-based payments requires the determination of the most adequate pricing model to granted 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.

Provisions for legal claims

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

Taxes on income

Current income tax and social contribution

Current income tax is the expected tax payable or receivable to be offset in relation to taxable profit or loss for the year. To calculate the current income tax and social contribution on net profits, we adopt the regime set forth by Law No. 12,973 enacted on May 13, 2014 and in force as of January 1, 2015. The new regime is based on the Brazilian accounting standards introduced by Laws No. 16,638/2007 and No. 11,941/2009, from the tax basis of such taxes, thus revoking the Brazilian Transitory Tax Regime, or “RTT.”

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

As permitted by tax legislation, certain subsidiaries opted for the presumed profit regime, a method under which taxable profit is calculated as a percentage of gross sales. For these companies, income tax is calculated on presumed profits of 8% of gross revenues and social contribution on presumed profits of 12% on gross revenues, to which income tax and social contribution rates of 25% and 9%, respectively, are applied.

As permitted by tax legislation, the development of certain ventures are subject to the "*afetação*" regime, whereby the land and its features where a real estate will be developed, as well as other binding assets and rights, are separated from the assets of the developer and comprise the "*patrimônio de afetação*" (detached assets) of the corresponding development and which real estate units will be delivered to the buyers. In addition, certain subsidiaries elected the irrevocable option for the Special Taxation Regime (RET), adopting the "patrimônio de afetação", according to which the income tax, social contribution on net profits, PIS and COFINS are calculated at 4% on monthly gross revenues.

On May 13, 2014, Provisional Measure No. 627 was converted into Law No. 12,973/14, revoking the RTT and bringing significant changes to Brazilian tax legislation. The new rules came into effect on January 1, 2015, with an option to adhere to the new rules from January 1, 2014. During 2014, we analyzed the potential impact of the new rules on our consolidated financial statements and internal control structure. Based on our analysis, we concluded that the new rules would not have a material impact on how we account for taxes in 2014 and we therefore opted not to adopt them from January 1, 2014. We have adhered to the new rules since January 1, 2015.

Deferred income tax and social contribution

Deferred tax is recognized in relation to tax losses and temporary differences between the carrying amount of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. It is recognized to the extent that it is probable that future taxable income will be available to be used to offset deferred tax assets, based on profit projections made using internal assumptions and considering future economic scenarios that estimate their full or partial use. The recognized amounts are periodically reviewed and the impacts of realization or settlement are reflected in compliance with tax legislation provisions. Tax credits on accumulated tax losses do not

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have an expiration date, however, they can only be offset against up to 30% of the taxable profit for each year. Companies that opt for the presumed profit tax regime do not record tax losses and do not have temporary differences, and for this reason, deferred taxes are not recognized.

To the extent that the realization of deferred tax assets is not considered to be probable, this amount is not recorded. We record deferred tax on a net basis, determined by legal entity and same jurisdiction. For entities with cumulative tax losses for the last three years, the Company and its subsidiaries recognized deferred tax assets and liabilities based on the following assumptions:

- 100% of deferred tax liabilities on temporary differences;
- Deferred tax assets on temporary differences that have realization terms similar to deferred tax liabilities, and relate to the same legal entity, are recorded up to the limit of the deferred tax liabilities; and
- In situations where recent losses indicate that future taxable income is uncertain, deferred tax assets are not recognized on deductible temporary differences in excess of deferred tax liabilities recorded on taxable temporary difference liabilities nor is an asset recognized for the carry forward of unused tax losses.

Measurement of deferred tax asset

Our projections assume that a significant portion of our business will be conducted in our principal holding companies, and this enables the recovery of a substantial portion of our accumulated tax losses.

However, several external factors, beyond our control, may affect such tax calculations, in addition to possible requirements to segregate ventures in their own development entities (SPEs, for example) to a greater extent than we intend. There is also the possibility that taxation rulings relating to new ventures or even ventures that have already been developed within the principal holding companies, may require the exclusion of such businesses and for such businesses to file their own tax returns separate from that of the Company.

A reduction in the concentration of projects in holding companies with tax losses carried forward may, therefore, compromise the expected recovery of losses carried forward, which is the reason we partially recognized a deferred income tax asset.

Fair value of financial instruments

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained in the active market, it is determined using valuation techniques, including the discounted cash flow method. The data for such methods is based on those available in the market, when possible; however, when such data is not available in the market, a certain level of judgment is required to establish the fair value. This judgment includes considerations on the data used, such as liquidity risk, credit risk, and volatility. Changes in the assumptions about these factors may affect the presented fair value of financial instruments.

Estimated cost of construction

Total estimated costs, mainly comprising the incurred and future costs for completing the construction works, were reviewed in the preparation of these financial statements, and changes to estimates are possible. The percentage of completion, which is the method for revenue recognition, is measured in view of the incurred cost in relation to the total estimated cost of the respective project.

Development and sale of real estate

Real estate development and sales

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

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

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

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- The incurred cost, including the cost of land, and other directly related expenditure, that correspond to the units sold is fully recognized in the consolidated statement of operations;

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

- Revenue recognized in excess of actual payments received from customers is recorded as either a current or non-current asset 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 land and advances from customers”;

- Interest and inflation-indexation charges on accounts receivable as from the time the units are delivered, as well as the adjustment to present value of accounts receivable, are recognized in profit or loss on a pro rata basis using the effective interest method;

- The financial charges on accounts payable for acquisition of land and those directly associated with the financing of construction are recorded in properties for sale and recorded in the incurred cost of finished units until their completion, and follow the same recognition criteria as for the recognition of the cost of real estate 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 recognized when this difference in revenue is recognized; and

- Advertising and publicity expenses are recorded in the consolidated statement of profit or loss as incurred.

Construction services

Revenues from real estate services are recognized as services are rendered and consist primarily of amounts received in connection with construction management activities for third parties, and technical advisory services, related to developments in the Gafisa segment where we retain an equity interest.

Barter transactions

Barter transactions have the objective of receiving land from third parties and 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 value of the land acquired is determined based on the fair value, as a component of inventory of properties for sale, with a corresponding entry to advances from customers' liabilities. Revenues and costs incurred from barter transactions are included in profit or loss over the course of construction period of ventures, as described in item (b) above.

Allowance for doubtful accounts and cancelled contracts

We annually review the assumptions used in establishing an allowance for doubtful accounts and cancelled contracts, in view of the revision of historical data of its current operation and improvement of measurement estimates.

We record an allowance for doubtful accounts and cancelled contracts for customers whose installments are past due and when there is evidence that the cancelation will occur, based on the annually reviewed assumptions. For Gafisa, we record an allowance for doubtful accounts for contracts for customers whose installments are over 180 days past due for completed units, even though all of our financing plans are guaranteed by a conditional sale of the unit, with the transfer of the full property rights of the unit to the customer upon the full payment of the outstanding installments.

Disposal group held for sale and profit or loss from discontinued operations

The Company classifies a disposal group as held for sale if its carrying value is recovered by the sale transaction. The asset or group of assets held for sale are available for immediate sale at current market conditions, subject only to applicable customary terms for the sale of such assets held for sale, resulting in a high sale probability.

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For a sale to be highly probable, management must be committed to the sale of the asset, and must initiate an active search to identify a buyer and complete the sale. In addition, the asset held for sale shall also be effectively marketed for sale at a price that is reasonable in relation to its current fair value and, the sale must be completed within one year of the classification date, unless events beyond the control of the Company result in an extension of such period.

The asset held for sale is measured at the lower of its carrying value and the fair value less cost to sell. In case the carrying value is higher than the fair value, an impairment loss is recognized in statement of profit or loss for the year. Any reversal or gain will only be recorded within the limit of the recognized loss. As of December 31, 2016, the Company recorded an impairment loss related to Tenda's discontinued operations in the amount of R$610.1 million. For the period ended May 4, 2017, the Company carried out the remeasurement of the fair value of the disposal group held for sale, related to Tenda, considering the weighted average value per share for exercising preemptive rights traded over the period between March 17, 2017 and March 31, 2017, as measurement basis, leading to the price of R$12.12 per share, and, accordingly, valuing Tenda at R$754.5 million (R$539.0 million in 2016).

The assets and liabilities of the group of discontinued assets are shown in single line items in our assets and liabilities. The profit or loss of discontinued operations is presented as a single amount in the statement of profit or loss, contemplating the total post-tax profit or loss of such operations less any impairment-related loss.

Launches and Contracted Sales

Launches

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

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2017 (3) | 2016 (3) | 2015 |
| Launches (in millions of *reais*) | 554 | 921 | 2,085 |
| Number of projects launched | 5 | 10 | 42 |
| Number of units launched(1) | 1,601 | 1,901 | 10,089 |
| Launched usable area (m2)(2) | 82,940 | 148,065 | 428,257 |
| Percentage of Gafisa investment | 98 % | 90 % | 85 % |

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

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

(3) The information as of and for the year ended December 31, 2017 and December 31,2016 does not include developments launched under the Tenda brand, the results of operations of which have been presented as discontinued operations in our consolidated statements of operations as of December 31, 2016, and its spin-off was concluded in May 2017.

In 2017, we launched under the Gafisa brand 5 residential developments with a total potential sales value of R$553.9 million and 80% of these developments were in the state of São Paulo and 20%, 1 project, is located at Curitiba.

In 2016, we launched under the Gafisa brand 10 residential developments with a total potential sales value of R$920.8 million and 100% of these developments were located in the state of São Paulo

In 2015, we launched 11 residential developments with a total potential sales value of R$2.1 billion, with Gafisa accounting for 48% of launches and Tenda for 52% in terms of potential sales value. 20 of the developments we launched were located in the state of São Paulo, 9 developments were located in the state of Rio de Janeiro and the remaining 13 developments were located in Camaçari, Salvador and Lauro de Freitas, in the state of Bahia, Vespasiano and Belo Horizonte, in the state of Minas Gerais Porto Alegre, in the state of Rio Grande do Sul and Paulista, Camaragibe and Jaboatão dos Guararapes, in the state of Pernambuco.

During 2017, under the Gafisa brand, approximately 10.3% of our launches in terms of potential sales value was generated from launches outside the states of São Paulo and Rio de Janeiro.

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During 2016, under the Gafisa and Tenda brands, approximately 36.7% of our launches in terms of potential sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. The affordable entry-level business accounted for approximately 59.3% of our total potential sales value for the year ended December 31, 2016, of which 61.8% was generated from launches outside the states of São Paulo and Rio de Janeiro.

During 2015, approximately 24% of our launches in terms of potential sales value was generated from launches outside the states of São Paulo and Rio de Janeiro. The affordable entry-level business accounted for approximately 52% of our total potential sales value for the year ended December 31, 2015, of which 45.7% was generated from launches outside the states of São Paulo and Rio de Janeiro.

In 2017, Gafisa launches totaled R$553.9 million, a 39.8% decrease compared with 2016.

Contracted sales for the year totaled R$720.2 million, down 11.1% from 2016. Sales of units launched over the year accounted for 38.5%, while sales of inventories accounted for the remaining 61.5%.

In 2016, Gafisa launches totaled R$920.8 million, an 8% decrease compared with 2015.

Contracted sales for the year totaled R$810.5 million, down 11.4% from 2015. Sales of units launched over the year accounted for 54.5%, while sales of inventories accounted for the remaining 45.5%.

In 2015, Gafisa launches totaled R$996.3 million, a 2.6% decrease compared with 2014.

Contracted sales for the year totaled R$914.8 million, up 12.8% from 2014. Sales of units launched over the year accounted for 30.8%, while sales of inventories accounted for the remaining 69.2%.

In 2017, Gafisa delivered 9 ventures/stages and 2,880 units, accounting for R$861.3 million in Potential Sales Volume.

The market value of Gafisa segment inventories reached R$1.5 billion at the end of 2017, compared to R$1.76 billion at the end of 2016 and R$2.0 billion at the end of 2015.

*Contracted sales*

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

| Type of development | As of and for the year ended December 31, 2017 (2) | 2016(2) | 2015 |
|---|---|---|---|
| | **(in millions of *reais*, unless otherwise stated)** | | |
| Luxury middle-income buildings | 358.7 | 812.1 | 889.2 |
| Entry-level developments | 343.9 | 27.1 | 1,034.1 |
| Commercial | 17.6 | (28.7) | 7.6 |
| Total contracted sales (1) | 720.2 | 810.5 | 1,930.9 |
| Sale of units launched in the year | 277.7 | 441.9 | 789.6 |
| Percentage of total contracted sales | 39% | 55% | 41% |
| Sale of units launched during prior years | 442.5 | 368.5 | 1,141.3 |
| Percentage of total contracted sales | 61% | 45% | 59% |

(1) Amount net of sales cancellation.

(2) The information as of and for the year ended December 31, 2017 and December 31, 2016 does not include developments launched under the Tenda brand, which was spun off on May 4, 2017 and the results of operations of which have been presented as discontinued operations in our consolidated statements of operations as of December 31, 2016.

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

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| Contracted sales (1) | As of and for the year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| | (*in millions of reais*, unless otherwise stated) | | |
| Gafisa | 720.2 | 810.5 | 914.8 |
| Tenda | N/A | 1,141.9 | 1,016.1 |
| Total contracted sales | 720.2 | 1,952.4 | 1,930.9 |

(1) Amount net of sales cancellation.

In 2017, we sold 50.0% of the launched units, which combined with the sales of units launched during prior periods, resulted in total contracted sales of R$720.2 million under the Gafisa brand, a decrease of approximately 11% compared to 2016.

In 2016, we sold 44% of the launched units, which combined with the sales of units launched during prior periods, resulted in total contracted sales of R$810.5 million under the Gafisa brand, a decrease of approximately 11% compared to 2015.

In 2015, we sold 40.9% of the launched units, which combined with the sales of units launched during prior periods, resulted in total contracted sales of R$1,930.9 million, an increase of approximately 60% compared to 2014.

In 2016, we sold 41.6% of the units launched during that year through our Tenda brand, which together with the sales of units launched during prior periods, resulted in total contracted sales of R$1,141.9 million. In 2015, we sold 50.0% of the units launched during that year through our Tenda brand, which together with the sales of units launched during prior periods, resulted in total contracted sales of R$1,016.1 million.

Our sales contracts are irrevocable under Brazilian law, which means a customer does not have a unilateral ability to terminate a contract once it is executed, or require a refund of amounts previously unpaid unless we agree. To the extent that a customer is not in compliance with its obligations under a contract, we have the option to either force compliance through the Brazilian courts, or agree to “default” by the customer. Should we agree to such default, the customer is then charged penalties as defined in the contracts with any remaining amounts remitted to the customer. Penalties charged by Gafisa have been about 40% of amounts paid.

We provide a limited amount of post-construction client financing. Our default rate was 14.1%, 12.4% and 11.8% as of December 31, 2017, 2016 and 2015 respectively.

The table below shows the penalties charged to customers that have defaulted and had their contracts cancelled for the periods presented:

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| | (in millions of *reais*) | | |
| Gafisa | 20.3 | 28.6 | 22.6 |
| Tenda | — | 3.0 | 2.1 |

The following table sets forth our contracted sales expected to be recognized, as well as the amount corresponding to the expected cost of units sold, and the expected margin, all of them to be recognized in future periods, for the periods presented:

| | As of and for the year ended December 31, | | |
|---|---|---|---|
| | 2017 (4) | 2016(4) | 2015 |
| | (*in millions of reais*, unless otherwise stated) | | |
| Sales to be recognized | 644.3 | 525.2 | 793.0 |
| Net sales to be recognized(1) | 620.8 | 506.0 | 764.0 |
| Cost of units sold to be recognized(2) | (405.1) | (315.1) | (453.9) |
| Expected gross margin—yet to be recognized(3) | 215.7 | 190.9 | 310.1 |
| Expected margin percentage | 34.8 % | 37.7 % | 40.6 % |

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(1) Excludes indirect PIS and COFINS taxes of 3.65%. This information includes ventures that are subject to restriction due to a contractual clause, which defines the legal period of 180 days in which the Company can cancel a development.

(2) The estimated gross profit shown does not consider the tax effects or the present value adjustment, and the costs of lands, financial charges and guarantees, which will be carried out to the extent they are realized.

(3) Based on management's estimates.

(4) This amount relates to the Gafisa segment only, since Tenda was spun off on May 4, 2017 and its results of operations have been presented as discontinued operations in our consolidated statements of operations as of December 31, 2016.

Gross Operating Revenues

Our revenues are derived mainly from the development and sale of real estate and, to a much lesser extent, the rendering of construction services to third parties on certain developments in the Gafisa segment where we retain an equity interest.

Real estate development and sales

Real estate development revenues, including inflation adjustments and interest from credit sales, comprise revenues from the sales of units in the residential buildings we develop, and to a lesser extent, the sales of lots and commercial buildings.

Construction services rendered

Our revenues generated by real estate services consist substantially of amounts received in connection with construction management activities for third parties, technical management and real estate management, related to developments in the Gafisa segment where we retain an equity interest. As of December 31, 2017, 4.8% of our net operating revenues were derived from constructions services rendered.

Operating Costs

Our operating costs consist of real estate development costs and, to a lesser extent, costs of services rendered.

Real estate development costs

Real estate development costs consist of costs of land, construction (which includes costs for a broad variety of raw materials and labor), capitalized interest (financial costs) from project specific financing, projects, foundations, structuring and furnishing, as well as costs for outsourced labor. The items making up our costs, as a percentage of our total cost, were as set forth for the periods presented.

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2017 (1) | 2016 (1) | 2015 (1) |
| Land | 35.4 % | 39.06% | 21.22% |
| Construction costs | 46.56% | 41.59% | 59.70% |
| Financial costs | 14.23% | 15.24% | 14.24% |
| Development costs | 3.8 % | 4.12 % | 4.84 % |
| Total | 100.0% | 100.0% | 100.0% |

(1) Percentages retroactively adjusted to reflect the Gafisa segment only, given the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP in the Company's 2017, 2016 and 2015 consolidated statements of operations.

One of our principal real estate development costs is the cost of land. Over the last five years, land represented, on average, 27.25% of our total cost of development. However, this is an extremely volatile component, varying according to characteristics of the land, the region where the land is located, the type of development to be launched and market conditions. Land can be acquired for cash, through the exchange of units once the building is constructed, through financial swaps (whereby a portion of sales is given to the owner of land as a form of financing for the land), or through a combination of the three options.

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No single raw material alone represents a significant portion of our total costs of development, but over the last five fiscal years, raw materials represented, on average, 35% of our total cost of development. The index that measures construction cost variation, the INCC, increased by 4.3%, 6.1% and 7.5% in 2017, 2016 and 2015, respectively. Although some of the principal raw materials, such as steel, have experienced significant price increases well above the level of inflation over the last four years, we have reduced our raw materials costs by developing and using new construction techniques and materials.

Over the last five years, we have incurred most of our construction costs from the 1st to the 18th month of construction of a development, as shown in the table below:

| Period of construction | Percentage of costs incurred(1) |
|---|---|
| 1st to 6th month | 18% |
| 7th to 12th month | 26% |
| 13th to 18th month | 31% |
| 19th to 24th month | 18% |
| 25th to 30th month | 7% |

(1) Including cost of land.

Real estate services

Our costs of real estate services consist of direct and indirect labor fees and outsourced services.

Operating Expenses

Our operating expenses include selling, general and administrative expenses, depreciation and amortization expenses and revenues and revaluation of investment in affiliates.

Selling expenses

Selling expenses include advertising, promotion, brokerage fees and similar expenses.

General and administrative expenses

General and administrative expenses principally include the following:

- employee compensation and related expenses;
- fees for outsourced services, such as legal, auditing, consulting and others;
- management fees and expenses;
- stock option plan expenses;
- overhead corporate expenses;
- expenses related to legal claims and commitments; and
- legal expenses related to public notaries and commercial registers, among others.

Depreciation and amortization

Depreciation expenses consist of depreciation of our property and equipment.

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Financial Income and Expenses

Financial income includes income from financial investments. Interest revenues are recognized on effective interest method. Financial expenses generally consist of interest payable on loans, financings and debentures and are also recognized on effective interest method.

Taxes on Income

In general, taxes on income in Brazil consist of federal income tax (25%) and social contribution on net profits (9%), for a composite statutory tax rate of 34%. We calculate income tax and social contribution in accordance with the “taxable profit” regime. Our subsidiaries and jointly-controlled entities, however, with annual billings lower than a specified threshold, may calculate their respective income and social contribution taxes through either this “taxable profit” regime or through the “presumed profit” regime, depending on our strategic tax planning. For the companies that opt for the “presumed profit” regime, the income tax basis is calculated as 8% of gross revenues and the social contribution basis is calculated as 12% of gross revenues, to which income tax and social contribution rates of 25% and 9%, respectively, are applied.

As permitted by tax legislation, the development of certain ventures are subject to the “afetação” regime, whereby the land and its features where real estate will be developed, as well as other binding assets and rights, are separated from the assets of the developer and comprise the “patrimônio de afetação” (detached assets) of the corresponding development and whose real estate units will be delivered to the buyers. In addition, certain subsidiaries made the irrevocable option for the Special Taxation Regime (RET), adopting the “patrimônio de afetação”, according to which the income tax, social contribution on net profits, PIS and COFINS are calculated at 4% monthly on gross revenues.

Net loss from discontinued operations

The net income (loss) from discontinued operations represents the results of operations of Tenda for the year ended December 31, 2016, and for the period ended May 4, 2017, as well as the results of operations for this entity for the comparative periods. This line item also contains the impairment (loss) reversal related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell.

The income (loss) of discontinued operations is presented as a single amount in statement of operations, which includes the total after-tax-income of these operations, less any impairment-related loss.

Results of Operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with Brazilian GAAP. References to increases or decreases in any given period relate to the corresponding preceding period, unless otherwise indicated.

As explained in Notes 1 and 8.2 to our consolidated financial statements for the year ended December 31, 2017, the results of operations of Tenda have been presented as discontinued operations under Brazilian GAAP in the Company's 2017, 2016 and 2015 consolidated statements of operations.

As required by CPC 31 – Non-current Assets Held for Sale and Discontinued Operations and for comparability purposes, the table below sets forth the line items in our statements of profit or loss for the specified periods that have been adjusted to reflect Tenda as discontinued operations:

| | **For the Year ended December 31, 2015** | | |
|---|---|---|---|
| | **Balances originally reported as of 12/31/2015** | **Impact of discontinued operations** | **Balances reclassified** |
| Statement of profit or loss | | | |
| Net operating revenue | 2,294,319 | (850,962) | 1,443,357 |
| Operating costs | (1,667,505) | 605,584 | (1,061,921) |
| Operating (expenses) income | (552,294) | 216,684 | (335,610) |
| Income from equity method investments | 41,766 | (1,751) | 40,015 |
| Financial income (expenses) | (38,127) | (12,295) | (50,422) |
| Income tax and social contribution | (7,180) | 6,522 | (658) |
| Non-controlling interests | (3,470) | — | (3,470) |
| Profit or loss of discontinued operations | — | 36,218 | 36,218 |
| Net income (loss) for the year | **74,449** | — | **74,449** |

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Results of Operations for the Years Ended December 31, 2017 and 2016

Net operating revenue

Net operating revenue for the year ended December 31, 2017, recognized by the percentage of completion revenue recognition method, was R$608.8 million, a decrease of 33.5% from R$915.7 million for the year ended December 31, 2016, mainly due to (i) the lower volume of launches, and (ii) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

The gross revenue generated from the sale of property and barter transactions, net of the cancellation provision (reversal) totaled R$657.7 million for the year ended December 31, 2017, a decrease of R$325.9 million or 33.1% compared with the same period in 2016 of R$983.7 million. The tax deductions from gross revenue reached R$48.9 million in 2017 from R$68.0 million in 2016, representing a decrease of 28.1%, which was mainly impacted by lower launch volumes.

In addition, due to the continuing challenging economic outlook for the real estate sector in Brazil during 2017, the Company continued to take a more conservative and selective approach with respect to the development and launch of products, focusing mainly on the sale of inventory.

During 2017, inflation as measured by the INCC, the main Brazilian indicator for civil construction costs, was 4.3%. This resulted in an increase in our construction costs and consequently, the prices of our units for some projects, notably those launched in 2016 and 2017 and expected to be delivered in 2018. This increase was offset by (i) monthly increases in the sale prices of our inventory units, and (ii) monthly upward adjustments of outstanding balances on our units sold, in order to reflect inflationary increases.

Operating costs

Operating costs in 2017 totaled R$818.8 million, a 20.4% decrease compared to R$1,029.2 million in 2016, as a result of (i) lower launch volumes and sales in 2017, and (ii) impairment adjustments in our landbank and inventory in the amount of R$147.3 million.

Gross profit

Gross loss in 2017 totaled R$209.9 million, representing an increase from gross loss of R$113.5 million in 2016. This increase was mainly due to (i) lower volume of launches, (ii) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units, (iii) an increase in dissolutions (cancellations of sales), and (iv) the effects of the impairment adjustments in our landbank and inventory in the amount of R$147.3 million.

In 2017, the gross margin generated from our activities decreased to negative 34.5% as compared to negative 12.4% in 2016. This decrease was due to the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

Selling expenses

Selling expenses in 2017 totaled R$87.6 million, representing a decrease of 7.8% as compared to R$94.9 million in 2016, mainly due to the lower volume of launches and sales in 2017. Selling expenses in 2017 represented 14.4% of our net operating revenue compared to 10.4% in 2016.

General and administrative expenses

General and administrative expenses were R$92.7 million in 2017, a 13.0% decrease from the R$106.6 million recorded in 2016. This decrease was mainly due to (i) a decrease in the profit sharing provision recorded in 2017 totaling R$5.4 million; and (ii) a R$4.0 million decrease in our payroll and charges expenses as a result of our corporate restructuring at the end of 2016.

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Depreciation and amortization

Depreciation and amortization in 2017 was R$55.7 million, an increase of R$23.6 million when compared to the R$33.9 million recorded in 2016. This variation was mainly due to the recognition of provision for losses totaling R$25.5 million relating to the goodwill on the AUSA acquisition.

Financial income and expenses, net

Net financial expenses totaled R$107.3 million in 2017, compared to net financial expenses of R$25.7 million in 2016. The increase in financial expenses was mainly due to (i) a decrease in income from short-term investments during the period; (ii) an increase in expenses linked to the renegotiation of certain of our existing indebtedness during the period, and (iii) the incurrence of new indebtedness during the period, including through the issuance of debentures.

Taxes on income

Income, social contribution and deferred taxes for 2017 amounted to income R$23.1 million, compared to an expense of R$100.1 million in 2016. This difference was mainly due to a tax credit of R$24.3 million from the impairment of goodwill that resulted from the remeasurement of our remaining 30% interest in AUSA since 2013.

Net income (loss) from discontinued operations

Our net income (loss) from discontinued operations was a net profit of R$98.2 million in 2017, compared to a net loss of R$559.7 million in 2016. The amount recorded in 2017 was comprised of a gain of R$107.7 million related to the re-evaluation of the fair value of Tenda's discontinued operations, net of liabilities, mainly due to the weighted average price per share relating to the exercise by Gafisa shareholders of their preemptive rights in connection with the Tenda spin-off. This gain was partially offset by the transaction costs relating to the Tenda spin-off totaling R$9.5 million.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interests increased from a net loss of R$1.9 million in 2016 to a net loss of R$0.3 million in 2017, due to the overall positive financial results of our subsidiaries for the year ended December 31, 2017.

Net income (loss) attributable to owners of Gafisa

Net income (loss) attributable to owners of Gafisa was a net loss of R$849.9 million in 2017, compared to a net loss of R$1,163.6 million in 2016. This variation was mainly due to (i) the effects generated by the impairment adjustment of R$127.4 million related to AUSA’s goodwill, (ii) impairment adjustments in our landbank and inventory in the amount of R$147.3 million, (iii) a AUSA proportional equity pickup losses in the amount of R$189.9 million, and (iv) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

Results of Operations for the Years Ended December 31, 2016 and 2015

Net operating revenue

Net operating revenue for the year ended December 31, 2016, recognized by the percentage of completion revenue recognition method, was R$915.7 million, a decrease of 36.6% from R$1,443.4 million for the year ended December 31, 2015, due to (i) the lower volume of Gafisa launches, (ii) a decrease in the sales speed for our inventory, (iii) an increase in dissolutions (cancellations of sales), and (iv) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

The gross revenue generated from the sale of property and barter transactions, net of the cancellation provision (reversal) totaled R$983.7 million for the year ended December 31, 2016, a decrease of R$578.1 million or 37.0% compared with the same period in 2015 of R$1,561.8 million. The tax deductions from gross revenue reached R$68.0 million in 2016 from R$118.5 million in 2015, representing a decrease of 42.6%, which was mainly impacted by the lower launch volumes in Gafisa.

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In addition, due to the continuing deterioration of economic conditions in Brazil during 2016, the Company continued to take a more conservative and selective approach with respect to the development and launch of products, focusing mainly on the middle to high income segment, in order to prioritize stable levels of profitability.

During 2016, inflation as measured by the INCC, the main Brazilian indicator for civil construction costs, was 6.1%. This resulted in an increase in our construction costs and consequently, the prices of our units for some projects, notably those launched in 2015 and 2016 and expected to be delivered in 2018. This increase was offset by (i) monthly increases in the sale prices of our inventory units, and (ii) monthly upward adjustments of outstanding balances on our units sold, in order to reflect inflationary increases.

Operating costs

Operating costs in 2016 totaled R$1,029.2 million, a 3.1% decrease compared to R$1,061.9 million in 2015, as a result of a decrease in sales in the Gafisa segment, due to a lower level of launches in 2016. Cost related to construction is the main component of operating cost, totaling R$428.1 million, equivalent to 41.6% of the original total cost base of projects. Operating costs, as a percentage of net operating revenue, increased from 73.6% in 2015 to 112.4% in 2016, mainly due to (i) an increase in customer defaults, and (ii) a reduction to net realizable value we recorded in our financial statements as of and for the year ended December 31, 2016, in the amount of R$159.9 million related to downward pricing adjustments to inventory and landbank at market value.

Gross profit

Gross loss in 2016 totaled R$113.5 million, representing a decrease from gross profit of R$381.4 million in 2015. This decrease was mainly due to the effects of the deterioration of macroeconomic conditions in Brazil during 2016, resulting in a lower volume of launches in the Gafisa segment, and also non-recurring effects related to impairment adjustments in our inventory and landbank in the amount of R$159.9 million.

In 2016, the gross margin generated from our activities was negative 12.4% as compared to positive 26.4% in 2015. This decrease was due to (i) an increase in dissolutions (cancellations of sales), and (ii) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

Selling expenses

Selling expenses in 2016 totaled R$94.9 million, representing a decrease of 3.1% as compared to R$97.9 million in 2015, mainly due to the lower volume of sales in 2016. Selling expenses in 2016 represented 10.4% of our net operating revenue compared to 6.8% in 2015.

General and administrative expenses

General and administrative expenses were R$106.6 million in 2016, a 9.4% increase from the R$97.4 million recorded in 2015. This increase was mainly due to: (i) an increase in our payroll expense totaling R$2.7 million, attributable to severance payments and indemnity expenses related to our corporate restructuring at the end of 2016; (ii) a non-recurring expense totaling R$2.9 million, related to the separation of the information technology infrastructures of Gafisa and Tenda, and (iii) the net effect of the reversal of a profit sharing provision recorded in 2015 totaling R$9.3 million.

Depreciation and amortization

Depreciation and amortization in 2016, which is mainly related to sales stands, was R$33.9 million, an increase of R$1.3 million when compared to the R$32.6 million recorded in 2015. This variation was mainly due to the mix of projects for our sales stands related to our luxury and middle income residential buildings. In 2016 we launched 10 developments compared to 12 developments launched in 2015.

Financial income and expenses, net

Net financial expenses totaled R$25.7 million in 2016, compared to net financial expenses of R$50.4 million in 2015. The difference is mainly due to a reduction of our total indebtedness during the period and a reduction in cash and cash equivalents during the period.

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Taxes on income

Income, social contribution and deferred taxes for 2016 amounted to R$100.1 million, compared to R$0.7 million in 2015. This increase in the expense was mainly due to a reversal of a portion of previously recognized deferred tax assets in the amount of R$90.3 million, as a result of the loss for the year, mainly related to (i) the impact of the discontinued operations of Tenda on our net income for the period, and (ii) the impairment loss we recorded in the amount of R$610.1 million related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell, in connection with the sale of Tenda shares representing up to 30% of Tenda's total capital stock pursuant to the SPA we entered into with Jaguar on December 14, 2016.

Net income (loss) from discontinued operations

Our net income (loss) from discontinued operations was a net loss of R$559.7 million in 2016, compared to a net income of R$36.2 million in 2015. This variation was due to the impairment loss we recorded in the amount of R$610.1 million related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interests increased from a loss of R$3.5 million in 2015 to a net income of R$1.9 million in 2016, due to the overall positive financial results of our subsidiaries for the year ended December 31, 2016.

Net income (loss) attributable to owners of Gafisa

Net income (loss) attributable to owners of Gafisa was a loss of R$1,163.6 million in 2016, compared to a net income of R$74.4 million in 2015. This variation was mainly due to the effects generated by the SPA entered into with Jaguar, which totaled R$680.2 million, and were comprised of: (i) the impairment loss we recorded in the amount of R$610.1 million related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell, in connection with the sale of Tenda shares representing up to 30% of Tenda's total capital stock pursuant to the SPA we entered into with Jaguar on December 14, 2016, (ii) the reversal of a portion previously recognized deferred tax assets in the amount of R$90.3 million, as a result of the impact of the discontinued operations of Tenda on our net income for the period, and (iii) downward pricing adjustments to inventory and landbank at market value totaling R$159.9 million.

Business Segments

See "Item 4. Information on the Company—A. History and Development of the Company—Historical Background and Recent Developments."

Following the consummation of the Tenda spin-off on May 4, 2017 and the completion of the discontinuation of Tenda's operations (see note 8.2 of the consolidated financial statements), the Company operates one business segment. Accordingly, our chief executive officer, who is responsible for monitoring our business progress, uses data derived from our consolidated financial statements to make decisions. Therefore, in line with CPC 22 – Operating Segments, the Company understands that there is no reportable business segment to be disclosed in the years ended December 31, 2017, 2016 and 2015.

For comparative purposes, we provide below a measure of historical results, selected segment assets and other related information for each reporting segment as of December 31, 2016 and December 31, 2015. The information below is derived from our statutory accounting records which are maintained in accordance with Brazilian GAAP. No individual customer represented more than 10% of our net operating revenue.

| | For the Year Ended December 31, 2016 | | |
|---|---|---|---|
| | Gafisa | Tenda | Total |
| | (millions of *reais* except for percentages) | | |
| Net operating revenue | 915.7 | 1,052.7 | 1,968.4 |
| Operating costs | (1,029.2) | (729.7 ) | 1,758.9 |
| Gross profit | (113.5 ) | 323.0 | 209.5 |
| Gross margin | (12.4 )% | 30.7 % | 10.6 % |
| Net loss from continuing operations | (602.0 ) | — | (602.0 ) |
| Net income (loss) from discontinued operations | (610.1 ) | 50.4 | (559.7 ) |

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| | For the Year Ended December 31, 2015 | | |
|---|---|---|---|
| | Gafisa | Tenda | Total |
| | (millions of *reais* except for percentages) | | |
| Net operating revenue | 1,443.3 | 851.0 | 2,294.3 |
| Operating costs | (1,061.9) | (605.6) | (1.667,5) |
| Gross profit | 381.4 | 245.4 | 626.8 |
| Gross margin | 26.4 % | 28.8 % | 27.3 % |
| Net income from continuing operations | 34.8 | — | 34.8 |
| Net income from discontinued operations | — | 36.2 | 36.2 |

Gafisa Segment

Years Ended December 31, 2016 and 2015

Net operating revenue

On a consolidated basis, net operating revenue for the year ended December 31, 2016, recognized by the percentage of completion revenue recognition method, was R$915.7 million, a decrease of 36.6% from R$1,443.4 million for the year ended December 31, 2015, as a result of (i) the lower volume of Gafisa launches, (ii) a decrease in the sales speed for our inventory, (iii) an increase in dissolutions (cancellations of sales), and (iv) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

Operating costs

Operating costs in 2016 totaled R$1,029.2 million, a 3.1% decrease compared to R$1,061.9 million in 2015, as a result of a decrease in sales in the Gafisa segment, due to a lower level of launches in 2016.

Gross profit

Gross loss in 2016 totaled R$113.5 million, representing a decrease from gross profit of R$381.4 million in 2015. This decrease was mainly due to the effects of the deterioration of macroeconomic conditions in Brazil during 2016, resulting in a lower volume of launches in the Gafisa segment, and non-recurring effects related to impairment adjustments in our inventory and landbank in the amount of R$159.9 million.

In 2016, the gross margin generated from our activities was negative 12.4% as compared to positive 26.4% in 2015. This decrease was due to (i) an increase in dissolutions (sales cancellations), and (ii) the challenging macroeconomic conditions in Brazil and their adverse impact on the price of our units.

Net income (loss) from discontinued operations

Our net income (loss) from discontinued operations was a net loss of R$559.7 million in 2016, compared to a net income of R$36.2 million in 2015. This variation was due to the impairment loss we recorded in the amount of R$610.1 million related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell, in connection with the sale of Tenda shares representing up to 30% of Tenda's total capital stock pursuant to the SPA we entered into with Jaguar on December 14, 2016.

Net income (loss) attributable to owners of Gafisa

Net income (loss) attributable to owners of Gafisa was a loss of R$1,163.6 million in 2016, compared to a net income of R$74.4 million in 2015. This variation was mainly due to the effects generated by the SPA entered into with Jaguar, which totaled R$680.2 million, and were comprised of: (i) the impairment loss we recorded in the amount of R$610.1 million related to the measurement of disposal group held for sale at the lower of its carrying value and the fair value less cost to sell, in connection with the sale of Tenda shares representing up to 30% of Tenda's total capital stock pursuant to the SPA we entered into with Jaguar on December 14, 2016, (ii) a reversal of tax credits in the amount of R$90.3 million, which was originally recorded in 2013, resulting from the impact of the discontinued operations of Tenda on our net income for the period, and (iii) downward pricing adjustments to inventory and landbank at market value totaling R$159.9 million.

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Tenda Segment

Years Ended December 31, 2016 and 2015

Net operating revenue

Net operating revenue of sales and/or services during 2016 totaled R$1,052.7 million, compared to R$851.0 million in 2015, an increase of 23.7%. This increase was mainly due to (i) an increase in sales under the Tenda segment, as a result of the higher level of launches under Tenda's new business model implemented in 2013, (ii) an increase in the recognition of revenues from Tenda projects starting in 2013, and (iii) better performance on construction projects.

Operating costs

The costs of development and sale of property and barter transactions in 2016 totaled R$729.7 million, compared to R$605.6 million in 2015. This increase was mainly due to the higher volume of projects launched under Tenda's new business model since 2013.

Gross profit

Gross profit in 2016 was R$323.0 million, compared to R$245.4 million in 2015. Gross margins increased from to 30.7% in 2016 from 28.8% in 2015, impacted by the replacement of Tenda's legacy projects by projects launched pursuant to Tenda's new business model, the profit margins of which are higher.

Net income (loss) from continuing operations

Net income for the Tenda segment was R$50.4 million in 2016, compared to a net income of R$36.2 million in 2015. This increase in net income is a result of (i) the higher volume of projects launched under Tenda's new business model during 2016, the profit margins of which are higher than those of our legacy projects, and (ii) the decrease in our cost structure.

B. Liquidity and Capital Resources

Our transactions are financed mainly through the contracting of real estate financing and securitization of receivables. When necessary and in accordance with market demands, we carry out long-term financing for the sale of our developments. In order to turn over our capital and accelerate its return, we try to transfer to banks and sell to the market the receivables portfolio of our units.

In 2017, we carried out the following receivables sales with recourse:

On March 28, 2017, Gafisa and its subsidiaries entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$30.2 million in exchange for cash at the transfer date, discounted to present value, for R$23.0 million.

In 2016, we carried out the following receivables sales with recourse:

On March 4, 2016, Gafisa and its subsidiaries entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$36.4 million in exchange for cash at the transfer date, discounted to present value, for R$27.3 million.

On May 20, 2016, Gafisa and its subsidiaries entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$23.0 million in exchange for cash at the transfer date, discounted to present value, for R$17.5 million.

On August 31, 2016, Gafisa and its subsidiaries entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$21.4 million in exchange for cash at the transfer date, discounted to present value, for R$14.9 million.

On December 22, 2016, Gafisa and its subsidiaries entered into a CCI transaction related to a portfolio comprising selected residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$27.0 million in exchange for cash at the transfer date, discounted to present value, for R$19.5 million.

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In 2015, we carried out the following receivables sales with recourse:

On December 3, 2015, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$32.2 million in exchange for cash at the transfer date, discounted to present value, for R$24.5 million.

Construction financing lines of credit are available and we have fulfilled substantially all of our construction financing needs for 2017, 2016 and 2015 at consolidated rates similar to the CDI rate. In order to mitigate the effects of the 2008 global credit crisis, the Brazilian government has announced additional lines of credit to assist the construction industry and its customers, including R$6 billion from the FGTS (a Government Severance Indemnity Fund for Employees). In 2009, we approved the issue of two series of debentures for Gafisa and Tenda in the total amount of R$1.2 billion. In addition, local financial institutions are financing up to 80% of construction costs, through the Brazilian Saving and Loan System (*Sistema Brasileiro de Poupança e Empréstimo* — SBPE) indexed to TR (*Taxa Referencial*) and a fixed rate spread.

During 2017, our customers' ability to obtain bank mortgage loans continued to improve, with interest rates in the range of 9% to 12%+TR, depending on family income and credit score.

The following table shows the balance of our receivables from clients for the development and sale of properties for the periods presented:

| | **As of December 31,** | | |
|---|---|---|---|
| | **2017 (1)** | **2016 (1)** | **2015** |
| | **(in millions of *reais*)** | | |
| Real estate development receivables: | | | |
| Current | 484.8 | 722.6 | 1,395.3 |
| Long-term | 199.3 | 271.3 | 407.1 |
| Total | 684.1 | 993.9 | 1,802.4 |
| Receivables to be recognized on our balance sheet according to percentage of completion method: | | | |
| Current | — | — | — |
| Long-term | 644.3 | 525.2 | 793.0 |
| Total | 644.3 | 525.2 | 793.0 |
| Total receivables from clients | 1,328.4 | 1,519.1 | 2,595.4 |

(1) This amount relates to the Gafisa segment only, since Tenda's results of operations have been presented as discontinued operations in our consolidated financial statements as of December 31, 2016, and since the Tenda

business spin-off was completed on May 4, 2017.

The total balance of receivables on the balance sheet has the following maturity profile:

| Maturity | As of December 31, 2017 (in millions *reais*) |
|---|---|
| Overdue | 155.9 |
| 2018 | 328.9 |
| 2019 | 441.2 |
| 2020 | 370.6 |
| 2021 | 12.7 |
| 2022 onwards | 19.1 |
| **Total** | 1,328.4 |

Loans made to our clients are generally adjusted on a monthly basis as follows: (1) during construction, by the INCC in São Paulo, Rio de Janeiro and other Brazilian cities; and (2) after delivery set forth in the contract, by the IGP-M plus 12% per annum in all markets.

We limit our exposure to credit risk by selling to a broad customer base and by continuously analyzing the credit of our clients. As of March 31, 2018, our clients' default level was 13.4% of our accounts receivable for Gafisa. We annually review the assumptions used in establishing an allowance for doubtful accounts and cancelled contracts, in view of the revision of historical data of its current operation and improvement of measurement estimates. The Company records an allowance for doubtful accounts and cancelled contracts for customers whose

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installments are over 180 days past due for completed units. This allowance is calculated based on the percentage of the construction work completion, a methodology adopted for recognizing income for the year. The allowance for doubtful accounts and cancelled contracts totaled R$33.0 million as of December 31, 2017 and is considered sufficient by our management to cover incurred losses on the realization of accounts receivable.

Cash Flows

Operating activities

In 2017, net cash generated from operating activities totaled R$206.9 million, compared to R$269.7 million in 2016. This decrease is mainly composed of (i) an increase of R$13.1 million in obligations for purchase of land and advances from customers; (ii) a R$260.1 million decrease in receivables from clients and a R$258.5 million decrease in inventory; (iii) a R$27.5 million decrease in related party transactions; (iv) expenses in the net amount of R$682.2 million which did not affect our cash and cash equivalents, of which R$263.6 million relates to impairment adjustments of AUSA goodwill and impairment adjustments in our landbank and inventory, R$204.8 million of which relates mainly to AUSA equity losses during the period, and R$107.8 million of which relates to provisions for contingencies; and (v) other less relevant increases and decreases in other operational categories. This decrease was partially offset by the R$52.0 million in cash generated by Tenda for the period ended May 4, 2017.

In 2016, net cash generated from operating activities totaled R$269.7 million, compared to R$104.5 million in 2015. This increase is mainly related to cash generated from Tenda as a disposal group held for sale in the amount of R$137.1 million in 2016 compared to cash used in the amount of R$85.5 million in 2015. Under the Gafisa segment there was a lower volume of Gafisa launches as a result of the challenging macroeconomic conditions in Brazil. In addition to the cash generated from Tenda in the amount of R$137.5 million, the R$269.7 million was primarily composed of: (1) a decrease of R$73.6 million in obligations for purchase of land and advances from customers; (2) a decrease of R$288.9 million in receivables from clients; (3) an increase of R$100.2 million in related party transactions; (4) an increase of R$75.2 million in expenses which did not affect our cash and cash equivalents; and (5) other less significant increases and decreases in other operating categories.

Investing activities

Net cash generated in investing activities, including the acquisition of assets, equipment and new investments was R$445.4 million in 2017, compared to R$162.5 million in 2016. Our cash generated in 2017 was mainly related to (i) cash generated from the exercise by Gafisa shareholders of their preemptive rights to acquire up to 50% of the share capital of Tenda as part of the Tenda spin-off in the amount of R$219.5 million; (ii) cash generated from the reduction of Tenda’s share capital in the amount of R$105.2 million; and (iii) R$104.7 million related to the redemption of investments in marketable securities and restricted securities and the repayment of loans. Under the Tenda segment, disclosed as a disposal group held for sale, cash generated in investing activities increased to R$48.7 million, compared to R$5.0 million in 2015 mainly related to the redemption of investments in marketable securities and restricted securities and the repayment of loans in the amount of R$57.6 million.

Net cash generated in investing activities, including the acquisition of assets, equipment and new investments was R$162.5 million in 2016, compared to R$384.7 million in 2015. Our cash generated in 2016 was mainly related to the redemption of investments in marketable securities, restricted securities and loans in the amount of R$193.4 million, which was in line with the amount of R$197.4 million in 2015.

Financing activities

Net cash used in financing activities in 2017 totaled R$528.6 million, compared to the net cash used in financing activities in 2016 of R$456.8 million. The cash used in 2017 was mainly attributable to amortization of loans and financing, net of the increase of new contracts, totaling R$365.4 million, in line with our conservative approach to allocation of capital. Net cash generated from financing activities related to the disposal group held for sale in 2017 totaled R$24.1 million compared to net cash used in the amount of R$135.6 million in 2016.

Net cash used from financing activities in 2016 totaled R$456.8 million, compared to the net cash used from financing activities in 2015 of R$516.5 million. The cash used in 2016 was mainly attributable to: (1) repayment of loans and financing, net of the increase of new contracts, totaling R$365.4 million, in line with our conservative approach to allocation of capital and: (2) a dividends payment of R$17.7 million. Net cash used from financing activities related to the disposal group held for sale in 2016 totaled R$135.6 million compared to R$176.8 million in 2015.

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Pledged mortgage receivables and short-term investments

As of December 31, 2017, substantially all of our mortgage receivables totaling R$317.7 million are pledged. In addition, R$10.8 million of our short-term investments and collaterals are restricted as they have been pledged.

Capital Expenditures

In 2017, we invested R$20.5 million in machinery and equipment, information technology equipment, software, project planning and information technology projects. Our main investments during the period were related to sales stands and software acquisitions, which amounted to R$7.3 million and R$6.4 million, respectively.

In 2016, under the Gafisa brand, we invested R$35.8 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and office facilities in São Paulo. Our main investments during the period were investments in information technology equipment and software, which totaled R$8.3 million, and the construction of sales stands, which totaled R$10.8 million.

In 2015, under the Gafisa and Tenda brands, we invested R$54.6 million in property and equipment, primarily information technology equipment, software, the construction of sales stands, facilities, model apartments and related furnishings and office facilities in São Paulo. Our main investments during the period were investments in information technology equipment and software, which totaled R$31.7 million, the construction of sales stands, which totaled R$9.4 million, and third party leasehold improvements and facilities, which totaled R$2.8 million.

Our capital expenditures are all made in Brazil and are usually funded by local debt capital markets. We currently do not have any significant capital expenditures in progress.

Indebtedness

When we consider appropriate, we have incurred indebtedness within SFH, which offers lower interest rates than the private market. When our customers obtain a mortgage, we use the proceeds to redeem our SFH indebtedness. We intend to continue our strategy of maintaining low levels of debt comprised mainly of transactions within SFH or long-term transactions.

As of December 31, 2017, we had outstanding debt in the total amount of R$1,104.9 million, a decrease of 32.6% as compared to December 31, 2016. As of December 31, 2017, our indebtedness principally consisted of: (1) debentures totaling R$207.7 million, (2) working capital loans totaling R$164.1 million and (3) other loans (mainly SFH) totaling R$733.1 million.

As of December 31, 2016, we had outstanding debt in the total amount of R$1,639 million, a decrease of 24% as compared to December 31, 2015. As of December 31, 2016, our indebtedness principally consisted of: (1) debentures totaling R$451 million, (2) working capital loans totaling R$164 million and (3) other loans (mainly SFH) totaling R$1,022 million. In addition, we had outstanding payables to venture partners totaling R$1 million.

| | Maturity as of December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Total (1) | 2018 | 2019 | 2020 | 2021 and thereafter |
| | (in millions of *reais*) | | | | |
| Debentures (Working Capital) | 207.7 | 88.2 | 51.5 | 68.0 | — |
| Other Working Capital | 164.0 | 109.2 | 27.1 | 18.4 | 9.4 |
| Housing Finance System (SFH) | 733.1 | 371.8 | 260.1 | 90.4 | 2.8 |
| Total | 1,104.9 | 569.2 | 338.7 | 184.8 | 12.2 |

(1) This amount relates to the Gafisa segment only, since Tenda's results of operations have been presented as discontinued operations in our consolidated financial statements as of December 31, 2016.

On September 29, 2014 the Company entered into a loan agreement of R$194 million maturing in October 2018. This agreement was guaranteed by a pledge of to be performed units of selected ventures and real estate receivables.

On September 28, 2016, we issued a CCB in a total amount of R$65.0 million due in 2019. The CCB is guaranteed by a specific portion of our landbank and real estate receivables.

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On March 28, 2017 we issued a CCB in a total amount of R$47 million due in 2021. The CCB is guaranteed by real estate receivables.

On April 27, 2017 we issued a CCB in the amount of R$12 million due in 2019. The CCB is guaranteed by a specific portion of our landbank.

On November 30, 2017 we issued a CCB in the amount of R$40 million due in 2021. The CCB is guaranteed by real estate receivables.

The actual ratios and minimum and maximum amounts stipulated by restrictive covenants related to these CCBs at December 31, 2017 are as follows:

| | **At December 31, 2017** |
|---|---|
| **Loans and Financing** | |
| Net debt (1) cannot exceed 100% of equity plus noncontrolling interests | 126.08% |
| Total accounts receivable (2) plus inventory required to be below zero or 2.0 times over venture debt (3) | 3.62 times |
| Total account receivable plus inventory of completed units required to be below zero or 2.0 times over net debt less venture debt (3) | 7.51 times |
| Total debt, less venture debt, less cash and cash equivalents and short-term investments, cannot exceed 75% of equity plus noncontrolling interests | 29.54% |
| Total receivable (2) plus unappropriated income plus total inventory of completed units required to be 1.5 time over the net debt plus payable for purchase of properties plus unappropriated cost | 1.93 times |

(1) Net debt refers to total debt less cash and cash equivalents.

(2) Total accounts receivables, whenever mentioned, refers to the amount reflected in the Balance Sheet plus the amount to be recognized according to the PoC and not yet shown in the Balance Sheet.

(3) Venture debt and general guarantee debt refer to SFH debts, defined as the sum of all disbursed borrowing contracts which funds were provided by SFH, as well as the debt related to the seventh placement.

Debenture program

In July 2014, the CVM approved the private placement of our ninth issuance which consisted of non-convertible debentures in a single series maturing in July 2018, for an aggregate of R$130 million. The debentures provide for the payment of semiannual interest corresponding to the CDI rate plus 1.90%. The issuance is guaranteed by real estate receivables and a pledge of units of selected real estate ventures. Proceeds from the issuance will be used solely to finance such selected real estate ventures. The debentures holders assigned their fiduciary rights in the real estate receivables in favor of a real estate securitization SPE, which issued CRIs backed by such real estate receivables. In September 2017, the rate was renegotiated to the CDI rate plus 2.80% due to exchanged guarantees.

In December 2014, the CVM approved the private placement of our tenth issuance which consisted of non-convertible debentures in a single series maturing in January 2020, for an aggregate of R$55 million. The private placement was concluded in January 2015. The debentures provide for the payment of semiannual interest corresponding to the IPCA plus 8.22%. The issuance is guaranteed by a pledge of units of selected real estate ventures. Proceeds from the issuance will be used solely to finance such selected real estate ventures.

In November 2017, we issued two series of non-convertible debentures totaling R$120 million on a private placement basis. The first series of debentures totaling R$90 million is secured by (i) first-priority mortgages over select real estate ventures of the Company and (ii) fiduciary assignments of real estate receivables generated by such select real estate ventures. In November 2017, the debenture holders assigned their fiduciary rights in the real estate receivables to a real estate securitization special purpose entity, which issued CRIs backed by such real estate receivables. The second series of debentures totaling R$30 million, and guaranteed by a fiduciary guarantee, has not been placed with investors as of the date of this annual report. The proceeds of the debentures will be used to fund the development of the aforementioned real estate ventures only.

We have various covenants relating to our debentures issuances described above. These mainly consist of (i) cross default provisions, whereby outstanding indebtedness will become immediately due and payable in the event

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that the Company or its subsidiaries do not comply with their obligations under any other credit facility for a value in excess of the amounts set forth therein; (ii) restrictions on transfer of control and merger and acquisition transactions; (iii) limitations on our ability to incur debt; (iv) limitations or creating liens on assets; (v) limitations on the distribution of dividends if we are under default and (vi) the following ratios and limits to be calculated on a quarterly basis. The table below sets forth these ratios and limits as amended.

The actual ratios and minimum and maximum amounts stipulated by these restrictive covenants at December 31, 2017 are as follows:

| | **At December 31, 2017** |
|---|---|
| **Ninth placement** | |
| Total accounts receivable (2) plus total inventory required to be below zero or greater than 2.0 times over net debt (4) | 2.77 times |
| Net debt cannot exceed 100% of equity plus non-controlling interests | 126.08% |
| **Tenth placement** | |
| Total accounts receivable (2) plus inventory required to be below zero or 2.0 times over net debt (4) less venture debt (3) | 11.83 times |
| Total debt less venture debt (3), less cash and cash equivalents and short-term investments (1), cannot exceed 75% of equity plus non-controlling interests | 29.54% |

(1) Cash and cash equivalents and short-term investments refer to cash and cash equivalents and marketable securities.

(2) Total accounts receivables, whenever mentioned, refers to the amount reflected in the Balance Sheet plus the amount to be recognized according to the PoC and not yet shown in the Balance Sheet.

(3) Venture debt and general guarantee debt refer to SFH debts, defined as the sum of all disbursed borrowing contracts which funds were provided by SFH, as well as the debt related to the seventh placement.

(4) Net debt refers to total debt less cash and cash equivalents

We expect to comply with the covenants in the agreements governing our outstanding indebtedness which may limit our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions. See "Item 3. Key Information—D. Risk Factors—Our level of indebtedness could have an adverse effect on our financial health, diminish our ability to raise additional capital to fund our operations and limit our ability to react to changes in the economy or the real estate industry."

As of December 31, 2017, the Company and its subsidiaries were in compliance with the contractual covenants provided for in our debentures and our credit instruments, except for non-compliance with a certain restrictive covenant in one of the Company's CCB's and one of its debentures. This non-compliance occurred mainly as a result of an impairment adjustment of R$127.4 million related to AUSA's goodwill which, together with a loss applying the equity of R$186.9 million, resulted in an impact of R$314 million on our statement of profit and loss and shareholders' equity. In addition, we recorded an impairment adjustment of R$147.3 million in our inventory units, when similar units were being sold below their book value due to the effects of the challenging macroeconomic conditions in the real estate sector and in Brazil as a whole. Both debt agreements were classified as short term debt in the Company's financial statements. As of the date of this annual report, we are in the process of obtaining the necessary waivers from the relevant creditors for this covenant non-compliance and we have not received an acceleration notice in connection with such non-compliance. The Company analyzed all of its other debt agreements and did not identify any impact on its restrictive covenants in such other debt agreements resulting from this non-compliance.

Financing through the Housing Finance System (SFH)

Most of our financing is incurred directly or through our subsidiaries or jointly-controlled entities from the principal banks that operate within SFH. As of December 31, 2017, the interest rates on these loans generally varied between 8.30% and 14.19% per annum, plus TR, and the loans generally mature through March 2018 and April 2021. This financing is secured by mortgages on property and by security interests on the receivables from clients. As of December 31, 2017, we had 25 loan agreements in effect, with a balance of R$733 million. At the same date we also had R$75 million in aggregate principal amount of financing agreements with SFH, the funds of which will be released through the date of completion as construction of the corresponding development's progress.

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Securitization deals and Fund — FIDC

On March 31, 2009, we entered into a securitized receivables transaction, whereby we assigned a portfolio of select residential and commercial real estate receivables to “Gafisa FIDC” which issued senior and subordinated quotas. This first issuance of senior quotas was made through an offering restricted to qualified investors. Subordinated quotas were subscribed exclusively by Gafisa S.A. Gafisa FIDC acquired the present value of the portfolio based on an agreed discount rate. We provide Gafisa FIDC with administrative and accounting services including the reconciliation and analysis of receivables and collections and can be replaced by another collection agent in the event of non-fulfillment with contractual parameters. The senior and subordinated quotas are remunerated based on the IGP-M index plus interest of 12% per year. Because the subordinated quotas have a disproportional percentage of the expected losses, Gafisa FIDC was considered a variable interest entity and was fully consolidated in our financial statements as of December 31, 2012, 2011 and 2010. On May 28, 2013, the Company entered into an agreement to sell the subordinated quotas to seniors investors in exchange for R$5 million in cash and R$3 million of real estate receivables. The Company remained obligated to fully register the real estate pledge to investors.

On June 27, 2011, the Company and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$203.9 million (R$185.2 million – Gafisa’s interest) in exchange for cash, at the transfer date, discounted to present value, for R$171.7 million (R$155.9 million – Gafisa’s interest), recorded under “Obligations assumed on assignment of receivables”.

On September 29, 2011, the Company and its subsidiaries entered into a Private Instrument for Assignment of Real Estate Receivables and Other Covenants which consist of an assignment of a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The amount of real estate receivables assignment paid by the Assignee amounts to R$238.4 million (R$221.4 million - Gafisa’s interest). The assignment amount will be settled by the Assignee by offsetting the Housing Financial System (SFH) debt balance of the own bank. On July 6, 2012, the remaining balance was settled by issuance of Bank Deposit Certificate (CDB) guaranteed in favor of the Company.

On December 22, 2011, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$72.4 million in exchange for cash at the transfer date, discounted to present value, by R$60.1 million, classified as “Obligations with assignment of receivables”.

On May 9, 2012, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$64.9 million in exchange for cash at the transfer date, discounted to present value, by R$45.2 million.

On July 6, 2012, Gafisa and its subsidiaries entered into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$18.2 million in exchange for cash at the transfer date, discounted to present value, for R$11.5 million.

On December 27, 2012, Gafisa and its subsidiaries enter into a CCI transaction relating to a portfolio comprising select residential real estate receivables from Gafisa and its subsidiaries. The assigned portfolio of receivables amounts to R$72.0 million in exchange for cash at the transfer date, discounted to present value, by R$61.6 million.

On November 29, 2013, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$24.2 million in exchange of cash at the transfer date, discounted to present value, by R$19.6 million.

On November 25, 2014, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$15.2 million in exchange of cash at the transfer date, discounted to present value, by R$12.4 million.

On December 3, 2015, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$32.2 million in exchange of cash at the transfer date, discounted to present value, by R$24.5 million.

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On March 4, 2016, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$36.4 million in exchange for cash at the transfer date, discounted to present value, for R$27.3 million.

On May 09, 2016, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$23.0 million in exchange for cash at the transfer date, discounted to present value, for R$17.5 million.

On August 16, 2016, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$21.4 million in exchange for cash at the transfer date, discounted to present value, for R$14.9 million.

On December 21, 2016, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$27.0 million in exchange for cash at the transfer date, discounted to present value, for R$19.5 million.

On March 28, 2017, a selected portfolio of sales receivables from Gafisa and its subsidiaries was transferred to investors. The assigned portfolio amounts to R$30.2 million in exchange for cash at the transfer date, discounted to present value, for R$23.0 million.

Pursuant to Article 125 of the Brazilian Civil Code, the CCI-Investor carries general guarantees represented by statutory liens on real estate units, effective as soon as the conditional restrictions included in the registration are lifted, as reflected in the real estate deed on (i) the assignment of receivables from the assignors to SPEs, as provided for in Article 167, item II, (21) of Law No. 6,015, of December 31, 1973; and (ii) the issue of CCI-Investor by SPEs, as provided for in Article 18, paragraph 5 of Law No. 10,931/04.

We will be compensated for, among other things, the reconciliation of the receipt of receivables, guarantee the CCIs, and the collection of past due receivables. The transaction structure provides for the substitution of us as collection agent in the event of non-fulfillment of the responsibilities described in the collection service contract.

Working Capital

We believe that our current working capital is sufficient for our present requirements and that our sources of funds from financing activities are sufficient to meet the financing of our activities and cover our need for funds for at least the next twelve months. Additionally, as a result of the Tenda spin-off which was consummated on May 4, 2017, we received cash totaling R$219.5 million in connection with the exercise by the Gafisa shareholders of their preemptive rights to acquire up to 50% of the share capital of Tenda, as well as cash totaling R$105.2 million in connection with the Tenda share capital reduction, both of which have contributed to solidifying the liquidity and capital structure of the Company. As a result of the gradual recovery of the Brazilian economy and as part of the Company's strategy to reinforce its liquidity, strengthen its capital structure and solidify the Company's strategic and operational positioning for a new cycle of the real estate market, we issued and sold 16,717,752 new common shares of the Company for a total amount of R$250.8 million, all in registered, book-entry form, and with no par value, at a price per share equal to R$15.00, of which R$0.01 per share was allocated to capital, and R$14.99 per share was allocated to capital reserves.

U.S. GAAP Reconciliation

We prepare our consolidated financial statements in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Our net income attributable to owners of Gafisa, in accordance with Brazilian GAAP, was a net loss of R$849.9 million, a net loss of R$1,163.6 million and a net income of R$74.4 million in 2017, 2016 and 2015, respectively. Under U.S. GAAP, our net losses were R$732.1 million, R$985.2 million and R$10.1 million in 2017, 2016 and 2015, respectively.

Our equity, in accordance with Brazilian GAAP, was R$759.4 million, R$1,930.5 million and R$3,097.2 million, as of December 31, 2017, 2016 and 2015, respectively. Under U.S. GAAP, we recorded total equity of R$661.1 million, R$1,710.6 million and R$2,704.9 million as of December 31, 2017, 2016 and 2015, respectively.

The following items generated the most significant differences between Brazilian GAAP and U.S. GAAP in determining net income and shareholders' equity:

- revenue recognition; and

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· effects of deferred taxes on the difference above.

For a discussion of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements and a reconciliation of net income and equity see Note 33 to our consolidated financial statements included elsewhere in this annual report and "Item 3.A. Key Information—Selected Financial Data."

New Accounting Pronouncements, Interpretations and Guidance

Pronouncements (new or revised) and interpretation applicable to years beginning January 1, 2017

The Company adopted all of the pronouncements (new or revised) and interpretations issued by the CPC applicable to its operations which were effective as of December 31, 2017.

On May 28, 2014, the IASB published IFRS 15, which establishes principles that will apply to the recognition of revenue under IFRS. IFRS 15 will require entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. When adopted, IFRS 15 will supersede most of the detailed guidance on the recognition of revenue that currently applies under IFRS. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, and earlier application of IFRS 15 will be permitted for IFRS purposes. In December 2016, CPC has issued this pronouncement as CPC 47, effective on January 1, 2018. The standard can be applied either on the retrospective method or the cumulative effect method, and is currently being evaluated by the Company.

For the specific case of the real estate development sector, maintaining the POC revenue recognition method or the adoption of the method of keys, for example, will result in the contractual analyses made by Management.

In September 2017, the CPC consulted with the IASB – IFRS IC on the application of the percentage of completion revenue recognition method to certain types of commercial contracts entered into in Brazil.

In a letter (CVM/SNC/SEP/No. 01/2018) dated January 10, 2018, the CVM instructed real estate development entities to continue applying Guideline OCPC 04 - Application of the Technical Interpretation ICPC 02. As of the date of this annual report, Guideline OCPC 04 is not yet final and is subject to further amendments.

For a discussion on the impact on our financial statements of changing the revenue recognition method for U.S. GAAP purposes from the percentage of completion revenue recognition method to the method of revenue recognition at the time each unit is delivered, please see note 33(c)(ii) to our consolidated financial statements included elsewhere in this annual report.

In July 2014, the IASB published IFRS 9, which establishes, among other principles, principles that will apply to the classification, measurement and recognition of financial assets and liabilities. IFRS 9 will replace (i) earlier versions of IFRS 9 and (ii) IAS 39. IFRS 9 is comprised of three phases:

Phase 1 - Classification and measurement of financial assets and liabilities: Phase 1 introduces an approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach will replace existing rule-based requirements. The new model will also result in a single impairment model being applied to all financial instruments.

Phase 2 - Impairment: Phase 2 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. It will require entities to account for expected credit losses (as opposed to incurred credit losses) from when financial instruments are first recognized. It will also lower the threshold for recognition of full lifetime expected losses.

Phase 3 - Hedge Accounting: Phase 3 replaces the rule-based hedge accounting requirements in IAS 39. It will introduce a reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model will align the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. Earlier application of IFRS 9 will be permitted for IFRS purposes. In December 2016, CPC has issued this pronouncement as CPC 48, effective on January 1, 2018. IFRS 9 contains a general requirement that it should be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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On January 13, 2016, the IASB published IFRS 16 – Leases ("IFRS 16"), which establishes principles that will apply to the recognition, measurement, presentation and disclosure of leases in the financial statements of lessors and lessees. IFRS 16 will require lessors to recognize a lease liability reflecting future lease payments and a "right-of-use assets" for all lease contracts, except certain short-term leases and leases for low-value assets. The principles that apply to the recognition, measurement, presentation and disclosure of leases in the financial statements of lessees will remain substantially the same. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019, and earlier application of IFRS 16 will be permitted for IFRS purposes. In Brazil, earlier application of IFRS 16 will be subject to the implementation of IFRS 16 in Brazil and the prior approval of the CPC and the CVM. The standard can be applied either on the cumulative catch-up approach or the full retrospective method, and is currently being evaluated by the Company.

We are in the process of evaluating the impact of CPC 47, CPC 48 and IFRS 16 on our financial statements. As of the date of this annual report, we have not completed our analysis of CPC 47, CPC 48 and IFRS 16 and we have not determined the extent to which CPC 47, CPC 48 and IFRS 16 will impact our financial statements once they are adopted.

The following standard amendments and interpretations will not have a significant impact on the consolidated financial statements of the Company:

- Annual improvements to the IFRS standards 2014-2016 cycle – Amendments to IFRS 1 and IAS 28.
- Amendments to CPC 10 (IFRS 2) Share-based Payment in relation to the classification and measurement of certain share-based payment transactions
- Transfers of Investment Property (amendments to CPC 28/IAS 40)
- Amendment to CPC 36 Consolidated Financial Statements (IFRS 10) and CPC 18 Investments in Associates and Joint Ventures (IAS 28) in relation to sales or contributions of assets between an investor and its associate or joint venture.
- ICPC 21 / IFRIC 22 Foreign Currency Transaction and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.

There is no other standard, amendment or issued interpretation that is not yet adopted that could, in the opinion of our management, have a significant impact on our financial statements upon adoption.

**Recently Adopted and Issued U.S. GAAP Accounting Standards**

Please refer to Note 33(c) to our consolidated financial information for a description of recently adopted U.S. GAAP accounting standards and recently issued U.S. GAAP accounting standards.

## C. Research and Development, Patents and Licenses, etc.

We have a research and development department for new products, processes and methodologies focused on reducing the construction cycle. As of December 31, 2017, 2016 and 2015, we had 2, 5 and 6 employees engaged in research and development activities, respectively. Our research and development expenditures in 2017, 2016 and 2015 were immaterial. See also "Item 4. Information on the Company—B. Business Overview—Construction."

## D. Trend Information

Elsewhere in this annual report, including under "Item 3. Key Information—D. Risk Factors" and "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Brazilian Real Estate Sector," we discuss trends, uncertainties, demands, commitments or events which could have a material effect upon our net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that could cause reported financial information to not necessarily be indicative of future operating results or financial condition.

In addition, while we believe the long term prospects for the Brazilian housing market have not changed, during 2015, 2016 and 2017, we recognized that we needed to adjust how we have approached the demand for high growth and diversification in the market in order to achieve sustainable, profitable growth. In the Brazilian housing market, demand has outstripped supply on all fronts, from units and availability of skilled labor, to reliable and experienced suppliers and building partners, to financing, and to the ability to rapidly issue permits and obtain the necessary approvals to deliver units.

In the second half of 2011, our management team conducted a detailed analysis of our operations and profitability by project, region and brand and has developed certain strategies to address the market trends that we

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have identified. As part of this revised strategy, we planned to continue to simplify and streamline our organizational and operational structure to reinforce the fundamental strengths of each of our brands, determining the specific geographic markets where each of our brands had the strongest prospects for performance and where we would enjoy supply chain efficiencies, and focused our efforts for each brand in its respective geographic markets. We also implemented a new management structure that, among other things, assigned each brand manager direct responsibility for the operating performance of each brand.

In 2013 Gafisa completed its strategic repositioning, which commenced in early 2012. Our goal was to reduce the level of debt, restrict the Company's exposure to unprofitable businesses and markets and improve in margins and cash generation. One of the several initiatives we adopted to achieve this goal was the sale of a 70% interest in Alphaville, which contributed to a decrease in our leverage.

By the end of 2013 we finalized our five-year business plan for the period from 2014 to 2018. We set guidelines for our business including the expected size of Gafisa and Tenda operations, appropriate leverage, profitability guidelines, and our commitment to capital discipline and shareholder value generation, which are reflected in the guidance released to the market at the end of 2013.

On February 2, 2014, Gafisa's board of directors authorized management to initiate studies for a potential spin-off of Gafisa and Tenda business units into two independent publicly traded companies. Our management initiated the studies in the first quarter of 2014. The main objectives of the proposed spin-off are to:

- enable shareholders to allocate resources between Gafisa and Tenda in line with their interests and investment strategies;
- enable Gafisa and Tenda to respond faster to the opportunities in their target markets;
- establish sustainable capital structures for each of Gafisa and Tenda, based on each company's risk profile and strategic priorities;
- give greater visibility to the market on the individual performance of each of Gafisa and Tenda, enabling better assessment of intrinsic value; and
- increase the ability of Gafisa and Tenda to attract and retain talent, through the development of appropriate cultures and compensation structures consistent with the specific results of each business.

During 2015, the Company continued to evaluate the potential spin-off of the Gafisa and Tenda business units into two separate entities. During 2015, as part of the spin-off studies, we (i) separated several joint departments of Gafisa and Tenda, including, among others, the services, personnel and management department and the legal department, (ii) converted Tenda's issuer registration with the CVM from category B to category A, (iii) entered into negotiations with several banks and insurance companies to open lines of credit for Tenda that are independent of Gafisa, and (iv) reviewed our contracts with our third party counterparties and evaluated the potential impact of a spin-off on those contracts. On April 29, 2015, we announced to the market that the spin-off studies were ongoing and would take longer to be concluded than had been initially expected. On August 16, 2016, we announced to the market that that the spin-off studies were ongoing and that we were evaluating other potential capital structure options and separation alternatives for the Gafisa and Tenda business units, including a potential offer of securities and/or a sale of equity interests, in addition to the spin-off itself.

In December 2016, following the conclusion of our analysis of certain strategic options, our management decided to sell 50% of Tenda's total capital stock, and transfer the remaining 50% of Tenda's total capital stock to our shareholders in connection with a reduction in our total capital stock. Accordingly, on December 14, 2016, we entered into an SPA with Jaguar Real Estate Partners LP ("Jaguar") pursuant to which we offered to sell Tenda shares representing up to 30% of the total capital stock of Tenda, at a price equal to R$8.13 per share.

During 2017, we did not issue a launch guidance for the Tenda segment or the Gafisa segment as a result of the continuing weakening economic conditions and political instability in Brazil. Accordingly, we adopted a conservative approach to launches, focusing on the sale of inventory.

The spin-off of the Tenda business unit was consummated on May 4, 2017, following: (i) a reduction of the capital stock of Tenda (without the cancellation of shares), pursuant to which Gafisa, as sole shareholder at that time, received R$100 million (adjusted by the SELIC); (ii) a reduction of the capital stock of Gafisa, resulting in the distribution to Gafisa shareholders of shares corresponding to 50% of the capital stock of Tenda; (iii) the conclusion

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of the preemptive rights exercise pursuant to which Gafisa shareholders acquired up to 50% of the total share capital of Tenda, at the price per share set forth in the SPA with Jaguar and for a total amount of R$219.5 million, with no shares being acquired by Jaguar; and (iv) the satisfaction of other conditions precedent for the consummation of the spin-off. In addition, on May 4, 2017, the Tenda shares were listed on the B3 and began to publicly trade.

E. Off Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements or significant transactions with unconsolidated entities not reflected in our consolidated financial statements. All of our interests in and/or relationships with our subsidiaries or jointly-controlled entities are recorded in our consolidated financial statements.

F. Disclosure of Contractual Obligations

The table below presents the maturity of our significant contractual obligations as of December 31, 2017. The table does not include deferred income tax liability.

| | Maturity Schedule | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | (*in millions of reais*) | | | | |
| Loans and financing | 897.2 | 481.1 | 416.1 | — | — |
| Debentures | 207.7 | 88.2 | 119.5 | — | — |
| Interest (1) | 174.7 | 114.0 | 60.7 | — | — |
| Real estate development obligations (2) | 654.9 | 373.6 | 280.9 | 0.4 | — |
| Obligations for land purchase | 245.1 | 92.7 | 108.6 | 43.8 | — |
| Credit assignments | 84.4 | 31.0 | 34.1 | 11.0 | 8.2 |
| Obligations from operating leases | 29.8 | 3.9 | 9.1 | 10.0 | 6.8 |
| Other accounts payable | 111.5 | 104.4 | 7.1 | — | — |
| **Total** | **2,405.3** | **1,288.9** | **1,036.1** | **65.2** | **15.0** |

(1) Estimated interest payments are determined using the interest rate as of December 31, 2017. However, our long-term debt is subject to variable interest rates and inflation indices, and these estimated payments may differ significantly from payments actually made.

(2)

Including commitments not reflected in the balance—CFC Resolution No. 963. Pursuant to Brazilian GAAP, and since the adoption of CFC Resolution No. 963, the total costs to be incurred on the units launched but not sold are not recorded on our balance sheet. As of December 31, 2017, the amount of "real estate development obligations" related to units launched but not sold was R$239.1 million.

We also recorded provisions for contingencies in relation to labor, tax and civil lawsuits in the amounts of R$116.3 million and R$82.1 million in current and non-current liabilities, respectively, as of December 31, 2017.

G. Safe Harbor

See "Cautionary Statement Regarding Forward-Looking Statements."

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management Board of Directors

The table below shows the names, positions, and terms of office of the members of our board of directors:

| Name | Age | Position | Election Date | Term of Office(1) |
|---|---|---|---|---|
| Odair Garcia Senra(2)(3) | 71 | Chairman | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| Guilherme Affonso Ferreira(2)(3) | 66 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| Maurício Marcellini Pereira(2)(3) | 44 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| Cláudio José Carvalho de Andrade(2)(3) | 46 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| José Écio Pereira da Costa Junior(2)(3) | 66 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| Rodolpho Amboss(2)(3) | 54 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |
| Francisco Vidal Luna (2)(3) | 71 | Director | April 25, 2016 | Annual Shareholders' General Meeting in 2018 |

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(1) Under Brazilian corporate law, an annual general shareholders' meeting must take place within the first four months of the calendar year.

(2) Independent member pursuant to NYSE rules.

(3) Independent member pursuant to Brazilian Law. According to Brazilian Law, a director is considered independent when: (1) he/she has no relationship with the company, except for holding shares; (2) he/she is not a controlling shareholder, spouse or relative of the controlling shareholder, has not been in the past three years linked to any company or entity related to the controlling shareholder; (3) he/she has not been in the past three years an employee nor an executive of the company, of the controlling shareholder or of any subsidiary of the company; (4) he/she is not a supplier or buyer, direct or indirect, of the company where the arrangement exceeds a certain amount; (5) he/she is not an employee or manager of any company which renders services to the company or which uses services or products from the company; (6) he/she is not a spouse or relative of any member of the company's management; and (7) he/she does not receive any compensation from the company, except for the compensation related to its position as a board member.

Our directors are not subject to mandatory retirement due to age.

The following is a summary of the business experience and principal outside business interests of the current members of our board of directors.

*Odair Garcia Senra*. Mr. Garcia Senra is currently the chairman of our board of directors. He started as an intern at former Gomes de Almeida Fernandes and occupied positions in the Company as construction engineer, general manager of construction, construction officer, and institutional relations officer. Currently he also holds the following positions: member of the board of directors of Alphaville Urbanismo S.A., which operates in the construction and incorporation of urban land subdivisions, with the Company holding 30% of Alphaville Urbanismo S.A.; Officer of SECOVI SP – Sindicato das Empresas de Compra, Venda, Locação e Administração de Imóveis Residenciais e Comerciais de São Paulo, union for the companies involved in buying, selling and administrating Real Estate in São Paulo; Vice President of SINDUSCON SP – Sindicato da Indústria da Construção Civil do Estado de São Paulo, union for the construction companies in São Paulo; member of the board of directors of Instituto Mauá de Tecnologia, appointed as a representative of SINDUSCON SP; member of the Consulting Counsel of FIABCI/Brasil – Federação Internacional das Profissões Imobiliárias; and Officer of BRIO Investimentos Imobiliários S.A., a Real Estate asset management.

In the past 5 years, he has held, among others, the following positions: Operational Officer of Construtora Tenda S.A., member of the board of directors of São Carlos Empreendimentos e Participações S.A., a company specialized in asset management of commercial Real Estate, and representative of Sinduscon-SP at Câmara de Legislação Urbanística do

Município de São Paulo (CTLU). He holds a bachelor’s degree in civil engineering from the Civil Engineering School of Mauá.

*Guilherme Affonso Ferreira*. Mr. Ferreira is currently a member of our board of directors and the CEO of Bahema Participações S.A., a financial investment company. Currently he also holds the following positions: member of the board of directors, Finance and Strategic Committees of Petrobras S.A., an oil and gas company; member of the board of directors and compensation committee of SulAmérica S.A., an insurance company; member of the board of directors of Valid Soluções e Serviços de Segurança em Meios de Pagamento e Identificação S.A.; a company that specializes in payment facilitation program, system identification and telecommunication; member of the board of directors and Audit Committee of Arezzo Indústria e Comércio S.A., a shoes retailer; member of the board of directors of T4F Entretenimento S.A.; a member of the board of directors of Tavex Algodonera S.A., a textile company; and member of the board of directors of Entidades Benemerentes, Instituto de Cidadania Empresarial, Esporte Solidário e AACD, all third sector entities.

In the past 5 years he was also, among others, member of the following board of directors: Companhia Brasileira de Distribuição (Pão de Açucar), a retail company; Ideiasnet S.A., a technology, media and telecommunications company, Banco Indusval, a financial institution, B2W S.A., an electronic commerce company and Entidades Benemerentes, a third sector entity. He holds a production engineering degree from the University of São Paulo and a master’s degree in economics and political science from Macalester College.

*Maurício Marcellini Pereira*. Mr. Pereira is currently a member of our board of directors.

In the past 5 years he has held, among others, the following positions: member of the board of directors of Tenda; Investment Officer of *Fundação dos Economiários Federais – FUNCEF*, a pension fund for the employees of Caixa Econômica Federal; Executive Officer of New Business of Caixa Participações S.A. – CAIXAPAR, a company specialized in strategic corporate stakes a member of the board of directors of Elo Serviços S.A., a debit and credit card administrator member of the board of directors of Telemar Participações S.A., a telecommunication company, member of the board of directors of Brasil Ferrovias S.A. and Ferronorte S.A., railway companies; and a member of the fiscal council of Tim Participações S.A., a telecom company. He holds a degree in business administration from Minas Gerais Federal University, an MBA in Finance from Ibmec Business School and is getting his master’s degree in pension economics from Brasília University (UnB).

*Cláudio José Carvalho de Andrade*. Mr. Andrade is currently a member of our board of directors, and partner of Polo Capital Gestão de Recursos and several other real estate asset and management companies that form part of the Polo group of companies. He is also member of the board of directors of Tenda and a member of the board of directors of Casa e Video Rio de Janeiro S.A., an electronic retail company.

In the past 5 years, he has held, among others, the following positions: member of the board of directors of Telefônica Data Holding, a telecommunication company alternate member of the fiscal councils of Banco Panamericano S.A., and Banco Sofisa S.A., both financial institutions, and alternate member of the fiscal council of Copel – Companhia Paranaense de Energia, an energy development company. He holds a degree in Business Administration from EAESP Getulio Vargas Foundation University.

*José Écio Pereira da Costa Júnior*. Mr. Pereira da Costa is a member of our board of directors and a partner at JEPereira Consultoria em Gestão de Negócios S/S Ltda., a consulting company. He also holds the following positions: member of the board of directors of Princecampos Participações S.A., a public transportation company; alternate member of the board of directors and member of audit committee of Fibria S.A. and Votorantim Cimentos S.A.; member of the audit committee of Votorantim Metais S.A. and Citrosuco S.A.; and member of the consulting committee of CVI Refrigerantes S.A., a beverage company.

He has also been an auditing partner of Deloitte Touche Tohmatsu Auditores Independentes S/C Ltda., and in the past 5 years he has also been a member of the board of directors of Tenda and BRMALLS S.A., a shopping mall management company. He holds a bachelor’s degree in business administration from *Fundação Getúlio Vargas* and a bachelor’s degree in accounting from Faculdade São Judas Tadeu.

*Rodolpho Amboss*. Mr. Amboss is a member of our board of directors. He also holds the following positions: member of the board of directors of Tenda; founding partner and managing director of Silverpeak Real Estate Partners LP, Real Estate asset management and fund.

In the past 5 years he has been a member of the board of directors of BR Properties, a construction company specializing in industrial sheds and large commercial buildings and a member of the Supervisory Board of Robyg S.A., a company listed on the Warsaw Stock Exchange. He holds a degree in civil engineering from Rio de Janeiro Federal University and an MBA from the Booth School of Business of the University of Chicago.

*Francisco Vidal Luna*. Mr. Luna is a member of our board of directors. He currently is on the board of directors of several Municipal owned or related companies and foundations, such as Sabesp, Desenvolve São Paulo, Museu da Língua Portuguesa, Museu do Futebol, FIESP – Federação das Indústrias do Estado de São Paulo, Associação Comercial de São Paulo, Fundação Faculdade de Medicina – FFM, FIPE – Fundação Instituto de Pesquisas Econômicas and Fundação Padre Anchieta – TV Cultura, member of the Economy, Social and Political Council of Associação Comercial de São Paulo and member of the Consultive Council of Fundação Osesp.

In the past 5 years, he has also held, among others, the following positions: chairman of the board of directors of several Municipal owned or related companies and foundations, such as: SP Urbanismo, SP Obras, SP Tur, SP Trans, CET, Prodam and Cia Metropolitana de Habitação de São Paulo; member and chairman of the Museu Afro Brasil; member and chairman of the board of directors of Museu do Futebol, chairman of the board of directors of the Museu da Língua Portuguesa and member of the Curator Council of Fundação Padre Anchieta – TV Cultura; member of the board of directors of Tenda, member of the board of officers of Banco Tokyo-Mitsubishi UFJ do Brasil and a member of management of other banks, such as Banco InterAmerican Express (former Banco SRL),

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Banco Nossa Caixa Desenvolvimento and Banco Nacional de Desenvolvimento Econômico – BNDES. Mr. Luna has an economics degree and post-graduate degree from the University of São Paulo.

The table below shows the names, positions, and terms of office of our executive officers:

| Name | Age | Position | Election Date | Term of Office |
|---|---|---|---|---|
| Sandro Rogério da Silva Gamba | 42 | Chief Executive Officer | April 28, 2017 | April 27, 2020 |
| Carlos Eduardo Moraes Calheiros | 35 | Chief Financial Officer and Investor Relations Officer | August 18, 2017 | April 27, 2020 |
| Rodrigo Lucas Tarabori | 42 | Operational Executive Officer | April 28, 2017 | April 27, 2020 |
| Guilherme Stefani Carlini | 43 | Operational Executive Officer | April 28, 2017 | April 27, 2020 |
| Gerson Cohen | 49 | Operational Executive Officer | August 18, 2017 | April 27, 2020 |
| Luciano do Amaral | 40 | Operational Executive Officer | August 18, 2017 | April 27, 2020 |

The business address of each of our executive officers is Av. Nações Unidas No. 8,501, 19th floor, 05425-070 – São Paulo, SP – Brazil.

The following is a summary of the business experience and principal outside business interests of the current members of our board of executive officers.

*Sandro Rogério da Silva Gamba*. Mr. Gamba is currently our chief executive officer and his current term commenced in April 28, 2017, with a term of office through April 27, 2020. With over 15 years at Gafisa, having worked as head of business development for Gafisa and Tenda in the São Paulo region, he has significant institutional knowledge and oversaw the growth of our business in São Paulo, our largest region. Previously, he served us in a number of senior roles in the São Paulo region, including head of business development for Gafisa and director and manager of land prospecting. Mr. Gamba holds a degree in civil engineering from Mackenzie University, advanced degrees in engineering and real estate management from the University of São Paulo and *Fundação Armando Alvares Penteado*, and an executive master’s in business administration from IBMEC.

*Carlos Eduardo Moraes Calheiros*. Mr. Calheiros is currently our chief financial and investor relations officer. He joined the Company in 2017, and is responsible for Treasury, Structured Operations, Transfer, Financial Planning, Economic Studies, Legal and Real Estate/Corporate and Investor Relations. Previously, Mr. Calheiros held senior positions at Credit Suisse, Goldman Sachs, HSBC and most recently, as Head of the Corporate Sales Desk & Structuring of Banco Votorantim. Mr. Calheiros holds a law degree from Pontifical Catholic University of São Paulo.

*Rodrigo Lucas Tarabori.* Mr. Tarabori is currently our chief operating officer. He joined the Company in 2000 as a construction engineer, having since occupied the positions of Construction, Sales and Prospecting Coordinator, Sales Management and CRM, Business and Sales and Marketing Director, until he assumed the current position. Mr. Tarabori holds a degree in civil engineering and an MBA in Real Estate Management from Fundação Armando Álvares Penteado - FAAP.

*Guilherme Stefani Carlini.* Mr. Carlini is currently our chief operating officer. He joined the Company in 2009 as Prospecting Manager, having since occupied the positions of Prospecting Director and Business Director until he assumed the current position. Mr. Carlini is a Civil Engineer and holds an MBA in Business Management from the University of São Francisco / Mackenzie (2007) and credentials in Management of Enterprises in Civil Construction from Universidade de São Paulo –USP.

*Gerson Cohen*. Mr. Cohen is currently our chief operating officer. He joined the Company in 2014 and in the last 5 years, he acted as (i) Controlling Director of the Company and (ii) Controlling Officer of Rossi Residencial, a publicly-held company whose main activity is the construction and incorporation of real estate projects. Mr. Cohen is an Accountant and Business Administrator and holds an MBA in Controllership from University of São Paulo – USP and a Master’s degree in Business Controllership from Mackenzie Presbyterian University.

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*Luciano do Amaral.* Mr. Amaral joined Gafisa in 2001 as a construction trainee and in the last 5 years he served as (i) Operations Director and (ii) Director of Supply and Technical Assistance and Operations of new markets of the Company. Mr. Amaral is a Civil Engineer and holds an MBA in Purchasing Management from INBRASC with specialization in Real Estate projects from Mackenzie Presbyterian University and completed the University Extension program in Business Management and Civil Construction Projects at the University of São Paulo.

Our Relationship with our Executive Officers and Directors

As of December 31, 2017, our board of officers in the aggregate held 0.064% of our share capital and our board of directors in the aggregate held a 0.397% direct or indirect interest in our share capital. As of December 31, 2017, there were no contracts of any type or any other material agreements entered into by us with the members of our board of directors and our board of officers. As of December 31, 2017, some of our executive officers held interests in our subsidiaries as directors and/or executive officers. In none of these cases, as of the referenced date, were the interests held material.

As of December 31, 2016, our board of officers in the aggregate held 0.6% of our share capital and our board of directors in the aggregate held a 0.2% direct or indirect interest in our share capital. As of December 31, 2016, there were no contracts of any type or any other material agreements entered into by us with the members of our board of directors and our board of officers. As of December 31, 2016, some of our executive officers held interests in our subsidiaries as directors and/or executive officers. In none of these cases, as of the referenced date, were the interests held material.

As of December 31, 2015, our board of officers in the aggregate held 0.5% of our share capital and our board of directors in the aggregate held a 0.2% direct or indirect interest in our share capital. As of December 31, 2015, there were no contracts of any type or any other material agreements entered into by us with the members of our board of directors and our board of officers. As of December 31, 2015, some of our executive officers held interests in our subsidiaries as directors and/or executive officers. In none of these cases, as of the referenced date, were the interests held material.

B. Compensation

For each of 2017, 2016 and 2015

Under Brazilian corporate law, the company's shareholders are responsible for establishing the aggregate amount paid to members of the board of directors, the executive officers and the members of the fiscal council. Once the shareholders establish an aggregate amount of compensation, the members of the board of directors are then responsible for setting individual compensation levels.

For each of 2017, 2016 and 2015, the aggregate compensation we paid to the members of the board of directors was R$2.0 million, R$2.3 million and R$2.0 million, respectively, considering Gafisa only for the year ended December 31, 2017 and Gafisa and Tenda for the years ended December 31, 2016 and 2015.

For each of 2017, 2016 and 2015, the aggregate compensation we paid to the members of the fiscal council was R$243 thousand, R$296 thousand and R$255 thousand, respectively, considering Gafisa only for the year ended December 31, 2017 and Gafisa and Tenda for the years ended December 31, 2016 and 2015.

For each of 2017, 2016 and 2015, the aggregate compensation we paid to the executive officers was R$7.7 million (net of bonuses for Gafisa executive officers) R$14.2 million (net of bonuses for Gafisa and Tenda executive officers) and R$9.6 million (net of bonuses for Gafisa executive officers), respectively, which includes, unless otherwise indicated, fixed compensation, annual bonus amounts and the costs related to Stock Options Programs, considering Gafisa only for the year ended December 31, 2017 and Gafisa and Tenda for the years ended December 31, 2016 and 2015.

Approximately 40% of the total compensation paid to Gafisa officers is variable. The amounts related to short-term bonuses paid for our officers were, for each of 2016 and 2015, R$7.6 million and R$3.2 million, respectively, considering Gafisa and Tenda for the years ended December 31, 2016 and 2015. For the year ended December 31, 2017, there was no payment related to short term bonuses (Gafisa only).

For each of 2017, 2016 and 2015, the individual compensation we paid to members of our board of directors (fixed compensation in 2015, fixed compensation in 2016 and fixed compensation in 2017), fiscal council (fixed compensation) and officers (fixed compensation, short-term bonus and costs related to Stock Options Programs) is set forth in the tables below.

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Gafisa

| 2017 | Board of Directors | Fiscal Council | Executive Officers |
|---|---|---|---|
| Number of members (1) | 7.00 | 3.00 | 5.17 |
| Annual highest individual compensation (in R$) | 365,141 | 81,000 | 2,428,107 |
| Annual lowest individual compensation (in R$)(2) | 234,058 | 81,000 | 2,428,107 |
| Annual average individual compensation (in R$) | 290,236 | 81,000 | 1,485,097 |

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

| 2016 | Board of Directors | Fiscal Council | Executive Officers |
|---|---|---|---|
| Number of members (1) | 7.00 | 3.00 | 5.00 |
| Annual highest individual compensation (in R$) | 365,141 | 79,200 | 3,200,555 |
| Annual lowest individual compensation (in R$)(2) | 195,048 | 79,200 | 1,081,222 |
| Annual average individual compensation (in R$) | 282,713 | 78,687 | 2,109,275 |

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

| 2015 | Board of Directors | Fiscal Council | Executive Officers |
|---|---|---|---|
| Number of members (1) | 7.00 | 3.00 | 5.00 |
| Annual highest individual compensation (in R$) | 304,284 | 66,000 | 3,393,078 |
| Annual lowest individual compensation (in R$)(2) | 195,048 | 66,000 | 980,516 |
| Annual average individual compensation (in R$) | 241,863 | 66,000 | 2,128,272 |

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

Tenda (discontinued operations)

| 2016 | Board of Directors | Fiscal Council | Executive Officers |
|---|---|---|---|
| Number of members (1) | 9.08 | 3.00 | 10.25 |
| Annual highest individual compensation (in R$) | 126,670 | 38,400 | 2,497,824 |
| Annual lowest individual compensation (in R$)(2) | 126,670 | 10,560 | 568,253 |
| Annual average individual compensation (in R$) | 128,845 | 19,840 | 1,227,182 |

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

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| 2015 | Board of Directors | Fiscal Council | Executive Officers |
|---|---|---|---|
| Number of members (1) | 10.00 | 3.00 | 10.33 |
| Annual highest individual compensation (in R$) | 126,254 | 38,400 | 1,969,515 |
| Annual lowest individual compensation (in R$)(2) | 100,000 | 9,456 | 47,892 |
| Annual average individual compensation (in R$) | 112,084 | 19,104 | 753,090 |

(1) Based on the average number of members during the period.

(2) Annual lowest individual compensation includes only the members of board of directors, fiscal council and executive officers who served an entire year and does not include members who are also executive officers (if a member is an executive officer, he or she is paid as an executive officer).

## C. Board Practices

### General Information

We are managed by a board of directors consisting of at least five and up to nine directors and at least two and up to eight executive officers. Our directors are elected for a two-year term and our executive officers are elected for a three-year term. Reelection of officers and directors is permitted. We also have (i) a fiscal council, which under Brazilian Law is not a permanent body, although currently installed, (ii) permanent advisory committees created in accordance with our bylaws, namely: an audit committee and a corporate governance and compensation committee and (iii) executive committees established by the Board of Directors, namely: an investment executive committee, a finance executive committee, and an ethics executive committee. See "—A. Directors and Senior Management Board of Directors."

### Board of Directors

Our board of directors is our decision-making body responsible for formulating general guidelines and policies for our business, including our long term strategies. Among other things, our board of directors is responsible for appointing and supervising our executive officers.

Our board of directors meets at least once every two months and at any other time when a meeting is called by its chairman or by at least two other effective members. The decisions of our board of directors are taken by the majority vote of those members present at the respective meeting and constituting a quorum of at least four members. In the event of a tie vote, the chairman of our board of directors has, in addition to his personal vote, the right to cast a tie-breaking vote. In addition, pursuant to Brazilian corporate law, a member of our board of directors is prevented from voting in any shareholders' or board of directors' meeting, or from acting in any business or transaction, in which he may have a conflict of interest with our company.

Under Brazilian corporate law, a company's board of directors must have at least three members. Our bylaws provide for a board of directors of up to nine members, from which at least 20% or two members, whichever is greater, shall be independent members, as determined by the Listing Rules of the *Novo Mercado*. Our directors are elected at our annual general shareholders' meeting for a two-year term of office, with reelection permitted, and are subject to removal at any time by our shareholders at a shareholders' general meeting. Although the Listing Rules of the *Novo Mercado* require at least 20% or two independent members, our board of directors currently has six independent members, out of a total of seven members.

Article 141 of Brazilian corporate law provides that shareholders with at least 10% of a company's total capital stock may request the adoption of the multiple voting procedure for the election of the board of directors, even where there is no provision for this in the company's bylaws. The multiple voting procedure grants each share as many votes as the number of board members, and allows shareholders to allocate either all of their votes to a single candidate or to distribute their votes among several candidates.

All the voting proceedings discussed in the previous paragraphs currently apply to our company.

As prescribed by CVM Instruction No. 282, of June 26, 1998, the minimum voting capital percentage required for the adoption of the multiple voting procedure in publicly-held companies may be reduced as a result of the amount of its capital stock. Based on the current amount of our capital stock, shareholders representing 5% of our total capital stock may request the adoption of the multiple voting procedure in order to elect the members to our board of directors. The referred minimum percentage may vary from 5% to 10% depending on the amount of our capital stock, as prescribed in the aforementioned CVM Instruction No. 282, of June 26, 1998. If the adoption of the multiple voting procedure is not requested, directors are elected by a majority vote of our shareholders, and such shareholders who, individually or collectively, represent at least 10% of our shares, are entitled to appoint, in a separate vote, a director and its alternate.

The Listing Rules of the *Novo Mercado* also provide that all members of our board of directors and our board of officers must comply with the arbitration clause in the bylaws before taking office.

Executive Officers

Under Brazilian corporate law, a company's board of executive officers must have at least two members, and each of such members must be a resident in Brazil. Furthermore, no more than one-third of our directors may serve as members of our board of officers at any given time. In addition, under the Listing Rules of the *Novo Mercado*, the chief executive officer of our company shall not serve as the chairman of the board of directors.

Our executive officers are our legal representatives and are primarily responsible for managing our day-to-day operations and implementing the general policies and guidelines set forth in our shareholders' general meetings and by our board of directors. Our bylaws require that our board of officers be composed of at least two members and a maximum of eight members. The members of our board of officers are appointed by our board of directors for a term of three-years, and may be reelected or removed by our board of directors at any time. Our bylaws and our board of directors determine the role of our executive officers. Currently, we have a board of officers comprised of three members: (1) Mr. Sandro Rogerio da Silva Gamba, who is the chief executive officer, (2) Mr. Carlos Eduardo Moraes Calheiros, who is the chief financial officer and investor relations officer, (3) Mr. Rodrigo Lucas Tarabori, who is an operational executive officer, (4) Mr. Guilherme Stefani Carlini, who is an operational executive officer, (5) Mr. Gerson Cohen, who is an operational executive officer and (6) Mr. Luciano do Amaral, who is an operational executive officer.

The chief executive officer submits the business plan, annual budget, investment plans and new expansion plans for Gafisa and our subsidiaries to the approval of the board of directors. The chief executive officer enacts these plans and develops our strategy and operational plan, including the manner in which we will execute the resolutions approved at the shareholders' meeting and by the board of directors. Together with the other officers, he also supervises and coordinates our activities. The officer in charge of investor relations supplies our financial information to investors, the CVM and the B3, and is also responsible for keeping an updated register based on the applicable regulations.

Fiscal Council

Under Brazilian corporate law, the fiscal council is a corporate body independent from the management of the company and its external auditors. The fiscal council is not a permanent body, and whenever installed, must consist of no less than three and no more than five members. The primary responsibility of the fiscal council is to review management's activities and the company's financial statements and to report its findings to the shareholders of the company. The fiscal council is not equivalent to an audit committee as contemplated by the Securities Exchange Act, as amended. Under Brazilian corporate law, a fiscal council must be established at a shareholders' general meeting upon request of shareholders representing at least 10% of the shares with voting rights, or 5% of the shares with no voting rights, and its members shall remain in office until the annual general shareholders' meeting of the year following their election. Each member of the fiscal council is entitled to receive compensation in an amount equal to at least 10% of the average amount paid to each executive officer (excluding benefits and profit sharing).

As prescribed by CVM Instruction No. 324, of January 19, 2000, the minimum voting capital percentage required to request the fiscal council to be installed may be reduced as a result of the amount of the company's capital stock. Based on the current amount of our capital stock, shareholders representing 2% of our voting capital stock may request the fiscal council to be installed. The referred minimum percentage may vary from 2% to 8% depending on the amount of our capital stock, as prescribed in the aforementioned CVM instruction.

Individuals who are also employees or members of the administrative bodies of our company, of companies controlled by us, or of companies forming a group of companies with us (pursuant to Chapter XXI of Brazilian corporate law), as well as spouses or parents of our management, cannot serve on the fiscal council.

Our by-laws provide for a non-permanent fiscal council composed of at least three and up to five members, which can be formed and have its members elected at the shareholders' general meeting, as requested by the shareholders, in the events set forth by Brazilian corporate law. When in operation, the compensation of our fiscal council is set at the shareholders' general meeting that elects it.

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Our fiscal council has three members (Olavo Fortes Campos Rodrigues Junior, Peter Edward Cortes Marsden Wilson and Laiza Fabiola Martins de Santa Rosa) and three alternates (Marcello Mascotto Iannalfo, Marcelo Martins Louro and Alessandro de Oliveira Nascimento).

We also have established a permanent audit committee. See "—Audit Committee."

Audit Committee

Our bylaws provide for an Audit Committee that convenes regularly, as often as it determines is appropriate to carry out its responsibilities. The Audit Committee must be comprised of at least three members, all of which must be independent members of our Board of Directors. The Audit Committee is currently comprised by Francisco Vidal Luna, who is also the chairman, Jose Ecio Pereira da Costa Junior and Odair Garcia Senra. Our board of directors has determined that Jose Ecio Pereira da Costa Junior, Francisco Vidal Luna and Odair Garcia Senra are each independent as set forth in the NYSE Listed Companies Manual as well as being independent for the purpose of Rule 10A-3 of the Exchange Act. Our board of directors has determined that Francisco Vidal Luna is an audit committee financial expert within the meaning of the regulations promulgated by the United States Securities and Exchange Commission.

This committee has responsibility for, among others, planning and reviewing our annual and quarterly reports and accounts with the involvement of our auditors, focusing particularly on compliance with legal requirements and accounting standards, and ensuring that an effective system of internal financial controls is maintained, as set forth in the Company's by-laws. The ultimate responsibility for reviewing and approving our annual and quarterly reports and accounts remains with our directors.

Corporate Governance and Compensation Committee

Our bylaws provide for a Corporate Governance and Compensation Committee that convenes regularly, as often as it determines is appropriate to carry out its responsibilities. The Corporate Governance and Compensation Committee must be comprised of at least three members, all of which must be independent members of our Board of Directors. The Corporate Governance and Compensation Committee is currently comprised by Cláudio José Carvalho de Andrade, who is also the chairman, Guilherme Affonso Ferreira and Rodolpho Amboss. This committee, among other things, considers and periodically reports on matters relating to the size, identification, selection and qualification of the board of directors, executive officers and candidates nominated for the board of directors and its committees, is responsible for overseeing compliance with the corporate governance principles applicable to us under our bylaws and other policies, as well as for proposing improvements and changes to such applicable principles; reviews and makes recommendations to our directors regarding its compensation policies and all forms of compensation to be provided to our executive officers and other employees.

Investment Executive Committee

On January 13, 2006, our board of directors modified the structure of our incorporation and new businesses committee, renaming it the Investment Committee and on September 9, 2010 it was renamed to Investment Executive Committee, in order to clarify that this is a collegiate body to provide advice and guidance to the Board of Directors, composed solely by members of the Board of Officers (statutory or otherwise). Our Investment Executive Committee is a non-permanent body and its duties are, among others, to: (1) analyze, discuss and recommend land acquisitions and new real estate developments; (2) advise our executive officers during the negotiation of new deals and the structuring of new developments; (3) supervise the beginning of new projects and their related cash flows; and (4) in special cases, assist in the negotiation and structuring of new types of business. Each decision by our investment committee to acquire land is made by ensuring that the investment meets the minimum return threshold set by us and comparing it with other potential investments. Such decision is made independent of the geographical location of the investment in order to maximize return on our capital allocation as a whole.

Currently, our Investment Executive Committee is in operation and is comprised by Sandro Rogério da Silva Gamba (also the Coordinator of the Committee), Carlos Eduardo Moraes Calheiros, Guilherme Stefani Carlini, Rodrigo Lucas Tarabori, Luciano do Amaral and Gerson Cohen.

Finance Executive Committee

Our directors have established a Finance Executive Committee composed by Carlos Eduardo Moraes Calheiros (also the Coordinator of the Committee), Sandro Rogério da Silva Gamba and Evandro Aparecido de Oliveira

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Almeida. This committee, among others, evaluates and makes periodic recommendations to our board of directors regarding risk and financial investments policies.

Ethics Executive Committee

On September 9, 2010, our board of directors renamed the Ethics Committee, created on February 17, 2006, the Ethics Executive Committee. The Ethics Executive Committee is a collegiate body tasked with providing advice and guidance to the board of directors, elected by the board of directors, and is composed primarily of members of the board of officers (statutory or otherwise). Currently, it is composed of the following members: Sandro Rogério da Silva Gamba (Coordinator of the Committee), Gerson Cohen, Guilherme Stefani Carlini, Emmanoel Soares and Adriana Farhat. This committee is responsible, among others, for the actions related to violation of our Code of Business Conduct and Ethics, solving ethics conflicts and evaluating the adequacy of amendments to the Code of Business Conduct and Ethics and proposing them to the board of directors.

Summary of Significant Differences of Corporate Governance Practices

NYSE Corporate Governance Rules provide that we are required to disclose any significant differences on our corporate governance practices from those required to be followed by U.S. companies under NYSE listing standard. We have summarized these significant differences below.

We are permitted to follow practice in Brazil in lieu of the provisions of the NYSE Corporate Governance Rules, except that we will be required to have a qualifying audit committee under Section 303A.06 of the Rules, or avail ourselves of an appropriate exemption. In addition, Section 303A.12(b) provides that our chief executive officer is obligated to promptly notify the NYSE in writing after any of our executive officers becomes aware of any material non-compliance with any applicable provisions of the NYSE Corporate Governance Rules.

Majority of Independent Directors

NYSE Rule 303A.01 provides that each NYSE-listed company must have a majority of independent directors. Neither Brazilian corporate law nor our by-laws require that we have a majority of independent members. Notwithstanding this, the majority of our board members qualify as independent directors under NYSE rules.

Separate Meetings of Non-Management Directors

NYSE Rule 303A.03 provides that the non-management directors of each NYSE-listed company must meet at regularly scheduled executive sessions without management. According to the Listing Rules of the *Novo Mercado*, the chief executive officer may not serve as the chairman of the Board of Directors. In addition, under Brazilian corporate law, up to one-third of the members of the board of directors can also hold management positions. Under Brazilian corporate law, there is no specific requirement that non-management directors meet regularly without management. Notwithstanding the foregoing, our board of directors consists entirely of non-management directors and holds regular meetings without the management and as such we believe we are in compliance with the NYSE Rule 303A.03.

Nominating and Corporate Governance Committee

NYSE Rule 303A.04 provides that each U.S. listed company must have a nominating and corporate governance committee composed entirely of independent directors. We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have a Nominating and Corporate Governance Committee responsible for considering and periodically reporting on matters relating to the size, identification, selection and qualification of the board of directors and candidates nominated for the board of directors and its committees; and for overseeing compliance with the corporate governance principles applicable to us under our bylaws and other policies, as well as for proposing improvements and changes to such applicable principles.

Compensation Committee

NYSE Rule 303A.05 provides that each U.S. listed company must have a compensation committee composed entirely of independent directors. We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have a Compensation Committee responsible for reviewing and making recommendations to our directors regarding our compensation policies and all forms of compensation to be provided to our executive officers and other employees. With respect to compensation, under Brazilian corporate law, the shareholders determine the total or individual compensation of our board members and executive officers,

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including benefits and allowances, at a general shareholders' meeting. If the shareholders only determine the total compensation, it is incumbent upon the board of directors to establish the individual amounts. The Compensation Committee, is responsible for advising the board of directors in such task. See "Item 6. Directors, Senior Management and Employees—B. Compensation."

Audit Committee

NYSE Rule 303A.06 and the requirements of Rule 10A-3 of the SEC provide that each U.S. listed company is required to have an audit committee consisting entirely of independent members that comply with the requirements of Rule 10A-3. In addition, the audit committee must have a written charter compliant with the requirements of NYSE Rule 303.A.07(c), have an internal audit position and otherwise fulfill all other requirements of the NYSE and Rule 10A-3. The SEC recognized that due to the local legislation for foreign private issuers, some of the responsibilities of the audit committee could be subordinated by local laws to our other bodies.

We are required to have such a committee under our bylaws, which is nevertheless not required under Brazilian law. Therefore, we have an Audit Committee with the following responsibilities:

- Pre-approving services to be provided by our independent auditor;
- Choosing and overseeing the work of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing any other service;
- Reviewing auditor independence issues and rotation policy;
- Supervising the appointment of our independent auditors;
- Discussing with management and auditors major audit issues;
- Reviewing financial statements prior to their publication, including the related notes, management's report and auditor's opinion;
- Reviewing our annual report and financial statements;

- Providing recommendations to the board of directors on the audit committee's policies and practices;
- Reviewing recommendations given by our independent auditor and internal audits and management's responses;
- Evaluating the performance, responsibilities, budget and staffing of our internal audit function and review the internal audit plan;
- Providing recommendations on the audit committee's bylaws; and
- Reviewing our Code of Business Conduct and Ethics and the procedures for monitoring compliance with it.

Equity Compensation Plans

NYSE Rule 303A.08 provides that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, with certain limited exemptions as described in the rule. Under Brazilian corporate law, shareholder pre-approval is required for the adoption of equity compensation plans and any material revision thereto.

Corporate Governance Guidelines

NYSE Rule 303A.09 provides that each U.S. listed company must adopt and disclose their corporate governance guidelines. Under Brazilian regulation, the Brazilian Corporate Governance Code, which provides for corporate governance practice guidelines for publicly-held companies, was released in November 2016, by an institution formed by several entities and following input from the CVM. In June 2017, the CVM approved a new rule, CVM Rule No. 586, which establishes that companies must disclose whether they will implement the provisions set forth in the Brazilian Corporate Governance Code, or otherwise justify the reasons for non-compliance with such practices. Additionally, the B3 and the IBGC-Brazilian Institute of Corporate Governance

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have issued guidelines for corporate governance best practices. In addition, our bylaws contain a comprehensive list of principles that must be complied with at all times by all of our directors and officers. Our Nominating and Corporate Governance Committee may also propose new principles and amendments to existing principles. In addition, we have listed our common shares in the *Novo Mercado* (New Market) of the São Paulo Stock Exchange (B3), which requires adherence to the corporate governance standards established under the Listing Rules of the *Novo Mercado*, as described under "Item 10. Additional Information—B. Memorandum and Bylaws." Finally, we have adopted a written policy of trading of securities and disclosure matters.

Code of Business Conduct and Ethics

NYSE Rule 303A.10 provides that each U.S. listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or executive officers. We are required to have a Code of Business Conduct and Ethics under our bylaws and under the Listing Rules of the *Novo Mercado*. We have adopted such a Code on July 10, 2007 and the last review of the Code was approved on July 17, 2014. See "Item 16B. Code of Business Conduct and Ethics."

D. Employees

As of December 31, 2017, we had 646 employees at Gafisa across the following states:

| States | Gafisa Number of Employees |
|---|---|
| Bahia | 1 |
| Goiás | 1 |
| Maranhão | 2 |
| Pará | 1 |
| Paraná | 3 |
| Rio de Janeiro | 66 |
| Rio Grande do Sul | 1 |
| São Paulo | 571 |
| Total | 646 |

The table below shows the number of employees for the periods presented, within the macro areas of the company:

| Period | Operations | Administration & Finance | Business Development | Sales | Total |
|---|---|---|---|---|---|
| 2017 | 242 | 213 | 60 | 131 | 646 |
| 2016 (2) | 1,244 | 500 | 151 | 565 | 2,460 |
| 2015 | 1,297 | 499 | 167 | 387 | 2,350 |
| 2014 | 1,134 | 527 | 191 | 310 | 2,162 |
| 2013 (1) | 2,008 | 722 | 404 | 212 | 3,346 |

Note: The numbers presented in the tables above for the year 2013 refer to the employees of Gafisa Group (Gafisa's Business Unit, Tenda's Business Unit, Alphaville's Business Unit as well as the corporate areas, including the shared services center). For the year ended December 31, 2017, the numbers presented refer to the employees of Gafisa, and do not refer to the employees of Tenda.

(1) Total number includes 529 Alphaville employees, of which 290 are allocated in Operations, 95 in Administration and Finance, 135 in Business Development and 9 in Sales.

(2) Total number includes 1,684 Tenda employees, of which 917 are allocated in Operations, 236 in Administration and Finance, 61 in Business Development and 470 in Sales.

Our administrative employees carry out management, finance, information technology, legal and human resources activities among others. Our construction site employees focus on management and oversight of our construction workers, the majority being outsourced. The outsourced professionals are hired by the contractors to carry out various tasks on the construction sites. As of the date of this annual report, we estimate that around 2,500 outsourced professionals are providing services to Gafisa across Brazil, all in the Southeast region of Brazil.

We offer training programs to our employees, subcontractors and outsourced employees. All of our professionals involved in the construction of our developments are trained prior to the beginning of their work and are supervised directly by our engineers.

The majority of our employees and outsourced professionals of the State of São Paulo are enrolled with the Civil Construction Industries Workers' Union (SINTRACON). As a rule, the Civil Construction of Large Building Industry in the State of São Paulo (SINDUSCON-SP) annually negotiates with SINTRACON collective bargaining agreements applicable to our employees. The most recent collective bargaining agreement for our employees and outsourced professionals in the State of São Paulo was executed in May 2017, establishing a salary adjustment of 3.99% as of May 2017. This collective bargaining agreement became effective in May 2017 and will expire in April 2018. The majority of our employees and outsourced professionals of the State of Rio de Janeiro are members of the Civil Construction, Tiles, Cement, Marble and Granite Products, Road Construction, Paving, and Land Moving and Industrial Maintenance and Assembly Industries' Workers Union of the Rio de Janeiro Municipality (SINTRACONST-RIO). As a rule, the Civil Construction of Large Building Industry in the State of Rio de Janeiro (SINDUSCON-RIO) annually negotiates with SINTRACONST-RIO the collective bargaining agreements applicable to our employees. The most recent collective bargaining agreement for our employees and outsourced professionals in the State of Rio de Janeiro was executed in March 2017, establishing a salary adjustment of 2% as of March 2017. This collective bargaining agreement became effective in March 2017 and expired in February 2018. As of the date of this annual report, we are negotiating the collective bargaining agreements for our employees in the states of São Paulo and Rio de Janeiro related to 2018.

We believe that our relationship with our employees and workers' unions is good. In all the regions where we operate, we maintain a stable relationship with the workers unions, which generally decreases the risk of strikes.

The benefits we offer to our permanent employees include life insurance, dental plan, health insurance, meal tickets and profit sharing.

Health and Safety

We are committed to preventing work-related accidents and diseases. Accordingly, we maintain a risk prevention program which seeks to maintain and enhance the health and physical conditions of our employees, by anticipating, recognizing, evaluating and controlling any existing or potential environmental risks in the workplace.

In addition, we have an internal committee for the avoidance of accidents, which seeks to prevent diseases and accidents from occurring in the workplace. We make significant investments in this area, providing frequent training programs for our construction employees as well as for our subcontractors' employees, and we require our subcontractors to follow strict guidelines.

## E. Share Ownership

As of the date of this annual report, our directors and executive officers do not hold, on an aggregate basis, any direct or indirect interest of greater than 0.461% of our total share capital or of the share capital of any of our subsidiaries or jointly-controlled entities. As of December 31, 2017, some of our executive officers held interests in our subsidiaries and jointly-controlled entities as directors and executive officers. In none of these cases, as of the date of this annual report, were the interests held material.

The table below sets forth the number of our total shares beneficially owned by each of our directors and executive officers as of the date of this annual report:

| Name | Position | Number of Shares Owned (1) |
|---|---|---|
| Sandro Rogério da Silva Gamba | Chief Executive Officer | 78,404 |
| Carlos Eduardo Moraes Calheiros | Chief Financial Officer and Investor Relations Officer | - |
| Rodrigo Lucas Tarabori | Officer | 7,857 |
| Guilherme Stefani Carlini | Officer | 11,169 |
| Gerson Cohen | Officer | 6,163 |
| Luciano do Amaral | Officer | 7,779 |
| Cláudio José Carvalho de Andrade | Director | - |
| Odair Garcia Senra | Director | 18,060 |
| Guilherme Affonso Ferreira | Director | 7 |
| José Écio Pereira da Costa Junior | Director | - |
| Francisco Vidal Luna | Director | - |
| Maurício Marcellini Pereira | Director | - |
| Rodolpho Amboss | Director | - |
| **Total** | | 129,439 |

(1) Considering the reverse stock split of all Gafisa's shares at a ratio of 13.483023074 to 1 consummated on March 23, 2017.

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Stock Option Plans

Gafisa's stock option plans seek to: (1) encourage our expansion and success by allowing our executives and key employees to acquire shares of our capital stock in order to encourage their integration with the company; (2) allow us to obtain and retain the services of executives and key employees by offering them the benefit of becoming one of our shareholders; and (3) align the interests of our executives and key employees with the interests of our shareholders.

We have individual agreements with our key employees and executives for Gafisa, under which they are entitled to purchase shares of our capital stock pursuant to the terms and conditions of the stock option plans and the specific conditions set forth in their agreements.

In 2002, our shareholders ratified the terms and conditions of our stock option plan. A standard stock option program to grant subscription rights related to our preferred shares was approved by our board of directors at a meeting held on April 3, 2000. As a result of our entry in the *Novo Mercado* segment of B3, our preferred shares were converted into common shares, and therefore all options relating to this plan grant subscription rights related to our common shares. Currently, we do not have any stock option grants related to this plan.

On February 3, 2006, our shareholders approved a new stock option plan. Under the 2006 stock option plan, our board of directors may release further programs on a regular basis of options to purchase up to 5% of the total outstanding shares of our company, as set forth in the 2006 stock option plan. Such new programs would grant our executives and key employees the right to subscribe and/or acquire our shares for a set price, under terms and conditions according to the agreements set for each participant. Currently, we do not have any stock option grants related to this plan.

Our most recent stock option plan was approved on May 18, 2008 during a special shareholders' general meeting. Under this new stock option plan, our board of directors may create additional programs on a regular basis for options to purchase up to 5% of the total outstanding shares of our company, as set forth in the 2008 stock option plan.

Under this stock option plan, the board of directors may also grant different types of options to certain beneficiaries, namely "A options", which are regular options, and "B options," for the exercise price of R$0.09. The exercise of B options, if granted, is subject to the proportional purchase of common shares or exercise of a regular option under this 2008 plan, according to the terms and conditions set forth in each program, and to lapse two years from the common share purchase date.

As of the date of this annual report, all active stock option Programs follow the Plan approved in 2008.

2012 Programs

Two stock option programs were approved in 2012 for executive officers and key employees.

The first is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of the date of this annual report, 264,036 options to purchase shares of our common shares have been granted to executive officers and other key employees pursuant to this program. Out of the amount granted, 168,906 have been acquired or expired pursuant to such program.

Under the second program, the board of directors may grant different types of B options for the exercise price of R$0.09 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this second program, according to the terms and conditions set forth in such second program, and to lapse one year from the grant date.

As of the date of this annual report, options to purchase 302,532 shares of our common shares have been granted to key employees and executive officers pursuant to this second program. The options granted included 222,912 “B” options, and all of them have been acquired or expired pursuant to such program.

2013 Programs

Two stock option programs were approved in 2013 for executive officers and key employees.

The first is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of the date of this annual report, 101,612 options to purchase shares of our common shares have been granted to executive officers pursuant to this agreement and none has been acquired. Out of the amount granted, 51,331 have been expired pursuant to such agreements.

Under the second program, the board of directors may grant different types of B options for the exercise price of R$0.09 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this program, according to the terms and conditions set forth in this second program, and to lapse one year from the grant date.

As of the date of this annual report, options to purchase 297,677 shares of our common shares have been granted to employees and executives pursuant to this second program. The options granted included 217,222 “B” options. Out of the total options granted, all of them have been acquired or expired pursuant to such program.

2014 Programs

One stock option program was approved in 2014 for executives and key employees.

Under this program, the board of directors may grant different types of B options for the exercise price of R$0.09 per share. The exercise of B options, if granted, is subject to the proportional exercise of regular options at market price, granted under this program, according to the terms and conditions set forth in each program, and to lapse one year from the grant date.

As of the date of this annual report, options to purchase 323,500 shares of our common shares have been granted to employees and executives pursuant to this agreement. The options granted included 124,651 “B” options. Out of the total options granted, 93,726 have been acquired, expired or cancelled pursuant to such program.

2015 Programs

One stock option program was approved in 2015 for executives and key employees.

This program is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

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As of the date of this annual report, options to purchase 264,570 shares of our common shares have been granted to key employees and executive officers pursuant to this agreement. Out of the total options granted, none have been acquired or expired pursuant to such agreement.

In addition to the above stock option program, the board of directors approved a “Phantom Shares” program, payable in cash in accordance with the amount of options exercisable by the executives and key employees during the exercise period under the 2015 stock option program.

2016 Programs

One stock option program was approved in 2016 for executives and key employees.

This program is a standard stock option program granting subscription rights related to our common shares. Under this program, the board of directors may grant to certain beneficiaries the right to subscribe and/or acquire our shares for a set price, under the terms and conditions set forth in the stock option plan agreement entered into with each participant.

As of the date of this annual report, options to purchase 163,900 shares of our common shares have been granted to key employees and executive officers pursuant to this agreement. Out of the total options granted, none have been acquired or expired pursuant to such agreement.

In addition to the above stock option program, the board of directors approved a “Phantom Shares” program, payable in cash in accordance with the amount of options exercisable by the executives and key employees during the exercise period under the 2016 stock option program.

No stock option program was approved in 2017 for executives and key employees.

| Gafisa Active Programs | Number of Stock Options granted | Number of Stock Options Outstanding | Exercise Price per Stock | Expiration |
|---|---|---|---|---|

| | (2) | (Not Expired or exercised) as of the date of this annual report (2) | Option (2) | |
|---|---|---|---|---|
| August 2012 (Standard SOP) (1) | 264,036 | 101,099 | 17.01 | August 2025 |
| May 2013 (Standard SOP) (1) | 101,612 | 50,281 | 28.29 | May 2027 |
| March 2014 (Restricted Type A) (1) | 198,850 | 161,068 | 23.76 | March 2020 |
| March 2014 (Restricted Type B) (1) | 124,651 | 100,254 | 0.09 | March 2020 |
| April 2015 (Standard SOP) (Gafisa) | 264,570 | 264,570 | 16.16 | April 2021 |
| April 2016 (Standard SOP) (Gafisa) | 163,900 | 163,900 | 19.40 | April 2022 |
| Total | | 841,172 | | |

(1) Options unvested or vested and not yet exercised.

(2) Considering the reverse stock split of all Gafisa's shares at a ratio of 13.483023074 to 1 consummated on March 23, 2017 and other adjustments.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of the date of this annual report, the following shareholders held more than 5.0% of our common shares. The following table sets forth information of our directors and officers as a group, as well as common shares held in treasury and other shares in the public float. Each holder of common shares has the same rights.

| Shareholders | Shares (1) | (%) |
|---|---|---|
| GWI Group. | 8,572,296 | 19.15% |
| Wishbone Management, LP | 6,985,972 | 15.61% |
| River and Mercantile Asset Management, LLP | 4,517,968 | 10.09% |
| Public Float | 23,743,634 | 53.05% |
| Treasury shares | 938,044 | 2.10 % |
| Total | 44,757,914 | 100 % |

(1) Considering the reverse stock split of all Gafisa's shares at a ratio of 13.483023074 to 1 consummated on March 23, 2017.

We had a total of 41 record shareholders located in the United States. We are not aware of any shareholders' agreement currently in force with our main shareholder.

B. Related Party Transactions

Other than arrangements which are described in "Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management Board of Directors—Our Relationship with our Executive Officers and Directors" and the transaction described below, since January 1, 2007, there has not been, and there is not currently proposed, any material transaction or series of similar transactions to which we were or will be a party in which any director, executive officer, holder of 5% of our capital stock or any member of their immediate family had or will have a direct or indirect interest.

Under Brazilian corporate law, our directors and executive officers cannot vote on any matter in which they have a conflict of interest and such transactions can only be approved on reasonable and fair terms and under conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties.

We participate in the development of real estate ventures with other partners, directly or through related parties, based on the constitutive documents of condominiums and/or consortia. The management structure of these enterprises and the cash management are centralized in the lead partner of the enterprise, 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 uses of resources of the venture are reflected in the balance sheet of the ventures, reflecting the respective participation percentages of the partners, which are not subject to inflation adjustments or financial charges and do not have a predetermined maturity date. The average term for the development and completion of the projects in which the resources are invested is between 24 and 30 months. Please refer to Note 21 to our consolidated financial statements for further information on balances with related parties.

As of and for the years ended December 31, 2017, 2016 and 2015, we have not entered into any loan or other type of financing agreement with our directors or executive officers. In the years ended December 31, 2017, 2016 and 2015, there were no units sold to management members, and the amount receivable was R$0.2 million, R$1.0 million and R$1.6 million as of December 31, 2017, 2016 and 2015, respectively.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

For our consolidated financial statements and notes thereto see “Item 18. Financial Statements.”

Legal Proceedings

We are currently party to several legal and administrative proceedings arising from the normal course of our business, principally relating to civil, environmental, tax and labor claims. We establish provisions in our balance sheets relating to potential losses from litigation based on estimates of probable losses. Brazilian GAAP requires us to establish provisions in connection with probable losses and we record a provision when, in the opinion of our management, we feel that an adverse outcome in a litigation is probable and a loss can be estimated. The determination of the amounts provisioned is based on the amounts involved in the claims and the opinion of external legal counsel.

Civil Claims

As of December 31, 2017, we were a party to 5,778 civil actions, totaling R$489 million. Of these actions, we were the plaintiff in 338 actions and the defendant in 5,440 actions, with aggregate amounts of R$166 million and R$323 million, respectively.

Most of these civil claims involve ordinary course matters relating to the development of our properties, including annulment of contractual clauses and termination of agreements with the reimbursement of the amounts paid. We also have a few civil claims where we discuss the resolution of the construction partnership.

As of December 31, 2017, the provisions related to civil claims include R$24.0 million related to lawsuits in which the Company is included as successor in enforcement actions for judicial and extrajudicial debts, in which the original debtor is a former shareholder of Gafisa, Cimob Companhia Imobiliária (“Cimob”) or companies that are part of the economic group of Cimob. The plaintiff alleges that the Company should be liable for the debts of Cimob. We have made judicial deposits amounting to R$16.8 million in connection with these claims. The Company is filing appeals against all decisions, as it considers that the inclusion of Gafisa in the claims to be legally unreasonable; these appeals aim at releasing amounts and obtaining the recognition that it cannot be held liable for the debt of a company that does not have any relationship with Gafisa. The Company has obtained both favorable and unfavorable decisions on appeal, and the final decision of each pending appeal cannot be predicted at present.

The Company is a plaintiff in proceedings against Cimob and its former and current controlling shareholders. The Company is seeking (i) restitution of amounts already paid by the Company in connection with the lawsuits in which the Company is included as successor in enforcement actions for judicial and extrajudicial debts proceedings in which the original debtor is Cimob and (ii) the recognition of the court that it does not have any relationship with Cimob and cannot therefore be held liable for the debt of Cimob. The final decision is on appeal, and cannot be predicted at present.

As of December 31, 2017, the provision for our civil claims amounted to R$138.6 million.

Environmental Claims

As of December 31, 2017, we were the defendants in certain environmental claims alleging damage to a permanent conservation area and we are currently not able to estimate the aggregate amount of such claims.

In addition, we are occasionally party to other administrative environmental inquiries or claims by the Public Prosecution Offices or by other governmental agencies or third parties. These inquiries may result in public environmental claims against us and the findings in these inquires may give rise to other administrative and criminal claims. However, based on currently available information, we do not believe these matters are, or are likely to be in the future, material to our business or financial condition.

In Case No. 20654-60.2011.4.01.3200, federal prosecutors (Ministério Público Federal) argue that the company has built one of the towers of “Riviera da Ponta Building” on Federal Government property, next to a riverbank. The federal prosecutors claimed R$88.3 million in damages, comprising both environmental liability for construction in an allegedly “protected area” and payoff for the property. We estimate the probability of the Company to be sentenced to pay R$88.3 million as remote because we believe that the federal prosecutors’ computations to get this number are unreasonable, since neither the value nor the extension of the area supposedly invaded are accurate.

As of December 31, 2017, we have made no provisions for environmental claims.

Tax Claims

As of December 31, 2017, we were party to several tax proceedings involving tax liabilities in the aggregate amount of R$90 million. As of December 31, 2017, the provision for tax liabilities amounted to R$0.8 million. In addition, we have deposited R$27 million with the court in connection with some of these proceedings. These amounts take into consideration the tax liabilities of our subsidiaries, in proportion to our interest in their share capital. The main tax proceedings to which we are a party are described below.

Alphaville is a party to legal and administrative claims related to Federal VAT (IPI) and State VAT (ICMS) on two imports of aircraft in 2001 and 2005, respectively, under leasing agreements without purchase options. The likelihood of loss in the ICMS case is rated by legal counsel as remote. According to the negotiation of the sale of

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controlling interest of 70% in Alphaville, it was agreed in the purchase and sale contract that Gafisa is responsible in the event of an unfavorable decision.

Several municipalities charge a municipal tax on construction services on an arbitrated basis, which varies depending on the characteristic of the construction. We have filed lawsuits against the municipalities of São Paulo and São Caetano do Sul to challenge the calculation of the arbitrated basis on several of our developments under construction. In these proceedings, we deposited R$11 million with the courts and we are awaiting the final decision. In addition, the municipalities of Rio de Janeiro, Niterói, São Paulo and Santo Andre have issued tax assessments against us. We have filed administrative defenses and are awaiting the final administrative decisions. The total amount involved in these proceedings is R$11 million.

We filed a lawsuit against the Brazilian Ministry of Finance to challenge the increase in the PIS and Cofins rates from 0% to 0.65% and 4%, respectively, on financial income earned by legal entities subject to the non-cumulative regime, on the basis that in our view, this increase is illegal and unconstitutional. Accordingly, we requested from the Brazilian courts a preliminary injunction prohibiting the Brazilian Ministry of Finance from collecting the PIS and Cofins contributions on financial revenues. The Brazilian courts denied our request. We appealed the decision and as of December 31, 2017, we had deposited R$13 million with the court in connection with the lawsuit, which is pending a final decision.

Labor Claims

As of December 31, 2017, we were a defendant in 2,565 labor claims resulting from our ordinary course of business, of which approximately 82% were filed by outsourced workers and approximately 10% were filed by our former employees. The alleged legal bases for these claims mainly relate to termination benefits, overtime hours, employee relationship and dismissal rights. As of December 31, 2017, the total value involved in the labor claims filed against us was approximately R$110 million. As of December 31, 2017, the provision for labor claims amounted to R$59.0 million.

In addition, we are periodically party to other administrative labor inquiries or claims by the Public Prosecution Offices or by other governmental agencies or third parties. These inquiries may result in public labor claims against us and the findings in these inquires may give rise to other claims. However, based on currently available information, we do not believe these matters are, or are likely to be in the future, material to our business or financial condition.

We have adopted certain measures to audit third party contractors. The objective of these measures is to evaluate compliance by third party contractors with labor obligations to their employees. We believe this will help us minimize the risks of potential labor liabilities.

**Arbitration**

We are also involved in 3 arbitrations proceedings: 2 of them by partners seeking to discuss and terminate the partnership to develop a few real estate projects and 1 of them commenced by us against a partner seeking to discuss damages suffered in connection with the development of certain real estate projects.

As of December 31, 2017, we recorded provisions for our arbitration claims totaling R$20 million.

Other Developments

On June 14, 2012, we received a subpoena from the SEC Division of Enforcement related to the Matter of Certain 20-F Filer Home Builders (HO-11760). The subpoena requests that we produce all documents from January 1, 2010 to the present related to the preparation of our financial statements, including, among other things, copies of our financial policies and procedures, board and audit committee and operations committee minutes, monthly closing reports and financial packages, any documents relating to possible financial or accounting irregularities or improprieties and internal audit reports. The SEC's investigation is a non-public, fact-finding inquiry and it is not clear what action, if any, the SEC intends to take with respect to the information it gathers. The SEC subpoena does not specify any charges. The Company has already submitted all the information requested by SEC, which as of the publication of these financial statements has not issued any opinion. We have not received any further notice from the SEC after delivering the requested information in the first half of 2012.

On July 31, 2012, we received a letter from the CVM: CVM/SEP/GEA-5/ Letter No. 208/2012, requesting information related to criteria for measurement and recognition of revenue and enhancement in the disclosure of

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some notes to our financial information. We have already provided all the information requested by the CVM. In addition, on February 19, 2013, we received a letter from the CVM: CVM/SEP/GEA-5/ Letter No. 040/2013 recommending enhancements to the notes to our financial statements regarding the percentage of assets by venture that is included in the structures of equity segregation of the purchase.

On July 11, 2013, the Company received CVM/SEP/GEA-5 Letter No. 240/2013, which requested information on the criteria for measuring and recognizing revenues. The Company has already provided all the information requested by CVM. On November 2013, we received a letter from the CVM: SEP/GEA-5/no 362/2013, requesting information related to some control deficiencies. We have already provided all the information requested by the CVM.

The CVM letters listed above led to administrative proceeding "Processo Administrativo Sancionador Nº RJ2014-9034" involving Wilson Amaral de Oliveira and Alceu Duilio Calciolari, former executive officers of the Company, and André Bergstein, former chief financial officer of the Company.

Wilson Amaral de Oliveira, Alceu Duilio Calciolari and André Bergstein presented their defenses on December 8, 2014, and submitted first proposals to enter into leniency agreements (*termos de compromisso*) on January 1, 2015, followed by second proposals in August 2017, which were approved by the CVM and entered into in September 2017.

Pursuant to the leniency agreements, Wilson Amaral de Oliveira, Alceu Duilio Calciolari and André Bergstein were required to pay certain administrative fines, which they duly paid and following which administrative proceeding Nº RJ2014-9034" with the CVM was closed.

Dividend Policy

The amount of any of our distributions of dividends and/or interest on shareholders' equity will depend on a series of factors, such as our financial conditions, prospects, macroeconomic conditions, tariff adjustments, regulatory changes, growth strategies and other issues our board of directors and our shareholders may consider relevant, as discussed below.

Amounts Available for Distribution

At each annual general shareholders' meeting, our board of directors is required to propose to our shareholders how our earnings of the preceding fiscal year are to be allocated. For purposes of Brazilian corporate law, a company's income after federal income tax for such fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to debentures, employees' and management's participation in earnings and founders' shares, represents its "net income" for such fiscal year. In accordance with Brazilian corporate law, an amount equal to the company's "net income" may be affected by the following:

- reduced by amounts allocated to the legal reserve;
- reduced by amounts allocated to any statutory reserve;
- reduced by amounts allocated to the contingency reserve, if any;
- reduced by amounts allocated to the tax incentives reserve;
- reduced by amounts allocated to the investment reserve;
- increased by reversals of contingency reserves recorded in prior years; and
- increased by amounts allocated to the investment reserve, when realized and if not absorbed by losses.

Our calculation of net income and allocation of funds to our reserves for any fiscal year are determined on the basis of our audited unconsolidated financial statements for the immediately preceding fiscal year.

Allocation of Net Income

According to Brazilian corporate law, we have two types of reserve accounts: (1) profit reserves and (2) capital reserve.

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Profit Reserves

Our profit reserves consist of the following:

- *Legal Reserve*. Under Brazilian corporate law and our by-laws, we are required to maintain a legal reserve to which we must allocate 5% of our net income for each fiscal year until the aggregate amount of such reserve equals 20% of our share capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which the legal reserve, when added to our other established capital reserves, exceeds 30% of our total share capital. The portion of our net income allocated to our legal reserve must be approved by our annual general shareholders' meeting and the balance of such reserve may only be used to increase our share capital or to absorb losses, but is unavailable for the payment of dividends. As of December 31, 2017, there was no amount allocated to our legal reserve.

- *Statutory Reserve*. Under Brazilian corporate law, we are permitted to provide for the allocation of part of our net income to discretionary reserve accounts that may be established in accordance with our bylaws. The allocation of our net income to discretionary reserve accounts may not be made if it serves to prevent distribution of the mandatory distributable amount. According to our bylaws, up to 71.25% of our net income may be allocated to an investment reserve to finance the expansion of our activities and the activities of our controlled companies by subscribing for capital increases, creating new projects or participating in consortia or any other type of association to achieve our corporate purpose. This statutory reserve is established in accordance with our bylaws as an investment reserve, and such reserve may not exceed 80% of our share capital. As of December 31, 2017, there was no amount allocated to our statutory reserve.

- *Contingency Reserve*. Under Brazilian corporate law, a percentage of our net income may be allocated to a contingency reserve for anticipated losses that are deemed probable in future years. Management must indicate the cause of the anticipated loss and justify the establishment of the reserve for allocation of a percentage of our net income. Any amount so allocated in a prior year either must be reversed in the year in which the justification for the loss ceases to exist or charged off in the event that the anticipated loss occurs. The allocations to the contingency reserve are subject to the approval of our shareholders in a general shareholders' meeting. As of December 31, 2017, there was no amount allocated to our contingency reserve.

- *Non-realized Profit Reserve*. Under Brazilian corporate law, the amount by which the mandatory distributable amount exceeds the "realized" net income in a given fiscal year, as proposed by the board of directors, may be allocated to the investment reserve. Brazilian corporate law defines "realized" net profits as the amount by which net profits exceed the sum of (1) the net positive results, if any, from the equity method of accounting and (2) the net profits, net gains or net returns resulting from transactions or the accounting of assets and liabilities based on their market value, to be received after the end of the following fiscal year. All amounts allocated to the non-realized profit reserve must be paid as mandatory dividends when those "non-realized" profits are realized if they have not been designated to absorb losses in subsequent periods. As of December 31, 2017, there was no amount allocated to our non-realized profit reserve.

- *Retained Earnings Reserve*. Under Brazilian corporate law, a portion of our net income may be reserved for investment projects in an amount based on a capital expenditure budget approved by our shareholders. If such budget covers more than one fiscal year, it might be reviewed annually at the general shareholders' meeting. The allocation of this reserve cannot jeopardize the payment of the mandatory dividends. As of December 31, 2017, there was no amount allocated to our retained earnings reserve.

Capital Reserves

The capital reserve is formed by (a) amounts received by shareholders in excess of the par value of shares issued (premium on capital stock), as well as the part of the issue price of the shares with no par value that exceeds the amount intended to form the capital stock; and (b) proceeds from the sale of founders' shares and warrants. Under Brazilian corporate law, capital reserve may only be applied to: (1) absorb losses that exceed accumulated earnings and revenue reserves; (2) redeem, reimburse or buy our own shares; and (3) increase our share capital.

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## Mandatory Distribution of Dividends

Brazilian corporate law generally requires that the bylaws of each Brazilian company specify a minimum percentage of the amounts available for distribution by such company for each fiscal year that must be distributed to shareholders as dividends or as interest on shareholders' equity, also known as the mandatory dividend.

The mandatory dividend is based on a percentage of adjusted net income, rather than a fixed monetary amount per share. Under our bylaws, at least 25% of our net income, as calculated under Brazilian GAAP and adjusted under Brazilian corporate law (which differs significantly from net income as calculated under U.S. GAAP), for the preceding fiscal year must be distributed as a mandatory dividend. Adjusted net income means the distributable amount before any deductions for profit retention and statutory reserves.

Under Brazilian corporate law, however, we are allowed to suspend the distribution of the mandatory dividends in any year in which our board of directors report to our general shareholders' meeting that the distribution would be inadvisable in view of our financial condition. Such suspension is subject to the approval at the shareholders' meeting and review by members of the fiscal council. In the case of publicly held companies, the board of directors must file a justification for such suspension with the CVM within five days of the relevant general shareholders' meeting. If the mandatory dividend is not paid, the unpaid amount shall be attributed to a special reserve account. If not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

The mandatory dividend may also be paid in the form of interest attributable to shareholders' equity, which is considered to be a deductible financial expense for purpose of calculating our income and social contribution tax obligations, provided that certain requirements are met. See " Item 10. Additional Information—E. Taxation" for further information.

## Payment of Dividends

We are required by Brazilian corporate law and our bylaws to hold an annual general shareholders' meeting within the first four months following the end of each fiscal year, at which time, among other things, the shareholders have to decide on the allocation of the results from the preceding year and on the payment of dividends based on our financial results from the previous fiscal year.

Under Brazilian corporate law, dividends are generally required to be paid to the holder of record on the date of the dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur within the fiscal year in which such dividend was declared. A shareholder has a three-year period from the date of the dividend payment to claim dividends, which do not bear interest and are not monetarily restated, after which the aggregate amount of any unclaimed dividends shall legally revert to us.

Our board of directors may declare interim dividends to be deducted from the retained earnings or profit reserves in our semi-annual or annual financial statements. In addition, our board of directors may pay dividends from our net income based on our net income registered on semi-annual or quarterly balance sheet. The dividends paid in each semester may not exceed the amounts accounted for in our capital reserve accounts. Any payment of interim dividends may be set off against the amount of mandatory dividend relating to the net profit earned in the year in which the interim dividends were paid.

In general, shareholders who are not residents of Brazil must register their equity investment with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted outside of Brazil. The common shares underlying the ADSs are held in Brazil by Banco Itaú S.A., also known as the custodian, as agent for the depositary, who is the registered owner on the records of the registrar for our shares. The depositary registers the common shares underlying the ADSs with the Central Bank and, therefore, it is possible to have dividends, sales proceeds or other amounts with respect to the common shares remitted outside Brazil.

Payments of cash dividends and distributions, if any, are made in *reais* to the custodian on behalf of the depositary, which then converts such proceeds into U.S. dollars and causes such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. In the event that the custodian is unable to convert immediately the *reais* received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by any depreciation of the real that occurs before the dividends are converted. Under current Brazilian tax law, dividends paid to persons who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian withholding tax, except for dividends declared based on profits generated prior to December 31, 1995, which will be subject to Brazilian withholding income tax at varying tax rates. See “Item 10. Additional Information—E. Taxation.”

Holders of ADSs have the benefit of the electronic registration obtained from the Central Bank, which permits the depositary and the custodian to convert dividends and other distributions or sales proceeds with respect to the common shares represented by ADSs into foreign currency and remit the proceeds outside of Brazil. In the event the holder exchanges the ADSs for common shares, the holder will be entitled to continue to rely on the depositary’s certificate of registration for five business days after the exchange. Thereafter, in order to convert foreign currency and remit outside of Brazil the sales proceeds or distributions with respect to the common shares, the holder must obtain a new certificate of registration in its own name that will permit the conversion and remittance of such payments through the commercial exchange rate market.

Under current Brazilian legislation, the Brazilian government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil’s balance of payments. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs.”

Interest on Equity

Under the Brazilian tax legislation effective January 1, 1996, Brazilian companies are permitted to pay “interest” to holders of equity securities and treat such payments as a deductible financial expense for Brazilian income tax purposes and, from 1997, for social contribution on net profit purposes. The purpose of the tax law change is to encourage the use of equity investment, as opposed to debt, to finance corporate activities. Payment of such interest may be made at the discretion of our board of directors. The amount of any such notional “interest” payment to holders of equity securities is generally limited in respect of any particular year to the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits but before taking into account the provision for corporate income tax and the interest attributable to shareholders’ equity) for the period in respect of which the payment is made; or

- 50% of the sum of retained earnings and profit reserves as of the beginning of the year in respect to which such payment is made.

For tax deduction purposes, the rate applied in calculating interest attributable to shareholders’ equity cannot exceed the *pro rata die* variation of the Long Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, as determined by the Central Bank from time to time.

For accounting purposes, although the interest should be reflected in the statement of operations for tax deduction, the charge is reversed before the calculation of the net income in the statutory financial statements and deducted from the shareholders' equity in the same way as the dividend. Please refer to "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations—Income—Interest on Shareholders' Equity" below for a discussion of tax consequences related to the receipt of payments of interest attributable to shareholders' equity by a non-resident holder of our common shares or ADSs.

The amount distributed to shareholders as interest attributable to equity, net of any withholding tax, may be included as part of the minimum mandatory dividend. In accordance with applicable law, we are required to pay to shareholders an amount sufficient to ensure that the net amount they receive in respect of interest attributable to shareholders' equity, after payment of the applicable withholding tax, plus the amount of declared dividends, is at least equivalent to the amount of the minimum mandatory dividend. A shareholder has a three-year period from the date of the interest payment to claim interest attributable to equity, after which the aggregate amount of any unclaimed interest shall legally revert to us.

If a payment of interest on equity is recorded at net value as part of a mandatory dividend, we will pay the income tax on behalf of our shareholders at the time the payment is distributed. Otherwise, the income tax will be paid by the shareholders, subject to our obligation to retain and collect taxes on the payment.

History of Payment of Dividends and Interest on Equity

In 2010, we distributed dividends in the total amount of R$50.7 million, or R$0.12 per share (after giving effect to the stock split of one existing share into two newly issued shares approved at our shareholders' meeting on February 22, 2010), for fiscal year 2009. In 2011, we distributed dividends in the total amount of R$98.8 million, or R$0.2991 per share, for fiscal year 2010.

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In 2012, we did not distribute any dividends, related to fiscal year 2011. In 2013, we did not distribute any dividends, related to fiscal year 2012.

On December 20, 2013, we approved the distribution of interest on equity, charging the account of net income for the current fiscal year, according to the extraordinary balance sheet of December 3, 2013 and deducted from the mandatory minimum dividends of 2013 fiscal year, as set forth on §7, Article 9, Law 9,249/95 and CVM Deliberation No. 207/96, in the gross amount of R$130.2 million, corresponding to R$0.3111 per outstanding share.

On April 25, 2014, we approved the payment of dividends in the total amount of R$32.9 million, or R$0.082 per share (excluding treasury shares) for fiscal year 2013. The dividends were distributed on December 11, 2014, as approved by a meeting of the board of directors held on December 1, 2014.

On April 25, 2014, we approved the distribution of interest on equity, charging the account of net income for the current fiscal year, according to the extraordinary balance sheet of December 3, 2013 and deducted from the mandatory minimum dividends of 2013 fiscal year, as set forth on §7, Article 9, Law 9,249/95 and CVM Deliberation No. 207/96, in the gross amount of R$130.2 million, corresponding to R$0.3111 per outstanding share. The interest on equity was distributed on December 11, 2014, as approved by a meeting of the board of directors held on December 1, 2014.

In 2015, we did not distribute any dividends related to fiscal year 2014.

On April 25, 2016, we approved the payment of dividends in the total amount of R$17.7 million, or R$0.048 per share (excluding treasury shares) for fiscal year 2015. The dividends were distributed on December 22, 2016, as approved by a meeting of the board of directors held on December 16, 2016.

In 2016, we did not distribute any dividends related to fiscal year 2015.

In 2017, we did not distribute any dividends related to fiscal year 2016.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our common shares started trading on the B3 on February 17, 2006 and the ADSs started trading on the NYSE on March 16, 2007. The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on the NYSE, in U.S. dollars, and the common shares on the B3, in *reais*:

| | New York Stock Exchange | | | São Paulo Stock Exchange | | |
|---|---|---|---|---|---|---|
| | High | Low | Volume(1) | High | Low | Volume(1) |
| | (in US$ per ADS) | | | (in *reais* per common shares) | | |
| Year Ended | | | | | | |
| December 31, 2013 | 5.13 | 2.22 | 1,853,011 | 5.23 | 2.62 | 10,648,389 |
| December 31, 2014 | 3.58 | 1.33 | 1,184,125 | 3.90 | 1.86 | 5,990,816 |
| December 31, 2015 | 1.89 | 0.88 | 483,148 | 2.95 | 1.78 | 3,784,043 |
| December 31, 2016 | 1.99 | 0.95 | 330,931 | 3.04 | 1.71 | 5,547,208 |
| December 31, 2017(2) | 20.59 | 1.19 | 178,854 | 29.50 | 1.84 | 2,314,580 |
| Quarter | | | | | | |
| First quarter 2016 | 1.53 | 0.95 | 197,372 | 2.99 | 2.07 | 2,640,703 |
| Second quarter 2016 | 1.52 | 1.01 | 256,970 | 2.80 | 1.71 | 3,872,952 |
| Third quarter 2016 | 1.71 | 1.15 | 329,930 | 2.73 | 1.93 | 7,452,148 |
| Fourth quarter 2016 | 1.99 | 1.10 | 536,402 | 3.04 | 1.82 | 8,105,362 |
| First quarter 2017(2) | 20.59 | 1.19 | 454,041 | 28.48 | 1.84 | 7,780,692 |
| Second quarter 2017(2) | 20 | 5.92 | 128,289 | 29.50 | 9.85 | 543,261 |
| Third quarter 2017(2) | 9.41 | 6.28 | 69,582 | 14.95 | 10.25 | 343,983 |
| Fourth quarter 2017(2) | 12.88 | 8.35 | 67,871 | 21.5 | 13.01 | 539,490 |
| Month | | | | | | |
| October 2017(2) | 9.64 | 8.35 | 76,996 | 15.55 | 13.01 | 310,069 |
| November 2017(2) | 11.83 | 8.77 | 79,944 | 19.04 | 14.42 | 635,053 |
| December 2017(2) | 12.88 | 11.02 | 45,157 | 21.50 | 17.15 | 696,889 |
| January 2018(2) | 12.99 | 9.79 | 63,262 | 20,88 | 15,75 | 1,296,876 |
| February 2018(2) | 11.01 | 9.16 | 47,433 | 17,61 | 15,25 | 900,739 |
| March 2018(2) | 9.31 | 5.53 | 48,072 | 15,62 | 9,26 | 1,534,676 |
| April 2018 (2) (through April 25, 2018) | 7.75 | 5.53 | 25,886 | 13.10 | 9.90 | 1,513,261 |

(1) Average number of shares traded per day.

(2) Considering the reverse stock split of all Gafisa’s shares at a ratio of 13.483023074 to 1 consummated on March 23, 2017.

We are part of the IbrX-100, an index measuring the total return on a theoretical portfolio composed of 100 stocks selected among B3’s most actively traded securities. Additionally, we are part of the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Through the inclusion on these indices, our stock has expanded opportunity for increased liquidity.

We are part of the following indices of the Brazilian stock market:

- IBRA: This index comprises all stocks actively traded on the cash market operated by B3 that have a certain minimum liquidity and active trading criteria;
- IBRX 100: This index measures the average stock performance of the 100 most actively traded stocks of the Brazilian stock market.
- ICON: This index measures the average stock performance of the more actively traded cyclical and non-cyclical consumer stocks.
- IMOB: This index is a real estate sector index covering B3’s most actively traded securities;
- IGCX: This index comprises all stocks trading on the *Novo Mercado* and Levels 1 and 2 of the B3;
- IGCT: The stocks that comprise this index are selected as constituents of the Special Corporate Governance Equity Index (IGC) to the extent they meet certain additional membership criteria;
- IGC-NM: This index comprises stocks listed for trading on the Novo Mercado segment of the B3;
-

- ITAG: This index comprises stocks which give minority shareholders enhanced tag-along rights protection in addition to the protection required by law in the event of a change of control;
- SMLL: This index comprises small capitalization stocks; and
- INDX: This index was developed to measure the performance of the most representative companies of the industrial sector, an important segment of the Brazilian economy. Its theoretical portfolio is composed by the industry's most representative stocks, which are selected among B3's most actively traded securities.

B. Plan of Distribution

Not applicable.

C. Markets

Our common shares are listed on the B3 under the symbol "GFSA3" and the ADSs are listed on the NYSE under the symbol "GFA."

Trading on the B3

Trading on the São Paulo Stock Exchange is conducted every business day, from 10:00 a.m. to 5:00 p.m. or 6:00 p.m. (depending on the time of the year), on an electronic trading system called the PUMA Trading System

(“PUMA”). Trading is also conducted between 5:30 p.m. (or 6:30 p.m.) and 6:00 p.m. (or 7:00 p.m.), on an online system connected to PUMA and Internet brokers called the “after market” The “after-market” trading is scheduled after the close of principal trading sessions, when investors may send purchase and sell orders and trade through the home broker system. This after-market trading is subject to regulatory limits on price volatility of securities traded by investors operating on the Internet.

The CVM and the B3 have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the B3, including the *Novo Mercado, Bovespa Mais, Bovespa Mais Nível 2* and Levels 1 and 2 segments, may be effected off the exchanges in the unorganized over-the-counter market in certain circumstances.

The shares of all companies listed on the B3, including the *Novo Mercado, Bovespa Mais, Bovespa Mais Nível 2* and Level 1 and Level 2 companies, are traded together.

Settlement of transactions occurs three business days after the trade date, without adjustments to the purchase price. Delivery of and payment for shares are made through the facilities of separate clearing houses for each exchange, which maintain accounts for brokerage firms, the Central Securities Depository of the B3 (*Central Depositária de Ativos da B3*). The seller is ordinarily required to deliver the shares to the B3 clearing house on the second business day following the trade date.

In order to maintain control over the fluctuation of the B3 index, the B3 has adopted a “circuit breaker” system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever specified indices of the B3 fall below the limits of approximately 10% and 15%, respectively, in relation to the closing index levels for the previous trading session.

Although the Brazilian equity market is the largest in Latin America in terms of capitalization, it is smaller and less liquid than the major U.S. and European securities markets. The B3 is significantly less liquid than the NYSE, or other major exchanges in the world. The B3, had a market capitalization of US$954.7 billion as of December 31, 2017 and an average daily trading volume of US$2.7 billion for 2017. In comparison, the NYSE had a market capitalization of US$22.1 trillion as of December 31, 2017 and an average daily trading volume of approximately US$69.6 billion for 2017. Although any of the outstanding shares of a listed company may trade on the B3, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one main shareholder. The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the common shares at the time and price you desire and, as a result, could negatively impact the market price of these securities.

Trading on Brazilian stock exchanges by non-residents of Brazil is subject to registration procedures. See "—Investment in Our Common Shares by Non-Residents of Brazil."

Regulation of Brazilian Securities Markets

The Brazilian securities markets are mainly governed by Law No. 6,385, of December 7, 1976, Law No. 4,728, of July 14, 1965 and Brazilian corporate law, each as amended and supplemented, and by regulations issued by the CVM, which has authority over stock exchanges and the securities markets generally; the CMN; and the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

These laws and regulations, among others, provide for licensing and oversight of brokerage firms, governance of the Brazilian stock exchanges, disclosure requirements applicable to issuers of traded securities, restrictions on price manipulation and protection of minority shareholders. They also provide for restrictions on insider trading. However, the Brazilian securities markets may not be considered to be as highly regulated and supervised as the U.S. securities markets or securities markets in some other jurisdictions. Accordingly, any trades or transfers of our equity securities by our officers and directors, our controlling shareholders or any of the officers and directors of our controlling shareholders must comply with the regulations issued by the CVM. See "Item 10. Additional Information—B. Memorandum and Bylaws—Disclosure Requirements."

We have the option to ask that trading in our securities on the B3 be suspended in anticipation of a material announcement. Trading may also be suspended on the initiative of the B3 or the CVM, based on or due to, among other reasons, a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the B3.

Under Brazilian corporate law, a corporation is either public, as we are, or closely held. All public companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may trade its securities either on the B3, if it has registered to have its securities traded at the B3, or on the Brazilian over-the-counter market. The shares of a listed company may also be traded privately, subject to several limitations. Our common shares are listed on *Novo Mercado* segment of the B3.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM (and in the relevant over the counter market) serves as intermediary. The Brazilian over-the-counter market is divided into two categories: (i) an organized over the counter market, in which the transactions are supervised by self-regulating entities authorized by the CVM; and (ii) a non-organized over the counter market, in which the transactions are not supervised by self-regulating entities authorized by the CVM. In either case, transactions are directly traded outside of the stock exchange market, through a financial institution authorized by the CVM. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Investment in Our Common Shares by Non-Residents of Brazil

Portfolio Investment

Investors residing outside Brazil are authorized to purchase equity instruments, including our common shares, in the form of foreign portfolio investments on the B3, provided that they comply with the registration requirements set forth in (i) CVM Instruction No. 560, published on March 25, 2015, which revoked CVM Instruction No. 325 and (ii) Resolution No. 4,373 of September 29, 2014 (“Resolution No. 4,373”).

With certain exceptions, Resolution No. 4,373/14 investors are permitted to carry out any type of transaction in the Brazilian financial capital market involving a security traded on a stock, futures or organized over-the-counter market authorized by the CVM. Investments and remittances outside Brazil of gains, dividends, profits or other payments under our common shares are made through the foreign exchange market. See “Item 10. Additional Information—D. Exchange Controls.”

In order to become a Resolution No. 4,373/14 investor, an investor residing outside Brazil must:

- appoint a representative in Brazil with powers to take actions relating to the investment;
- appoint an authorized custodian in Brazil for the investments, which must be a financial institution duly authorized by the Central Bank and CVM;
- appoint a tax representative in Brazil;
- through its representative in Brazil, register itself as a foreign investor with the CVM and the Central Bank; and
- through its representative in Brazil, register itself with the Brazilian Internal Revenue (Receita Federal) pursuant to Regulatory Instruction No. 1,470 of May 30, 2014, and Regulatory Instruction No. 1,548 of February 13, 2015, as the case may be.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 4,373/14 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by foreign investors is generally restricted to transactions carried out in the Brazilian stock exchanges or in organized over-the-counter markets licensed by the CVM. Therefore, as a general rule, no private sale of securities and other financial assets held by foreign investors pursuant to Resolution No. 4,373/14 are permitted.

Foreign Direct Investment

Foreign direct investors under Law No. 4,131/62 may sell their shares in both private or open market transactions, but these investors will generally be subject to less favorable tax treatment on gains as compared to foreign portfolio investors.

A foreign direct investor under Law No. 4,131/62 must:

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- register itself as a foreign direct investor and the investment with the Central Bank;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint a tax representative in Brazil; and
- appoint a representative in Brazil for service of process in respect of suits based on Brazilian corporate law.

Depositary Receipts

Resolution No. 4,373/14, which revoked Resolutions No. 1,927/92 and 3,845/10 of the CMN, regulates the issuance of depositary receipts in foreign markets in connection with shares of Brazilian issuers. Our ADSs program was approved by the CVM on March 8, 2007.

If a holder of ADSs decides to exchange ADSs for the underlying common shares, the holder may (1) sell the common shares on the B3 and rely on the depositary's electronic registration for five business days from the date of the exchange to obtain and remit U.S. dollars abroad upon the holder's sale of our common shares; (2) convert its investment into a foreign portfolio investment under Resolution No.4,373/14, subject to simultaneous foreign exchange transactions (without actual inflow or outflow of funds); or (3) convert its investment into a foreign direct investment under Law No. 4,131/62, subject to simultaneous foreign exchange transactions.

If a holder of ADSs wishes to convert its investment into either a foreign portfolio investment under Resolution No. 4,373/14 or a foreign direct investment under Law No. 4,131/62, it should first comply with such regulations, obtaining his own foreign investor registration with the Central Bank or with the CVM as the case may be, in advance of exchanging the ADSs for common shares and of executing the simultaneous foreign exchange agreements.

The custodian is permitted to update the depositary's electronic registration to reflect conversions of foreign portfolio investments under Resolution No. 4,373/14 into ADSs. If a foreign direct investor under Law No. 4,131/62 wishes to deposit its shares into the ADR program in exchange for ADSs, such holder will be required to execute simultaneous foreign exchange transactions and to present to the custodian evidence of payment of the applicable taxes. Please refer to "Item 10. Additional Information—E. Taxation—Brazilian Tax Considerations" for a description of the tax consequences to an investor residing outside Brazil of investing in our common shares in Brazil.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Bylaws

Registration

We are currently a publicly-held company incorporated under the laws of Brazil, registered with the Board of Trade of the State of São Paulo (JUCESP) under NIRE 35300147952 and with the CVM under No. 01610-1, and enrolled with the Brazilian Taxpayer's Authorities under CNPJ/MF No. 01,545,826/0001-07.

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Corporate Purposes

Article 3 of our bylaws provides that our corporate purpose is to: (1) promote and develop any type of real estate project, whether our own or that of a third party, in the latter case as a contractor and agent; (2) purchase and sell any type of real estate; (3) perform civil construction and provide civil engineering services; and (4) develop and implement marketing strategies for any type of real estate project, whether our own or that of a third party. In addition, we may participate in companies that are not affiliated to us in Brazil and outside of Brazil.

Issued Share Capital

As of December 31, 2017, our share capital was R$2,521,151,187.74, all of which was fully subscribed and paid-in. Our share capital was comprised of 28,040,162 registered, book-entry common shares, without par value. Under our bylaws, our board of directors may increase our share capital to the limit of our authorized capital by issuing up to 71,031,876 common shares without the need of specific shareholder approval. Our shareholders must approve any capital increase above that amount at a shareholders' general meeting. Pursuant to the agreement entered into with the B3 for the listing of our shares on the *Novo Mercado*, we are not permitted to issue preferred shares.

Novo Mercado

Our shares were accepted for trading on the *Novo Mercado* on February 17, 2006. A voluntary delisting from the *Novo Mercado* must be preceded by a public tender offer, pursuant to the rules applicable to the cancellation of the registration as a public company. See "—Delisting from the *Novo Mercado*." In the *Novo Mercado*, listed companies are required to, among others, (1) only issue common shares, (2) maintain a minimum free float equal to at least 25% of the company's capital stock (or 15% of the company's capital stock, provided its Average Daily Trading Volume (ADTV) remains equal to or greater than R$25,000,000.00), (3) detail and include additional information in the quarterly information and (4) make available the annual financial statements in English and based on international accounting standards.

The rules imposed by the *Novo Mercado* aim at providing transparency in relation to the activities and economic situation of the companies to the market, as well as more power to the minority shareholders in the management of the companies, among other rights. The main rules relating to the *Novo Mercado*, to which the company is subject, are summarized below.

According to CMN Resolution No. 3,792 of September 24, 2009, which governs the closed complementary social security entities' investment policy (*Entidades Fechadas de Previdência Complementar* — EFPC), such pension funds may invest up to 70% of its variable income investment portfolio (in which are included corporate stakes) in publicly held companies listed in the *Novo Mercado*, which may, therefore, improve the development of this corporate governance segment, benefiting the companies listed therein, taking into account the immense financial equity held by such pension funds in Brazil.

Authorization for Trading in the Novo Mercado

Firstly, the company that is authorized to list its securities on the *Novo Mercado* of B3 shall keep its listed company register with the CVM updated, which allows the trading of the company's common shares at the stock market. The Listing Rules of the *Novo Mercado* were revised in 2017 and the rules are in full force and effect since January 2, 2018. We have until the annual shareholders meeting of 2021 to adapt our bylaws to the new rules of the *Novo Mercado*.

According to the Listing Rules of the *Novo Mercado*, the company willing to negotiate its securities on the *Novo Mercado* shall, among other conditions: (1) along with its controlling shareholder (if any), execute a Listing Agreement in the *Novo Mercado* and (2) adapt its bylaws to comply with the minimum requirements determined in the Listing Rules of the *Novo Mercado*. The capital of the company shall be exclusively divided into common shares and a minimum free float equal to 25% of the capital stock (or 15% of the company's capital stock, provided its Average Daily Trading Volume (ADTV) remains equal to or greater than R$25,000,000.00) shall be maintained by the company. The existence of founders' shares by the companies listed on the *Novo Mercado* is prohibited.

In addition to the previous requirements, the company's bylaws may not (1) establish any provision which restricts the number of votes of any shareholder or group of shareholders (as defined in the Listing Rules of the *Novo Mercado*) to a percentage inferior to 5% of the company's corporate capital, (2) determine qualified quorums for matters submitted for the approval of the shareholders' general meetings, except as provided by law, nor (3)

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restrict or establish any encumbrance to shareholders who vote favorably to the suppression or amendment of any provision of the company's bylaws.

Board of Directors

The board of directors of companies authorized to have their shares traded on the *Novo Mercado* shall be comprised of at least five members, of which at least 20% or 2 members, whichever is greater, shall be independent, as defined in the Listing Rules of the *Novo Mercado*. The members of the board of directors shall be elected by a shareholders' general meeting for a maximum two-year term of office, and are eligible for reelection. All new members of the board of directors, of the board of officers and of the fiscal council shall, before taking office, undertake to comply with the arbitration clause in the bylaws.

The positions of chairman of the board of directors and of chief executive officer may not be held by the same person, except in the event of vacancy, for a maximum period of one year.

The board of directors shall always disclose to the market an opinion regarding any tender offer of the company's shares, informing, among others, their position on the convenience and consequences of such offer in respect to (a) the interests of the company and of the shareholders regarding the price and the potential impact on the liquidity of such securities held by the shareholders, (b) the strategic plans disclosed by the offering shareholder with regard to the company and (c) any alternatives to the acceptance of the tender offer available in the market. Additionally, the board of directors shall always emphasize that each shareholder is responsible for the final decision regarding the acceptance or not of such tender offer.

Other Novo Mercado Characteristics

*Novo Mercado* rules cover other areas designed to foster high levels of corporate governance and market transparency. Companies are required to keep the minimum stock percentage floating in the market in order to foster dispersion of share ownership. In addition, companies are obliged to assign tag-along rights to their shareholders in order to ensure equal treatment if a controlling shareholder sells its controlling stake.

The *Novo Mercado* rules require companies to provide information on the number of shares held by the controlling shareholder, if any, in addition to other information required by the Listing Rules of the *Novo Mercado*. Companies are also required to give more disclosure regarding related party transactions in which a company may be involved.

The Listing Rules of the *Novo Mercado* also require companies to prepare and disclose to B3 and to the market a Securities Negotiation Policy applicable at least to the company, its controlling shareholders, directors, officers, members of the fiscal council and members of other committees, as well as a Code of Conduct establishing the company's principles and values regarding its relationship with its management, employees, service providers and any person or entity with which the company maintains any relation.

Finally, the company, controlling shareholders, other shareholders, directors, officers and members of a company's fiscal council are required to submit to arbitration any disputes that may arise relating to their status as issuer, shareholders, management and fiscal council members, especially in light of the provisions of Law 6,385/76, Law 6,404/76, the company's bylaws, the rules issued by the National Monetary Council, the Central Bank of Brazil and CVM, as well as other rules applicable to the securities market in general, Listing Rules of the *Novo Mercado*, other rules and regulations established by B3, and the *Novo Mercado* participation agreement. The arbitrations shall take place before the Market Arbitration Chamber established by the B3 and shall be conducted in accordance with the Rules of the Market Arbitration Chamber.

Company Management

We are managed by a board of directors (*Conselho de Administração*) and a board of officers (*Diretoria*). See "Item 6. Directors, Senior Management and Employees—C. Board Practices."

The members of the board of directors and of the board of officers must be individuals, provided that the latter must also be Brazilian residents.

Conflict of Interests

According to Brazilian corporate law a director or an officer shall not take part in any corporate transaction in which he/she has an interest which conflicts with the interest of the company. In this case, he/she shall disclose his/her disqualification to the other directors or officers and shall cause the nature and extent of his/her interest to be recorded in the minutes of the board of directors or board of officers' meeting, as the case may be.

With due compliance with the rules above relating to conflict of interests, a director or an officer may only contract with the company under reasonable and fair conditions, identical to those which prevail in the market or under which the corporation would contract with third parties. Any business contracted otherwise is voidable and the director or the officer concerned shall be obliged to transfer to the corporation all benefits which he/she may have obtained in such business.

According to Brazilian corporate law, a director or officer may not:

- perform any act of generosity to the detriment of the company;
- without prior approval of the shareholders' general meeting or the board of directors, borrow money or property from the company or use its property, services or take advantage of its standing for his/her own benefit, for the benefit of a company in which he/she has an interest or for the benefit of a third party; and
- by virtue of his or her position, receive any type of direct or indirect personal advantage from third parties, without authorization in the bylaws or from a shareholders' general meeting.

According to our bylaws, any business or agreement between the company and any shareholder, director or officer must be previously approved by the board of directors, except if specified in our annual budget or business plan.

Rules for Retirement

There is no retirement age limit relating to directors or officers pursuant to the Brazilian law and our bylaws.

Policy for the Trading of Our Securities

On, August 10, 2015, our board of directors approved the second amendment of our Conduct Manual on Information Disclosure and Use and Securities Trading Policy passed on July 15, 2009, which establishes the following procedures regarding the policy for the trading of our securities:

- the company and all of our directors, executive officers, employees, members of the other bodies with technical or consultant duties, our possible controlling shareholders, and whoever by virtue of his/her position, job, or post at our company or our subsidiaries and affiliates, and who have signed the compliance statement and became aware of information of a material transaction or event involving our company, are restricted from trading in our securities until such material transaction or event is disclosed to the market as a material fact, except as regards treasury stock transactions, through private trading, the exercise of options to purchase shares of our capital stock, with stock option plan approved by the shareholders, or a possible buyback, also through private trading, carried out by us, provided that such buyback program is carried due to the exercise of stock options in connection with the plan or program. This restriction is extended to periods prior to the announcement of such information or annual or interim financial statements or prior to disclosure of a material fact in accordance with applicable law;

- trading of our securities or transactions related to our securities carried out by the aforementioned persons pursuant to an Individual Investment Program, consisting of long-term investments, as defined in the Trading Policy, is not subject to the aforementioned restrictions;

- the restrictions of the Trading Policy also apply to our former directors and executive officers who resigned prior to the public disclosure of a transaction or fact that began during their administration (a) for the six month period following the end of their duties with the company, or (b) until the disclosure of the material event or the related financial statements, whichever occurs first; and

- the abovementioned restrictions also apply to indirect trading carried out by such persons, except those conducted by investment funds, provided that the investment funds are not exclusive and the transaction decisions taken by the investment fund officers cannot be influenced by its unit holders.

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## Rights of Common Shares

Each of our common shares entitles its holder to one vote at an annual or special shareholders' general meeting. A holder of ADSs has the right under the deposit agreement to instruct the depositary to exercise the voting rights for the common shares represented by his/hers ADSs. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs." Pursuant to our bylaws, Brazilian corporate law and the *Novo Mercado* rules, owners of common shares are entitled to dividends, or other distributions made in respect of common shares, in proportion to their ownership of outstanding shares. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy" and "Item 9. The Offer and Listing—C. Markets— Investment in Our Common Shares by Non-Residents of Brazil" for a more complete description of payment of dividends and other distributions on our common shares. In addition, upon our liquidation, holders of our shares are entitled to share all our remaining assets, after payment of all our liabilities, ratably in accordance with their respective participation in the total amount of our issued and outstanding shares. Holders of our common shares are entitled to participate on a *pro rata* basis in future capital calls by our company except in some specific circumstances under Brazilian law, as described in "—Preemptive Rights." Our common shares have tag along rights, which enable their holders to, upon the sale of a controlling interest in us, receive 100% of the price paid per common share of the controlling block by a single or series of transaction.

## Options

According to our bylaws, we may, within our authorized share capital and upon resolution of the shareholders' general meeting, grant stock options to (1) our directors, executive officers and employees, or (2) individuals who provide services to us or to companies we control.

## Appraisal Rights

Shareholders who are absent, dissent or abstain from voting on certain actions taken during a shareholders' general meeting have the right under Brazilian corporate law to withdraw from our company and to receive the value of their shares.

According to Brazilian corporate law, shareholder appraisal rights may be exercised in the following circumstances, among others:

- a reduction in the percentage of our mandatory dividends;
- a change in our corporate purpose;
- an acquisition, by our company, of a controlling stake in another company if the acquisition price is outside of the limits established by Brazilian corporate law;
- a merger of shares involving our company, a merger of our company into another company, if we are not the surviving entity, or our consolidation with another company; or
- an approval of our participation in a group of companies (as defined in Brazilian corporate law).

Brazilian corporate law further provides that any resolution regarding a spin-off will also entitle shareholders to withdraw if the spin-off:

- causes a change in our corporate purpose, except if the equity is spun-off to a company whose primary activities are consistent with our corporate purposes;
- reduces our mandatory dividends; or
- causes us to join a group of companies (as defined in Brazilian corporate law).

In cases where (1) our company merges with another company where we are not the surviving company, or (2) we are consolidated with another company, or (3) we participate in a group of companies (as defined in Brazilian corporate law), our shareholders will not be entitled to withdraw from our company if their respective shares are (a) liquid, i.e. part of the B3 index or other stock exchange index in Brazil or abroad, (as defined by the CVM), and (b) widely held, such that less than 50% of our shares are held by a controlling shareholder or by companies a controlling

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shareholder controls. We are currently part of the IBOVESPA (the B3 index) and have no controlling shareholder. Therefore, our shares are, at present, considered liquid and widely held for the purposes of this paragraph.

The right to withdraw expires 30 days after publication of the minutes of the relevant shareholders' general meeting. We are entitled to reconsider any action giving rise to withdrawal rights for within 10 days after the expiration of the 30-day period if the redemption of shares of absent, dissenting or non-voting shareholders would jeopardize our financial stability. If shareholders exercise withdrawal rights, they are entitled to receive the economic value of the company's shares, as determined by a valuation report issued by a specialized firm.

Redemption of Shares

According to Brazilian corporate law, we may redeem our shares by a decision taken in a special shareholders' general meeting by shareholders representing at least 50% of our share capital. The share redemption may be paid with our profit, profit reserves or capital reserves. If the share redemption is not applicable to all shares, the redemption will be made by lottery. If custody shares are picked in the lottery and there are no rules established in the custody agreement, the financial institution will specify on a *pro rata* basis, the shares to be redeemed.

Registration of Shares

Our shares are held in book-entry form with Itaú Unibanco Corretora S.A., which will act as the custodian agent for our shares. Transfer of our shares will be carried out by means of book entry by Itaú Unibanco S.A., debiting the share account of the seller and crediting the share account of the buyer, with the presentation of a written order of the transferor or a judicial authorization or order to effect such transfers.

Preemptive Rights

Except as provided below, our shareholders have a general preemptive right to participate in any issuance of new shares, convertible debentures and warrants, in proportion to their respective shareholding at such time, but the conversion of debentures and subscription warrants into shares, the granting of options to purchase shares and the issuance of shares as a result of its exercise, are not subject to preemptive rights. In addition, Brazilian corporate law allows for companies' bylaws to give the board of directors the power to exclude preemptive rights or reduce the exercise period of such rights with respect to the issuance of new shares, debentures convertible into shares and subscription warrants up to the limit of the authorized share capital if the distribution of those shares, debentures or subscription warrants is effected through a sale on a stock exchange, through a public offering or through an exchange of shares in a tender offer the purpose of which is to acquire control of another company. Shareholders are allowed to exercise the preemptive rights for a period of at least 30 days following the publication of notice of the issuance of shares, convertible debentures and warrants, and the right may be transferred or disposed of for consideration.

Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares underlying the ADSs. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Common Shares and the ADSs—Holders of ADSs may be unable to exercise preemptive rights with respect to our common shares underlying the ADSs."

Shareholders' General Meetings

Under Brazilian corporate law, at our shareholders' meetings, shareholders are empowered to take any action relating to our corporate purpose and to pass any such resolutions as they deem necessary. The approval of our financial statements and the determination of the allocation of our net profits with respect to each fiscal year take place at our annual general shareholders' meeting immediately following such fiscal year. The election of our directors and, if requested by shareholders, of members of our fiscal council typically takes place at the annual general shareholders' meeting, although under Brazilian corporate law it may also occur at a special shareholders' general meeting.

A special shareholders' general meeting may be held concurrently with the annual general shareholders' meeting. Pursuant to our bylaws and Brazilian corporate law, the following actions, among others, may only be taken at a general shareholders' meeting:

- amendment of our bylaws, including amendment of our corporate purpose;
- election and dismissal, at any time, of our directors and members of our fiscal council;

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- determination of the aggregate compensation of our board of directors and board of officers, as well as the fiscal council's compensation;
- approval of stock splits and reverse stock splits;
- approval of a stock option plan;
- approval of the company's financial statements;
- resolution upon the destination of our net profits and distribution of dividends;
- election of the fiscal council to function in the event of our dissolution;
- cancellation of our registration with the CVM as a publicly-held company;
- suspension of the rights of a shareholder who has violated Brazilian corporate law or our bylaws;
- acceptance or rejection of the valuation of in-kind contributions offered by a shareholder in consideration for shares of our capital stock;
- approval of our transformation into a limited liability company or any other corporate form;
- delisting of our common shares from the *Novo Mercado*;
- appointment of a financial institution responsible for our valuation, in the event of a mandatory tender offer, specifically in the event that a tender offer for our common shares is carried out in connection with the delisting of our common shares from the *Novo Mercado* or cancellation of our registration as a publicly-held company;
- reduction in the percentage of mandatory dividends;
- participation in a group of companies (as defined in Brazilian corporate law);
- approval of any merger, consolidation with another company or spin-off;

- approval of our dissolution or liquidation, the appointment and dismissal of the respective liquidator and the official review of the reports prepared by him or her; and

- authorization to petition for bankruptcy or request for judicial or extrajudicial restructuring.

According to Brazilian corporate law, neither a company's bylaws nor actions taken at a shareholders' meeting may deprive a shareholder of specific rights, such as:

- the right to participate in the distribution of profits;

- the right to participate equally and ratably in any remaining residual assets in the event of liquidation of the company;

- preemptive rights in the event of subscription of shares, convertible debentures or subscription warrants, except in some specific circumstances under Brazilian law described in "—Preemptive Rights;"

- the right to inspect and monitor the management of the company's business in accordance with Brazilian corporate law; and

- the right to withdraw from the company in the cases specified in Brazilian corporate law, described in "—Appraisal Rights."

Quorum for our Shareholders' General Meetings

As a general rule, Brazilian corporate law provides that a quorum at a shareholders' general meeting consists of shareholders representing at least 25% of a company's voting capital on the first call and, if that quorum is not reached, any percentage on the second call. A quorum for the purposes of amending our bylaws consists of shareholders representing at least two-thirds of voting capital on the first call and any percentage on the second call.

As a general rule, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person, remotely (as described in "—Remote Voting") or represented by proxy at a shareholders' general meeting is required to ratify any proposed action, with abstentions not taken into account. However, the affirmative vote of shareholders representing one-half of our issued and outstanding voting capital is required to:

- reduce the percentage of mandatory dividends;
- change our corporate purpose;
- merge or consolidate our company with another company;
- spin-off a portion of our assets or liabilities;
- approve our participation in a group of companies (as defined in Brazilian corporate law);
- apply for cancellation of any voluntary liquidation;
- approve our dissolution; and
- approve the merger of all our shares into another company.

A quorum smaller than one-half of our issued and outstanding voting capital may be authorized by the CVM for a publicly-held company with widely-traded and widespread shares that has had less than half of the holders of its voting shares in attendance at its last three shareholders' meetings. In such case, resolutions may only be taken on a third call.

According to our bylaws and for so long as we are listed on the *Novo Mercado*, we may not issue preferred shares or founders' shares and we will have to conduct a tender offer in order to delist ourselves from the *Novo Mercado*.

Notice of our Shareholders' General Meetings

According to Brazilian corporate law, notice of our shareholders' general meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, the official newspaper of the State of São Paulo, and in another widely circulated newspaper in the same State, previously chosen at an annual shareholders meeting, which, in our case is *O Estado de São Paulo*.

According to CVM Instruction No. 559 of March 27, 2015 (which deals with the approval of ADR programs), the first notice must be published no later than 15 days before the date of the meeting on the first call, and no later than eight days before the date of the meeting on the second call.

In addition, the CVM may suspend for up to 15 days the required prior notice of the special shareholders' general meeting so that it may further analyze the proposal to be voted upon at such meeting. Such call notice in all circumstances shall contain the date, time, place and agenda for the meeting and a list of the documents that will be required from our shareholders to be admitted at the meetings, and in case of amendments to the bylaws, the indication of the relevant matters. CVM Instruction No. 481 of December 17, 2009 also requires that additional information be disclosed in the call notice for certain matters. For example, in the event of an election of directors, the call notice shall also disclose the minimum percentage of equity participation required from a shareholder to request the adoption of cumulative voting procedures. All documents pertaining to the matters to be discussed at the shareholders' general meeting shall be made available to the shareholders upon publication of the first call notice, except if the law or CVM regulations provide otherwise.

Location of our Shareholders' General Meetings

Our shareholders' meetings shall take place at our head offices at Av. Nações Unidas No. 8,501, 19th floor, 05425-070 – São Paulo, SP – Brazil. Brazilian corporate law allows our shareholders to hold meetings outside our head offices in the event of force majeure, provided that the relevant notice contains a clear indication of the place

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where the meeting will occur, which, in any case, shall never be held outside the city where the company's headquarters are located.

Who May Call our Shareholders' General Meetings

According to Brazilian corporate law, our board of directors may call a shareholders' general meeting. Shareholders' general meetings may also be called by:

- any shareholder, if our directors fail to call a shareholders' general meeting within 60 days after the date they were required to do so under applicable laws and our bylaws;
- shareholders holding at least 5% of our share capital if our directors fail to call a meeting within eight days after receipt of a request to call the meeting by those shareholders, and such request must indicate the proposed agenda;
- shareholders holding at least 5% of voting share capital or 5% of non-voting share capital if our directors fail to call a meeting within eight days after receipt of a request to call the meeting to convene a fiscal council; and
- our fiscal council (if installed), in the event our board of directors delays calling an annual shareholders' meeting for more than one month. The fiscal council may also call a special general shareholders' meeting at any time if it believes that there are significant or urgent matters to be addressed.

There is an obligation of the chairman of our board of directors to call a shareholders' general meeting if: (1) we are not under control of a shareholder holding more than 50% of our voting capital, and (2) B3 determines that the price of our shares shall be quoted separately or that the trading of our shares on the *Novo Mercado* shall be suspended by reason of non-compliance with the listing rules of *Novo Mercado*. At such a meeting all members of our board of directors must be replaced. In the event the shareholders' general meeting is not called by the chairman of the board of directors within the time period established in our bylaws, the meeting may be called by any shareholder of the company.

Conditions for Admission at our Shareholders' General Meetings

A shareholder may be represented at a shareholders' general meeting by a proxy, as long as the proxy is appointed less than a year before such shareholders' general meeting. The proxy must be either a shareholder, an executive officer or a director of our company, a lawyer or a financial institution. An investment fund must be represented by its investment fund officer. A legal entity may be represented by its legal representative.

Shareholders attending a shareholders' general meeting must deliver proof of their status as shareholders and proof that they hold the shares they intend to vote by delivery of proper identification and a receipt issued by the custodian agent of our shares.

Remote Voting

Participation and remote voting at the general shareholders' meetings of publicly-held companies is regulated by CVM Rule No. 561 of April 2015, which aims to facilitate the participation of shareholders in general meetings either through voting or through the submission of proposals. This rule provides the following:

- the creation of a remote voting bulletin through which shareholders may exercise their right to vote prior to the date the general meeting is held;
- the possibility to include in the voting bulletin a list of candidates and submit minority shareholders´ proposals for deliberation at the general meeting, with due observance of certain deadlines and percentages of equity interest, in order to facilitate shareholders' participation in general meetings; and
- the deadlines, procedures and means of transmitting the bulletin, which may be transmitted by the shareholder: (a) to the custodian (if the shares held by the shareholder are kept at a centralized deposit), (b) to the book-entry agent of the shares issued by the company (if such shares are not kept at a centralized deposit) or (c) directly to the company.

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In addition, publicly-held companies are required to adopt certain measures in connection with the voting process. Publicly-held companies are required to: (1) inform the market of the adoption of the cumulative voting process in annual meetings immediately upon receipt of the first valid requirement, (2) disclose the final voting summary statements, the final voting detailed statements, as well as any voting statement presented by a shareholder at the general meetings and (3) register in the minutes of the general meeting the number of approving, rejecting or abstaining votes for each item on the agenda, including the votes received by each member of the Board of Directors and/or Fiscal Council elected in such annual shareholders' meeting.

The application of CVM Rule No. 561 became mandatory on January 1, 2017 for companies that on April 9, 2015 had at least one share class listed either on the Index Brasil 100 or the IBOVESPA index of the B3, such as Gafisa.

Arbitration

Any disputes or controversies involving our company, our shareholders, members of our management or our fiscal council that may arise relating to their status as issuer, shareholders, management and fiscal council members, especially in light of the provisions of Law 6,385/76, Law 6,404/76, the company's bylaws, the rules issued by the National Monetary Council, the Central Bank and CVM, as well as other rules applicable to the securities market in general, Listing Rules of the Novo Mercado, other rules and regulations established by B3 and the Novo Mercado participation agreement, must be submitted to arbitration conducted in accordance with the Rules of the Market Arbitration Chamber established by the B3.

Going Private Process

We may become a private company by the decision of our shareholders only if we conduct a public tender offer to acquire all of our outstanding shares in accordance with the rules and regulations of Brazilian corporate law, the CVM and the *Novo Mercado* regulations which requires:

- a fair bid price at least equal to the value estimated of the company; and
- shareholders holding more than two thirds of the outstanding shares have specifically approved the process or accepted the offer.

The minimum price offered for the shares in the public tender offer will correspond to the economic value of such shares, as determined by a valuation report issued by a specialized firm, and we may only purchase shares from shareholders that have voted in favor of us becoming a private company after purchasing all shares from the other shareholders that did not vote in favor of such deliberation and that have accepted the public tender offer.

The valuation report must be prepared by a specialized and independent firm of recognized experience chosen by the shareholders representing the majority of the outstanding shares present at the relevant shareholders' meeting (excluding, for such purposes, treasury shares, shares held by our affiliates and by other companies that are a part of our economic group, as well as blank votes) from a list of three institutions presented by our board of directors. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid for by the person making the tender offer.

Shareholders holding at least 10% of our outstanding shares may require our management to call a special shareholders' general meeting to determine whether to perform another valuation using the same or a different valuation method. This request must be made within 15 days following the disclosure of the price to be paid for the shares in the public offering. The shareholders who make such request as well as those who vote in its favor must reimburse us for any costs involved in preparing the new valuation, if the new valuation price is not higher than the original valuation price. If the new valuation price is higher than the original valuation price, the public offering must be made at the higher price.

Delisting from the *Novo Mercado*

We may, at any time, delist our common shares from the *Novo Mercado*, provided that shareholders approve the decision. Delisting of shares from the *Novo Mercado* does not require delisting from the B3.

For our common shares to be delisted from the *Novo Mercado*, it must be preceded by a public tender offer pursuant to the rules applicable to the going private process. Such tender offer may be dismissed if a waiver is approved by a general shareholders meeting.

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If our delisting from the *Novo Mercado* occurs due to the cancellation of our registration as a publicly held company, all the other requirements established by such delisting shall be followed. See "—Going Private Process."

If the reorganization involves resulting companies that do not intend to apply for listing on *Novo Mercado*, this structure must be approved by a majority of the company's shareholders holding free float shares and present at the general shareholders meeting.

If our share control is sold within twelve months of our delisting from the *Novo Mercado*, the selling controlling shareholder and the acquirer shall offer (i) to acquire the shares of all other shareholders under the same conditions offered to the selling controlling shareholder or (ii) to pay the difference between the tender offer price accepted by former shareholders, duly updated, and the price obtained by the controlling shareholder in selling its own shares.

Sale of a Controlling Stake in our Company

Under the Listing Rules of the *Novo Mercado*, the sale of a controlling interest in our company, either through a single transaction or through successive transactions, takes place under a suspension or resolution condition, where the acquirer agrees to, within the time and pursuant to the conditions specified under Brazilian corporate law and the Listing Rules of the *Novo Mercado*, make a tender offer of the remaining shares of the other shareholders under the same terms and conditions granted to the selling controlling shareholder.

A tender offer is also required under the following conditions:

- when rights are assigned for a subscription of shares and other securities or rights related to securities convertible into shares that results in the sale of the company's controlling stake;
- when, if the controlling shareholder is an entity, the control of such controlling entity is transferred; and
- when a controlling stake is acquired through an agreement for the purchase of shares. In this case, the acquirer is obligated to make a tender offer under the same terms and conditions granted to the selling shareholders and reimburse the shareholders from whom he/she had purchased the shares traded on stock exchanges within the six months before the sale date of the company's share control. The reimbursement value is the difference between the price paid to the selling controlling shareholder and the amount traded on stock exchanges per share, during this period, adjusted by the inflation in the period. Such amount shall be distributed among all persons who sold shares

issued by the company in the stock market trading session in which the acquirer made its acquisitions, proportionally to the daily net selling balance of each acquisition, being B3 responsible for processing such distribution according to its regulations.

The buyer, when necessary, must take the necessary measures to recompose the minimum 25% of outstanding shares in the market within the subsequent six months.

Mandatory Tender Offer in Case of Acquisition of a Relevant Equity Stake

Under the rules of our bylaws, if any person acquires our shares directly or indirectly, or any securities or rights related to such shares, in an amount representing 50% or more of our corporate capital, such acquirer has to carry out a mandatory tender offer for the acquisition of all shares issued by the Company. The minimum price offered for the shares in the public tender offer will correspond to the economic value of such shares, as determined by a valuation report issued by a specialized firm.

The valuation report must be prepared by a specialized and independent firm of recognized experience chosen by the shareholders representing the majority of the outstanding shares present at the relevant shareholders' meeting (excluding, for such purposes, shares held by the controlling shareholder, if any, by the members of the board of directors and officers appointed, directly or indirectly, by the controlling shareholder, if any, treasury shares, as well as abstentions) from a list of three institutions presented by our board of directors. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid for by the person making the tender offer.

Shareholders holding at least 10% of our outstanding shares may require our management to call a special shareholders' general meeting to determine whether to perform another valuation using the same or a different valuation method. This request must be made within 15 days following the disclosure of the price to be paid for the shares in the public offering. The shareholders who make such request as well as those who vote in its favor must reimburse us for any costs involved in preparing the new valuation, if the new valuation price is not higher than the original valuation price. If the new valuation price is higher than the original valuation price, the acquirer may either increase the offer price or withdraw the tender offer, in the latter case provided that it shall dispose of the shares in excess of 50% of our corporate capital within 3 months counted from the special general meeting mentioned in this paragraph.

A tender offer as a result of an acquisition of a relevant equity stake, in accordance to our bylaws, is not mandatory in any of the following cases: (1) if the same shareholder remains as controlling shareholder; (2) if the relevant equity stake is obtained as a result of purchases made under another public tender offer for the acquisition of our shares, made in accordance with the *Novo Mercado* Listing Rules or with the applicable law; provided that the offer was made for all shares of the company and at least the minimum price, equivalent to the price of the mandatory tender offer, has been paid; (3) if a relevant equity stake is obtained involuntarily as a result of a corporate reorganizations, cancellation of shares in treasury, share redemption, capital reduction, or of a subscription of shares made under a primary public offer for distribution of our shares where the preemptive rights were not exercised by all shareholders who had it or which did not have as subscribers as expected; or (4) in the case of a sale of a controlling stake, which is subject to the rules described above for such case.

Purchases by us of our own Shares

Purchases by us of our own shares are regulated by CVM Rule No. 567 of September, 2015. The rule requires us to obtain the prior approval of our shareholders in connection with a purchase by us of our own shares if such purchase:

- is conducted outside an organized securities markets and results, whether in a single transaction or by a series of transactions, in us acquiring more than 5% of the type or class of shares in circulation over a period of 18 months;
- is conducted outside an organized securities markets and is for a price that is, (i) in the case of an acquisition of shares, more than 10% greater than the market quotation for such shares, or(ii) in the case of a disposal of shares, more than 10% lower than the market quotation for such shares;
- aims to change or preserve the composition of the controlling stock or the administrative structure of the company; or
- is conducted outside an organized securities markets with a related party.

Our board of directors may approve the acquisition of our own shares in other circumstances. The decision to acquire our shares for purposes of maintaining the acquired shares in treasury or of cancelling them may not, among other things:

- result in the reduction of our share capital;
- require the use of resources greater than our profit reserves and other available reserves, as provided in our financial statements;
- create, as a result of any action or inaction, directly or indirectly, any artificial demand, supply or condition relating to share price;
- involve any unfair practice;
- be used for the acquisition of unpaid shares or shares held by our controlling shareholders; or
- when a public offer for acquisition of the shares of the company is being made.

We may not keep in treasury more than 10% of our outstanding common shares, including the shares held by our subsidiaries and affiliates.

On February 2, 2015, our Board of Directors approved the closing of a repurchase of shares program as approved on December 3, 2014. During the course of this program, we purchased 30,207,130 of Gafisa's common shares to be kept in treasury and future disposal.

On the same date, the Board of Directors of Gafisa approved the repurchase of its common shares to be kept in treasury and future cancellation or disposal up to 27,000,000, which corresponded to 10% of the then outstanding common shares.

On March 3, 2016, the Board of Directors of Gafisa approved the closing of the repurchase of shares program as approved on February 2, 2015. During the course of this program, we purchased 1,000,000 of Gafisa's common shares to be kept in treasury and future disposal.

On the same date, the Board of Directors of Gafisa approved the creation of a repurchase program of its common shares to be kept in treasury and future cancellation or disposal up to 8,198,565 common shares, which corresponded to 5% of the then outstanding common shares. The objective of this program is to acquire shares in order to effectively use the Company's available funds, aiming at medium-term and long-term profitability. Additionally, a portion of the shares to be acquired might be reserved for the exercise of options and/or shares to be granted in the Stock Option Plan previously approved by the Company's shareholders at the Company's general meeting. The purchase of shares by Gafisa under this program was conditioned on the maintenance of Gafisa's consolidated net debt to equity ratio at or below 60%. This program ended on September 2, 2017.

Under our current shares repurchase program, any acquisition by us of our own shares must be made on a stock exchange and cannot be made in a private transaction.

Disclosure Requirements

We are subject to the reporting requirements established by Brazilian corporate law and the CVM. Furthermore, because we are listed with the *Novo Mercado*, we must also follow the disclosure requirements provided for in the Listing Rules of the *Novo Mercado*.

Disclosure of Information

The Brazilian securities regulations require that a publicly-held corporation provide the CVM and the relevant stock exchanges with periodic information that includes annual information statements, quarterly financial statements, quarterly management reports, independent auditor reports, notices and minutes of shareholders' meetings, among others. In addition, we also must disclose any material development related to our business to the CVM and the B3.

We observe the *Novo Mercado* disclosure standards and are required to, among other things:

- present the company’s financial statements, standard financial statements form (DFP), quarterly information form (ITR) and Reference Form (*Formulário de Referência*);
- material events;
- information about dividends and other distributions in notices to shareholders or market notices;
- earnings releases
- include a note in the quarterly information form (ITR) regarding all operations with related parties;
- disclose and maintain updated the information presented in the Reference Form regarding any shareholder holding, directly or indirectly, at least 5% of the company’s capital stock, considering the information received by company from the relevant shareholders;
- disclose, monthly, the individual and consolidated amount and characteristics of our securities held directly or indirectly by controlling shareholders (if this is the case), as well as persons related to the controlling shareholder; and
- disclose, monthly, the individual and consolidated changes in the amount of securities held by controlling shareholders (if this is the case), as well as persons related to the controlling shareholder.

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Disclosure of Trading by Insiders

Pursuant to the rules of the *Novo Mercado*, each of our possible controlling shareholders must disclose to the B3 information in connection with the total amount and characteristics of securities owned, directly or indirectly, by them and issued by us, or any derivatives referenced in such securities, as well as any subsequent trading of such securities and derivatives. In the case of individuals, such information shall also include securities held by the spouse, companion or dependents of such persons, included in the annual income tax statement of such controlling shareholder. This information must be communicated to the B3 within 10 days following the end of each month.

CVM regulations require our directors, executive officers, members of the fiscal council, and members of any other technical or advisory body to disclose to us, to the CVM and to the B3, the total amount, the characteristics and form of acquisition of securities issued by us, listed companies under our control or the control of our listed controlling shareholders, including derivatives referenced in such securities that are held by each of them, as well as any change in such investments within 10 days after the end of the month when the securities were traded. In the case of individuals, such information shall also include securities held by the spouse, companion or dependents of such persons, included in the annual income tax statement and companies controlled directly or indirectly by such person.

As of September 2015, pursuant to changes introduced by CVM Rule No. 568/15 to CVM Rule No. 358/02, we are required to disclose to the CVM and to the B3 the total amount and the characteristics of securities issued by us, which are held by us or any of our affiliates, as well as any change in such investments, within 10 days after the end of the month in which the relevant securities were traded.

In addition, CVM Rule No. 568/15 also amended CVM Rule No. 358/02 regarding, among other things, (1) the change in the form of calculation of trades of relevant equity interests to determine when a disclosure obligation of those trades is triggered, and (2) the regulation of individual investment plans, as described below.

In addition, our controlling shareholders, our shareholders who have caused the election of members of our board of directors or fiscal council, as well as any individual, legal entity or group of persons acting jointly whose direct or indirect participation reaches 5% of our shares, must provide to us, and we shall transmit to the CVM and the B3, the following information:

· the name and qualification of the person providing the information;

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reason and purpose for the acquisition and amount of securities to be acquired, including, as the case may be, a representation of the acquirer stating that the acquisition does not aim at modifying the management or the controlling structure of the company;

· amount of shares, as well as other securities and related derivatives, by type and/or class, already owned, directly or indirectly, by the acquirer or any person related with the acquirer; and

· information on any agreement regarding the exercise of voting rights or the purchase and sale of our securities.

The disclosure requirement referred to above will also apply to any person or group acting jointly, holding participation equal to or in excess of 5%, each time such person increases or decreases its participation in our shares by an amount equal to 5% of our shares.

Finally, pursuant to the individual investment plans introduced by CVM Rule No. 568/15, direct or indirect controlling shareholders, members of any statutory governing bodies of a publicly-held corporation, as well as any persons who, due to their responsibility, function or position in a listed company, its controlling company, subsidiaries or affiliates have potential access to insider information, are now allowed, subject to certain requirements, to trade in the company's shares in certain periods during which such trading would otherwise be prohibited.

Disclosure of Material Developments

According to Law No. 6,385 of December 7, 1976, and subsequent amendments, and CVM Instruction No. 358 of January 3, 2002, and subsequent amendments, we must disclose any material development related to our business to the CVM and to the B3 and must publish a notice of the material development. A development is deemed to be

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material if it has a material impact on the price of our securities, on the decision of investors to trade in our securities or on the decision of investors to exercise any rights as holders of any of our securities.

Under special circumstances, we may request confidential treatment of certain material developments from the CVM, when our management believes that public disclosure could result in adverse consequences to us.

C. Material Contracts

On December 30, 2009, the shareholders of Gafisa and Tenda approved a corporate restructuring to consolidate Gafisa’s non-controlling share ownership in Tenda. The restructuring was accomplished by exchanging all of the remaining Tenda shares not held by Gafisa into Gafisa shares. As a result of the restructuring, Tenda became a wholly-owned subsidiary of Gafisa.

On May 27, 2010, the shareholders of Gafisa approved the acquisition of 20% of Alphaville’s shares, by means of a merger of the totality of shares issued by Shertis Empreendimentos e Participações S.A. or “Shertis”, which main asset are shares representing 20% of Alphaville’s shares, in the total amount of R$126.5 million. As a consequence of such merger, Gafisa issued 9,797,792 common shares, paid to the former shareholders of Shertis. On July 3, 2013, we acquired the remaining shares of Alphaville, corresponding to 20% of its capital stock, by means of the acquisition by Tenda of all the shares of EVP Participações SA, a holding company that had Renato de Albuquerque and Nuno Luís de Carvalho Lopes Alves as shareholders and the holder of the remaining shares of Alphaville. Gafisa paid R$366,661,985.11 in Brazilian national currency to the former owners of the shares.

On December 9, 2013, we completed the sale of a majority stake in Alphaville to Private Equity AE Investimentos e Participações (“Fundo AE”), a company controlled by Pátria Investimentos Ltda. and Blackstone Real Estate Advisor L.P., which was previously announced on June 7, 2013. All precedent conditions were met including governmental approval, to the completion of the transaction. The transaction was concluded with a sale of 50% stake by Gafisa and 20% stake by Tenda, with Gafisa retaining the remaining 30% of Alphaville capital stock. The proceeds from the transaction, post adjustments agreed to in the Share and Purchase Agreement, were R$1.54 billion, consisting of R$1.25 billion from Fundo AE for the acquisition of Alphaville shares, and an R$290 million dividend distribution by Alphaville.

On December 14, 2016, we entered into an SPA with Jaguar pursuant to which we will sell Tenda shares representing up to 30% of the total capital stock of Tenda, at a price equal to R$8.13 per share, after offering 50% of the total capital stock of Tenda for the exercise of preemptive rights of Gafisa’s shareholders.

The spin-off of the Tenda business unit was consummated on May 4, 2017, following: (i) a reduction of the capital stock of Tenda (without the cancellation of shares), pursuant to which Gafisa, as sole shareholder at that time, received R$100 million (adjusted by the SELIC); (ii) a reduction of the capital stock of Gafisa, resulting in the distribution to Gafisa shareholders of shares corresponding to 50% of the capital stock of Tenda; (iii) the conclusion of the preemptive rights exercise pursuant to which Gafisa shareholders acquired up to 50% of the total share capital of Tenda, at the price per share set forth in the SPA with Jaguar and for a total amount of R$219.5 million, with no shares being acquired by Jaguar; and (iv) the satisfaction of other conditions precedent for the consummation of the spin-off. In addition, on May 4, 2017, the Tenda shares were listed on the B3 and began to publicly trade.

D. Exchange Controls

There are no restrictions on ownership of our common shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to requirements under foreign investment legislation which generally establish that the relevant investment be registered with the Central Bank and/or the CVM. Subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a person or legal entity resident, domiciled or headquartered in Brazil, as the case may be, is allowed, without limitation as to amount, provided that the underlying transaction is legal, legitimate and has economic substance, as evidenced by the applicable supporting documentation submitted to the financial institution in charge of the foreign exchange transaction. In addition, foreign currencies may only be purchased through duly authorized financial institutions headquartered in Brazil. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil—Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on the ADSs and on our common shares, or the proceeds of any sale of our common shares" and "Item 9. The Offer and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil."

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In the past, the Brazilian Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Brazilian Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially.

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of funds abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil—Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on the ADSs and on our common shares, or the proceeds of any sale of our common shares" and "Item 9. The Offer and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil."

## E. Taxation

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

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

### Brazilian Tax Considerations

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

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity agreements for tax treatment entered into by Brazil and other countries. The discussion also does not address any tax consequences under the tax laws of any state or municipality of Brazil. The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our common shares or ADSs. Each Non-Resident Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in our common shares or ADSs.

Income tax

*Dividends*. Dividends paid by a Brazilian corporation, such as ourselves, including stock dividends and other dividends paid to a Non-Resident Holder of common shares or ADSs, are currently not subject to income withholding tax in Brazil to the extent that such amounts are related to profits generated after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian income withholding tax at varying rates depending on the year the profits were generated, according to the tax legislation applicable to each corresponding year. There is uncertainty regarding the taxation of dividends supported by profits earned in the 2014 calendar year, due to the new rules introduced in Brazil in order to align the Brazilian tax system with the International Financial Reporting Standards, or "IFRS", as of January 1, 2015. As we did not earn profits in that year, this issue should not apply to us.

*Interest on Shareholders' Equity*. Law No. 9,249, dated December 26, 1995, as amended, permits a Brazilian corporation, such as ourselves, to make distributions to shareholders of interest on shareholders' equity as an alternative to making dividend distributions and to treat such payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, to the extent the limits described below are observed. These distributions may be paid in cash. For tax purposes, this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate, or TJLP, as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

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- 50% of net income (after the deduction of social contribution on net profits but before taking into account the provision for corporate income tax and the interest on shareholders' equity) for the period in respect of which the payment is made; and

- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest on shareholders' equity to a Non-Resident Holder is subject to income withholding tax at the rate of 15%, or 25% if the Non-Resident Holder is domiciled in a Tax Favorable Jurisdiction, as defined below.

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

Gains

According to Law No. 10,833/03, enacted on December 29, 2003, the disposition or sale of assets located in Brazil by a Non-Resident Holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to capital gain taxes in Brazil.

Therefore, with respect to the disposition of our common shares, which are treated as assets located in Brazil, a non-Brazilian resident will be subject to income tax on the gains assessed according to the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident.

With respect to the ADSs, although the matter is not entirely clear, it is reasonable to take the position that ADSs do not constitute assets located in Brazil for the purposes of Law No. 10,833/03 and, therefore, that the gains realized by a Non-Resident Holder on the disposition of our ADSs to another Non-Resident Holder should not be taxed in Brazil. We cannot assure you, however, that the Brazilian tax authorities or the Brazilian courts will agree with this interpretation. Accordingly, gains on a disposition of ADSs by a Non-Resident Holder may be subject to income tax in Brazil in the event that courts determine that ADSs constitute assets located in Brazil. For more information, please refer to "Item 3. Key Information—D. Risks Factors—Risks Relating to Our Common Shares and the ADSs—Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of the ADSs."

As a general rule, gain realized as a result of a disposition or sale of common shares (or ADSs should they be deemed to be “assets located in Brazil”) is the positive difference between the amount realized on the sale or other disposition of the securities and their acquisition cost.

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

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

- exempt from income tax when the gain is earned by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 4,373, dated September 14, 2014, which replaced Resolution 2,689, dated January 26, 2000 (a “4,373 Holder”) and (2) is not a resident or domiciled in a country or location that does not tax income, or that taxes it at a maximum rate lower than 20%; or

- in all other cases, subject to income tax at a rate of up to 25%. In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset against any income tax due on the capital gain.

Any other gains recognized on a sale or disposition of the common shares that is not carried out on a Brazilian stock exchange are subject to (1) income tax at a progressive rate from 15% up to 22.5%, when realized by a Non-Resident Holder that is not resident or domiciled in a Tax Favorable Jurisdiction; and (2) income tax up to a rate of 25% when realized by a Non-Brazilian Holder that is resident or domiciled in a Tax Favorable Jurisdiction. In the event that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of common shares (or ADSs, should they be deemed to be “assets located in Brazil”) or a capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount received by the Non-Resident Holder and the acquisition cost of the common shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange and is therefore subject to income tax at a rate from 15% to 22.5%, or up to 25%, as described above.

Any exercise of preemptive rights relating to the common shares or ADSs will not be subject to Brazilian income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights relating to the common shares (or ADSs, should they be deemed to be “assets located in Brazil”) will be subject to Brazilian income tax according to the same rules applicable to the sale or disposition of common shares.

As a Non-Resident Holder of ADSs, you may cancel your ADSs and exchange them for the underlying common shares and no income tax may be levied on such exchange, as long as the appropriate rules are complied with in connection with the registration of the investment with the Central Bank and as long as ADSs are not deemed to be “assets located in Brazil.” See “Item 9 The Offering and Listing—C. Markets—Investment in Our Common Shares by Non-Residents of Brazil—Depositary Receipts” for a discussion of the rules related to exchanging ADS for common shares.

The deposit of common shares by Non-Resident Holders in exchange for ADSs may be subject to Brazilian income tax if the acquisition cost of the common shares is lower than (a) the average price per common share on a Brazilian stock exchange on which the greatest number of such common shares were sold on the day of deposit; or (b) if no common shares were sold on that day, the average price on a Brazilian stock exchange on which the greatest number of common shares were sold in the 15 trading sessions immediately preceding such deposit. The difference between the acquisition cost and the average price of the common shares will be considered to be a capital gain subject to income tax at a rate from 15% up to 22.5% or 25%, as described above. In some circumstances, it could be reasonable to take the position that this tax is not applicable in the case of a Non-Resident Holder that is a 4,373 Holder and is not a resident in a Tax Favorable Jurisdiction.

There can be no assurance that the current favorable treatment of 4,373 Holders will continue in the future.

Law 13,259/16, dated March 16, 2016, increased tax rates on capital gains earned by Brazilian individuals and certain legal entities. The new rates should apply as from 2017 as follows: (i) 15% on the capital gain not exceeding

R$5,000,000; (ii) 17.5% on the capital gain amount which varies from R$5,000,000 and R$10,000,000; (iii) 20% on the capital gain amount which varies from R$10,000,000 and R$30,000,000; and (iv) 22.5% on the capital gain which exceeds R$ 30,000,000. The new rates should also apply to Non-Resident Holders depending on their type of investment, jurisdiction and the sale transaction, to be determined on a case by case basis.

Discussion on Tax Favorable Jurisdictions and Privileged Tax Regimes

A “Tax Favorable Jurisdiction” is a country or location that (1) does not impose taxation on income or imposes the income tax at a rate lower than 20% or (2) imposes restrictions on the disclosure of shareholding composition or the ownership of the investment. A regulation issued by the Ministry of Treasury on November 28, 2014 decreased from 20% to 17% this minimum threshold for certain specific cases. The 17% threshold applies only to countries and regimes aligned with international standards of fiscal transparency in accordance with rules to be established by the Brazilian tax authorities.

Law No. 11,727/08 created the concept of “Privileged Tax Regimes”, which encompasses the countries and jurisdictions that: (1) do not tax income or tax it at a maximum rate lower than 20%, or 17%, as applicable; (2) grant tax advantages to a non-resident entity or individual (i) without the need to carry out a substantial economic activity in the country or territory or (ii) conditioned to the non-exercise of a substantial economic activity in the country or territory; (3) do not tax or taxes proceeds generated abroad at a maximum rate lower than 20%, or 17%, as applicable; or (4) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out.

Normative Ruling 1,037 provides a list of Tax Favorable Jurisdictions and Privileged Tax Regimes. Normative Ruling No. 1,037 is periodically updated to include and exclude countries, locations and tax regimes from the lists of Tax Favorable Jurisdictions and Privileged Tax Regimes.

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In principle, the best interpretation of Law No. 11,727/08 leads us to conclude that the concept of Privileged Tax Regimes should be applied solely for purposes of transfer pricing rules in export and import transactions, for the definition of the applicable rate of withholding income tax on the remittance of specific items of income and for certain other Brazilian tax purposes that are not relevant to an investment by a Non-Resident Holder in our common shares or ADSs. Although we are of the opinion that the concept of Privileged Tax Regimes should not affect the tax treatment of a Non-Resident Holder described above, we cannot assure you that subsequent legislation or interpretations by the Brazilian tax authorities regarding the definition of "privileged tax regimes" will not apply such regime to Non-Resident Holders. Investors should consult with their own tax advisors regarding the consequences of the implementation of Law No. 11,727, Normative Ruling No. 1,037 and of any related Brazilian tax laws or regulations concerning Tax Favorable Jurisdictions and Privileged Tax Regimes.

Tax on Foreign Exchange and Financial Transactions

*Foreign Exchange Transactions*. Brazilian law imposes a Tax on Foreign Exchange Transactions, or IOF/Exchange Tax, on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Any inflow of funds related to investments carried out on the Brazilian financial and capital markets by 4,373 Holders is currently subject to the IOF/Exchange Tax at a rate of zero percent. Foreign exchange transactions related to outflows of funds in connection with investments carried out on the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at a rate of zero percent, which also applies to payments of dividends and interest on shareholders' equity to 4,373 Holders with respect to investments on the Brazilian financial and capital markets.

Nevertheless, the rate applicable to most foreign exchange transactions is 0.38%. In any case, the Brazilian government may increase the rate at any time by up to 25% on the foreign exchange transaction amount. However, any increase in rates will only apply to future transactions.

The purchase of ADSs by a Non-Resident Holder outside Brazil generally does not require the execution of a foreign exchange agreement with the Brazilian Central Bank. If this is the case, the IOF/Exchange Tax is not due. The IOF/Exchange Tax is levied at a zero percent rate in connection with foreign exchange agreements, without any actual flows of funds, that are required for a cancellation of ADSs and exchange for shares traded on a Brazilian stock exchange.

*Tax on Transactions Involving Bonds and Securities*. Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or IOF/Bonds Tax, due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds Tax applicable to transactions involving common shares is currently zero percent. The rate of the IOF/Bonds Tax applicable to the transfer of shares with the sole purpose of enabling the issuance of ADSs is currently also zero percent. However, the Brazilian government may increase the rate of the IOF/Bonds Tax at any time by up to 1.5% per day on the transaction amount, but only in respect of future transactions.

Other Brazilian Taxes

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

U.S. Federal Income Tax Considerations

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

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;

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- persons holding common shares or ADSs as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the common shares or ADSs;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons liable for the alternative minimum tax;
- tax-exempt entities, including “individual retirement accounts” or “Roth IRAs;”
- persons that own or are deemed to own ten percent or more of our stock (by vote or value);
- persons who acquired our ADSs or common shares pursuant to the exercise of any employee stock option or otherwise as compensation; or
- persons holding our ADSs or common shares in connection with a trade or business conducted outside of the United States.

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

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

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

- a citizen or individual resident of the United States;

- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or

- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

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

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

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

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

Except as discussed below under "—Passive Foreign Investment Company Rules," this discussion assumes that the Company will not be a passive foreign investment company, or "PFIC," for U.S. federal income tax purposes for any taxable year.

**Taxation of Distributions**

Distributions paid on ADSs or common shares (including any amounts that are treated as interest on shareholders' equity for Brazilian tax purposes and any Brazilian withholding taxes deducted from distributions), other than certain *pro rata* distributions of ordinary shares, will generally be treated as dividends to the extent paid out of the Company's current or accumulated earnings and profits as determined under U.S. federal income tax principles. Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions will generally be reported to you as dividends.

Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid by "qualified foreign corporations" to certain non-corporate U.S. Holders may be taxable at rates applicable to long-term capital gains. A foreign corporation is treated as a qualified foreign corporation with respect to dividends paid on stock that is readily tradable on a securities market in the United States, such as the NYSE, where our ADSs are traded. You should consult your tax adviser to determine whether the favorable rate will apply to dividends you receive and whether you are subject to any special rules that limit your ability to be taxed at this favorable rate.

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

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

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

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of common shares or ADSs will be capital gain or loss, and will be long-term capital gain or loss if you have held the common shares or ADSs for more than one year. Long-term capital gains of non-corporate U.S. Holders (including individuals) are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

The amount of your gain or loss will equal the difference between the amount realized on the disposition and your tax basis in the common shares or ADSs disposed of, in each case as determined in U.S. dollars. If a Brazilian tax is withheld on the sale or disposition of common shares or ADSs, your amount realized will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See "—Brazilian Tax Considerations—Gains" for a description of when a disposition may be subject to taxation by Brazil. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. Consequently, you will not be able to credit any Brazilian income tax imposed on such gains against your U.S. federal income tax liability unless you have other creditable taxable income from foreign sources in the appropriate foreign tax credit basket. You should consult your tax adviser as to whether the Brazilian tax on gains would be creditable against your U.S. federal income tax on foreign-source income from other sources.

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***Other Brazilian Taxes***

Any Brazilian IOF/Bond Tax and the IOF/Exchange Tax imposed on the deposit of common shares in exchange for ADSs and the cancellation of ADSs in exchange for common shares (as discussed above under "—Brazilian Tax Considerations—Tax on Foreign Exchange and Financial Transactions") will not be treated as creditable foreign taxes for U.S. federal income tax purposes. U.S. Holders should consult their tax advisers regarding the treatment of these taxes for U.S. federal income tax purposes.

**Passive Foreign Investment Company Rules**

In general, a non-U.S. corporation is a PFIC for any taxable year if: (1) 75% or more of its gross income consists of passive income (the "income test") or (2) 50% or more of the average quarterly value of its assets consists of assets that produce, or are held for the production of, passive income (including cash and cash equivalents). Generally, "passive income" includes interest, dividends, rents, royalties and certain gains. For purposes of the above calculations, a non-U.S. corporation that directly or indirectly owns at least 25% by value of the shares of another corporation is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. The Company believes that it was not a PFIC for U.S. federal income tax purposes for its 2017 taxable year. However, because the Company's PFIC status is an annual determination that can be made only after the end of each taxable year and will depend on the composition of its income and assets for each such year, there can be no assurance that the Company will not be a PFIC for the current or any other taxable year. The Company may become a PFIC for any future taxable year if its financial income exceeds its gross loss or constitutes 75% or more of its gross profit for such year.

If the Company were a PFIC for any taxable year during which a U.S. Holder held common shares or ADSs, gain recognized by a U.S. Holder on a sale or other disposition (including, under certain circumstances, a pledge) of the common shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the common shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the tax on the amount allocated to that taxable year. Further, to the extent that any distribution received by a U.S. Holder on its common shares or ADSs exceeds 125% of the average of the annual distributions on common shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the common shares or ADSs. If we are a PFIC for any taxable year during which a U.S. Holder owned our shares, the U.S. Holder will generally be required to file Internal Revenue Service Form 8621 with their annual U.S. federal income tax returns, subject to certain exceptions. You should consult your tax adviser to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in your particular circumstances.

Information Reporting and Backup Withholding

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

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

Certain U.S. Holders who are individuals (and certain specified entities) may be required to report information relating to their ownership of securities of a non-U.S. person, subject to certain exceptions including an exception for securities held in certain accounts maintained by U.S. financial institutions, such as our ADSs. You should consult your tax adviser regarding the effect, if any, of these rules on your ownership and disposition of common shares or ADSs.

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

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

Statements contained in this annual report as to the contents of any contract or other document referred to are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit hereto. A copy of the complete annual report including the exhibits and schedules filed herewith may be inspected without charge at the public reference facilities maintained by the SEC at Room 1024, 100 F Street, N.E., Washington, D.C. 20549. Copies of such materials may be obtained by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Such reports and other information may also be inspected at the offices of the NYSE, 11 Wall Street, New York, New York 10005, on which our ADSs are listed. In addition the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed over the Internet at http://www.sec.gov.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act and, in accordance therewith, file periodic reports and other information with the SEC. However, as a foreign private issuer, we are exempt from the rules under the Securities Exchange Act relating to the furnishing and content of proxy statements and relating to short-swing profits reporting and liability.

We furnish to Citibank, N.A., as depositary, copies of all reports we are required to file with the SEC under the Securities Exchange Act, including our annual reports in English, containing a brief description of our operations and our audited annual consolidated financial statements which are prepared in accordance with Brazilian GAAP and include a reconciliation to U.S. GAAP. In addition, we are required under the deposit agreement to furnish the depositary with copies of English translations to the extent required under the rules of the SEC of all notices of meetings of shareholders and other reports and communications that are generally made available to shareholders. Under certain circumstances, the depositary will arrange for the mailing, at our expense, of these notices, other reports and communications to all ADS holders.

We also file financial statements and other periodic reports with the CVM, which are available to the public from CVM's website at http://www.cvm.gov.br.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from the normal course of our business. These market risks mainly involve the possibility that changes in interest rates may impact the value of our financial liabilities. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Brazil."

Interest rates

Our results of operations and profitability are affected by changes in interest rates due to the impact that these changes have on our interest expenses relating to our variable interest rate debt instruments and on our purchase and sale contracts and on our interest income generated from our financial investments.

The table below provides information about our significant interest rate-sensitive instruments (fixed and variable) as of December 31, 2017:

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| | As of December 31, 2017 Expected Maturity Date | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total (3) | 2018 | 2019 | 2020 | 2021 and later | Principal Index(1) | Fair Value |
| | *(in millions of reais, unless otherwise indicated)* | | | | | | |
| Liabilities: | | | | | | | |
| Loans, financing and debentures: | | | | | | | |
| Debentures | 207.7 | 88.2 | 51.5 | 68.0 | — | CDI/IPCA | 227.7 |
| Average interest rate | 11.5 % | 11.04 % | 11.83% | 13.07% | — | — | — |
| Loans and financing (working capital) | 164.1 | 109.2 | 27.2 | 18.4 | 9.3 | CDI | 177,0 |
| Average interest rate | 9.7 % | 9.3 % | 10.1 % | 11.3 % | 12.9% | — | — |
| Loans and financing — SFH | 733.1 | 371.9 | 260.1 | 98.4 | 2.8 | CDI/TR | 767,8 |
| Average interest rate | 12.1 % | 11.7 % | 12.4 % | 13.7 % | 14.4% | — | — |
| Total loans, financing and debentures | 1,104.9 | 569.3 | 338.8 | 184.8 | 12.1 | CDI/TR/IPCA | 1,172.5 |
| Derivative financial instruments | 0.4 | 0.4 | — | — | — | CDI | 0.4 |
| Real estate development obligations(2) | 654.9 | 373.6 | 237.2 | 43.7 | 0.4 | — | 654.9 |
| Obligations for purchase of land | 245.1 | 92.7 | 67.6 | 41.0 | 43.7 | — | 245.1 |
| **Total** | **2,005.3** | **1,036.0** | **643.6** | **269.5** | **56.2** | **—** | **2,072.8** |
| Assets: | | | | | | | |
| Cash and cash equivalent | 28.5 | 28.5 | — | — | — | CDI | 28.5 |
| Marketable securities (current and non-current) | 118.9 | 118.9 | — | — | — | CDI | 118.9 |
| Receivables from clients | 684.1 | 484.8 | 104.2 | 87.6 | 7.5 | INCC | 684.1 |
| Receivables from clients (2) | 644.3 | 101.1 | 235.9 | 283.0 | 24.3 | INCC | 644.3 |
| Total client receivables | 1,328.4 | 585.9 | 340.1 | 370.6 | 31.8 | — | 1,328.4 |
| **Total** | **1,475.8** | **733.3** | **340.1** | **370.6** | **31.8** | **—** | **1,475.8** |

(1) See notes 12 and 13 to our consolidated financial statements for information about the interest rates on our loans, financing and debentures. As of December 31, 2017, the annualized index was 6.89% for CDI, 0.0% for TR, 4.25% for INCC, 2.95% for IPCA and (0.53)% for IGPM.

(2) Includes commitments and receivables arising from units sold after January 1, 2004 for which balances have not been recorded in our balance sheet—CFC Resolution No. 963.

(3) This amount relates to the Gafisa segment only, since Tenda’s results of operations have been presented as discontinued operations in our consolidated financial statements as of December 31, 2016 and since Tenda was spun-off on May 4, 2017.

We borrow funds at different rates and linked to different indices in order to try to match the financing that we provide to some of our clients. The mismatch between rates and terms on our funds borrowed and the financing we provide may adversely affect our cash flow. We constantly monitor and evaluate the impact of indexation on our assets and liabilities. If we anticipate the possibility of an interest rate mismatch between our assets and obligations, we may use derivative financial instruments in order to hedge against the risk that arises from interest rate variations.

Foreign Exchange Rate

During 2017, we had no derivative financial instruments with the objective of hedging against fluctuations in foreign exchange rates. As of December 31, 2017, we had no debt in foreign currency.

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ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

D. American Depositary Shares

Depositary Fees

We and the holders and beneficial owners of our ADSs and the person depositing our common shares or surrendering ADSs for cancellation are responsible for the following fees of the depositary:

| Service | Rate | Paid By |
|---|---|---|
| Issuance of ADSs upon deposit of Shares (excluding issuances as a result of distributions described in paragraph (4) below). | Up to US$5.00 per 100 ADSs (or fraction thereof) issued. | Person depositing our common shares or person receiving ADSs. |
| Delivery of common shares deposited under our deposit agreement against surrender of ADSs. | Up to US$5.00 per 100 ADSs (or fraction thereof) issued. | Person surrendering ADSs for purpose of withdrawal of common shares deposited under our deposit agreement or person to whom common shares deposited under our deposit agreement are delivered. |
| Distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements). | Up to US$2.00 per 100 ADSs (or fraction thereof) held. | Person to whom distribution is made. |
| Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs. | Up to US$2.00 per 100 ADSs (or fraction thereof) held. | Person to whom distribution is made. |
| Distribution of securities other than ADSs or rights to purchase additional ADSs (i.e., spin-off shares). | Up to US$2.00 per 100 ADSs (or fraction thereof) held. | Person to whom distribution is made. |
| Depositary services | Up to US$4.00 per 100 ADSs (or fraction thereof) held. | Person holding ADSs on applicable record date(s) established by the depositary. |
| Transfer of ADRs | US$1.50 per certificate presented for transfer. | Person presenting certificate for transfer. |

The depositary may deduct applicable depositary fees from the funds being distributed in the case of cash distributions. For distributions other than cash, the depositary will invoice the amount of the applicable depositary fees to the applicable holders.

Additional Charges

Holders and beneficial owners of our ADSs and person depositing our common shares for deposit and person surrendering ADSs for cancellation and withdrawal of our common shares will be required to pay the following charges:

- taxes (including applicable interest and penalties) and other governmental charges;
- such registration fees as may from time to time be in effect for the registration of our common shares or other common shares deposited under our deposit agreement on the share register and applicable to transfers of our common shares or other common shares deposited under our deposit agreement to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
- such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing our common shares or holders and beneficial owners of ADSs;
- the expenses and charges incurred by the depositary in the conversion of foreign currency;

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- such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to our common shares, common shares deposited under our deposit agreement, ADSs and ADRs; and

- the fees and expenses incurred by the depositary, the custodian or any nominee in connection with the servicing or delivery of common shares deposited under our deposit agreement.

Direct and Indirect Payments

Citibank N.A., located at 388 Greenwich Ave., New York, NY 10013, as depositary, has agreed to reimburse certain of our reasonable expenses related to our ADR program and incurred by us in connection with the program. As of December 31, 2017, we received from the depositary of our ADSs US$1.5 million, which was used for general corporate purposes such as the payment of costs and expenses associated with (1) the preparation and distribution of proxy materials, (2) the preparation and distribution of marketing materials and (3) consulting and other services related to investor relations.

# PART II

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

## ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

## ITEM 15. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Registrant maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of the Registrant's disclosure controls and procedures as of the end of the period covered by this report conducted by the Registrant's management, with the participation of the Chief Executive and Chief Financial Officers, after evaluating together with other members of management the effectiveness of our disclosure controls and procedures (as defined in the U.S. Securities Exchange Act of 1934 under Rule 13a-15(e)) have concluded that our disclosure controls and procedures are effective, to ensure that the Registrant is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

(b) Management's Annual Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as a process designed by, or under the supervision of, the Company's Chief Executive Officer and Chief Financial Officer and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external purposes in conformity with Brazilian GAAP, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20-F .

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluations of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Management assessed the effectiveness of the Registrant's internal controls over financial reporting as of December 31, 2017. In making this assessment, the Company's management used the criteria set forth by the Internal Control-Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management believes that, as of December 31, 2017, the Company's internal controls over financial reporting are effective based on those criteria.

(c) Attestation Report of Independent Registered Public Accounting Firm

The effectiveness of internal control over financial reporting as of December 31, 2017, has been audited by KPMG Auditores Independentes an independent registered public accounting firm, as stated in its report which is included under Item 18 in this annual report on Form 20-F on pages F-2 and F-3.

(d) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16. RESERVED

## ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

For the purposes of the Sarbanes-Oxley Act of 2002, our directors established an Audit Committee that convenes as often as it determines is appropriate to carry out its responsibilities, but at least quarterly. This committee has responsibility for planning and reviewing our annual and quarterly reports and accounts with the involvement of our auditors in that process, focusing particularly on compliance with legal requirements and accounting standards, and ensuring that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving our annual and quarterly reports and accounts remains with our directors.

The Audit Committee convened 12 times in 2017. The Audit Committee currently comprises Francisco Vidal Luna, Jose Ecio Pereira da Costa Junior and Odair Garcia Senra, each of whom is a director of our company. Our board of directors has determined that Francisco Vidal Luna, Jose Ecio Pereira da Costa Junior and Odair Garcia Senra are each independent as set forth in the NYSE Listed Companies Manual as well as being independent for the purpose of Rule 10A-3 of the Securities Exchange Act. Our board of directors has determined that Francisco Vidal Luna is an audit committee financial expert within the meaning of the regulations promulgated by the Securities and Exchange Commission.

ITEM 16B. CODE OF BUSINESS CONDUCT AND ETHICS

On July 10, 2007, we adopted a Code of Business Conduct and Ethics (The Code) that applies to our chief executive officer, chief financial officer, principal accounting officer and persons performing similar functions, as well as to our directors, other officers and employees. The objective of this code is (1) to reduce the subjectivity of personal interpretations of ethical principles; (2) to be a formal and institutional benchmark for the professional conduct of the employees, including the ethical handling of actual or apparent conflicts of interests, becoming a standard for the internal and external relationship of the Company with its shareholders, clients, employees, partners, suppliers, service providers, labor unions, competitors, society, government and the communities in which we operate; and (3) to ensure that the daily concerns with efficiency, competitiveness and profitability do not override ethical behavior.

The Code is regularly reviewed and updated, in order to address international and local requirements regarding ethics on business, conflict of interests, disclosure of information and anti-corruption procedures.

The Code can be obtained from our website (www.gafisa.com.br) or free of charge by requesting a copy from our Investor Relations Department at the following address: Av. Nações Unidas No. 8,501, 19th floor, 05425-070 – São Paulo, SP – Brazil, telephone 55-11-3025-9242, fax 55-11-3025-9348 and e-mail ri@gafisa.com.br.

In July 2007, we established a “whistleblower channel” in order to receive “complaints,” by any person regarding any “unethical conduct” and “accounting, internal accounting controls, or auditing matters”. The complaints can be submitted confidentially and anonymously at the whistleblower’s discretion. The “whistleblower channel” can be accessed through our intranet, website, specific phone number or a letter that may be forwarded to our headquarters to the attention of our Ethics Committee and/or Audit Committee. Since its establishment, 522 issues were reported through our "whistleblower channel", all of which related to personal conduct and information leaks and, therefore, without any financial impact on our results of operations.

In January 2014, we established a compliance and ethics program in order to help prevent, detect, rectify and report potential misconduct, including violations of the Foreign Corrupt Practices Act and Brazilian anti-corruption legislation (pursuant to Brazilian Law No. 12,846). This program comprises extensive risk assessment of our operations, ongoing training and advice to employees, incentives and disciplinary measures, and third party due diligence.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The relationship with our independent auditors in respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditor. Our board of directors approves our financial statements, the performance by our auditors of audit and permissible non-audit services, and associated fees, supported by our Audit Committee.

The following table describes the total amount billed to us by KPMG Auditores Independentes ("KPMG") for services performed in 2017 and 2016, respectively, and the remuneration for these services in each year.

| | 2017 | 2016 |
|---|---|---|
| | (in thousands of *reais*) | |
| Audit fees (1) | 3,293 | 4,560 |
| Audit related fees (2) | — | — |
| Tax fees (3) | — | — |
| Total | **3,293** | 4,560 |

(1) "Audit fees" are the aggregate fees billed by KPMG for the audit of our consolidated and annual financial statements including the audit of internal control over financial reporting, reviews of interim financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

(2) There were no "audit related fees" billed by KPMG during 2017 or 2016.

(3) There were no "Tax fees" billed by KPMG during 2017 or 2016.

Audit Committee Pre-Approval Policies and Procedures

Our board of directors has established pre-approval policies and procedures for the engagement of registered public accounting firm for audit and non-audit services. Under such pre-approval policies and procedures, our board of directors reviews the scope of the services to be provided by each registered public accounting firm to be engaged in order to ensure that there are no independence issues and the services are not prohibited services as defined by Sarbanes-Oxley Act of 2002.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

See “Item 6. Directors, Senior Management and Employees—C. Board Practices.”

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ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18, in lieu of reporting to this Item.

ITEM 18. FINANCIAL STATEMENTS

See our audited consolidated financial statements beginning on page F-1.

ITEM 19. EXHIBITS

We are filing the following documents as part of this Annual Report Form 20-F:

1.1. Bylaws of Gafisa S.A., as amended (English), which is incorporated by reference to Exhibit 1.1 to our annual report on Form 20-F for the year ended December 31, 2010, filed with the Securities and Exchange Commission on July 5, 2012.

2.1. Deposit Agreement dated March 21, 2007, among Gafisa S.A., Citibank, N.A., as depositary, and the Holders and Beneficial Owners from time to time of American Depositary Shares issued thereunder, which is incorporated by reference to Exhibit 99(a) to our registration statement on Form F-6 filed with the Securities and Exchange Commission on February 22, 2007.

4.1. Merger of shares agreement dated November 9, 2009 between Gafisa S.A. and Construtora Tenda S.A., which is incorporated by reference to Exhibit 2.1 to our registration statement on Form F-4 filed with the Securities and Exchange Commission on November 13, 2009.

8.1. List of Subsidiaries*

11.1. Code of Business Conduct and Ethics (English), which is incorporated by reference to Exhibit 11. 1 to our annual report on Form 20-F for the year ended December 31, 2007 filed with the Securities and Exchange Commission on June 18, 2008.

12.1. Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer*

12.2. Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 of the Chief Financial Officer*

13.1. Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer*

13.2. Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer*

13.3. Financial Statements as of and for the years ended December 31, 2017, 2016 and 2015 of Alphaville Urbanismo S.A.**

* Filed herewith.

** The financial statements as of and for the years ended December 31, 2017, 2016 and 2015 of Alphaville Urbanismo S.A. will be filed at a later date.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

GAFISA S.A.

By: /s/ Sandro Rogério da Silva Gamba
Name: Sandro Rogério da Silva Gamba
Title: Chief Executive Officer

By: /s/ Carlos Eduardo Moraes Calheiros
Name: Carlos Eduardo Moraes Calheiros
Title: Chief Financial Officer

Date: April 27, 2018

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**Gafisa S.A.**

**Consolidated financial statements**

December 31, 2017 and report of independent

registered public accounting firm

**Gafisa S.A.**

Consolidated Financial Statements

December 31, 2017

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**Management’s Annual Report on Internal Controls over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting as defined in Rules 13a – 15(f) and 15d – 15(f) under the Securities and Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in Brazil (“Brazilian GAAP”), along with a reconciliation of net income and equity from Brazilian GAAP to accounting principles generally accepted in the United States of America (“US GAAP”). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with Brazilian GAAP, along with a reconciliation of net income and equity from Brazilian GAAP to US GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in “Internal Control – Integrated Framework (2013 Framework)”.

Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2017, has been audited by KPMG Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

São Paulo, Brazil
April 27, 2018

By: /s/ Sandro Rogério da Silva Gamba
Name: Sandro Rogério da Silva Gamba
Title: Chief Executive Officer

By: /s/ Carlos Eduardo Moraes Calheiros
Name: Carlos Eduardo Moraes Calheiros
Title: Chief Financial Officer

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
Gafisa S.A.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Gafisa S.A. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, comprehensive income (loss), cash flows, changes in equity and value added for each of the years in the three-year period ended December 31, 2017, and the related notes, collectively, the consolidated financial statements. We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with accounting practices adopted in Brazil applicable to Real Estate entities. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Differences from U.S. Generally Accepted Accounting Principles

Accounting practices adopted in Brazil applicable to Real Estate entities vary in certain significant respects from U.S. generally accepted accounting principles. Information relating to the nature and effect of such differences is presented in note 33 to the consolidated financial statements.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting under Item 15 of the Company's Form 20-F. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

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Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 2013.

São Paulo, Brazil
April 27, 2018

/s/ KPMG Auditores Independentes

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**Gafisa S.A.**

Consolidated balance sheets

As of December 31, 2017 and 2016

(In thousands of Brazilian Reais)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | 4.1 | 28,527 | 29,534 |
| Short-term investments | 4.2 | 118,935 | 223,646 |
| Trade accounts receivable | 5 | 484,761 | 722,640 |
| Properties for sale | 6 | 882,189 | 1,122,724 |
| Receivables from related parties | 21.1 | 51,890 | 57,455 |
| Derivative financial instruments | 20.i.b | 404 | - |
| Prepaid expenses | - | 5,535 | 2,548 |
| Land for sale | 8.1 | 102,352 | 3,306 |
| Assets held for sale | 8.2 | - | 1,189,011 |
| Other assets | 7 | 58,332 | 49,336 |
| Total current assets | | 1,732,925 | 3,400,200 |
| | | | |
| Non-current assets | | | |
| Trade accounts receivable | 5 | 199,317 | 271,322 |
| Properties for sale | 6 | 339,797 | 592,975 |
| Receivables from related parties | 21.1 | 22,179 | 25,529 |
| Derivative financial instruments | 20.i.b. | - | 9,030 |
| Other assets | 7 | 64,172 | 58,917 |
| | | 625,465 | 957,773 |
| | | | |
| Investments | 9 | 479,126 | 799,911 |
| Property and equipment | 10 | 22,342 | 23,977 |
| Intangible assets | 11 | 18,280 | 28,228 |
| | | 519,748 | 852,116 |
| | | | |
| Total non-current assets | | 1,145,213 | 1,809,889 |
| | | | |
| Total assets | | 2,878,138 | 5,210,089 |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated balance sheets

As of December 31, 2017 and 2016

(In thousands of Brazilian Reais)

| | Notes | 2017 | 2016 |
|---|---|---|---|
| Current liabilities | | | |
| Loans and financing | 12 | 481,073 | 669,795 |
| Debentures | 13 | 88,177 | 314,139 |
| Payable for purchase of properties and advances from customers | 17 | 156,457 | 205,388 |
| Payables for goods and service suppliers | - | 98,662 | 79,120 |
| Taxes and contributions | - | 46,430 | 51,842 |
| Salaries, payroll charges and profit sharing | - | 27,989 | 28,880 |
| Provision for legal claims and commitments | 16 | 116,314 | 79,054 |
| Obligations assumed on the assignment of receivables | 14 | 31,001 | 34,698 |
| Payables to related parties | 21.1 | 63,197 | 85,611 |
| Derivative financial instruments | 20.i.b | - | 5,290 |
| Other payables | 15 | 104,386 | 69,921 |
| Liabilities directly associated with assets held for sale | 8.2 | - | 651,812 |
| Total current liabilities | | 1,213,686 | 2,275,550 |
| | | | |
| Non-current | | | |
| Loans and financing | 12 | 416,112 | 516,505 |
| Debentures | 13 | 119,536 | 137,129 |
| Payable for purchase of properties and advances from customers | 17 | 152,377 | 90,309 |
| Deferred income tax and social contributions | 19 | 74,473 | 100,405 |
| Provision for legal claims and commitments | 16 | 82,063 | 83,904 |
| Obligations assumed on the assignment of receivables | 14 | 53,392 | 64,332 |
| Other payables | 15 | 7,095 | 11,502 |
| Total non-current liabilities | | 905,048 | 1,004,086 |
| | | | |
| Equity | | | |
| Capital | 18.1 | 2,521,152 | 2,740,662 |
| Treasury shares | 18.1 | (29,089) | (32,524) |
| Capital reserves and reserve for granting stock options | - | 85,448 | 81,948 |
| Accumulated losses | 18.2 | (1,821,954) | (861,761) |
| | | 755,557 | 1,928,325 |

| | | |
|---|---|---|
| Non-controlling interests | 3,847 | 2,128 |
| Total equity | 759,404 | 1,930,453 |
| Total liabilities and equity | 2,878,138 | 5,210,089 |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated statement of profit or loss

Years ended December 31, 2017, 2016 and 2015

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

| | Notes | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Continuing operations | | | | |
| Net operating revenue | 22 | 608,823 | 915,698 | 1,443,357 |
| Operating costs | | | | |
| Real estate development and sales of properties | 23 | (818,751) | (1,029,213) | (1,061,921) |
| Gross (loss) profit | | (209,928) | (113,515) | 381,436 |
| Operating (expenses) income | | | | |
| Selling expenses | 23 | (87,568) | (94,946) | (97,949) |
| General and administrative expenses | 23 | (92,713) | (106,585) | (97,442) |
| Income from equity method investments | 9 | (204,863) | (48,332) | 40,015 |
| Depreciation and amortization | 9, 10 and 11 | (57,522) | (33,892) | (32,585) |
| Other income (expenses), net | 23 | (211,550) | (78,992) | (107,634) |
| (Loss) profit before financial income and expenses and income tax and social contribution | | (864,144) | (476,262) | 85,841 |
| Financial expenses | 24 | (137,001) | (84,118) | (127,728) |
| Financial income | 24 | 29,733 | 58,439 | 77,306 |
| (Loss) profit before income tax and social contribution | | (971,412) | (501,941) | 35,419 |
| Current income tax and social contribution | | (2,832) | (10,722) | (14,763) |
| Deferred income tax and social contribution | | 25,932 | (89,358) | 14,105 |
| Total Income tax and social contribution | 19.i | 23,100 | (100,080) | (658) |
| Net (loss) income from continuing operations | | (948,312) | (602,021) | 34,761 |
| Net income (loss) from discontinued operations | 8.2 | 98,175 | (559,704) | 36,218 |

| | | | | |
|---|---|---|---|---|
| Net (loss) income for the year | | (850,137) | (1,161,725) | 70,979 |
| | | | | |
| Attributable to: | | | | |
| Noncontrolling interests | | (281) | 1,871 | (3,470) |
| Owners of the parent | | (849,856) | (1,163,596) | 74,449 |
| | | | | |
| Weighted average number of shares (in thousands) | 27 | 26,891 | 26,921 | 27,262 |
| | | | | |
| Basic earnings (loss) per thousand shares - In Reais | 27 | (31.604) | (43.222) | 2.731 |
| From continuing operations | | (35.255) | (22.664) | 1.619 |
| From discontinued operations | | 3.651 | (20.558) | 1.112 |
| | | | | |
| Diluted earnings (loss) per thousand shares - In Reais | 27 | (31.604) | (43.222) | 2.712 |
| From continuing operations | | (35.255) | (22.664) | 1.608 |
| From discontinued operations | | 3.651 | (20.558) | 1.105 |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated statement of comprehensive income (loss)

Years ended December 31, 2017, 2016 and 2015

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net (loss) income for the year | (850,137) | (1,161,725) | 70,979 |
| Total comprehensive (loss) income for the year, net of taxes | (850,137) | (1,161,725) | 70,979 |
| Attributable to: | | | |
| Owners of the parent | (849,856) | (1,163,596) | 74,449 |
| Non-controlling interests | (281) | 1,871 | (3,470) |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated statement of changes in equity

Years ended December 31, 2017, 2016 and 2015

(In thousands of Brazilian Reais)

| | | Attributed to Owners of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Income Reserve | | | | | |
| | Note | Capital | Treasury shares | Reserve for granting shares | Legal reserve | Reserve for investments | Retained earnings (accumulated losses) | Total Company | Noncontrolling interests | Total consolidated |
| Balances at December 31, 2014 | | 2,740,662 | (79,059) | 69,897 | 31,593 | 292,252 | - | 3,055,345 | 3,058 | 3,058,403 |
| Capital increase | | - | - | - | - | - | - | - | 2,157 | 2,157 |
| Stock option plan | 18.3 | - | - | 6,937 | - | - | - | 6,937 | - | 6,937 |
| Treasury shares acquired | 18.1 | - | (24,157) | - | - | - | - | (24,157) | - | (24,157) |
| Treasury shares sold | 18.1 | - | 3,022 | - | - | (2,423) | - | 599 | - | 599 |
| Treasury shares cancelled | 18.1 | - | 74,214 | - | - | (74,214) | - | - | - | - |
| Profit for the year | - | - | - | - | - | - | 74,449 | 74,449 | (3,470) | 70,979 |
| Allocation: | 18.2 | | | | | | | | | |
| Legal reserve | | - | - | - | 3,722 | - | (3,722) | - | - | - |
| Declared dividends | | - | - | - | - | | (17,682) | (17,682) | - | (17,682) |
| Reserve for investments | | - | - | - | - | 53,045 | (53,045) | - | - | - |
| Balances at December 31, 2015 | | 2,740,662 | (25,980) | 76,834 | 35,315 | 268,660 | - | 3,095,491 | 1,745 | 3,097,236 |
| Capital increase | | - | - | - | - | - | - | | 1,382 | 1,382 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Stock option plan | 18.3 | - | - | 5,114 | - | - | - | 5,114 | - | 5,114 |
| Treasury shares acquired | 18.1 | - | (8,693) | - | - | - | - | (8,693) | - | (8,693) |
| Treasury shares sold | 18.1 | - | 2,149 | - | - | (2,140) | - | 9 | - | 9 |
| (Loss) profit for the year | - | - | - | - | - | - | (1,163,596) | (1,163,596) | 1,871 | (1,161,725) |
| Absorption: | 18.2 | | | | | | | | | |
| Legal reserve | | - | - | - | (35,315) | - | 35,315 | - | - | - |
| Reserve for investments | | - | - | - | - | (266,520) | 266,520 | - | 49 | 49 |
| Dividends | | - | - | - | - | - | - | - | (2,919) | (2,919) |
| Balances at December 31, 2016 | | 2,740,662 | (32,524) | 81,948 | - | - | (861,761) | 1,928,325 | 2,128 | 1,930,453 |
| Capital decrease | 18.1 | (219,510) | - | - | - | - | (107,720) | (327,230) | - | (327,230) |
| Stock option plan | 18.3 | - | - | 3,500 | - | - | - | 3,500 | | 3,500 |
| Treasury shares sold | 18.1 | - | 3,435 | - | - | - | (2,617) | 818 | - | 818 |
| Write-off discontinued operations (a) | - | - | - | - | - | - | - | - | 2,000 | 2,000 |
| (Loss) for the year | - | - | - | - | - | - | (849,856) | (849,856) | (281) | (850,137) |
| | - | | | | | | | | | |
| Balances at December 31, 2017 | | 2,521,152 | (29,089) | 85,448 | - | - | (1,821,954) | 755,557 | 3,847 | 759,404 |

(a) Amount related to the write-off of the debt balance of Construtora Tenda S.A.'s non-controlling interests due to the spin-off of the Companies (Notes 1 and 8.2),

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated statements of cash flow

Years ended December 31, 2017, 2016 and 2015

(In thousands of Brazilian Reais)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Operating activities | | | |
| (Loss) profit before income tax and social contribution | (971,412) | (1,043,812) | 71,637 |
| Expenses/(income) not affecting cash and cash equivalents: | | | |
| Depreciation and amortization (Notes 10 and 11) | 32,046 | 33,892 | 32,585 |
| Stock option expense (Note 18.3) | 4,964 | 6,821 | 7,826 |
| Unrealized interests and charges, net | 46,168 | 100,508 | 88,801 |
| Warranty provision (Note 15) | (3,498) | (12,390) | 11,100 |
| Provision for legal claims and commitments (Note 16) | 107,848 | 70,796 | 91,193 |
| Provision for profit sharing (Note 26 (iii)) | 13,375 | 18,750 | 14,000 |
| Allowance for doubtful accounts (Note 5) | 13,644 | 6,950 | 6,749 |
| Provision for realization of non-financial assets: | | | |
| Properties and land for sale (Note 6 and 8) | 136,191 | 160,216 | (618) |
| Income from equity method investments (Note 9) | 204,863 | 48,332 | (40,015) |
| Financial instruments – interest rate swap transaction (Note 20) | (818) | (13,404) | 17,151 |
| Provision for penalties due to delay in construction works (Note 15) | - | (1,404) | (2,137) |
| Write-off of property and equipment and intangible assets, net (Notes 10 and 11) | - | 7,666 | 5,516 |
| Write-off of goodwill from remeasurement of investment in associate (Note 9) | 101,953 | - | - |
| Write-off of goodwill on acquisition of subsidiary (Note 9) | 25,476 | - | - |
| Impairment loss (Note 8.2) | - | 610,105 | - |
| | | | |
| Decrease/(increase) in operating assets | | | |
| Trade accounts receivable | 260,090 | 288,999 | 133,674 |
| Properties for sale and land available for sale | 258,476 | 21,759 | (159,654) |
| Other assets | (9,317) | 29,471 | 18,883 |
| Prepaid expenses | (2,987) | (460) | 7,622 |
| | | | |
| Increase/(decrease) in operating liabilities | | | |
| Payables for purchase of properties and advances from customers | 13,137 | (73,603) | 9,243 |
| Taxes and contributions | (5,412) | (9,874) | (7,195) |
| Payables for goods and service suppliers | 18,683 | 31,991 | (28,036) |
| Salaries, payroll charges and profit sharing | (14,266) | (17,740) | (25,464) |
| Other payables | (43,918) | (152,209) | (84,266) |

| | | | |
|---|---|---|---|
| Transactions with related parties | (27,548) | 100,207 | 72,444 |
| Paid taxes | (2,832) | (10,722) | (14,763) |
| Cash generated (used) from operating activities related to discontinued operations | 51,959 | 68,821 | (121,713) |
| Cash generated from operating activities | 206,865 | 269,666 | 104,563 |
| | | | |
| Investing activities | | | |
| Acquisition of property and equipment, and intangible assets (Notes 10 and 11) | (20,463) | (35,838) | (33,340) |
| Acquisition of short-term investments | (1,079,167) | (1,417,794) | (3,502,264) |
| Redemption of short-term investments | 1,183,878 | 1,611,200 | 3,699,616 |
| Investments | (2,598) | (110) | (1,636) |
| Transaction costs related to the transaction of spin-off of Gafisa and Tenda (Note 8.2) | (9,545) | - | - |
| Proceeds from the exercise of preemptive rights (Note 1) | 219,510 | - | - |
| Proceeds from the refund for Tenda's capital (Note 7) | 105,170 | - | - |
| Cash from investing activities related to discontinued operations | 48,663 | 4,997 | 222,288 |
| Cash from investing activities | 445,448 | 162,455 | 384,664 |
| | | | |
| Financing activities | | | |
| Proceeds from loans, financing and debentures | 453,370 | 579,391 | 734,552 |
| Payment of loans, financing and debentures – principal | (870,472) | (719,390) | (806,398) |
| Payment of loans, financing and debentures – interest | (161,734) | (225,405) | (262,466) |
| Assignment of receivables | 21,513 | 72,776 | 24,558 |
| Payables to venture partners | (1,237) | (3,658) | (6,135) |
| Paid dividends | - | (17,682) | - |
| Loan transactions with related parties | 5,044 | 1,130 | (280) |
| Proceeds from treasury shares (Note 18.1) | 818 | 9 | 599 |
| Repurchase of treasury shares (Note 18.1) | - | (8,693) | (24,157) |
| Cash generated (used) in financing activities related to discontinued operations | 24,089 | (135,291) | (176,755) |
| Cash used in financing activities (Note 18.1) | (528,609) | (456,813) | (516,482) |
| | | | |
| (-) Net decrease in cash and cash equivalents related to discontinued operations | (124,711) | - | - |
| | | | |
| Net decrease in cash and cash equivalents | (1,007) | (24,692) | (27,255) |
| | | | |
| Cash and cash equivalents | | | |
| At the beginning of the year | 29,534 | 82,640 | 109,895 |
| (-) Cash and cash equivalents at the end of the year from disposal group held for sale | - | (28,414) | - |
| At the end of the year | 28,527 | 29,534 | 82,640 |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**

Consolidated statement of value added

Years ended December 31, 2017, 2016 and 2015

(In thousands of Brazilian Reais)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Revenues | 657,713 | 983,664 | 1,561,815 |
| Real estate development and sales | 671,357 | 990,614 | 1,568,564 |
| Reversal (recognition) of allowance for doubtful accounts | (13,644) | (6,950) | (6,749) |
| Inputs acquired from third parties (including taxes on purchases) | (902,574) | (1,569,281) | (1,010,112) |
| Operating costs - Real estate development and sales | (702,236) | (872,401) | (910,736) |
| Materials, energy, outsourced labor and other | (171,084) | (137,176) | (135,594) |
| Profit or loss of discontinued operations | 98,175 | (559,704) | 36,218 |
| Loss on realization of investment measured at fair value | (127,429) | - | |
| Gross value added | (244,861) | (585,617) | 551,703 |
| Depreciation and amortization | (32,046) | (33,892) | (32,585) |
| Net value added produced by the entity | (276,907) | (619,509) | 519,118 |
| Value added received on transfer | (175,130) | 10,107 | 117,321 |
| Income (loss) from equity method investments | (204,863) | (48,332) | 40,015 |
| Financial income | 29,733 | 58,439 | 77,306 |
| Total value added to be distributed | (452,037) | (609,402) | 636,439 |
| Value added distribution | (452,037) | (609,402) | 636,439 |
| Personnel and payroll charges | 94,180 | 115,054 | 124,920 |
| Taxes and contributions | 44,556 | 190,173 | 144,770 |
| Interest and rents | 259,083 | 248,967 | 292,300 |
| Dividends | - | - | 17,682 |
| Retained earnings attributable to noncontrolling interests | 281 | (1,871) | 3,470 |
| Retained earnings (incurred losses) | (850,137) | (1,161,725) | 53,297 |

See accompanying notes to consolidated financial statements.

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

## 1. Operations

Gafisa S.A. ("Gafisa" or "Company") is a publicly traded company with registered office at Avenida das Nações Unidas, 8.501, 19th floor, in the city and state of São Paulo, Brazil and commenced its operations in 1997 with the objectives of: (i) promoting and managing all forms of real estate ventures on its own behalf or for third parties (in the latter case, as construction company or proxy); (ii) selling and purchasing real estate properties; (iii) providing civil construction and civil engineering services; (iv) developing and implementing marketing strategies related to its own and third party real estate ventures; and (v) investing in other companies who share similar objectives.

The Company has stocks traded at B3 S.A. – Brasil, Bolsa, Balcão (former BM&FBovespa) and the New York Stock Exchange (NYSE), reporting its information to the Brazilian Securities and Exchange Commission (CVM) and the U.S. Securities and Exchange Commission (SEC).

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

### 1.1 Transactions with interest in the subsidiary Tenda – discontinued operations

On December 14, 2016, the Company disclosed a material fact informing about the execution of the stock sale and purchase agreement with Jaguar Real Estate Partners LP (“Jaguar”) for disposal of up to 30% of the shares issued by Tenda, for the price of R$ 8.13 per share, valuing Tenda’s capital stock at a total estimate of R$539,020. The completion of the transaction was subject to the verification of certain conditions precedent, of which the following are worth noting: (i) decrease in the capital stock of the Company, by refunding its shareholders for the shares corresponding to 50% of the capital stock of Tenda; and (ii) the completion of the procedure related to the exercise by Gafisa’s shareholders of the preemptive right to acquire 50% of Tenda’s shares.

The deadline for creditors objecting to the capital decrease was April 22, 2017, and no objection was made, so the decrease was made by delivering to the Company’s shareholders, as refund for the decreased capital, one common share of Tenda to each common share of Gafisa they owned, not including treasury shares. In relation to the preemptive right, the shareholders acquired the totality of shares made available, no share remaining for Jaguar. Accordingly, the shares representing 50% of Tenda’s capital were delivered to the shareholders who exercised the preemptive right in the total amount of R$219,510 and the agreement that had been entered into with Jaguar was terminated.

The Company also obtained, during this period, all contractual authorizations required for carrying out the transaction. With this, the spin-off between Gafisa and Tenda was completed on May 4, 2017, with the effective delivery of the totality of the shares representing Tenda’s capital in the respective capital reduction and preemptive right processes. The inflow of funds from the Preemptive Rights of R$219,510, as well as the amount receivable from the refund of Tenda’s capital of R$105,170 contributed to improve the liquidity condition and capital structure of the Company.

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

## 1. Operations --Continued

### 1.2 Increase in the capital of the Company

On December 20, 2017, the Extraordinary Shareholders' Meeting approved the increase in the capital of the Company by up to R$300,000, with possibility of partial ratification in case a minimum of R$200,000 is subscribed, upon issuance, for private subscription, of a minimum of 13,333,333 new common shares and a maximum of 20,000,000 common shares, all registered, book entry, and with no par value, at a price per share of R$15.00, of which R$0.01 per share allocated to capital, and R$14.99 per share allocated to capital reserve. The capital increase is included in the Company's plans for reinforcing cash availability, strengthening its capital structure in view of the current indebtedness level, as well as making viable the Company's strategic and operational positioning for a new cycle of the real estate market.

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

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

The consolidated financial statements were authorized for issue by the Company's Board of Directors on April 27, 2018.

The consolidated financial statements of the Company have been prepared and are being presented according to the accounting practices adopted in Brazil, including the pronouncements issued by the CPC, approved by the Brazilian Securities and Exchange Commission (CVM) ("Brazilian GAAP" or "BR GAAP").

Brazilian GAAP, differs from International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in certain respects, including the fact that Brazilian GAAP permits the application of percentage of completion accounting by real estate companies in more circumstances than are permitted by IFRS and has interpretations on the accounting treatment for cancelations. This application of Brazilian GAAP is commonly referred to in Brazil as "IFRS applicable to real estate development entities in Brazil, as approved by the Accounting Pronouncements Committee, or CPC, the CVM and the Federal Accounting Council, or CFC, including

CPC Guideline 04 – Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities – regarding revenue recognition, and the respective costs and expenses arising from real estate development operations by reference to the stage of completion (percentage of completion method)”, including the accounting treatment for cancelations. Accordingly, for the purpose of its annual filing with the United States Securities and Exchange Commission, the accompanying consolidated financial statements prepared in accordance with BR GAAP have been reconciled to US GAAP as presented in Note 33. US GAAP condensed consolidated balance sheets have been included in Note 33 (d)(i) for 2017 and 2016 and US GAAP consolidated statement of profit or loss and comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015 have been included in Note 33 (d)(ii) and Note 33 (d)(iii), respectively.

**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

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

The consolidated 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 consolidated financial statements.

2.1.1. Consolidated financial statements

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

The accounting practices have been applied consistently by all subsidiaries in the consolidated financial statements. The subsidiaries have the same fiscal year as the Company.

2.1.2. Functional and presentation currency

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

**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

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

2.1.3. Statement of Cash Flows

In view of the disclosure of the discontinued operations related to Tenda, and in line with CPCs 03 – Statement of Cash Flows and CPC 31 - Non-current Assets Held for Sale and Discontinued Operations, the information on operating, financing and investing activities related to discontinued operations are presented in separated lines in the Statement of Cash Flows of the Company for the years ended December 31, 2017, 2016 and 2015.

### 2.2. Summary of significant accounting policies

2.2.1. Accounting judgments, estimates and assumptions

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

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

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

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

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.1. Accounting judgments, estimates and assumptions --Continued

*a) Impairment loss of non-financial assets*

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

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

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

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

*b) Share-based payment transactions*

The Company measures the cost of transactions with employees to be settled with shares based on the fair value of equity instruments on the grant date. For cash-settled share-based transactions, the liability is required to be remeasured at the end of each reporting period through the settlement date, recognizing in profit or loss possible changes in fair value, which requires revaluation of the estimates used at the end of each reporting period. The estimate of the fair value of share-based payments requires the determination of the most adequate pricing model to grant equity instruments, which depends on the grant terms and conditions.

It also requires the determination of the most adequate data for the pricing model, including the expected option life, volatility and dividend income, and the corresponding assumptions. The assumptions and models used for estimating the fair value of share-based payments are disclosed in Note 18.3.

**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.1. Accounting judgments, estimates and assumptions --Continued

*c) Provision for legal claims*

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

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

*d) Allowance for doubtful accounts*

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

*e) Warranty provision*

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

*f)* *Estimated cost of construction*

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

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.1. Accounting judgments, estimates and assumptions --Continued

*g) Realization of deferred income tax*

A deferred tax asset is recognized when it is probable that a taxable profit will be available in subsequent years to offset the deferred tax asset, based on projections of results and based on internal assumptions and future economic scenarios.

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

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 cash receipt from the customer.

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

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

.

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

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

- Interest and inflation-indexation charges on accounts receivable from the time the units are sold and delivered, as well as the adjustment to present value of accounts receivable, are included in “Real estate development, sale, barter transactions and construction services” when incurred, on a pro rata basis using the accrual basis of accounting;

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.2. Recognition of revenue and expenses --Continued

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

· Financial charges on account payable for acquisition of land and those directly associated with the financing of construction are capitalized and recorded in properties for sale and included in the incurred cost of units under construction until their completion, and follow the same recognition criteria as the cost of real estate development for units sold while under construction;

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

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

(ii) *Construction services*

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

(iii) *Barter transactions*

Barter transactions have the objective of receiving land from third parties that are settled with the delivery of real estate units or transfer of portions of the revenue from the sale of real estate units of ventures. The value of the land acquired is determined on fair value of the units to be delivered, as a component of “properties for sale”, with a corresponding entry to “payables for purchase of properties and advances from customers”. 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 (i)(b).

2.2.3. Financial instruments

Financial instruments are recognized from the date the Company becomes a party to the contractual provisions of financial instruments, and mainly comprise cash and cash equivalents, short-term investments, accounts receivable, loans and financing, debentures, suppliers, payable for purchase of properties and advances from customers and other debts.

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

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.3. Financial instruments --Continued

(i) *Financial instruments at fair value through profit or loss*

A financial instrument is classified at fair value through profit or loss when it is designated as such upon initial recognition, or when it meets the definition of a derivative and hedge accounting is not applicable.

Financial instruments are designated at fair value through profit or loss if the Company manages these investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented investment strategy or risk management. Financial instruments at fair value through profit or loss are measured at fair value, and their changes therein are recognized in profit or loss.

For the year ended December 31, 2017, the Company held derivative financial instruments with the objective of mitigating the risk of its exposure to the volatility of indices and interest rates, recognized at fair value directly in profit or loss for the year. In accordance with its treasury policies, the Company does not have or issue derivative financial instruments for purposes other than to mitigate risk.

The Company does not adopt the hedge accounting practice.

(ii) *Financial assets*

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

Financial assets are initially recognized at fair value, plus, in the case of investments not measured at fair value through profit or loss, directly attributable transaction costs.

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

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.3. Financial instruments --Continued

(ii) *Financial assets* --Continued

Derecognition (write-off)

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

- The contractual rights to the cash flows from the asset expire; or

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

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

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

(iii) *Financial liabilities*

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

Loans and financing

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

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**Gafisa S.A.**
Notes to the consolidated financial statements
December 31, 2017
(Amounts in thousands of Brazilian Reais, except as otherwise stated)

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

**2.2. Summary of significant accounting policies** --Continued

2.2.3. Financial instruments --Continued

(iii) *Financial liabilities --Continued*

Derecognition (write-off)

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

When an existing financial liability is substituted by another from the same creditor, under substantially different terms, or when the terms of an existing liability are significantly modified, this substitution or change is treated as a derecognition of the original liability and recognition of a new liability, the difference in between the carrying amount and the fair value of the new liability is recognized in profit or loss.

2.2.4. Cash and cash equivalents and short-term investments

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

Short-term investments include bank deposit certificates, federal government bonds, exclusive investment funds that have their underlying assets fully consolidated and also restricted cash in guarantee to loans, which are classified at fair value through profit or loss (Note 4.2).

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**Gafisa S.A.**
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2. **Presentation of financial statements and summary of significant accounting policies** --Continued

2.2. **Summary of significant accounting policies** --Continued

2.2.5. Trade account receivable

The classification between current and noncurrent is made based on the expected maturity of contract installments.

The installments due are indexed based on the National Civil Construction Index (INCC) during the period of construction, and based on the General Market Prices Index (IGP-M) and interest at 12% p.a., after the delivery of the units.

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

Considering that financing its customers is an important part of the Company operations, the reversal of the present value adjustment was carried out as contra-entry to the group “Real estate development, sale, barter transactions and construction services” revenue, consistently with interest incurred on the portion of receivables balance related to the period subsequent to the handover of keys.

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

The Company and its subsidiaries carry out the assignment and/or securitization of receivables related to completed projects and those still under construction. This securitization is carried out through the issuance of the Housing Loan Certificate (“Cédula de Crédito Imobiliário” or “CCI”), which is assigned to financial institutions. When there is no right of recourse, this assignment is recorded as reduction of accounts receivable. When there is right of recourse against the Company, the assigned receivable is maintained in the balance sheet and the funds from assignment are classified into the account “Obligations assumed on assignment of receivable”, until receivables are settled by customers.

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

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

**2.2. Summary of significant accounting policies** --Continued

2.2.7. Properties for sale

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

Properties are measured at the lower of construction cost, and 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.

2.2.8. Prepaid expenses

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

2.2.9. Land for sale

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

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Notes to the consolidated financial statements
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**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 associates

Investments in associates are recorded using the equity method.

When the Company's share of the losses of associates is equal to or higher than the amount invested, since the Company assumes obligations and makes payments on behalf of these companies, the Company recognizes a provision at an amount considered appropriate to meet the obligations of the associates (Note 9).

2.2.11. Property and equipment

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

An item of property and equipment is derecognized when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is recognized in profit or loss upon derecognition.

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

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

Property and equipment are subject to periodic assessments of impairment.

2.2.12. Intangible assets

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

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

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

**2.2. Summary of significant accounting policies** --Continued

2.2.12. Intangible assets --Continued

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

2.2.13. Payables for purchase of properties and advances from customer

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

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

2.2.14. Income tax and social contribution

(i) *Current income tax and social contribution*

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

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

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

As permitted by legislation, the development of certain ventures are subject to the “afetação” regime, based on which the land and any other related right where a real estate will be developed, as well as other binding assets, rights and obligations, are separated from the developer’s assets, and comprise the “patrimônio de afetação” (detached assets), of the corresponding development and which real estate units will be delivered to the buyers. Its main objective is to provide guarantees to the buyers’ rights in acquisition of units in construction. In addition, certain subsidiaries made the irrevocable option for the Special Taxation Regime (RET), adopting the “patrimônio de afetação”, according to which the income tax and social contribution are calculated at 1.92% on gross revenues (4% also levying PIS and COFINS on revenues).

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**Gafisa S.A.**
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**2. Presentation of financial statements and summary of significant accounting policies** --Continued

**2.2. Summary of significant accounting policies** --Continued

2.2.14. Income tax and social contribution --Continued

(ii) *Deferred income tax and social contribution*

Deferred taxes are recognized in relation to tax losses and temporary differences between the carrying amount of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. For subsidiaries under the Special Taxation Regime (RET), deferred taxes are related to temporary differences between income taxed on cash basis and recorded on an accrual basis.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available to be used to offset 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. The recognized amounts are periodically reviewed, and the impacts of realization or settlement are reflected in compliance with tax legislation provisions.

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

Deferred tax assets and liabilities are stated at net amount in the balance sheet 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 noncurrent liabilities

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

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

2.2. **Summary of significant accounting policies** --Continued

2.2.16. Stock option plans

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

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

In an equity-settled transaction, in 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 replaces the cancelled plan, and a substitute plan is designated on the grant date, the cancelled plan and the new plan are treated as if they were a modification of the original plan, as previously mentioned.

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

2.2.17. Share-based payment – Phantom Shares

The Company has a cash-settled share-based payment plan (phantom shares) under fixed terms and conditions.

These amounts are recorded as a liability, with contra-entry in profit or loss for the year, based on the fair value of the phantom shares granted, and during the vesting period. The fair value of this liability is remeasured and adjusted every reporting period, according to the change in the fair value of the benefit granted and vesting.

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

**2.2. Summary of significant accounting policies** --Continued

2.2.18. Other employee benefits

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

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

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

2.2.19. Present value adjustment – assets and liabilities

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

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

Borrowing costs and 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).

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

**2.2. Summary of significant accounting policies** --Continued

2.2.20. Debenture and public offering costs

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

2.2.21. Loans and financing costs

Loans and financing costs which are directly attributable to the development of assets for sale and land, are capitalized as part of the cost of that asset during the construction period, which are recognized in profit or loss to the extent units are sold. All other loans and financing costs are expensed as incurred. These costs comprise interest and other related costs incurred, including those for debt issuances.

2.2.22. Provisions

(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 risk of loss is considered probable.

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

Contingent assets are recognized only when there are secured guarantees or favorable final and unappealable court decisions. Contingent assets with probable favorable decisions are only disclosed in the notes. As of December 31, 2017 and 2016 there are no claims involving contingent assets recorded in the consolidated balance sheet of the Company.

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**Gafisa S.A.**
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**2. Presentation of financial statements and summary of significant accounting policies** --Continued

**2.2. Summary of significant accounting policies** --Continued

2.2.22. Provisions --Continued

(ii) *Allowance for doubtful account*

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

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

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

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

*(iv)* Warranty provision

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

*(v) Provision for impairment of non-financial assets*

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

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**Gafisa S.A.**
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2. **Presentation of financial statements and summary of significant accounting policies** --Continued

2.2. **Summary of significant accounting policies** --Continued

2.2.23. Sales taxes

For companies under the non-cumulative taxable profit 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. In addition, certain subsidiaries made the irrevocable option for the Special Taxation Regime (RET), adopting the “patrimonio de afetação”, according to which the PIS and COFINS are calculated at 0.37% and 1.71%, respectively, on gross revenue.

2.2.24. Treasury shares

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

2.2.25. Interest on equity and dividends

The portion of declared dividends and interest on equity are recorded as current liabilities in the heading “Dividends payable”. Mandatory dividends are also recorded as current liabilities since it is a legal obligation provided for in the By-laws of the Company.

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

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

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

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

### 2.2. Summary of significant accounting policies --Continued

2.2.27. Disposal group held for sale and profit or loss from discontinued operations

The Company classifies a disposal group as held for sale if its carrying value is expected to be recovered by means of a sale transaction. In such case, the asset or group of assets held for sale must be available for immediate sale on current conditions, subject to the usual and customary terms for selling such assets held for sale and its sale must be highly probable.

For a sale to be considered highly probable, Management must be committed to a plan to sell the asset, and have initiated a program for finding a buyer and complete the plan at a price that is reasonable in relation to its current fair value. In addition, the sale must be expected to be completed within one year of the classification date, unless events beyond the control of the Company change such period.

The asset held for sale is measured at the lower of its carrying value and fair value less cost to sell. In case the carrying value exceeds its fair value, an impairment loss is recognized in profit or loss for the year. Any reversal or gain shall only be recognized to the extent of such recognized loss.

The assets and liabilities of the group of assets held for sale are presented separately in the consolidated financial statements. The profit or loss of discontinued operations is presented at a single amount in the statement of profit or loss, which included the total after-tax income of these operations less any impairment-related loss. The net cash flows attributable to operating, investing and financing activities of discontinued operations are presented in Note 8.2.

According to Note 1, on December 14, 2016, the Company disclosed a material fact informing about the signature of the disposal of up to 30% of the shares issued by Tenda and the spin-off transaction between Gafisa and Tenda was completed on May 4, 2017 with the effective delivery of the totality of shares comprising Tenda’s capital in the respective processes of capital decrease and preemptive rights.

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

· IFRS 9 – Financial Instruments (CPC 48)

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

(i) Classification and measurement of financial assets

IFRS 9 contains a new approach to the classification and measurement of financial assets that reflects the business model in which assets are managed and its cash flow characteristics, and contains three main financial asset classification categories: measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. The standard eliminates the categories provided in IAS 39 of held to maturity, loans and receivables and available for sale.

Based on its evaluation, the Company concluded that the new classification requirements will not have a significant impact on the accounting for trade accounts receivable, loans, investments in debt securities, and investments in equity securities that are measured at fair value.

(ii) Impairment - Financial Assets and Contractual Assets

IFRS 9 replaces the “incurred loss” model of CPC 38 (IAS 39) for a prospective “expected credit loss” model. It will require significant judgment about how the changes in economic factors affect expected credit losses, which will be determined based on weighted probabilities.

The new expected loss model will apply to the financial assets measured at amortized cost or fair value through other comprehensive income, with the exception of investments in equity instruments and contractual assets.

According to CPC 48 / IFRS 9, the expected loss allowances will be measured on one of the following bases: 12-month expected credit losses, that is, credit losses that result from those default events within 12 months after the reporting date; and full lifetime expected credit losses, that is, credit losses that result from all possible default events over the life of the financial instrument.

As a result of the discussions on the IFRS 15 (CPC 47) application from January 1, 2018, see paragraph about IFRS 15 below, the Company cannot estimate the effects of its adoption.

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

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

This standard introduces new requirements for measurement and recognition of revenue. The IFRS 15 – Revenue from Contracts with Customers, requires an entity to recognize the amount of revenue reflecting the consideration it expects to receive in exchange for the control over such goods or services. The new standard replaced guidance on the recognition of revenue that currently exists under the IFRS, including the CPC 30 (IAS 18) Revenue and CPC 17 (IAS 11) Construction Contracts and ICPC 02 (IFRIC 15) Agreements for the Construction of Real Estate. For the specific case of the real estate development sector, maintaining the POC revenue recognition method or the adoption of the method of keys, for example, will result of the contractual analysis made by Management.

During the year ended December 31, 2017, CPC formulated a consultation to the Interpretations Committee of IASB – IFRS IC on the application of the revenue recognition over time (POC) for certain contracts in the Brazilian environment.

The technical area of the CVM, through Letter CVM/SNC/SEP/No. 01/2018, instructed entities in the sense of maintaining the application of the provisions of Guideline OCPC 04 - Application of the Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities, currently in effect, while such process is pending, and the wording of OCPC 04 is not adjusted to the IFRS 15. Accordingly, the Company is waiting the final outcome of the decision to measure, if applicable, the possible impact of CPC47 application on its financial statements.

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

· IFRS 16 – Leases

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

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

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

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

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## 4. Cash and cash equivalents and short-term investments

### 4.1. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash and banks | 28,527 | 29,534 |
| **Total cash and cash equivalents (Note 20.i.d, 20.ii.a and 20.iii)** | 28,527 | 29,534 |

### 4.2. Short-term investments

| | 2017 | 2016 |
|---|---|---|
| Fixed-income funds (a) | 66,885 | 123,868 |
| Government bonds (LFT) (a) | 1,207 | 6,018 |
| Corporate securities (LF/DPGE) (a) | - | 31,742 |
| Securities purchased under resale agreements (b) | 3,019 | 11,935 |
| Bank certificates of deposit (a) / (c) | 37,025 | 27,834 |
| Restricted cash in guarantee to loans (d) | 366 | 10,669 |
| Restricted credits (e) | 10,433 | 11,580 |
| **Total short-term investments (Note 20.i.d, 20.ii.a and 20.iii)** | 118,935 | 223,646 |

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

(b) As of December 31, 2017, securities purchased under repurchase agreements are attributed in the structure of restricted Investment Funds aimed at earning interests above the variation in Interbank Deposit Certificate (CDI).

As of December 31, 2016, securities purchased under repurchase agreements include interests earned through the reporting date of the statement of financial position, varying from 75% to 101.5% of CDI.

(c) As of December 31, 2017, Bank Certificates of Deposit (CDBs) include interest earned through the reporting date of the statement of financial position, varying from 90% to 100.8% (from 90% to 100.8% in 2016) of Interbank Deposit Certificates (CDI) rate.

(d) 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 16(b).

(e) 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.

## 5. Trade accounts receivable of development and services

| | 2017 | 2016 |
|---|---|---|
| Real estate development and sales | 717,006 | 1,019,359 |
| ( - ) Allowance for doubtful accounts | (32,959 ) | (19,315 ) |
| ( - ) Present value adjustments | (14,887 ) | (26,816 ) |
| Services and construction and other receivables | 14,918 | 20,734 |
| **Total trade accounts receivable of development and services (Note 20.i.d and 20.ii.a)** | 684,078 | 993,962 |
| Current | 484,761 | 722,640 |
| Non-current | 199,317 | 271,322 |

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

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

| Maturity | 2017 | 2016 |
|---|---|---|
| Overdue: | | |
| Up to 90 days | 70,403 | 64,830 |
| From 91 to 180 days | 17,861 | 45,442 |
| Over 180 days | 100,581 | 93,265 |
| | 188,845 | 203,537 |
| Maturites: | | |
| 2017 | - | 544,292 |
| 2018 | 329,821 | 111,007 |
| 2019 | 114,718 | 120,367 |
| 2020 | 89,099 | 45,552 |
| 2021 | 4,414 | 15,338 |
| 2022 onwards | 5,027 | - |
| | 543,079 | 836,556 |
| ( - ) Present value adjustment | (14,887 ) | (26,816 ) |
| ( - ) Allowance for doubtful account | (32,959 ) | (19,315 ) |
| | 684,078 | 993,962 |

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

As of December 31, 2017, the amount received from customers in excess of the recognized revenues totaled R$63,748 (R$35,024 in 2016), and are classified in the heading “Payables for purchase of properties and advances from customers" (Note 17).

Accounts receivable from completed real estate units financed by the Company are in general subject to IGP-M variation plus annual interest of 12%, with revenue being recorded in profit or loss in the account “Revenue from real estate development and sale, barter transactions and construction services". The interest amounts recognized in the consolidated financial statements for the year ended December 31, 2017 totaled R$9,866 (R$28,230 in 2016 and R$40,089 in 2015).

The balances of allowance for doubtful accounts are considered sufficient by the Company’s management to cover the incurred losses on realization of the accounts receivable.

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

The change in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016, is as follows:

| | Consolidated | | |
|---|---|---|---|
| | Receivables | **Properties for sale (Note 6)** | Net |
| Balance at December 31, 2015 | (100,530) | 21,764 | (78,766) |
| Reclassification to discontinued operations | 88,165 | (21,764) | 66,401 |
| Additions (Note 22) | (8,438) | - | (8,438) |
| Write-offs / Reversals (Note 22) | 1,488 | - | 1,488 |
| Balance at December 31, 2016 | (19,315) | - | (19,315) |
| Additions (Note 22) | (18,860) | | (18,860) |
| Write-offs / Reversals (Note 22) | 5,216 | | 5,216 |
| Balance at December 31, 2017 | (32,959) | | (32,959) |

The reversal of the present value adjustment recognized in revenue from real estate development for the year ended December 31, 2017 totaled R$(11,928) (R$(3,762) in 2016 and R$6,106 in 2015) in the consolidated financial statements.

Receivables from units not yet completed were measured at present value using a discount rate determined according to the criteria described in Note 2.2.2. The discount rate applied by the Company and its subsidiaries was 6.55% for the year 2017 (9.00% in 2016), net of Civil Construction National Index (INCC) of 4.97%.

The Company entered into the following Real Estate Receivables Agreement (CCI) transactions, which transferred a portfolio comprising select residential and business real estate receivables delivered and yet to be delivered arising out of Gafisa and its subsidiaries to the assignee. The assigned portfolios, discounted to present value, are recorded under the heading “obligations assumed on the assignment of receivables”.

| | Transaction date | Assigned portfolio | Portfolio discounted to present value | Note 14 | |
|---|---|---|---|---|---|
| | | | | 2017 | 2016 |
| (i) | Jun 27, 2011 | 203,915 | 171,694 | 1,502 | 2,148 |
| (ii) | Dec 22, 2011 | 72,384 | 60,097 | 1,827 | 1,471 |
| (iii) | Jul 06, 2012 | 18,207 | 13,917 | 29 | 68 |
| (iv) | Nov 14, 2012 | 181,981 | 149,025 | 2,491 | 4,651 |
| (v) | Dec 27, 2012 | 72,021 | 61,647 | 3,796 | 5,402 |
| (vi) | Nov 29, 2013 | 24,149 | 19,564 | 2,850 | 4,307 |
| (vii) | Nov 25, 2014 | 15,200 | 12,434 | 3,191 | 4,344 |
| (viii) | Dec 03, 2015 | 32,192 | 24,469 | 10,523 | 15,988 |
| (ix) | Mar 04, 2016 | 27,954 | 27,334 | 11,287 | 17,178 |
| (x) | May 09, 2016 | 17,827 | 17,504 | 9,548 | 14,407 |
| (xi) | Aug 16, 2016 (a) | 15,418 | 14,943 | 7,574 | 9,164 |
| (xii) | Dec 21, 2016 | 21,102 | 19,532 | 14,158 | 18,948 |
| (xiii) | Mar 29, 2017 | 23,748 | 22,993 | 15,487 | - |

(a) The consolidated balance of the transaction as of December 31, 2017 and 2016 (Note 14) does not include the jointly-controlled entities, which are accounted for using the equity method, according to CPCs 18(R2) and 19(R2).

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

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

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

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## 6. Properties for sale

| | 2017 | 2016 |
|---|---|---|
| Land | 544,057 | 823,516 |
| ( - ) Write-down to net realizable value of land | (98,752) | (43,505) |
| ( - ) Write-down to net realizable value of inventory surplus | - | (62,343) |
| ( - ) Adjustment to present value | (9,829) | (8,781) |
| Property under construction (Note 29) | 507,619 | 509,049 |
| Completed units | 359,601 | 557,426 |
| ( - ) Write-down to net realizable value of properties under construction and completed units | (80,710) | (59,663) |
| Total properties for sale | 1,221,986 | 1,715,699 |
| Current portion | 882,189 | 1,122,724 |
| Non-current portion | 339,797 | 592,975 |

For the years ended December 31, 2017 and 2016, the change in the write-down to net realizable value of properties for sale is summarized as follows:

| | |
|---|---|
| Balance at December 31,2015 | (8,491) |
| Reclassification to discontinued operations | 3,054 |
| Additions: | |
| Land (Note 23) | (43,505) |
| Property under construction and completed units (Note 23) | (54,226) |
| Inventory surplus (Notes 9 and 23) | (62,343) |
| Balance at December 31, 2016 | (165,511) |
| Reclassification to land available for sale (Note 8.1) | 62,343 |
| Additions: | |
| Land (Note 23) | (55,247) |
| Property under construction and completed units (Note 23) | (32,188) |
| Write-offs | 11,141 |
| Balance at December 31, 2017 | (179,462) |

The amount of properties for sale offered as guarantee for financial liabilities is described in Note 12.

As disclosed in Note 12, the balance of capitalized financial charges as of December 31, 2017 amounts to R$301,025 (R$343,231 in 2016).

**7. Other assets**

| | 2017 | 2016 |
|---|---|---|
| Advances to suppliers | 5,358 | 2,567 |
| Recoverable taxes (IRRF, PIS, COFINS, among other) | 33,623 | 25,901 |
| Judicial deposit (Note 16.a) | 83,523 | 79,785 |
| Total other assets | 122,504 | 108,253 |
| | | |
| Current portion | 58,332 | 49,336 |
| Non-current portion | 64,172 | 58,917 |

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## 8. Assets held 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 2018. Therefore, it devised a specific plan for the sale of such land. The carrying value of such land, adjusted to fair value less costs to sell, after the test for impairment, is as follows:

| | Cost | Provision for impairment | Net balance |
|---|---|---|---|
| Balance at December 31, 2015 | 147,673 | (41,816) | 105,857 |
| Reclassification to discontinued operations | (128,216) | 26,726 | (101,490) |
| Additions (Note 23) | 2,269 | (142) | 2,127 |
| Reversal/Write-offs | (9,490) | 6,302 | (3,188) |
| Balance at December 31, 2016 | 12,236 | (8,930) | 3,306 |
| Reclassification of properties for sale (Note 6) | 62,343 | (62,343) | - |
| Additions (Note 23) | 158,979 | (59,897) | 99,082 |
| Reversal/Write-offs | (36) | - | (36) |
| Balance at December 31, 2017 | 233,522 | (131,170) | 102,352 |

### 8.2 Disposal group held for sale and profit or loss of discontinued operations

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Impairment loss (i) | - | (610,105) | - |
| Disposal group held for sale (ii) | - | 1,799,116 | - |
| Total disposal group held for sale | - | 1,189,011 | - |
| **Liabilities directly associated with assets held for sale (ii)** | - | 651,812 | - |
| Reversal of impairment loss (i) | 215,440 | - | - |

| | | | |
|---|---|---|---|
| Portion related to payable for sale of shares (iii) | (107,720) | - | - |
| Transaction costs | (9,545) | - | - |
| Impairment loss on Tenda's profit or loss | (22,780) | (610,105) | - |
| Tenda's profit or loss for the period (ii) | 22,780 | 50,401 | 36,218 |
| Profit or loss of discontinued operations | 98,175 | (559,704) | 36,218 |

(i) The measurement of non-current asset held for sale at the lower of its carrying value and the fair value less cost to sell. For the period ended May 4, 2017, the fair value of discontinued operations was adjusted, considering the weighted average price per share for exercising preemptive rights at R$12.12 (R$8.13 per share as of December 31, 2016).

(ii) Amounts of assets held for sale, liabilities related to assets held for sale, and profit or loss of discontinued operations, net of the eliminations related to intercompany transactions, for the period ended May 04, 2017.

(iii) Amount of R$107,720 related to the obligation to sell 50% of Construtora Tenda S.A.'s shares for the price of R$8.13 per share, settled on May 4, 2017, reflected in the profit or loss of discontinued operations, in order to reflect the difference between the fair value of the group of assets held for sale and the effective selling price.

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**8. Assets held for sale**--Continued

**8.2 Disposal group held for sale and profit or loss of discontinued operations**

For the period ended May 4, 2017, the Company carried out the remeasurement of the fair value of the disposal group held for sale, related to Construtora Tenda S.A., considering the weighted average value per share for exercising preemptive rights traded over the period between March 17 and 31, 2017, as measurement basis, leading to the price of R$12.12 per share, and, accordingly, valuing Construtora Tenda S.A. at R$754,460 (R$539,020 in 2016).

The remeasurement of the fair value of the disposal group held for sale is required by CPC 31 – Non-current Assets Held for Sale and Discontinued Operations, with changes recognized in gains or losses on discontinued operations, as well as by ICPC 07 – Distributions of Non-cash Assets to Owners, requires the adjustment of non-cash dividends related to the capital decrease at fair value until its settlement, with changes recognized in equity, as mentioned in 18.1.

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

| | | | |
|---|---|---|---|
| Total assets | 1,799,116 | Total liabilities | 651,812 |

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

| Statement of profit or loss | Period ended 05/04/2017 | 2016 | 2015 | Cash flow | Period ended 05/04/2017 | 2016 | **2015** |
|---|---|---|---|---|---|---|---|
| Net operating revenue | 404,737 | 1,052,710 | 850,962 | Operating activities | 51,959 | 137,055 | (85,495) |
| Operating costs | (269,144) | (729,705) | (605,584) | Investing activities | 48,663 | 4,997 | 222,288 |
| Operating expenses, net | (104,310) | (216,973) | (201,849) | Financing activities | 24,089 | (135,291) | (176,755) |
| Depreciation and amortization | (5,723) | (12,298) | (14,835) | | | | |
| Income from equity method investments | 269 | (5,456) | 1,751 | | | | |
| Financial income (expenses) | 101 | (20,043) | 5,774 | | | | |
| Income tax and social contribution | (4,519) | (20,966) | (6,522) | | | | |
| | **21,411** | **47,269** | **29,697** | | | | |
| Non-controlling interests | (1,369) | (9,381) | (623) | | | | |
| Net income for the year | 22,780 | 56,650 | 30,320 | | | | |

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## 9. Investments in associates and jointly-controlled investees

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

| | | Interest in capital - % | | Total assets | Total liabilities | Equity and advance for future capital increase | | Profit (loss) for the year | | Investments | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Jointly-controlled investees: | | 2017 | 2016 | 2017 | 2017 | 2017 | 2016 | 2017 | 2016 | 2017 | 20 |
| Gafisa SPE-116 Emp. Imob. Ltda. | - | 50% | 50% | 137,928 | 21,843 | 116,085 | 120,794 | (4,709) | 17,421 | 58,043 | 60 |
| Gafisa E Ivo Rizzo SPE-47 Emp. Imob. Ltda. | - | 80% | 80% | 32,908 | 515 | 32,393 | 32,151 | 5 | 6 | 25,914 | 25 |
| Parque Arvores Empr. Imob. Ltda.(a) | - | 50% | 50% | 33,735 | 3,119 | 30,616 | 26,615 | 4,000 | (6,774) | 15,308 | 13 |
| Sitio Jatiuca Emp. Imob. SPE Ltda | - | 50% | 50% | 31,184 | 3,041 | 28,143 | 38,184 | (10,041) | 3,116 | 14,072 | 19 |
| FIT 13 SPE Empreendimentos Imobiliários Ltda. | - | 50% | 50% | 23,259 | 2,374 | 20,885 | 20,892 | (7) | (13,596) | 10,442 | 10 |
| Varandas Grand Park Emp. Imob. Spe Ltda(a) | - | 50% | 50% | 69,613 | 49,755 | 19,858 | 25,826 | (5,969) | (20,707) | 9,930 | 12 |
| Atins Emp. Imob.s Ltda. | - | 50% | 50% | 29,866 | 10,867 | 18,998 | 18,201 | 797 | 58 | 9,499 | 9, |
| Performance Gafisa General Severiano Ltda | - | 50% | 50% | 28,371 | 17,000 | 11,371 | 10,802 | (33) | (172) | 5,686 | 5, |
| Other (*) | | 50% | 50% | 159,604 | 74,866 | 84,739 | 92,879 | (9,501) | (26,919) | 44,964 | 49 |
| Subtotal Jointly-controlled investees | | | | 546,468 | 183,380 | 363,088 | 386,344 | (25,458) | (47,567) | 193,858 | 20 |
| Associates: | | | | | | | | | | | |
| Alphaville Urbanismo S.A. | (a) | 30% | 30% | 2,244,944 | 2,360,921 | (141,290) | 596,620 | (764,142) | (108,298) | - | 17 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (AUSA) | | | | | | | | | | | |
| Citta Ville SPE Emp. Imob. Ltda. | - | 50% | 50% | 17,691 | 5,137 | 12,555 | 16,332 | (4,102) | (5,864) | 6,277 | 8, |
| Other (*) | | | | 1,139 | 19 | 1,119 | 1,185 | 20 | 18 | 5,090 | 5, |
| Subtotal associates | | | | 2,263,774 | 2,366,077 | (127,616) | 614,137 | (768,224) | (114,144) | 11,367 | 19 |
| Subtotal subsidiaries, jointly-controlled investees and associates | | | | 2,810,242 | 2,549,457 | 235,472 | 1,000,481 | (793,682) | (161,711) | 205,225 | 39 |
| Goodwill on associates | (b) | | | | | | | | | - | 25 |
| Goodwill on remeasurement of investment in associate | (b) | | | | | | | | | 273,900 | 37 |
| Total investments | | | | | | | | | | 479,125 | 79 |

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

| | **Interest in capital - %** | | Total assets | Total liabilities | Equity and advance for future capital increase | | Profit (loss) for the period | | Investments | | Income (loss) from equity method investments | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Provision for net capital deficiency (c): | 2017 | 2016 | 2017 | 2017 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2015 |
| Manhattan Square Em. Im. Res. 01 Ltda | 50 % | 50 % | 5,724 | 8,205 | (2,481) | - | (3,215) | - | (1,240) | - | (1,581) | - | (10,63 |
| Manhattan Square Em. Im. Com. 01 Ltda | 50 % | 50 % | 5,710 | 7,283 | (1,573) | - | (2,267) | - | (787) | - | (1,131) | - | (4,70 |
| Gafisa SPE 69 Emp. Imob. Ltda. | 100% | 100% | - | 519 | (519) | (270) | (519) | (349) | - | - | - | - | - |
| Other (*) | | | 48 | 185 | (137) | 5,722 | (259) | (94) | (36) | - | 1,321 | 952 | 1,120 |
| | | | 11,482 | 16,192 | (4,710) | 5,452 | (6,260) | (443) | (2,063) | - | (1,391) | 952 | (14,21 |

| | | | |
|---|---|---|---|
| Total provision for net capital deficiency | | | |
| **Total Income from equity method investments** | (204,863) | (48,332) | 40,01 |

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

(a) In view of the net capital deficiency of AUSA, and in line with CPC 18 (R2) – Investment in Associates, Subsidiaries and Joint Ventures, the Company discontinued the recognition of its interest in future losses after reducing to zero the carrying amount of the 30% interest.

(b) Amount related to the goodwill resulting of the remeasurement of the portion of the remaining investment of 30% in the associate AUSA, in the amount of R$273,900 (R$375,853 in 2016), arising from the sale of control over the entity. As of December 31, 2017, the impairment test, which is performed annually based on the estimate of future profitability, or when circumstances indicate impairment of carrying value, identified the need for recognizing an impairment provision for loss on realization of R$127,429. The main assumptions adopted for determining the recoverable amount of the remaining investment of AUSA are detailed in this Note.

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

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

(a) *Information on significant investees*

| | AUSA | | Other associates and jointly-controlled investees | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Current assets | 1,049,221 | 1,286,614 | 518,264 | 684,795 |
| Non-current assets | 1,195,723 | 1,321,380 | 47,034 | 60,002 |
| Total assets | 2,244,944 | 2,607,994 | 565,298 | 744,797 |
| Current liabilities | 413,469 | 1,378,611 | 152,023 | 219,253 |
| Non-current liabilities | 1,947,452 | 632,771 | 36,513 | 121,684 |
| Total liabilities | 2,360,921 | 2,011,373 | 188,536 | 340,937 |

| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Net revenue | 108,321 | 716,346 | 1,149,700 | (3,837) | 105,955 | 106,210 |
| Operating costs | (420,381) | (381,595) | (582,323) | 773 | (84,704) | (83,252) |
| Depreciation and Amortization | (13,733) | (10,457) | (8,527) | (624) | (190) | (382) |
| Financial income (expenses) | (252,114) | (257,052) | (157,325) | (7,875) | (5,195) | 7,757 |
| Income tax and social contribution | 3,385 | (16,158) | (40,814) | (211) | (3,272) | (7,023) |
| Profit (loss) from Continued Operations | (764,142) | (108,298) | 148,144 | (29,540) | (53,413) | 40,350 |

(b) *Change in investments*

| | |
|---|---|
| Balance at December 31, 2016 | 799,911 |
| Income from equity method investments | (203,472) |
| Capital contribution (decrease) | 9,401 |
| Dividends receivable | (124) |
| Loss on realization of goodwill on remeasurement of investment in associate (Notes 9.i.c and 23) | (101,953) |
| Loss on realization of goodwill on acquisition of associate (Note 9.i.c) | (25,476) |
| Other investments | 838 |

| | |
|---|---|
| Balance at December 31, 2017 | 479,125 |

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

The Company evaluated the recovery of the carrying value of goodwill using the “value in use” concept, applying discounted cash flow models of the cash-generating units. The process for determining the value in use involves the use of assumptions, judgments and estimates relating to cash flows, such as growth rate of revenues, costs and expenses, estimates of investment and future working capital, and discount rates. The assumptions relating to growth, cash flow and future cash flows are based on the Company’s business plan, approved by the Management, as well as on comparable market data, and represent the Management’s best estimate of the economic conditions that will prevail during the economic life of the different cash-generating units, group of assets that provides the generation of cash flows. The future cash flows were discounted based on the rate representative of the cost of capital. Consistent with the economic valuation techniques, the evaluation of the value in use is made for a five-year period, and after such period, considering the perpetuity of assumptions in view of the capacity for indefinite business continuity. The main assumptions used in the estimate of value in use are the following: (a) revenue – revenues were projected between 2018 and 2022 considering the growth in sales, construction progress and client base of the different cash-generating units, considering the inflation adjustments to trade accounts receivable and provided services; (b) Operating costs and expenses – costs and expenses were projected in line with historical performance, as well as the historical growth of revenues; (c) pre tax discount rate at 14.70% in nominal terms, (d) growth rate used for extrapolating cash flow projections at 6.8%, and (e) calculation of perpetuity considering a growth of 4.1% p.a. equivalent to the long-term inflation estimate projected by the Brazilian Central Bank. The key assumptions were based on the historical performance of business units over the past five years, and on reasonable macroeconomic assumptions, and supported by the financial market projections.

In the year ended December 31, 2017, the impairment test for goodwill performed by the Company resulted in the need of recognizing a provision for impairment loss in the amount of R$127,429, related to the goodwill on remeasurement of investment in the associate AUSA.

**10. Property and equipment**

| Type | 2015 | Addition | Write-off | Reclassification to disposal group held for sale | 2016 | Addition | Write-off | 2017 |
|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | |
| Hardware | 28,143 | 3,408 | (4,311) | (13,582) | 13,658 | 4,045 | (5,564) | 12,139 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Leasehold improvements and installations | 17,449 | 686 | - | (8,020) | 10,115 | 2,418 | (3,468) | 9,065 |
| Furniture and fixtures | 5,503 | - | - | (4,315) | 1,188 | - | - | 1,188 |
| Machinery and equipment | 4,039 | - | - | (1,400) | 2,639 | 1 | - | 2,640 |
| Molds | 13,067 | - | - | (13,067) | - | - | - | - |
| Sales stands | 15,724 | 10,799 | (2,730) | (1,599) | 22,194 | 7,261 | (8,316) | 21,139 |
| | 83,925 | 14,893 | (7,041) | (41,983) | 49,794 | 13,725 | (17,348) | 46,171 |
| | | | | | | | | |
| Accumulated depreciation | | | | | | | | |
| Hardware | (13,474) | (2,722) | 4,311 | 5,886 | (5,999) | (3,208) | 5,506 | (3,701) |
| Leasehold improvements and installations | (7,918) | (1,836) | - | 3,069 | (6,685) | (767) | 1,982 | (5,470) |
| Furniture and fixtures | (3,664) | (110) | - | 2,952 | (822) | (91) | - | (913) |
| Machinery and equipment | (1,898) | (264) | - | 554 | (1,608) | (264) | - | (1,872) |
| Molds | (3,379) | - | - | 3,379 | - | - | - | - |
| Sales stands | (4,416) | (10,103) | 2,302 | 1,514 | (10,703) | (9,056) | 7,886 | (11,873) |
| | (34,749) | (15,035) | 6,613 | 17,354 | (25,817) | (13,386) | 15,374 | (23,829) |
| Total property and equipment | 49,176 | (142) | (428) | (24,629) | 23,977 | 339 | (1,974) | 22,342 |

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## 10. Property and equipment --Continued

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

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

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

Property and equipment are subject to periodic analysis of impairment. As of December 31, 2017 and 2016 there was no indication of impairment of property and equipment.

## 11. Intangible assets

| | 2015 Balance | Addition | Write-down | Amortization | Reclassification to disposal group held for sale | 2016 Balance |
|---|---|---|---|---|---|---|
| Software – Cost | 110,559 | 8,261 | (625) | - | (34,774) | 83,421 |
| Software – Amortization | (65,408) | - | 421 | (13,433) | 17,915 | (60,505) |
| Other | 6,715 | 6,070 | - | (5,845) | (1,628) | 5,312 |
| Total intangible assets | 51,866 | 14,331 | (204) | (19,278) | (18,487) | 28,228 |

| | 2016 Balance | Addition | Write-down | Amortization | 2017 Balance |
|---|---|---|---|---|---|
| Software – Cost | 83,421 | 6,392 | (10,556) | - | 29,257 |
| Software – Depreciation | (60,505) | - | 9,846 | (10,910) | (61,569) |
| Other | 5,312 | 2,320 | - | (7,040) | 592 |
| Total intangible assets | 28,228 | 8,712 | (710) | (17,950) | 18,280 |

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

The test of recovery of the intangible assets of the Company resulted in the need for recognizing a provision for impairment for the year ended December 31, 2017 in the amount of R$710 (R$614 in 2016 and zero in 2015), related to the Company’s software.

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## 12. Loans and financing

| Type | Maturity | Annual interest rate | 2017 | 2016 |
|---|---|---|---|---|
| National Housing System - SFH /SFI (i) | March 2018 to April 2021 | 8.30% to 14.00% + TR 12.87% and 137% of CDI | 733,103 | 1,022,038 |
| Certificate of Bank Credit - CCB (ii) | December 2018 to June 2021 | 130% of CDI 2.5%/ 3%/ 4.25%/ 5%+CDI | 164,082 | 164,262 |
| Total loans and financing (Note 20.i.d, 20.ii.a and 20.iii) | | | 897,185 | 1,186,300 |
| Current | | | 442,073 | 604,795 |
| Current – reclassification for non-compliance of covenant | | | 39,000 | 65,000 |
| Current portion | | | 481,073 | 669,795 |
| Non-current portion | | | 416,112 | 516,505 |

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

(ii) In the year ended December 31, 2017, the Company made payments in the total amount of R$84,240, of which R$45,235 related to principal and R$39,005 related to the interest payable. Additionally, during the year, the Company entered into three CCB transaction in the amount of R$99,000, with final maturity on June 2021.

Rates

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

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

| Maturity | 2017 | 2016 |
|---|---|---|
| 2017 | - | 669,795 |
| 2018 | 481,073 | 422,523 |
| 2019 | 287,227 | 59,763 |
| 2020 | 116,799 | 27,126 |
| 2021 | 12,086 | 7,093 |
| | 897,185 | 1,186,300 |

The Company and its subsidiaries have restrictive covenants under certain loans and financing that limit their ability to perform certain actions, such as the issuance of debt, and that could require the early redemption or refinancing of loans if the Company does not fulfill such restrictive covenants. The ratio and minimum and maximum amounts required under such restrictive covenants as of December 31, 2017 and 2016 are disclosed in Note 13. In view of the non-compliance of the covenants of a CCB transaction, which negotiation for obtaining the waiver from the creditor is in progress, the non-current portions of this transaction were reclassified into short term in the amount of R$39,000.

In line with the conditions to the commitment to the subscription of investors (Note 1), the Company renegotiated with creditors the postponement of the due date of debts in the amount of R$456,316 from 2018 and 2019 to 2020 and 2021, on suspensive condition until the ratification of the capital increase, which was ratified on February 28, 2018 by the Board of Directors (Note 32.i).

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## 12. **Loans and financing**—Continued

Financial expenses of loans, financing and debentures (Note 13) are capitalized at the cost of each venture and land, according to the use of funds, and recognized in profit or loss for the year. The capitalization rate used in the determination of costs of loans eligible to capitalization was 11.52% as of December 31, 2017 (13.59% to 15.48% in 2016).

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

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total financial charges for the year | 178,137 | 235,153 | 279,632 |
| Capitalized financial charges (Note 30) | (74,310 ) | (200,394) | (223,396) |
| Subtotal (Note 24) | 103,827 | 34,759 | 56,236 |
| Financial charges included in "Properties for sale": | | | |
| Opening balance | 343,231 | 299,649 | 227,438 |
| Capitalized financial charges | 74,310 | 200,394 | 223,396 |
| Charges recognized in profit or loss (Note 23) | (116,516) | (156,812) | (151,185) |
| Closing balance (Note 6) | 301,025 | 343,231 | 299,649 |

The amount of properties for sale offered as guarantee for loans, financing and debentures is R$796,800 (R$784,131 in 2016).

## 13. **Debentures**

| **Program/placement** | **Principal - R$** | **Annual interest** | **Final maturity** | **2017** | **2016** |
|---|---|---|---|---|---|
| Seventh placement (i) | - | - | - | **-** | 302,363 |

| | | | | | |
|---|---|---|---|---|---|
| Ninth placement (iii) | 50,195 | CDI + 2.80% | July 2018 | **49,877** | 79,693 |
| Tenth placement (iii) | 55,000 | IPCA + 8.22% | January 2020 | **71,011** | 69,212 |
| Eleventh placement – 1st series (iv) (a) | 87,810 | CDI + 5.25% | February 2020 | **86,825** | - |
| **Total debentures (Note 20.i.d, 20.ii.a and 20.iii)** | | | | **207,713** | 451,268 |
| Current portion | | | | **88,177** | 314,139 |
| Non-current portion | | | | **119,536** | 137,129 |

Rates

· IPCA - Expanded Consumer Price Index (*Índice de Preços ao Consumidor Ampliado*)

(a) On November 1, 2017, the Company approved the 11th Private Placement of Non-convertible Debentures, with general guarantee, in two series in the total amount of R$120,000, of which R$90,000 refers to the 1st series and R$30,000 refers to the second series, with final maturity in February and November 2020, respectively. The proceeds from the placement will be used in the development of select real estate ventures and their guarantees are represented by (i) the fiduciary assignment of credit rights deriving from the sale of a specific project, (ii) the fiduciary sale on units and (iii) the contracting of performance bond to guarantee the construction of a specific project is concluded. The face value of the Placement will accrue interest corresponding to the cumulative variation of Interbank Deposit (CDI) plus a surcharge equivalent to 5.25% p.a.. In the year ended December 31, 2017, the first series amounting to R$90,000 was released.

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**13. Debentures**--Continued

In the year ended December 31, 2017, the Company made the following payments:

| | Face Value placement | Interest payable | Total amortization |
|---|---|---|---|
| (i) | 300,000 | 24,663 | 324,663 |
| (ii) | 30,198 | 8,215 | 38,413 |
| (iii) | - | 5,313 | 5,313 |
| (iv) | 2,190 | 1,133 | 3,323 |
| | 332,388 | 39,324 | 371,712 |

Maturities of current and non-current installments are as follows:

| Maturity | 2017 | 2016 |
|---|---|---|
| 2017 | - | 314,139 |
| 2018 | 88,177 | 94,316 |
| 2019 | 51,530 | 21,404 |
| 2020 | 68,006 | 21,409 |
| | 207,713 | 451,268 |

As of December 31, 2017, the Company exceeded the amount established in a restrictive financial debt covenant, as presented below, and entered into negotiation with the creditor to obtain a waiver for breaching the net debt for this period (*). For the year ended December 31, 2016, the Company obtained the waiver from the creditor. The Company analyzed the other debt contracts, and did not identify any impact on the cross restrictive covenants in relation to the aforementioned non-compliance. The ratio and minimum and maximum amounts required by such restrictive covenants are as follows:

| | **2017** | **2016** |
|---|---|---|

| | | |
|---|---|---|
| **Seventh placement** | | |
| Total account receivable[2] plus inventory required to be below zero or 2.0 times over net debt less venture debt [3] | Debt settled | 53.98 times |
| Total debt less venture debt [3], less cash and cash equivalents and short-term investments [1], cannot exceed 75% of equity plus noncontrolling interests | Debt settled | 3.11% |
| Total receivable plus unappropriated income plus total inventory of completed units required to be 1.5 time over the net debt plus payable for purchase of properties plus unappropriated cost | Debt settled | 2.15 times |
| **Ninth placement** | | |
| Total account receivable plus inventory required to be below zero or 2.0 times over net debt | 2.77 times | 2.34 times |
| Net debt cannot exceed 100% of equity plus noncontrolling interests (*) | 126.08% | 71.71% |
| **Tenth placement** | | |
| Total account receivable plus inventory required to be below zero or 2.0 times over net debt less venture debt[3] | 11.83 times | 53.98 times |
| Total debt less venture debt[3)], less cash and cash equivalents and short-term investments [1], cannot exceed 75% of equity plus noncontrolling interests | 29.54% | 3.11% |
| **Loans and financing** | | |
| Net debt cannot exceed 100% of equity plus noncontrolling interests (*)(a) | 126.08% | 71.71% |
| Total accounts receivable plus inventory required to be below zero or 2.0 times over venture debt[3] | 3.62 times | 2.44 times |
| Total account receivable plus inventory of completed units required to be below zero or 2.0 times over net debt less venture debt [3] | 7.51 times | 33.62 times |
| Total debt, less venture debt, less cash and cash equivalents and short-term investments, cannot exceed 75% of equity plus noncontrolling interests | 29.54% | 3.11% |
| Total receivable plus unappropriated income plus total inventory of completed units required to be 1.5 time over the net debt plus payable for purchase of properties plus unappropriated cost | 1.93 times | 2.15 times |

(1) Cash and cash equivalents and short-term investments refer to cash and cash equivalents and marketable securities.

(2) Total receivables, whenever mentioned, refers to the amount reflected in the Statement of Financial Position plus the amount not yet recognized according to PoC .

(3) Venture debt and secured guarantee debt refer to SFH debts, defined as the sum of all disbursed borrowing contracts which funds were provided by SFH, as well as the debt related to the seventh placement.

(a) Covenant limit of 70%. For the period ended September 30, 2017 and year ended December 31, 2017, the covenant limit is 100%, according to the waiver obtained from the creditor.

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## 14. Obligations assumed on assignment of receivables

The Company’s transactions of assignment of receivables are as follows:

| | 2017 | 2016 |
|---|---|---|
| Assignment of receivables: | | |
| Obligation CCI June/2011 - Note 5(i) | 1,502 | 2,148 |
| Obligation CCI December/2011 - Note 5(ii) | 1,827 | 1,471 |
| Obligation CCI July/2012 - Note 5(iii) | 29 | 68 |
| Obligation CCI November/2012 - Note 5(iv) | 2,491 | 4,651 |
| Obligation CCI December/2012 - Note 5(v) | 3,796 | 5,402 |
| Obligation CCI November/2013 - Note 5(vi) | 2,850 | 4,307 |
| Obligation CCI November/2014 - Note 5(vii) | 3,191 | 4,344 |
| Obligation CCI December/2015 - Note 5(viii) | 10,523 | 15,988 |
| Obligation CCI March/2016 - Note 5(ix) | 11,287 | 17,178 |
| Obligation CCI May/2016 - Note 5(x) | 9,548 | 14,407 |
| Obligation CCI August/2016 - Note 5(xi) | 7,574 | 9,164 |
| Obligation CCI December/2016 - Note 5(xii) | 14,158 | 18,948 |
| Obligation CCI March/2017 - Note 5(xiii) | 15,487 | |
| Obligation FIDC | 130 | 954 |
| **Total obligations assumed on assignment of receivables (Note 20.i.d and 20.ii.a)** | 84,393 | 99,030 |
| Current portion | 31,001 | 34,698 |
| Non-current potion | 53,392 | 64,332 |

Maturities of current and non-current installments are as follows:

| Maturity | 2017 | 2016 |
|---|---|---|
| 2017 | - | 34,698 |
| 2018 | 31,001 | 40,932 |

| | | |
|---|---|---|
| 2019 | 20,042 | 20,000 |
| 2020 | 14,068 | 3,400 |
| 2021 onwards | 19,282 | - |
| | 84,393 | 99,030 |

Regarding the above transactions, the assignor is required to fully formalize the guarantee instruments of receivables in favor of the assignee. Until such process is complete, these amounts will be classified into a separate account in current and non-current liabilities.

## 15. Other payables

| | 2017 | 2016 |
|---|---|---|
| Cancelled contract payable | 61,367 | 26,255 |
| Warranty provision | 26,070 | 29,568 |
| Noncurrent sales taxes (PIS and COFINS – deferred and current sales taxes) | 5,446 | 8,739 |
| Provision for net capital deficiency (Note 9.i.d) | 2,063 | - |
| Long-term suppliers (Note 20.i.d) | 3,187 | 4,046 |
| Payables to venture partners (Note 20.ii.a and 20.iii) (a) | - | 1,237 |
| Share-based payment - Phantom Shares (Note 18.4) | 4,060 | 2,596 |
| Other liabilities | 9,288 | 8,982 |
| Total other payables | 111,481 | 81,423 |
| Current portion | 104,386 | 69,921 |
| Non-current portion | 7,095 | 11,502 |

(a) The Company entered in June 2011 into a private instrument for establishing the usufruct of 100% preferred shares of SPE-89 Empreendimentos Imobiliários S.A., over a period of six years, raising funds amounting to R$45,000. In the year ended December 31, 2017, the Company settled such payables and the total amount of dividends paid to the holders of preferred shares by SPE-89 Empreendimentos Imobiliários S.A. amounted to R$ 1,500.

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## 16. 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 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 probable losses. The Company does not expect any reimbursement in connection with these claims.

In the years ended December 31, 2017 and 2016, the changes in the provision are summarized as follows:

| | Civil lawsuits | Tax proceedings | Labor claims | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | 149,621 | 400 | 92,961 | 242,982 |
| (-) Reclassification to discontinued operations | (29,982 ) | (180 ) | (25,554) | (55,716 ) |
| Additional provision (Note 23) | 49,872 | 2,965 | 17,959 | 70,796 |
| Payment and reversal of provision not used | (71,332 ) | (61 ) | (23,711) | (95,104 ) |
| Balance at December 31, 2016 | 98,179 | 3,124 | 61,655 | 162,958 |
| Additional provision (Note 23) (i) | 89,704 | - | 18,144 | 107,848 |
| Payment and reversal of provision not used (i) | (49,247 ) | (2,365 ) | (20,817) | (72,429 ) |
| Balance at December 31, 2017 | 138,636 | 759 | 58,982 | 198,377 |
| | | | | |
| Current portion | 96,820 | 194 | 19,300 | 116,314 |
| Non-current portion | 41,816 | 565 | 39,682 | 82,063 |

(i) Of this amount, R$18,171 refers to the recognition of the provision and payment in connection with unfavorable outcome of two arbitration cases brought by real estate venture partners, in which the main allegation was the delay in the completion of the ventures, and R$10,000 refers to the recognition of the provision for the arbitration case brought by a real estate venture partner, in which the main allegation refers to supposed construction defects in construction works performed by the Company.

(a) Civil lawsuits, tax proceedings and labor claims

As of December 31, 2017, the Company and its subsidiaries have deposited in court the amount of R$83,523 (R$79,785 in 2016) (Note 7).

| | 2017 | 2016 |
|---|---|---|
| Civil lawsuits | 42,147 | 33,313 |
| Tax proceedings | 25,500 | 24,806 |
| Labor claims | 15,876 | 21,666 |
| Total (Note 7) | 83,523 | 79,785 |

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**16. Provisions for legal claims and commitments** --Continued

(a) Civil lawsuits, tax proceedings and labor claims --Continued

(i) As of December 31, 2017, the provisions related to civil lawsuits include R$23,980 (R$18,337 in 2016) related to lawsuits in which the Company is included as a successor in enforcement actions and in which the original debtor is a former shareholder of Gafisa, Cimob Companhia Imobiliária ("Cimob"), or involve other companies of the same economic group of Cimob. In these lawsuits, the plaintiff believes that the Company should be liable for Cimob's debts, as the Company would have taken on the obligations of Cimob after acquisition (business succession, merger of assets and/or formation of a same economic group involving the Company and the Cimob Group). In addition, there are judicial deposits of R$16,818 (R$16,359 in 2016) related to these lawsuits.

The Company does not agree with the statement of facts based on which it has been included in these lawsuits and continues to dispute in court its liability for the debts of a third company, as well as the amount charged by the plaintiffs. The Company has already obtained favorable and unfavorable decisions in relation to this matter, which is the reason why it is not possible to estimate a uniform outcome in all lawsuits. The Company also aims to file a lawsuit against Cimob and its former and current parent companies to argue that it should not be liable for the debts of that company, as well as indemnity of the amounts already paid by the Company in lawsuits relating to the charge of debts owed only by Cimob.

(ii) Environmental risk

Considering the diversity of environmental legislation in the federal, state and municipal levels, which may restrict or impede the development of real estate ventures, the Company analyzes all environmental risks, including the possible existence of hazardous or toxic materials, residues, vegetation and proximity of the land to permanent preservation areas, in order to mitigate risks in the development of ventures, during the process of land acquisition for future ventures.

In addition, 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 lawsuits in dispute by the Company in civil court are considered by the legal advisors to have possible losses of R$3,440 (R$4,924 in 2016).

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## 16. Provisions for legal claims and commitments --Continued

(a) Civil lawsuits, tax proceedings and labor claims --Continued

(iv) Lawsuits in which likelihood of loss is rated as possible

As of December 31, 2017, the Company and its subsidiaries are aware of other claims, and civil, labor and tax risks. Based on the history of probable processes and the specific analysis of main claims, the measurement of the claims with likelihood of loss considered possible amounted to R$357,089 (R$249,153 in 2016), based on average past outcomes adjusted to current estimates, for which the Company's Management believes it is not necessary to recognize a provision for occasional losses. The change in the period was caused by change in the volume of lawsuits with diluted amounts, and review of the involved amounts.

| | 2017 | 2016 |
|---|---|---|
| Civil lawsuits | 251,402 | 156,523 |
| Tax proceedings | 45,240 | 52,812 |
| Labor claims | 60,447 | 39,818 |
| | 357,089 | 249,153 |

(b) Payables related to the completion of real estate ventures

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 delivering the real estate developments, being subject to legal and contractual penalties.

As of December 31, 2017, the Company and its subsidiaries have restricted cash, which will be released to the extent the guarantee indexes described in Note 4.2 are met, which include land and receivables pledged in guarantee of 120% of the debt outstanding.

(c) Other commitments

In addition to the commitments mentioned in Notes 6, 12 and 13, the Company has commitments related to the rental of three business office suites where its facilities are located, at a monthly cost of R$395 adjusted by the IGP-M/FGV variation. The rental term is from one to eight years and there is a fine in case of cancelled contracts corresponding to three-month rent, or in proportion to the contract expiration time. The estimate of minimum future rent payment of the business office suites (cancellable leases) amounts to R$29,764, considering until the maturity of contracts, as follows.

| Estimate of payment | 2017 |
|---|---|
| 2018 | 3,868 |
| 2019 | 4,431 |
| 2020 | 4,652 |
| 2021 | 4,885 |
| 2022 onwards | 11,928 |
| | 29,764 |

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## 17. Payables for purchase of properties and advances from customers

| | Maturity | 2017 | 2016 |
|---|---|---|---|
| Payables for purchase of properties | January 2018 to October 2022 | 118,201 | 118,257 |
| Present value adjustment | | (10,352 ) | (9,469 ) |
| Advances from customers | | | |
| Development and sales (Note 5) | | 63,748 | 35,024 |
| Barter transaction - Land (Note 30) | | 137,237 | 151,885 |
| Total payables for purchase of properties and advance from customers (Notes 20.i.d and 20.ii.a) | | 308,834 | 295,697 |
| Current portion | | 156,457 | 205,388 |
| Non-current portion | | 152,377 | 90,309 |

Maturities of the current and non-current portions are as follows:

| Maturity | 2017 | 2016 |
|---|---|---|
| 2017 | - | 205,388 |
| 2018 | 156,457 | 71,119 |
| 2019 | 67,632 | 9,243 |
| 2020 | 40,987 | 8,116 |
| 2021 | 19,553 | 1,831 |
| 2022 onwards | 24,205 | - |
| | 308,834 | 295,697 |

## 18. Equity

### 18.1. Capital

As resolved in the Extraordinary Shareholders' Meeting held on February 20, 2017, the reverse split of the totality of common shares issued by the Company was carried out on March 23, 2017, at the ratio of 13.483023074 to 1, thus the 378,066,162 common shares issued by the Company started to represent 28,040,162 common shares, all registered and with no par value. Accordingly, all information related to the number of shares was retroactively adjusted to reflect such reverse split of shares.

As of December 31, 2017, the Company's authorized and paid-in capital amounts to R$2,521,152 (R$2,740,662 in 2016), represented in both periods by 28,040,162 registered common shares, with no par value, of which 938,044 (1,050,249 in 2016) were held in treasury.

According to the Company's By-laws, capital may be increased without further amendments, upon resolution of the Board of Directors, which shall set the conditions for issuance up to the limit of 44,500,405 (forty-four million five hundred thousand four hundred and five) common shares.

On February 20, 2017, the decrease in the Company's capital was approved in the amount of R$219,510, without cancellation of shares, corresponding to 50% of Tenda's capital for purposes of distribution to the Company's shareholders (Note 8.2). This amount was remeasured at the fair value of the assets distributed on May 4, 2017, resulting in an adjustment of R$107,720 in the period (Note 8.2).

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## 18. **Equity**--Continued

### 18.1. **Capital** --Continued

In the year ended December 31, 2017 no treasury shares were acquired (334,020 shares in the total amount of R$8,693 in 2016). Additionally, the Company transferred 112,203 shares (68,814 in 2016), in the total amount of R$3,435 (R$2,149 in 2016) related to the exercise of options under the stock option plan of common shares by the beneficiaries, for which it received the total amount of R$818 (R$9 in 2016).

Treasury shares

| Type | GFSA3 | R$ | % | Market value (*) R$ thousand | | Carrying value R$ thousand | |
|---|---|---|---|---|---|---|---|
| Acquisition date | Number (i) | Weighted average price | % - on shares outstanding | 2017 | 2016 | 2017 | 2016 |
| 11/20/2001 | 44,462 | 38.9319 | 0.16 % | 910 | 1,115 | 1,731 | 1,731 |
| Changes in 2013: | | | | | | | |
| Acquisitions | 1,372,096 | 51.9927 | 5.09 % | 28,073 | 34,410 | 71,339 | 71,339 |
| Changes in 2014: | | | | | | | |
| Acquisitions | 3,243,947 | 35.5323 | 12.03 % | 66,371 | 81,353 | 115,265 | 115,265 |
| Stock options exercised | (405,205) | 43.3928 | -1.50 % | (8,290) | (10,162) | (17,583) | (17,583) |
| Cancellations | (2,039,086) | 44.9677 | -7.56 % | (41,720) | (51,137) | (91,693) | (91,693) |
| Changes in 2015: | | | | | | | |
| Acquisitions | 884,470 | 27.3124 | 3.28 % | 18,096 | 22,181 | 24,157 | 24,157 |
| Stock options exercised | (90,622) | 33.3473 | -0.34 % | (1,854) | (2,272) | (3,022) | (3,022) |
| Cancellations | (2,225,020) | 33.3543 | -8.25 % | (45,524) | (55,800) | (74,214) | (74,214) |
| Changes in 2016: | | | | | | | |
| Acquisitions | 334,020 | 26.0254 | 1.24 % | 6,834 | 8,377 | 8,693 | 8,693 |
| Stock options exercised | (68,814) | 31.2290 | -0.26 % | (1,408) | (1,726) | (2,149) | (2,149) |
| Changes in 2017: | | | | | | | |
| Stock options exercised | (112,203) | 30.6320 | -0.42 % | (2,296) | - | (3,435) | - |
| | 938,044 | 31.0081 | 3.48 % | 19,192 | 26,339 | 29,089 | 32,524 |

(*) Market value calculated based on the closing share price on December 31, 2017 at R$20.46 in 2017 (R$25.08 in 2016, adjusted after reverse split) not considering the effect of occasional volatilities.

(i) Amount presented adjusted by the reverse split of shares at the ratio of 13.483023074 to 1, performed on March 23, 2017.

The Company holds shares in treasury acquired in 2001 in order to guarantee the execution of legal proceedings (Note 16(a)(i)).

The change in the number of outstanding shares is as follows:

| | Common shares - In thousands |
|---|---|
| Outstanding shares as of December 31, 2015 | 367,481 |
| Repurchase of treasury shares | (4,504) |
| Transfer related to the stock option plan | 928 |
| Shares held by the Management members of the Company | (2,838) |
| Outstanding shares as of December 31, 2016 | 361,067 |
| Reverse split of shares (Note 18(i)) | (334,288) |
| Outstanding shares as of December 31, 2016 adjusted | 26,779 |
| Transfer related to the stock option plan | 81 |
| Change in shares held by the management members of the Company | 112 |
| Outstanding shares as of December 31, 2017 | 26,972 |
| | |
| Weighted average shares outstanding (Note 27) | 26,891 |

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## 18. Equity--Continued

### 18.2. Allocation of net income (loss) for the year

According to the Company's By-laws, profit for the year is allocated as follows, after deduction for occasional accumulated losses and provision for income taxes and social contribution: (i) 5% to legal reserve, until it reaches 20% of capital, or when the legal reserve balance plus the balances of capital reserves exceeds 30% of capital; (ii) 25% of the remaining balance to pay mandatory dividends; and (iii) amount not in excess of 71.25% to set up the Reserve for Investments, with the purpose of financing the expansion of the operations of the Company and its subsidiaries.

The Board of Directors, by referendum of the Annual Shareholders' Meeting, shall examine the accounts and financial statements related to the year 2017.

The absorption of losses incurred for the year 2016 by the income reserve and legal reserve, according to Article 189 of Act 6.404/76, is as follows:

| | |
|---|---|
| Net loss for 2016 | (1,163,596) |
| (-) Income reserve | 266,520 |
| (-) Legal reserve | 35,315 |
| Balance of accumulated losses for 2016 | (861,761) |
| Net loss for 2017 | (849,856) |
| Balance of accumulated losses for 2017 | (1,711,617) |

### 18.3. Stock option plan

Expenses for granting stocks are recorded under the account "General and administrative expenses" (Note 23) in the years ended December 31, 2017 and 2016:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Equity-settled stock option plans | 3,500 | 5,114 | 6,937 |
| Phantom Shares (Note 18.4) | 1,464 | 1,707 | 889 |
| Total stock option grant expenses (Note 23) | 4,964 | 6,821 | 7,826 |

(i) Gafisa

The Company has a total of five stock option plans comprising common shares, launched in 2012, 2013, 2014, 2015 and 2016 which follows the rules established in the Stock Option Plan of the Company.

The granted options entitle their holders (employees) to purchase common shares of the Company’s capital, after periods that vary from one to four years of employment (essential condition to exercise the option), and expire six to ten years after the grant date.

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

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**18. Equity**--Continued

**18.3. Stock option plan** -- Continued

(i) Gafisa--Continued

Changes in the stock options outstanding in the years ended December 31, 2017 and 2016, including the respective weighted average exercise prices are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (Reais) | Number of options | Weighted average exercise price (Reais) |
| Options outstanding at the beginning of the year | 957,358 | 28.50 | 870,975 | 24.69 |
| Options granted | - | - | 163,900 | 35.33 |
| Options exercised (i) | (112,203) | (14.65) | (69,009) | (0.13) |
| Options cancelled and adjustment to number due to the discontinued operations of Tenda, net | (3,983) | (21.07) | (8,508) | (0.13) |
| Options outstanding at the end of the year | 841,172 | 16.99 | 957,358 | 28.50 |

(i) In the year ended December 31, 2017, the amount received through exercised options was R$818 (R$9 in 2016).

As of December 31, 2017, the stock options outstanding and exercisable are as follows:

| **Outstanding options** | | | **Exercisable options** | |
|---|---|---|---|---|
| **Number of options** | **Weighted average remaining contractual life (years)** | **Weighted average exercise price (R$)** | **Number of options** | **Weighted average exercise price (R$)** |
| **841,172** | **3.74** | **16.99** | **344,006** | **17.69** |

During the year ended December 31, 2017, the Company did not grant options in connection with its stock option plans comprising common shares (163,900 options granted in 2016).

The models used by the Company for pricing granted options are the Binomial model for traditional options and the MonteCarlo model for options in the Restricted Stock Options format.

In 2016, the fair value of the options granted totaled R$1,265, which was determined based on the following assumptions:

| | 2016(i) |
|---|---|
| Pricing model | Binomial |
| Exercise price of options (R$) | R$35.32 |
| Weighted average price of options (R$) | R$35.32 |
| Expected volatility (%) – (*) | 53% |
| Expected option life (years) | 5.78 years |
| Dividend income (%) | 1.98% |
| Risk-free interest rate (%) | 14.13% |

(*) The volatility was determined based on regression analysis of the ratio of the share volatility of Gafisa S.A. to the Ibovespa index.

(i) Amount presented adjusted by the reverse split of shares at the ratio of 13.483023074 to 1, performed on March 23, 2017.

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## 18. **Equity**--Continued

### 18.4. Share-based payment – Phantom Shares

The Company has a total of two cash-settled share-based payment plans with fixed terms and conditions, according to the plans approved by the Company, launched in 2015 and 2016.

As of December 31, 2017, the amount of R$4,060 (R$2,596 in 2016), related to the fair value of the phantom shares granted, is recognized in the heading “Other payables” (Note 15).

## 19. Income tax and social contribution

The reconciliation of the effective tax rate for the years ended December 31, 2017, 2016 and 2015 is as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Profit (loss) before income tax and social contribution, and statutory interest | (971,412) | (501,941) | 35,419 |
| Income tax calculated at the applicable rate - 34 % | 330,280 | 170,660 | (12,043) |
| | | | |
| Net effect of subsidiaries taxed by presumed profit and RET | (17,876) | 2,035 | 19,711 |
| Income from equity method investments | (65,810) | (19,546) | 13,605 |
| Tax losses (tax loss carryforwards used) | - | - | (4,101) |
| Stock option plan | (1,190) | (2,895) | (2,714) |
| Reversal of goodwill | (56,614) | - | - |
| Other permanent differences | (2,169) | (5,702) | (14,203) |
| Charges on payables to venture partners | (1,146) | (361) | 761 |
| Net effect on discontinued operations (a) | (25,413) | - | - |
| Tax benefits recognized (unrecognized) | (136,962) | (244,271) | (1,674) |
| | 23,100 | (100,080) | (658) |
| | | | |
| Tax expenses - current | (2,832) | (10,722) | (14,763) |

| | | | |
|---|---|---|---|
| Tax income (expenses) - deferred | 25,932 | (89,358 ) | 14,105 |

(a) Effect attributable to discontinued operations not reflected in the profit base before taxes, however, with effect of reducing the tax base of the entity.

(ii) Deferred income tax and social contribution

The Company recognized deferred tax assets on tax losses and income tax and social contribution carryforwards from prior years, which have no expiration, and for which offset is limited to 30% of annual taxable profit, to the extent the taxable profit is likely to be available for offsetting temporary differences, based on the assumptions and conditions established in the business model of the Company.

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## 19. **Income tax and social contribution** --Continued

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

As of December 31, 2017 and 2016, deferred income tax and social contribution are from the following sources:

| | 2017 | 2016 |
|---|---|---|
| Assets | | |
| Provisions for legal claims | 67,448 | 55,406 |
| Temporary differences – Deferred PIS and COFINS | 10,117 | 11,333 |
| Provisions for realization of non-financial assets | 225,234 | 143,073 |
| Temporary differences – CPC adjustment | 20,613 | 24,044 |
| Allowance for Impairment loss of asset held for sale | - | 207,436 |
| Other provisions | 23,479 | 15,401 |
| Income tax and social contribution loss carryforwards | 310,933 | 129,163 |
| Tax benefits from subsidiaries | - | 49,174 |
| | 657,824 | 635,030 |
| | | |
| Unrecognized deferred tax assets of discontinued operations | - | (207,436) |
| Unrecognized deferred tax assets of continued operations | (595,344) | (250,944) |
| | (595,344) | (458,380) |
| Liabilities | | |
| Negative goodwill | (2,069) | (92,385) |
| Temporary differences – CPC adjustment | (104,321) | (143,436) |
| Differences between income taxed on cash basis and recorded on an accrual basis | (30,563) | (41,234) |
| | (136,953) | (277,055) |
| | | |
| Total net | (74,473) | (100,405) |

The Company has income tax and social contribution loss carryforwards for offset in the following amounts:

| | 2017 Income tax | Social contribution | Total | 2016 Income tax | Social contribution | Total |
|---|---|---|---|---|---|---|
| Balance of income tax and social contribution loss carryforwards | 914,509 | 914,509 | - | 379,892 | 379,892 | - |
| Deferred tax asset (25%/9%) | 228,627 | 82,306 | 310,933 | 94,973 | 34,190 | 129,163 |
| Recognized deferred tax asset | 23,468 | 8,449 | 31,917 | 55,712 | 20,056 | 75,768 |
| Unrecognized deferred tax asset | 205,159 | 78,357 | 279,016 | 39,261 | 14,134 | 53,395 |

As a result of the loss for the year 2016, the Company made the reversal of a portion of the previously recognized deferred tax assets. The portion of remaining tax loss is limited to 30% of the deferred tax liabilities related to the goodwill arising from the remeasurement of the portion of remaining investment of AUSA, and temporary differences to be taxed – CPC adjustments, which do not have established realization term.

In the year ended December 31, 2017, the effect of income tax and social contribution credit on statement of profit or loss of the Company is mainly caused by the impairment recorded at the initial value of the portion of remeasurement of the investment stated at fair value.

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## 20. Financial instruments

The Company and its subsidiaries engage in operations involving financial instruments. These instruments are managed through operational strategies and internal controls aimed at 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 continuously 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 result from these operations is 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:

### (i) Risk considerations

#### a) *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.

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 secured 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, 2017 and 2016, there was no significant credit risk concentration associated with customers.

#### b) *Derivative financial instruments*

The Company holds derivative instruments to mitigate the risk arising from its exposure to index and interest volatility recognized at their fair value in profit or loss for the year. Pursuant to its treasury policies, the Company does not own or issue derivative financial instruments other than for hedging purposes.

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**20. Financial instruments** --Continued

(i) Risk considerations --Continued

b) *Derivative financial instruments --Continued*

As of December 31, 2017, the Company had derivative contracts for hedging purposes in relation to interest rate fluctuations, with final maturity in July 2018. The derivative contracts are as follows:

| | Reais | Percentage | | Validity | | Gain (loss) not realized by derivative instruments - net | |
|---|---|---|---|---|---|---|---|
| **Swap agreements (Fixed for CDI)** | **Face value** | **Original Index – asset position** | **Swap – liability position** | **Beginning** | **End** | **2017** | 2016 |
| Banco Votorantim S.A. (a) | 27,500 | Fixed 15.1177% | CDI + 1.6344% | 12/20/2016 | 06/14/2017 | **-** | 88 |
| Banco Votorantim S.A. | 130,000 | CDI + 1.90% | 118% CDI | 07/22/2014 | 07/26/2018 | **404** | (313) |
| Banco HSBC (b) | 194,000 | Fixed 12.8727% | 120% CDI | 09/29/2014 | 04/17/2017 | **-** | (556) |
| Banco Votorantim S.A. (c) | 55,000 | IPCA + 8.22% | 120% CDI | 03/17/2015 | 01/19/2017 | **-** | 4,521 |
| | Total derivative financial instruments (Note 20.i.d and Note 20.ii.a) | | | | | **404** | 3,740 |
| | | | | Current | | **404** | (5,290) |
| | | | | Non-current | | **-** | 9,030 |

In the year ended December 31, 2017, the Company performed the early redemption of the above derivative contracts:

| | Data | Total Amount |
|---|---|---|
| (a) | 06/14/2017 | 153 |

| | | |
|---|---|---|
| (b) | 04/17/2017 | 1,850 |
| (c) | 01/19/2017 | 4,259 |
| | | **6,262** |

During the year ended December 31, 2017, the income of R$818 (R$13,404 in 2016) in the consolidated financial statements, which refers to net result of the interest swap transaction, arising from the payment in the amount of R$4,154 and the negative change to market of R$3,336, was recognized in the "financial income (expenses)" line in the statement of profit or loss for the year, and thus correlating the impact of such transactions and the interest rate fluctuation in the consolidated financial statements (Note 24).

The estimated fair value of derivative financial instruments contracted by the Company was determined based on information available in the market and specific valuation methodologies. However, considerable judgment was necessary for interpreting market data to produce the estimated fair value of each transaction, which may vary upon the financial settlement of transactions.

c) *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 mitigate 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 disclosed in Notes 12 and 13. The interest rates contracted on financial investments are disclosed in Note 4. Accounts receivable from real estate units completed (Note 5), are subject to annual interest rate of 12%, appropriated on a *pro rata* basis.

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## 20. **Financial instruments** --Continued

### (i) Risk considerations --Continued

### d) *Liquidity risk*

Liquidity risk refers to the possibility that the Company and its subsidiaries do not have sufficient funds to meet their commitments as they become due.

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 (Notes 12 and 13).

The maturities of financial instruments of loans and financing, suppliers, debentures, payables for purchase of properties and advance from customers, obligations assumed on assignment of receivables, cash and cash equivalents, short term investments and trade accounts receivables are as follows:

Year ended December 31, 2017

| Liabilities | Less than 1 year | 1 to 3 years | 4 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Loans and financing (Note 12) (a) | 481,073 | 416,112 | - | - | 897,185 |
| Debentures (Note 13) (a) | 88,177 | 119,536 | - | - | 207,713 |
| Obligations assumed on assignment of receivables (Note 14) | 31,001 | 34,134 | 12,103 | 7,155 | 84,393 |
| Suppliers (Note 15 and Note 20.ii.a) | 98,662 | 3,187 | - | - | 101,849 |
| Payables for purchase of properties and advance from customers (Note 17) | 156,457 | 108,619 | 43,758 | - | 308,834 |
| | 855,370 | 681,588 | 55,861 | 7,155 | 1,599,974 |

Assets

| | | | | | |
|---|---|---|---|---|---|
| Cash and cash equivalents and short-term investments (Notes 4.1 and 4.2) | 147,462 | - | - | - | 147,462 |
| Trade accounts receivable (Note 5) | 484,761 | 189,877 | 9,440 | - | 684,078 |
| | 632,223 | 189,877 | 9,440 | - | 831,540 |

(a) In line with the conditions to the commitment to the subscription of investors (Note 1), the Company renegotiated with creditors the postponement of the due date of debts in the amount of R$456,316 from 2018 and 2019 to 2020 and 2021, on suspensive condition until the ratification of the capital increase, which was ratified on February 28, 2018 by the Board of Directors (Note 32.i).

*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 identical assets or liabilities;

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

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

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20. **Financial instruments** --Continued

(i) Risk considerations --Continued

d) *Liquidity risk* --Continued

The classification level of fair value for financial instruments measured at fair value through profit or loss of the Company as of December 31, 2017 and 2016 is as follows:

| | Fair value classification | | |
|---|---|---|---|
| As of December 31, 2017 | Level 1 | Level 2 | Level 3 |
| Financial assets | | | |
| Short-term investments (Note 4.2) | - | 118,935 | - |
| Derivative financial instruments (Note 20.i.b) | - | 404 | - |

| | Fair value classification | | |
|---|---|---|---|
| As of December 31, 2016 | Level 1 | Level 2 | Level 3 |
| Financial assets | | | |
| Short-term investments (Note 4.2) | - | 223,646 | - |
| Derivative financial instruments (Note 20.i.b) | - | 3,740 | - |

In the years ended December 31, 2017 and 2016, there were no transfers between the Levels 1 and 2 fair value classifications, nor were transfers between Levels 3 and 2 fair value classifications.

(ii) Fair value of financial instruments

a) *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, other receivables, suppliers, and other current liabilities approximate to their fair values, recorded in the consolidated financial statements.

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

The most significant carrying values and fair values of financial assets and liabilities as of December 31, 2017 and 2016 are as follows:

| | 2017 Carrying value | Fair value | 2016 Carrying value | Fair value |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents (Note 4.1) | 28,527 | 28,527 | 29,534 | 29,534 |
| Short-term investments (Note 4.2) | 118,935 | 118,935 | 223,646 | 223,646 |
| Derivative financial instruments (Note 20(i)(b)) | 404 | 404 | 3,740 | 3,740 |
| Trade accounts receivable (Note 5) | 684,078 | 684,078 | 993,962 | 993,962 |
| Loans receivable (Note 21.1) | 22,179 | 22,179 | 25,529 | 25,529 |
| Financial liabilities | | | | |
| Loans and financing (Note 12) | 897,185 | 944,821 | 1,186,300 | 1,188,603 |
| Debentures (Note 13) | 207,713 | 227,655 | 451,268 | 470,179 |
| Payables to venture partners (Note 15) | - | - | 1,237 | 1,414 |
| Suppliers | 101,849 | 101,849 | 83,166 | 83,166 |
| Obligations assumed on assignment of receivables (Note 14) | 84,393 | 84,393 | 99,030 | 99,030 |
| Payables for purchase of properties and advance from customers (Note 17) | 308,834 | 308,834 | 295,697 | 295,697 |

| | | | | |
|---|---|---|---|---|
| Loans payables (Note 21.1) | 10,511 | 10,511 | 8,820 | 8,820 |

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## 20. **Financial instruments** --Continued

### (ii) Fair value of financial instruments --Continued

#### a) *Risk of debt acceleration*

As of December 31, 2017, the Company has loans and financing, with restrictive covenants related to cash generation, indebtedness ratios, and other. These restrictive covenants have been observed by the Company and do not limit its ability to conduct its business as usual. As mentioned in Note 13, in view of the non-compliance with the covenants of a CCB issue and the ninth debenture issuance, the non-current portions of such transactions were reclassified into short term. The Company is negotiating with the creditor a waiver for the non-compliance of the ratio established in the contractual clauses, not requiring the early payment and/or declaration of debt acceleration. The Company analyzed other debt contracts and did not identify any impact on the cross-covenants in relation to the aforementioned non-compliance.

### (iii) 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, raise new loans and issue debentures, among others.

There were no changes in objectives, policies or procedures during the years ended December 31, 2017 and 2016.

The Company included in its net debt structure: loans and financing, debentures, obligations assumed on assignment of receivables and payables to venture partners less cash and cash equivalents and short-term investments:

| | 2017 | 2016 |
|---|---|---|
| Loans and financing (Note 12) | 897,185 | 1,186,300 |
| Debentures (Note 13) | 207,713 | 451,268 |
| Payables to venture partners (Note 15) | - | 1,237 |
| ( - ) Cash and cash equivalents and short-term investments (Note 4.1 and 4.2) | (147,462) | (253,180) |
| Net debt | 957,436 | 1,385,625 |
| Equity | 759,404 | 1,930,453 |

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## 20. **Financial instruments** --Continued

### (iv) Sensitivity analysis

The sensitivity analysis of financial instruments for the years ended December 31, 2017 and 2016, except swap contracts, which are analyzed through their due dates, describes the risks that may incur material losses on the Company's profit or loss, as provided for by CVM, through Rule No. 475/08, in order to present a 10%, 25% and 50% increase/decrease in the risk variable considered.

As of December 31, 2017, 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) and CDI, and debentures indexed to the CDI and IPCA;

c) Accounts receivable and payables for purchase of property, linked to the National Civil Construction Index (INCC) and General Market Price Index (IGP-M).

For the sensitivity analysis in the year ended December 31, 2017, the Company considered the interest rates of investments, loans and accounts receivables, the CDI rate at 6.89%, TR rate at 0%, INCC rate at 4.25%, IPCA rate at 2.95% and IGP-M rate at -0.53%. The scenarios considered were as follows:

*Scenario I – Probable:* 10% increase/decrease in the risk variables used for pricing

*Scenario II – Possible:* 25% increase/decrease in the risk variables used for pricing

*Scenario III* – Remote: 50% increase/decrease in the risk variables used for pricing

The Company presents in the following chart the sensitivity to risks to which the Company is exposed, taking into account that the possible effects would impact the future results, based on the scenarios above, as of December 31, 2017. The effects on equity are basically the same ones on profit or loss.

| Transaction | Risk | Scenario I Increase 10% | II Increase 25% | III Increase 50% | III Decrease 50% | II Decrease 25% | I Decrease 10% |
|---|---|---|---|---|---|---|---|
| Financial investments | Increase/decrease of CDI | 699 | 1,748 | 3,497 | (3,497) | (1,748) | (699) |
| Loans and financing | Increase/decrease of CDI | (2,603) | (6,508) | (13,016) | 13,016 | 6,508 | 2,603 |
| Debentures | Increase/decrease of CDI | (376) | (941) | (1,882) | 1,882 | 941 | 376 |
| Derivative financial instruments | Increase/decrease of CDI | (41) | (104) | (206) | 214 | 106 | 41 |
| Net effect of CDI variation | | (2,321) | (5,805) | (11,607) | 11,615 | 5,807 | 2,321 |
| Loans and financing | Increase/decrease of TR | nm | nm | nm | nm | nm | nm |
| Net effect of TR variation | | nm | nm | nm | nm | nm | nm |
| Debentures | Increase/decrease of IPCA | (198) | (494) | (988) | 988 | 494 | 198 |
| Net effect of IPCA variation | | (198) | (494) | (988) | 988 | 494 | 198 |
| Accounts receivable | Increase/decrease of INCC | 1,353 | 3,384 | 6,767 | (6,767) | (3,384) | (1,353) |
| Payables for purchase of properties | Increase/decrease of INCC | (1,258) | (3,145) | (6,290) | 6,290 | 3,145 | 1,258 |
| Net effect of INCC variation | | 95 | 239 | 477 | (477) | (239) | (95) |
| Accounts receivable | Increase/decrease of IGP-M | 188 | 471 | 942 | (942) | (471) | (188) |
| Net effect of IGP-M variation | | 188 | 471 | 942 | (942) | (471) | (188) |

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## 21. Related parties

### 21.1. Balances with related parties

The transactions between the Company and related companies are made under conditions and prices established between the parties.

| Current account | 2017 | 2016 |
|---|---|---|
| Assets | | |
| Current account (a): | | |
| Total SPEs | 39,491 | 50,232 |
| Subsidiaries | 29,697 | 19,369 |
| Jointly-controlled investees | 9,761 | 30,545 |
| Associates | 33 | 318 |
| Condominium and consortia (b) and thirty party's works (c) | 12,399 | 7,223 |
| Loan receivable (d) (Note 20.ii.a) | 22,179 | 25,529 |
| | 74,069 | 82,984 |
| | | |
| Current portion | 51,890 | 57,455 |
| Non-current | 22,179 | 25,529 |
| | | |
| Liabilities | | |
| Current account (a): | | |
| Total SPEs | (52,686) | (76,791) |
| Subsidiaries | (18,613) | (17,230) |
| Jointly-controlled investees | (25,471) | (50,679) |
| Associates | (8,602) | (8,882) |
| Loan payable (d) (Note 20.ii.a) | (10,511) | (8,820) |
| | (63,197) | (85,611) |
| | | |
| Current portion | (63,197) | (85,611) |
| Non-current portion | - | - |

(a) The Company participates in the development of real estate ventures with other partners, directly or through related parties, based on the formation of condominiums and/or consortia. 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 and management of amounts reciprocally granted which are offset 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 24 and 30 months. The Company receives a compensation for the management of these ventures.

(b) Refers to transactions between the lead partner of consortium, partners, and condominiums.

(c) Refers to operations in third-party's works.

(d) 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 strictly at arm's length, in order to protect the interests of the both parties involved in the business.

The composition, nature and conditions of the balances of loans receivable and payable by the Company are presented below. Maturities for these loans range from January 2018 to the duration of the related real estate developments and are tied to the cash flows of the related developments.

| | 2017 | 2016 | Nature | Interest rate |
|---|---|---|---|---|
| Scena Ipiranga - Liga das Senhoras Católicas. | - | 6,635 | Construction | 12% p.a. + IGPM |
| Lagunas - Tembok Planej. E Desenv. Imob. Ltda. | 4,778 | 4,250 | Construction | 12% p.a. + IGPM |
| Manhattan Residencial I | 1,791 | 2,486 | Construction | 10% p.a. + TR |
| Target Offices & Mall | 15,610 | 12,158 | Construction | 12% p.a. + IGPM |
| Total loan receivable | 22,179 | 25,529 | | |
| | | | | |
| Dubai Residencial | 3,887 | 3,403 | Construction | 6% p.a. |
| Parque Árvores | 4,673 | 2,437 | Construction | 6% p.a. |
| Parque Águas | 1,951 | 2,980 | Construction | 6% p.a. |
| Total loan payable | 10,511 | 8,820 | Construction | 100% of CDI |

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## 21. Related parties --Continued

### 21.1. Balances with related parties --Continued

In the year ended December 31, 2017 the recognized financial income from interest on loans amounted to R$2,220 (R$687 in 2016 and R$10,049 in 2015) (Note 24).

Information regarding management transactions and compensation is described in Note 25.

### 21.2. 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$317,716 as of December 31, 2017 (R$424,966 in 2016).

## 22. Net operating revenue

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Gross operating revenue | | | |
| Real estate development, sale, barter transactions and construction services | 671,357 | 990,613 | 1,568,566 |
| (Recognition) Reversal of allowance for doubtful accounts (Note 5) | (13,644) | (6,950) | (6,749) |
| Taxes on sale of real estate and services | (48,890) | (67,965) | (118,460) |
| Net operating revenue | 608,823 | 915,698 | 1,443,357 |

## 23. Costs and expenses by nature

These are represented by the following:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cost of real estate development and sale: | | | |
| Construction cost | (340,723) | (346,827) | (587,636) |
| Land cost | (142,544) | (296,008) | (225,984) |
| Development cost | (31,130) | (42,353) | (51,359) |
| Provision for loss on realization of properties for sale (Note 6 and 8) | (147,332) | (160,216) | 618 |
| Capitalized financial charges (Note 12) | (116,516) | (156,812) | (151,185) |
| Maintenance / warranty | (40,506) | (26,997) | (46,375) |
| Total cost of real estate development and sale | (818,751) | (1,029,213) | (1,061,921) |
| | | | |
| Selling expenses: | | | |
| Product marketing expenses | (37,407) | (45,239) | (50,486) |
| Brokerage and sale commission | (29,652) | (28,214) | (18,194) |
| Customer Relationship Management (CRM) and corporate marketing expenses | (19,815) | (20,351) | (28,094) |
| Other | (694) | (1,142) | (1,175) |
| Total selling expenses | (87,568) | (94,946) | (97,949) |
| | | | |
| General and administrative expenses: | | | |
| Salaries and payroll charges | (33,547) | (37,558) | (37,579) |
| Employee benefits | (3,236) | (4,331) | (4,551) |
| Travel and utilities | (437) | (622) | (713) |
| Services | (17,125) | (10,608) | (10,063) |
| Rents and condominium fees | (5,567) | (8,037) | (8,984) |
| IT | (13,559) | (18,409) | (13,011) |
| Stock option plan (Note 18.3) | (4,964) | (6,821) | (7,826) |
| Reserve for profit sharing (Note 25.iii) | (13,375) | (18,750) | (14,000) |
| Other | (903) | (1,449) | (715) |
| Total general and administrative expenses | (92,713) | (106,585) | (97,442) |
| | | | |
| Other income (expenses), net: | | | |
| Loss on realization of investment stated at fair value (Note 9) | (101,953) | - | - |
| Addition for provision for legal claims and commitments (Note 16) | (107,848) | (70,796) | (91,193) |
| Other income (expenses), net | (1,749) | (8,196) | (16,441) |
| Total other income (expenses), net | (211,550) | (78,992) | (107,634) |

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## 24. Financial income (expenses)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Financial income | | | |
| Income from financial investments | 19,876 | 40,940 | 66,153 |
| Derivative transactions (Note 20.i.b) | 818 | 13,404 | - |
| Financial income on loans (Note 21.i) | 2,220 | 687 | 10,049 |
| Other financial income | 6,819 | 3,408 | 1,104 |
| Total financial income | 29,733 | 58,439 | 77,306 |
| | | | |
| Financial expenses | | | |
| Interest on funding, net of capitalization (Note 12) | (103,827) | (34,759) | (56,236) |
| Amortization of debenture cost | (5,016) | (3,053) | (3,831) |
| Payables to venture partners | (314) | (1,506) | (1,891) |
| Banking expenses | (16,714) | (9,687) | (4,113) |
| Derivative transactions (Note 20 (i) (b)) | - | - | (17,151) |
| Offered discount and other financial expenses | (11,130) | (35,113) | (44,506) |
| Total financial expenses | (137,001) | (84,118) | (127,728) |

## 25. Transactions with management and employees

### (i) Management compensation

The amounts recorded in the account “general and administrative expenses” for the years ended December 31, 2017, 2016 and 2015, related to the compensation of the Company’s key management personnel and fiscal council are as follows:

| | **Management compensation** | | |
|---|---|---|---|
| Year ended December 31, 2017 | **Board of Directors** | **Statutory Board** | **Fiscal Council** |
| Number of members | 7 | 5 | 3 |
| Annual fixed compensation (in R$) | | | |
| Salary / Fees | 1,693 | 3,460 | 203 |

| | | | |
|---|---|---|---|
| Direct and indirect benefits | - | 203 | - |
| Others (INSS) | 339 | 692 | 41 |
| Monthly compensation (in R$) | 169 | | |