

Gafisa S.A.
Form 6-K
May 04, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the month of May, 2011

(Commission File No. 001-33356),

Gafisa S.A.

(Translation of Registrant's name into English)

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

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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

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Yes _____ No ___X___

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

Financial Statements

Gafisa S.A.

December 31, 2010

Gafisa S.A.

Financial statements

December 31, 2010

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2010 Management Report - Gafisa

Message from the Management, Overview of the Company and Comments on the Economic Context

The Brazilian macroeconomic scenario continued to be extremely positive throughout 2010, with a GDP growth of 7.5%. The highlights were the continuing fall in the unemployment rate – which reached a milestone, standing below 6% - and the increase in the real wages of workers, in the offer of credit and in the consumer confidence, in addition to the renewal of federal incentives to the real estate sector, among other factors, which did and shall continue to benefit the Company and the sector.

Despite that the effects of the rapid economic growth have put at risk the control over inflation, which is estimated to stand between 5% and 6% in 2011, the Central Bank has been firm in its acts, in the sense of preventing any significant deviation that may impact the country's economic stability. Therefore, the base interest rate (SELIC) is expected to reach 12.25% per year until the end of this year, a level that we believe that shall not impact the housing demand. Surveys conducted by Data Popular at the end of 2010 indicated an intention to purchase 9.1 million residential properties in the following 12 months, almost double the intentions indicated in the survey conducted at the end of 2008.

We understand that the federal government continues to be strongly committed to extend the Minha Casa Minha Vida – MCMV (my house, my life) program through 2014. The recent announcement of the reduction in the MCMV2 budget for 2011 was only a postponement of a portion of the program's disbursement until the following years, once the total budget did not change.

The performance of Caixa Econômica Federal (CEF) as the main provider of real estate financing in the country continues strong, having posted R\$ 6 billion in excess of its initial plan of financing R\$ 70 billion in 2010, much above the R\$ 47 billion for 2009. The balance of financing through FGTS is in excess of R\$ 83 billion for 2010, a 67% increase as compared to the prior year. Concurrently, financing using funds from savings had an increase of 65% in relation to 2009, reaching R\$ 56 billion. We also noted the increasing participation of other institutions, such as Banco do Brasil, also authorized to participate in the MCMV program, which recorded a loan portfolio amounting to R\$ 3 billion in December 2010. We also point out that the financing indexed to the TR has low correlation with the increases in the SELIC rate, not exerting significant impacts on the sector or on the adjustment to the installments of borrowers.

The sum of all of these factors contributed to a significant improvement in the sector's demand after the recovery which began in 2009, enabling Gafisa to launch R\$ 4.5 billion, 95% on that year, with sales of R\$ 4 billion and net revenue of R\$ 3.7 billion, both 23% up on 2009. The adjusted EBITDA margin rose from 17.5% in 2009 to 20.1% in 2010, and the annual net income amounted to R\$ 416.1 million, 309% up on last year.

In recent years, the Company has consolidated its presence in the main regions of the country, a result of the process for geographical expansion mainly undertaken between 2005 and 2008, and it is currently operating in 136 cities, and in 22 of the 26 states of the country, in addition to the Federal District. This process comes with a great learning, and we now believe to be well positioned to continue to reap the benefits from the growth potential of the entire Brazilian real estate market.

Gafisa will continue to develop all of its three brands (Gafisa, Tenda and AlphaVille) in the markets where it operates, maximizing the sales of its differentiated portfolio, which ranges from low income to high standard developments. The Gafisa brand, targeted at the medium and high income customers, had a large share in the results for 2010, launching R\$ 2.2 billion (70% higher on 2009), and being responsible for almost half of the sales for the year. An important milestone for Gafisa was the delivery of its venture number one thousand, an evidence of its experience and capacity of conducting construction businesses.

AlphaVille, focused on the development and sale of residential lots, launched 15 new ventures in 2010, and increased its presence in new metropolitan areas. As a result, the brand is already present in 64 cities and 24 states, and the fast rate of sales continues to be a rule in all launches. The Company expects that this segment has a share increasingly relevant in its portfolio, once the residential condominiums shall be each day more present in the country. In April 2010, Gafisa increased its share in the capital of Alphaville from 60% to 80%, and we expect to complete the acquisition of the remaining 20% between the end of 2011 and beginning of 2012.

Tenda, our brand targeted at the low income segment, and which sales prices are among the lowest in the market, continues well positioned to meet the Brazilian housing deficit through the Minha Casa, Minha Vida (my house, my life - MCMV) program – which is in its second phase and has the objective of delivering over 2 million popular houses until 2014. In 2010, Tenda almost multiplied by four the number of units sold with the financing of Caixa Econômica Federal (CEF), the main bank of the MCMV program, reaching over 22 thousand units, which also enabled the number of transfer to almost double to approximately 10 thousand units in the year. The good relationship of Tenda with CEF, which position us among the companies with the best performances in the MCMV program, was only possible because of the improvements in the internal processes of both organizations. We also point out that from the first half of 2011 until the end of the second half, we expect to deliver most of the units relating to old projects of Tenda, which have lower margins and are financed with own funds. In addition to this, we mention the introduction of new construction technologies, such as the use of aluminum frames, and the continuous dedication to optimize key business processes, which enables us to expect improvements in the operating and financial results of this activity.

Human Resources

The Company ended the year with 5,350 own employees, of which 2,905 work at Gafisa, 2,192 at Tenda, and 253 at AlphaVille. In addition, we have an increasing number of outsourced employees, the number of such employees indicated in the following table having being estimated at the end of 2010, in relation to all of the group companies.

Such estimate is made based on the number of people allocated to the construction works in progress, in their different phases, and in each region of the country. The services usually provided comprise the following activities: (i) building of the structure; (ii) electric and hydraulic installations; (iii) brickwork; (iv) foundation equipment; (v) façade; (vi) painting:

REGION	OUTSOURCED EMPLOYEES
CENTER WEST/NORTH	5,431
NORTHEAST	9,146
RIO DE JANEIRO	5,684
SÃO PAULO	9,759
SOUTH	3,515
TOTAL	33,535

Investments

In 2010, the Company invested R\$ 84.3 million, 87% up on R\$ 45.1 million invested in 2009. Most of these funds were invested in sales stands, followed by IT hardware and software, and aluminum frames, which represent a technological innovation in the construction process of Tenda, thus enabling us to reduce the construction cycle and increase the productive efficiency of the Company.

Research and Development

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

- enhance the quality perceived by the customer;
- reduce the construction period;
- reduce cost;

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

Administrative Restructuring

In May 2010, the share of Equity International LLC was reduced, confirming Gafisa's position as a diluted capital company.

On September 9, changes were made in the composition of the Board of Directors to reflect this new reality. The board members Gary R. Garrabrant and Thomas J. McDonald, representatives of Equity International, were substituted by Renato Albuquerque, co-founder of AlphaVille, and Wilson Amaral, CEO of Gafisa. Therefore, the Company now has five independent numbers, or 83% of its members of the Board of Directors, a level above the 20% required by the Novo Mercado listing rules of Bovespa. On November 8, Caio Racy Mattar, a member of the Board of Directors since February 2006, took the Chairman position.

On February 7, 2011, the Company announced the expansion of its Executive Board and the appointment of Sandro Gamba as Superintendent of Real Estate Development. This 35-old executive has been working in Gafisa for over 15 years, having recently been responsible for the business development of Gafisa and Tenda in the São Paulo region, where he gained large corporate experience by following up the growth of the most important region for the company. On the same date the Company also announced that Luiz Carlos Siciliano, who is 46 years old, was appointed as Superintendent of Sales and Marketing, a recently created position. Mr. Siciliano brings to his new job at Gafisa considerable experience in sales and marketing gained in the Company and in his past professional experiences.

Synergies

Throughout 2010, we took an important step towards the integration of our brands, having Gafisa, AlphaVille and Tenda centralized and operating into the SAP platform, speeding up processes, standardizing information and reducing costs.

We have also increased the share of our internal sales team, which enabled us to reduce the selling expenses of our units:

Own sales

Our own sales team was responsible for 59% of sales in 2010 in the regions that it covers. We believe that the internal team assures our speed and excellence in sales.

Online sales

Sales originated from the internet in 2010 contributed to 14% of our sales in Rio de Janeiro and São Paulo, regions where we have online service. We noted a strong growth in the search for real estate on the internet, and we are ready to meet this demand.

New products and services

Gafisa is at present working in the standardization of aluminum frames (windows, doors, edge protection, and gates) with the objective of purchasing in scale in view of the high volume of our construction works. This project also aims at studying the possibility of adopting in our developments windows larger than the required by Law, so that our customers have more comfort from better ventilation and lighting in apartments, without the need of using energy.

Another investment was in the use of prefabricated structure in the basement building, aiming at obtaining support from industry to our sites, reducing the construction period and improving our controls.

Gafisa is also testing in a pilot construction the use of a prefabricated façade of still frame, which will enable the façade to be manufactured while the structure is built, and when the latter is ready, it shall only be assembled. It will allow us to reduce the construction time and decrease the use of labor in the façade building – solving issues that we have faced in view of the strong market growth.

Environmental protection

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

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

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

In 2010, giving continuity to the improvement of internal processes, the Company purchased environmental management software and started to store data of all stages of each venture, from the licensing from proper authorities to the construction. Information such as hiring, agreements, costs and compliance with conditions are fed to the software. Therefore we created an easily accessible database, which will facilitate the preparation and setting of controls and goals. The objective is to implement over the next years an

Environmental Management System in the Company and, in this process, the employees will be trained to use and maintain (feed with data) this system.

Dividends, Shareholders' Rights and Share Data

Pursuant to the provisions of the Brazilian Corporate Law and the Company's Bylaws, the owners of shares issued by Gafisa S/A are entitled to receive dividends or other distributions related to such shares in the proportion of their interest in the capital stock.

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

Accordingly, in 2010 we declared R\$ 98.8 million in dividends, payable in 2011, after approval at the Annual Shareholders' Meeting, a growth of 95% on the prior year.

On February 23, 2010, Gafisa carried out the split of its shares at the ratio of one to two, in order to make them more accessible to the society. For the same purpose, in October Gafisa hired Banco Itaú as market maker, aiming at increasing even more the liquidity of its shares.

The Company, which has diluted capital, continues to be the only Brazilian construction company to have its shares traded on the New York Stock Exchange, and has the most liquid share in the sector. In 2010, we reached an average daily trading volume of R\$ 53.0 million at BM&FBovespa, in addition to an amount equivalent to approximately R\$ 55.7 million at NYSE, totaling R\$ 108.7 million in daily average volume.

In the year, the Bovespa index was practically stable, with an increase of 1.04%, and the Company's shares closed the year with a quoted price at R\$ 12.04 (GFSA3) and US\$ 14.53 (GFA) after the 2:1 split, which represents a devaluation of 14.7% and 10.2%, respectively, as compared to the closing price in 2009.

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

Perspectives

With the successful bond and share issues in 2010, which resulted in the funding of R\$ 1.4 billion, to be added by a positive cash inflow expected from the third quarter of 2011, the Company is very well positioned to expand its business volume, at the same time that we intend to take our capital structure to a healthy Net Debt/Shareholders' Equity ratio below 60% at the end of the year.

Our guidance on launches for 2011, between R\$ 5 billion and R\$ 5.6 billion, reflects this expectation of increase in business volume. In relation to our profitability, we expect adjusted EBTIDA margins for the year between 18% and 22%, the expectation for the first half standing between 13% and 17% and for the second half between 20% and 24%. This margin difference between half-year periods is explained by: i) the reduction in revenue in view of the drop in launches in 2009 as compared to 2008 (R\$2,3bi in 2009 x R\$4,2bi in 2008) giving rise to a lower recognition of revenue from construction in progress with effect on the dilution of fixed costs; ii) delivery of products with lower margins in Tenda in view of the lack of standardization of older products, and in Gafisa, because of the deviation of costs in the process for geographical expansion and in the projects in Rio de Janeiro; iii) possible discounts in finished units not yet sold related to launches in 2008 and prior years.

Gafisa will divulge on extraordinary basis this guidance on Net Debt/Shareholders' Equity, which shall stand under 60% at the end of the year. We find important to disclose this additional guidance to the market mainly because of the positive development of the operating cash generation of the Company over the year, which as previously mentioned, shall be positive from the third quarter of 2011.

Relationship with Auditors

The policy on contracting services unrelated to external audit from our independent auditors is based on principles that preserve the autonomy of the independent auditor. These internationally accepted principles consist of the following: (a) an auditor cannot audit its own work; (b) an auditor cannot serve a management function in its client; and (c) an auditor shall not promote the interests of its clients. In this sense, in 2010 our auditors only carried out works related to the audit of financial statements.

Main Operational and Financial Indicators

As previously mentioned, 2010 was a very positive year for both Gafisa and Brazil; however, the country suffered a great tragedy in February 2011, when heavy rains caused an utter devastation in the mountain region of Rio de Janeiro. We were glad to work with other major construction companies and help to build new houses for those that were at great loss. We take this episode as a reminder of our social responsibility towards the society.

We thank all of our clients, shareholders, suppliers, collaborators and other stakeholders, and wish an excellent 2011.

A free translation from Portuguese into English of individual financial statements prepared in accordance with accounting practices adopted in Brazil and consolidated financial statements prepared in accordance with IFRS applicable to Brazilian real statement development entities, as approved by the Accounting Pronouncements Committee (CPC), Brazilian Securities and Exchange Commission (CVM) and Federal Accounting Council (CFC) also with accounting practices adopted in Brazil.

Gafisa S.A.

Balance sheet

December 31, 2010

(In thousands of Brazilian Reais)

	Note	2010	Company 2009 (restated)	01/01/2009 (restated)	2010	Consolidated 2009 (restated)	01/01/2009 (restated)
Assets							
Current assets							
Cash and cash equivalents	4	66,092	44,445	50,830	256,382	292,940	191,443
Marketable securities	4	491,295	729,034	121,297	944,766	1,131,113	414,059
Trade accounts receivable, net	5	1,039,549	911,333	785,025	3,158,074	2,008,464	1,254,594
Properties for sale	6	653,996	604,128	778,203	1,568,986	1,332,374	1,695,130
Other accounts receivable	7	576,236	245,246	278,110	178,305	108,791	182,775
Prepaid expenses and other	-	12,480	16,852	28,080	21,216	18,766	38,700
Total current assets		2,839,648	2,551,038	2,041,545	6,127,729	4,892,448	3,776,701
Non-current assets							
Trade accounts receivables, net	5	699,551	696,953	189,890	2,113,314	1,768,182	863,950
Properties for sale	6	227,894	134,273	182,919	498,180	416,083	333,846
Deferred income tax and social contribution	16	141,037	138,056	100,745	337,804	281,288	190,252
Other accounts receivable	7	130,066	64,028	63,570	181,721	117,546	114,440
		1,198,548	1,033,310	537,124	3,131,019	2,583,099	1,502,488
Investments in subsidiaries		82,918,659	2,099,385	1,380,558	-	-	-
Property, plant and equipment	-	38,474	22,842	15,052	80,852	56,476	50,348
Intangible assets	9	9,942	9,598	5,028	209,954	204,686	213,155
		2,967,074	2,131,825	1,400,638	290,806	261,162	263,503
Total non-current assets		4,165,622	3,165,135	1,937,762	3,421,825	2,844,261	1,765,991

Total assets	7,005,270	5,716,173	3,979,307	9,549,554	7,736,709	5,542,692
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	Note	2010	Company 2009 (restated)	01/01/2009 (restated)	Consolidated 2010 (restated)	Consolidated 2009 (restated)
Liabilities and equity						
Current liabilities						
Loans and financing	10	471,909	514,831	317,380	678,352	317,380
Debentures	11	14,097	111,121	61,532	128,975	128,975
Payables for purchase of land and advances from customers	14	126,294	240,164	250,199	472,168	472,168
Materials and service suppliers	-	59,335	61,137	496,061	194,290	194,290
Taxes and contributions	-	85,894	77,861	243,650	177,392	177,392
Salaries, payroll charges and profit sharing	-	38,416	38,945	172,153	623,293	623,293
Minimum mandatory dividends	15.2	98,812	50,716	202,767	52,796	52,796
Provision for legal claims and commitments	13	14,155	11,266	912,155	11,266	11,266
Payables to venture partners and other	12	105,340	113,578	814,952	209,571	209,571
Total current liabilities		1,014,252	1,219,619	2,017,772	1,932,836	1,932,836
Non-current liabilities						
Loans and financing	10	425,094	324,547	321,275	520,463	520,463
Debentures	11	1,253,399	1,196,000	485,899	1,794,200	1,794,200
Payables for purchase of land and advances from customers	14	42,998	51,606	197,586	123,409	123,409
Deferred taxes liability	16	166,012	186,862	152,409	329,525	329,525
Provision for legal claims and commitments	13	72,806	69,467	231,537	113,979	113,979
Payables to venture partners and other	12	308,474	342,438	355,233	410,828	410,828
Total non-current liabilities		2,268,783	2,170,920	1,374,877	2,202,865	2,202,865
Equity						
Capital stock	15	2,729,198	1,627,275	1,229,198	1,622,757	1,622,757
Treasury shares		(1,731)	(1,731)	(18,031)	(18,350)	(18,350)
Capital reserves and options granted		295,879	318,439	295,879	318,432	318,432
Income reserves		698,889	381,651	698,889	388,627	388,627
		3,722,235	2,325,634	1,372,235	2,372,624	2,372,624
Non-controlling interest		-	-	61,434	58,540	58,540
Total equity		3,722,235	2,325,634	1,433,669	2,431,164	2,431,164
Total liabilities and equity		7,005,270	5,716,173	3,974,554	7,542,692	7,542,692

See accompanying notes.

Gafisa S.A.

Income statement

Year ended December 31, 2010

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

	Notes	Company		
		2010	2009	
			(restated)	
Net operating revenue	19	1,232,876	1,185,396	3,110,000
Operating costs				
Real estate development and sales		- (917,163)	(877,966)	(2,000,000)
Gross profit		315,713	307,430	1,109,999
Operating (expenses) income				
Selling expenses		(74,163)	(64,086)	(2,000,000)
General and administrative expenses		(97,572)	(107,154)	(2,000,000)
Equity accounts	8.a.ii	310,428	125,939	
Depreciation and amortization		(11,721)	(10,468)	
Other		(16,952)	(77,518)	
Operating profit before financial income (expenses)		425,733	174,143	
Financial expenses	20	(106,560)	(158,326)	(2,000,000)
Financial income	20	90,185	72,457	
Income before taxes on income and non-controlling interest		409,358	88,274	
Current income tax and social contribution expenses		-	-	
Deferred income tax and social contribution income (expenses)		6,692	13,466	
Total income tax income (expenses)	16	6,692	13,466	
Net income before non-controlling interest		416,050	101,740	

(-) Net income for the year attributable to non-controlling interest		-	-
Net income for the year		416,050	101,740
Shares outstanding at the end of the year (in thousands)	15.1	430,915	166,777
Basic net income per thousand shares outstanding at the end of the year - R\$	23	1,0088	0,3808
Diluted net income per thousand shares outstanding at the end of the year - R\$	23	1,0010	0,3780

The Company has no other comprehensive income for the reported years.

See accompanying notes.

Gafisa S.A.

Statement of changes in equity

As of December 31, 2010

(In thousands of Brazilian Reais)

	Note	Attributable to the equity holder				
		Capital stock	Treasury shares	Capital and stock options reserve	Legal reserve	Income reserve Statutory reserve
Balances at January 1, 2009		1,229,517	(18,050)	182,125	21,081	159,213
First-time adoption of CPCs	3	-	-	-	-	-
Balances at January 1, 2009						
(restated)		1,229,517	(18,050)	182,125	21,081	159,213
Capital increase						
- Exercise of stock options	-	9,736	-	-	-	-
- Acquisition of Tenda shares	-	388,022	-	60,822	-	-
Sale of treasury shares	-	-	16,319	65,727	-	-
Stock option plan	-	-	-	9,765	-	-
Net income for the year	-	-	-	-	-	-
Legal reserve	-	-	-	-	10,677	-
Minimum mandatory dividends	-	-	-	-	-	-
Statutory reserve	-	-	-	-	-	152,147
Balances at December 31, 2009						
(restated)		1,627,275	(1,731)	318,439	31,758	311,360
Capital increase						
- Public offering of shares	15.1	1,063,750	-	-	-	-
- Exercise of stock option	15.1	17,891	-	-	-	-
- Merger of Shertis shares	15.1	20,282	-	1,620	-	-
- Future capital contributions	-	-	-	-	-	-
Expenses for public offering of shares	-	-	-	(33,271)	-	-

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Stock option plan	15.3	-	-	9,091	-	-
Purchase of treasury shares	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Legal reserve	15.2	-	-	-	20,803	-
Minimum mandatory dividends	15.2	-	-	-	-	-
Statutory reserve	15.2	-	-	-	-	296,435
Balances at December 31, 2010		2,729,198	(1,731)	295,879	52,561	607,795

See accompanying notes.

Gafisa S.A.

Cash flow statement

Year ended December 31, 2010

(In thousands of Brazilian Reais)

	CCompany		Consolidated	
	2010	2009	2010	2009
		(restated)		(restated)
Operating activities				
Income before taxes on income	409,358	88,274	478,879	180,774
Expenses (income) not affecting cash and cash equivalents:				
Depreciation and amortization	11,721	10,468	33,816	34,170
Disposal of property and equipment items	-	-	-	5,251
Stock option expenses	8,135	9,764	12,924	14,427
Unrealized interest and charges, net	49,788	145,489	217,626	171,326
Provision for warranty	4,609	5,882	14,869	7,908
Provision for legal claims and commitments	14,822	69,955	31,044	63,975
Provision for profit sharing	15,234	21,495	36,612	28,237
Allowance for (reversal of) doubtful accounts	-	-	1,076	(974)
Equity accounts	(310,428)	(125,939)	-	-
Decrease (increase) in assets				
Trade accounts receivable	(130,814)	(633,370)	(1,495,818)	(1,657,128)
Properties for sale	(143,489)	222,722	(318,709)	280,519
Other accounts receivable	(397,028)	(27,495)	(133,689)	56,565
Prepaid expenses and other	4,372	13,887	(2,450)	15,133
Increase (decrease) in liabilities				
Payables for purchase of land and advances from customers	(122,478)	(75,969)	(23,751)	(38,881)
Taxes and contributions	8,033	8,465	65,658	25,010
Materials and service suppliers	(1,802)	11,447	(3,870)	81,431
Salaries, payroll charges and profit sharing	(15,763)	23,703	(25,779)	3,390
Payables to venture partners and other	(52,853)	11,564	14,958	36,783
Cash used in operating activities	(648,583)	(219,658)	(1,096,604)	(692,084)

Investing activities

Purchase of property, plant and equipment items	(26,151)	(31,842)	(63,460)	(45,109)
Marketable securities, collaterals, and restricted credit	(3,030,714)	(1,229,080)	(1,871,140)	(1,731,411)
Redemption of marketable securities, collaterals				
and restricted credit	3,268,453	621,343	2,057,488	1,014,356
Capital increase in subsidiaries	(510,391)	(144,044)	-	-
Cash from (used in) investing activities	(298,803)	(783,623)	122,888	(762,164)

Gafisa S.A.

Cash flow statement--continued

Year ended December 31, 2010

(In thousands of Brazilian Reais)

	Company		Consolidated	
	2010	2009	2010	2009
	(restated)		(restated)	
Financing activities				
Capital increase	1,101,923	9,736	1,101,923	9,736
Expenses for public offering of shares	(50,410)	-	(50,410)	-
Sale of treasury shares	-	82,045	-	82,045
Redeemable shares of Credit Rights Investment Fund (FIDC)	-	-	(23,238)	41,308
CCI - Assignment of housing loans	-	58,889	-	69,316
Increase in loans and financing	529,858	1,500,949	1,138,232	2,259,663
Amortization of loans and financing	(561,646)	(645,673)	(1,187,881)	(860,978)
Assignment of credits receivable, net	-	17,008	(33,918)	860
Payables to venture partners	-	-	80,000	-
Dividends paid	(50,692)	(26,058)	(50,692)	(26,058)
Taxes paid	-	-	(36,858)	(20,147)
Cash provided by financing activities	969,033	996,896	937,158	1,555,745
Net increase (decrease) in cash and cash equivalents	21,647	(6,385)	(36,558)	101,497
Cash and cash equivalents				
At the beginning of the year	44,445	50,830	292,940	191,443
At the end of the year	66,092	44,445	256,382	292,940
Net increase (decrease) in cash and cash equivalents	21,647	(6,385)	(36,558)	101,497

See accompanying notes.

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Gafisa S.A.

Statement of value added

Year ended December 31, 2010

(In thousands of Brazilian Reais)

	Company		Consolidated	
	2010	2009 (restated)	2010	2009 (restated)
Revenues	1,367,117	1,227,949	4,028,759	3,144,880
Real estate development, sale and services	1,367,117	1,227,949	4,029,835	3,144,880
Allowance for doubtful accounts	-	-	(1,076)	-
Inputs acquired from third parties (including ICMS and IPI)	(789,414)	(843,399)	(2,692,400)	(2,366,310)
Real estate development and sales	(819,729)	(841,067)	(2,495,560)	(2,071,426)
Materials, energy, outsourced labor and other	30,314	(2,332)	(196,840)	(294,884)
Gross added value	577,703	384,550	1,336,359	778,570
Retentions	(11,721)	(10,468)	(33,816)	(34,170)
Depreciation, amortization and depletion	(11,721)	(10,468)	(33,816)	(34,170)
Net added value produced by the Company	565,982	374,082	1,302,543	744,400
Added value received on transfer	400,613	198,396	128,085	129,566
Equity accounts	310,428	125,939	-	-
Financial income	90,185	72,457	128,085	129,566
Total added value to be distributed	966,595	572,478	1,430,628	873,966
Added value distribution	966,595	572,478	1,430,628	873,966
Personnel and payroll charges	196,105	203,304	314,190	291,872
Taxes and contributions	150,445	61,136	380,622	184,168
Interest and rents	203,995	206,298	319,766	296,186

Dividends	98,812	50,716	102,767	54,479
Retained earnings	317,238	51,024	313,283	47,261

See accompanying notes.

Gafisa S.A.

Notes to financial statements

December 31, 2010

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

1. Operations

Gafisa S.A. ("Gafisa" or "Company") is a publicly traded company with headquarters at Av. das Nações Unidas, 8501, 19º andar, in the City and State of São Paulo, and started its commercial operations in 1997 with the objectives of: (a) promoting and managing all forms of real estate ventures on its own behalf or for third parties; (b) purchasing, selling and negotiating real estate properties in general, including provision of financing to real estate customers; (c) carrying out civil construction and civil engineering services; (d) developing and implementing marketing strategies related to its own or third party real estate ventures; and (e) investing in other companies which have similar objectives as the Company's.

The Company forms jointly-controlled ventures (Special Purpose Entities - SPEs) and participates in consortia and condominiums with third parties as means of meeting its objectives. The controlled entities substantially share the managerial and operating structures and the corporate, managerial and operating costs with the Company.

On June 29, 2009, Gafisa S.A. and Construtora Tenda S.A. entered into a Private Instrument for Assignment and Transfer of Quotas and Other Covenants, in which Gafisa assigns and transfers to Tenda 41,341,895 quotas of Cotia1 Empreendimento Imobiliário for the net book value of R\$ 41,342 (Note 7).

On December 30, 2009, the shareholders of Gafisa and Tenda approved the acquisition by Gafisa of total shares outstanding issued by Tenda. In connection with this acquisition, Tenda became a

wholly-owned subsidiary of Gafisa, and its shareholders received shares of Gafisa in exchange for their shares of Tenda at the ratio of 0.205 shares of Gafisa to one share of Tenda, as negotiated between Gafisa and the Independent Committee of Tenda, both parties having been advised by independent expert companies. In view of the exchange ratio, 32,889,563 common shares were issued for the total issue price of R\$ 448,844 (Note 8).

On February 22, 2010, the split of our common shares was approved in the ratio of one existing share to two newly-issued shares, thus increasing the number of shares from 167,077,137 to 334,154,274. In March 2010, the Company completed an initial public offering of common shares, resulting in a capital increase of R\$ 1,063,750 with the issue of 85,100,000 shares, comprising 46,634,420 shares in Brazil and 38,465,580 ADSs (Note 15).

Gafisa S.A.

Notes to individual and consolidated financial statements - continued

December 31, 2010

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

1. Operations

In May 2010, the Company approved the acquisition of the total amount of shares issued by Shertis Empreendimentos e Participações S.A., which main asset comprises 20% of the capital stock of Alphaville Urbanismo S.A. (AUSA). The acquisition of shares has the purpose of making viable the implementation of the Second Phase of the schedule for investment planned in the Investment Agreement and other Covenants, signed between the Company and Alphaville Participações S.A. (Alphapar) on October 2, 2006, thus increasing the interest of Gafisa in the capital stock of AUSA to 80%. As a result of the acquisition of shares, Shertis was converted into a wholly-owned subsidiary of Gafisa, with the issue of 9,797,792 new common shares to Alphapar, former shareholder of Shertis, thus resulting in an increase in capital amounting to R\$ 20,283 (Note 15).

2. Accounting policies

The financial statements were approved by the Board of Directors in their meeting held on March 24, 2011.

The Company's financial statements for the years ended December 31, 2010 and 2009, and as at January 1, 2009 were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities and Exchange Commission (CVM), and the pronouncements, interpretations and guidelines of the Accounting Pronouncements Committee (CPC); and the consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, which correspond to the CVM Rules, and the pronouncements, interpretation and guidelines of the CPC, and are in compliance with the International Financial Reporting Standards (IFRS) applicable to real estate development entities in Brazil, as approved by the CPC, the CVM and the 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).

Gafisa S.A.

Notes to individual and consolidated financial statements - continued

December 31, 2010

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

2. Accounting policies-- continued

Certain matters related to the meaning and application of the continuous transfer of the risks, benefits and control over the real estate unit sales are under consideration by the International Financial Reporting Interpretation Committee (IFRIC). The results of this consideration may cause the Company to revise its accounting practices related to the recognition of results.

2.1 Accounting judgments, estimates and assumptions

(i) Judgments

The preparation of the individual's and consolidated financial statements 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, plan 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.

(ii) Estimates and assumptions

The main assumptions related to sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the balance sheet date, which may result in different amounts upon settlement

are discussed below:

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Gafisa S.A.

Notes to individual and consolidated financial statements - continued

December 31, 2010

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

2. Accounting policies-- continued

2.1 Accounting judgments, estimates and assumptions -- continued

(ii) Estimates and assumptions-- continued

a) *Impairment of non-financial assets*

An impairment loss shall be recognized when the carrying amount of an asset or a cash-generating unit is in excess of its recoverable amount, which is the highest of the fair value less cost to sell and the value in use. The calculation of fair value less costs to sell is based on information available for sale transactions of similar assets or market prices less additional costs to dispose of the asset. The calculation of the value in use is based on the discounted cash flow model. Cash flows are derived from the budget for the following five years, and do not include restructuring activities with which the Company has not committed to undertake or future significant investments that will improve the asset basis of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate adopted under the discounted cash flow method, as well as the estimated future cash inflows and at the growth rate used for purposes of extrapolation. The main assumptions used to measure the recoverable amount of the cash-generating units are detailed in Note 9.

b) *Transactions with share-based payment*

The Company measures the cost of transactions to be settled with shares with employees based on the fair value of equity instruments on the grant date. The estimate of the fair value of share-based payments requires the determination of the most adequate pricing model to grant equity instruments, which depends on the grant terms and conditions. It also requires the determination of the most adequate data for the pricing model, including the expected option life, volatility and dividend income, and the corresponding assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 15.3.

Gafisa S.A.

Notes to individual and consolidated financial statements - continued

December 31, 2010

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

2. Accounting policies-- continued

2.1 Accounting judgments, estimates and assumptions -- continued

(ii) Estimates and assumptions-- continued

c) *Provisions for tax, labor and civil risks*

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

d) *Fair value of financial instruments*

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained in the active market, it is determined using valuation techniques, including the discounted cash flow method. The data for such methods is based on those practiced in the market, when possible; however,

when it is not viable, a certain level of judgment is required to establish the fair value. The judgment includes considerations on the data used, such as liquidity risk, credit risk, and volatility. Changes in the assumptions about these factors may affect the presented fair value of financial instruments.

e) *Estimated costs of ventures*

Total estimated costs, comprised of incurred and future costs for completing the construction works, are regularly reviewed, according to the construction progress, and the adjustments based on this review are reflected in the income statement, which form the basis for calculating the percentage in order to recognize the revenue, as described in Note 2.4.

Gafisa S.A.

Notes to individual and consolidated financial statements - continued

December 31, 2010

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

2. Accounting policies - continued

2.2 Consolidated financial statements

The Company's consolidated financial statements, which include the financial statements of subsidiaries and the joint ventures indicated in Note 8, were prepared in compliance with the applicable consolidation practices and the legal provisions. Accordingly, intercompany balances, accounts, income and expenses, and unrealized earnings were eliminated. The jointly-controlled investees are consolidated in proportion to the interest held by the Company.

Gafisa S.A.

Notes to individual and consolidated financial statements -- continued

December 31, 2010

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

2. Accounting policies - continued**2.2 Consolidated financial statements** - continued

The Company carried out the proportionate consolidation of the financial statements of the jointly-controlled investees listed below, which main information is the following:

Investees	% ownership interest	Current Asset	Current Liab
Gafisa SPE-46 Emp. Imob. Ltda.	60%	15,187	
Gafisa SPE-40 Emp. Imob. Ltda.	50%	8,627	2
Dolce Vita Bella Vita SPE S/A	50%	2,073	3
Saíra Verde Emp. Imob. Ltda.	70%	806	(
DV SPE S/A	50%	1,812	
Gafisa e Ivo Rizzo SPE-47 Emp. Imob. Ltda.	80%	36,170	11
Gafisa/Tiner Campo Belo I – Emplmob. SPE Ltda.	45%	6,523	2
Península I SPE S/A	50%	10,591	12
Península 2 SPE S/A	50%	9,169	12
Villaggio Panamby Trust S/A	50%	4,356	
Gafisa SPE-44 Emp. Imob. Ltda.	40%	3,409	
Gafisa SPE-65 Emp. Imob. Ltda.	80%	32,728	19
Gafisa SPE-71 Emp. Imob. Ltda.	80%	35,933	20
Gafisa SPE-73 Emp. Imob. Ltda.	80%	9,961	
Gafisa SPE- 76 Emp. Imob. Ltda.	50%	142	

Gafisa SPE-70 Emp. Imob. Ltda.	55%	15,339	1
Gafisa SPE-85 Emp. Imob. Ltda.	80%	33,051	33
Gafisa SPE-102 Emp. Imob. Ltda.	80%	1,806	
Gafisa SPE-104 Emp. Imob. Ltda.	50%	1	
Sítio Jatiuca Empreendimento Imobiliário SPE Ltda.	50%	124,393	53
Deputado José Lajes Empreendimento Imobiliário SPE Ltda.	50%	3,801	
Alto da Barra de São Miguel Empreendimento Imobiliário SPE Ltda.	50%	35,137	11
Reserva & Residencial Spazio Natura Empreendimento Imobiliário SPE Ltda.	50%	1,680	
BKO ENGENHARIA E COMERCIO LTDA	50%	13,332	3

Gafisa S.A.

Notes to individual and consolidated financial statements -- continued

December 31, 2010

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

2. Accounting policies - continued**2.2 Consolidated financial statements - continued**

Investees	% Ownership interest	Current		Non-curre	
		Assets	Liabilities	Assets	Liabi
O Bosque Empr. Imob. Ltda.	60%	9,055	94	288	
Grand Park - Parque das Aguas Emp. Imob. Ltda.	50%	49,255	41,061	14,939	2
Grand Park - Parque das Arvores Emp. Imob. Ltda.	50%	81,205	36,377	7,792	17
Dubai Residencial Emp. Imob. Ltda.	50%	33,600	19,084	7,286	
Varandas Grand Park Emp. Imob. Ltda.	50%	3,734	1,754	10,154	9
PRIME SPE FRANERE GAFISA 07 EMP	50%	4,246	2,442	2,069	4
Costa Maggiore Emp. Imob. Ltda.	50%	21,571	3,364	11,932	17
City Park Brotas Emp. Imob. Ltda.	50%	5,320	1,393	-	3
City Park Acupe Emp. Imob. Ltda.	50%	5,349	1,536	51	2
Patamares 1 Emp. Imob. SPE Ltda.	50%	11,598	4,997	603	
Graça Emp. Imob. Ltda.	50%	10,345	2	-	9
Acupe Exclusive Emp. Imob. Ltda.	50%	3,072	1,782	-	
Manhattan Square Emp. Imob. Comercial 01 SPE Ltda.	50%	49,065	16,011	1,121	27
Manhattan Square Emp. Imob. Comercial 02 SPE Ltda.	50%	7,780	7	-	6
Manhattan Square Emp. Imob. Residencial 02 SPE Ltda.	50%	19,464	2	-	16
Manhattan Square Emp. Imob. Residencial 01 SPE Ltda.	50%	123,162	36,479	1,838	97
FIT 13 SPE Emp. Imob. Ltda.	50%	16,687	5,823	8,643	
API SPE 29 - Planej.e Desenv.de Empreend.Imob.Ltda.	50%	27,365	25,230	1,519	
API SPE 28 - Planej.e Desenv.de Empreend.Imob.Ltda.	50%	71,776	8,768	35	37
Parque do Morumbi Incorporadora LTDA.	80%	17,823	12,920	452	1

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Gafisa SPE-48 S/A	80%	120,303	48,637	533	7
Gafisa SPE-55 S/A	80%	73,716	17,734	213	14
Gafisa SPE-77 Emp. Imob. Ltda.	65%	79,231	23,463	40,049	54
Saí Amarela S/A	50%	6,425	3,478	(725)	
Sunshine S/A	60%	12,101	6,109	806	
Cyrela Gafisa SPE Ltda.	50%	4,638	775	-	

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies-- continued

2.3 Functional and presentation currency

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

2.4 Recognition of results

(i) Real estate development and sales

Revenues, as well as costs and expenses directly related to real estate development units sold and not yet finished, are recognized over the construction period and the following procedures are adopted:

(a) In the sales of finished units, the result is recognized when the sale is completed, with the transfer of significant risks and rights, regardless of the receipt of the contractual amount.

(b) In the sales of unfinished units, the following procedures and rules were observed:

- The incurred cost (including the cost of land, and other expenditures directly related to the inventory increase) corresponding to the units sold is fully appropriated to the income statement.
- The percentage of incurred cost of units sold (including land) is measured in relation to total estimated cost, and this percentage is applied on the revenues from units sold, adjusted in accordance with the terms established in the sales contracts, thus determining the amount of revenues to be recognized in directly proportion to cost.
- Any amount of revenue recognized that exceeds the amount actually received from customers is recorded as either current or non-current asset. Any amount received in connection with the sales of units that exceeds the amount of revenues recognized is recorded as "Payables for purchase of land and advances from customers".

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.4 Recognition of results--continued

(i) Real estate development and sales--continued

- Interest and inflation-indexation charges on accounts receivable as from the time the customer takes possession of the property, as well as the adjustment to present value of accounts receivable, are appropriated to the income statement from the development and sale of real estate using the accrual basis of accounting;
- The financial charges on accounts payable for acquisition of land and those directly associated with the financing of construction are recorded in inventories of properties for sale, and appropriated to the incurred cost of finished units, following the same criteria for appropriation of real estate development cost of units under construction sold.

The taxes on the difference between the revenues from real estate development and the accumulated revenues subject to tax are calculated and recognized when the difference in revenues is recognized.

The other advertising and publicity expenses are appropriated to the income statement as they are incurred – represented by media insertion – using the accrual basis of accounting.

(ii) Construction services

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

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.4 Recognition of results--continued

(iii) Barter transactions

In barter transactions of land in exchange for units, the value of land acquired by the Company is calculated based on the fair value of real estate units to be delivered. The fair value is recorded in inventories of properties for sale against liabilities for advances from customers, at the time the barter agreement is signed, provided that the real estate development recording register is obtained. Revenues and costs incurred from barter transactions are appropriated to the income statement over the course of construction period of the projects, as described in item (b).

(iv) ICPC 02 – paragraph 20 and 21

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

2.5 Financial instruments

Financial instruments are recognized only from the date the Company becomes a party to the contractual provisions of financial instruments, which include marketable securities, accounts receivable, cash and cash equivalents, loans and financing, suppliers, and other debts. Financial instruments that are not recognized at fair value through profit and loss are added by any directly attributable transactions costs.

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

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.5 Financial instruments--continued

(i) Financial instruments at fair value through profit and loss

A financial instrument is classified into fair value through profit and loss if held for trading, that is, designated as such when initially recognized. Financial instruments are designated at fair value through profit and loss if the Company manages these investments and makes decisions on purchase and sale based on their fair value according to the strategy of investment and risk management. After initial recognition, attributable transaction costs are recognized in the income statement when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and their fluctuations are recognized in the income statement.

In the year ended December 31, 2009, the Company held derivative instruments with the objective of mitigating the risk of its exposure to the volatility of currencies, indices and interest rates, recognized at fair value directly in the income statement for the year, which were settled by the end of 2009. In accordance with its treasury policies, the Company does not have or issue derivative financial instruments for purposes other than for hedging. Derivatives are initially recognized at fair value, and the attributable to transaction costs are recognized in the income statement when incurred. After the initial recognition, derivatives are measured at fair value and the changes are recognized in the income statement.

(ii) Available-for-sale financial instruments

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

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.5 Financial instruments--continued

(iii) Loans and receivables

After initial recognition, loans and financing accruing interest are subsequently measured at amortized cost, using the effective interest rate method, less impairments, if any.

2.6 Cash and cash equivalents, and marketable securities and collaterals

Cash and cash equivalents substantially include demand deposits and bank deposit certificates under resale agreements, denominated in reais, with high market liquidity and maturity that does not exceed 90 days or in regard to which there are no penalties or other restrictions for the immediate redemption thereof.

Marketable securities and collaterals include available-for-sale securities, bank deposit certificates, investment funds, in which the Company is the sole shareholder, and are fully consolidated, and collaterals.

2.7 Trade accounts receivable

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

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

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Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.8 Housing loan certificates (CRI)

The Company assigns receivables for the securitization and issuance of mortgage-backed securities (CRI). When this assignment does not involve right of recourse, it is recorded as a reduction of accounts receivable. When the transaction involves recourse against the Company, the accounts receivable from units sold is maintained on the balance sheet. The financial guarantees, when a participation is acquired (subordinated CRI) and maintained to secure assigned receivables, are recorded in the balance sheet as non-current receivables at fair value.

2.9 Credit Rights Investment Fund (FIDC) and Housing Loan Certificate (CCI)

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

Pursuant to CVM Rule No. 408, the consolidation by the Company of FIDC arises from the evaluation of the underlying and economic reality of these investments, considering, among others: (a) whether the Company still has control over the assigned receivables, (b) whether it still retains any right in relation to assigned receivables, (c) whether it still bears the risks and responsibilities for the assigned receivables,

and (d) whether the Company fundamentally or usually pledges guarantees to FIDC investors in relation to the expected receipts and interests, even informally.

When consolidating the FIDC in its financial statements, the Company discloses the receivables in the group of accounts of receivables from customers and the FIDC net worth is reflected in other accounts payable, the balance of subordinated shares held by the Company being eliminated in this consolidation process. The financial costs of these transactions are appropriated on pro rata basis in the adequate heading of financial expenses.

The Company carries out the assignment and/or securitization of receivables related to credits of statutory lien on completed real estate ventures. This securitization is carried out upon the issuance of the housing loan certificate (CCI), which is assigned to financial institutions that grant loans. The funds from assignment are classified in the heading other accounts payable, until certificates are settled by customers.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.10 Properties for sale

Land is stated at cost of acquisition. Land is recorded only after the deed of property is registered, not being recognized in the financial statements while in progress, regardless of the likelihood of success or stage of development. The Company and its subsidiaries acquire a portion of its land through barter transactions, which, in exchange for the land acquired, it undertakes to deliver (a) real estate units under development or (b) part of the revenues originating from the sale of the real estate units. Land acquired through barter transaction is stated at fair value, and revenue and cost are recognized according to the criteria described in Note 2.4 (i).

Properties are stated at construction cost, which does not exceed the net realizable value. In the case of real estate developments in progress, the portion in inventories corresponds to the cost incurred for units that have not yet been sold. The incurred cost comprises construction (materials, own or outsourced labor, and other related items), plots of land, and expenses for remedial actions on land and ventures, land and financial charges appropriated to the development as incurred during the construction phase.

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

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

The Company capitalizes interest on developments during the construction phase, and plots of land, while the activities for preparation of assets for resale are being carried out, since there are loans outstanding, which are recognized in the income statement in the proportion to units sold, the same criterion for other costs.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.11 Deferred selling expenses - commissions

Brokerage expenditures are recorded in the income statement following the same percentage-of-completion criteria adopted for the recognition of revenues. The charges related to sales commission of the buyer are not recognized as revenue or expense of the Company.

2.12 Provision for warranty

The Company and its subsidiaries recognize a provision to cover expenditures for repairing construction defects covered during the warranty period, except for the subsidiaries that operate with outsourced companies, which are the own guarantors of the constructions services provided. The warranty period is five years from the delivery of the unit.

2.13 Prepaid expenses

These are recorded in the income statement in the period to which they relate.

2.14 Property, plant and equipment

Recorded at cost, less any applicable accumulated depreciation and any accumulated impairment losses.

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

In view of the Brazilian accounting practice, for the purpose of fully adhering to the process for convergence into the international practices, in the first-time adoption of technical pronouncements CPC27 (IAS16) and CPC28 (IAS40), there is the option to make adjustments in the opening balances in a way similar those permitted by the international accounting standards, with the use of the concept of attributed cost, as prescribed in the technical pronouncements CPC37 (IFRS1) and CPC 43.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.14 Property, plant and equipment--continued

The Company opted for not restating the property, plant and equipment items at fair value on the transition date, taking into account that: (i) the method of cost less allowance for doubtful accounts is the best to state the property, plant and equipment of the Company; (ii) the Company has effective control over property, plant and equipment items that enables the determination of the estimated useful life of assets, and (iii) the depreciation rates used fairly represent the useful life of assets, which allows us to conclude that the property, plant and equipment value is close to the fair value.

Depreciation is calculated based on the straight-line method considering the estimated useful life of the assets, as follows:

- (i) Vehicles – 5 years;
- (ii) office equipment and other installations - 10 years;
- (iii) sale stands, facilities, display apartments and related furnishings - 1 year.

The residual value, useful life, and depreciation methods are reviewed at the end of each year.

Expenditures incurred for the construction of sales stands, facilities, display apartments and related furnishings are capitalized as property, plant 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 of one year and subject to periodical analysis of asset impairment).

2.15 Intangible assets

(i) Expenditures related to the acquisition and development of computer systems and software licenses, recorded at acquisition cost, and are amortized over a period of up to five years, and are subject to periodical assessments about impairment of assets

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

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Notes to financial statements--continued

December 31, 2010

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

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.15 Intangible assets --continued

Up to December 31, 2008, goodwill was amortized in accordance with the underlying economic basis, the assessment of the respective acquires upon acquisition, which considers factors such as the land bank, the ability to generate results from developments launched and/or to be launched and other inherent factors. AS from January 1, 2009 goodwill is no longer amortized.

Goodwill recorded at December 31, 2010 refers to acquisitions before the date of transition to CPC/IFRS, and the Company opted for not retrospectively recognizing the acquisitions before the transition date, to adjust any of the respective goodwill.

The impairment test of goodwill is carried out annually (at December 31) or whenever circumstances indicate an impairment loss.

Goodwill that is not justified by future profitability is immediately recognized as a loss in income for the year.

2.16 Investments in subsidiaries and joint-controlled investees

If the Company holds more than half of the voting capital of another company, and/or has governance power over the financial and operating policies of an entity, the latter is considered a subsidiary. In situations in which agreements grant the other company veto rights, significantly affecting business decisions with regards to its investee, the latter is considered to a jointly-controlled investee. Investments in subsidiaries and jointly-controlled investees are recorded in the Company under the equity method. The jointly-controlled investees are accounted for under the proportionate consolidation, based on the ownership interest of the Company.

When the Company's interest in the losses of subsidiaries is equal to or higher than the amount invested, the Company recognizes the residual portion of the net capital deficiency since it assumes obligations to make payments on behalf of these companies or for future capital increase.

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.17 Payables for purchase of land and advances from customers due to barter transactions

Payables for purchase of land and advances from customer due to barter transactions are contractual obligations established for purchases of land in inventory (property for sale), which are stated at amortized cost plus interest and charges proportional to the period (pro rata basis), when applicable, net of adjustment to present value.

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

2.18 Income tax and social contribution on net profit

(i) Current income tax and social contribution

Taxes on income in Brazil comprise Federal income tax (25%) and social contribution (9%), as recorded in the statutory accounting records, for entities on the taxable profit regime, for which the composite statutory

rate is 34%. Deferred taxes are provided on all temporary tax differences at the balance sheet date between the tax bases of assets and liabilities, and their carrying amounts.

As permitted by tax legislation, certain subsidiaries opted for the deemed profit regime, method under which the taxable profit is calculated as a percentage of gross sales. For these companies, the income tax basis is calculated at the rate of 8% on gross revenues and for the social contribution basis at 12% on gross revenues.

(ii) Deferred income tax and social contribution

The deferred tax assets are recognized to the extent that future taxable income is expected to be available to be used to offset temporary.

Deferred tax assets arising from net operating losses have no expiration dates, though offset is restricted to 30% of annual taxable income. Entities whose taxable profit is calculated as a percentage of gross sales cannot offset prior year losses carry forwards against tax payable.

In the event realization of deferred tax assets is not considered to be probable, no amount is recorded (Note 16).

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies—continued

2.19 Other current and non-current liabilities

These liabilities are stated on an accrual basis at their known or estimated amounts, plus, when applicable, the corresponding charges and inflation-indexed variations through the balance sheet date, which contra-entry is included in income for the year. Where applicable, current and non-current liabilities are recorded at present value based on interest rates that reflect the term, currency and risk of each transaction.

2.20 Stock option plans

As approved by its Board of Directors, the Company offers to its selected executives share-based compensation plans ("Stock Options"), according to which services are received as consideration of granted options.

The fair value of services received from the plan participants, in exchange for options, is determined in relation to the fair value of shares, on the grant date of each plan, and recognized as expense as contra-entry to equity as service is rendered.

In an equity-settled transaction, in which the plan is modified, a minimum expense recognized corresponds to the expenses as if the terms have not been changed. An additional expense is recognized for any modification that increases the total fair value of granted options, or that otherwise benefits the employee, measured on the modification date. In case of cancellation of a stock option plan, this is treated as if it had been granted on the cancellation date, and any unrecognized plan expense is immediately recognized. However, if a new plan 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.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting Policies - continued

2.21 Other employee benefits

The benefits granted to the Company's employees and management include, as fixed compensation (salaries, social security (INSS) contributions, vacation and 13th monthly salary) and variable compensation such as profit sharing, bonus, and share-based payment. These benefits are recorded in income for the year, under the heading general and administrative expenses, as they are incurred.

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

The Company and its subsidiaries do not have private pension or retirement plans or other post-employment benefits.

2.22 Present value adjustment – assets and liabilities

The assets and liabilities arising from long or short-term transactions, if they had a significant effect, were adjusted to present value.

In installment sales of unfinished units, real estate development entities have receivables prior to delivery of the units which does not accrue interest, were discounted to present value. The reversal of the adjustment to present value, considering that an important part of the Company's activities is to finance its customers, was made as a contra-entry to the real estate development revenue group itself, consistent with the interest accrued on the portion of accounts receivable related to the "after handover of keys" period.

The financial charges of funds used in the construction and finance of real estate ventures are capitalized. As interest from funds used to finance the acquisition of land for development and construction is capitalized, the accretion of the present value adjustment arising from the obligation is recorded in real estate development operating costs or against inventories of properties for sale, as the case may be, until the construction phase of the venture is completed.

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.22 Present value adjustments-- of assets and liabilities--continued

Accordingly, certain asset and liability items are adjusted to present value based on discount rates that reflect management's 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 (Note 5).

2.23 Provision for impairment of non-financial assets

Management reviews annually, at each balance sheet date, the carrying amount of assets with the objective of evaluating events or changes in economic and operational circumstances that may indicate impairment. When such evidence is found, the carrying amount exceeds the recoverable amount, so a provision for impairment is recorded, adjusting the carrying to the recoverable amount. The goodwill and intangible assets with indefinite useful lives have the recovery of their amounts tested annually, regardless if there is any indications of impairment. This test is performed applying a reduction in value discounted at present value, using a discount rate before taxes that reflect the weighted average cost and capital.

2.24 Debenture and public offering expenses

Transaction costs and premiums on issuance of securities, as well as share issuance expenses, are accounted for as a direct reduction of capital raised. In addition, transaction costs and premiums on issuance of debt securities are amortized over the terms of the security and the net balance is classified as reduction of the respective transaction (Note 11).

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.25 Borrowing costs

The borrowing costs directly attributable to ventures during the construction phase, and land, when the development of the asset for sale is being performed, shall be capitalized as part of the cost of that asset, since there are borrowings outstanding, which are recognized in income to the extent units are sold, the same criteria for other costs. All other borrowing costs are recorded as expense when incurred. Borrowing costs comprise interest and other related costs incurred.

2.26 Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable future economic benefits be required to settle the payable, and a reliable estimate can be made of the amount of the obligation.

- (i) Provisions for tax, civil and labor risks

The Company is party to various lawsuits and administrative proceedings. Provisions are recognized for all contingencies related to lawsuits, in which it is probable that an outflow of resources will be made to settle the contingency, and a reliable estimate can be made. The assessment of the probability of loss includes the evaluation of available evidence, the hierarchy of Laws, the available case law, the most recent court decisions, and their relevance in the legal system, as well as the opinion of external legal counsel. The provisions are reviewed and adjusted to take into account the change in circumstances, such as applicable lapse, findings of tax inspections, or additional identified exposures based on new issues or court decisions.

Contingent liabilities which losses are considered possible are only disclosed in a note to financial statements, and those which losses are considered remote are not accrued nor disclosed.

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.26 Provisions--continued

(ii) Allowance for doubtful accounts

The allowance for doubtful accounts is recorded at an amount considered sufficient by Management to cover estimated losses on realization of credits that do not have general guarantee.

Contingent assets are recognized only when there are real guarantees or favorable final and unappealable court decisions. Contingent assets with probable favorable decisions are only disclosed in the notes.

2.27 Statement of cash flows and value added

The statements of cash flows are prepared and presented in accordance with CVM Resolution No. 641, of October 7, 2010, which approved the accounting pronouncement CPC No. 03 (R2) – Statement of Cash Flows, issued by the CPC. The statements of value added are prepared and presented in accordance with CVM Resolution No. 557, of November 12, 2008, which approved the accounting pronouncement CPC No.

09 – Statement of Value Added, issued by CPC.

2.28 Treasury shares

Own equity instruments that are repurchased (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in income statement upon purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies--continued

2.29 Earnings per share – basic and diluted

Earnings per share are calculated by dividing the net income available to ordinary shareholders by the average number of shares outstanding over the period. Diluted earnings per share are calculated similarly to the basic ones, except for the fact that the numbers of shares outstanding are increased to include the additional shares, which would have been considered in the basic earnings calculation, in case the shares with dilution potential had been converted.

2.30 Business combinations

Business combinations from January 1, 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured by the sum of the transferred consideration, stated at fair value on the acquisition date, and the value of any non-controlling interests in the acquiree. For each business combination, the acquirer shall measure the non-controlling interests in the acquiree at fair value or based on its share of the acquiree's identifying net assets. Costs directly attributed to acquisition shall be accounted for as expenses when incurred.

When acquiring a business, the Company measures the financial assets and liabilities assumed with the objective of classifying and allocating them according to the contractual terms, economic conditions, and other pertinent conditions as they exist at the acquisition date, which includes the separation by the acquiree of embedded derivatives existing in the host contracts of the acquiree.

If the business combination is achieved in stages, the fair value at the date of acquisition of the previously held equity interest in the acquiree is remeasured at its acquisition-date fair value, the impacts being recognized in the income statement.

Any contingent consideration to be transferred by the acquirer shall be recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent consideration, classified as an asset or liability, shall be recognized in accordance with CPC 38 in the income statement or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is completely settled in equity.

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Notes to financial statements--continued

December 31, 2010

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

2. Accounting policies - continued

2.30 Business Combinations - continued

Initially, the goodwill is measured as the excess of the transferred consideration over the acquired net assets (net identifiable assets acquired and liabilities assumed). If the consideration is lower than the fair value of the net assets acquired, the difference shall be recognized as gain in the income statement.

After the initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For purposes of impairment test, the goodwill acquired in a business combination is, from the acquisition date, allocated to each cash-generating unit of the Company that is expected to be benefited by the combination synergies, regardless the fact that other assets or liabilities of the acquiree are attributed to these units.

When the goodwill is allocated to a part of a cash-generating unit, and a portion of such unit is disposed of, the goodwill associated with the disposed of portion shall be included in the cost of the operation when determining the gain or loss on disposal. Goodwill disposed of under such circumstances is calculated based on amount proportional to the disposed portion in relation to the cash-generating unit retained.

3. First-time adoption of the International Financial Reporting Standards

Until December 31, 2009 the Company's individual and consolidated financial statements had been prepared in accordance with the accounting practices adopted in Brazil, the supplementary rules of CVM, the technical pronouncements of CPC issued through December 31, 2008, and the provisions contained in the Brazilian Corporation Law, the basis of the accounting practices adopted in Brazil.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards - continued

The Company prepared its opening balance sheet on the transition date January 1, 2009, and, therefore, applied the mandatory exceptions and certain optional exemptions from retrospective application, as established in the technical pronouncements, interpretations and guidelines issued by the CPC, and approved by CVM, to the Company's individual financial statements. The consolidated financial statements were prepared in accordance with the accounting practices adopted in Brazil, which comprise the rules of the Securities and Exchange Commission (CVM), and the pronouncements, interpretations and guidelines of the Accounting Pronouncements Committee (CPC), and are in compliance with the International Financial Reporting Standards (IFRS) adopted in 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 (complete percentage method). CPC 37 (R1) requires that an entity develops accounting policies based on the standards and interpretations of CPC, and the International Financial Reporting Standards (IFRS) in effect at the closing date of its first individual and consolidated financial statements, and that these policies be applied on the transition date and during all periods presented in the first financial statements prepared in accordance with the Standards issued by CPC and IFRS, as approved in Brazil, the Company having adopted all pronouncements, guidelines and interpretations of the CPC issued until December 31, 2010. Consequently, the consolidated financial statements are in accordance with the IFRS, as approved in Brazil by CPC, CVM and CFC. The main differences between the current and the previous accounting practices adopted on the transition date, including the reconciliations of equity and income are described in item 3.2 of this note.

The Company's individual financial statements for the year ended December 31, 2010 are the first presented considering the full application of the standards issued by CPC and in accordance with the International Financial Reporting Standards (IFRS) adopted in Brazil. As permitted by CVM Resolution No.

656/2011, which amends the CVM Resolution No. 603/2009, the Company opted for restating its quarterly information reports for 2010 and 2009, with the full adoption of the 2010 standards through the reporting date of the first quarterly information report of 2011.

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards - continued

The effects on the individual and consolidated equity and net income of the Company in the quarterly information reports for 2009 are shown below:

	Company					
	Equity			Result for the period ended		
	09/30/2009	06/30/2009	03/31/2009	09/30/2009	06/30/2009	03/31/2009
Current accounting practice	1,791,125	1,759,612	1,732,425	54,067	25,067	2,016
Gain on partial disposal of investment (iii)	(11,591)	(64,192)	(116,793)	157,803	105,202	52,601
Deferred income tax and social contribution (iii)	3,942	21,826	39,710	(53,652)	(35,768)	(17,884)
Previous accounting practice (effective through 12.31.2009)	1,783,476	1,717,246	1,655,342	158,218	94,501	36,733

	Consolidated					
	Equity			Result for the period ended		
	09/30/2009	06/30/2009	03/31/2009	09/30/2009	06/30/2009	03/31/2009
Current accounting practice	2,344,016	2,306,706	2,276,883	54,067	25,067	2,016
Gain on partial disposal of investment (iii)	(11,591)	(64,192)	(116,793)	157,803	105,202	52,601
Deferred income tax and social contribution (iii)	3,942	21,826	39,710	(53,652)	(35,768)	(17,884)
Non-controlling interest (ii)	(552,891)	(547,094)	(544,458)	-	-	-

Previous accounting practice (effective through 12.31.2009)	1,783,476	1,717,246	1,655,342	158,218	94,501	36,733
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The Company does not have any effects on individual and consolidated equity and net income in the quarterly information reports for 2010, in view of the first-time adoption of CPC.

3.1 Mandatory exceptions and exemptions from retrospective application

CPC 37 (R1) allows companies to apply certain optional exemptions. The Company analyzed all optional exemptions, the result of which is presented below:

(i) *Mandatory exceptions for business combinations:* The Company applied CPC 15 from the year beginning on January 1, 2010, with retrospective application only for the immediately prior year, beginning on January 1, 2009;

(ii) *Exemption for presentation of fair value of property, plan and equipment as deemed cost:* The Company opted for not stating its property, plan and equipment at the transition date at fair value, but to maintain the previously estimated cost;

(iii) *Exemption for measurement of compound financial instruments:* The Company does not have any transactions subject to this standard.

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Notes to financial statements--continued

December 31, 2010

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

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards - continued

3.1 Mandatory exceptions and exemptions from retrospective application - continued

(iv) *Effects of changes in foreign exchange rates and translation of financial statements:* This standard does not apply to the Company's operations.

The following exemptions are not applicable to the Company's operations and do not impact the financial statements on the first-time adoption date:

- (i) *Employee benefits CPC 22:* The Company does not have any private pension plans or other benefits that are characterized as defined benefit plan;
- (ii) *Insurance contracts CPC 11:* The standard is not applicable to the Company's operations;
- (iii) *Service concession arrangements ICPC 01:* The Company does not have any utilities concession operations.

In addition to optional exemptions, CPC 37 (R1) also expressly prohibits the adjustments of certain transactions in the first adoption, because it would require the management to carry out analysis of past conditions after the actual result of the respective transactions. The mandatory exceptions comprise the following:

(i) *Derecognition of financial assets and financial liabilities:* The Company did not make any retrospective adjustments to its financial assets and liabilities, for purposes of the first adoption, since there was no difference from the previous accounting practice.

(ii) *Hedge accounting:* The hedge transactions existing in 2009 followed the accounting practices according to the standard issued by CPC at the transition date. The Company does not apply hedge accounting for derivatives.

(iii) *Changes in estimates:* The estimates adopted on transition to CPC are not consistent with those adopted by the previous accounting criteria.

(iv) *Non-controlling interest:* The profit or loss for the period and each component of other comprehensive income (directly recognized in the equity) are attributed to the Company's owners and to the non-controlling interest. The total comprehensive income is attributed to the Company's owners and to the non-controlling interests, whether such profit or loss cause the non-controlling interest to be negative.

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards - continued**3.2 Reconciliation of the accounting practices applied in the preparation of the previously presented financial statements.**

In accordance with CPC 37 (R1), the Company presents the reconciliation of the Company's individual and consolidated assets, liabilities, income, equity and cash flows, for the previously reporting years in the annual information for the year which began on January 1, 2009, the transition date, and the year ended December 31, 2009, prepared in accordance with the accounting practices adopted in Brazil and effective through December 31, 2009, considering the CPCs effective in 2010.

3.2.1. Opening balance at 01.01.2009

Item	Company			Consolidated			
	Previous accounting practice	Adjustments	Current accounting practice	Previous accounting practice	Adjust-ments	Current accounting practice	
Current assets	2,041,545	-	2,041,545	3,776,701	-	3,776,701	
Cash and cash equivalents	(i) 165,216	(114,386)	50,830	528,574	(337,131)	191,443	
Marketable securities	(i) 6,911	114,386	121,297	76,928	337,131	414,059	

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Trade accounts receivable	785,025	-	785,025	1,254,594	-	1,254,594
Properties for sale	778,203	-	778,203	1,695,130	-	1,695,130
Other	306,190	-	306,190	221,475	-	221,475
Non-current assets	1,935,244	2,518	1,937,762	1,762,157	3,834	1,765,991
Long-term assets (iv)	534,606	2,518	537,124	1,498,654	3,834	1,502,488
Permanent asset	1,400,638	-	1,400,638	263,503	-	263,503
Total assets	3,976,789	2,518	3,979,307	5,538,858	3,834	5,542,692
Current liabilities	881,917	-	881,917	1,328,396	-	1,328,396
Minimum mandatory dividends	26,104	-	26,104	26,106	-	26,106
Other	855,813	-	855,813	1,302,290	-	1,302,290
Non-current liabilities	1,482,452	(109,282)	1,373,170	2,126,641	(107,966)	2,018,675
Other (iv)	1,213,939	2,518	1,216,457	1,718,116	3,834	1,721,950
Deferred income tax and social contribution (iii)	99,120	57,594	156,714	239,131	57,594	296,725
Gain on partial disposal of investments (iii)	169,394	(169,394)	-	169,394	(169,394)	-
Non-controlling interests (ii)	-	-	-	471,402	(471,402)	-
Equity (ii) (iii)	1,612,419	111,800	1,724,219	1,612,419	583,202	2,195,621
Total liabilities and equity	3,976,789	2,518	3,979,307	5,538,858	3,834	5,542,692

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards - continued**3.2 Reconciliation of the accounting practices applied in the preparation of the previously presented financial statements.****3.2.2. Closing balance sheet at 12.31.2009**

	Item	Company			Consolidated		
		Previous accounting practice	Adjustments	Current accounting practice	Previous accounting practice	Adjustments	Current accounting practice
Current assets		2,551,038	-	2,551,038	4,892,448	-	4,892,448
Cash and cash equivalents and marketable securities		773,479	-	773,479	1,424,053	-	1,424,053
Cash and cash equivalents	(i)	745,515	(701,070)	44,445	1,376,788	(1,083,848)	292,940
Marketable securities	(i)	27,964	701,070	729,034	47,265	1,083,848	1,131,113
Trade accounts receivable		911,333	-	911,333	2,008,464	-	2,008,464
Properties for sale		604,128	-	604,128	1,332,374	-	1,332,374
Other		262,098	-	262,098	127,557	-	127,557
Non-current assets		3,124,403	40,732	3,165,135	2,795,875	48,386	2,844,261
Long-term assets	(iv)	992,578	40,732	1,033,310	2,534,713	48,386	2,583,099

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Permanent assets		2,131,825	-	2,131,825	261,162	-	261,162
Total assets		5,675,441	40,732	5,716,173	7,688,323	48,386	7,736,709
Current liabilities		1,219,619	-	1,219,619	2,020,602	(40,259)	1,980,343
Minimum mandatory dividends		50,716	-	50,716	54,279	-	54,279
Other	(v)	1,168,903	-	1,168,903	1,966,323	(40,259)	1,926,064
Non-current liabilities		2,130,188	40,732	2,170,920	3,283,540	88,645	3,372,185
Other	(iv)	1,943,326	40,732	1,984,058	2,947,249	48,386	2,995,635
Deferred income tax and social contribution	(v)	186,862	-	186,862	336,291	40,259	376,550
Non-controlling interest	(ii)	-	-	-	58,547	(58,547)	-
Equity	(ii)	2,325,634	-	2,325,634	2,325,634	58,547	2,384,181
Total liabilities		5,675,441	40,732	5,716,173	7,688,323	48,386	7,736,709

The summary of the adjustments made is presented below:

	Company			Consolidated			
	Equity		Result for the year	Equity		Result for the year	
	12/31/2009	1/1/2009	12/31/2009	12/31/2009	1/1/2009	12/31/2009	
Current accounting practice	2,325,634	1,724,219	101,740	2,384,181	2,195,621	101,740	
Gain on partial disposal of investment	(iii)	-	(169,394)	169,394	-	(169,394)	169,394
Deferred income tax and social contribution	(iii)	-	57,594	(57,594)	-	57,594	(57,594)
Non-controlling interest	(ii)	-	-	-	(58,547)	(471,402)	-
Previous accounting practice (effective through 12.31.2009)		2,325,634	1,612,419	213,540	2,325,634	1,612,419	213,540

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Notes to financial statements--continued

December 31, 2010

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

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards--continued**3.2 Reconciliation of the accounting practices applied in the preparation of the previously presented financial statements--continued****3.2.3 Opening statement of cash flows at 01.01.2009**

Item	Company			Consolidated		
	Previous accounting practice	Adjustments	Current accounting practice	Previous accounting practice	Adjustments	Current accounting practice
Profit before income tax and social contribution (iii)	155,460	169,394	324,854	176,020	169,394	345,414
Expenses (income) not affecting cash and cash equivalents and marketable securities (iii)	121,338	(169,394)	(48,056)	259,633	(169,394)	14,546
Increase/decrease in asset and liability accounts	(665,812)	-	(665,812)	(1,148,035)	-	(1,148,035)
Cash used in operating activities	(389,014)	-	(389,014)	(788,075)	-	(788,075)

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Cash used in investing activities	(i)	(615,043)	173,559	(441,484)	(78,300)	(49,186)	(127,486)
Cash from financing activities		785,487	-	785,487	887,380	-	887,380
Net increase (decrease) in cash and cash equivalents	(i)	(218,570)	173,559	(45,011)	21,005	(49,186)	(28,181)
Cash and cash equivalents At the beginning of the year	(i)	383,786	(287,945)	95,841	507,569	(287,945)	219,624
At the end of the year	(i)	165,216	(114,386)	50,830	528,574	(337,131)	191,443
Net increase (decrease) in cash and cash equivalents		(218,570)	173,559	(45,011)	21,005	(49,186)	(28,181)

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards--continued**3.2 Reconciliation of the accounting practices applied in the preparation of the previously presented financial statements--continued****3.2.4 Closing statement of cash flows at 12.31.2009**

Item	Company			Consolidated		
	Previous accounting practice	Adjustments	Current accounting practice	Previous accounting practice	Adjustments	Current accounting practice
Profit before income tax and social contribution	(iii) 257,668	(169,394)	88,274	350,168	(169,394)	180,774
Expenses (income) not affecting cash and cash equivalents and marketable securities	(iii) (33,434)	169,394	135,960	154,926	169,394	324,320
Increase/decrease in asset and liability accounts	(443,892)	-	(443,892)	(1,197,178)	-	(1,197,178)

Cash used in operating activities		(219,658)	-	(219,658)	(692,084)	-	(692,084)
Cash used in investing activities	(i)	(196,939)	(586,684)	(783,623)	(15,447)	(746,717)	(762,164)
Cash from financing activities		996,896	-	996,896	1,555,745	-	1,555,745
Net increase (decrease) in cash and cash equivalents and marketable securities		580,299	(586,684)	(6,385)	848,214	(746,717)	101,497
Cash and cash equivalents and marketable securities							
At the beginning of the period	(i)	165,216	(114,386)	50,830	528,574	(337,131)	191,443
At the end of the period	(i)	745,515	(701,070)	44,445	1,376,788	(1,083,848)	292,940
Net increase (decrease) in cash and cash equivalents and marketable securities		580,299	(586,684)	(6,385)	848,214	(746,717)	101,497

(i) *Cash and cash equivalents:* In accordance with CPC 3(R2), an investment qualifies for cash equivalent only if its maturity is in short term, that is, three months or less, counted as from its date of acquisition. Therefore, the Company reclassified balances from the group of cash and cash equivalents and marketable securities to that of marketable securities;

(ii) *Non-controlling interest:* According to the accounting practices adopted in Brazil, pursuant to the Brazilian Accounting Standard (NBC) T 08, non-controlling interest in the equity of controlled entities shall be separated in the consolidated balance sheet, immediately before the equity accounts, and in the consolidated net income. Pursuant to CPC 36, the non-controlling interests shall be presented in the group of accounts of equity of consolidated statements, separated from the controlling interest. Income shall be attributed to controlling and non-controlling interest, even if the share of the latter is a deficit.

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Notes to financial statements--continued

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Notes to financial statements--continued

December 31, 2010

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3. First-time adoption of the International Financial Reporting Standards--continued

3.2 Reconciliation of the accounting practices applied in the preparation of the previously presented financial statements--continued

3.2.4 Statement of cash flows ended December 31, 2009--continued

(iii) *Business Combinations:* In accordance with CPC 15, the Company amortized in 2008 the totality of negative goodwill arising from the acquisition of interest in Tenda, at the total amount of R\$210,402, for advantageous purchase. The balance of the negative goodwill amortized in 2009 amounting to R\$ 169,394 (R\$ 41,008 in 2008), as well as its tax effect amounting to R\$57,594, were retrospectively adjusted in the opening balance sheet.

(iv) *Presentation of judicial deposits:* In Brazil, in accordance with NPC 22/05, not rarely does a management of an entity questions the legitimacy of certain liabilities, and due to such questioning, through judicial order or strategy of the management itself, the disputed amounts are judicially deposited, without the liability settlement being characterized. In this circumstance, if there is not any possibility of withdrawing the deposit, unless there is a favorable outcome is awarded to the Company, the deposit shall be presented with the deduction of the applicable liability amount. As to disclosure, in cases in which liabilities are settled with the amounts deposited in court, permitted pursuant to the NPC provisions, the amounts that are being settled and the explanation about the possible existing differences shall be included in a note to financial statements. In accordance with CPC 37 (R1), an entity shall not present assets and liabilities, or net revenue and expenses, unless it is required or permitted by the legislation. The understanding of this pronouncement is that in the case of judicial deposits, an entity shall present assets

and liabilities separately, once such deposit does not meet the criteria for net presentation. The net presentation, in both balance sheet and income statement, except when such net presentation reflects the substance of the transaction or other event, reduces the capacity of the financial statements users to understand the transactions, other events, and the conditions that occurred, and estimate the future cash flow of the entity. Therefore, the Company reclassified balances, recording in non-current assets the amounts of the judicial deposits.

(v) *Reclassification of deferred taxes:* The previous accounting practice determines that deferred asset and liabilities shall be classified in current and non-current, depending upon the expectation on its realization or settlement. In accordance with CPC 37 (R1), when an entity presents current and non-current assets, and current and non-current liabilities, classifying them separately in the balance sheet, it shall not classify deferred tax assets or deferred tax liabilities as current. Therefore, the Company reclassified the deferred income tax, which used to be classified in current and non-current assets to non-current deferred income tax asset and liability.

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards--continued**3.3 New pronouncements issued by the IASB**

Until the disclosure date of these individual and consolidated financial statements, the following pronouncements and interpretations issued by the IASB were published, however, their application was not mandatory for the year beginning January 1, 2010:

New Standards	Mandatory application for years beginning as from
IFRS 9 – Financial Instruments (i)	January 1, 2013
IAS 24 – Revised Related Party: Disclosures (ii)	January 1, 2011
New Interpretations	
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (iii)	July 1, 2010
Amendment to IFRIC 14 – Prepayments of minimum funding requirements (iv)	January 1, 2011
Amendments to the Existing Standards	
Amendment to IAS 32 – Financial Instruments: Presentation and Classification of Rights Issues	February 1, 2010
Amendment to IAS 1 – Presentation of Financial Statements	January 1, 2011
Amendment to IFRS 3 – Business Combinations	January 1, 2011
Amendment to IFRS 7 – Financial Instruments: Disclosure, Transfer of Financial Assets	January 1, 2013

(i) IFRS 9 ends the first part of the Project for replacing “IAS 39 Financial Instruments: Recognition and Measurement”. IFRS 9 adopts a simple approach to determine if a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments (its business model) and the characteristic contractual cash flow of financial assets. The standard also requires the adoption of only one method for determining impairment of assets. This standard shall be effective for the fiscal years beginning as from January 1, 2013. The Company does not expect that this change causes impact on its consolidated financial statements.

(ii) It simplifies the disclosure requirements for government entities and clarifies the definition of related party. The revised standard deals with aspects that, according to the previous disclosure requirements and related party definition, were too complex and hardly applicable, mainly in environments with wide governmental control, offering partial exemption to government companies and a revised definition of the related party concept. This amendment was issued in November 2009, and shall be effective for the fiscal years beginning as from January 1, 2011. This change will not have impact on the Company’s consolidated financial statements.

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Notes to financial statements--continued

December 31, 2010

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

3. First-time adoption of the International Financial Reporting Standards--continued

3.3 New pronouncements issued by IASB--continued

(iii) IFRIC 19 was issued in November 2009 and is effective as from July 1, 2010, its early adoption being permitted. This interpretation clarifies the requirements of the International Financial Reporting Standards (IFRS) when an entity renegotiates the terms of a financial liability with its creditor and the latter agrees to accept the shares of the entity or other equity instruments to fully or partially settle the financial liability. The Company does not expect that IFRIC 19 has impact on its consolidated financial statements.

(iv) This amendment applies only to those situations in which an entity is subject to minimum funding requirements and prepays contributions to cover such requirements. This amendment permits that this entity account for the benefit of such prepayment as asset. This amendment shall be effective for the fiscal years beginning as from January 1, 2011. This change will not have impact on the Company's consolidated financial statements.

There are no other Standards or interpretations issued, or adopted that may, in the Management's opinion, produce significant impact on the income statement or the equity disclosed by the Company.

The Company does not expect significant impacts on consolidated financial statements upon the first-time adoption of new pronouncements and interpretations.

CPC has not yet issued the respective pronouncements and amendments related to the previously presented new and revised IFRS. Because of the CPC and CVM commitment to keep updated the set of standards issued based on the updates made by the IASB, these pronouncements and amendments are expected to be issued by CPC and approved by CVM until the date of their mandatory application.

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Notes to financial statements--continued

December 31, 2010

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

4. Cash and cash equivalents, and marketable securities and collaterals**4.1 Cash and cash equivalents**

	Company			Consolidated	
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009
		(restated)	(restated)		(restated)
Cash and cash equivalents					
Cash and cash equivalents and marketable securities	30,524	27,129	15,499	172,336	143,799
Cash equivalents					
Securities purchased under agreement to resell	35,568	17,316	31,991	84,046	109,762
Bank certificates of deposits	-	-	-	-	39,379
Other	-	-	3,340	-	-
Total cash and cash equivalents	66,092	44,445	50,830	256,382	292,940

Securities purchased under agreement to resell include interest earned from 98.25% to 104.00% of Interbank Deposit Certificate (CDI). Both transactions are made in first class financial institutions.

4.2 Marketable Securities and collaterals**Company****Conso**

	12/31/2010 (restated)	12/31/2009 (restated)	01/01/2009 (restated)	12/31/2010	12/31/2009
Available for sale					
Investment funds	-	-	-	3,016	1,141
Government securities	94,878	70,416	65,066	117,001	1,141
Bank deposit certificates	82,004	27,923	49,320	183,562	1,141
Restricted cash in guarantee to loans (a)	297,911	630,695	6,911	453,060	73,000
Restricted credits (b)	-	-	-	171,627	9,000
Other (c)	16,500	-	-	16,500	-
Total marketable securities					
and collaterals	491,295	729,034	121,297	944,766	1,141
Total cash and cash equivalents and securities and collaterals	557,387	773,479	172,127	1,201,148	1,441

(a) Restricted cash in guarantee of loans related to ventures and cleared according to the progress of works and sales.

(b) Transfer from customers which the Company expects to receive in up to 90 days.

(c) Additional Construction Potential Certificates (CEPACs)

As of December 31, 2010, the Bank Deposit Certificates (CDBs) include interest earned from 98.00% to 108.5% (December 31, 2009 – 95.00% to 102.00%) of Interbank Deposit Certificate (CDI).

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Notes to financial statements--continued

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

4. Cash and cash equivalent and marketable securities and collaterals--continued

4.2 Marketable securities and collaterals--continued

In fiscal 2010, the Company acquired 22,000 Additional Construction Potential Certificates (CEPACs) in the Seventh Session of the Fourth Public Auction conducted by the Municipal Government of São Paulo, related to the consortium of Água Espreada urban operation, totaling R\$16,500. At December 31, 2010, the CEPACs, recorded in the heading other, have liquidity, the estimated fair value approximates cost, and shall not be used in ventures to be launched in the future.

Such issue was registered with the CVM under the No. CVM/SRE/TIC/2008/002, and according to CVM Rule No. 401/2003, CEPACs are put up for public auction having as intermediary the institutions that take part in the securities distribution system.

As of December 31, 2010 and 2009, the amount related to open-end and exclusive investment funds is recorded at fair value through profit and loss. Pursuant to CVM Rule No. 408/04, financial investment in Investment Funds in which the Company has exclusive interest is consolidated.

Exclusive funds are as follows:

Fundo de Investimento Vista is a fixed-income private credit fund under management and administration of Votorantim Asset Management and custody of Itau Unibanco. The objective of this fund is to provide a return higher than 101% of CDI. The assets eligible to the portfolio are the following: government bonds, derivative contracts, debentures, CDBs and RDBs. The consolidated portfolio can generate exposure to Selic/CDI, fixed rate and price indices. There is no grace period for redemption of shares, which can be redeemed with a return at any time.

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Notes to financial statements--continued

December 31, 2010

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

4. Cash and cash equivalents and marketable securities and collaterals--continued

4.2 Marketable securities and collaterals--continued

Fundo de Investimento Arena is a multimarket fund under management and administration of Santander Asset Management and custody of Itau Unibanco. The objective of this fund is to appreciate the value of its shares by investing the funds of its investment portfolio, which may be comprised of financial and/or other operating assets available in the financial and capital markets that yield fixed return. Assets eligible to the portfolio are the following: government bonds, derivative contracts, debentures, CDBs and Bank Receipts of Deposits (RDBs), investment fund shares of classes accepted by CVM and securities purchased under agreement to resell, according to the rules of the National Monetary Council (CMN). There is no grace period for redemption of shares, which can be redeemed with a return at any time.

Fundo de Investimento Colina is a fixed-income private credit fund under management and administration of Santander Asset Management and custody of Itau Unibanco. The objective of this fund is to provide a return higher than 101% of CDI. The assets eligible to the portfolio are the following: government bonds, derivative contracts, debentures, CDBs and RDBs. The consolidated portfolio can generate exposure to Selic/CDI, fixed rate and price indices. There is no grace period for redemption of shares, which can be redeemed with a return at any time.

Fundo de Investimento Caixa Arsenal Renda Fixa Crédito Privado Longo Prazo is a fixed-income private credit fund under management and administration of Caixa Econômica Federal. The objective of this fund

is to provide a return higher than 101% of CDI. The assets eligible to the portfolio are the following: government bonds, derivative contracts, debentures, and CDBs. The consolidated portfolio can generate exposure to Selic/CDI, fixed rate and price indices. There is no grace period for redemption of shares, which can be redeemed with a return at any time.

The breakdown of securities, which comprise the exclusive investment funds at December 31, 2010, is as follows:

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Notes to financial statements--continued

December 31, 2010

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

4. Cash and cash equivalents and marketable securities and collaterals--continued**4.2 Marketable securities and collaterals--continued**

	Arena	Vistta	Colina	Arsenal	Total
Cash	6	13	19	2	40
Collateralized transactions	-	12,985	3,873	16,870	33,728
Government securities (LFT)	10,696	36,173	35,078	11,245	93,192
Corporate securities (CDB-DI)	8,297	3,872	-	3,028	15,197
Fixed-rate National Treasury Bills	-	-	13,448	-	13,448
Floating-rate National Treasury Bills	-	-	-	-	-
National Treasury Notes (NTN-B)	-	141	598	-	739
Colina shares	52,997	-	-	-	52,997
Vistta shares	53,081	-	-	-	53,081
	125,077	53,184	53,016	31,145	262,422

The breakdown of the portfolio of exclusive funds is classified in the above tables according to their nature.

5. Trade accounts receivable

	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
		(restated)	(restated)		(restated)	(restated)
Real estate development and sales	1,698,641	1,514,783	925,878	5,309,664	3,763,902	2,108,346
(-) Adjustments to present value	(24,200)	(33,191)	(20,811)	(104,666)	(86,925)	(44,776)
Services and construction	57,826	94,094	53,873	59,737	96,005	54,095
Other receivables	6,833	32,600	15,975	6,653	3,664	879
	1,739,100	1,608,286	974,915	5,271,388	3,776,646	2,118,544
Current	1,039,549	911,333	785,025	3,158,074	2,008,464	1,254,594
Non current	699,551	696,953	189,890	2,113,314	1,768,182	863,950

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

Maturity	Company			Consolidated		
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009	01/01/2009
Up to 2007	11,905	12,307	33,463	25,037	18,106	57,216
2008	15,083	26,540	85,772	49,226	73,490	118,641
2009	19,540	99,573	665,790	47,362	189,931	1,078,737
2010	82,386	772,913	99,787	183,518	1,726,937	445,832
2011	996,746	435,166	40,848	2,854,316	1,144,940	199,308
2012	299,445	107,371	11,473	967,978	313,171	56,278
2013	254,207	43,086	9,799	727,891	98,783	46,234
2014	39,462	30,132	14,893	168,912	65,954	59,898
2015 onwards	106,437	81,198	13,090	247,148	145,334	56,400
	1,825,211	1,608,286	974,915	5,271,388	3,776,646	2,118,544

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Notes to financial statements--continued

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

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Notes to financial statements--continued

December 31, 2010

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

5. Trade accounts receivable --continued

(i) The balance of accounts receivable from units sold and not yet delivered is not fully reflected in financial statements. Its recovery is limited to the portion of revenues accounted for net of the amounts already received.

The balances of advances from clients (development and services), which exceed the revenues recorded in the period, amount to R\$158,145 at December 31, 2010 (R\$ 222,284 at 2009), and are classified in payables for purchase of land and advances from customers (Note 14).

Accounts receivable from completed real estate units delivered are in general subject to annual interest of 12% plus IGP-M variation, the financial income being recorded in income as revenue from real estate development; the amounts recognized for the years ended December 31, 2010 and 2009 totaled R\$ 26,229 and R\$ 52,159, respectively.

The allowance for doubtful accounts is estimated considering the expectation on accounts receivable losses.

The balances of allowance for doubtful accounts recorded amount to R\$ 18,916 (consolidated) at December 31, 2010 (December 31, 2009 – R\$ 17,841), and is considered sufficient by the Company's management to cover the estimate of future losses on realization of the accounts receivable balance.

In the year ended December 31, 2010, the movements in the allowance for doubtful accounts are summarized as follows:

	2010	Consolidated 2009	01/01/2009
Balance at January 1	17,841	18,815	-
Addition from the acquisition of Tenda	-	-	10,174
Additions	1,075	-	8,641
Write-offs	-	(974)	-
Balance at December 31	18,916	17,841	18,815

The reversal of the adjustment to present value recognized in revenue from real estate development for the year ended December 31 2010 totaled R\$ 8,991 (Company) and R\$ (17,741) (consolidated), respectively.

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Notes to financial statements--continued

December 31, 2010

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

5. Trade accounts receivable --continued

Receivables from real estate units not yet finished were measured at present value considering the discount rate determined according to the criterion described in Note 2.22. The rate applied by the Company and its subsidiaries stood at 5.02% in 2010 (5.22% in 2009), net of INCC.

(ii) On March 31, 2009, the Company entered into a FIDC transaction, which consists of an assignment of a portfolio comprising select residential and commercial real estate receivables arising from Gafisa and its subsidiaries. This portfolio was assigned and transferred to "Gafisa FIDC" which issued Senior and Subordinated shares. This first issuance of senior shares was made through an offering restricted to qualified investors. Subordinated shares were subscribed for exclusively by Gafisa. Gafisa FDIC acquired the portfolio of receivables at a discount rate equivalent to the interest rate of finance contracts.

Gafisa was hired by Gafisa FDIC and will be remunerated for performing, among other duties, the reconciliation of the receipt of receivables owned by the fund and the collection of past due receivables. The transaction structure provides for the substitution of the Company as collection agent in case of non-fulfillment of the responsibilities described in the collection service contract.

The Company assigned its receivables portfolio amounting to R\$ 119,622 to Gafisa FIDC in exchange for cash, at the transfer date, discounted to present value, for R\$ 88,664. The subordinated shares represented approximately 21% of the amount issued, totaling R\$ 18,958 (present value); at December 31, 2010 it totaled R\$ 16,894 (Note 8). Senior and Subordinated shares receivable are indexed by IGP-M and

incur interest at 12% per year.

The Company consolidated Gafisa FIDC in its financial statements, accordingly, it discloses at December 31, 2010, receivables amounting to R\$ 34,965 in the group of accounts of trade accounts receivable, and R\$ 18,070, is reflected in other accounts payable, the balance of subordinated shares held by the Company being eliminated in this consolidation process.

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Notes to financial statements--continued

December 31, 2010

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

5. Trade accounts receivable --continued

(iii) On June 26, 2009, the Company entered into a CCI transaction, which consists of an assignment of a portfolio comprising select residential real estate credits from Gafisa and its subsidiaries. The Company assigned its receivables portfolio amounting to R\$ 89,102 in exchange for cash, at the transfer date, discounted to present value, of R\$ 69,315, classified into the heading other accounts payable - credit assignments. At December 31, 2010, it amounts to R\$37,714 (R\$ 2009 – R\$ 104,176) in the Company, and R\$ 88,442 (R\$ 122,360) in the consolidated balance.

Eight book-entry CCIs were issued, amounting to R\$ 69,315 at the date of the issuance. These 8 CCIs are backed by receivables, which installments fall due on and up to June 26, 2014 (“CCI-Investor”).

A CCI-Investor, pursuant to Article 125 of the Brazilian Civil Code, has general guarantees represented by statutory lien on real estate units, as soon as the following occurs: (i) the suspensive condition included in the registration takes place, in the record of the respective real estate units; (ii) 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 (iii) the issue of CCI – Investor by SPEs, as provided for in Article 18, paragraph 5 of Law No. 10,931/04.

Gafisa was hired and will be remunerated for performing, among other duties, 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 Gafisa as collection agent in case of non-fulfillment of the

responsibilities described in the collection service contract.

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Notes to financial statements--continued

December 31, 2010

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

6. Properties for sale

	Company			Consolidated		
	12/31/2010	12/31/2009 (restated)	01/01/2009 (restated)	12/31/2010	12/31/2009 (restated)	01/01/2009 (restated)
Land	390,922	363,638	373,357	854,652	744,200	758,155
(-) Adjustment to present value	(14,839)	(4,319)	(2,200)	(20,343)	(11,962)	(7,600)
Property under construction	339,909	336,425	560,577	959,934	895,085	1,181,930
Completed units	165,898	42,657	29,388	272,923	121,134	96,491
	881,890	738,401	961,122	2,067,166	1,748,457	2,028,976
Current portion	653,996	604,128	778,203	1,568,986	1,332,374	1,695,130
Non-current portion	227,894	134,273	182,919	498,180	416,083	333,846

The Company has undertaken commitments to build units bartered for land, accounted for based on the fair value of the bartered units. At December 31, 2010, the balance of land acquired through barter transactions totaled R\$ 41,018 (2009 - R\$ 27,070) (Company) and R\$ 86,228 (2009 – R\$ 40,054) (consolidated).

As disclosed in Note 10, the balance of financial charges at December 31, 2010 amounts to R\$ 116,286 (2009 – R\$ 69,559) (Company) and R\$ 146,542 (R\$ 91,568) (consolidated).

The adjustment to present value in the property for sale balance refers to the portion of the contra-entry to the adjustment to present value of payables for purchase of land without effect on results (Note 14).

In 2010, the amount recognized as costs of development, sales and barter transactions was R\$ 917,163 (2009 - R\$ 877,966) in the Company and R\$ 2,634,556 (2009 – R\$ 2,143,762) in the consolidated balance.

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Notes to financial statements--continued

December 31, 2010

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

7. Other accounts receivable

	Company				
	12/31/2010	12/31/2009	01/01/2009	12/31/2010	12/31/2009
	(restated)	(restated)		(restated)	(restated)
Current accounts related to real estate ventures (a) (Note 18)	115,629	90,866	167,522	75,196	
Dividends receivable	45,496				
Advances to suppliers	13,902	4,118	32,359	16,965	6
Credit assignment receivable	4,093	4,093	7,990	7,896	
Customer financing to be released	436	4,392	4,392	1,309	
Deferred PIS and COFINS	200	-	6,416	749	
Recoverable taxes	35,174	14,440	8,262	62,797	3
Future capital contributions (b)	366,674	115,712	49,575	-	
Loan with related parties(c)	41,853	17,344	13,922	71,163	1
Judicial deposit	78,755	40,732	2,518	89,271	4
Other	4,090	17,577	48,724	34,680	3
	706,302	309,274	341,680	360,026	22
Current portion	576,236	245,246	278,110	178,305	10
Non-current portion	130,066	64,028	63,570	181,721	11

(a) The Company participates in the development of real estate ventures with other partners, directly or through related parties, based on the constitution 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 use of resources

of the venture are reflected in these balances, observing the respective interest of each investor, which are not subject to indexation or financial charges and do not have a fixed maturity date. Such transactions aim at simplifying business relations that demand the joint management of amounts reciprocally owed by the involved parties and, consequently, the control over the movements of amounts reciprocally granted which offset against each other at the time the current account is closed. The average term for the development and completion of the projects in which the resources are invested is between 24 and 30 months. The Company receives a compensation for the management of these ventures.

As mentioned in Note 1, on June 29, 2009, Gafisa and Tenda entered into a Private Instrument for Assignment and Transfer of Units of Interest and Other Covenants, in which Gafisa assigns and transfers to Tenda 41,341,895 units of interest of Cotia1 Empreendimento Imobiliário for the net book value of R\$ 41,342 (recognized in the heading "Current accounts related to real estate venture"), payable in 36 monthly installments from March 2010 to March 2013. The value of each installment will be added by interests at 0.6821% per month, and monetary adjustment equivalent to the positive variation of IGPM.

As of December 31, 2010, the balance amounted to R\$45,127.

(b) As of December 31, 2010, the balance of future capital contributions made by Gafisa in its subsidiary Tenda amounted to R\$210,304, capitalized in the subsequent period (Note 25). The remaining balance refers to future capital contributions to various SPEs that are annually paid in.

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Notes to financial statements--continued

December 31, 2010

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

7. Other accounts receivable and other--continued

(c) The loans of the Company and its subsidiaries, shown below, are made because these subsidiaries need cash for carrying out their respective activities, being subject to the respective financial charges. It shall be noted that the Company's operations and businesses with related parties follow the market practices (arm's length). The businesses and operations with related parties are carried out based on conditions that are strictly on arm's length transaction basis and appropriate, in order to protect the interests of the both parties involved in the business. The composition and nature of the loan receivable by the Company is shown below.

	2010	Company 2009	01/01/2009 (restated)	Nature	Interere
Espacio Laguna - Tembok Planej. E Desenv. Imob. Ltda.	144	1,380	2,607	Construction	12% p.a. fixe
Laguna Di Mare - Tembok Planej. E Desenv. Imob. Ltda.	7,340	1,786	116	Construction	12% p.a. fixe
Vista Laguna - Tembok Planej. E Desenv. Imob. Ltda.	677	-	-	Construction	12% p.a. fixe
Gafisa SPE 65 Empreendimentos Imobiliários Ltda.	1,478	1,252	991	Construction	3% p.a. fixe
Gafisa SPE-50 Empreendimentos Imobiliários Ltda.	-	3,774	1,339	Construction	4% p.a. fixe
Gafisa SPE-32 Empreendimentos Imobiliários Ltda.	-	1,582	896	Construction	4% p.a. fixe
Gafisa SPE-46 Empreendimentos Imobiliários Ltda.	-	447	683	Construction	12% p.a. fixe
Gafisa SPE-72 Empreendimentos Imobiliários Ltda.	-	364	301	Construction	3% p.a. fixe
Gafisa SPE-51 Empreendimentos Imobiliários Ltda.	567	715	873	Construction	3% p.a. fixe
Gafisa SPE-73 Empreendimentos Imobiliários Ltda.	2,503	1,462	1,540	Construction	3% p.a. fixe
Gafisa SPE-71 Empreendimentos Imobiliários Ltda.	939	817	514	Construction	3% p.a. fixe
Paranamirim - Planc Engenharia e Incorporações Ltda.	1,557	3,756	3,088	Construction	3% p.a. fixe
RN Incorporações Ltda.	-	-	974	Construction	12% p.a. fixe

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Gafisa SPE- 76 Empreendimentos Imobiliários Ltda.	10	9	Construction	4% p.a. fixe
Acquarelle - Civilcorp Incorporações Ltda.	791	-	-Construction	12% p.a. fixe
Manhattan Residencial I	23,342	-	-Construction	10% p.a. fix
Manhattan Comercial I	2,356	-	-Construction	10% p.a. fix
Manhattan Residencial II	101	-	-Construction	10% p.a. fix
Manhattan Comercial II	48	-	-Construction	10% p.a. fix
	41,853	17,344	13,922	

In 2010, the recognized financial income from interest on loans amounted to R\$2,007 in the Company (2009 – R\$732).

Gafisa S.A.

Notes to financial statements--continued

December 31, 2010

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

8. Investments in subsidiaries

In January 2007, upon the acquisition of 60% of AUSA, arising from the acquisition of Catalufa Participações Ltda., a capital increase of R\$ 134,029 was approved upon the issuance for public subscription of 6,358,116 common shares. This transaction generated goodwill of R\$ 170,941 recorded based on expected future profitability, which was amortized exponentially and progressively up to December 31, 2008 to match the estimated profit before taxes of AUSA on accrual basis of accounting.

As mentioned in Note 1, in May 2010 the Company approved the acquisition of the total amount of shares issued by Shertis Empreendimentos e Participações S.A., which main asset comprises 20% of the capital stock of AUSA. The acquisition of shares had the purpose of making viable the implementation of the Second Phase of the schedule for investment planned in the Investment Agreement and other Covenants