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 ___X___ Form 40-F ______

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

Yes ______ No ___X___

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

Yes ______ No ___X___

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

Yes ______ No ___X___

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

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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 undertook 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.

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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**

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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 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 extraordinarily 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.

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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)

		Company			**Consolidated**		
	Note	**2010**	**2009 (restated)**	**01/01/2009 (restated)**	**2010**	**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	8	**2,918,659**	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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		Company			Consolidated		
	Note	2010	2009 (restated)	01/01/2009 (restated)	2010	2009 (restated)	01/01/2009 (restated)
Liabilities and equity							
Current liabilities							
Loans and financing	10	**471,909**	514,831	[illegible]	[illegible]	[illegible]	[illegible]
Debentures	11	**14,097**	111,121	[illegible]	[illegible]	[illegible]	[illegible]
Payables for purchase of land and advances from customers	14	**126,294**	240,164	[illegible]	[illegible]	[illegible]	[illegible]
Materials and service suppliers	-	**59,335**	61,137	[illegible]	[illegible]	[illegible]	[illegible]
Taxes and contributions	-	**85,894**	77,861	[illegible]	[illegible]	[illegible]	[illegible]
Salaries, payroll charges and profit sharing	-	**38,416**	38,945	[illegible]	[illegible]	[illegible]	[illegible]
Minimum mandatory dividends	15.2	**98,812**	50,716	[illegible]	[illegible]	[illegible]	[illegible]
Provision for legal claims and commitments	13	**14,155**	11,266	[illegible]	[illegible]	[illegible]	[illegible]
Payables to venture partners and other	12	**105,340**	113,578	[illegible]	[illegible]	[illegible]	[illegible]
Total current liabilities		**1,014,252**	1,219,619	[illegible]	[illegible]	[illegible]	[illegible]
Non-current liabilities							
Loans and financing	10	**425,094**	324,547	[illegible]	[illegible]	[illegible]	[illegible]
Debentures	11	**1,253,399**	1,196,000	[illegible]	[illegible]	[illegible]	[illegible]
Payables for purchase of land and advances from customers	14	**42,998**	51,606	[illegible]	[illegible]	[illegible]	[illegible]
Deferred taxes liability	16	**166,012**	186,862	[illegible]	[illegible]	[illegible]	[illegible]
Provision for legal claims and commitments	13	**72,806**	69,467	[illegible]	[illegible]	[illegible]	[illegible]
Payables to venture partners and other	12	**308,474**	342,438	[illegible]	[illegible]	[illegible]	[illegible]
Total non-current liabilities		**2,268,783**	2,170,920	[illegible]	[illegible]	[illegible]	[illegible]
Equity	15						
Capital stock		**2,729,198**	1,627,275	[illegible]	[illegible]	[illegible]	[illegible]
Treasury shares		**(1,731)**	(1,731)	[illegible]	**(1,731)**	[illegible]	[illegible]
Capital reserves and options granted		**295,879**	318,439	[illegible]	[illegible]	[illegible]	[illegible]
Income reserves		**698,889**	381,651	[illegible]	[illegible]	[illegible]	[illegible]
		3,722,235	2,325,634	[illegible]	[illegible]	[illegible]	[illegible]
Non-controlling interest		**-**	-		**61,434**	[illegible]	[illegible]
Total equity		**3,722,235**	2,325,634	[illegible]	[illegible]	[illegible]	[illegible]
Total liabilities and equity		**7,005,270**	5,716,173	[illegible]	[illegible]	[illegible]	[illegible]

See accompanying notes.

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Gafisa S.A.

Income statement

Year ended December 31, 2010

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

		Company		
	Notes	**2010**	**2009 (restated)**	
Net operating revenue	19	**1,232,876**	1,185,396	**3,**
Operating costs				
Real estate development and sales	-	**(917,163)**	(877,966)	**(2,0**
Gross profit		**315,713**	307,430	**1,**
Operating (expenses) income				
Selling expenses		**(74,163)**	(64,086)	**(2**
General and administrative expenses		**(97,572)**	(107,154)	**(2**
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**
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.

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Gafisa S.A.

Statement of changes in equity

As of December 31, 2010

(In thousands of Brazilian Reais)

				Attributable to the equity holder		
						Income reser
	Note	**Capital stock**	**Treasury shares**	**Capital and stock options reserve**	**Legal 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)**	**-**	**-**

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.

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Gafisa S.A.

Cash flow statement

Year ended December 31, 2010

(In thousands of Brazilian Reais)

	CCompany		Consolidated	
	2010	2009 (restated)	2010	2009 (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)

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Gafisa S.A.

Cash flow statement--continued

Year ended December 31, 2010

(In thousands of Brazilian Reais)

	Company		**Consolidated**	
	2010	**2009 (restated)**	**2010**	**2009 (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.

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.

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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:

		Current		Non-current		
Investees	**% ownership interest**	**Asset**	**Liability**	**Asset**	**Liability**	**Equity r**
Gafisa SPE-46 Emp. Imob. Ltda.	60%	15,187	(62)	1,004	13,810	2,443
Gafisa SPE-40 Emp. Imob. Ltda.	50%	8,627	2,198	1,693	178	7,944
Dolce Vita Bella Vita SPE S/A	50%	2,073	3,961	5,952	7	4,056
Saíra Verde Emp. Imob. Ltda.	70%	806	(449)	(604)	25	626
DV SPE S/A	50%	1,812	578	856	132	1,958
Gafisa e Ivo Rizzo SPE-47 Emp. Imob. Ltda.	80%	36,170	11,485	223	8,640	16,268
Gafisa/Tiner Campo Belo I – EmpImob. SPE Ltda.	45%	6,523	2,844	2,716	248	6,146
Península I SPE S/A	50%	10,591	12,278	(277)	279	(2,242)
Península 2 SPE S/A	50%	9,169	12,273	3,220	92	24
Villaggio Panamby Trust S/A	50%	4,356	296	109	(31)	4,200
Gafisa SPE-44 Emp. Imob. Ltda.	40%	3,409	589	921	28	3,713
Gafisa SPE-65 Emp. Imob. Ltda.	80%	32,728	19,360	54	1,179	12,242
Gafisa SPE-71 Emp. Imob. Ltda.	80%	35,933	20,958	218	3,544	11,649
Gafisa SPE-73 Emp. Imob. Ltda.	80%	9,961	513			