PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Financial statements
December 31, 2016

(A free translation of the original report in Portuguese as published in Brazil containing Financial Statement prepared in accordance with accounting practices adopted in Brazil and IFRS)

Contents

Message from Management

In 2016 we made important decisions in congruence with the Company's Restructuring Plan initiated in August 2015. Throughout the year, our primary focus was on the debt renegotiation with our largest creditors and on the improvement of the Company's capital structure. Furthermore, we also focused on the decrease of administrative and operating costs.

During the first semester, PDG published a material fact, disclosing to the market the signing of a non-binding debt-restructuring agreement (“Memorandum of Understanding”) with its main creditors (Banco do Brasil, Bradesco, CEF and Itaú Unibanco), which included: (a) the rescheduling of corporate debt over 48 months, with a bullet payment of interests and amortizations; (b) the concession of new loans to cover the Company's G&A expenses, the maturity of which will take place in three years; (c) the possibility of the concession of loans to cover costs and expenses to complete works and to market projects financed by the creditors involved in the agreement; and (d) the rescheduling of the maturity dates of the debt related to the financing of production (SFH Debt) for a period of 12 to 24 months;

In August of 2016, we concluded the renegotiation of the Company’s debt with Banco Votorantim, in the amount of R$565 million, postponing the maturity to 2020, based on the same terms set forth with PDG´s main creditor banks. As a result, taking into account the agreement signed with the other creditors, we renegotiated debts in the approximate amount of R$4.0 billion, equivalent to 74% of the Company’s total debt.

Still within the Memorandum of Understanding, together with Vinci Partners, the Company entered into a credit facility in the total amount of R$100 million, which was implemented through two unsecured debenture issues, each of which divided into two series. The first series of the 9th and 10th issue, totaling R$50 million, were paid in 2016. The second series, in turn, was paid in 2017, also in the amount of R$50 million.

In addition to the renegotiation of debt that took place in the year, several initiatives aimed at the sale of assets and the dismantling of equity interests were taken, following the Restructuring Plan. In this sense, in May 2016, we entered into an agreement to sell our entire equity stake (58%) in REP, for the equivalent to R$34 million in real estate units located in São Paulo, in addition to reducing the Company’s net debt by R$214 million. Also in May 2016, we concluded the sale of 2 projects (D´oro and Arena) for R$10 million, as well as reducing the cost to be incurred by the Company by R$52 million.

In November, as disclosed to the market, we ended our partnership with HM1 in 18 SPEs, of which 3 remained with PDG and 15 with HM1, allowing the Company to use at its own discretion the assets of the remaining projects. As a result of this dismantling, there was a reduction of approximately R$237 million in total leverage (which includes net financial debt and the cost to be incurred) in 4Q16. In addition, through this operation, we reduced the cost to be incurred by R$11 million and its SFH-related debt by R$105 million. Still in November, we concluded the sale of Buona Vita Atibaia, reducing cost to be incurred by R$1.4 million and liabilities by R$8.6 million.

Still among the scope of the measures adopted to continue with the Restructuring Plan, besides the retaining of RK Partners as a financial advisor, we also announced the appointment, in November, of Mr. Vladimir Kundert Ranevsky as the Company’s CEO, CFO and Investor Relations Officer.

Despite all efforts undertaken during the year to continue with the Restructuring Plan, the deterioration of the country's economy and of the housing industry over the period, in addition to the existing operating and financial difficulties, had a substantial impact on the Company. On the one hand, we noticed that the deterioration of consumer confidence, the increase of inflation and unemployment, had a direct impact on the demand for real estate properties and on the increase of cancellations. On the other hand, the increase in interest rates and, as a result, the raise of the Company's cost of debt, coupled with the lack of funding, compromised the management and continuation of our real estate developments. All these factors put together, resulted in the interruption of some on-going works, and the accumulation of maintenance fees and property tax (IPTU) debts from finished units, as well as debts with suppliers and the increase in the Company's litigations.

Court-supervised Reorganization

In light of the delicate economic situation of the country, of the housing industry and, primarily, of the Company, the new management, together with its financial advisors, intensified the negotiation rounds with PDG´s main creditors, seeking to balance the capital structure and to unlock the funding lines to continue the development of real projects. In addition, the Company also intensified its efforts in other fronts provided for in the Plan, such as the sale of assets, the unwinding of equity interests, and the decrease in operating and administrative costs.

Despite all efforts and advances achieved, the Company's management and advisors explained that they were unable to find a sustainable, out-of-court solution for the financial crisis currently experienced by the PDG Group, and concluded that the filing of a Court-supervised Reorganization would be the most appropriate initiative to: (i) continue advancing - in an organized way and with predefined terms and procedures - with the coordination of all parties involved in the Restructuring Process; (ii) enable the maintenance of the operational normalcy of the Company's activities; in addition to (iii) preserve the Company's value and cash flow.

Another important step involving the Company's Court-supervised Reorganization was the approval of the Court-supervised Reorganization filing by the judge on 03/02/2017. Among the main measures set forth are:

(i) the appointment of PricewaterhouseCoopers Assessoria Empresarial Ltda. as the Judicial Administrator;

(ii) the suspension of the lawsuits and executions currently pending against PDG, for 180 days;

(iii) the issuance of a notice, pursuant to paragraph 1 of article 52 of the Brazilian Fiscal Responsibility Act (LRF), within 30 days for interested parties to present proof of claim and/or an objection to the claim within the Court-supervised Reorganization Process;

(iv) the presentation of the PDG Group court-supervised reorganization within 60 days.

The filing and approval of the Court-supervised Reorganization request represent essential steps towards the Company's Restructuring Process.

Operating Performance

During 2016, the Company's management made every effort to: (i) reduce commercial and administrative expenses; (ii) prioritize the inflow and preservation of cash through the unwinding of partnerships; and (iii) reduce the Company´s debt.

In line with the goal of adjusting the corporate structure to the size of the Company´s operation, over 2016, our workforce was reduced by 48%, ending 2016 with 887 employees. As a result of this initiative and the austerity measures adopted by the Company's management, the G&A expenses dropped 25% in 4Q16 in relation to 4Q15, and 22% in the year.

Commercial expenses fell by 9% in 2016. This reduction was mainly due to the absence of launches and sales campaigns in 2016.

Gross sales totaled R$334 million in 4Q16, a 9% decrease when compared to 3Q16. In 2016, gross sales reached R$1.5 billion, a 41% reduction in comparison to 2015.

Due to the cash restriction faced by the Company, during 4Q16, the amount of contract cancellations was R$172 million, 54% lower than the amount posted in 3Q16. Over 2016, the amount of contract cancellations reached R$1.1 billion, 42% lower than the contract cancellations in 2015.

As a result of the lower volume of contract cancellations in 4Q16, net sales for the period were R$162 million, 153% higher than in 4Q15. In 2016, net sales totaled R$332 million, a 40% drop in relation to 2015.

In 4Q16, we delivered 1 project and, despite the more restrictive circumstances of cash and credit for financing production, in 2016, we delivered 16 projects, of which 13 were financially managed by PDG, with a total of 5,552 units and PSV of approximately R$1.6 billion (PDG’s share). As a result, in the beginning of 2017 we only had 27 on-going projects.

The real estate credit restriction over the year, in addition to directly impacting the number of units delivered in 2016, has also impacted the volume of transfers, decreasing it by 54% when compared to 2015. Thus, totaling 6,520 units transferred during the year, which is equivalent to a PSV of R$1.3 billion.

Since the end of 2012, total cost to be incurred, which amounted to R$7.1 billion, experienced an 88% drop, reducing the Company's operational risk in a very expressive way. Despite de unwinding of partnerships, the cost to be incurred remained at R$860 by the end of the year. The R$81 million increase in our costs to be incurred between 2015 and 2016, was mainly due to the adjustment of Brazil's Construction Inflation (INCC) and the revision of the works budget that took place in the second semester, whose pace was slowed due to the Company's cash restrictions.

We continued reducing the balance of our construction financing debt (SFH), as a result of the delivery and transfer of real estate developments and the unwinding of partnerships. We managed to reduce the full balance of the SFH debt by R$182 million (16%) between 3Q16 and 4Q16, and by R$690 million (42%) over the last 12 months.

As a result, extended leverage, which takes into account the net debt and the cost to be incurred, decreased R$53 million between 3Q16 and 4Q16 and R$352 million during 2016. We will continue taking all necessary steps to accelerate the cash inflows, focusing on the monetization of assets, the reduction of costs and the adjustment of the Company's liabilities.

The Company remains successful in its deleveraging efforts. In 4Q16, the net debt was reduced by R$53 million, R$11 million of which were related to the unwinding of the partnership with HM1. In the year, the net debt decreased R$433 million.

On September 19th, the Company amortized all 198,905,897 debentures from its 8th issue of simple, share-convertible debentures, for the nominal unit amount of R$0.01, totaling R$1,989,058.97. Due to their maturity, the debentures ceased trading on their amortization date.

The filing and approval of the Court-supervised Reorganization request represent important steps to continue with the Company's Restructuring Process, which will be a crucial to equalize PDGs financial and operational situation. With the Plan, we will seek to negotiate with our creditors and stakeholders an efficient and comprehensive solution for the Company.

The Company’s Management.

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Independent auditor's report on the financial statements

To
The Management and Shareholders of
PDG Realty S.A. Empreendimentos e Participações – Under Court-Supervised Reorganization
São Paulo - SP

Disclaimer of Opinion
We were engaged to audit the individual and consolidated financial statements of PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization ("Company") identified as Individual and Consolidated, respectively which comprise the balance sheet as of December 31, 2016 and the related income statement, comprehensive income and changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.
We do not express an opinion on the individual and consolidated financial statements of PDG Realty S.A. Empreendimentos e Participações - Under Court- Supervised Reorganization and its subsidiaries. Due to the relevance of the matters described in the section entitled "Basis for Disclaimer of Opinion", we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an opinion on these individual and consolidated financial statements.

Basis for disclaimer of opinion
The Company and its subsidiaries have incurred in losses of R$ 5,430,942 thousand, during the year ended December 31, 2016, and, on this date, the consolidated current liabilities exceeded consolidated current assets by R$ 3,103,226 thousand, as well as presented a negative net equity of R$ 3,414,502 thousand. Additionally, as described in note 31.a of the financial statements, the Company and certain subsidiaries have filed the petition for a court-supervised reorganization on February 22, 2017 in the São Paulo Court of Justice. According to Law 11101/2005, the Company and its subsidiaries must present the reorganization plan in 60 days from the petition publication, occurred on March 02, 2017, which will include the details of the recovery plan to be adopted, including the economic feasibility of the plan and valuation of assets. Considering the equity and financial situation, the Company and its subsidiaries are in process of preparing the recovery plan and the operational continuity will depend on the approval of the referred plan on the creditors' general meeting, on current stage of the matter, it is not possible to determine the outcome of the matter, its impact on the individual and consolidated financial statements, as well as to determine if the use of going concern assumption , basis for the preparation of these financial statements, is appropriate.

Emphasis - OCPC 04 Guideline issued by the Accounting Pronouncements Committee
As described in Note 2.2, individual and consolidated financial statements were prepared in accordance with Brazilian accounting practices. The individual and consolidated financial statements prepared in accordance with IFRS applicable to real estate development entities also consider OCPC 04 Guideline issued by the Accounting Pronouncements Committee. This guideline addresses income recognition of this industry and involves matters related to the meaning and application of the risk and benefit continuous transfer concept and of the control on sale of real estate units concept, as further described in Note 2.10. Our opinion has not changed in this respect.

Other matters - *Statements of added value*

We were engaged to audit the individual and consolidated statements of value added (DVA) for the year ended December 31, 2016, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes. In order to form our opinion, we assessed whether those statements reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). However, due to the relevance of the matter described on section entitled "Basis for disclaimer of opinion", we have not been able to obtain sufficient and appropriate evidence to provide a basis for a conclusion on the individual and consolidated value-added statements, as well as if they are consistent with the individual and consolidated financial statements as a whole. Consequently, we do not express an opinion on the Statement of added value.

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

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with Brazilian accounting practices and consolidated financial statements in accordance with Brazilian accounting practices and with International Financial Reporting Standards (IFRS), applicable to Real Estate Development Entities in Brazil approved by the Accounting Pronouncements Committee (CPC), by the Brazilian Securities Commission (CVM) and the Federal Accounting Council (CFC), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our responsibility is to conduct an audit of the individual and consolidated financial statements of the Company in accordance with Brazilian and international standards on auditing and issue an audit report.. However, due to the relevance of the matter described on section entitled "Basis for disclaimer of opinion" we have not been able to obtain sufficient and appropriate evidence to provide a basis for an opinion on these financial statements.

We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements.

São Paulo, March 29, 2017
KPMG Auditores Independentes
CRC 2SP014428/O-6

Original report in Portuguese signed by
Ederson Rodrigues de Carvalho

Accountant CRC 1SP199028/O-1

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Balance sheets at December 31, 2016 and 2015
(In thousands of reais - R$)

		Parent company		Consolidated	
Assets	**Note**	**2016**	**2015**	**2016**	**2015**
Current assets					
Cash and cash equivalents	4.a	5,931	17,488	200,973	604,093
Trade accounts receivable	5	17,775	61,177	1,249,963	2,227,031
Real estate inventories for sale	6	36,543	14,820	1,166,612	1,722,545
Current taxes recoverable		11,334	22,934	44,117	87,691
Deferred taxes	15.b	-	-	10,214	-
Loan agreement	11.d	2,723	-	24,564	77,673
Unrecorded sales expenses		-	-	7,763	9,137
Other credits		6,637	57,217	-	120,030
Total current assets		**80,943**	**173,636**	**2,704,206**	**4,848,200**
Non-current assets					
Trade accounts receivable	5	6,986	33,564	772,702	3,264,276
Real estate inventories for sale	6	3,651	22,488	706,102	1,798,701
Deferred taxes	15.b	-	-	-	2,457
Loan agreement	11.d	-	41,194	-	-
Current accounts with partners in joint ventures	11.d	12,530	-	60,165	185,975
Advances for future capital increase	11.a	-	1,918,327	-	-
Credit receivables purchased		-	155,775	-	-
Other credits		-	101,481	223,503	2,350
		23,167	**2,272,829**	**1,762,472**	**5,253,759**
Investments	7	2,140,807	4,024,970	49,012	218,479
Investment properties	8	-	-	-	473,465
Property, plant and equipment	9	1,818	975	27,640	36,219
Intangible assets	10	31,460	33,864	107,684	127,923
		2,174,085	**4,059,809**	**184,336**	**856,086**
Total non-current assets		**2,197,252**	**6,332,638**	**1,946,808**	**6,109,845**
Total assets		**2,278,195**	**6,506,274**	**4,651,014**	**10,958,045**

		Parent company		Consolidated	
Liabilities and shareholders' equity	**Note**	**2016**	**2015**	**2016**	**2015**
Current liabilities					
Loans and financing	12	45,398	791,807	1,013,591	1,735,042
Suppliers		22,952	23,964	251,319	230,490
Debentures	13.a	1,546,357	891,140	1,546,357	958,829
Payables for acquisition of real estate	14	4,517	6,569	85,825	174,774
Tax, social and labor liabilities	15	1,619	7,556	185,557	215,260
Provision for contingencies	17	32,736	1,499	336,757	128,735
Provision for guarantees	17	98	516	51,828	62,135
Income and social contribution taxes payable		-	-	97,562	76,288
Deferred taxes	15.b	543	1,538	45,483	56,399
Current accounts with partners in joint ventures	11.d	-	-	5,798	9,135
Co-obligation in the assignment of receivables		-	-	24,411	31,460
Liabilities from CCB/CCI issuance	13	1,542,375	2,039,914	1,811,544	2,460,204
Loan agreement	11.d	-	-	-	7,802
Advances from clients	16	34	34	188,928	156,641
Other liabilities		10,606	10,772	162,472	216,438
Total current liabilities		**3,207,235**	**3,775,309**	**5,807,432**	**6,519,632**
Non-current liabilities					
Loans and financing	12	385,401	159,201	387,571	924,278
Debentures	13.a	34,609	-	34,609	-
Payables for acquisition of real estate	14	-	-	34,701	101,708
Deferred taxes	15.b	-	-	44,919	219,372
Tax, social and labor liabilities	15	-	-	24,667	-
Provision for guarantees	17	447	-	50,890	67,007
Provision for contingencies	17	42,487	7,699	720,423	341,627
Current accounts with partners in joint ventures	11.d	116,549	-	131,615	-
Liabilities from CCB/CCI issuance	13	499,595	22,680	501,040	45,165
Advances from clients	16	-	2,750	72,368	147,514
Other liabilities		1,364,073	604,380	255,281	207,177
Total non-current liabilities		**2,443,161**	**796,710**	**2,258,084**	**2,053,848**
Shareholders' equity					
Capital stock	18.a	4,917,843	4,917,843	4,917,843	4,917,843
Capital reserve and treasury shares		1,236,706	1,235,345	1,236,706	1,235,345
Accumulated losses		(9,526,750)	(4,218,933)	(9,526,750)	(4,218,933)
Shareholders' equity attributable to controlling shareholders		**(3,372,201)**	**1,934,255**	**(3,372,201)**	**1,934,255**
Shareholders' equity attributable to non-controlling shareholders	7.b	-	-	(42,301)	450,310
Total shareholders' equity		**(3,372,201)**	**1,934,255**	**(3,414,502)**	**2,384,565**
Total liabilities and shareholders' equity		**2,278,195**	**6,506,274**	**4,651,014**	**10,958,045**

See the accompanying notes to the financial statements.

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Statements of income for the years ended December 31, 2016 and 2015
(In thousands of reais - R$)

		Parent company		Consolidated	
	Note	**2016**	**2015**	**2016**	**2015**
Net operating income	24	9,809	21,176	247,228	1,824,301
Cost of units sold	25	(21,004)	(23,155)	(972,981)	(1,866,356)
Gross Income		**(11,195)**	**(1,979)**	**(725,753)**	**(42,055)**
Operating expenses and income					
Business	28	(4,066)	(1,931)	(142,685)	(156,713)
General and administrative	27	(54,692)	(34,964)	(202,013)	(258,747)
Tax		(406)	(853)	(15,050)	(11,561)
Equity pick-up on subsidiaries	7	(4,450,809)	(1,626,026)	578	113,380
Capital gains and losses on ownership interests	29	(116,375)	(1,955)	(43,643)	4,485
Depreciation and amortization		(49,956)	(321,642)	(88,302)	(412,194)
Other operating income (expenses), net	29	51,673	(244,405)	(3,404,434)	(1,365,215)
		(4,624,631)	**(2,231,776)**	**(3,895,549)**	**(2,086,565)**
Profit or loss before financial income and expenses		**(4,635,826)**	**(2,233,755)**	**(4,621,302)**	**(2,128,620)**
Financial income and expenses					
Financial income	26	15,668	119,883	121,431	287,739
Financial expenses	26	(687,344)	(650,441)	(932,422)	(959,300)
		(671,676)	**(530,558)**	**(810,991)**	**(671,561)**
Income (loss) before income and social contribution taxes		**(5,307,502)**	**(2,764,313)**	**(5,432,293)**	**(2,800,181)**
Income and social contribution taxes	15	(315)	(69)	1,351	(42,301)
Net income (loss) for the year		**(5,307,817)**	**(2,764,382)**	**(5,430,942)**	**(2,842,482)**
Attributable to:					
Controlling shareholders		(5,307,817)	(2,764,382)	(5,307,817)	(2,764,382)
Non-controlling shareholders	7.b	-	-	(123,125)	(78,100)
		(5,307,817)	**(2,764,382)**	**(5,430,942)**	**(2,842,482)**
Net loss per share (in reais) - basic and diluted	18.b	**(107.90000)**	**(68.92518)**	**(107.90000)**	**(68.92518)**

See the accompanying notes to the financial statements

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Statements of comprehensive income for the years ended December 31, 2016 and 2015
(In thousands of reais - R$)

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Net loss for the year	(5,307,817)	(2,764,382)	(5,430,942)	(2,842,482)
Other comprehensive income				
Investment translation adjustments	-	15,232	-	15,232
Total comprehensive income for the years	**(5,307,817)**	**(2,749,150)**	**(5,430,942)**	**(2,827,250)**
Loss attributable to the controlling shareholders	(5,307,817)	(2,749,150)	(5,307,817)	(2,749,150)
Loss attributable to non-controlling shareholders	-	-	(123,125)	(78,100)

See the accompanying notes to the financial statements

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Statements of cash flows (Indirect method) for the years ended December 31, 2016 and 2015
(In thousands of reais - R$)

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Operating activities				
Income (loss) before income and social contribution taxes	**(5,307,502)**	**(2,764,313)**	**(5,432,293)**	**(2,800,181)**
Depreciation and amortization	49,956	321,642	88,302	412,194
Gains/losses in ownership interest	116,375	1,955	43,643	(4,485)
Financial expenses (interest paid and monetary variation)	662,535	586,664	843,454	945,343
Fair value on financial instruments	-	(2,752)	-	(2,752)
Commercial expenses (write-off of stand)	32	60	6,607	15,375
Stock options expense	1,361	1,430	1,361	1,430
Write-off for impairment of goodwill, interest, and real estate inventories	6,912	-	612,726	286,415
Fair value of investment properties	-	-	-	114,181
Equity income (loss)	4,450,809	1,626,026	(578)	(113,380)
Adjustments to present value	-	1,192	16,761	27,946
Estimated losses with doubtful accounts	9,089	165	562,304	155,770
Provision for profit sharing	-	1,349	23,005	8,500
Provision for contingencies and guarantees	66,445	(739)	664,714	228,489
Other	(379,291)	201,891	(2,310)	329,993
	(323,279)	**(25,430)**	**(2,572,304)**	**(395,162)**
Changes in assets and liabilities				
Assignment of credit receivables	-	74,306	-	76,678
Loan agreement receivable	6,633	24,918	6,647	(2,642)
Accounts receivable	30,086	21,564	2,046,898	2,417,674
Recoverable taxes	(942)	29,537	2,818	40,167
Real estate inventories for sale	23,851	15,505	509,967	484,460
Unrecognized expenses	-	383	(11,220)	8,106
Current account with joint ventures' partners	104,019	-	22,812	(53,855)
Debentures	-	31,167	-	26,634
Advance from clients	34	(88)	27,383	(267,740)
Payables for acquisition of real estate	4,517	(2,501)	(12,324)	(267,789)
Fiscal and labor obligations	5,471	4,883	(11,036)	(9,534)
Suppliers	(2,398)	12,069	3,720	(122,656)
Other	381,791	252,965	85,475	(200,848)
	553,062	**464,708**	**2,671,140**	**2,128,655**
Interest and taxes paid				
Income and social contribution taxes	(176)	(78)	(87,471)	(153,201)
Interest paid	(265,157)	(516,941)	(337,048)	(811,622)
	(265,333)	**(517,019)**	**(424,519)**	**(964,823)**
Cash flow from operating activities	**(35,550)**	**(77,741)**	**(325,683)**	**768,670**
Investment activities				
(Increase) decrease in interest in associated companies and subsidiaries	(395,971)	300,762	1,023,634	261,111
Acquisition and sale of property, plant and equipment	(372)	(783)	(888)	2,245
Intangible assets	(1,797)	(5,827)	(4,190)	(9,760)
Advances for future capital increase	670,517	(634,120)	-	-
Liability regarding the acquisition of equity interest	-	(45,468)	-	-
Investment properties	-	-	-	(24,319)
Interest earning bank deposits	-	21,017	-	21,017
Cash flow from investment activities	**272,377**	**(364,419)**	**1,018,556**	**250,294**
Financing activities				
Loans	147,960	1,458,528	208,074	2,347,309
Loan amortization	(396,344)	(1,784,352)	(1,304,067)	(4,306,198)
Capital increase	-	499,753	-	499,753
Cash flow from financing activities	**(248,384)**	**173,929**	**(1,095,993)**	**(1,459,136)**
Increase (decrease) in cash and cash equivalents	**(11,557)**	**(268,231)**	**(403,120)**	**(440,172)**
Balances of cash and cash equivalents:				
At the beginning of the year	17,488	285,719	604,093	1,044,265
At the end of the year	5,931	17,488	200,973	604,093
Increase (decrease) in cash and cash equivalents	**(11,557)**	**(268,231)**	**(403,120)**	**(440,172)**

See the accompanying notes to the financial statements

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Statements of changes in shareholders' equity for the years ended December 31, 2016 and 2015
(In thousands of reais - R$)

	Capital								
	Paid-up capital	**Issuance expenses**	**Net capital from expenses**	**Capital reserves and granted options**	**Accumulated losses**	**Other comprehensive income**	**Shareholders' equity**	**Interest of non-controlling shareholders**	**Consolidated shareholders' equity**
Balances at December 31, 2014	**4,960,080**	**(52,237)**	**4,907,843**	**744,162**	**(1,403,191)**	**(66,592)**	**4,182,222**	**879,527**	**5,061,749**
Capital increase	10,000	-	10,000	489,753	-	-	**499,753**	**-**	**499,753**
Expenses with options granted	-	-	-	1,430	-	-	**1,430**	**-**	**1,430**
Realization of comprehensive income	-	-	-	-	(51,360)	66,592	**15,232**	-	**15,232**
Net change in non-controlling shareholders	-	-	-	-	-	-	**-**	(351,117)	**(351,117)**
Net income (loss) for the year	-	-	-	-	(2,764,382)	-	**(2,764,382)**	(78,100)	**(2,842,482)**
Balance at December 31, 2015	**4,970,080**	**(52,237)**	**4,917,843**	**1,235,345**	**(4,218,933)**	**-**	**1,934,255**	**450,310**	**2,384,565**
Expenses with options granted	-	-	-	1,361	-	-	**1,361**	**-**	**1,361**
Net change in non-controlling shareholders	-	-	-	-	-	-	-	(369,486)	**(369,486)**
Net income (loss) for the year	-	-	-	-	(5,307,817)	-	**(5,307,817)**	(123,125)	**(5,430,942)**
Balances at December 31, 2016	**4,970,080**	**(52,237)**	**4,917,843**	**1,236,706**	**(9,526,750)**	**-**	**(3,372,201)**	**(42,301)**	**(3,414,502)**

See the accompanying notes to the financial statements

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization

Statements of added value for the years ended December 31, 2016 and 2015
(In thousands of reais - R$)

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Incomes				
Gross income from real estate sales and services	7,215	26,670	179,664	1,756,847
Other income				
Other operating income	3,632	588	57,804	125,244
	10,847	**27,258**	**237,468**	**1,882,091**
Inputs acquired from third parties				
Cost of products, goods and services sold	(21,004)	(23,155)	(972,981)	(1,866,356)
Materials, energy, outsourced services and other	(31,333)	(23,849)	(198,734)	(241,342)
Loss/recovery of asset values	(116,375)	(1,955)	(43,643)	4,485
Other	51,673	(244,405)	(3,404,434)	(1,365,215)
	(117,039)	**(293,364)**	**(4,619,792)**	**(3,468,428)**
Gross added value	**(106,192)**	**(266,106)**	**(4,382,324)**	**(1,586,337)**
Retentions				
Depreciation and amortization	(49,956)	(321,642)	(88,302)	(412,194)
	(49,956)	**(321,642)**	**(88,302)**	**(412,194)**
Net added value produced	**(156,148)**	**(587,748)**	**(4,470,626)**	**(1,998,531)**
Added value received as transfer				
Equity income (loss)	(4,450,809)	(1,626,026)	578	113,380
Financial income	15,668	119,883	121,431	287,739
	(4,435,141)	**(1,506,143)**	**122,009**	**401,119**
Total added value payable	**(4,591,289)**	**(2,093,891)**	**(4,348,617)**	**(1,597,412)**
Added value for distribution				
Personnel				
Direct remuneration	19,969	9,666	96,088	103,356
Benefits	445	356	7,963	10,958
Contribution to the Severance Indemnity Fund – FGTS	1,949	509	8,084	11,472
	22,363	**10,531**	**112,135**	**125,786**
Taxes, rates and contributions				
Federal and municipal	6,746	9,024	23,724	138,251
	6,746	**9,024**	**23,724**	**138,251**
Third-party capital remuneration				
Interest	676,608	631,756	890,947	892,488
Rents	75	495	14,044	21,733
Other	10,736	18,685	41,475	66,812
	687,419	**650,936**	**946,466**	**981,033**
Own capital remuneration				
Loss for the period	(5,307,817)	(2,764,382)	(5,430,942)	(2,842,482)
	(5,307,817)	**(2,764,382)**	**(5,430,942)**	**(2,842,482)**
Distribution of added value	**(4,591,289)**	**(2,093,891)**	**(4,348,617)**	**(1,597,412)**

See the accompanying notes to the financial statements

Notes to the financial statements

(In thousands of reais)

1 Operations

PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization ("Company" or "PDG"), its subsidiaries and joint ventures are engaged in: (a) holding interest in other companies that operate in the real estate industry, as shareholder, quotaholder, consortium member, or through other types of investment, such as subscription or acquisition of debentures, subscription bonus or other real estate amounts; (b) acquisition of investment properties; and (c) acquisition of properties for real estate development.

Established as a corporation domiciled in Brazil, the Company's shares are traded at BM&FBOVESPA – "PDGR3". The Company's head office is located at Avenida Dr. Cardoso de Melo, 1.955, 10th floor, Vila Olímpia, São Paulo – SP.

The Company has some real estate development joint ventures that were structured through subsidiaries, associated companies and jointly-controlled subsidiaries. Third parties' interest in investees is held through Special Purpose Entities (SPE's).

In addition to funds generated in its operations, the Company uses funds from the Habitational Financial System ("SFH") and from prime financial institutions.

The Company classifies and allocates the credit facilities for working capital, at regular market conditions, or to produce its joint ventures entered into at SFH conditions and equivalent.

In order to align the Company's negoatiation current context to its creditors, we hired, in November 2016, RK Partners Assessoria Financeira to be our financial advisor for debt restructuring started in August 2015, maintaining the objective of reinforcing cash flow and optimizing the Company's capital structure so as to preserve the capacity of honoring obligations assumed with creditors and clients.

During the years 2015 and 2016, PDG dedicated to the renegotiation of debts with creditors. Such negotiations were partially successful; however, issues about releasing a portion of funds for completing works, performance of contract cancellations, and payment of suppliers in arrears, did not occur as planned.

Additional issues like the increase in interest rates, deceleration of economic activity, increase in unemployment, contract cancellations, and default, worsened throughout 2016, and, in view of such scenario, PDG concluded that a viable alternative to keep financial control and going concern would be the court-Supervised reorganization request, according to Note 31a.

The Company is still focused on actions to generate future cash flow and reorganize its shareholders' equity.

2 Presentation of financial statements and significant accounting policies

2.1. Basis of presentation

The individual and consolidated financial statements were prepared considering the assumption of the going concern of the Company and its subsidiaries and associated companies ("Group"). The preparation of Financial Statements requires the adoption of assumptions to account for certain assets, liabilities and other transactions, such as: budgeted cost of building joint ventures under construction, allowance for doubtful accounts, useful life of fixed assets, provision for contingencies and guarantees and, classification of short and long-term assets and liabilities, among other.

The results calculated upon the realization of the facts that led to the recognition of these estimates may differ from the amounts recognized in these financial statements. Management periodically and timely monitors and reviews these estimates and the assumptions at least once a year.

The functional currency in which the individual and consolidated financial statements are reported is Real (R$). All amounts presented in these financial statements are expressed in thousands of Reais, except when otherwise indicated.

The Company's accounting policies have been consistently applied to all the periods presented in these individual and consolidated financial statements.

2.2. Statement of conformity

Company's individual financial statements have been prepared in accordance with accounting practices adopted in Brazil (BR GAAP), which, in the Company's case, differ from separate statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), referring to:

a. Capitalization of interest incurred by the Parent Company and recorded under caption investments in relation to assets under construction of its subsidiaries, which, for IFRS purposes, are capitalized only in consolidated financial statements and not in separate financial statements.

The Consolidated Financial Statements have been prepared in accordance with IFRSs issued by the IASB and pursuant to Brazilian GAAP practices.

Specifically, consolidated financial statements are in conformity with IFRS's applicable to entities of real estate development in Brazil, including Guideline OCPC 4, as further described in Note 2.10, regarding treatment given to recognition of revenue in real estate industry, which involves matters related to the application of the concept of continuous transfer of risks, benefits and control over sold real estate units.

There is no difference between consolidated shareholders' equity and consolidated income attributable to the parent company's shareholders. Therefore, the consolidated information is prepared in accordance with IFRSs..

The issue of the financial statements of the Company was authorized by its Management on March 29, 2017.

2.3. Presentation of segment information

Information per operating segment is presented consistently with the internal report provided to the main operating decision maker, the executive responsible for the finance and investor relations offices, mostly comprised of home real estate development.

2.4. Financial instruments

The financial instruments may be classified as financial assets or liabilities at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale or derivatives classified as effective hedge instruments or financial liabilities at amortized cost, according to the specific case. The

Company determines the classification of its financial instruments upon its initial recognition, when it becomes part of the contractual provisions.

The Company's financial assets and liabilities include cash and cash equivalents, interest earning bank deposits, trade accounts receivable, other accounts receivable, debentures payable, bank credit bills payable ('CCBs'), suppliers, accounts payable for real estate acquisition, loans or financing and related parties.

The subsequent measurement of financial assets and liabilities depends on their classification, which can be as follows:

Financial assets at fair value through profit or loss

a. ***Cash and cash equivalents***

Cash equivalents are maintained for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company considers as cash equivalent, interest earning bank deposits that are immediately convertible into a known cash amount. The Company's interest earning bank deposits are represented by DI funds, Bank Deposit Certificates (CDBs) and repurchase and resale commitments with redemption period lower than 90 days of respective transactions dates.

b. ***Interest earning bank deposits***

They are under the heading "Interest earning bank deposits" recognized as contra-entry in income (loss). Classification depends on the purpose for which investment was acquired.

The Company's interest earning bank deposits are trading securities measured at cost plus interest, price-level restatements, adjustment to market value, less impairment losses, when applicable, incurred up to dates of individual and consolidated financial statements not subject to significant changes in value. The breakdown of these interest earning bank deposits is shown in Note 4.

Receivables and loans

a. ***Trade accounts receivable***

Presented at nominal or realization value, subject to adjustment to present value (AVP), indicated in note 5, including price-level restatement and interest, when applicable.

Monetary restatement and earnings on the balance of accounts receivable from units under construction are recorded in income (loss) for the year as "Income from real estate sales". After the construction period, interest is accounted for as "Financial income".

The Company forms allowance for doubtful accounts ("PCLD") for amounts whose recovery is considered remote in a sum considered sufficient by Management. Estimates used to form the allowance for doubtful accounts are based on contracts that are considered as difficult to collect and for which there are no actual guarantees and that, in the Company's case, are directly related to the transfer of real estate unit to buyers.

b. ***Financial liabilities***

They are classified as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost, or as derivatives classified as hedge instruments, as the case may be. The Company classifies its financial liabilities upon initial recognition.

Financial liabilities are initially recognized at fair value, and in the case of financial liabilities at amortized cost, include directly related transaction costs.

The Company's financial liabilities include mainly Trade accounts payable, Accounts Payable for the acquisition of real estate, Other accounts payable, Loans and financing, Derivative Financial Instruments and Costs and premiums on securities issuance.

c. *Derivative financial instruments (liabilities)*

They are recognized only as from the date the Company become a party to their contractual provisions. When recognized, they are initially recorded at its fair value plus any transaction costs directly attributed to its acquisition or issue, when applicable. Its subsequent measurement takes place at the balance sheet date and in accordance with the rules set forth and features for each type of classification of financial liabilities.

Classification as debt or equity

Debt instruments or equity instruments are classified in accordance with the substance of contract terms.

Liabilities at amortized cost

Loans and financing, certificates of real estate receivables (CRIs), liabilities from CCB/CCI issuance and debentures payable

The initial recognition of Loans and financing, certificates of real estate receivables, Liabilities from CCB/CCI issuance and debentures (except the debentures of the 8^{th} issuance which are stated at fair value through profit or loss – see Note 13b and 19) subject to interests are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement upon write-off of liabilities, as well as during the amortization process by the effective interest rate method.

Loans and financing are restated by the monetary variance and charges agreed on in a contract, and allocated up to the balance sheet date. Debentures payable are adjusted in conformity with indices provided for in contract up to the balance sheet date.

The Company settles real estate receivables credit grants when securitization and respective issuance of CRI's is performed. This assignment has right of recourse against the Company and, accordingly, the balance of Accounts receivable granted is recorded in the balance sheet as a contra entry to the amount received in advance and recorded in current and non-current liabilities. Contracted credit facilities are presented per type of debt and classified as financing, support to production and working capital.

The Company reports debts at the funded amount deducted from transaction costs, discounts and incurred premiums.

Payables for acquisition of real estate

Obligations established in contract for land acquisitions are recorded at the original value plus, when applicable, corresponding charges and price-level restatements.

2.5. Real estate for sale

a. *Land, Real estate under construction and developed property*

Real estate under construction or the properties already to be marketed are recorded at construction cost incurred, which does not exceed its net realizable value.

The incurred cost includes: land; materials; hired labor; and other related construction costs, including financial cost of applied capital (financial charges for accounts receivable from land acquisition, real estate credit transactions incurred during construction and interest on debenture issuance, which are capitalized under caption "Real estate inventories for sale" and recognized in the Company's income (loss) at the proportion of costs incurred in caption "Cost of real estate real estate sold").

The net realizable value is the estimated sales price under normal business conditions, minus the execution costs. Land is recorded at the cost of acquisition, plus any financial charges generated by its corresponding accounts payable.

b. *Physical exchanges recorded at fair value*

Physical exchanges upon purchase of land with units to be built are recorded at fair value, evaluated at sales value of exchanged units, accounted for in caption “Real estate inventories for sale” as a contra entry to caption “Advances from clients”, and real estate sales income is recognized in accordance with income recognition criteria described in Note 2.10.

2.6. Intangible assets

Intangible assets acquired separately are measured at cost and, subsequently, deducted from accumulated amortization and impairment losses, when applicable. The cost of intangible assets acquired in a business combination corresponds to their fair value at acquisition date. The useful life of the intangible asset is classified as defined or undefined.

Intangible assets with defined useful lives are amortized throughout their economic useful lives and evaluated in relation to impairment losses whenever there is any indication that the asset lost economic value.

Intangible assets with undefined useful lives are not amortized but tested for impairment on an annual basis, individually or at cash generating unit level.

2.7. Adjustment to present value (AVP)

Assets and liabilities resulting from relevant short-term transactions, or long-term transactions with no expected compensation or subject either to: (a) prefixed interest; (b) interest rates notably below market rates for similar transactions; and (c) adjustments solely for inflation absent accrued interest are adjusted to their present value.

On term sales of not concluded real estate units, receivables are adjusted at present value, based on long-term interest rate, and their reversals are recognized in the income (loss) for the year under the caption “Income from sale of real estate".

2.8. Provisions

They are recognized when the Company have a present (legal or constructive) obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in the statement of income, net of any reimbursement.

a. *Provision for guarantees*

They are recorded during joint ventures’ construction work and comprise the Cost of Real Estate Sold to those related to the period of five years after construction work end. Provision for guarantees based on expenditures budget and history are recognized for joint ventures built by the Company.

Third party construction companies assume the responsibility for guarantees after construction work period of joint ventures built by them. However, in cases in which these construction companies do not pay corresponding costs, the Company is jointly responsible and recorded a Provision for guarantees.

The transfer of amount for the provision for guarantees for the current liabilities is carried as the history of disbursements and budget projection and at the extent joint ventures are completed and delivered to buyers; thus, beginning the warranty period.

b. *Income and social contribution taxes ("IR and CS")*

Deferred tax assets

Deferred tax credits resulting from tax loss or negative social contribution basis are only recognized to the extent their realization is likely, based on the future taxable profitability outlook. Prepayments and amounts that can be offset are presented in non-current assets, in accordance with their expected realization.

The book value of deferred tax assets is reviewed monthly and are recognized to the extent in which it is probable that future taxable income will permit that these assets are recovered. Additional details on deferred taxes are included in Note 15b.

Current and deferred tax liabilities

The income and social contribution tax expense comprises current and deferred taxes on income and are recognized in the income (loss).

Current taxes are the expected taxes payable on the taxable income for the year, at tax rates enacted or substantively enacted on the date of presentation of the financial statements, and any adjustments to taxes payable in relation to prior years.

The deferred tax liabilities are recognized in relation to the temporary differences between the book values of assets and liabilities for accounting purposes and the related amounts used for taxation purposes.

Deferred tax liabilities are measured at tax rates expected to be applied to temporary differences when they are reversed, based on laws enacted or substantively decreed up to the date of presentation of the Financial statements.

The recognition of deferred IR and CS are provided for by CPC 26 and CPC 32; these pronouncements establish that such taxes are accounted for in the non-current group.

Taxable income regime: For the subsidiaries companies that opted for the taxation regime based on taxable income, the income and social contribution taxes, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 per year for income tax and 9% on taxable income for social contribution on income, and consider the offsetting of tax loss carryforward and negative basis of social contribution limited to 30% of the taxable income.

Special tax regime of detached assets (“RET”): Introduced by Law No. 10.931/2004 and applicable to real estate joint ventures that opted for this regime, on optional and irreversible basis while the rights and obligations of the real estate developer are effective in relation to real estate buyers that comprise the detached assets. Each joint venture under the RET is taxed at the rate of 1.92% for income tax and social contribution, and 2.08% for the tax for social security financing (COFINS) and the contribution to the social integration program (PIS).

Deemed income regime: Applicable to companies which annual income for the immediately previous year is lower than R$ 78,000. In this context, the calculation basis of income tax and social contribution tax is calculated at the rate of 8% and 12% respectively, on gross income (32% when the income arises from service provision and 100% from financial income), to which the regular income tax and social contribution rates are applied, mentioned in taxable income system.

c. Profit sharing - Employees and Management

The Company and its subsidiaries have employees' benefit plan in the form of profit sharing and bonus plans and, when applicable, are recognized in income under caption "General and administrative expenses". Provision for bonus and bonus payments are based on annual income goal duly approved by the Company's Board of Directors.

Additionally, the bylaws of the Company and its subsidiaries establish the profit distribution to the Management.

2.9. Significant judgments, estimates and assumptions

a. Fair value of financial instruments

When the fair value of the financial assets and liabilities presented in the balance sheet cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. The data for these methods are based on those adopted by the market, when possible. However, when such data are not available, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the data utilized, such as liquidity, credit and volatility risk. Changes in the assumptions related to these factors can affect the fair value presented for the financial instruments.

b. Provision for tax, civil and labor risks

The Company recognizes provision for tax, civil and labor claims. Determination of the likelihood of loss includes determination of evidences available, hierarchy of laws, jurisprudence available, more recent court decisions and relevance thereof in legal system, as well as evaluation of external attorneys.

Provision is revised and adjusted to take into account changes in circumstances, such as statute of limitations applicable, tax inspection conclusions or additional exposures identified based on new matters or court decisions.

c. Share-based payment

The Company measures the cost of transactions settled with employees' shares based on fair value of equity instruments on grant date.

Estimates of share-based payments' fair values require the most adequate evaluation method for the granting of equity instruments, which depends on grant terms and conditions.

This also requires determining the most appropriate data for evaluation model, including the expected life of the option, volatility and dividend income yield and related assumptions. Assumptions and models used in fair value estimates of share-based payments are explained in Note 22.

d. Appraisal of recoverable net value of assets (impairment)

The Company's Management annually values the recoverable net value of assets in order to assess events or changes in economic, operating, or technological circumstances likely to point out a deterioration or loss of their recoverable value. In case these evidences are identified, the asset's recoverable value is calculated and, if net book value exceeds the recoverable value, a provision for impairment is recognized by adjusting the respective asset's net book value to its current recoverable value.
Assumptions used to determine assets' values are based on the evaluation or indication that the asset's book value exceeds its recoverable value. These indications take into consideration the asset's

obsolescence, the significant and unexpected reduction in its market value, changes to macro-economic environment in which the Company operates, and fluctuations in interest rates that may impact future cash flows of cash generating units.

The Company's main assets whose recoverable values are tested at yearend are: Real estate inventories for sale, Investments held at cost value and Intangible assets with defined useful life.

e. Contingent assets and liabilities and legal obligations

The accounting practices used to recognize and disclose contingent assets and liabilities and legal obligations are as follows:

Contingent assets - Are only recognized when there are real guarantees, or favorable, final and unappealable decisions. Contingent assets with chance of success classified as probable are disclosed in a Note.

Contingent liabilities - Are accrued when the losses are regarded as probable by the Company's legal advisors and the amounts involved can be reliably measured. The contingent liabilities regarded as possible losses are only disclosed in the accompanying notes, whereas those regarded as remote losses are neither accrued nor disclosed.

Legal obligations - Are recorded as liabilities, regardless of the evaluation of the loss likelihood.

2.10. Income recognition

Sale of assets and real estate (Real estate development)

Income from real estate sales is calculated considering contract income plus monetary variations up to delivery of keys, less the following costs: Expenditures with acquisition and regularization of land; Direct and indirect costs related to the projects and construction; Non-recoverable taxes and rates; and financial charges from financing for construction works.
Recognition of income from real estate sales is as follows:

a. On credit sales of completed unit: at the time sale is completed, regardless of contract value receipt period; and

b. In the sale of units not yet completed, according to the criteria established by the following:

i) OCPC 01 (R1) – Real Estate Development Entities, issued by the Accounting Pronouncements Committee (CPC) and approved by the CVM Resolution No. 561 of 12/17/2008;
ii) OCPC - 04 – Application of Technical Interpretation ICPC 02 to the Brazilian Real Estate Development Entities approved by CVM Resolution No. 653 of December 16, 2010;
iii) ICPC 02 - Construction contract of the real estate sector approved by the CVM Resolution No. 612 of 12/22/2009;

Sales income, land and construction costs are recognized in income using the percentage of completion of each joint venture, and this percentage is measured based on contract costs incurred in relation to total budgeted costs of respective joint ventures, including project and land costs.

Determined sales income, including price-level restatement net of installments already received, are accounted for as accounts receivable. Amounts received, higher than recorded income are recognized as advance from clients, and prefixed interest levied after delivery of keys is recognized in the statement of income at the accrual basis, regardless of receipt.

The Company evaluates its contracts for the sale of real estate units and contracts executed by its subsidiaries based on analysis brought by OCPC 4, understanding that executed contracts are in the scope of CPC-17 – Construction contracts, as to the extent construction advances, risks and benefits are continuously transferred to the property committed buyer.

Information on balances of operations with real estate projects in progress and Advance from clients are detailed in Note 16.

Income from rental of investment properties

The income from rental of investment properties is recognized in the Company's consolidated income under caption "Income from sale of goods and/or services" (Note 24 - Other operating income) under the straight-line method over lease period. Granted lease incentives are recognized as an integral part of the total rental income, over the lease period.

Financial income

Financial income comprises income from interest on interest earning bank deposits, recognized in the income, under the effective interest method.

2.11. Unearned sales expenses

Commissions on sales were recorded as assets in income using the same recognition criterion as for income, as described in Note 2.10.

Publicity, marketing and promotion expenses are recognized in income as sales expenses when publicity is broadcast and/or marketing action occurs.

2.12. Investment properties

Investment properties are originally measured at cost, including transaction costs.

The book value includes the replacement cost of a portion of an investment property existing at the time when the cost is incurred if the criteria for recognition are met; excluding the daily service costs of investment property. After initial recognition, investment properties are presented at fair value.

Gains or losses from changes in fair value of investment properties are included in the statement of income in the year they are generated.

2.13. Property, plant and equipment

Property, plant and equipment is recorded by the acquisition, formation or construction cost, less accumulated depreciation, calculated using the straight-line method based on rates determined by the assets' estimated useful life. Expenses incurred with repairs and maintenance are only accounted for if the economic benefits associated with these items are probable and the amounts are measured in a reliable manner, while the other expenses are recorded directly in income/loss when incurred. The recovery of fixed assets by means of future operations as well as the useful lives and the residual value of this property are monitored periodically and adjusted prospectively, if necessary.

2.14. Investments in subsidiaries

The investments of the Company in its subsidiaries are recorded based on the equity method of accounting, for the purposes of the Parent Company's financial information.

Based on the equity method of accounting, investment in subsidiary is recorded on the Parent Company's balance sheet at cost, plus the changes following the acquisition of ownership interest in the subsidiary. In the Parent Company, the goodwill related to the subsidiary is included in the book value of the investment which is not amortized. As the goodwill based on future profitability integrates the book value of the investment in the parent company (it is not recognized separately), it is not tested separately in relation to its recoverable value.

The ownership interest in the subsidiary is stated in the parent company's income statement as equity pick-up, representing the net profit attributable to shareholders of the subsidiary.

Subsidiaries' financial information is prepared for the same reporting period as the Company. Where necessary, adjustments are made so that the accounting policies are consistent with those adopted by the Company.

After applying the equity accounting method, the Company determines whether it is necessary to recognize additional impairment on the Company's investment in its subsidiary.

The Company determines, at each balance sheet closing date, if there is objective evidence that investment in the subsidiary suffered impairment loss. If so, the Company calculates the amount of impairment loss as the difference between the recoverable value of the subsidiary and the book value and recognizes the amount in the statement of income.
When there is loss of significant influence on the subsidiary, the Company evaluates and recognizes investment at fair value. Any difference between the book value of the associated company at the time of the loss of significant influence and the fair value of the remaining investment and proceeds from the sale will be recognized in income.

Associated companies are the entities in which the Company has, directly or indirectly, significant influence but not control or jointly-control on financial and operating policies. The significant influence is characterized by the Company holding, directly or indirectly, from 20% to 50% of the voting rights of the entity.

Investments in associated companies are accounted for using the equity method and are initially recognized at cost, which includes transaction expenses.

Any difference between the book value of the former joint venture upon loss of joint control and the fair value of the investment, as well as any proceeds from the sale of the joint venture, will be recognized in the statement of income. Investments that maintain significant influence will be accounted for as investment in subsidiary. In the parent company's financial statements and consolidated, and in such cases, will be valued under the equity method.

2.15. Basic and diluted income (loss) per share

Basic and diluted earnings per share are calculated through income for the period attributable to the Company's shareholders and outstanding common shares' weighted average in the respective period, considering, when applicable, stock split adjustments occurred in the period or in the subsequent event captured in the preparation of financial statements, as presented in Note 18b.

2.16. New standards and interpretations not yet adopted

(New and reviewed) standards and interpretations issued and still not adopted:

- **IFRS 9 -** "Financial Instruments" addresses classification, measurement and recognition of financial assets and liabilities: the review project on regulations on financial instruments is divided into three stages:

    Phase 1: **Classification and measurement**: all recognized financial assets, included in the scope of IAS 39, are later on measured at amortized cost or fair value.

Phase 2: **Methodology of impairment**: reflects expected credit losses instead of estimated credit losses, pursuant to the terms of IAS 39.

Phase 3: **Hedge accounting**: maintains the three types of hedge accounting mechanisms from IAS 39. It brought greater flexibility to types of transactions eligible to hedge accounting, and increased in types of instruments that qualify as hedge instruments and types of risk components of non-financial items eligible to hedge accounting. Effectiveness test was renewed and replaced by the "economic relationship" principle.
Applicable for annual periods started as of or after January 1, 2018. The early adoption of standards, although encouraged by the IASB, is not allowed in Brazil by the Accounting Pronouncement Committee (CPC):

- **CPC 47 –** Income from contract with clients (IFRS 15): issued by the CPC in November 2016. The new standard to be applied to the income from contracts with clients, from the years beginning on or after January 1, 2018, is applicable to all entities, and will replace all of the current requirements for revenue recognition under the IFRS terms.

This pronouncement determines the recognition of the amount of income reflecting the consideration that the entity expects to receive in exchange for the control over such assets or services.

The Company did not evaluate the impact of this pronouncement and will adopt, if applicable the necessary measures to adopt the new standard on the date it comes into effect.

There are no other IFRS or IFRIC interpretations that have not yet entered into effect that could have significant impact on the Company.

3 Consolidation of subsidiaries

The subsidiaries were fully consolidated since the acquisition date, defined as the date when the Company obtains control over it, and continue being consolidated until that control is no longer in effect.

The financial statements of subsidiaries usually are prepared for the same reporting period that the parent company, using consistent accounting policies.

Income for the period and each component of other comprehensive income directly recognized in shareholders' equity are attributed to the parent company's owners and to non-controlling shareholders.

i. Interest of non-controlling shareholders

For each business combination, the Group (PDG) measures any non-controlling interest on the acquisition date, using one of the following criteria:

At fair value or by proportional interest of identifiable net assets of the acquiree, which are generally at fair value.

Changes to the Group's (PDG) interest in a subsidiary that do not result in loss of control are accounted for as transactions with shareholders, in the capacity of shareholders. Adjustments to non-controlling shareholders are based on a proportional amount of the subsidiary's net assets.

No adjustment is made to goodwill based on future profitability and, as a result, no gain or loss is recognized in income for the year.

ii. Loss of control

Upon loss of control, the Group (PDG) derecognizes assets and liabilities of subsidiary, any non-controlling interest and other components recorded in shareholders' equity regarding this subsidiary. Any gain or loss resulting from loss of control is recognized in income (loss) for the year. If the Group (PDG) holds any interest in the former subsidiary, this interest is measured at fair value on the date control is lost. Subsequently, this interest is calculated by using equity in associates or at cost or fair value in an asset available for sale, depending on the level of influence it still has.

iii. Transactions eliminated in the consolidation

Intragroup balances and transactions, and any unrealized income or expenses derived from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains originating from transactions with investee recorded using the equity method, are eliminated against the investment in the proportion of the Group's (PDG) interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

4 Cash and cash equivalents

a. Cash and cash equivalents

Refer substantially to bank balances and interbank funds applied maturing in less than 90 days without any penalty on redemption, relating to bank deposit certificates and fixed income funds. The Company has investment policies that determine which financial investments are concentrated in low-risk securities, investments in prime financial institutions, and paid on average 91.5% of Interbank Deposit Certificate (CDI) as of December 31, 2016 (2015: 97% of CDI):

	Parent company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Cash and banks	**329**	**7,562**	**49,482**	**164,588**
Interest earning bank deposits				
Very short-term interest earnings bank deposits	62	62	5,847	1,497
Fixed-income investment funds	-	-	9,992	13,891
Bank deposit certificates (CDB)	205	6,632	62,823	302,412
Purchase and sale commitments	5,335	3,232	72,829	121,705
Subtotal	**5,602**	**9,926**	**151,491**	**439,505**
Total	**5,931**	**17,488**	**200,973**	**604,093**

5 Trade accounts receivable

	Parent company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Merger and Real estate sale	33,850	95,208	2,810,887	5,737,633
(-) Allowance for doubtful accounts	(9,089)	(467)	(775,891)	(209,350)
(-) Adjustment to present value	-	-	(12,331)	(36,976)
Total	**24,761**	**94,741**	**2,022,665**	**5,491,307**
Current portion	17,775	61,177	1,249,963	2,227,031
Non-current portion	6,986	33,564	772,702	3,264,276
Total	**24,761**	**94,741**	**2,022,665**	**5,491,307**

Accounts receivable from real estate sales are substantially adjusted at INCC (civil construction national index) variation up to delivery of keys and then at IGP-M (general price index - market) variation plus interest of 12% p.a.

The balances of long-term accounts receivable are broken down by maturity as follow:

	Parent company		Consolidated	
Year of maturity	**2016**	**2015**	**2016**	**2015**
2017	-	23,928	-	2,293,787
2018	752	4,044	218,827	169,265
2019	655	2,393	177,054	147,566
2020	4,797	2,078	212,885	324,926
2021	453	1,121	70,255	328,732
2022 onwards	329	-	93,681	-
Total	**6,986**	**33,564**	**772,702**	**3,264,276**

As of December 31, 2016 and 2015, the Company had balances in its consolidated accounts receivable, in the current portion, distributed as follows:

	2016			2015		
	In onlending process	**Direct Portfolio**	**Total**	**In onlending process**	**Direct Portfolio**	**Total**
Falling due	472,499	162,747	635,246	1,433,654	270,220	1,703,874
Overdue – in days:	**421,648**	**193,069**	**614,717**	**515,886**	**7,271**	**523,157**
0–30	86,676	21,091	107,767	178,380	1,574	179,954
31–60	64,522	11,341	75,863	60,470	640	61,110
61–90	41,957	11,912	53,869	78,137	869	79,006
91–120	9,842	11,249	21,091	98,220	1,096	99,316
121–360	102,432	67,903	170,335	94,021	864	94,885
>360	116,219	69,573	185,792	6,658	2,228	8,886
Total	**894,147**	**355,816**	**1,249,963**	**1,949,540**	**277,491**	**2,227,031**

In onlending process

When the Company delivers its joint ventures, almost the totality of clients undergoes a bank financing process (also known as transfer) that is required for the delivery of keys and entering into possession of unit. Clients that are not approved for bank financing will be analyzed on an individual basis and may have their contract terminated; therefore, they will not receive the keys and will not enter into possession of the real estate.

Clients that do not address financing conditions will not receive the units and the Company will return, according to contract, a portion of received balance and will place units for sale again.

Balances of accounts receivable from units completed or in construction

The consolidated balances of accounts receivable for completed units amount to R$ 1,802,076 as at December 31, 2016 (2015: R$ 3,586,517), and for joint ventures under construction amount to R$ 220,589 as of December 31, 2016 (2015: R$ 1,904,790).

Adjustment to present value (AVP)

Adjustment to present value of accounts receivable from units not completed, recognized on a proportional basis at criterion described in Note 2.10 is calculated by using an discount rate of 8.08% in the Financial statements at December 31, 2016 (2015: 6.70%), calculated at the average funding rate of loans of the Company and its subsidiaries, deducted for inflation (IPC-A). This rate is compared to NTN-B and the highest is used. The current rate used is NTN-B. The discount rate is periodically reviewed by the Company's Management.

Allowance for doubtful accounts (PCLD)

The Company recognized a provision for loss on the total trade accounts receivable, which have installments more than one year past due and realized a low percentage of payment of its contract for sale of the real estate unit.

As at December 31, 2016, the Company recognized as allowance for doubtful accounts, the amount of R$ 775,891 (2015: R$ 209,350), 38.36% on the total accounts receivable from Real Estate Development and Resale. Overdue balances refer mainly to cases without recourse, long-term default of accounts receivable from transfer at floor plan. The Allowance for Doubtful Accounts adjustment will be included in the profit or loss of the Company in the line item de “Other operating income (expenses), net”.

Units enrolled with the Special Taxation Regime (RET)

The balances of accounts receivable related to such joint ventures amount to R$ 1,516,999 as at December 31, 2016 (2015: R$ 3,487,611), which represent 75% of total balance of accounts receivable of the Company as at December 31, 2016 (2015: 58%).

Untreated units (no RI normalmente usamos o termo “Cancelled Units”)

The Company and its subsidiaries recognize termination of units as a reversal of accumulated income and costs previously recorded to the extent of construction work progress at the time of contract termination.

The Company, during the year ended December 31, 2016, recorded a net volume of 3,044 terminated units (2015: 4,302 units); of this total, 55.95% occurred because of income mismatch (2015: 70.92%), 14.95% due to exchange (2015: 13.58%) and 29.11% due to different reasons (2015: 15.50%).

6 Real estate inventories for sale

	Parent company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Real estate under construction	-	-	396,991	371,242
Real estate concluded	35,957	12,299	696,607	1,162,013
Lands for future developments	3,651	22,488	706,102	1,873,045
Advances to suppliers	-	-	14,500	15,667
Compound interest	586	2,521	56,754	72,203
Goodwill on launched real estate	-	-	1,760	27,076
Total	**40,194**	**37,308**	**1,872,714**	**3,521,246**
Portion in non-current liabilities	36,543	14,820	1,166,612	1,722,545
Non-current portion	3,651	22,488	706,102	1,798,701
Total	**40,194**	**37,308**	**1,872,714**	**3,521,246**

Book value of a joint venture’s land is transferred to caption “Real Estate under Construction”, within the heading "Real estate inventories for sale”, when units are placed for sale, that is, when the joint venture is launched.

The goodwill balance corresponds to the valuation of land properties, and the capitalized charges in the parent company are recorded as “Investments” and in “Real estate inventories for sale” in the consolidated, in accordance with OCPC No. 01.

In the end of December 31, 2016, the balances of real estate inventories for sale comprise provisions for impairment totaling R$ 370,062 (2015: R$ 199,126). The adjustments will be included in the profit or loss of the Company in line item “Other operating income (expenses), net”.

Lands for future mergers

The Company reclassifies part of its inventories into non-current assets, according to launches scheduled for subsequent years, into the heading of “Land for future mergers”.

The Company records expenses with real estate in the city of Salvador, classified as “Land for future mergers”, which will be mainly assigned to joint ventures considered in the project denominated “Mintaka” by the Company. The Company has agreement with the owner of land that enable PDG to have priority or land call option, for a ten-year period, beginning in December 2017.

The tests for impairment, as described in Note 2.9, were conducted by adopting the assumption of real estate acquisition, real estate project development, or recovery of incurred costs, in case of withdrawing from land acquisition with priority rights or option.

As at December 31, 2016 the Company accumulates R$ 53,491 in the balance of intangible assets allocated to such projects, and write-off of R$ 33,569, for impairment, related to such real estate.

Physical barter referring to future “Mintaka” projects will be recorded in Inventories and Advance from clients upon definition of corresponding projects.

Allocation of financial charges

Loan, financing and debenture financial expenses, whose funds were used in the process of building real estate joint ventures, are capitalized in caption “Real estate inventories for sale” and recognized in income (loss) under caption “Cost of Real Estate Sold” in the consolidated, in accordance with each project’s sales percentage. The balances of financial charges applicable to the parent company are shown under “Investments”, as note 7. Changes on December 31, 2016 can be shown as follow:

	Parent company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Opening balance	**2,521**	**1,956**	**72,203**	**115,770**
(+) Capitalized financial charges related to:				
Loans and financing	329	1,889	48,538	79,421
Debentures	-	-	23,206	30,040
Total capitalized financial charges in the period	**329**	**1,889**	**71,744**	**109,461**
(-) Charges appropriated to the statement of income in the cost of real estate	(2,264)	(1,324)	(87,193)	(153,028)
Total	**586**	**2,521**	**56,754**	**72,203**

7 Investments

a. Information on subsidiaries on December 31, 2016 and 2015

Interests in subsidiaries evaluated at the equity method are determined in accordance with the balance sheets of the respective investees.

Subsidiaries are engaged in performing real estate joint ventures related to trading of home and commercial real estate.

The Company has shareholders' agreements related to subsidiaries with interest lower than 100%. Regarding the Management's resolutions of these subsidiaries, the Company takes part of the Board of Directors and/or Executive Board, participating in all strategic decisions of the business.

Subsidiaries' financial statements used to calculate equity in investees and to consolidate adopt the same accounting practices adopted by the Company, which are described in note 2, when applicable. The summary of main Financial information of subsidiaries is described in Note 7c.
Changes in the Company's investments are as follow:

Parent company									
Company's name	**% of direct interest**	**% of indirect interest**	**Balance at 12/31/2015**	**Increases / Payments**	**Decreases / Write-offs**	**Distribution of dividends**	**Demais[1]**	**Equity in net income of subsidiaries**	**Balance at 12/31/2016**
Investments in subsidiaries									
CHL Desenvolvimento Imobiliário SA	99.99%	0.01%	614,923	428,164	-	-	-	(467,872)	575,215
Goldfarb Incorporações E Construções S. A	99.99%	0.01%	1,050,647	-	(9,905)	-	-	(725,893)	314,849
PDG Desenvolvimento Imobiliário Ltda	99.99%	0.01%	287,213	-	(779)	-	-	(20,049)	266,385
PDG São Paulo Incorporações S.A	99.99%	0.01%	289,625	71	-	-	-	(55,892)	233,804
Gold Investimentos S.A.	49.32%	50.68%	43,062	-	(1,710)	-	-	26,420	67,772
Api Spe20 - Planej. e Desenvolv. Imobiliários S/A.	99.99%	0.01%	-	81,513	-	-	-	(31,254)	50,259
Zmf 5 Incorporações S.A	99.99%	0.01%	41,331	-	-	-	-	14,297	55,628
PDG Araxá Income S/A	99.99%	0.01%	33,379	-	-	-	-	(4,329)	29,050
Pdg Spe 38 Empreendimentos Imobiliarios Ltda	99.99%	0.01%	264	33,559	-	-	-	(3,485)	30,338
PDG SP 7 Incorporações SPE Ltda	99.99%	0.01%	-	58,480	-	-	-	(32,379)	26,101
PDG SP 9 Incorporações SPE Ltda	99.99%	0.01%	-	26,899	(143)	-	-	(891)	25,865
PDG Companhia Securitizadora	99.99%	0.01%	22,963	189	(15)	-	-	1,225	24,362
PDG SP 2 Incorporações SPE Ltda	99.99%	0.01%	-	22,184	-	-	-	(1,619)	20,565
PDG SP 6 Incorporações SPE Ltda	99.99%	0.01%	-	21,819	-	-	-	(632)	21,187
Jlo Brooklin Empreendimento Imobiliario Spe Ltda.	100.00%	0.00%	-	21,061	-	-	-	(52)	21,009
PDG SP 15 Incorporações SPE Ltda	99.99%	0.01%	-	24,191	-	-	-	(3,226)	20,965
PDG-Ln7 Incorporação e Empreendimentos S.A.	85.29%	14.71%	44,156	-	(6,494)	-	-	(17,060)	20,602
PDG 64 Empreendimentos e Participações S.A	99.99%	0.01%	217,404	35,408	-	-	-	(240,050)	12,762
CHL LXVIII incorporações ltda.	70.00%	0.00%	-	29,828	-	-	-	(9,794)	20,034
Performance Br Empreendimentos Imobiliários S.A.	68.00%	0.00%	68,640	-	(1,147)	-	-	(48,399)	19,094
LBC Empreendimento Imobiliario Spe	50.00%	0.00%	-	16,428	-	-	-	(166)	16,262
Gold Mali Empreendimentos Imobiliários Ltda.	50.00%	50.00%	-	17,908	-	-	-	(1,739)	16,169
LN 29 Incorporação e Empreendimento Ltda	64.00%	16.00%	11,038	10,880	(290)	-	-	(7,355)	14,273
Colore Empreendimento Imobiliário Spe S/A	80.00%	0.00%	16,319	-	(1,374)	-	-	(4,271)	10,674
PDG Vendas Corretora Imobiliária Ltda.	99.99%	0.01%	5,688	-	-	-	-	4,896	10,584
Vital Palácio Miraflores Incorporadora Ltda.	78.15%	21.85%	-	9,956	-	-	-	(76)	9,880
Club Felicitá Empreendimento Imobiliários S.A.	96.69%	3.31%	14,292	-	(473)	-	-	(7,374)	6,445
Pdg Masb Empreendimento Imobiliario Spe Ltda.	50.00%	0.00%	-	10,282	-	-	-	(1,276)	9,006
GDP 1 Incorporações SPE Ltda.	99.99%	0.01%	-	12,291	(1,063)	-	-	(3,940)	7,288
Pdg Spe 15 Empreendimentos Imobiliários Spe Ltda	99.99%	0.01%	5,093	2,839	-	(2,358)	-	7,762	13,336
PDG Ln 34 Incorp e Empreend Ltda	80.00%	20.00%	32,827	-	(6,567)	-	-	(18,819)	7,441
STXROCK 10 Desenvolvimento Imobiliário S/A.	99.99%	0.01%	-	12,152	-	-	-	(5,047)	7,105
PDG Ln 28 Incorporação e Empreendimento Ltda	86.60%	13.40%	10,259	-	(1,376)	-	-	(1,849)	7,034
Club Florença Empreendimento Imobiliários S.A.	99.99%	0.01%	8,683	-	-	-	-	(1,744)	6,939
Goldfarb Pdg 5 Incorporações S/A	50.00%	50.00%	-	16,781	-	-	-	(11,310)	5,471
Gold Sao Paulo Empreendimentos Imobiliário Ltda.	50.00%	50.00%	-	5,475	-	-	-	(43)	5,432
CHL CXLIX incorporacoes ltda	99.99%	0.01%	-	8,026	-	-	-	(2,690)	5,336
Others[2]			1,074,981	1,504,255	(427,020)	(209)	675,548	(2,773,206)	54,349
			3,892,787	**2,410,639**	**(458,356)**	**(2,567)**	**675,548**	**(4,449,181)**	**2,068,870**
Investments in associated companies									
Malmequer Empreendimentos S/A	42.50%	0.00%	-	2,735	(335)	-	-	345	2,745
Queiroz Galvao Mac Cyrela Veneza Empr. Imob. S.A.	20.00%	0.00%	3,691	-	(2,428)	-	-	594	1,857
Others[3]			20,906	27,496	(42,808)	-	(794)	(2,567)	2,233
			24,597	**30,231**	**(45,571)**	**-**	**(794)**	**(1,628)**	**6,835**
Subtotal - Equity interest			**3,917,384**	**2,440,870**	**(503,927)**	**(2,567)**	**674,754**	**(4,450,809)**	**2,075,705**
Other									
Intangible assets			95,001	-	(33,819)	-	-	-	61,182
Compound interest			2,621	-	(461)	-	-	-	2,160
Appreciation of land			9,964	-	(8,204)	-	-	-	1,760
Subtotal - other investments			**107,586**	**-**	**(42,484)**	**-**	**-**	**-**	**65,102**
Total investments			**4,024,970**	**2,440,870**	**(546,411)**	**(2,567)**	**674,754**	**(4,450,809)**	**2,140,807**

[1] It contains provision for losses in investments reclassified to non-current liabilities under caption "Other obligations".
[2] Investments in subsidiaries with single balances of up to R$5 million on December 31, 2016.
[3] Investments in associated companies with single balances of up to R$ 1 million on December 31, 2016.

(i) Sale of ownership interest in REP Real Estate Partners - Desenvolvimento Imobiliário S.A. ("REP"): on June 30, 2016 the sale of this investment to LDI Desenvolvimento Imobiliário S.A. ("LDI") was completed. The write-off of this investment totaled R$ 156,805. LDI delivered to the Company, as part of the payment, 26 (twenty-six) real estate units of the company controlled by LDI, all of them located in the City of São Paulo, State of São Paulo, and evaluated by the Company, at market value, at approximately R$ 33,868.

(ii) Barter of ownership interests with HM1 Empreendimentos e Participações S.A. ("HM1"): in November 2016, the Company carried out the unwinding of the partnership with HM1 by means of barter involving 18 investees. This transaction resulted in the reduction in the extended indebtedness of the Company, and write-off of 15 investees by the Group; the total amount of investments bartered totaled R$ 154,974.

b. Information on Group's (PDG) jointly-controlled subsidiaries and associated companies as of December 31, 2016 and 2015.

		Consolidated								Consolidated Balance
Company's name	**% of direct interest**	**Assets**	**Liabilities**	**Shareholders' equity**	**Total income (loss) for the period**	**Equity income (loss)**	**Others[2]**	**Investments on 12/31/2016**	**Investments on 12/31/2015**	**Equity in subsidiaries on 12/31/2015**
Inpar - Abyara - Projeto Res. Santo Amaro Spe Ltda	30.00%	49,839	5,398	44,441	(1,545)	(464)	-	13,332	13,820	(130)
Schahin Borges De Figueiredo Incorporadora Ltda	30.00%	28.095	125	27,970	(113)	(34)	-	8,391	3,858	(1)
Inpar - Abyara - Projeto Residencial America Spe Ltda.	30.00%	32.656	14,806	17,850	(2,002)	(600)	-	5,355	6,180	(415)
Iepe - Investimentos Imobiliarios Ltda	30.00%	17,725	(898)	18,623	750	225	-	5,587	5,362	(191)
Other investees [1]		428,683	381,459	47,224	3,399	1,451	10,209	16,347	189,259	114,117
Total investments		**556,998**	**400,890**	**156,108**	**489**	**578**	**10,209**	**49,012**	**218,479**	**113,380**

[1] Investments with balances of up to R$ 5 million as of December 31, 2016.
[2] Provision for losses in investments reclassified to non-current liabilities under caption "Other obligations".

Financial information of the PDG Group's subsidiaries (PDG) on December 31, 2016 and 2015

			Consolidated at 12/31/2016						Consolidated balance	
Company's name	**% Total of the company**	**% Minority interest**	**Assets**	**Liabilities**	**Shareholders' equity**	**Income (loss)**	**Income (loss) from non-controlling shareholders**	**Shareholders' equity of non-controlling shareholders**	**Shareholders' equity of non-controlling shareholders on 12/31/2015**	**Income (loss) 12/31/2015**
Performance Br Empreendimentos Imob. S.A.	68.00%	32.00%	29,923	6,586	23,337	(75,918)	(24,294)	7,468	32,301	(2,051)
Dubhe Incorporadora S/A	55.00%	45.00%	13,165	1,247	11,918	2,914	1,311	5,363	7,747	3.6S8
Orion Incorporadora Ltda	70.00%	30.00%	71,685	53,943	17,742	(14,614)	(4,384)	5,323	4,822	1,101
Other investments[1]			804,753	1,027,796	(223,043)	(411,419)	(95,758)	(60,455)	405,440	(80,808)
Total			**919,526**	**1,089,572**	**(170,046)**	**(499,037)**	**(123,125)**	**(42,301)**	**450,310**	**(78,100)**

[1] Investments with balances of up to R$ 5 million as of December 31, 2016

c. Investment in shares

As of December 31, 2016, the Company, through its subsidiary Agra Empreendimentos Imobiliários S.A., maintains an exclusive investment fund (FID PDG) whose main assets are equity interests in its subsidiaries. Fund quotas are valued according to equity quotations and its earnings are recognized in subsidiary's income, and are eliminated upon preparation of the Company's consolidated information.

8 Investment properties

The Company does not have balances in investment properties on December 31, 2016, due to the conclusion of the sale of ownership interest in the subsidiary REP-Real Estate Desenvolvimento Imobiliário S.A. (Note 7a (i)).

	Joint ventures in operation	Joint ventures under development [1]	Total
Balances at December 31, 2014	**520,052**	**35,559**	**555,611**
Acquisitions and improvements (a)	45,975	10,782	56,757
Disposal (b)	(24,306)	(14)	(24,320)
Adjustment to fair value (c)	(114,181)	-	(114,181)
Reclassifications	-	(402)	(402)
Balances at December 31, 2015	**427,540**	**45,925**	**473,465**
Acquisitions and improvements (a)	7,063	54	7,117
Disposal (d)	(12,000)	-	(12,000)
Reclassifications (e)	(9,389)	-	(9,389)
Sale of interest - Note 7a (i)	(413,214)	(45,979)	(459,193)
Balances at December 31, 2016	-	-	-

[1] Joint ventures under construction or revitalization phase; non-operating
(a) It refers to the renovation/expansion of Valinhos and Bay Market (Mais) Shopping Malls and acquisition of CCS (Service and Convenience Centers) through SPE (Specific Purpose Society) Santo Eustaquio.
(b) It refers to the sale of the CCS Lapa asset (real estate) and sale of SPE of CCS Jundiaí
(c) Recognized in income (loss) for the year in the heading "Other net operating income (expenses)".
(d) Refers to sale of asset (real estate) Rio Claro.
(e) The Company assessed tax credits [PIS (Social Integration Program) and COFINS (Contribution for the Financing of Social Security)] arising from improvements made to the real estate properties, and part of the asset amount was reclassified to recoverable taxes

9 Property, plant and equipment

Fixed assets are segregated into well-defined classes. They are related to operating activities.

There are effective controls on fixed asset items that allow the identification of losses and changes in estimated useful lives of assets. The annual depreciation is calculated by the linear method throughout the useful life of the assets, at rates which consider the estimated useful lives of the assets, as follows:

	Parent company				
Cost:	**Machinery and equipment**	**Furniture and fixtures**	**Computers**	**Leasehold improvements**	**Total**
Balance at 12/31/2014	-	**379**	**3,831**	-	**4,210**
. Additions	-	-	17	705	722
Balance at 12/31/2015	**-**	**379**	**3,848**	**705**	**4,932**
. Additions	848	-	361	-	1,209
Balance at 12/31/2016	**848**	**379**	**4,209**	**705**	**6,141**

	Parent company				
Depreciation:	**10% p.a. Machinery and equipment**	**10% p.a. Furniture and fixtures**	**20% p.a. Computers**	**Leasehold improvements**	**Total**
Balance at 12/31/2014	**-**	**(273)**	**(3,441)**	**-**	**(3,714)**
. Depreciations	-	(38)	(158)	(47)	**(243)**
Balance at 12/31/2015	**-**	**(311)**	**(3,599)**	**(47)**	**(3,957)**
. Depreciations	(68)	(38)	(190)	(70)	(366)
Balance at 12/31/2016	**(68)**	**(349)**	**(3,789)**	**(117)**	**(4,323)**
Residual balance at 12/31/2016	**780**	**30**	**420**	**588**	**1,818**
Residual balance at 12/31/2015	**-**	**68**	**249**	**658**	**975**
Residual balance at 12/31/2014	**-**	**106**	**390**	**-**	**496**

	Consolidated						
Cost:	**Machinery and equipment**	**Furniture and fixtures**	**Computers**	**Leasehold improvements (ii)**	**Sales Stand (i)**	**Other fixed assets**	**Total**
Balance at 12/31/2014	**31,947**	**17,491**	**26,238**	**24,469**	**9,637**	**5,078**	**114,860**
. Additions	-	838	277	7,110	1,939	112	**10,276**
. Write-offs	(3,641)	(441)	-	(9,461)	(7,553)	(104)	**(21,200)**
Balance at 12/31/2015	**28,306**	**17,888**	**26,515**	**22,118**	**4,023**	**5,086**	**103,936**
. Additions	1,180	1,112	1,195	1,990	271	-	**5,748**
. Write-offs	(1,842)	(529)	(799)	(58)	(1,472)	(1,084)	**(5,784)**
Balance at 12/31/2016	**27,644**	**18,471**	**26,911**	**24,050**	**2,822**	**4,002**	**103,900**

	Consolidated						
Depreciation:	**10% p.a. Machinery and equipment**	**10% p.a. Furniture and fixtures**	**20% p.a. Computers**	**Leasehold improvements (ii)**	**Sales Stand (i)**	**Other fixed assets**	**Total**
Balance at 12/31/2014	**(13,925)**	**(10,841)**	**(22,116)**	**(10,326)**	**(5,348)**	**(1,992)**	**(64,548)**
. Depreciations	(2.177)	(1,052)	(1,992)	(1,306)	(5,676)	(414)	**(12,617)**
. Write-offs	1,276	312	-	34	7,761	65	**9,448**
Balance at 12/31/2015	**(14,826)**	**(11,581)**	**(24,108)**	**(11,598)**	**(3,263)**	**(2,341)**	**(67,717)**
. Depreciations	(2,989)	(1,786)	(1,292)	(4,249)	(1,191)	(249)	**(11,756)**
. Write-offs	1,102	123	306	10	1,632	40	**3,213**
Balance at 12/31/2016	**(16,713)**	**(13,244)**	**(25,094)**	**(15,837)**	**(2,822)**	**(2,550)**	**(76,260)**
Residual balance at 12/31/2016	**10,931**	**5,227**	**1,817**	**8,213**	**_**	**1,452**	**27,640**
Residual balance at 12/31/2015	**13,480**	**6,307**	**2,407**	**10,520**	**760**	**2,745**	**36,219**
Residual balance at 12/31/2014	**18,022**	**6,650**	**4,122**	**14,143**	**4,289**	**3,086**	**50,312**

(i) The depreciation is made according to the useful life of the assets, with average term of 18 months used during the period of sale of the joint ventures and recorded in the result under the caption “Sales Expenses”.
The write-off is made as a consequence of the dismantling of the stand.
(ii) The amortization is made over the real estate rental contract.

Recoverability test *(impairment)* of property, plant and equipment

The Group periodically revises the existence of indications of recoverability of Fixed Asset items. When non-recoverable property, plant and equipment items are identified, the Group (PDG) analyzes and records provisions for impairment. For the year ended December 31, 2016, the Group (PDG) did not find any indication or needs of recognizing the provision for impairment of fixed asset items.

10 Intangible assets

	Parent company		Consolidated	
	2016	2015	2016	2015
Breakdown of goodwill by company				
Agre Empreendimentos Imobiliarios S.A.	53,491	53,491	53,491	53,491
Agre Urbanismo S.A.	402	1,444	-	-
CHL Desenvolvimento Imobiliários S.A.	6,616	20,774	-	-
Goldfarb Incorporações e Construções S.A.	465	17,755	-	-
LN 8 Incorporacao e Empreendimentos Ltda.	72	264	-	-
PDG LN Incorporações e Construções S.A.	136	1,273	-	-
Total	**61,182**	**95,001**	**53,491**	**53,491**
Software and other intangible assets	31,460	33,864	54,193	74,432
Subtotal	**92,642**	**128,865**	**107,684**	**127,923**
Reallocation for investments (Note 7) (i)	(61,182)	(95,001)	-	-
Closing balance	**31,460**	**33,864**	**107,684**	**127,923**

(i) *In the financial statements of the "Parent company" and "Consolidated", these Intangible Assets are being presented in the headings of Investments, because they are intangible assets of associated companies (Note 7)*

a. Changes in intangible assets

Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	Parent company	Consolidated				
	Right to use software	Trademarks and patents	Right to use software	Subtotal	Goodwill on investments	Total
Cost:						
Balance at 12/31/2014	**42,206**	**88**	**129,221**	**129,309**	**615,132**	**744,441**
. Additions	9,504	-	19,492	19,492	12,233	31,725
. Write-offs	(64)	-	(12,972)	(12,972)	(41,183)	(54,155)
. Transfers	4,362	-	-	-	(74,754)	(74,754)
Balance at 12/31/2015	**56,008**	**88**	**135,741**	**135,829**	**511,428**	**647,257**
. Additions	5,151	-	5,530	5,530	-	5,530
. Write-offs	-	(88) [1]	(701)	(789)	-	(789)
Balance at 12/31/2016	**61,159**	**-**	**140,570**	**140,570**	**511,428**	**651,998**
Amortization:						
Balance at 12/31/2014	**(14,169)**	**-**	**(56,080)**	**(56,080)**	**(129,875)**	**(185,955)**
. Amortizations	(8,039)	-	(18,289)	(18,289)	(7,548)	(25,837)
. Write-offs	64	-	12,972	12,972	(320,514)	(307,542)
Balance at 12/31/2015	**(22,144)**	**-**	**(61,397)**	**(61,397)**	**(457,937)**	**(519,334)**
. Amortizations	(7,555)	-	(25.045)	(25.045)	-	(25.045)
. Write-offs	-	-	65	65	-	65
Balance at 12/31/2016	**(29,699)**	**-**	**(86,377)**	**(86,377)**	**(457,937)**	**(544,314)**
Residual balance at 12/31/2016	**31,460**	**-**	**54,193**	**54,193**	**53,491**	**107,684**
Residual balance at 12/31/2015	**33,864**	**88**	**74,344**	**74,432**	**53,491**	**127,923**
Residual balance at 12/31/2014	**28,037**	**88**	**73,141**	**73,229**	**485,257**	**558,486**

[1] Write-off due to sale of interest in REP DI.

b. Impairment

The impairment test was prepared considering the assumptions used for the projection and the monitoring of the investee's projected cash flows, using a perpetuity model and was divided into three big items: (i) Income from sale of Real estate; (ii) Real estate merger and construction costs and selling and

administrative expenses; and (iii) net indebtedness, represented by total debt less cash and cash equivalents.
Goodwill paid on the acquisition of ownership interest, based on expected future income or the appreciation of the assets of equity holdings acquired, were reevaluated and lead times were defined due to the evolution of corresponding real estate joint ventures, which are amortized over the medium term of three years from the launch of these real estate projects.

Software intangible assets

Assets classified as "Software and other intangible assets" correspond to the Company's operating software acquisition and implementation costs whose amortization started in January 2011. During the year ended December 31, 2016, the amortization totaled R$ 25,045 (2015: R$ 18,289) recognized in the profit or loss of the Company. Software amortization period was estimated as eight years.

11 Related party transactions and balances

a. *Advance for future capital increase (AFAC)*

The amounts classified as non-current assets under advances for future capital increase (FACA) refer to contribution intended to make joint ventures' initial stage possible. These contributions are not subject to any index or interest rate and will be the object of a decision by part of shareholders as regards their capitalization.

b. *Management remuneration*

The global compensation limit of the Company's directors for the year 2016 was set at R$ 39,485 (2015: R$ 26,988), for Directors' fees, considering the maximum attainable level, direct and indirect, remuneration considered for the tax council, as well as the amounts to be covered as a result of stock option plan granted in view of the Company's Stock Option Plan. Amounts of fixed and variable remuneration, paid as remuneration, profit sharing, dividends and/or benefits in general during the year ended December 31, 2016 and 2015, are as follow:

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Fixed Compensation				
Board of Directors	689	660	689	660
Tax Council	260	328	260	328
Statutory Board	3,696	7,205	3,696	7,525
Charges	1,338	2,176	1,338	2,272
	5,983	**10,369**	**5,983**	**10,785**
Benefits				
Statutory Board	322	226	322	240
	322	**226**	**322**	**240**
Variable compensation				
Retention bonus	14,737	-	14,737	-
Charges	4,244	-	4,244	-
Profit sharing	-	1,349	-	1,611
	18,981	**1,349**	**18,981**	**1,611**
Total fixed and variable	**25,286**	**11,944**	**25,286**	**12,636**
Share-based	1,041	1,057	1,041	1,057
Overall total	**26,327**	**13,001**	**26,327**	**13,693**

The variable remuneration of Management is composed of profit sharing and these are usually provisioned over the prior fiscal year, based on the estimate of payment. The share-based payment represents appropriation to profit or loss for the year of the expenses for the grant of shares outstanding (Note 22).

The Company, based on item 8 of the CVM/SNC/SEP official circular No. 01/2013 of February 8, 2013, presents the following references regarding disclosure of related-party transactions:

(i) Does not own short-term benefits to employees and management;
(ii) Does not have post-employment benefits;
(iii) Does not have other long-term benefits;
(iv) Does not own benefits on termination of employment contract; and
(v) Share-based compensation

c. *Collaterals and guaranties*

The Company totals R$ 1,711,768 of sureties and guarantees on December 31, 2016 (2015: R$ 2,204,436). These amounts derive from sureties and guarantees provided in real estate credit transactions carried out by the Company's investees, based on balances payable and future releases contracted up to this date, proportional to the Company's interest in investees.

d. *Related party balances:*

Balances and transactions with related parties are shown below:

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Assets				
Related-party Loans– Current and Non-Current Assets	2,723	41,194	24,564	77,673
Current accounts with partners in joint ventures	12,530	-	60,165	185,795
FACA – Non-current assets	-	1,918,327	-	-
Liabilities				
Convertible debentures – 8th issuance (Note 19b)	-	1,989	-	1,989
Current accounts with partners in joint ventures	116,549	-	137,413	9,135
Related-party Loans - Current and non-current liabilities	-	-	-	7,802

Rights to related companies have no pre-established maturities and, except for loan agreements, have no financial charges. The main purpose of loan transactions and balances receivable or payable from subsidiaries and current account with associated entities in joint ventures was to fund the initial stage of the joint ventures, based on commercial relationships with the related parties for the merger and construction activities.

e. *Related parties with provision of materials and services*

Transactions and businesses with related parties are carried out at usual market prices and conditions; therefore, they do not generate benefits or losses to the Company or any other party.

In accordance with Article 15 of our Bylaws, it is the Board of Directors' responsibility to decide on: Executing, amending and terminating contracts, as well as on carrying out transactions of any nature between the Company and the Company's shareholders and/or subsidiaries, associated or parent companies of the Company's shareholders. Board of Directors' meetings held to decide on these and other investment decisions are installed with the presence of the majority of the Board of Directors' members and decisions are considered valid if approved by the majority of present members.

Main information on transactions carried out with the Company's or its investees' administrators and partners is presented as follows:

Related party							Costs incurred at	
Relationship with the Company	**Supplier**	**Object of the contract**	**Date of transaction**	**Amount concerned**	**Note:**	**Contract period**	**2016**	**2015**
Vinci Partners	Austral Seguradora	Construction work insurance and guarantee insurance	Jun 2013–Nov 2019	3,188	maximum coverage limit per Work insurance: R$ 120,000	36 months of construction work + 12 months after construction work	708	1,010
Vinci Partners	Cecrisa R. Cerâmicos S.A.	Material: Ceramics	Jun 2013–Dec 2016	14,675	-	6 months	474	4,006
Vinci Partners	Unidas Locadora de Veículos Ltda	Leasing: vehicle	Sep 2013–Dec 2014	28	-	1 year	1	9
Board member	Instituto de Desenvolvimento Gerencial S.A.	Consulting	June 2014	257	total contract value - R$ 2,571		1,337	1,234
Board member	União Consultoria V. e A. de P. de Gestão S/S	Consulting	June 2014	1,157		19 months	-	-
Board member	União Consulotria E. de Projetos de Gestão	Consulting	June 2014	1,157			-	-
Board member	Instituto de Desenvolvimento Gerencial S.A.	Consulting	Oct 2015	725			81	-
Board member	União Consultoria V. e A. de P. de Gestão S/S	Consulting	Oct 2015	3,263	total contract value - R$ 7,250	11 months	-	-
Board member	União Consulotria E. de Projetos de Gestão	Consulting	Oct 2015	3,263			-	-
Board member	Instituto de Desenvolvimento Gerencial S.A.	Consulting	June 2014	25	total contract value - R$ 30		-	7
Board member	INDG Tecnologia e Serviços Ltda	Consulting	June 2014	5		1 month	-	-
			Total	**27,743**			**2,601**	**6,266**

12 Loans and financing

The Company reduces cash exposure of each joint venture using third-party funds to finance/support construction through SFH (housing finance system) conditions and working capital facilities offered by prime financial institutions.

Consolidated breakdown of the Company's loans as of December 31, 2016 and 2015, per debt type, is as follows:

	Parent company		Average rate	Guarantee
Type of debt	**2016**	**2015**		
SFH	2,954	25,613	TR + 9.93% and CDI 118%	Mortgage / Receivables / collateral signatures/ Pledge
Finep/Finame	98,246	97,435	PRE 5.25–8.70%	PDG collateral
Working capital/ SFI and Promissory note	329,599	827,960	120% CDI	Pledge of quotas, shares and Real estate/ Collateral/ Mortgage/ Assignment of credit receivables
Total	**430,799**	**951,008**		
Current portion	45,398	791,807		
Non-current portion	385,401	159,201		
Total	**430,799**	**951,008**		

	Consolidated		Average rate	Guarantee
Type of debt	**2016**	**2015**		
SFH	970,394	1,660,077	TR + 9.93% and CDI 118%	Receivables/ Proportional surety/ mortgage/ guarantee/ pledge/ real estate mortgage/ surety
Working capital/ SFI and Promissory note	329,600	898,165	120% CDI	Pledge of quotas, shares and Real estate/ Collateral/ Mortgage/ Assignment of credit receivables
Finep/Finame	101,168	101,078	PRE - 5.25–8.70%	PDG collateral
Total	**1,401,162**	**2,659,320**		
Current portion	1,013,591	1,735,042		
Non-current portion	387,571	924,278		
Total	**1,401,162**	**2,659,320**		

The balance of loans and financing consolidated in the long term falls due as follows:

Year	**Consolidated**	
	2016	**2015**
2017	-	515,049
2018	151,021	276,038
2019	57,006	88,595
2020 onwards	179,544	44,596
Total	**387,571**	**924,278**

13 Bank Credit Bills (CCBs) and Debentures payable

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Liabilities from CCB issuance - Corporate				
3rd series - 1st issuance	1,250	1,251	1,250	1,251
4th series of 1st issuance	625	626	625	626
15th series - 1st issuance	289,191	251,105	289,191	251,105
22nd series - 1st issuance	-	30,426	-	30,426
3rd series - 3rd issuance	-	-	2,817	3,130
5th series - 3rd issuance	11,118	12,064	11,118	12,064
7th series - 3rd issuance	11,731	10,814	11,731	10,814
25th series - 1st issuance	86,316	107,484	86,316	107,484
26th series - 1st issuance	-	-	62,421	104,554
27th series - 1st issuance	205,067	171,349	205,067	171,349
28th series - 1st issuance	72,115	-	72,115	-
Other issues by CCB	910,297	927,493	983,163	1,029,477
Corporate Sub-Total	**1,587,710**	**1,512,612**	**1,725,814**	**1,722,280**
Liabilities from CCB issuance Support production *				
3rd series - 2nd issuance	-	-	69,073	110,353
2nd series - 2nd issuance	-	-	63,437	55,713
24th series - 1st issuance	200,575	176,100	200,575	176,100
CCB CEF 600MM	253,685	373,882	253,685	373,882
Other issues by CCB	-	-	-	67,041
CCB subtotal – Support to production	**454,260**	**549,982**	**586,770**	**783,089**
Total	**2,041,970**	**2,062,594**	**2,312,584**	**2,505,369**
Current portion	1,542,375	2,039,914	1,811,544	2,460,204
Non-current portion	499,595	22,680	501,040	45,165
Total	**2,041,970**	**2,062,594**	**2,312,584**	**2,505,369**

*They are under the same agreement conditions of SFH (Housing Finance System):
a) Having a source of credit facilities created by the Government severance indemnity fund for employees (FGTS) and/or Savings;
b) Destined for real estate financing (residential or commercial real estate development);
c) Remunerated by reference interest rate variation + maximum interest rate of 12% per annum

a. Debentures payable

The main characteristics of the debentures payable issued by the Company and subsidiaries could be shown as follows:

Parent company												
Debentures	**Type**	**Nature**	**Issuance**	**Maturity**	**Type**	**Condition of remuneration**	**Nominal value**	**Securities issued**	**Securities in the market**	**Method of amortization**	**Installments**	**Guarantees**
Corporate												
1st issuance	Non-convertible	Public	07/02/2007	07/04/2020	Unsecured	120% CDI	10	25,000	25,000	Annual	1	Without guarantee
4th issuance	Non-convertible	Public	08/10/2010	07/04/2020	Real	120% CDI	1,000	280	280	Quarterly	1	Shares
7th issuance[2]	Non-convertible	Public	03/15/2012	12/15/2018	Real	IPCA + 6.56% p.a.	1,000	140	140	Irregular	10	Shares
8th issuance[1]	Convertible	Public	09/17/2012	09/17/2016	Unsecured	-	-	199,000	-	Sole	1	Without guarantee
9th issuance	Non-convertible	Public	06/08/2016	06/30/2019	Unsecured	120% CDI	1,000	30,000	30,000	Sole	1	Without guarantee
10th issuance	Non-convertible	Public	07/01/2016	06/30/2019	Unsecured	120% CDI	1,000	20,000	20,000	Sole	1	Without guarantee
11st issuance	Non-convertible	Public	08/05/2016	07/04/2020	Real	120% CDI	1,000	565,000	565,000	Sole	1	Shares
Support to production												
5th issuance	Non-convertible	Public	09/23/2010	01/25/2017	Real	TR + 9.5% p.a.	1,000	600	600	Semi-annual	1	Assignment/Pledge of shares and quotas

[1] Issuance fully settled in the 3Q16 (Note 19.b).
[2] In view of the non-payment of interest, the acceleration of Debentures is applicable. The Company is in contact with the holders of Debentures in order to negotiate a solution consistent with the Restructuring principles and purposes.

Balances of the Company's debentures payable on December 31, 2016 and 2015 are as follows:

	Parent company												Consolidated		
	Support to production			Corporate									Support to production	Corporate	
	3th issuance	5th issuance	Subtotal	1st issuance	4th issuance	6th issuance	7th issuance	8th issuance	9th issuance	10th issuance	11th issuance	Subtotal	REP	ZMF 23	Total
a) Debentures payable															
Balance at 12/31/2014	**108,360**	**416,696**	**525,056**	**266,234**	**214,119**	**150,194**	**173,066**	**3,978**	-	-	-	**1,332,647**	**70,195**	**6,059**	**1,408,901**
(+) Restatement	6,979	27,096	**34,075**	36,779	32,856	8,769	29,644	(1,989)	-	-	-	**140,134**	10,413	1,171	**151,718**
(-) Payments (Principal + Interest)	(94,656)	(255,451)	**(350,107)**	(33,472)	(23,281)	(158,963)	(11,113)	-	-	-	-	**(576,936)**	(9,603)	(7,230)	**(593,769)**
Balance at 12/31/2015	**20,683**	**188,341**	**209,024**	**269,541**	**223,694**	-	**191,597**	**1,989**	-	-	-	**895,845**	**71,005**	-	**966,850**
(+) Funding	-	-	-	-	-	-	-	-	32,000	20,000	561,924	**613,924**	-	-	**613,924**
(+) Restatement	463	17,641	**18,104**	44,499	38,422	-	30,728	-	2,609	1,389	36,439	**172,190**	2,682	-	**174,872**
(-) Payments (Principal + Interest)	(21,146)	(65,118)	**(86,264)**	-	-	-	(10,683)	(1,989)	-	-	-	**(98,936)**	(2,685)	-	**(101,621)**
(-) Sale of interest 1			-	-	-	-		-	-	-	-	-	(71,002)	-	**(71,002)**
Balance at 12/31/2016	-	**140,864**	**140,864**	**314,040**	**262,116**	-	**211,642**	-	**34,609**	**21,389**	**598,363**	**1,583,023**	-	-	**1,583,023**
Breakdown by year of maturity:															
2017	-	140,864	**140,864**	64,040	52,116	-	12,129	-	2,609	1,389	36,439	**309,586**	-	-	**309,586**
2018	-	-	-	-	-	-	199,513	-	-	-	-	**199,513**	-	-	**199,513**
2019	-	-	-	-	-	-	-	-	32,000	20,000	-	**52,000**	-	-	**52,000**
After 2019	-	-	-	250,000	210,000	-	-	-	-	-	561,924	**1,021,924**	-	-	**1,021,924**
Balance at 12/31/2016	-	**140,864**	**140,864**	**314,040**	**262,116**	-	**211,642**	-	**34,609**	**21,389**	**598,363**	**1,583,023**	-	-	**1,583,023**

	Parent company												Consolidated		
	Support to production			Corporate									Support to production	Corporate	
	3rd issuance	5th issuance	Subtotal	1st issuance	4th issuance	6th issuance	7th issuance	8th issuance	9th issuance	10th issuance	11th issuance	Subtotal	REP	ZMF 23	Total
b) Expenditure with issuance															
Balance at 12/31/2014	**(238)**	**(1,562)**	**(1,800)**	**(2,076)**	**(1,205)**	**(118)**	**(2,062)**	-	-	-	-	**(7,261)**	**(2,831)**	-	**(10,092)**
(-) Funding cost	-	-	-	-	-	-	-	-	-	-	-	-	(776)	-	**(776)**
(-) Amortization of Expenses	119	781	**900**	518	498	118	522	-	-	-	-	**2,556**	291	-	**2,847**
Balance at 12/31/2015	**(119)**	**(781)**	**(900)**	**(1,558)**	**(707)**	-	**(1,540)**	-	-	-	-	**(4,705)**	**(3,316)**	-	**(8,021)**
(-) Amortization of Expenses	119	781	**900**	519	707	-	522					**2,648**	50	-	**2,698**
(-) Sale of interest 1	-	-	-	-	-	-	-	-	-	-	-	-	3,266	-	**3,266**
Balance at 12/31/2016	-	-	-	**(1,039)**	-	-	**(1,018)**	-	-	-	-	**(2,057)**	-	-	**(2,057)**
Net balance at 12/31/2016	-	**140,864**	**140,864**	**313,001**	**262,116**	-	**210,624**	-	**34,609**	**21,389**	**598,363**	**1,580,966**	-	-	**1,580,966**
Installment:															
Short-term	-	140,864	**140,864**	313,001	262,116	-	210,624	-	-	21,389	598,363	**1,546,357**	-	-	**1,546,357**
Long term	-	-	-	-	-	-		-	34,609	-	-	**34,609**	-	-	**34,609**
Total	-	**140,864**	**140,864**	**313,001**	**262,116**	-	**210,624**	-	**34,609**	**21,389**	**598,363**	**1,580,966**	-	-	**1,580,966**
Net balance at 12/31/2015	**20,564**	**187,560**	**208,124**	**267,983**	**222,987**	-	**190,057**	**1,989**	-	-	-	**891,140**	**67,689**	-	**958,829**
Installment:															
Short-term	20,564	187,560	**208,124**	267,983	222,987	-	190,057	1,989	-	-	-	**891,140**	67,689	-	**958,829**
Long term	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**20,564**	**187,560**	**208,124**	**267,983**	**222,987**	-	**190,057**	**1,989**	-	-	-	**891,140**	**67,689**	-	**958,829**

They are under the same agreement conditions of SFH (Housing Finance System):
a) Having a source of credit facilities created by the Government severance indemnity fund for employees (FGTS) and/or Savings;
b) Destined for real estate financing (residential or commercial real estate development);
c) Remunerated by reference interest rate variation + maximum interest rate of 12% per annum
[1] Write-off due to sale of interest in REP DI
[2] Issuance fully settled in the 3Q16 (Note 19.b).

b. Restrictive contractual Clauses ("Covenants") of Debts taken with Bank Credit Bills ("CCBs") and Debentures Payable

The Company and its subsidiaries have debenture and Bank credit notes (CCBs) agreements, with covenants, which include restrictive clauses, normally applicable to these types of operations, related to the compliance with financial indicators, cash generation and other items. These covenants are properly monitored and they do not restrict the ability to operate in the Company's normal course of business.

CCBs and Debentures Payable have restrictive contractual clauses, which are calculated using the following indicator below, determined based on the Company's consolidated Financial statements, calculated by the base date of December 31, 2016:

- Adjusted EBIT ratios (Earnings Before Interest and Taxes).
- Indices for maximum indebtedness.
- Indices for minimum levels of liquidity.
- Covenants.

These debts are in the negotiation process described in Note 1 of the Company's Operations.

As of December 31, 2016, the Company exceeded limits established for the Adjusted EBIT index, maximum indebtedness and minimum liquidity, as well as other non-financial ratios related to the existence of lawsuits, contracts not yet renegotiated or linked, protested notes, and other.

CPC 26 establishes that when the entity does not comply with a covenant of a long-term loan contract at the end of the period or before, at the end of the reporting date, liabilities becoming due and payable at the creditor's order, liabilities are classified as current, even if the creditor has agreed, after balance sheet date and prior to the date of authorization for the issuance of financial statements, not to require the accelerated payment due to the breach of the covenant. Liabilities must be classified as current liabilities because, at balance sheet date, the entity does not have the unconditional right to defer its dissolution for at least 12 months after that date.

Thus, the Company followed the accounting guidance defined in CPC 26 and reclassified the CCBs and Debentures Payable to current liabilities, as well as the debts linked to the early maturity of these.

As at December 31, 2016, the Company negotiated the debts pending formalization, and thus far, we have not any collection on demand, as provided for in the contracts of the CCBs and Debentures Payable still in effect.

Operations affected by covenants and reclassified amounts are as follows:

	Before Covenants			Adjustment	After Covenants		
Debts	**Short-term**	**Long term**	**Total debt**	**Effect covenants**	**Short-term**	**Long term**	**Total debt**
Debentures:							
Bradesco 1st issuance	-	302,060	302,060	302,060	302,060	-	302,060
Bradesco 4th issuance	-	252,269	252,269	252,269	252,269	-	252,269
CEF 5th issuance	140,847	-	140,847	-	140,847	-	140,847
BTG 7th Issuance	6,849	199,796	206,645	199,796	206,645	-	206,645
Vinci 10th issuance	-	21,389	21,389	21,389	21,389	-	21,389
Votorantim 11th issuance	-	575,887	575,887	575,887	575,887	-	575,887
	147,696	**1,351,401**	**1,499,097**	**1,351,401**	**1,499,097**	**-**	**1,499,097**
CCB:							
CEF	13,093	815,400	828,493	815,400	828,493	-	828,493
Fenix 1st issuance 27th series	68,757	127,500	196,257	127,500	196,257	-	196,257
BTG Pactual	53,254	-	53,254	-	53,254	-	53,254
Credit Suisse	25,630	3,203	28,833	3,203	28,833	-	28,833
Investment Credit Bank	46,375	3,493	49,868	3,493	49,868	-	49,868
Panamericano	27,114	29,243	56,357	29,243	56,357	-	56,357
BMG	12,956	6,135	19,091	6,135	19,091	-	19,091
Tykhe	4,747	90,763	95,510	90,763	95,510	-	95,510
RB	19,084	-	19,084	-	19,084	-	19,084
Banco do Brasil	87,925	322,809	410,734	322,809	410,734	-	410,734
Bradesco	-	24,334	24,334	24,334	24,334	-	24,334
Piurai	-	5,612	5,612	5,612	5,612	-	5,612
Votorantim	10,673	-	10,673	-	10,673	-	10,673
Itaú	10,868	320,128	330,996	320,128	330,996	-	330,996
	380,476	**1,748,620**	**2,129,096**	**1,748,620**	**2,129,096**	**-**	**2,129,096**
Working capital:							
FINEP	37,600	60,519	98,119	60,519	98,119	-	98,119
	37,600	**60,519**	**98,119**	**60,519**	**98,119**	**-**	**98,119**
SFH:							
Banco do Brasil	29,849	98,336	128,185	98,336	128,185	-	128,185
Bradesco	28,162	255,294	283,456	255,294	283,456	-	283,456
Itaú	-	51,372	51,.372	51,.372	51,.372	-	51,372
Caixa Econômica Federal	17,481	41,290	58,771	41,290	58,771	-	58,771
Santander	86,548	10,480	97,028	10,480	97,028	-	97,028
	162,040	**456,772**	**618,812**	**456,772**	**618,812**	**-**	**618,812**
Total on 12/31/2016	**727,812**	**3,617,312**	**4,345,124**	**3,617,312**	**4,345,124**	**-**	**4,345,124**

In addition, we confirm that we will comply with other Convents, on December 31, 2016, and have not received any notification from creditors or their fiduciary agents (trustees) in relation to a breach of covenants on loans and financing agreements, or the early maturity of debts reclassified to the short term due to the requirement of CPC 26.

14 Payables for acquisition of real estate

These refer to liabilities taken on with the purchase of land for real estate developments, as seen below:

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash - recorded	-	-	28,719	41,474
Cash - to be recorded	-	-	28,429	124,654
Linked to PSV - launched	1,501	1,807	42,269	74,602
Subject to VGV (General Sales Value) - to be recorded	3,016	4,762	21,109	35,752
Total	**4,517**	**6,569**	**120,526**	**276,482**
Current portion	4,517	6,569	85,825	174,774
Non-current portion	-	-	34,701	101,708
Total	**4,517**	**6,569**	**120,526**	**276,482**

The balances of obligations for acquisitions of real estate, in regard to the financial barters subject to overall sales value (VGV), amount to R$ 63,686 on December 31, 2016, (2015: R$ 110,354).

These operations are based on commitments assumed on the acquisition of land for real estate developments, upon settlement with the barterer of the land concurrently with the financial settlement by the clients of the real estate units sold and upon the transfer of financial resources, as provided for in the agreement.

Liabilities are substantially updated according to the National Civil Construction Index (INCC) or the General Market Price Index (IGP-M), with interest ranging from 6% to 12% per annum.

Breakdown per maturity of the non-current portion of liability values due to real estate acquisition is as follows:

Year	**Consolidated**	
	2016	**2015**
2017	-	25,427
2018	6,483	14,239
2019	6,232	13,222
2020 onwards	21,986	48,820
Total	**34,701**	**101,708**

15 Taxes payable

SRF Regulatory Instruction no. 84/1979 (Building and Sale of Real Estate) provides that for fiscal purposes the Company may defer tax payments in order to match them in proportion to income from sales made. Hence, tax payable is stated in assets or liabilities based on the difference between the profit recognized in such financial statements and deferred current tax ("payable") according to the cash method.

As at December 31, 2016, the Company and its investees have installments of federal and municipal taxes in the amount of R$ 28,865; of this total, R$ 4,198 is due in short-term, and R$ 24,667 in long-term.

a. *Income and social contribution tax expenses*

A significant majority of the SPEs chooses the taxation system based on deemed profit, where the tax basis is the income from sales, and, therefore, regardless of the financial results, the taxation rates average

3.08% of sales income.
The consolidated income and social contribution tax expenses are summarized as follow:

	2016		2015	
Corporate basis for calculation of taxes:	**IRPJ**	**CSLL**	**IRPJ**	**CSLL**
Income from real estate sales	270,826	270,826	1,855,992	1,855,992
(-) Income from real estate sale – Taxable income	(126,168)	(126,168)	(120,067)	(120,067)
(-) Income from real estate sales at RET	(27,556)	(27,556)	(1,259,243)	(1,259,243)
Income from real estate sales at deemed profit	**117,102**	**117,102**	**476,682**	**476,682**
Other income - Real estate development	57,804	57,804	88,481	88,481
Other income - Real estate development (taxable income)	13,027	13,027	(9,809)	(9,809)
(-) Other income – real estate development RET	(41,303)	(41,303)	(25,450)	(25,450)
Other income - Real estate development (deemed profit)	29,528	29,528	53,222	53,222
Presumed profit - Real estate development - IRPJ 8% - CSLL 12%	**11,730**	**17,596**	**42,392**	**63,588**
Rental/service income – taxable income	17,467	17,467	33,275	33,275
Rental/service income – deemed profits	449	449	3,458	3,458
Presumed profit – Services/Rentals - IRPJ – CSLL 32%	**144**	**144**	**1,107**	**1,107**
Deemed Profit (Merger + Services)	**11,874**	**17,740**	**43,499**	**64,695**
(+) Financial Income – Deemed income	62,424	62,424	46,504	46,504
(-) Financial income - Taxable income	(2,632)	(2,632)	(241,325)	(241,325)
(+) Other income – Deemed income	2,213	2,213	2,265	2,265
(-) Other income - Taxable income	(6,642)	(6,642)	(53,842)	(53,842)
Presumed profit tax basis	**76,511**	**82,377**	**92,268**	**113,464**
(-) Consolidated expense - Presumed profit - IRPJ/CSLL	(19,128)	(7,414)	(23,067)	(10,212)
(+) Deferred IRJP on temporary differences - Taxable income	6,166	2,212	(4,613)	(1,701)
(-) Consolidated expense - RET	(868)	(454)	(16,187)	(8,479)
Companies Taxed under the Presumed + Taxable Profit Methods	**(13,830)**	**(5,656)**	**(43,867)**	**(20,392)**
(+) Other	13,426	7,411	19,301	2,657
Expense no Income (loss)	**(404)**	**1,755**	**(24,566)**	**(17,735)**

	2016		2015	
Breakdown of expense	**IRPJ**	**CSLL**	**IRPJ**	**CSLL**
Current	(48,309)	(24,492)	(92,532)	(47,262)
Deferred	47,905	26,247	67,966	29,527
Expense no Income (loss)	**(404)**	**1,755**	**(24,566)**	**(17,735)**

Taxes (Income and social contribution taxes)	**2016**	**2015**
Current	(72,801)	(139,794)
Deferred	74,152	97,493
	1,351	**(42,301)**

Certain investees of the Group (PDG) shall discharge their income and social contribution taxes by means of the taxable income system. In the years ended December 31, 2016 and 2015, the calculation under the Taxable Income method did not generate Income tax and social contribution expenses to the Company.

b. *Deferred tax assets and liabilities*

Deferred tax assets and liabilities from income tax, social contribution, PIS and Cofins are recorded in order to reflect the tax effects arising from temporary differences between the tax base, which defines cash method taxation (SRF Regulatory Instruction no. 84/1979) and the actual appropriation of real property tax, note 2.8b.

Breakdown of deferred tax assets

	Consolidated	
Tax	**2016**	**2015**
IRPJ and CSLL	4,152	1,206
PIS and COFINS	6,062	1,251
Total	**10,214**	**2,457**

Breakdown of deferred tax liabilities

	Consolidated	
	2016	**2015**
Deferred income tax liabilities	25,733	107,366
Deferred social contribution tax liability	11,240	51,300
Total	**36,973**	**158,666**

Considering the current context of the Parent Company's operations, substantially related to the holding of interest in other companies, tax credits were not recognized on the totality of the accumulated balance of tax losses and social contribution tax loss carryforwards, as well as on the balance of temporarily nondeductible expenses upon calculation of the taxable income.

As of December 31, 2016, the balance of tax losses for income tax and negative basis for social contributions on net income of the Company is R$ 3,455,513 (2015: R$ 2,601,253).

The balances of deferred tax liabilities are recorded for accounting purposes as follows:

	Parent company		Consolidated	
Tax	**2016**	**2015**	**2016**	**2015**
IRPJ and CSLL	-	-	36,973	158,666
PIS and COFINS	543	1,538	53,429	117,105
Total	**543**	**1,538**	**90,402**	**275,771**
Current portion	543	1,538	45,483	56,399
Non-current portion	-	-	44,919	219,372
Total	**543**	**1,538**	**90,402**	**275,771**

16 Operations with Real estate projects under development and Advances from clients

Refer to unrecognized income derived from contracted sales for joint ventures under construction that are not yet reflected in financial statements. The amounts are as follows:

	Consolidated	
	2016	**2015**
Unrecognized contracted sales (*)	677,251	721,866
Construction commitment	(512,325)	(497,225)
Total	**164,926**	**224,641**

(*) Net of taxes and adjustment to present value (AVP)

The unrecorded income amounts of the contract value of units sold are as follows:

	Consolidated	
Year	**2016**	**2015**
2016	-	126,683
2017	93,707	77,521
2018 onwards	71,219	20,437
Total	**164,926**	**224,641**

The result of real estate operations is recorded based on the accounting practice presented in note 2.10. Therefore, the balance of accounts receivable from the units sold and not yet concluded are reflected in part in the December 31, 2016 financial statements, as the respective book entries reflect recognized income net of the installments received.

The amount classified under the caption "Advance from clients", in current and non-current liabilities is as follows:

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Physical barter - recorded	-	-	105,959	93,104
Physical barter - to be recorded	-	2,750	43,430	107,353
Trade accounts receivable	34	34	111,907	103,698
Total	**34**	**2,784**	**261,296**	**304,155**
Current portion	34	34	188,928	156,641
Non-current portion	-	2,750	72,368	147,514
Total	**34**	**2,784**	**261,296**	**304,155**

17 Provisions

The Company and its subsidiaries, are parties in court and administrative proceedings of a labor, tax and civil nature, which arose from its normal course of business. The provision for contingencies of the Company is mainly formed by these subsidiaries.

The respective provision for contingencies were formed considering the assessment of a loss likelihood by legal advisors, and are recorded under "Other net operating income (expenses)."

Based on the opinion of its legal advisors, Management believes that the provision for contingencies formed is sufficient to cover any likely losses in the court proceedings and differences found in tax calculations, as described below:

	Parent company		Consolidated	
Nature – Probable loss	**2016**	**2015**	**2016**	**2015**
Labor	25,967	374	98,867	87,026
Tax	26,520	42	27,010	16,502
Civil	22,736	8,782	931,303	366,834
Total	**75,223**	**9,198**	**1,057,180**	**470,362**
Current portion	32,736	1,499	336,757	128,735
Non-current portion	42,487	7,699	720,423	341,627
Total	**75,223**	**9,198**	**1,057,180**	**470,362**

Below follows a breakdown of the contingency provisions of the Company and its subsidiaries:

	Parent company			
	Labor	**Tax**	**Civil**	**Total**
Balance at 12/31/2014	**1,811**	**-**	**966**	**2,777**
Additions	43	42	9,018	9,103
Reversals	(1,480)	-	(1,202)	(2,682)
Balance at 12/31/2015	**374**	**42**	**8,782**	**9,198**
Additions	36,978	27,231	94,593	158,802
Reversals	(11,385)	(753)	(80,639)	(92,777)
Balance at 12/31/2016	**25,967**	**26,520**	**22,736**	**75,223**

	Consolidated			
	Labor	**Tax**	**Civil**	**Total**
Balance at 12/31/2014	**108,126**	-	**137,817**	**245,943**
Additions	42,258	16,502	318,256	377,016
Reversals	(63,358)	-	(89,239)	(152,597)
Balance at 12/31/2015	**87,026**	**16,502**	**366,834**	**470,362**
Additions	78,859	30,092	974,191	1,083,142
Reversals	(67,018)	(19,584)	(409,722)	(496,324)
Balance at 12/31/2016	**98,867**	**27,010**	**931,303**	**1,057,180**

The proceeding s with a loss likelihood and deemed "possible" by the Company's legal advisors are comprised of:

	Parent company		Consolidated	
Nature – Possible loss	**2016**	**2015**	**2016**	**2015**
Labor	64,007	4,144	179,558	135,694
Tax	12,777	825	104,257	43,794
Civil	4,300	82,190	235,014	610,761
Total	**81,084**	**87,159**	**518,829**	**790,249**

Civil lawsuits are mainly discussions related to consumers, involving fines on delayed delivery of real estate projects, contract rescissions, questioning on correction indices, as well as repair of construction faults.

Labor lawsuits are mainly labor complaints from outsourced companies' former employees and, at a smaller proportion, labor complaints from the Company's former employees. These lawsuits require, above all, payments of overtime and unhealthy work, include labor claims by former employees for unpaid sums of overtime, unhealthy and hazardous work, dangerous work and payment of social charges.

In addition to the already exposed by the Company, below is the amount of the provision for warranty, which was accounted for in accordance with the accounting practice presented in note 2.8a:

	Parent company		Consolidated	
Provision for warranty[1]	**2016**	**2015**	**2016**	**2015**
Current portion	98	516	51,828	62,135
Non-current portion	447	-	50,890	67,007
Total Provision	**545**	**516**	**102,718**	**129,142**

(1)These are recorded under other provisions in the liabilities of the Company and its subsidiaries

18 Shareholders' equity

a. *Capital*

The Company's capital is represented, on December 31, 2016, and 2015, by 49,192,557 (forty-nine million, a hundred and ninety-two thousand, and five hundred and fifty-seven) registered in common shares with no par value, fully subscribed, of a total value of R$ 4,970,080.

The changes in the Company's capital between December 31, 2015 and 2016, are presented asfollow:

		Capital		
	Quantity of common shares	**Subscribed**	**Funding expenses**	**Total**
Balance at 12/31/2014	**1,323,264,223**	**4,960,080**	**(52,237)**	**4,907,843**
Capital increase	1,136,363,636	10,000	-	10,000
Subtotal	**2,459,627,859**	**4,970,080**	**(52,237)**	**4,917,843**
Reverse split of shares 50/1	49,192,557	-	-	-
Balance at 12/31/2015	**49,192,557**	**4,970,080**	**(52,237)**	**4,917,843**
Balance at 12/31/2016	**49,192,557**	**4,970,080**	**(52,237)**	**4,917,843**

A realized capital increase carried out in 2015, by private subscription, was approved by the Board of Directors' meeting of the Company on June 30, 2015, as planned at the Special Shareholders' Meeting held on April 15, 2015

The subscription totaled R$ 500,000 and of this total amount R$ 10,000 was allocated to the account of the Company's share capital and the balance of R$ 490,000, net of costs of funding of R$ 247, was allocated to the capital reserve account.

In light of the approval of the capital increase, the Board members also endorsed the issuance of subscription warrants ("Bonus") as an additional benefit to subscribers of the Company's capital increase shares, having been issued 454,545,143 (Four hundred and fifty-four million, five hundred forty-five thousand, a hundred forty-three) warrants, equivalent to 9,090,903 (nine million, ninety thousand, nine hundred and three) shares, considering the reverse share split, carried out on October 08, 2015, the ratio of a warrant for every 2.5 new shares issued.

Subscription Bonuses are up to April 06, 2018, and may be exercised at any time from the date they are issued until its expiration date under holder's criteria. The strike price of each warrant is R$ 0.75 (seventy-five centavos; post reverse split it is equivalent to R$ 37.50); It should be adjusted on the occurrence of the assumptions set forth in item "h" of the Special Shareholders' Meeting held on April 15, 2015.

The Special Shareholders' Meeting of the Company held on October 8, 2015, approved the reverse split of all the Company's common shares at a ratio of 50 to 1, so that each batch of fifty shares was grouped into a single ordinary share.

As of December 31, 2016, the Company authorized a capital increase, already considering the reverse split of shares, regardless of statutory reform, by Board of Directors' decision, in issues that total, excluding increases decided by the Special Shareholders' Meeting to the limit of 30,700,000 (thirty million and seven hundred thousand) common shares (on December 31, 2014, and without a reverse split: 1,080,000,000 common shares). This limit considers all the capital increases made within the Company's authorized capital, since the Company's establishment, including all capital increases approved by the CA. The Board of Directors' decision approving such issuances of shares will define the conditions of the issuance, establishing if the increase will be made by public or private subscription, the price, type and payment conditions.

On December 31, 2016, the total shares issued by the Board, considering the reverse split performed, was 13,421,622 (thirteen million, four hundred twenty-one thousand and six hundred twenty-two) common shares.

b. *Income (loss) per share*

The tables that follow reconcile losses and the weighted average of shares outstanding with the sums used to calculate basic and diluted loss per share in the parent company's and consolidated figures:

	2016	2015
Basic loss per share		
Net loss for the period available for common shares	(5,307,817)	(2,764,382)
Outstanding average weighted common shares	49,192	2,005,344
Loss per share (in R$) - basic	**(107.90000)**	**(1.37851)**
Loss per share with 2015 shares grouped for comparison purposes	**(107.90000)**	**(68.92518)**
Diluted loss per share		
Net loss for the period available for common shares	(5,307,817)	(2,764,382)
Outstanding average weighted common shares	49,192	2,005,344
Loss per share (in R$) - diluted	**(107.90000)**	**(1.37851)**
Loss per share with 2015 shares grouped for comparison purposes	**(107.90000)**	**(68.92518)**

The potential increase of common shares due to the capital increase by conversion of debentures or stock options was not considered against the loss of the year.

19 Financial instruments

a. *Financial instruments' analysis*

The Company and its subsidiaries are party to transactions involving financial instruments for the purpose of financing its activities or investing its available funds.

The key financial instruments commonly employed by the Company and its subsidiaries are those found under "Cash and cash equivalents" and "Loans and financing", "Debentures payable" to fund joint ventures under construction, working capital loans, all under normal market conditions. All of these instruments are recognized under the criteria described in Note 2.4.

The Company restricts its exposure to credit risks associated with banks and short-term investments, by placing investments in first-class financial institutions on high-yield short-term papers. As to accounts receivable, the Company restricts its exposure to credit risks by means of sales to a broad range of clients and the ongoing performance of credit analyses.

As of December 31, 2016, there was no significant concentration of credit risk associated with clients.

The management of these risks is performed through the definition of conservative strategies aiming at liquidity, profitability and safety. The control policy consists of ongoing monitoring of contracted rates against market rates.
Financial instruments category is shown as follows:

	Parent company		Consolidated		Rating
	2016	2015	2016	2015	
Financial assets					
Cash and cash equivalents	5,931	17,488	200,973	604,093	*Fair value through profit or loss*
Accounts receivable	24,761	94,741	2,022,665	5,491,307	Receivables and loans
Loans receivable	2,723	41,194	24,564	77,673	Receivables and loans
Current account with partners in joint ventures	12,530	-	60,165	185,975	Receivables and loans
Credit receivables purchased	-	155,775	-	-	Receivables and loans
Total financial assets	**45,945**	**309,198**	**2,308,367**	**6,359,048**	
Financial liabilities					
Suppliers	22,952	23,964	251,319	230,490	Financial liabilities
Accounts payable for acquisition of real property	4,517	6,569	120,526	276,482	Financial liabilities
Debentures payable	1,580,966	889,151	1,580,966	956,840	Financial liabilities
Debentures payable (8th issuance) (Note 19.b)	-	1,989	-	1,989	*Fair value through profit or loss*
Loans and financing	430,799	951,008	1,401,162	2,659,320	Financial liabilities
Liabilities from CCB/CCI issuance	2,041,970	2,062,594	2,312,584	2,505,369	Financial liabilities
Co-obligation in the assignment of receivables	-	-	24,411	31,460	Financial liabilities
Accounts payable for acquisition of ownership interest	-	3,934	-	-	Financial liabilities
Loans payable	-	-	-	7,802	Financial liabilities
Current account with partners in joint ventures	116,549	-	137,413	9,135	Financial liabilities
Other liabilities	1,374,679	611,218	417,753	423,615	Financial liabilities
Total financial liabilities	**5,572,432**	**4,550,427**	**6,246,134**	**7,102,502**	

b. *Fair value of assets and liabilities*

The financial instruments' book values, consisting substantially in short-term investments and loans, are shown in the December 31, 2016 and 2015 financial statements as sums that are close to market values, considering similar transactions.

The 8th issue of convertible debentures, capitalized by Vinci Partners, were settled at fair value on September 16, 2016, equivalent to R$ 1,989 on such date.

c. *Considerations on financial instruments' risks*

Interest rate risk

The Company is exposed to floating interest rates, substantially: The variations of the CDI rate that are remunerated as financial Investments in Bank Deposit Certificates and Repurchase Agreement Backed Debentures denominated in Reais (R$); and interest on loans receivable contracted to IGPM +12% to 18% p.a. and CDI +2% to 3% p.a. The Company is also exposed to interest on bank loans contracted between CDI +1.35% p.a. and 5.83% p.a. and TR +11.02% p.a., loans contracted with the National Housing System (SNH) between TR +8.3% p.a. and 12% p.a. and interest on the Debentures issued at CDI +0.9% p.a. and TR +8.75% p.a.

Sensitivity analysis

As provided in CVM Instruction no. 475 dated December 17, 2008, the Company and its subsidiaries should submit a sensitivity analysis for each type of market risk arising from financial instruments and considered relevant by Management, to which the entity is exposed on the closing date of each fiscal period.
Most of the Company's costs and all the portfolio of receivables from uncompleted projects is adjusted for inflation based on the National Civil Construction Index (INCC).

In order to check the sensitivity of the indexer of financial investments to which the Company was exposed to at December 31, 2016, we defined three scenarios. Based on the values of CDI in effect on December 31, 2016 and defined as a probable scenario, as of which scenarios with devaluation of 25% (Scenario II) and 50% (Scenario III).

The "gross financial income" was calculated for each scenario, not taking into account the incidence of taxes on investment yields. The base date used in the portfolio was December 31, 2016, with a one-year projection and checking the sensitivity of the CDI in each scenario.

Operation	CDI (Interbank Deposit Certificate) risk on balance at 12/31/2016	Probable scenario		
		I	II	III
Investment funds – fixed income	9,992	14%	10%	7%
Projected income		1,362	1,021	681
Bank deposit certificates	62,823	14%	10%	7%
Projected income		8,563	6,422	4,281
Resale commitments and immediate liquidity operations	78,676	14%	10%	7%
Projected income		10,722	8,042	5,361
Total projected income		**20,647**	**15,485**	**10,323**

In order to verity the sensitivity of the index in the debts to which the Company is exposed on the base date December 31, 2016, 03 different scenarios were defined.

Based on the values of TR and CDI in effect on December 31, 2016, a likely scenario was defined for the next 12 months, on which basis changes from 25% to 50% were found.

Operation	Risk	Risk on balance on 12/31/2016	Probable I	Scenario 25%	Scenario 50%
Loans and financing					
Rate subject to variation	CDI	3,978,500	510,098	637,623	765,148
Rate subject to variation	TR	994,468	62,047	77,559	93,071
Projected financial charges			**572,145**	**715,182**	**858,219**
Debentures					
Rate/index subject to variations	CDI	1,230,517	160,488	204,642	245,571
Balance of debentures	TR	140,864	643	804	964
Projected financial charges			**161,131**	**205,446**	**246,535**

Capital management

Capital management is intended to preserve funds in hand to meet the needs for covering liabilities, pursuant to the Company's business plan.

The Company manages capital through leverage ratios, which is net debt, minus debt to production support, divided by consolidated equity. The Company includes in the net debt the loans and financing except for those destined to the financing/support to production, granted under SFH conditions, less cash and cash equivalents and interest earning bank deposits. The following table shows the total of Company's consolidated equity, also debts contracted in the year ended December 31, 2016 and 2015, giving examples of its own capital structure and obtained from third parties:

	2016	2015
Gross debt		
. Debt of Housing Financial System - SFH	970,394	1,660,077
. Other corporate debts	430,768	999,243
Total loans and financing	**1,401,162**	**2,659,320**
Debentures payable	1,580,966	958,829
Bank Credit Bills (CCBs) and co-obligations	2,336,995	2,536,829
Total gross debt	**5,319,123**	**6,154,978**
(-) Cash and cash equivalents and interest earning bank deposits	(200,973)	(604,093)
Net debt	**5,118,150**	**5,550,885**
(-) SHF debt	(970,394)	(1,660,077)
(-) CCB debt - Support to production *	(586,770)	(783,089)
(-) Debentures debt payable - Support to production *	(140,864)	(275,813)
Net debt less debt with support to production	**3,420,122**	**2,831,906**
Total consolidated shareholders' equity (PL)	**(3,414,502)**	**2,384,565**
Debt (without SFH and Support to production) / Shareholders' equity	-100.2%	118.8%

*They are under the same agreement conditions of SFH (Housing Finance System):

a) Derived from credit lines obtained from the Government Severance Indemnity Fund (FGTS) and/or savings account
b) Destined for real estate financing (residential or commercial real estate development);
c) Remunerated by reference interest rate variation + maximum interest rate of 12% per annum

Liquidity risk
The Company manages liquidity risk by planning cash flow and monthly reviewing its projects in accordance with realized flows, always seeking to increase accuracy and revalidation of flows. We give priority to funds from SBPE and SFH financing to production as they permit better matching between maturities of assets and liabilities and, also, funds originated from portfolio transfer to banks are used by them to amortize this debt.

In addition, we have corporate debts issued as debentures, CCB's and CRI's, primarily held by the largest Brazilian banks, with irrelevant participation of distribution channels in capital markets. The Company's focus is on new fund raising with more attractive terms and costs and on anticipated roll-over of transactions coming due so as to adequate cash flow from the Company's financial activities in the short term. Long-term relationship, its size and interest in real estate development industry in Brazil has resulted in great success.

Foreign exchange risk
As of December 31, 2016, the Company had no debts or amounts receivable denominated in foreign currency. Moreover, none of the Company's relevant costs are in foreign currency.

Credit risk
Credit risk is the risk of a business counterpart not complying with obligations provided in a financial instrument or contract with the client, resulting in financial loss.

Financial instruments which may potentially subject the Company to credit risk concentration are mainly comprised by bank balances, interest earning bank deposits substantially in government bonds and trade accounts receivable.

The Company is exposed to credit risk in its operating activities and bank and/or financial institution deposits, foreign exchange transactions and other financial instruments. In order to mitigate such risks, the Group (PDG) adopts a conservative management by investing short-term funds with day-to-day liquidity and post –fixed rates in first-class banks, bearing in mind ratings by the key risk agencies and respecting prudential concentration limits.
The balance of accounts receivable is spread out over a number of clients, with tangible guarantees consisting in the respective Real estate.

20 Business Risk Management

a. *Implementation of the risk control system*

In order to manage the risk control system effectively, the Company has operational control of all joint ventures in its portfolio, which allows, for example, accelerate unit sales to reduce their risk exposure in relation to certain projects.

Such acceleration usually occurs by reducing the selling price, changing the media vehicles used, etc.

b. *Risk control system*

Risk control system includes an individual risk analysis for each joint venture and an investment portfolio risk analysis. Potential losses are calculated in stress scenario for each individual joint venture and for the portfolio as a whole, as well as the maximum cash exposure required by the portfolio.

c. *Loss risk control*

Risk for a new Company's joint venture is calculated bearing in mind what could be the loss should the latter decide to wind up the investment under extreme conditions. To this end a winding up price is defined, which may be estimated only in markets in which price formation is consistent, this consistency being defined as demand sensitivity to changes in price. The maximum loss expected in each project is calculated and a portion of own capital is allocated to support this risk.

The Company's total risk consists in the sum of each project's individual risks. After being launched, the joint venture's risk is reduced in proportion to the sale of units. The Company seeks maximum efficiency for its capital and believes that this efficiency is obtained when the sum of the risks in individual projects is close to the total of its available capital.

d. *Control over maximum cash exposure*

The risk control system monitors future cash needs in order to undertake the programmed joint ventures in the Company's portfolio, based on each development project's economic feasibility study as well as on the need for individual cash flows regarding the projected cash flow for the portfolio as a whole. The cash flow projection assists in defining funding strategies and decision making with regard to which joint ventures to include in the portfolio.

e. *Operation in a liquid market*

Through its market knowledge and with the assistance of partners, the Company is able to define the need for new joint ventures in different regions, as well as the income bracket of targeted potential purchasers. It concentrates projects in accordance with each geographical location's liquidity, i.e.: the potential displayed by each region in absorbing a certain number of Real estate and in responding to price changes.
The Company does not intend to act in markets in which there are no data available and in which there are no partners with specific expertise on such markets. Hence it believes that investment risks will be reduced, by acting in liquid regions with known market data and in association with local partners.

f. *Operating risks*

The operational risk management aims at monitoring: (i) of the construction agreement, in relation to the maximum guaranteed cost of the work; (ii) construction, with the Company retaining specialized companies to inspect the provision of services by the contracted builders (quality and the physical-financial schedule of the construction); (iii) of the financial and accounting audits carried out by the main independent audit firms; (iv) the legal documentation and risks; and (v) of the credit risk of the buyers of units through the active management of the receivables of the joint ventures.

21 Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks for amounts that the Management considers to be sufficient to cover eventual casualties, considering the nature of its activity. The policies in force and the premiums were dully paid. The Company considers that it has an adequate management program with the objective of limiting risk and searching the market for a coverage compatible with its size and operations.

Insurance coverage in amounts for December 31, 2016 is as follows:

Items	Type of coverage	Insured amount
Construction insurance (Engineering and Civil Liability Risk)	Covers property and bodily damages involuntarily caused to third parties resulting from the execution of work, facilities and setting up at the site purpose of insurance; indirect damages caused by possible project errors; and extraordinary expenses such as clearing away of debris, disturbances, strikes etc.	1,474,778
Guarantee of delivery of real estate property insurance	Ensures the delivery of properties to conditional buyers	146
Corporate	Material damage caused by electrical damages, fire, windstorm, riots, assuring the loss of rental income	17,246
D&O	Management's civil liability	100,000
		1,592,170

22 Share-based payment

a. *Stock option plan*

On January 9, 2007, the Board of Directors of the Company established the stock option plan through an Option Contact. Options may be exercised in four equal batches, the term for exercising the first batch starting in January 2011 and the last batch in January 2016.

On December 31, 2016, the Company has no outstanding options for this plan, and the deadline for exercising the option expired and the options were canceled (December 31, 2015: 7,500 options after considering the reverse stock split that took place on October 08, 2015, in the ratio of 50 to 1 share on the 375,000 options of the shares at that date).

b. *Long-term incentive plan*

During the Special Shareholders' Meeting, was approved the Company's Long-Term Incentive Plan, under the Type of Call Option of Shares, whose purposes are as follows:

i. providing incentive for the expansion, success and achievement of the Company's social goals;
ii. to align the interests of the Company's shareholders to the interests of the eligible people; and
iii. to enable the Company or other companies under its control to attract and maintain the eligible people linked to it (them).

The eligible beneficiaries under the type of call option of shares are the administrators and employees of the Company or of other companies under its control, as long as approved by the Company's Board of Directors.

The Company's Board of Directors, when considered convenient, will approve the granting of options, electing the beneficiaries to which the options will be granted under the terms of the plan, fixing the strike price of the options and their payment conditions, establishing the terms and conditions of the exercise of the options and imposing any other conditions related to these options.

These options may be exercised as long as the respective beneficiaries remain continuously linked as administrator or employee of the Company or of any other company under its control, for the period between the granting date and its anniversary.

The Options not exercised within the terms and conditions established will be considered automatically extinguished, with no right to indemnity, observing the maximum period of validity of the options, which will be of 6 (six) years from the granting date.

Total shares that may be acquired in the ambit of the plan will not exceed 8% of shares that represent total Company's capital (including shares issued due to the exercise of options based on this plan), provided that total number of issued shares or shares that may be issued pursuant to the terms of the plan is always within the capital limit authorized by the Company.

The strike price to be paid by the option holders will be deduced by dividends and interests on own capital per share paid by the Company between granting date and the option exercise date.

The fair value of stock options is presented by using option pricing model of Black & Scholes, thus assuming the payment of dividends as per assumptions presented in the following table:

A summary of the Company's main characteristics of call options corresponding to this plan on December 31, 2016 are summarized as follows.

	ILP – Realized stock options		
Characteristics of the issuances:	**1st issue**	**2nd issuance**	**3rd issuance**
Grant date	12/19/2013	12/19/2014	11/04/2015
Final year-end deadline	12/19/2018	12/19/2019	11/04/2018
Issued stock options [1]	1,874,639	484,130	2,589,082
Options canceled up to December 31, 2016:	(1,532,472)	(241,701)	-
Strike price [2]	91.00	53.00	2.48
Dividends	7.4%	6.5%	0.0%
Volatility	29.9%	25.1%	24.2%
Risk-free interest rate	11.6%	12.7%	13.8%
Maturity (in years)	5	5	3
% for exercise of the Options:			
On the 1st stock option anniversary	-	-	33%
On the 2nd stock option anniversary	20%	20%	33%
On the 3rd stock option anniversary	20%	20%	33%
On the 4th stock option anniversary	30%	30%	-
On the 5th stock option anniversary	30%	30%	-
[1] Granted options issued:	**1st issue**	**2nd issuance**	**3rd issuance**
Before grouping on October 8, 2015:	93,731,953	24,206,480	-
Grouped balance 50 shares to 1:	1,874,639	484,130	2,589,082
Before grouping on October 8, 2015:	1.82	1.06	-
[2] Equivalent in grouping 50x1	91.00	53.00	2.48

Here follows the movement of the stock options of the Company's shares and the dilution percentage of current beneficiaries in the event of full exercise of the options granted:

	ILP – Issued stock options balance				Total outstanding shares	% Calculated dilution [1]
	1st issue	2nd issuance	3rd issuance	Total		
Balance to be exercised as of December 31, 2013	**93,731,953**	-	-	**93,731,953**	**1,339,547,923**	**7.00%**
Issued stock options	-	24,206,480	-	24,206,480		
Canceled	(6,188,122)	-	-	(6,188,122)		
Balance to be exercised as of December 31, 2014	**87,543,831**	**24,206,480**	**-**	**111,750,311**	**1,323,264,223**	**8.45%**
Canceled	(66,249,387)	(8,954,578)	-	(75,203,965)		
	21,294,444	**15,251,902**	**-**	**36,546,346**	**2,459,627,859**	**1.49%**
Balance after Grouping of shares 50/1	425,889	305,038	-	730,927	49,192,557	
Issued stock options	-	-	2,589,082	2,589,082		
Balance to be exercised as of December 31, 2015	**425,889**	**305,038**	**2,589,082**	**3,320,009**	**49,192,557**	**6.75%**
Canceled	(83,722)	(62,609)	-	(146,331)		
Balance to be exercised as of 12/31/2016	**342,167**	**242,429**	**2,589,082**	**3,173,678**	**49,192,557**	**6.45%**

[1] Number of stock options to be exercised + outstanding shares on total outstanding shares

Until the settlement of the plan in 2019, the total amount of expense for stock options, considering cancellations occurring due employees leaving, will be R$ 16,075 (2015: R$ 16,793), calculated using the Black & Scholes method, bearing in mind the exercise period, volatility based on the background of Company shares, the risk-free rate and dividend payout proposal.

As provided in CPC 10 – Share-Based Payments, approved under CVM Resolution no. 564/08, the premium for these shares was found on the date of their granting and was acknowledged as an expense against shareholders' equity, during the grace period and as the services are provided.
During the year ended December 31, 2016, accumulated an expense appropriation, at the Company's result, in the amount of R$ 1,361 (2015: R$ 962).

The balances to be recognized in the Company's income are as follows:

ILP - Total expenses with stock option issuances

Year	Gross value	Recognized	Unrecognized	Residual
Ref. 1st issuance:				
2013	38,772	(385)	-	38,387
2014	-	(11,172)	-	27,215
2015	(27,215) [1]	-	-	-
	11,557	**(11,557)**	**-**	
Ref. 2nd issuance:				
2014	4,352	(44)	-	4,308
2015	(853) [1]	(1,283)	-	2,172
2016	(718) [1]	(500)	-	954
2017	-	-	(455)	499
2018	-	-	(339)	160
2019	-	-	(160)	-
	2,781	**(1,827)**	**(954)**	
Ref. 3rd issuance:				
2015	1,737	(148)	-	1,589
2016	-	(861)	-	728
2017	-	-	(508)	220
2018	-	-	(220)	-
	1,737	**(1,009)**	**(728)**	
Balance at 12/31/2016	**16,075**	**(14,393)**	-	**1,682**
Balance at 12/31/2015	**16,793**	**(13,032)**	**-**	**3,761**
Balance at 12/31/2014	**43,124**	**(11,601)**	**-**	**31,523**

[1] Amount determined upon cancellation of stock options due to termination of employees

23 Segment information

The Company reviews the type of valuation of its business and understands that its business units do not mean different segments, but subdivisions of the real estate segment. Accordingly not presenting information by segment.

24 Net operating income

Breakdown of the Company's net operating income in the years ended December 31, 2016 and 2015 is as follows.

	Parent company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Real estate sales	8,238	27,070	270,825	1,848,083
Other operating income	3,632	588	57,804	125,214
(-) Deductions from income	(2,061)	(6,482)	(81,401)	(148,996)
Net operating income	**9,809**	**21,176**	**247,228**	**1,824,301**

25 Costs of units sold

Below follows a breakdown of the Company's real estate sold in the years ended December 31, 2016 and 2015.

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Costs of units sold	(18,740)	(21,831)	(885,788)	(1,713,328)
Capitalized charges	(2,264)	(1,324)	(87,193)	(153,028)
Cost of Real estate sold	**(21,004)**	**(23,155)**	**(972,981)**	**(1,866,356)**

26 Financial income (loss)

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Financial income				
Yield from interest earning bank deposits	4,277	22,323	35,801	93,888
Fair value of debentures	-	1,989	-	1,989
Monetary restatement, interest and fines	10,225	43,997	70,020	146,206
Other financial income	1,166	51,574	15,610	45,656
	15,668	**119,883**	**121,431**	**287,739**
Financial expenses				
Interest on loans	(676,937)	(610,912)	(897,374)	(1,045,179)
Bank expenses	(31)	(55)	(2,564)	(3,643)
Other financial expenses	(10,705)	(41,363)	(38,911)	(63,169)
Total financial expenses	**(687,673)**	**(652,330)**	**(938,849)**	**(1,111,991)**
Capitalized interest (note 6)	329	1,889	6,427	152,691
	(687,344)	**(650,441)**	**(932,422)**	**(959,300)**
Total financial income	**(671,676)**	**(530,558)**	**(810,991)**	**(671,561)**

27 Administrative expenses

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Salaries and payroll charges	(2,387)	(609)	(83,950)	(128,823)
Management fees	(25,286)	(11,944)	(25,286)	(12,636)
Stock options	(1,041)	(1,057)	(1,041)	(1,057)
Profit sharing	-	(1,349)	(23,005)	(11,300)
Salaries and payroll charges	**(28,714)**	**(13,983)**	**(133,282)**	**(153,816)**
Lawyers' fees and court costs	(1,302)	(6,176)	(5,694)	(20,766)
IT maintenance	(7,686)	(7,062)	(10,689)	(13,778)
Consulting	(11,052)	(3,570)	(15,135)	(12,845)
Other services	(4)	(240)	(5,865)	(10,283)
Rendering of services	**(20,044)**	**(17,048)**	**(37,383)**	**(57,672)**
Traveling	-	-	(2,606)	(4,367)
Telecommunications and Internet	(2,342)	(576)	(5,612)	(5,406)
Rental and renewal of real estates	(75)	(495)	(14,044)	(21,733)
Other expenses	(3,517)	(2,862)	(9,086)	(15,753)
Other administrative expenses	**(5,934)**	**(3,933)**	**(31,348)**	**(47,259)**
Total	**(54,692)**	**(34,964)**	**(202,013)**	**(258,747)**

28 Sales expenses

	Parent company		Consolidated	
	2016	**2015**	**2016**	**2015**
Advertising, publicity and others	(3,337)	(1,325)	(109,931)	(91,401)
Commissions and bonuses on sales	(697)	(546)	(26,147)	(49,937)
Sales Stand	(32)	(60)	(6,607)	(15,375)
Total	**(4,066)**	**(1,931)**	**(142,685)**	**(156,713)**

29 Other net operating expenses and capital gains and losses on ownership interests

The Company and its subsidiaries accumulated in this line item, as at December 31, 2016, the adjustments to:

- **Trade accounts receivable**: provision for cancelled contracts with clients and ALL – total of R$ 645,886;
- **Provision for contingencies**: provision for losses on lawsuits and judicial deposits – total of R$ 907,939;
- **Real estate inventories for sale**: impairment and cancellation of purchases – total of R$ 612,726;
- **Investments and current accounts**: operations with partners and interest holders – total of R$ 835,206;
- **Other asset and liability accounts**: accounts payable for delay in construction work, construction work costs, ALL on loans, and other transactions – total of R$ 446,321.

30 Independent Auditors

KPMG Auditores Independentes (KPMG) was contracted by PDG Group for provision of external audit services in relation to the audit of its annual Financial Statements and reviews of its Financial statements. There are no other services provided in 2016 by KPMG for the Company.

31 Subsequent events

a. Court-Supervised Reorganization

As previously disclosed, the Company began in August 2015, together with its legal and financial advisors, a debt restructuring process aimed at reinforcing cash flows and optimizing the capital structure of the companies of the PDG Group, in order to preserve its capacity of fulfilling the obligations assumed with the creditor and clients (“Restructuring Process”).

The outline of the Restructuring Agreement established the extension of interest payment and principal amortization, grant of a new financing aimed at covering the general and administrative expenses of PDG, and the financial institutions’ commitment to resume the release of financing facilities already taken out and/or analyze the possibility of taking out new financing facilities to benefit real estate joint ventures developed by the companies of the PDG Group.

However, the agreement did not produce the originally expected effect, and the PDG Group continued to face serious difficulties in the management and continuity of its real estate joint ventures, such as the growing number of contract cancellations units sold, the drop in sales throughout Brazil, the interruption of works in progress, the accumulation of condo fee debts, IPTU and product and service suppliers, and also the large volume of lawsuits filed by clients, former clients, and employees of service providers.

Despite these efforts and progress made, the Board of Directors pondered that it is not yet possible to find, out of court, a sustainable solution to the financial crisis faced by the, and concluded that instituting the PDG Group court-Supervised reorganization would be, at this moment, the most appropriate measure to (i) keep progressing, in an organized way, and with fixed terms and procedures, with the coordination of all parties involved in the Restructuring Process; (ii) enable the maintenance of the operational normality of the activities of the Company and its subsidiaries; as well as (iii) preserve the value and protect the cash of the Company and its subsidiaries.

As a result of this situation, on February 22, 2017 the Company filed the court-Supervised reorganization request at São Paulo Capital District Court, based on Law No. 11.101/2005. On March 2, 2017, the court-Supervised reorganization request was granted by the Judge, Dr. João de Oliveira Rodrigues Filho, of the 1st Court of Bankruptcy and Court-Supervised Reorganization of the São Paulo Capital District Court, in the records of the proceedings No. 1016422-34.2017.8.26.0100, the processing of the court-Supervised reorganization of the 512 companies of the economic group of the Companies ("Court-Supervised Reorganization Proceeding" and "PDG Group", respectively).

The court's grant decision, among other measures, established the following:

(i) Appointment of PricewaterhouseCoopers Assessoria Empresarial Ltda. to act as receiver in the court-Supervised reorganization;

(ii) Suspension of all lawsuits and foreclosures currently in progress against the PDG Group, for a period of 180 (one hundred and eighty) working days as of the date hereof, under the terms of article 6 of the LRF;

(iii) Issuing of a call notice, under the terms of article 52, paragraph 1 of the LRF, establishing a period of 30 (thirty) working days of the publication date, for submission of credit eligibility and/or divergences within the court-Supervised reorganization Proceeding; and (iv) presentation of the court-Supervised reorganization plan of the PDG Group within 60 (sixty) days of the publication of the court's grant decision, under the terms of article 53 of the LRF.

(iv) Presentation of the court-Supervised reorganization plan of the PDG Group within sixty (60) days of the publication of the court's grant decision, under the terms of article 53 of the LRF.

As disclosed to the market in previous occasions, the Court-Supervised Reorganization Proceeding is a new step in the financial restructuring process of the PDG Group, initiated in August 2015, aimed at enabling the continuity of the businesses performed by the PDG Group. In addition, the Court-Supervised Reorganization Proceeding will be submitted to the ratification of the shareholders of PDG Realty, at the Special Shareholders' Meeting called for March 27, 2017, under the terms of article 122, sole paragraph, of the Brazilian Corporate Law.

b. Federal Taxes Deficiency Notice

In January 2017, the Company became aware of the deficiency notice, assessed by the Federal Revenue Service of Brazil, in which contains the charge of:

i. R$ 3,629,203, related to taxes (IRPJ, CSLL, IRRF, PIS, and COFINS, besides interest and fine) supposedly levied on the funds credited to the bank checking accounts of the Company in the calendar year 2012. The Company and its legal advisors understand that the credited funds challenged by the tax authority – which included, among others, funds raised by the Company for increasing capital and issuing other securities – were not subject to the levy of such taxes. PDG emphasizes that, in the opinion of the Company's counsels, the risk of loss arising from such tax procedure is considered remote.

ii. R$ 158,752, related to the IOF supposedly levied on the funds transferred between companies of the Group, as Advances for Future Capital Increase, in the year 2012. PDG emphasizes that, in the opinion of the Company's counsels, the risk of loss arising from such tax procedure is considered possible.

32 Other information

The Company's bylaws establish in its chapter VIII and Article 39, as regards commercial conflicts, the following:
Controversy resolution through arbitration: the Company, its shareholders, managers and Tax Council's members are obliged to resolve through arbitration of the Market Arbitration Panel any dispute or controversy that may arise among them, related to or deriving from the application, validity, effectiveness, interpretation, violation and its effects of provisions of Law No. 6.404/76, of these Bylaws, standards issued by the National Monetary Council, by the Central Bank of Brazil and CVM (Securities Commission), as well as other standards applicable to capital market general operation, in addition to those included in New Market Regulations, Market Arbitration Panel Arbitration Regulations, New Market Penalty Regulations and Participation Agreement.

Tax Council Opinion

The Tax Council of PDG Realty S.A. Empreendimentos e Participações – Under Court-Supervised Reorganization (CNPJ No. 02.950.811/0001-89), in the carry out of its legal and corporate responsibilities, examined the (i) Annual Management Report; (ii) individual and consolidated Financial Statements for the fiscal year ended December 31, 2016, comprising: Balance sheets, Statements of Income for the Years, Statements of Changes in Shareholders' Equity, Statements of Cash Flows – Indirect Method, Statements of Added Value, Statements of Comprehensive Income, and Explanatory Notes; (iii) proposal for Allocation of Profit or Loss; and (iv) Report of Independent Auditors on the Financial Statements, issued by KPMG Auditores Independentes, according to the document presented, analyzed and filed in the head office of the Company.

Our examinations were conducted according to the legal provisions, and comprised the following: (a) analysis of the Financial Statements prepared by the Company; (b) analysis of the proposal for Allocation of Income (loss); (c) follow-up of the works performed by independent auditors; and (d) discussions about material acts and transactions.

Based on our examinations, and received information and clarifications, considering, also, the report of independent auditors, as well as the information and clarifications received over the year, our opinion is that the documents referred herein have conditions to be examined by the Board of Directors of the Company and at the Annual Shareholders' Meeting of the Company.

São Paulo, March 28, 2017.

Statement of the Executive Officers on the Financial Statements

DECLARATION FOR THE PURPOSE OF ARTICLE 25, §1, ITEM VI, OF CVM INSTRUCTION No. 480/09

We declare, in the capacity of officers of PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization, a corporation headquartered in the city of São Paulo, São Paulo State, Avenida Dr. Cardoso de Melo, n° 1.955, 10º andar, CEP 04548-005, enrolled with CNPJ/MF under no. 02.950.811/0001-89 (the "Company"), pursuant to the terms of item V of paragraph 1 of Article 25 of CVM Instruction No. 480, of December 7, 2009, that we have reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2016.

São Paulo, March 29, 2017.

VLADIMIR KUNDERT RANEVSKY
CEO
Financial CEO
Investor Relations Director

NATALIA MARIA FERNANDES PIRES
Chief Legal Officer

Statement of the Executive Officers on the Independent auditors' report

DECLARATION FOR THE PURPOSE OF ARTICLE 25, PARAGRAPH 1, ITEM V, OF CVM INSTRUCTION 480/09

We declare, in the capacity of officers of PDG Realty S.A. Empreendimentos e Participações - Under Court-Supervised Reorganization, a corporation headquartered in the city of São Paulo, São Paulo State, Avenida Dr. Cardoso de Melo, n° 1.955, 10º andar, CEP 04548-005, enrolled with CNPJ/MF under no. 02.950.811/0001-89 (the "Company"), pursuant to the terms of item V of paragraph 1 of Article 25 of CVM Instruction No. 480, of December 7, 2009, that we have reviewed, discussed and agreed with the opinions expressed in the Company's independent auditors' report (KPMG Auditores Independentes) regarding the Company's financial statements for the year ended December 31, 2016.

São Paulo, March 29, 2016.

VLADIMIR KUNDERT RANEVSKY
CEO
Financial CEO
Investor Relations Director

NATALIA MARIA FERNANDES PIRES
Chief Legal Officer