

(A free translation of the original in Portuguese)

Patrimar Group

***Combined consolidated
financial statements at
December 31, 2019
and independent auditor's report***



(A free translation of the original in Portuguese)

Independent auditor's report

To the Board of Directors and Stockholders
Patrimar Group

Opinion on the combined consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) applicable to Brazilian real estate development entities registered with the Brazilian Securities Commission (CVM)

We have audited the accompanying combined consolidated financial statements of Patrimar Engenharia S.A. (formerly Patrimar Engenharia Ltda.) and its subsidiaries with Construtora Novolar Ltda. and its subsidiaries ("Patrimar Group" or "Group"), which comprise the consolidated balance sheet as at December 31, 2019 and the combined consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the combined consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Patrimar Group as at December 31, 2019, and the combined consolidated financial performance and the combined consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) applicable to Brazilian real estate development entities registered with the Brazilian Securities Commission (CVM).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter

As described in Notes 2.1 and 2.2, the combined consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil and the IFRS applicable to Brazilian real estate development entities registered with the CVM. Accordingly, the accounting policies adopted by the Group to recognize revenue from incomplete real estate units under construction, with regards to determining the timing of transfer of control, follows Circular Letter CVM/SNC/SEP/ No. 02/2018 when applying NBC TG 47 (IFRS 15). Our opinion is not qualified in respect of this matter.

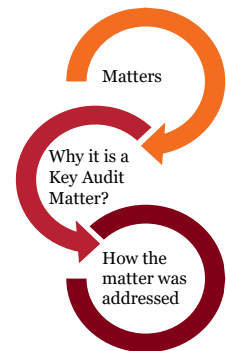
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We draw attention to Note 2.2 to the combined consolidated financial statements, which describes that the companies included in these combined consolidated financial statements did not operate as a single legal entity prior to September 30, 2019. These combined consolidated financial statements, therefore, do not necessarily represent the results of operations that would have been obtained had these entities operated under a single legal entity during the first nine months of that year. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the combined consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

Our audit for the year ended December 31, 2019 was planned and performed taking into consideration that the Group's operations did not present significant changes in comparison with the prior year. The Key Audit Matters, as well as our audit approach, were similar to those in the prior year.



Why it is a Key Audit Matter

How the matter was addressed in the audit

Recognition of revenue from sale of real estate units under construction (Notes 2.17 and 21)

The Group uses the Percentage-of-Completion (PoC) method to recognize revenue from sales of incomplete real estate development project units and from construction services rendered, pursuant to Circular Letter CVM/SNC/SEP/ No. 02/2018, issued by the CVM.

The PoC method requires management to estimate costs through to completion of construction and delivery of the real estate units for each stage of the construction. This establishes the proportion of costs incurred to-date in relation to the total estimated costs.

The resultant percentage is applied to the fair value of the revenue from real estate units sold or construction services provided, adjusted for contract terms and conditions, to determine the timing of recognition of sales revenue to be recognized in each period.

We decided to focus again on this area in our audit because the revenue recognition process is complex

Our audit procedures included, among other procedures, understanding and testing management's main internal controls used for the recognition of revenue from the sale of real estate units under construction; these include the preparation, approval, and timely review of estimates of costs to be incurred and the monitoring of costs incurred by project. This information was then compared with budgeted costs.

We tested, on a sample basis, the budgeted construction project data and costs incurred, by reviewing contracts, tax documents and payments made. We also analyzed the progress of construction works through physical inspections.

On a sample basis, we compared the systems input data related to recognition of revenue from the sale of real estate units under construction with the supporting documentation provided by management for recognition of revenue (sale and construction service contracts). We reperformed

Why it is a Key Audit Matter	How the matter was addressed in the audit
and requires critical management estimates and judgment in determining and reviewing cost budgets. Any changes in these estimates and judgments may significantly affect the determination of profit or loss.	revenue recognition calculations for sales of units under construction and compared the amounts to the Group's records. Our audit procedures indicated management's estimates and judgment to be consistent with Circular Letter CVM/SNC/SEP/ No. 02/2018 and with information and documentation obtained.

Provisions for contingencies (Note 18)

In the course of its activities, the Group is a party to civil, tax, and labor judicial discussions and proceedings. Management records a liability when the risk of loss from such proceedings is considered probable; when risk of loss is judged only as possible, no provision is recorded though disclosures of the related circumstances and amounts involved are provided.

We decided to focus again on this area in our audit because the nature of the proceedings usually involves disputes that require management to exercise judgment in relation to the fact patterns. Changes in the classification of the expected likelihood of loss and/or judgment might significantly affect the Group's combined consolidated financial statements.

Our audit procedures included, among other procedures, understanding the significant internal controls used to identify and record liabilities and the disclosures in the explanatory notes.

We also updated our understanding of the calculation method adopted, which takes into consideration the history of unfavorable outcomes in civil and labor proceedings of the same nature, as well as the lawyers' positions who are accompanying the cases.

Through confirmation procedures with the external legal counsel accompanying the administrative and legal proceedings, we obtained counsels' assessment of the cases, confirmed the completeness of data and appropriateness of provisions and disclosures. For the more significant proceedings, we discussed the related matter with the lawyers as well as with management, to understand the likelihood of loss.

We consider that the criteria and assumptions adopted by management to determine the provision for contingencies, as well as the relevant disclosures, are consistent with the advice provided by legal counsel.

Other matters

Combined consolidated statements of value added

The combined consolidated statements of value added for the year ended December 31, 2019, prepared under the responsibility of the Group's management and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed in conjunction with the audit of the

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Group's combined consolidated financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the combined consolidated financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Added Value". In our opinion, these combined consolidated statements of value added have been properly prepared, in all material respects, in accordance with the criteria established in the Technical Pronouncement and are consistent with the combined consolidated financial statements taken as a whole.

Responsibilities of management and those charged with governance for the combined consolidated financial statements

Management is responsible for the preparation and fair presentation of the combined consolidated financial statements in accordance with accounting practices adopted in Brazil and with the IFRS applicable to real estate development entities in Brazil registered with the CMV, 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 combined consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the combined consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the combined consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined consolidated financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the combined consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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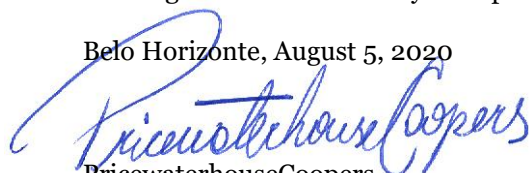
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit work and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

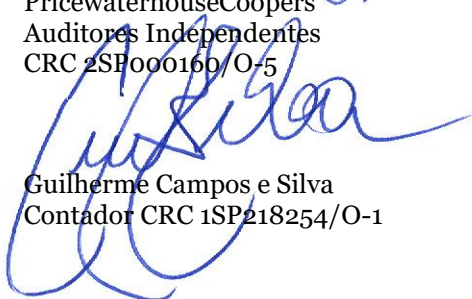
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, August 5, 2020



PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5



Guilherme Campos e Silva
Contador CRC 1SP218254/O-1

Patrimar Group

Combined consolidated balance sheet at December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	2019	2018		Note	2019	2018
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and cash equivalents	6	50,234	34,936	Trade payables	14	29,623	5,555
Trade receivables	7	97,389	49,163	Borrowings	13	38,715	41,169
Properties for sale	8	266,193	293,761	Salaries and social charges		1,628	4,187
Taxes recoverable		5,430	2,495	Tax liabilities	15	8,166	7,679
Prepaid expenses		6,373	3,482	Real estate purchase obligations	16	46,799	15,558
Other receivables		6,295	2,651	Advances from customers	17	85,397	68,166
Total current assets		431,914	386,488	Provision for canceled sales		726	1,976
				Other payables		5,572	6,835
Non-current assets						216,626	151,125
Long-term receivables				Total current liabilities			
Restricted financial investments	6	2,191	2,920	Non-current liabilities			
Trade receivables	7	36,287	62,909	Real estate purchase obligations	16	6,580	7,224
Judicial deposits	18	2,592	2,521	Borrowings	13	32,014	33,929
Properties for sale	8	10,969	3,091	Provision for contingencies	18	6,992	4,497
Related parties	9	27,537	18,697	Provision for real estate maintenance	19	7,701	9,296
		79,576	90,138	Provision for net capital deficiency	10	3,056	3,072
				Related parties	9	9,539	6,431
Investments	10	47,616	48,235	Other payables		-	7,131
Property and equipment	11	20,337	21,268	Total non-current liabilities		65,882	71,580
Intangible assets	12	15,429	9,911				
Total non-current assets		162,958	169,552	Equity	20		
				Capital		281,602	283,592
Total assets		594,872	556,040	Capital reserves		259	259
				Accumulated deficit		(17,301)	(2,642)
				Equity attributable to owners of the parent company		264,560	281,209
				Non-controlling interests		47,804	52,126
				Total equity		312,364	333,335
				Total liabilities and equity		594,872	556,040

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

Patrimar Group

Combined consolidated statement of income

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	2019	2018
Net operating revenue	21	278,642	301,448
Cost of properties sold	22	(182,315)	(200,207)
Gross profit		96,327	101,241
Operating income (expenses)			
General and administrative expenses	22	(28,731)	(23,499)
Selling expenses	22	(31,152)	(28,060)
Other operating income (expenses), net	22	(12,086)	(7,536)
Operating profit		24,358	42,146
Finance income	24	7,179	13,042
Finance costs	24	(7,168)	(11,216)
Finance income (costs), net		11	1,826
Equity in the results of investees	10	(254)	1,074
Profit before income tax and social contribution		24,115	45,046
Income tax and social contribution	25	(5,510)	(5,983)
Profit for the year		18,605	39,063
Attributable to:			
Controlling interests		(2,696)	24,678
Non-controlling interests		21,301	14,385
		18,605	39,063

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

Patrimar Group

Combined consolidated statement of comprehensive income

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>2019</u>	<u>2018</u>
Profit for the year	<u>18,605</u>	<u>39,063</u>
Total comprehensive income	<u>18,605</u>	<u>39,063</u>
Total comprehensive income attributed to:		
Controlling interests	(2,696)	24,678
Non-controlling interests	<u>21,301</u>	<u>15,048</u>
	<u>18,605</u>	<u>39,063</u>

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

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Combined consolidated statement of changes in equity

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>Capital</u>	<u>Capital reserve</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Equity</u>	<u>Non- controlling interests</u>	<u>Total equity</u>
At December 31, 2017	<u>283,592</u>	<u>259</u>	<u>(20,999)</u>	<u>262,852</u>	<u>34,968</u>	<u>297,820</u>
Changes in contributions to subsidiaries	-	-	-	-	2,773	2,773
Effects of the adoption of new accounting standards (Note 2.20)	-	-	(802)	(802)	-	(802)
Profit for the year	-	-	24,678	24,678	14,385	39,063
Distributed profits	-	-	(5,519)	(5,519)	-	(5,519)
At December 31, 2018	<u>283,592</u>	<u>259</u>	<u>(2,642)</u>	<u>281,209</u>	<u>52,126</u>	<u>333,335</u>
Changes in contributions to subsidiaries	-	-	-	-	(25,623)	(25,623)
Effect of the merger of Construtora Novolar (Note 20)	(1,990)	-	(10,506)	(12,496)	-	(12,496)
Profit for the year	-	-	(2,696)	(2,696)	21,301	18,605
Distributed profits	-	-	(1,457)	(1,457)	-	(1,457)
At December 31, 2019	<u>281,602</u>	<u>259</u>	<u>(17,301)</u>	<u>264,560</u>	<u>47,804</u>	<u>312,364</u>

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

Patrimar Group

Combined consolidated statement of cash flows

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2019	2018
Cash flows from operating activities		
Profit for the year	18,605	39,063
Adjustments for non-cash items		
Depreciation and amortization	6,164	4,224
Provision for real estate maintenance	(1,595)	(3,029)
Present value adjustment of receivables	6,568	83
Provision for losses	2,294	1,105
Provision for labor, civil and tax contingencies	3,793	2,538
Equity in the results of investees	254	(1,074)
Provision for interest on borrowings	3,857	7,140
Loss on disposal of property and equipment	597	2,169
Income tax and social contribution	5,510	5,983
	46,047	58,202
Increase (decrease) in assets and liabilities		
Trade receivables	(34,652)	86,304
Properties for sale	21,337	54,768
Taxes recoverable	(2,935)	(400)
Other assets	(4,783)	(3,282)
Trade payables	24,067	(11,927)
Salaries and social charges	(2,559)	(561)
Tax liabilities	(5,023)	(8,879)
Real estate purchase obligations	30,597	(2,660)
Advances from customers	17,231	(11,008)
Other liabilities	(6,073)	(4,157)
	37,207	98,198
Net cash provided by operating activities	<u>83,254</u>	<u>156,400</u>
Cash flows from investing activities		
Changes in restricted financial investments	729	(966)
Contributions to (return on) investments	349	7,142
Purchases of property and equipment and intangible assets	(11,348)	(20,835)
Advances to related parties	(5,732)	(5,479)
Net cash used in investing activities	<u>(16,002)</u>	<u>(20,138)</u>
Cash flows from financing activities		
Dividends paid	(13,294)	(5,692)
Non-controlling interests - contribution (distribution), net	(24,441)	2,773
New borrowings	50,119	71,466
Repayment of principal of borrowings	(64,338)	(205,021)
Net cash used in financing activities	<u>(51,954)</u>	<u>(136,474)</u>
Increase (decrease) in cash and cash equivalents, net	15,298	(212)
Changes in cash		
Cash and cash equivalents at the beginning of the year	34,936	35,148
Cash and cash equivalents at the end of the year	50,234	34,936
	<u>15,298</u>	<u>(212)</u>

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

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Combined consolidated statement of value added

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	<u>2019</u>	<u>2018</u>
Revenue:		
Revenue from sales and services	<u>284,172</u>	<u>307,951</u>
	<u>284,172</u>	<u>307,951</u>
Inputs acquired from third parties:		
Cost of properties sold	(182,315)	(200,207)
Electricity, third-party services and other expenses	<u>(34,546)</u>	<u>(33,725)</u>
	<u>(216,861)</u>	<u>(233,932)</u>
Gross value added	<u>67,311</u>	<u>74,019</u>
Depreciation and amortization	<u>(6,164)</u>	<u>(4,224)</u>
Net value added generated by the Group	<u>61,147</u>	<u>69,795</u>
Value added received through transfers:		
Equity in the results of investees	(1,050)	1,074
Finance income	<u>7,179</u>	<u>11,099</u>
	<u>6,129</u>	<u>12,173</u>
Total value added for distribution	<u>67,276</u>	<u>81,968</u>
Distribution of value added:		
Personnel	<u>17,236</u>	<u>14,937</u>
Federal taxes and contributions	<u>11,383</u>	<u>12,495</u>
Remuneration of third-party capital		
Finance costs	7,168	9,273
Lease expenses	<u>386</u>	<u>681</u>
	<u>7,554</u>	<u>9,954</u>
Remuneration of own capital:		
Dividends paid	13,294	5,519
Profit (loss) for the year	(2,949)	24,678
Non-controlling interests - retained earnings	<u>20,758</u>	<u>14,385</u>
	<u>31,103</u>	<u>44,582</u>
Value added distributed	<u>67,276</u>	<u>81,968</u>

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

(A free translation of the original in Portuguese)

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Combined consolidated notes to the financial statements at December 31, 2019 **All amounts in thousands of reais unless otherwise stated**

1 General information

The combined entities of the Patrimar Group, herein represented by Patrimar Engenharia S.A. and its subsidiaries ("Patrimar") and Construtora Novolar Ltda. and its subsidiaries ("Novolar") (together, the "Patrimar Group", the "Group" or the "Companies"), comprise two limited liability corporate partnerships organized under the Brazilian corporation laws. The Companies are headquartered in the city of Belo Horizonte, state of Minas Gerais, Brazil, at Rodovia Stael Mary Bicalho Motta Magalhães, 521, 17th floor, Belvedere District. The Group operates in the real estate development and construction industry, with a focus on residential developments; it primarily operates in Belo Horizonte, São Paulo and Rio de Janeiro.

Up to September 30, 2019, Patrimar's stockholders were also the owners and members of the management of Novolar. Both companies perform the same activity and management controls their businesses on a joint basis. Although the Companies do not operate as a single entity because they are different legal entities, they are managed within the same economic group environment, where the costs of the operating and administrative structure are borne by the Companies, as most practical in the circumstances.

On September 30, 2019, RPMV Participações Ltda. ("RPMV") was merged with Patrimar (Note 20(i)), which began consolidating Novolar. Therefore, the combined consolidated asset and liability balances of Patrimar at December 31, 2019 include Novolar. The statements of income and cash flows of Novolar were combined for the period presented before the merger.

The Companies perform development and construction activities through Special Partnerships (SCPs) and Special-Purpose Entities (SPEs) in the normal course of business in order to enable the establishment of partnerships, thereby permitting it to accompany projects individually, facilitate the obtaining of financing for production and improve financial and accounting control of the projects. The Patrimar Group operates exclusively in the real estate sector and, in most cases, the SCPs and SPEs are associated with a specific venture.

The issue of these consolidated and combined financial statements was authorized by management on August 5, 2020.

2 Combined consolidated financial statement presentation and summary of significant accounting policies

2.1. Basis of preparation

The consolidated and combined financial statements have been prepared in accordance with accounting policies adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) applicable to real estate development entities in Brazil, as approved by the Brazilian Accounting Pronouncements Committee (CPC), the Brazilian Securities Commission (CVM) and the Federal Accounting Council

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Combined consolidated notes to the financial statements at December 31, 2019 All amounts in thousands of reais unless otherwise stated

(CFC), and disclose all (and only) the applicable significant information related to the consolidated and combined financial statements, which are consistent with the information utilized by management in the performance of its duties.

Aspects related to the transfer of ownership for recognition of revenue upon sale of real estate properties are consistent with the guidance issued by the CVM in Circular Letter CVM/SNC/SEP/No. 02/2018 for adoption of Technical Pronouncement CPC 47 (IFRS 15).

The combined financial statements have been prepared under the historical cost convention and, for certain financial assets and liabilities measured at fair value. The preparation of combined financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Patrimar Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements are disclosed in Note 3.

(a) Statement of value added

The presentation of the combined statement of value added is required by the Brazilian corporate legislation and the accounting practices adopted in Brazil for listed companies. The Statement of Value Added was prepared in accordance with the criteria defined in Technical Pronouncement CPC 09 - "Statement of Value Added", while it is not required by IFRS. Therefore, under IFRS, the presentation of such statements is considered supplementary information.

2.2. The process of combination

The Group presents its combined financial statements in accordance with IFRS 10/CPC 36 - "Consolidated Financial Statements", with CPC 44 - "Combined Financial Statements" and ICPC 09 - "Parent Company, Separate and Consolidated Financial Statements and Application of the Equity Accounting Method".

To calculate the combined balances, the balances of the Companies were summed and intercompany balances and transactions eliminated. Therefore, the combined financial statements do not include any balance or transaction between Patrimar and Novolar.

The combined financial statements have been presented for the purpose of disclosing the information as if the Group companies, which were under a common control and management up to September 30, 2019 (Note 20(i)), were a single entity, without changing the historical accounting records. Furthermore, the Group's management considers the business as a whole. In this regard, the presentation of the combined financial statements are more useful to the reader than the presentation of the parent company and consolidated financial statements of the Group's companies alone.

The combined financial statements are being presented solely to provide additional information to third parties, and do not represent the parent company or consolidated financial statements of the entities and their subsidiaries, jointly-controlled investees and associates. These combined financial statements should not be used as a basis for the calculation of dividends or taxes or for any other corporate purposes.

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Combined consolidated notes to the financial statements at December 31, 2019 All amounts in thousands of reais unless otherwise stated

The consolidated balance sheets and consolidated statements of income of Novolar and Patrimar that were used as a basis for the combination are summarized below:

	2019		2018	
	Patrimar	Novolar	Patrimar	
Assets				
Current assets	431,914	134,021		293,350
Non-current assets	162,958	75,258		88,753
Long-term receivables	79,576	52,343		18,638
Investments	47,616	14,997		46,854
Property and equipment	20,337	7,300		13,967
Intangible assets	15,429	618		9,294
	<u>594,872</u>	<u>209,279</u>		<u>382,103</u>
Liabilities and equity				
Current liabilities	216,626	26,896		95,049
Non-current liabilities	65,882	55,150		72,495
Equity	<u>312,364</u>	<u>127,233</u>		<u>214,559</u>
	<u>594,872</u>	<u>209,279</u>		<u>382,103</u>

	Nine months to 9/30/2019	Year to 12/31/2019	Year to 12/31/2018	
	Novolar	Patrimar	Novolar	Patrimar
Statement of operations				
Net operating revenue	47,653	232,868	118,997	181,347
Cost of properties sold	<u>(32,527)</u>	<u>(149,788)</u>	<u>(75,782)</u>	<u>(125,184)</u>
Gross profit	<u>15,126</u>	<u>83,080</u>	<u>43,215</u>	<u>56,163</u>
Operating income (expenses)				
General and administrative expenses	(6,232)	(22,499)	(7,477)	(17,886)
Selling expenses	(10,414)	(20,738)	(12,848)	(15,212)
Other operating income (expenses), net	<u>(3,308)</u>	<u>(8,778)</u>	<u>2,503</u>	<u>(7,270)</u>
Operating profit (loss)	<u>(4,828)</u>	<u>31,065</u>	<u>25,393</u>	<u>15,795</u>
Finance income	894	4,406	2,261	10,444
Finance costs	(763)	(6,405)	(2,166)	(8,712)
Equity in the results of investees	<u>(2,290)</u>	<u>2,034</u>	<u>(4,346)</u>	<u>4,545</u>
Profit (loss) before income tax and social contribution	<u>(6,987)</u>	<u>31,100</u>	<u>21,142</u>	<u>22,072</u>
Income tax and social contribution	<u>(949)</u>	<u>(4,561)</u>	<u>(2,379)</u>	<u>(3,609)</u>
Profit (loss) for the period/year	<u>(7,936)</u>	<u>26,539</u>	<u>18,763</u>	<u>18,463</u>
Attributable to:				
Group's stockholders	(8,671)	5,975	18,518	5,188
Non-controlling interests	<u>735</u>	<u>20,564</u>	<u>245</u>	<u>13,275</u>
	<u>(7,936)</u>	<u>26,539</u>	<u>18,763</u>	<u>18,463</u>

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(a) Subsidiaries

Subsidiaries are all entities (including special-purpose entities and special partnerships) over which Patrimar Group has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity instruments issued by the Group. The purchase consideration includes the fair value of assets or liabilities resulting from a contingent consideration arrangement, when applicable. Acquisition-related costs are expensed as incurred. The identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Non-controlling interests are determined on each acquisition.

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the proportion acquired of the carrying amount of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity, in "Cumulative translation adjustments".

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in Other comprehensive income in respect of that entity are reclassified to profit or loss.

(c) Associates and jointly-controlled investees

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint arrangements are all entities over which the Group shares control with one or more parties. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint arrangements are accounted for in the financial statements in a manner consistent with the Group's contractual rights and obligations. Therefore, the assets, liabilities, revenues and expenses related to its interests in joint operations are individually accounted for in its financial statements.

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Investments in associates and jointly-controlled investees are accounted for on the equity method and are initially recognized at cost.

The Group's share of the profit or loss of its associates and jointly-controlled investees is recognized in the statement of income and its share of reserve movements is recognized in the Group reserves. When the Group's share of losses in an associate or jointly-controlled investee equals or exceeds the carrying amount of the investment, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly-controlled investee.

Unrealized gains on transactions between the Group and its associates and jointly-controlled investees are eliminated to the extent of the Group's interest. Unrealized losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associates and jointly-controlled investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in Other comprehensive income is reclassified to profit or loss where appropriate.

Dilution gains and losses arising on investments in associates and jointly-controlled investees are recognized in the statement of income.

2.3. Foreign currency translation

(a) Functional and presentation currency

The consolidated and combined financial statements are presented in Brazilian Real/Reais (R\$), which is the functional currency of Patrimar and Novolar, and also the Patrimar Group's presentation currency. All financial information presented in Brazilian Reais has been rounded up to the nearest thousand Reais unless otherwise stated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the foreign exchange rates prevailing at the dates of the transactions or the dates of valuation when items are remeasured.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of income within "Finance income or costs". All other foreign exchange gains and losses are presented in the statement of income within "Other gains (losses), net".

2.4. Financial assets

2.4.1. Classification

The Group classifies its financial assets in the following measurement categories:

. Measured at fair value through profit or loss.

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. Measured at amortized cost.

The Group classifies the following financial assets at fair value through profit or loss:

. Debt investments that do not qualify for measurement at amortized cost

. Equity investments held for trading; and equity investments for which the Group has not elected to recognize fair value gains and losses through Other comprehensive income.

For assets measured at fair value, gains and losses will be recorded in profit or loss. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through Other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.4.2. Recognition and derecognition

Regular purchases and sales of financial assets are recognized on the trade-date, that is, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.4.3. Impairment of financial assets

The Group assesses on a prospective basis the expected credit loss associated with its debt instruments carried at amortized cost and fair value through Other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2.5. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits and other short-term highly liquid investments maturing in up to three months, with immaterial risk of change in value.

2.6. Trade receivables

Trade receivables are represented by current and non-current receivables from sales of residential real estate units that are completed or to be completed.

Receivables related to units launched, but not completed, are determined by applying the percentage-of-completion (POC) to revenue from units sold, adjusted according to the terms of the sales contracts (indexation accruals), by deducting the amount of the installments received. If the balance of the installments received is higher than the accumulated revenue recognized, the balance is classified as advances from customers and recorded in liabilities.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less allowance for impairment of trade receivables.

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The result of sales on credit of completed units is appropriated at the time of the sale, regardless of the contracted payment terms of the sale.

If collection is expected in one year or less, receivables are classified as current assets. If not, they are presented as non-current assets.

2.7. Provision for canceled sales

The Group records a provision for canceled sales when uncertainties are identified regarding the receipt of future cash flows by the entity. These adjustments are linked to revenue recognition when there is a degree of uncertainty regarding the receipt by an entity of the cash flows for recognized revenue.

Contracts are monitored to determine the time these conditions are mitigated. Absent being mitigated no revenue or cost is recognized in profit or loss, and amounts are recorded in asset and liability accounts only

2.8. Inventories (properties for sale)

Land for future development

Inventories of land are recorded at historical formation cost, which includes all related expenses, directly linked and measurable, including barter transactions calculated at fair value, plus any financial charges generated by their corresponding accounts payable. Land can be acquired through partnerships with landowners (physical exchanges and financial exchanges).

Physical exchanges: The fair value of land is recorded as a component of inventory of land for properties for sale, with a corresponding entry to "Advances from customers" at the time of signing a private instrument or when the conditions of any termination clauses of the contracts have been met. Revenue arising from barter transactions is allocated to profit or loss over the real estate construction period.

Financial exchanges: In barter transactions involving financial exchanges, the Group transfers a percentage of the sales amount to the sellers of the land. This amount is recorded as a component of inventory of land for properties for sale, as a corresponding entry to accounts payable, at the time of signing the private instrument, the contract related to the transaction, or when the conditions of any termination clauses of the contracts have been met.

The measurement of the fair value of land acquired through barter transactions is defined in connection with the contractual commitments assumed and the estimated cost defined in the project's feasibility study, the amount of which may vary up to the time of defining the project to be developed, which is usually confirmed on the development registration. At this time, the related burden is recognized in "Advances from customers - barter transactions".

Inventories of land to be developed are classified according to the expected launch of the project. If the project to which the land is linked, is expected to be launched in the following 12 months, the land is classified in current assets. Otherwise, it is classified in non-current assets.

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Land is only registered on the formalization of the title deed, and is not recognized in the financial statements during the negotiation process, regardless of the probability of success or of the progress of the negotiation.

(a) Properties for sale

The properties ready to be sold are stated at construction cost, which is lower than net realizable value. In the case of real estate in construction, the amount in inventory corresponds to the cost incurred of the units not yet sold.

Cost comprises the land's cost of acquisition/barter, legalization and other expenses related to the project, materials, labor (own or outsourced) and other construction-related costs, including the finance cost of the capital invested (finance expense on payables for purchases of land and on financing incurred during the construction period).

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and estimated selling expenses.

2.9. Property and equipment

Property and equipment is stated at acquisition or construction cost, less depreciation. Depreciation is calculated using the straight-line method, at tax rates, which are similar to the estimated useful life.

Subsequent costs are incorporated into the residual amount of property and equipment or recognized as a specific item, as appropriate, only if the economic benefits associated with these items are considered probable and amounts can be reliably measured. The residual balance of the item replaced, sold or transferred to another unit is written off. Repair and maintenance costs are recognized directly in profit or loss as incurred. The residual value of property and equipment items is immediately reduced to its recoverable amount when the residual balance exceeds its recoverable amount.

The expenditures directly related to the construction of sales stands and apartment-models (furniture and decoration) are treated as property and equipment, and are depreciated in accordance with the term of the estimated useful lives of these items. The useful life of these items usually covers the period from the launch to the beginning of construction. When the estimated useful life does not exceed 12 months, expenses are directly recorded in profit or loss as selling expenses.

Gains and losses on disposals are determined by comparing the amounts of sales with the carrying amounts and are recognized within "Other gains (losses), net" in the statement of income.

2.10. Intangible assets

Computer software licenses purchased are capitalized on the basis of the costs incurred to purchase and bring to use the specific software. These costs are amortized over their estimated useful lives of five years.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

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2.11. Impairment of non-financial assets

Property and equipment and intangible assets and, where applicable, other non-financial assets, are annually reviewed by management for impairment, primarily affecting the recovery of these assets, whenever events or significant changes in circumstances indicate that the carrying amount may not be recoverable. Accordingly, if the carrying amount of an asset exceeds its recoverable amount, which is defined as the higher amount between an asset's value in use and the asset's net sale value, a loss is recognized in the statement of income for the period.

Pursuant to CPC 01, management assessed the assets subject to review for impairment and did not identify any internal and/or external indicators affecting the recovery of these assets for the years ended December 31, 2019 and 2018.

2.12. Borrowings

Borrowings are recognized initially at the transaction price (that is, the amount received from the bank, including transaction costs). Borrowings are subsequently stated at amortized cost.

Interest expense is recognized on the basis of the effective interest method over the life of the borrowing to ensure that the carrying amount on the maturity date corresponds to the amount due. Interest is included in finance costs, except for that linked to qualifying assets incurred during their construction period, which is allocated to the related asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

2.13. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. They are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. They are classified as current liabilities if payment is due in one year or less.

2.14. Income tax and social contribution on net income

The income tax and social contribution benefit or expense for the period comprise current and deferred taxes. Taxes on profit are recognized in the statement of income, except to the extent that they relate to items recognized in comprehensive income or directly in equity. In such cases, the taxes are also recognized in comprehensive income or directly in equity.

The current and deferred income tax and social contribution are calculated on the basis of the tax laws enacted at the end of the reporting period. Management periodically evaluates positions taken in the calculation of income taxes with respect to situations in which the applicable tax regulation is subject to interpretation, and it establishes provisions, where appropriate, on the basis of the amounts expected to be paid to the tax authorities.

The current income tax and social contribution are presented net, separated by taxpaying entity, in liabilities when there are amounts payable, or in assets when the amounts prepaid exceed the total amount due on the reporting date.

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Deferred income tax and social contribution are recognized, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences and/or tax losses can be utilized.

Deferred tax assets and liabilities are presented net in the balance sheet when there is a legally enforceable right and the intention to offset them upon the calculation of current taxes, generally when related to the same legal entity and the same tax authority. Accordingly, deferred tax assets and liabilities in different entities or in different countries are generally presented separately, and not on a net basis.

Deferred taxes are estimated using the rate established by law on the difference between the revenue calculated for accounting purposes and the actual cash receipts (taxation regime, based on Law 1,435/13, which established the Special Taxation Regime).

The Group segregates these taxes between current and non-current liabilities taking into account the allocation of the amounts receivable from properties sold in current and non-current assets, considering that when all amounts from completed and uncompleted units have been received there will be no difference between accounting and tax criteria.

The Group calculates Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) based on taxable income, deemed profit or the special taxation regime (RET), as detailed below:

- Taxable income method - IRPJ is computed based on the rates of 15%, plus a surcharge of 10% on taxable income exceeding of R\$ 240 annually for income tax and 9% on taxable income for social contribution.
- Deemed profit method - IRPJ and CSLL for each entity is computed by applying to revenues from real estate development the tax rates set for this activity at the rates of 8% and 12%, respectively. Deemed profit applicable income and social contribution rates were applied at the reporting date (15% plus a surcharge of 10% on annual taxable income exceeding the amount of R\$ 240 annually for IRPJ and 9% on taxable income for CSLL).
- Special Taxation Regime (RET) - Adopted for certain projects developed by the Patrimar Group. As permitted by Law 12,024 of August 27, 2009, which amended Law 10,931/2004 that established RET, an option was made to include them in the segregated assets structure and adopt the RET regime. For these developments, consolidated charges related to IRPJ and CSLL, Social Contribution on Revenues (COFINS) and Social Integration Program (PIS) are calculated at the aggregate rate of 4% on gross revenues, of which 1.92% for IRPJ and CSLL and 2.08% for PIS and COFINS; on revenue relating to the *Minha Casa Minha Vida* (My House My Life) Program for units up to R\$100 the aggregate rate applied is 1% on gross revenues, of which 0.47% for IRPJ and CSLL and 0.53% for PIS and COFINS.

2.15. Provisions

Provisions are recorded when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

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Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate before tax effects that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the time elapsed is recognized as interest expense.

2.16. Capital

Capital comprises fully subscribed and paid-up shares and quotas with no par value.

2.17. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, cancellations, rebates and discounts and, in the consolidated and combined financial statements, after eliminating sales between the Group's companies.

The Group recognizes revenue at the fair value of sales contracts when specific criteria are met, as described below:

(a) Revenue from the sales of properties

For sales of units under construction the guidance established in Circular Letter/CVM/SNC/SEP No. 02/2018 for the adoption of the Technical Pronouncement CPC 47 (IFRS 15) was followed.

This standard, coupled with the applicable accounting procedures established by Guideline OCPC 01 (R1) - "Real Estate Development Companies", was used as a parameter for sale of units under construction:

- The costs incurred on units sold (including land) are fully appropriated to the cost of sales.
- The percentage of the incurred cost of units sold, including land, in relation to their total estimated cost (POC) is computed, and this percentage is applied to the fair value of the revenue from units sold (including the fair value of barter made for land), adjusted according to the terms of the sales contracts, thereby obtaining the amount of revenue to be recognized.
- The amounts of the sales revenues determined, including indexation accruals on trade receivables based on the change in the National Civil Construction Index (INCC), net of the installments received (including the fair value of barter made for land), are accounted for as trade receivables, or as advances from customers, when applicable.
- The fair value of revenue from units sold is calculated at the present value based on the interest rate for the remuneration indexed to the INCC between the date the agreement is signed and the date scheduled for the delivery of the completed unit to the purchaser (as from that date, trade receivables are subject to interest of 12% per annum plus indexation accruals). The interest rate for the remuneration of government bonds indexed to the INCC is compatible with the nature, term and risks of similar transactions under market conditions, with an average rate of 6% p.a. for the years ended December 31, 2018 and 2017. Subsequently, as time elapses, interest is incorporated into the new fair value for the calculation of the revenue to be appropriated, on which the POC will be applied.

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If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, the estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the statement of income in the period in which the circumstances that give rise to the revision become known to management.

The amounts received for sales of units under construction of the launched real estate projects that are still subject to the effects of the related resolutive clause contained in the development deed, are classified as advances from customers.

After the delivery of the units sold, trade receivables accrue indexation based on the variation of the General Market Price Index (IGP-M) or the Amplified Consumer Price Index (IPCA), plus interest of 1% per month, calculated on a pro rata temporis basis. In this phase, interest/indexation accruals are recorded as finance income using the effective interest rate method and are no longer part of the basis for the calculation of sales revenue.

In the case of sales of completed units, sales revenue is recognized upon delivery of the completed unit, when the most significant risks and rewards of ownership are transferred.

(b) Service revenue

Patrimar and Novolar provide construction management services to subsidiaries.

Revenue from services is recognized in the period the services are rendered, using the straight-line method to recognize the revenue in proportion to the costs incurred on the real estate development which is being managed.

(c) Finance income

Interest income is recognized on the accrual basis, using the effective interest rate method.

When the unit is completed, trade receivables are subject to interest/indexation accruals, which are appropriated, as time goes by, to interest income.

2.18. Selling expenses

The expenses with advertising, marketing, promotions and other selling expenses are not considered as construction costs of the property and are recognized and allocated in the statement of income as incurred.

Expenses incurred in sales stands and apartment-models, including their construction, decoration, furniture and maintenance, are recognized as property and equipment, provided that the estimated useful lives exceed 12 months, and their depreciation is recognized in the statement of income as selling expenses during their useful lives.

Expenses related to commissions paid to brokers for the sales of the units of each project are recognized in the statement of income based on the same criterion adopted for the recognition of revenues and costs of units sold.

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1.1. Leases

The Group applied CPC 06(R2)/IFRS 16 using the modified retrospective approach, and, therefore, the 2018 comparative information was not restated and continues to be presented in conformity with CPC 06(R1)/IAS 17 and ICPC 03/IFRIC 4.

On transition to CPC 06(R2)/IFRS 16, the Group elected to apply the practical expedient related to the definition of lease, which evaluates which transactions are leases. The Group reassessed all contracts in force, including those already classified as leases under CPC 06(R1)/IAS 17 and ICPC 03/IFRIC 4, as well as those related to sundry rentals and rendering of subcontracting services with the use of equipment, applying the CPC 06(R2)/IFRS 16 parameters to identify lease components.

A contract is, or contains a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for a consideration. In order to evaluate if a contract conveys a right to control the use of an identified asset, the Group uses the definition of a lease in CPC 06(R2)/IFRS 16.

This policy is applied to contracts entered into as from January 1, 2019.

(i) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the date of lease inception. The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability, adjusted for any lease payments to-date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee for dismounting and removal of the underlying asset, restoring the location where it is located or restoring the underlying asset to the condition required by the lease terms and conditions, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the initial date to the end of the lease term, unless the lease transfers the ownership of the underlying asset to the lessee at the end of the lease term, or if the cost of the right-of-use asset indicates that the lessee will exercise the purchase option. In such case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as that of the property and equipment. Furthermore, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain lease liability remeasurements.

The lease liability is initially measured at the present value of the future payment flow (contracted and estimated), discounted at the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Group's incremental borrowing rate for borrowings of a similar nature, other than borrowings related to associations and support to production, since such borrowings are subject to specific and non comparable rates due to their nature and the guarantees linked to them. Usually, the Group uses the incremental rate on its working capital borrowings and the financing of equipment and vehicles, plus the inflation index rate agreed as the discount rate.

The Group determines its incremental rate on borrowings based on interest rates from various external sources of financing and, mainly, by assessing the current borrowing arrangements, measuring the weighted average cost (annual interest divided by the principal debt balance), plus the estimated inflation rate, adjusted for the terms of the contract and the type of the leased asset. The weighted average of the incremental and nominal borrowing rate of the lessee on lease liabilities at January 1, 2019 was 9.76% p.a.

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The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when future lease payments are changed as a result of a change in the index or rate; if there is any change in the amounts expected to be paid in accordance with the residual value guarantee; if the Group changes its assessment as to whether it will exercise a purchase, extension or termination option or if there is a fixed revised lease payment.

Once the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset or charge to income if the carrying amount of the right-of-use asset has been reduced.

Short-term leases and leases of low-value assets

As permitted by the standard exemptions, the Group has elected not to recognize short-term leases, that is, leases of 12 months or less as from the initial date (and which do not include a purchase option). Also, it has not recognized leases of low-value assets, such as office and IT equipment. Short-term lease and low-value asset lease payments are recognized as expenses on the straight-line method over the lease term.

Determining the lease period

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably estimated to be extended (or not terminated).

For the lease of its headquarters, the factors listed below were taken into consideration to determine a 60-month lease term, extrapolating the contract provision that determined a 42-month lease term.

- The Company is in process of raising funds, which may significantly increase its production capacity and, consequently, increase its need for larger facilities.
- The facility improvements made and expectation of return;
- The period the Company occupied its former headquarters;
- The location of the headquarters, which is close to various Company real estate developments.

Most extension options in real estate and machinery and equipment leases have not been included in the lease liability because the Group may replace the assets without significant cost or business disruption.

(ii) As a lessor

At December 31, 2019, the Group does not have any lease agreement in which it is the lessor, sub lessor or the like.

These encompass possible legal structures under which the Group assigns/transfers its capacity of generating financial flow from an asset to another entity, through a formal agreement and cash considerations, without substantially transferring the risks and rewards of ownership of the asset. Otherwise these are operating leases and revenue is recognized under the straight-line method during the lease term. Initial direct costs incurred in the negotiation of operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as lease income. Contingent leases are recognized as revenue over the period in which they are earned.

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2.19. Adoption of new accounting pronouncements

The following amendments and interpretations to existing standards became effective for the year beginning on January 1, 2019:

- (a) The Group initially applied CPC 06(R2)/IFRS 16 from January 1, 2019.

In applying IFRS 16/CPC 06 (R2) for the first time, the Group has used the following practical expedients permitted by the standard:

- . applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- . using previous assessments on whether leases are onerous;
- . accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- . excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- . using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

In addition, the disclosure requirements in CPC 06(R2)/IFRS 16 in general were not applied to comparative information and are explained below:

	<u>2019</u>
Right-of-use assets - intangible assets - first-time adoption	5,063
Amortization right-of-use lease in the year	<u>(1,039)</u>
At December 31, 2019	<u>4,024</u>
Lease liability - first-time adoption	5,063
Lease payments in the year	(330)
Financial charges incurred in the year	<u>(387)</u>
At December 31, 2019	<u><u>4,346</u></u>

- (b) IFRIC 23 / ICPC 22 - "Uncertainty over Income Tax Treatments", the Group applies significant judgment in the identification of uncertainties over income tax treatments. Considering that the Group operates in an environment subject to the Special Taxation Regime (RET), management has assessed the main tax treatments adopted during the periods open to inspection by the tax authorities and concluded that there are no adjustments to be recorded in the financial statements.

2.20. Amendments to existing standards that are not yet effective

The following new standards and interpretations were issued by IASB, but up to the issue date of the Group's financial statements were not effective for the current year. The early adoption of these standards, even though encouraged by IASB, is not permitted by the Brazilian Accounting

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Pronouncements Committee (CPC). The Group intends to adopt these new and amended standards and interpretations, if appropriate, when they become effective.

- (i) Changes in the references to the conceptual framework in IFRS standards.

In March 2018, the IASB issued the Conceptual Framework for Financial Reporting, which replaced its previous version, issued in 2010. Key changes were as follows: (a) increasing the prominence of stewardship in the objective of financial reporting; (b) reinstating prudence as a component of neutrality; (c) defining an entity; (d) revising the definitions of an asset and a liability; (e) removing the probability parameter for recognition and adding guidance on derecognition; (f) adding guidance on different measurement bases; and (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

- (ii) Amendments to CPC 15/IFRS 3, "Business Combinations"

In October 2018, the IASB issued an amendment to IFRS 3 regarding the definition of "business", with effective date on January 1, 2020. The amendment made (i) confirms that a business must consist of inputs and relevant processes which, together, significantly contribute to create outputs; (ii) provides a test that may be used to analyze whether an entity acquired a group of assets, instead of a business; and (iii) provides more specific definitions for outputs, whose focus is now the generation of return via products sold and services rendered to customers, excluding the returns in the form of cost reduction and other economic benefits.

- (iii) Amendments to CPC 26/IAS 1 "Presentation of Financial Statements" and CPC 23/IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

In October 2018, the IASB issued an amendment to IAS 1 and IAS 8 regarding the definition of "material", with effective date of the revised version on January 1, 2020. The definition of "material" helps entities to determine whether information about any item, transaction, or other event should be provided to the financial statement users. However, such definition may not always be objective and judgment may be required regarding the materiality in the preparation of the financial statements. The amendments were made to align the wording of the definition of "material" throughout the IFRS standards, including in the Conceptual Framework.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group's financial statements.

3 Critical accounting estimates and judgments

Based on assumptions, the Group makes estimates concerning the future. The estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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(i) Budgeted costs

Total budgeted costs, including costs incurred or expected to be incurred during the completion of the construction, are regularly reviewed with reference to the percentage of completion of the works, and adjustments based on this review are reflected in the Group's results as determined.

(ii) Recognition of revenue from real estate units under construction

The Group uses the POC method to account for its contracts for the sale of real estate units and provision of services. The use of the POC method requires the Group to estimate the costs to be incurred up to the completion of construction and the delivery of the real estate units of each real estate development, to establish a proportion in relation to the costs already incurred. Revenue is calculated by multiplying this percentage (POC) by the fair value of the revenue from sales already contracted. Accordingly, revenue is recognized continuously throughout the construction phase of the real estate development. This determination requires an estimate and the use of significant judgment by management.

(iii) Provision for contingencies

Provisions for civil, labor and tax contingencies are recognized when the Group has a present legal or constructive obligation as a result of past events, the amounts can be reliably estimated and it is probable that an outflow of resources will be required to settle the obligation.

The amount recognized as a provision is the best estimate of the amount required to settle the obligation at the end of each reporting period, taking into consideration the risks and uncertainties related to the obligation.

When some or all of the economic benefits required for the settlement of a provision are expected to be recovered from a third party, an asset is recognized if, and only if, the reimbursement is certain and the amount can be reliably measured.

(iv) Provision for real estate maintenance

A provision recorded during construction to cover expenses with repairs in developments completed and covered by an average warranty period of five years, as from the delivery date. The real estate whose occupancy permit has already been issued and registered is considered a completed real estate.

(v) Provision for canceled sales

The provision for canceled sales is based on assumptions that consider the history and prospects of expected losses, and on the individual review of sales contracts.

Such assumptions are reviewed annually to consider any changes in circumstances and history.

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4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by senior management. These policies are established to identify and analyze the risks to which the Group is exposed (foreign exchange risk, interest rate risk, credit risk and investment of surplus cash), to define the risk limits and proper controls, and to monitor risks and adherence to defined limits.

Risk management policies are regularly reviewed to reflect changes in market conditions and the Group's activities. The Group, through its training and management rules and procedures, seeks to maintain an environment of discipline and control in which all employees are aware of their duties and obligations.

(a) Credit risk

This is the risk that the Group may incur losses arising from a customer or a counterparty on a financial instrument, due to their failure to comply with their contractual obligations, as well as on deposits with banks and other financial institutions. Individual risk limits are set based on internal or external ratings in accordance with limits approved by management. The credit analysis department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The carrying amount of the financial assets is the maximum exposure to credit risk.

The utilization of credit limits is regularly monitored by Treasury and credit risk is managed on a Group basis. For investments in banks and other financial institutions, only securities from independently rated entities with a minimum "Good" rating in the internal classification of the company and with a minimum market exposure risk are accepted.

Individual risk limits are set based on internal or external ratings in accordance with limits set by management. These limits are set aiming at minimizing risk concentration and, therefore, mitigating the risk of loss in the event of a potential bankruptcy of a counterparty.

Credit quality of financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings (when available) or to historical information about counterparty default rates.

At December 31, 2019 and 2018, the Group had "Cash and cash equivalents" at banks and financial institutions with a "Satisfactory" rating, based on internal and external credit ratings.

The Group considers that its cash and cash equivalents have low credit risk based on external credit ratings of the counterparties and the related internal reviews.

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Trade receivables

	<u>2019</u>	<u>2018</u>
Completed units (Note 7)		
With real guarantee	64,201	50,115
Without real guarantee	<u>5,714</u>	<u>15,869</u>
	<u>69,915</u>	<u>65,984</u>
Units under construction (Note 7):		
With statutory lien	88,116	60,591
Without real guarantee	<u>-</u>	<u>-</u>
	<u>88,116</u>	<u>60,591</u>
	<u><u>158,031</u></u>	<u><u>126,575</u></u>

In 2019 and 2018, no credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(b) Liquidity risk

Liquidity risk is the risk that the Group will have difficulty in complying with its obligations associated with its financial liabilities that are settled in cash or other financial assets. The Group's approach to managing liquidity is to ensure and maximize management so that it will always have sufficient liquidity to comply with its obligations as they fall due, under normal or stress conditions, without incurring unacceptable losses or adversely affecting the Group's reputation.

The forecast of cash flows are made by the Group's Treasury department, which monitors the continuous forecasts of the requirements of liquidity to ensure that it has sufficient cash at an amount that is higher than the required cash outflows to settle the financial liabilities for the following 30 days.

The current cash flows at present value of financial liabilities based on the approximate date of settlement of the related obligations are as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
At December 31, 2019						
Borrowings (Note 13)	38,715	12,997	12,188	6,514	315	70,729
Financial instruments - swap (Note 13)	496	-	-	-	-	496
Leases (Note 13)	1,184	1,054	1,054	1,054	-	4,346
Trade payables (Note 14)	29,623	-	-	-	-	29,623
Real estate purchase obligations (Note 16)	46,799	6,580	-	-	-	53,379
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>	
At December 31, 2018						
Borrowings (Note 13)	41,169	14,082	11,126	8,721	-	75,098
Trade payables (Note 14)	5,555	-	-	-	-	5,555
Real estate purchase obligations (Note 16)	15,558	7,224	-	-	-	22,782

The Group has financial assets (essentially represented by cash, cash equivalents, and trade receivables for real estate development) that it considers sufficient to honor its commitments arising from its operating activities.

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(c) Market risk

The Group is mainly engaged in the development, construction and sale of real estate ventures. In addition to the risks that generally affect the real estate market, such as supply interruptions and volatility in the price of construction materials and equipment, changes in the supply and demand for real estate developments in certain regions, strikes and environmental and zoning regulations, the activities of the Group are specifically affected by the following risks:

(i) Cash flow or fair value interest rate and foreign exchange risk

The Group analyzes its interest rate exposure on a continuous basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift.

The Group has financial investments earning interest indexed to the Interbank Deposit Certificate (CDI) rate and borrowings from third parties bearing interest indexed to the CDI rate and the Reference Rate (TR).

The balances of financial investments are exposed to the fluctuations in interest rates, more specifically, the CDI rate. At December 31, 2019, the management of the Company and its subsidiaries carried out a sensitivity analysis for a 12-month scenario, as required by CVM Instruction 475, of December 17, 2008.

The Group's borrowing denominated in U.S. dollars includes, in the same contract, a swap that exchanges the foreign currency for the local currency at a fixed interest rate of 7.8% p.a. Accordingly, the Group is not exposed to the foreign exchange rate volatility.

Decreases (increases) of 25% and 50% in interest rates were considered, based on a CDI rate of 3.15% p.a. on the balances of financial investments and borrowings:

						Combined
Indicators	Index	Rate	Base Scenario	Scenario I Probable	Scenario II (25%)	Scenario III (50%)
Assets						
Financial investments	CDI	3.15%	33,428	1,052	789	526
Liabilities						
Borrowings for working capital (in Reais - R\$)	CDI	3.15%	26,056	820	615	410

For the swap transaction and borrowing in U.S. dollars (US\$), increases of 25% and 50% in the U.S. dollar exchange rate were considered:

						Combined
Indicators	Index	Quotation	Base Scenario	Scenario I Probable	Scenario II (25%)	Scenario III (50%)
Assets						
Swap	(US\$)	5.75	2,374	13,653	17,066	20,480
Liabilities						
Borrowings for working capital (in U.S. dollars - US\$)	US\$	5.75	2,488	(14,304)	(17,880)	(21,455)
Net effect on profit or loss				(651)	(814)	(975)

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4.2 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure of the Group, management can make, or may propose to the stockholders when their approval is required, adjustments to the amount of profit distributed to stockholders, return capital to stockholders, or issue shares/quotas or sell assets to reduce, for example, debt.

In common with others in the sector, the Group monitors its capital on the basis of the gearing ratio, which corresponds to net debt expressed as percentage of total capitalization. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the balance sheet) less cash and cash equivalents and financial investments. Total capitalization is calculated as equity as shown in the consolidated balance sheet plus net debt.

	2019	2018
Total borrowings (Note 13)	70,729	75,098
Less: cash and cash equivalents (Note 6)	(50,234)	(34,936)
Net debt	20,495	40,162
Total equity	312,364	333,335
Total capitalization	332,859	373,497
Gearing ratio - %	6%	11%

4.3 Fair value hierarchy

The Group adopts the measurement at fair value of its financial assets and liabilities, which is estimated based on assumptions used by the market participants to measure an asset or liability. To increase coherence and comparability, the fair value hierarchy prioritizes the inputs used in measurement considering three major levels, as follows:

- **Level 1. Active market:** Quoted market price - A financial instrument is considered to be quoted in an active market if quoted prices are readily and regularly available from an exchange or organized over-the-counter market, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent regularly occurring market transactions on an arm's length basis.
- **Level 2. No active market:** Valuation techniques - If the market for a financial instrument is not active, fair value is established by using valuation/pricing techniques. These techniques may include reference to the fair value of another instrument that is substantially the same, discounted cash flows and option pricing models. The purpose of the valuation technique is to establish what the transaction price would be on the measurement date in an interest-free exchange motivated by business considerations.

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- **Level 3. No active market:** Equity instruments - Fair value of investments in equity instruments that do not have market prices quoted in an active market and of derivatives that are linked to them and that must be settled by the delivery of unquoted equity instruments.

All the Group's financial assets at fair value through profit or loss are swap derivative instruments (Note 13), which are measured considering Level 2.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. If all significant inputs required to fair value an asset or liability are observable, it is included in Level 2.

The Group does not have financial assets measured at Levels 1 and 3.

5 Financial instruments by nature

	<u>2019</u>	<u>2018</u>
<u>Financial assets</u>		
Measured at amortized cost		
Cash and banks (Note 6)	18,997	18,769
Highly liquid financial investments (Note 6)	31,237	16,167
Restricted financial investments (Note 6)	2,191	2,920
Trade receivables (Note 7)	133,676	112,072
Judicial deposits (Note 18)	2,592	2,521
Related parties (Note 9)	27,537	18,697
	<u>216,230</u>	<u>171,146</u>
<u>Financial liabilities</u>		
Measured at amortized cost		
Borrowings (Note 13)	70,729	75,098
Trade payables (Note 14)	29,623	5,555
Real estate purchase obligations (Note 16)	53,379	22,782
Related parties (Note 9)	9,539	6,431
Measured at fair value		
Financial instrument - Swap (Note 13)	496	-
	<u>163,766</u>	<u>109,866</u>

6 Cash and cash equivalents and restricted financial investments

	<u>2019</u>	<u>2018</u>
Cash	69	60
Banks	18,928	18,709
Highly liquid financial investments	31,237	16,167
	<u>50,234</u>	<u>34,936</u>

The yields on financial investments are linked to bank deposits and other short-term highly liquid investments with immaterial risk of change in value, and range from 95% to 106% of the CDI rate (from 95% to 106% of the CDI rate at December 31, 2018).

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	<u>2019</u>	<u>2018</u>
Restricted financial investments	2,191	2,920
	<u>2,191</u>	<u>2,920</u>

The Group's restricted financial investments in Bank Deposit Certificates (CDB), redeemable in periods over one year, are collateral for the borrowing obtained for the purchase of land. The yields on these investments are linked to and correspond to 108% of the CDI rate (2019: 108% of the CDI rate).

7 Trade receivables

	<u>2019</u>	<u>2018</u>
<u>Trade receivables from real estate development</u>		
Completed units	69,915	65,984
Units under construction	88,116	60,591
	<u>158,031</u>	<u>126,575</u>
Provision for canceled sales	(7,828)	(9,202)
Provision for losses	(3,725)	(1,431)
Adjustments to present value	(12,802)	(3,870)
	<u>(24,355)</u>	<u>(14,503)</u>
	<u>133,676</u>	<u>112,072</u>
Current assets	97,389	49,163
Non-current assets	36,287	62,909

The revenue recognition criteria (Note 2.17) determines that, the balance of receivables from the sale of units not yet completed is not fully recognized in the financial statements, because the amount of revenue recorded is limited to the portion of revenue recognized, net of installments already received.

Trade receivables from real estate sales include indexation accruals based on the National Civil Construction Index (INCC) up to the delivery of the real estate units. As from that date, these amounts accrue indexation based on the General Market Price Index (IGP-M) and bear an average interest rate of 12% p.a.

Supplemental information: Balances not yet recognized in the financial information are as follows:

	<u>2019</u>	<u>2018</u>
Falling due in up to 1 year	134,150	116,188
Falling due from 1 to 2 years	115,125	57,012
Falling due from 2 to 3 years	56,854	77,394
Falling due from 3 to 4 years	89,726	1,838
Falling due in more than 4 years	465	675
	<u>396,320</u>	<u>253,107</u>

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	2019	2018
Overdue for up to 1 year	29,980	23,895
Overdue from 1 to 2 years	3,072	2,181
Overdue from 2 to 3 years	1,438	130
Overdue from 3 to 4 years	95	366
Overdue for over 4 years	3,078	3,279
	<u>37,663</u>	<u>29,851</u>
	<u>433,983</u>	<u>282,958</u>
Trade receivables - accounting	133,676	112,072
Deferred revenue (Note 26)	326,030	191,373
Advances from customers (Note 17)	(50,078)	(34,990)
Provision for canceled sales/losses	11,553	10,633
Present value adjustment	12,802	3,870
	<u>433,983</u>	<u>282,958</u>

8 Properties for sale

	2019	2018
Inventories of land	<u>76,092</u>	<u>58,931</u>
Properties under construction	<u>146,723</u>	<u>139,343</u>
Acqua Galleria	-	10,369
Antônio De Albuquerque SPE Ltda. (Epic)	1,363	-
Ápia	11,608	15,917
Avignon	3,904	8,233
Ed. Duo - Alameda Do Morro	28,293	-
Inovatto	5,092	2,970
Jardim Das Mangabeiras	54,577	33,931
Jardinaves	7,163	3,301
Mia Felicita	-	651
Mirataia	9,751	21,249
Quintas Do Morro	-	3,637
Saint Tropez	20,616	13,797
Solar da Penha	-	7,494
SPE Axis (Porto Fino)	2,755	10,064
Villaggio Verona	1,601	1,576
Villaggio Gutierrez	-	6,154

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	2019	2018
Completed properties	48,788	90,332
Acqua Galleria	8,802	31,970
Bernardo Vasconcelos (Brooklyn)	1,846	3,646
Holiday Inn	5,575	6,658
Manhattan Square	5,921	12,248
Maura Valadares	60	60
Mayffair Offices	160	160
Mia Felicita	1,360	-
Olga Chiari	7,084	11,334
Palo Alto	1,829	3,027
Park Residence	2,997	9,690
Quintas Do Morro	3,637	-
Ruth Silveira	1,874	4,028
The Plaza	3,702	3,702
Union Square	-	3,526
Villagio Ventura	94	283
Stand-alone properties	3,847	-
Provision for canceled sales	5,559	8,246
	277,162	296,852
Current assets	266,193	293,761
Non-current assets	10,969	3,091

(a) Capitalized interest

Interest paid on production financing is accounted for as properties under construction, and charged to profit or loss when the property is sold. The rate utilized for interest capitalization is specific to each real estate development, ranging from 7% to 10.8% p.a. (from 8.8% to 10.8% at December 31, 2018).

The amount of capitalized interest under "Properties for sale" is R\$ 3,851 at December 31, 2019 (R\$ 12,637 at December 31, 2018).

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9 Related parties

	2019	2018
(a) Intercompany loans receivable	3,372	15,717
Construtora Real	13	8,506
PRMV S.A.	3,359	1,842
RPMV S.A.	-	5,295
Somattos Engenharia e Comercio Ltda.	-	74
(b) Receivables from developments	24,165	2,980
Patrimar Somattos Gasparini	4,396	89
Jardinaves Empreendimentos Imobiliários SPE	333	-
Saint Tropez	1,319	-
Acaba Mundo	840	-
Villagio Gutierrez	852	-
Bernardo Vasconcelos Empr. Imob. SPE	671	-
Ed. Duo - Alameda do Morro.	562	415
Union Square	920	-
SPE Axis 1 Empreendimento Imobiliario	513	-
SPE Barbacena Empreendimentos Imobiliários S.A.	364	122
Park Residences	234	-
Jardim das Mangabeiras	2,127	-
Palo Alto	994	-
Ruth Silveira	461	104
Mia Felicita	1,633	-
Quintas do Morro	173	-
Direcional Patrimar Maragogi Empr Imob.	127	1,734
SPE Mirataia Incorporadora E Construtora	38	-
Jota Patrimar Engefor Empr. Imob. SPE	42	-
Campo Grande	69	-
Tavares Bastos	26	-
Gioia Del Colle	28	-
Safira	26	-
Jornalista Oswaldo Nobre	26	-
Danilo Ambrosio	21	-
Vila Carioca (Ambev)	302	-
João XXIII	53	-
Mayfair Offices	18	-
RPMV Participações S.A.	686	-
The Plaza	22	-
Villagio Novita	125	-
Villagio Verona	983	-
Campo Grande - Campinas	6	-
MRV Patrimar Galleria Incorp SPE	8	-
MRV MRL Novolar II Incorporações SPE	1,854	436
Residencial Estoril	1,217	-
Manhattan Square	836	-
Aporuna I	268	-
Other	992	80
	27,537	18,697

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	2019	2018
(a) Intercompany loans payable	2,611	2,684
Somattos Engenharia Comércio Ltda.	2,611	2,684
(b) Payables for developments	6,928	3,747
Manhattan Square	11	-
Olga Chiari	198	-
SCP Silva Lobo	98	-
Colina Engefor	55	96
MRV Engenharia e Participações	391	1,165
Neuchatel	17	-
SCP Portal do Bosque	10	-
Naples	6	-
Engefor Engenharia e Construções	-	26
Villagio Florença	2,400	-
Santa Cecilia Empreendimento	829	829
Edifício Apogée	-	1,217
Other	2,913	414
(c) Related-party transactions with effects on profit or loss	1,177	50
Construtora Real	1,177	50
	10,716	6,481

(a) Intercompany loans receivable and payable

These refer to interest-free loans made to and obtained from related parties, with prearranged maturities.

(b) Receivables from and payables for developments

Refer to:

- (i) Contributions in a proportion different from that of the interest held by quotaholders in the related SCPs and SPEs, which will be offset and capitalized after a supplementary contribution to adjust the quotaholders' investments.
- (ii) Routine transactions carried out between the Parent company and SCPs and SPEs, mainly characterized by the payment of expenses that are reimbursed or repaid later.

(c) Related-party transactions with effects on profit or loss

Payment to Construtora Real of the property lease related to the Company's principal offices.

10 Investments

The Company recognizes a "Provision for net capital deficiency" when investees present a net capital deficiency.

	2019	2018
Investments	47,616	48,235
Provision for net capital deficiency	(3,056)	(3,072)
	44,560	45,163

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Changes in the balance of investments were as follows:

At December 31, 2018	45,163
Changes in investments - assets and liabilities (i)	(349)
Equity in the results of investees	(254)
At December 31, 2019	44,560

- (i) Refers to changes in contributions and redemptions of funds related to projects established as Special Partnerships (SCP).

An analysis of investments at December 31, 2019 follows:

	Ownership interest (%)		Profit (loss) for the year		Equity	Equity in the results of investees in the year	Investment and net capital deficiency	Investment and net capital deficiency
Companies	2019	2018	2019	2019	2019	2019	2019	2018
Jointly-controlled investees								
SPE Mirante do Ibituruna Ltda.	34%	34%	(5)	8,027	(2)	2,729		2,709
SPE Padre Marinho	50%	50%	6,362	13,589	3,181	6,795		3,614
SPE Acaba Mundo E. Imob Ltda.	50%	50%	-	1,621	-	810		815
SPE MRV Patrimar RJ Ix Ltda. (Andorinhas) 1 and 2	40%	40%	46	455	18	224		201
SPE Barbacena Empr Imobiliários S.A.	50%	50%	(1,172)	51,823	(586)	25,911		24,733
SPE Patrimar Somattos Gasparini Ltda.	50%	50%	3,210	16,238	1,605	8,119		9,839
Ponctuel	50%	50%	(6)	84	(3)	42		45
SPE Direcional Patrimar Maragogi Ltda.	45%	45%	21	17	(5)	(3)		(1,604)
SPE Recreio Pontal	35%	35%	(1,331)	(2,807)	(466)	(982)		(366)
SPE Park Riversul (MRV)	35%	35%	(657)	51	(230)	18		37
SPE Recreio Bandeirantes (MRV SPE X)	35%	35%	(214)	(705)	(75)	(247)		(128)
			6,254	88,393	3,437	43,416		39,895
Associates								
SCP RJ 04	50%	50%	(1,276)	764	(638)	382		502
SCP Portal do Bosque	50%	50%	(70)	181	(35)	91		26
SCP Park Ritz	48%	48%	(68)	970	(33)	466		432
SCP Recanto das Águas	51%	51%	(47)	289	(24)	147		60
SCP MRV Belo Campo	50%	50%	(680)	46	(340)	23		16
SCP MRV Rec. Pássaros (Rouxinol)	40%	40%	(827)	478	(331)	191		227
SCP MRV Res. Beija Flor	40%	40%	(348)	21	(139)	9		(20)
SCP Rivoli 1 and 2	40%	40%	(1,108)	79	(443)	32		64
SCP Park Rossete	51%	51%	(108)	2,127	(55)	1,085		1,086
SCP Manchete	40%	40%	(2,798)	(2,350)	(1,119)	(940)		1,446
SCP Riviera da Costa e Sol	48%	48%	(19)	501	(9)	241		5
SCP Pacuare	50%	50%	(38)	(826)	(19)	(412)		(498)
SCP Reality e Renovare	51%	51%	(844)	272	(422)	136		168
SCP Parque Araras	50%	50%	106	47	53	24		(51)
SCP Parque Bem Te Vi	50%	50%	150	136	75	68		(21)
SCP Parque Gaivotas	50%	50%	(26)	87	(13)	43		(27)
SCP Parque Sabia	50%	-	32	60	16	30		-
SCP Recanto do Tingui	35%	35%	-	(186)	-	(64)		(56)
SPE High Line	50%	-	-	(502)	-	(251)		-
Other SPEs			-	-	(215)	(157)		1,909
			(7,969)	2,194	(3,691)	1,144		5,268
			(1,715)	90,587	(254)	44,560		45,163

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An analysis of investments at December 31, 2018 follows:

Companies	Ownership interest (%)		Profit (loss) for the year	Equity	Equity in the results of investees in the year	Investment and net capital deficiency	Investment and net capital deficiency
	2018	2017	2018	2018	2018	2018	2017
Jointly-controlled investees:							
SPE Mirante do Ibituruna Ltda.	34%	34%	(3)	8,027	(1)	2,709	2,714
SPE Padre Marinho	50%	50%	1,357	7,227	678	2,687	2,935
SPE Acaba Mundo E. Imob Ltda.	50%	50%	(6)	1,630	(3)	815	800
SPE MRV Patrimar RJ IX Ltda. (Andorinhas)	40%	40%	180	503	72	201	336
SPE Barbacena Empr Imobiliários S.A.	50%	50%	3,478	49,466	1,739	24,733	23,796
SPE Patrimar Somattos Gasparini Ltda.	50%	50%	7,000	19,678	3,500	9,839	11,028
Ponctuel	50%	50%	1,946	90	973	45	373
SPE Colina EngeforPatrimar E. Imob Ltda.	50%	50%	0	0	0	0	1,527
SPE Direcional Patrimar Maragogi Ltda.	45%	45%	(542)	(3,564)	(244)	(1,604)	428
SPE Park Riversul (MRV)	35%	35%	(506)	106	(178)	37	48
SPE Recreio Bandeirantes (MRVSPE X)	35%	35%	(426)	(366)	(149)	(128)	25
SPE Recreio Gaveas (MRVSPE V)	35%	35%	(1,111)	6,314	(389)	2,210	2,682
SPE Recreio Pontal (MRVSPE I)	35%	35%	(820)	(1,046)	(287)	(366)	(72)
			10,547	88,065	5,711	41,178	46,620
Associates:							
SCP RJ 04	50%	50%	(966)	1,004	(483)	502	452
SCP Portal do Bosque	50%	50%	(260)	52	(130)	26	(24)
SCP Park Ritz	48%	48%	(165)	900	(79)	432	558
SCP Recanto das Águas	51%	51%	(192)	118	(97)	60	(51)
SCP MRV Belo Campo	50%	50%	(468)	32	(233)	16	(90)
SCP MRV Rec. Pássaros (Rouxinol)	40%	40%	(748)	568	(299)	227	221
SCP MRV Res. Beija Flor	40%	40%	(690)	(50)	(276)	(20)	88
SCP Rívoli	40%	40%	(335)	160	(134)	64	71
SCP Paçuaré	50%	50%	(422)	(996)	(211)	(498)	(464)
SCP Manchete	40%	40%	(2,790)	3,620	(1,116)	1,446	2,920
SCP Parque Araras	50%	50%	(568)	(102)	(284)	(51)	(109)
SCP Parque Bem Te Vi	50%	50%	24	(42)	12	(21)	(256)
SCP Parque Gaivotas	50%	50%	(258)	(54)	(129)	(27)	45
SCP Parque Sabia	50%	50%	(50)	0	(25)	0	13
SCP Park Rossete	51%	51%	(180)	2,129	(92)	1,086	1,106
SCP Reality e Renovare	51%	51%	(2,592)	329	(1,322)	168	295
SCP Recanto do Tingui	35%	35%	1,097	(160)	384	(56)	(483)
SCP Riviera da Costa e Sol	48%	48%	(1,767)	10	(847)	5	93
Other investments	0%	0%	-	-	724	626	226
			(11,330)	7,518	(4,637)	3,985	4,611
			(783)	95,583	1,074	45,163	51,231

Investments in companies that have recorded net capital deficiency are recognized in non-current liabilities within "Provision for net capital deficiency".

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At December 31, 2019, the balances of asset and liability accounts, net revenue and profit of subsidiaries, jointly-controlled investees and associates, considered in the financial statements, were as follows:

	Current assets	Non- current assets	Current liabilities	Non- current liabilities	Net assets	Net revenue	Profit (loss)
Companies	2019	2019	2019	2019	2019	2019	2019
Jointly-controlled investees:							
SPE Park Riversul (MRV)	92	113	(72)	(82)	(51)	589	(657)
SPE Recreio Bandeirantes (MRV SPE X)	137	25	(823)	(44)	705	295	(214)
SPE Recreio Pontal (MRV SPE I)	449	125	(3,132)	(249)	2,807	1,197	(1,331)
SPE Mirante do Ibituruna Ltda.	8,022	6	(1)	-	(8,027)	-	(5)
SPE Padre Marinho	49,181	-	(35,592)	(42,642)	(13,589)	(6,127)	6,362
SPE Acaba Mundo E. Imob Ltda.	1,631	-	(10)	-	(1,621)	-	-
SPE MRV Patrimar RJ Ix Ltda.	158	353	(31)	(25)	(455)	(44)	46
(Andorinhas) 1 and 2							
SPE Barbacena Empr Imobiliários S/A	55,652	74	(3,460)	(443)	(51,823)	(18,999)	(1,172)
SPE Patrimar Somatto Gasparini Ltda.	18,183	18	(419)	(1,544)	(16,238)	(3,727)	3,210
Ponctuel	3	81	-	-	(84)	-	(6)
SPE Direcional Patrimar Maragogi Ltda.	71	10	(64)	-	(17)	12	21
	<u>133,579</u>	<u>805</u>	<u>(43,604)</u>	<u>(45,029)</u>	<u>(88,393)</u>	<u>(26,804)</u>	<u>6,254</u>
Associates:							
SCP Park Rossete	2,280	27	(162)	(18)	(2,127)	-	(108)
SCP Reality e Renovare	251	443	(29)	(393)	(272)	-	(844)
SCP Recanto do Tingui	(53)	19	36	(188)	186	-	-
SCP Riviera da Costa e Sol	444	415	(35)	(323)	(501)	-	(19)
SCP RJ 04	725	151	(109)	(3)	(764)	-	(1,276)
SCP Portal do Bosque	33	185	(14)	(22)	(181)	-	(70)
SCP Park Ritz	1,097	28	(86)	(70)	(970)	-	(68)
SCP Paçuaré	23	8	(4)	(853)	826	-	(38)
SCP Manchete	1,316	1,473	(189)	(3,271)	2,350	1,712	(2,798)
SCP Parque Araras	110	11	(66)	(8)	(47)	(138)	106
SCP Parque Bem Te Vi	111	86	(50)	(11)	(136)	(160)	150
SCP Parque Gaivotas	106	21	(34)	(7)	(87)	(52)	(26)
SCP Parque Sabia	80	(4)	(4)	(12)	(60)	(41)	32
SCP Recanto das Águas	127	169	(4)	(3)	(289)	-	(47)
SCP MRV Belo Campo	152	37	(62)	(81)	(46)	283	(680)
SCP MRV Rec. Pássaros (Rouxinol)	537	213	(15)	(257)	(478)	350	(827)
SCP MRV Res. Beija Flor	378	118	(147)	(328)	(21)	261	(348)
SPE High Line	-	-	-	(502)	502	-	-
SCP Rívoli 1 and 2	224	145	(81)	(209)	(79)	273	(1,108)
	<u>7,941</u>	<u>3,545</u>	<u>(1,055)</u>	<u>(6,559)</u>	<u>(2,194)</u>	<u>2,488</u>	<u>(7,969)</u>
	<u>141,520</u>	<u>4,350</u>	<u>(44,659)</u>	<u>(51,588)</u>	<u>(90,587)</u>	<u>(24,316)</u>	<u>(1,715)</u>

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At December 31, 2018, the balances of asset and liability accounts, net revenue and profit of subsidiaries, jointly-controlled investees and associates, considered in the financial statements, were as follows:

	Current assets	Non- current assets	Current liabilities	Non-current liabilities	Net equity	Net revenue	Profit (loss) for the year
Companies	2018	2018	2018	2018	2018	2018	2018
Jointly-controlled investees:							
SPE Mirante do Ibituruna Ltda.	8,021	6	-	-	8,027	-	(3)
SPE Padre Marinho	35,851	-	1,632	26,992	7,227	11,078	1,357
SPE Acaba Mundo E. Imob Ltda.	1,631	-	1	-	1,630	-	(6)
Ponctuel	90	-	-	-	90	-	1,946
SPE MRV Patrimar RJ Ix Ltda. (Andorinhas)	333	259	39	50	503	(5)	180
SPE Barbacena Empr Imobiliários S.A.	80,615	54	7,318	23,885	49,466	-	3,478
SPE PatrimarSomattos Gasparini Ltda.	21,658	19	456	1,543	19,678	-	7,000
SPE Direcional Patrimar Maragogi Ltda.	171	65	3,761	39	(3,564)	-	(542)
SPE Park Riversul (MRV)	155	92	69	71	106	12	(506)
SPE Recreio Bandeirantes (MRVSPE X)	165	41	571	1	(366)	2	(426)
SPE Recreio Gaveas (MRVSPE V)	2,089	323	(4,034)	132	6,314	149	(1,111)
SPE Recreio Pontal (MRVSPE I)	549	85	1,449	232	(1,046)	(35)	(820)
	<u>151,328</u>	<u>944</u>	<u>11,262</u>	<u>52,945</u>	<u>88,065</u>	<u>11,201</u>	<u>10,547</u>
Associates:							
SCP Portal do Bosque	153	-	101	-	52	-	(260)
SCP Park Ritz	1,118	6	85	139	900	15	(165)
SCP Recanto das Águas	275	-	7	150	118	(2)	(192)
SCP MRV Belo Campo	115	45	76	52	32	9	(468)
SCP MRV Rec. Pássaros (Rouxinol)	751	113	47	249	568	85	(748)
SCP MRV Res. Beija Flor	476	76	206	396	(50)	175	(690)
SCP Rivoli	224	103	110	57	160	11	(335)
SCP RJ 04	1,059	-	55	-	1,004	(1)	(966)
SCP Paçuaré	19	-	164	851	(996)	149	(422)
SCP Manchete	2,987	5,513	4,343	537	3,620	(183)	(2,790)
SCP Parque Araras	111	(2)	164	47	(102)	-	(568)
SCP Parque Bem Te Vi	126	84	184	68	(42)	-	24
SCP Parque Gaivotas	115	8	89	88	(54)	-	(258)
SCP Parque Sabia	79	(9)	46	24	-	-	(50)
SCP Park Rossete	2,364	-	158	77	2,129	61	(180)
SCP Reality e Renovare	767	61	50	449	329	161	(2,592)
SCP Recanto do Tingui	17	-	(43)	220	(160)	116	1,097
SCP Riviera da Costa e Sol	462	22	235	239	10	(5)	(1,767)
	<u>11,218</u>	<u>6,020</u>	<u>6,077</u>	<u>3,643</u>	<u>7,518</u>	<u>591</u>	<u>(11,330)</u>
	<u>162,546</u>	<u>6,964</u>	<u>17,339</u>	<u>56,588</u>	<u>95,583</u>	<u>11,792</u>	<u>(783)</u>

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11 Property and equipment

Property and equipment items are depreciated as below:

	Depreciation rate % (p.a.)
Sales stands and model apartments (*)	-
Leasehold improvements	20%
Machinery and equipment	10%
Vehicles	20%
Furniture and fittings	10%
IT equipment	20%
Works	33.33%
Management	20%
Software licenses	20%
Aircraft	3.33%

(*) Sales stands are depreciated according to the estimated flow of sales of each project, or write-off.

An analysis of property and equipment at December 31, 2019 follows:

	Balance 2018	Additions 2019	Write-offs 2019	Transfers 2019	Balance 2019
Cost					
Improvements	6,781	-	-	(45)	6,736
Machinery and equipment	4,405	-	-	(115)	4,290
Vehicles	5,035	-	(348)	(3,680)	1,007
Furniture and fittings	2,228	-	-	(270)	1,958
Sales stand and model apartment	20,641	-	(1,547)	(9,469)	9,625
IT equipment	325	143	-	(248)	220
Construction in progress	-	3,779	-	(805)	2,974
Land	-	-	-	46	46
Aircraft	-	-	-	3,097	3,097
Telephone equipment	302	-	-	(302)	-
Other assets	906	-	-	(906)	-
Total cost	40,623	3,922	(1,895)	(12,697)	29,953
Depreciation					
Depreciation - Improvements	(1,268)	(1,324)	-	(74)	(2,666)
Depreciation - Machinery and Equipment - Management	(2,573)	(467)	-	196	(2,844)
Depreciation - Vehicles	(1,461)	(142)	348	652	(603)
Depreciation- Furniture and fittings	(454)	(206)	-	269	(391)
Depreciation - Sales stands and model apartments	(12,087)	(2,006)	963	10,266	(2,864)
Depreciation - IT equipment	(304)	(20)	-	248	(76)
Depreciation - Aircraft	-	(103)	-	(69)	(172)
Depreciation - Telephone equipment	(302)	-	(1)	303	-
Depreciation - Other assets	(906)	-	-	906	-
Total depreciation	(19,355)	(4,268)	1,310	12,697	(9,616)
Total property and equipment, net	21,268	(346)	(585)	-	20,337

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An analysis of property and equipment at December 31, 2018 follows:

	Balance 2017	Additions 2018	Write- offs 2018	Balance 2018
Cost				
Sales stands and model apartments	16,163	6,502	(2,024)	20,641
IT equipment	1,053	17	(745)	325
Furniture and fittings	3,040	190	(1,002)	2,228
Machinery and equipment	5,284	1	(880)	4,405
Aircraft and vehicles (i)	1,533	3,697	(195)	5,035
Sundry facilities	111	-	(111)	-
Improvements	5,201	1,580	-	6,781
Telephone equipment	365	-	(63)	302
Other assets - property acquired in the investee	-	906	-	906
Total cost	32,750	12,893	(5,020)	40,623
Depreciation				
Sales stands and model apartments	(11,192)	(973)	78	(12,087)
IT equipment	(1,011)	(28)	735	(304)
Furniture and fittings	(1,189)	(213)	948	(454)
Machinery and equipment	(2,654)	(601)	682	(2,573)
Aircraft and vehicles	(1,446)	(209)	194	(1,461)
Sundry facilities	(109)	(1)	110	-
Improvements	(120)	(1,227)	79	(1,268)
Telephone equipment	(344)	(3)	45	(302)
Other assets - property acquired in the investee	-	(906)	-	(906)
Total depreciation	(18,065)	(4,161)	2,871	(19,355)
Total property and equipment, net	14,685	8,732	(2,149)	21,268

(i) In 2018, Construtora Novolar acquired an aircraft and settled part of the debt with the delivery of a unit in inventory in the amount of R\$850, which was presented as a "non-cash" transaction in the Statement of cash flows.

12 Intangible assets

	Balance 2018	Additions 2019	Write-offs 2019	Transfers 2019	Balance 2019
Intangible assets					
Software licenses	9,948	2,363	(32)	21	12,300
Right-of-use asset lease (Note 2.20)	-	5,063	-	-	5,063
Other assets	30	-	-	(30)	-
Total cost	9,978	7,426	(32)	(9)	17,363
Amortization of software license	(48)	(857)	20	(10)	(895)
Amortization right-of-use asset lease	-	(1,039)	-	-	(1,039)
Other assets	(19)	-	-	19	-
Total amortization	(67)	(1,896)	20	9	(1,934)
Total intangible assets, net	9,911	5,530	(12)	-	15,429

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An analysis of intangible assets at December 31, 2018 follows:

	Balance 2017	Additions 2018	Write-offs 2018	Balance 2018
Cost				
Software licenses	1,157	8,818	(27)	9,948
Other assets - intangible assets acquired in the investee	-	30	-	30
	<u>1,157</u>	<u>8,848</u>	<u>(27)</u>	<u>9,978</u>
Amortization				
Right-of-use - software	(11)	(44)	7	(48)
Other assets - intangible assets acquired in the investee	-	(19)	-	(19)
	<u>(11)</u>	<u>(63)</u>	<u>7</u>	<u>(67)</u>
Total intangible assets, net	<u>1,146</u>	<u>8,785</u>	<u>(20)</u>	<u>9,911</u>

- (i) Acquisition of an Integrated Business Management System (SAP S4 for Hana), with a defined useful life of 10 years; reassessed at least annually.

13 Borrowings

	2019	2018
Financing for construction- Financial Housing System (SFH)	29,806	50,315
Equipment financing	-	216
Borrowings for working capital	36,081	24,567
Financial Instrument - Swap (i)	496	-
	<u>66,383</u>	<u>75,098</u>
Leases (Note 2.20)	4,346	-
	<u>4,346</u>	<u>-</u>
	<u>70,729</u>	<u>75,098</u>
Current liabilities	38,715	41,169
Non-current liabilities	32,014	33,929

- (i) In December 2019, the Group contracted a working capital loan from Bradesco denominated in U.S. dollars, in the original amount of US\$2,365, bearing interest of 3.27% per annum. A swap instrument was contracted in connection with the borrowing, in order to exchange the foreign currency for Brazilian Real/Reais (R\$) at a fixed interest rate of 7.8% p.a. The swap maturity date is the same as that of the borrowing (December 2020). The swap instrument is an integral part of the borrowing contract. Foreign exchange gains/losses are offset against swap gains/losses.

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The reconciliation between the transaction contracted and the swap instrument is as follows:

	Parent company		Consolidated	
	2019	2018	2019	2018
Borrowing in US\$ + interest, converted into Reais	10,025	-	10,025	-
Swap contracted - assets	(9,569)	-	(9,569)	-
Swap contracted - liabilities	10,065	-	10,065	-
Net debt	10,521	-	10,521	-

Changes in borrowings were as follows:

	2019	2018
Opening balance	75,098	195,521
Draw downs	50,119	71,466
Lease	5,063	-
Swap	496	-
Interest	5,153	13,132
Foreign exchange gains or losses	(532)	-
Amortization	(64,338)	(205,021)
Amortization - Lease	(717)	-
Financial charges - Lease	387	-
Closing balance	70,729	75,098

Group's borrowings are of two types:

Financing for construction: The applicable interest rates range from 7.0% to 10.8% p.a., depending on the operation (from 8.3% to 10.8% at December 31, 2017) plus the Reference Rate (TR). These borrowings are secured by the underlying real estate development.

Working capital: The average interest rate applicable to this type of borrowing is the CDI rate ranging from 2.95% to 3.50% p.a. (from 2.95% to 4.78% at December 31, 2018), which is secured by the sureties of the stockholders.

The borrowings recorded within "Financing for construction" are secured by the underlying real estate development.

Borrowings for construction and working capital purposes are secured by guarantees and sureties by the Group's equity holders.

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Amounts recorded in current and non-current liabilities by maturity year are as follows:

	<u>2019</u>	<u>2018</u>
2019	-	41,169
2020	38,715	14,082
2021	12,997	11,126
2022	12,188	8,721
2023 onwards	<u>6,829</u>	<u>-</u>
	<u>70,729</u>	<u>75,098</u>

14 Trade payables

	<u>2019</u>	<u>2018</u>
Trade payables	26,908	2,533
Technical retentions	<u>2,715</u>	<u>3,022</u>
	<u>29,623</u>	<u>5,555</u>

The balance of trade payables represents commitments by the Company and its subsidiaries for the acquisition of the inputs required to perform the contracted services or for the purchase of equipment with their own funds. These liabilities mature from 30 to 90 days as from the delivery date and are recorded when the significant risks and rewards of ownership of goods, products and services rendered are transferred to the Group.

Technical retentions correspond to a type of contractual agreement that aims to ensure that all existing technical details in a construction contract, for example, are fully complied with.

Accordingly, a specific amount (provided for in the contract) is withheld to cover any non-compliance with the contract provisions.

At the end of the contract, if all requirements are met, the amount is refunded to the service provider.

15 Tax liabilities

Corporate income tax and social contribution on net income are calculated based on the amounts received (cash basis). The balances of taxes payable are estimated on the accrual basis of accounting and are recorded as deferred taxes, as shown below. An analysis of the balances of taxes to be paid according to tax criteria follows:

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<u>Current taxes</u>	<u>2019</u>	<u>2018</u>
Withheld taxes	1,463	777
Special Taxation Regime (RET)	814	1,288
Social Integration Program (PIS)	88	74
Social Contribution on Revenues (COFINS)	339	284
Corporate Income Tax (IRPJ)	303	163
Social Contribution on Net Income (CSLL)	226	-
Services Tax (ISS)	109	12
	<u>3,342</u>	<u>2,598</u>
	<u>2019</u>	<u>2018</u>
<u>Deferred taxes</u>		
IRPJ + RET	4,594	1,586
CSLL	43	830
PIS	23	464
COFINS	164	2,201
	<u>4,824</u>	<u>5,081</u>
Current liabilities	<u>8,166</u>	<u>7,679</u>

16 Real estate purchase obligations

Include amounts to be settled in cash related to the acquisition of land used in real estate developments.

	<u>2019</u>	<u>2018</u>
SPE Axis	1,956	4,000
SPE Mirataia	6,580	-
Porto Venere	43	43
Villagio Novita	144	144
Jardinaves	1,756	800
Avignon	113	387
Jardim das Mangabeiras	2,451	1,084
Manhattan	171	227
Tratex	-	315
Jambreiro (Ouro Velho Country Club)	2,118	2,139
Alameda do Morro	34,901	10,800
Other (i)	<u>3,146</u>	<u>2,843</u>
	<u>53,379</u>	<u>22,782</u>
Current liabilities	46,799	15,558
Non-current liabilities	6,580	7,224

(i) These refer to smaller real estate purchase obligations amounts.

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17 Advances from customers

These advances refer to sales of real estate units and a commitment to deliver completed units arising from the acquisition of land for real estate development through a barter arrangement.

	2019	2018
Manhattan Square	-	450
Jardim das Mangabeiras	31,203	24,174
Jardinaves	1,130	773
Alta Vila	20,722	20,650
Avignon	4,314	4,055
Saint Tropez	134	3,220
Apia (SPE Novo Apia - Jaraguá)	8,044	7,670
Antônio de Albuquerque (EPIC)	7,907	-
Solar Da Penha	4,000	4,000
Reserva Do Mirataia II	3,944	-
Inovato	2,432	3,091
Jota Patrimar (Soho Square)	6	-
Duo - Alameda Do Morro	773	-
Palo Alto	363	-
Ruth Silveira	6	-
SPE Axis - Porto Fino	329	-
Mia Felicita	78	-
Villaggio Verona	12	-
Other	-	83
	<u>85,397</u>	<u>68,166</u>
Advances from customers	23,342	34,990
Barter made for land	<u>62,055</u>	<u>33,176</u>
	<u>85,397</u>	<u>68,166</u>
Construction in progress	50,078	35,846
Advance from customized units	4,731	-
Not launched developments	<u>30,588</u>	<u>32,320</u>
	<u>85,397</u>	<u>68,166</u>
Current liabilities	85,397	68,166
Non-current liabilities	-	-

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18 Provision for contingencies and judicial deposits

	Judicial deposits		Provision for contingencies	
	2019	2018	2019	2018
Civil	1,789	1,774	1,001	2,454
Tax	-	15	4,443	315
Labor	803	732	1,548	1,728
	<u>2,592</u>	<u>2,521</u>	<u>6,992</u>	<u>4,497</u>
Contingencies			2019	2018
Opening balance			3,199	1,959
Additions			6,328	6,665
Write-offs			(2,535)	(4,127)
Closing balance			<u>6,992</u>	<u>4,497</u>
Judicial deposit			2019	2018
Opening balance			2,521	225
Additions			71	4,581
Write-offs			-	(2,285)
Closing balance			<u>2,592</u>	<u>2,521</u>

The Group companies are party to tax, labor and civil litigation, and are discussing such matters at the administrative and judicial levels, which, when applicable, are supported by judicial deposits. The provisions for contingencies are estimated by management, under the advice of legal counsel, when it considers a probable loss will arise from proceedings, and on historical information and statistical data.

Management believes that the resolution of these issues will not be significantly different from the amounts estimated.

There was no offset of the balances of judicial deposits and the provision for contingencies because the nature of the asset and liability balances were not the same, thus precluding offset of balances.

Possible loss contingencies:

At December 31, 2019, the Group companies are party to other legal proceedings of a tax, civil and labor nature arising in the normal course of business, for which the likelihood of loss, in the opinion of the Company's management, based on the advice of its legal counsel, is considered to be possible, amounting approximately to R\$ 2,188 for labor, R\$ 34,403 for tax and R\$ 7,588 for civil proceedings, totaling R\$ 44,179 (R\$ 46,142 at December 31, 2018). Accordingly, no provision was recorded to cover losses arising from possible unfavorable outcomes.

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Possible loss contingencies include the "physical exchange" of land:

As part of the process for purchase and sale of properties, the Group acquires land to be developed based on the "physical exchange" method. On September 4, 2014, the Federal Revenue Secretariat (SRF) issued Cosit Regulatory Opinion No. 9, which changed the understanding of the income tax legislation with respect to the deemed profit (Decree No. 3,000 of March 26, 1999) and started to consider revenue from physical exchange transactions recognized at fair value as the calculation bases for IRPJ, CSLL, PIS and COFINS. Based on this understanding, in 2017 and 2018 tax assessment notices were issued against the Group in the amount of R\$ 28,718.

Based on the advice of its legal counsel, the Group filed a protest letter claiming that the assessment has no merit since the recognition of the fair value from the barter transactions cannot affect the calculation bases of the taxes. The probability of loss in this case has been classified as possible and the estimated risk involved at December 31, 2019 amounts to R\$ 33,299 (R\$ 31,508 at December 31, 2018).

19 Provision for real estate maintenance

The Group offers a five-year warranty against construction problems, as required by the Brazilian legislation.

In order to fulfill this commitment, mitigating potential on future effects, and to adequately match revenues and costs, for each real estate under construction an amount corresponding to 1.5% of the construction cost was provided for, on an estimated basis.

This estimate is based on historical averages and expectations of future outflows, according to analyses of the Group's engineering department, which are reviewed annually.

The provision is recorded as the construction progresses, by applying this percentage mentioned to actual costs incurred.

Changes in the provision for maintenance were as follows:

	<u>2019</u>	<u>2018</u>
Opening balance	9,296	12,325
Additions	1,452	5,271
Write-offs	<u>(3,047)</u>	<u>(8,300)</u>
Closing balance	<u>7,701</u>	<u>9,296</u>

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20 Equity

(a) Capital

(i) Patrimar Engenharia S.A.

At December 31, 2019, capital amounted to R\$281,602 (R\$179,032 at December 31, 2018) and is divided into 27,972,479,422 common shares (17,903,150,656 quotas at December 31, 2018).

Corporate structure

On December 11, 2019, the parent company PRMV Participações S.A. approved the transformation of Patrimar from a limited liability partnership to a privately-held corporation. Accordingly, a Quotaholders' Meeting and subsequently an Extraordinary General Meeting were held.

In addition, the Company merged with RPMV Participações S.A., which held a 99.99% interest in Construtora Novolar Ltda. and received by assignment the remaining quota of Construtora Novolar Ltda. held by PRMV Participações S.A.

In view of the above, PRMV Participações S.A. and RPMV Participações S.A. withdrew from the ownership structure of Construtora Novolar Ltda., and Patrimar Engenharia S.A. became its only quotaholder.

Based on the special balance sheet prepared by RPMV Participações S.A. at September 30, 2019, Patrimar has merged with RPMV and the net assets of R\$ 102,570 were contributed as a capital increase in Patrimar. After the merger, Patrimar identified the need to adjust the opening balance of the merger with a charge to retained earnings (accumulated deficit). Adjustments basically arise from the recognition of provisions for canceled sales in prior years (2018 and 2017) and capitalized interest in investments in completed developments.

Upon completion of the merger, all the shares issued by Patrimar, which are common, registered and with no par value, will be divided as follows:

Stockholders	Common shares
PRMV Participações S.A.	17,903,150,656
Alexandre Araújo Elias Veiga	503,466,438
Heloísa Magalhães Martins Veiga	503,466,438
Renata Martins Veiga Couto	4,531,197,945
Patrícia Martins Veiga	4,531,197,945
	27,972,479,422

(ii) Construtora Novolar Ltda.

At December 31, 2019, capital was R\$ 104,560 (R\$104,560 at December 31, 2018) comprising 10,455,961,464 quotas.

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Corporate structure

In October 2019, based on the appraisal report on the financial position dated September 30, 2019 and the minutes of the general meeting, the quotaholder of Construtora Novolar Ltda., RPMV Participações S.A., was merged with Patrimar S.A. Additionally, RPMV Participações S.A. assigned for consideration the total number of quotas held by it. By the same corporate document, the other quotaholder of Construtora Novolar Ltda., PRMV Participações S.A., assigned for consideration the quota held by Patrimar S.A.

The quotaholders of Construtora Novolar Ltda. irrevocably agree to the transfers of the quotas representing the company's capital as described above, and expressly waive entitlement to any preemptive right over the acquisition of the transferred quotas.

In view of the above, PRMV Participações S.A. and RPMV Participações S.A. withdrew from the ownership structure of Novolar, and the new partner Patrimar Engenharia S.A. became its only quotaholder.

(b) Profit distribution policy

Minimum mandatory distributions:

Stockholders are entitled to annual dividends of not less than 25% of the profit for the year.

Novolar is a limited liability corporate partnership whereas Patrimar is a corporation, and therefore, the formers net profit may be decreased or increased by the following: (i) the amount allocated to legal reserve; (ii) the amount allocated to the provision for contingencies and the reversal of the same provision recognized in prior years; and (iii) the amount resulting from the reversal of the unrealized revenue reserve recognized in prior years, as provided for in article 202, item II of the Brazilian Corporation Law.

At December 31, 2018, profit distributions were approved based on the financial statements originally presented by the Group for the year then ended, in which the Group presented retained earnings.

21 Net operating revenue

The reconciliation between gross and net sales revenue is as follows:

	<u>2019</u>	<u>2018</u>
Gross revenue from the sales of properties	317,684	327,467
Service revenue	9,062	2,743
Canceled sales	(36,007)	(23,991)
Changes in the provision for canceled sales	1	1,815
Adjustment to present value (i)	(6,568)	(83)
Taxes on billings (ii)	<u>(5,530)</u>	<u>(6,503)</u>
Net operating revenue	<u><u>278,642</u></u>	<u><u>301,448</u></u>

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- (i) Because the Group considers that financing to its customers is inherent to its operations, it classifies the accretion (reversals) of the present value adjustments of trade receivables as operating revenue.
- (ii) Taxes on sales and services comprise PIS and COFINS, levied at 1.65% and 7.6% respectively, on revenue earned under the non-cumulative taxation regime, 0.65% and 3% on revenue earned under the cumulative taxation regime, 0.37% and 1.71% on revenue earned under the special taxation regime applicable to construction companies and real estate developers, and 0.09% and 0.44% on revenue relating to the *Minha Casa Minha Vida* (My House My Life) Program for units up to R\$ 100.

22 Costs and expenses by nature

	<u>2019</u>	<u>2018</u>
Cost of properties sold		
Materials	(38,818)	(35,450)
Land	(51,829)	(48,600)
Completed properties	(42,763)	(48,833)
Personnel expenses	(5,672)	(10,087)
Subcontractors	(31,489)	(40,465)
Leases	(386)	(546)
Housing loan costs	(2,517)	(1,695)
Other	(8,841)	(14,531)
	<u>(182,315)</u>	<u>(200,207)</u>
Administrative and general expenses		
Personnel expenses	(13,901)	(12,300)
Traveling, lodging and other expenses	(4,397)	(4,282)
Depreciation and amortization	(3,905)	(2,492)
Third-party services	(6,528)	(4,425)
	<u>(28,731)</u>	<u>(23,499)</u>
Selling expenses		
Personnel expenses	(3,335)	(2,637)
Commissions and brokerage	(5,847)	(4,941)
Sales stands/Model apartment	(2,718)	(6,961)
Advertising	(11,359)	(9,827)
Other	(7,893)	(3,694)
	<u>(31,152)</u>	<u>(28,060)</u>
Other operating income (expenses), net		
Expenses with real estate credit	(2,097)	(922)
Tax expenses	(343)	(974)
Provision for contingencies	(6,022)	(4,807)
Other	(3,624)	(833)
	<u>(12,086)</u>	<u>(7,536)</u>
	<u>(71,969)</u>	<u>(59,095)</u>

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23 Management fees

During 2019, management fees totaled R\$ 2,429 in the consolidated and combined balances (R\$ 2,968 at December 31, 2018).

24 Finance income (costs), net

	<u>2019</u>	<u>2018</u>
Finance income		
Indexation accruals and interest as per contracts	4,326	8,647
Interest on financial investments	1,804	1,630
Other finance income	<u>1,049</u>	<u>2,765</u>
	<u>7,179</u>	<u>13,042</u>
Finance costs		
Interest on borrowings	(3,857)	(7,140)
Bank fees and charges	(788)	(2,338)
Financing expenses	(204)	(581)
Derivative transactions	(496)	-
Other finance costs	<u>(1,823)</u>	<u>(1,157)</u>
	<u>(7,168)</u>	<u>(11,216)</u>
Finance income (costs), net	<u>11</u>	<u>1,826</u>

25 Income tax and social contribution expenses

Corporate income tax and social contribution on net income are calculated on an accrual basis. However, as these taxes are measured on a cash basis, the Company records them as deferred taxes. Balances of taxes due under this tax criteria are as follows:

	<u>2019</u>	<u>2018</u>
Profit before IRPJ and CSLL	<u>24,115</u>	<u>45,046</u>
Rate - 34%	<u>(8,199)</u>	<u>(15,316)</u>
Effect on exclusions (Equity accounting)	357	(365)
Unrecognized tax credits due to temporary difference - RET	<u>2,332</u>	<u>8,968</u>
IRPJ and CSLL expenses	<u>(5,510)</u>	<u>(5,983)</u>
Effective rate	24%	13%

The Company has an accumulated balance of income tax and social contribution losses of R\$ 12,465 (R\$ 6,984 at December 31, 2018).

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Management believes that these deferred tax assets arising from tax losses should not be recognized considering the non-expectation of future taxable income, due to the fact that a substantial part of the Group's operations is carried out through SPEs and SCPs, and also based on the Special Taxation Regime (RET) adopted for certain projects developed by the Group and its subsidiaries.

26 Deferred revenue and deferred costs

Pursuant to the Circular Letter No. 02/2018 of December 12, 2018, which addresses revenue recognition by Brazilian companies on purchase and sale of incomplete real estate units under construction the table below presents the deferred revenue and deferred costs of units under construction at December 31, 2019.

Developments under construction	2019
(i) Deferred revenue from units sold	
Developments under construction:	
(a) Revenue from contracted sales	645,755
Revenue from recognized sales:	
Revenue from recognized sales	(336,053)
Canceled sales - reversed revenues	16,328
(b) Revenue from recognized sales, net	(319,725)
Deferred revenue (a+b)	326,030
(ii) Budgeted deferred cost of units sold (**)	
Developments under construction:	
(a) Budgeted costs	381,392
Incurring costs:	
Construction costs	(182,532)
Canceled sales - construction costs	-
(b) Incurring costs, net	(182,532)
Deferred costs of units sold (a+b)	198,860
(iii) Budgeted deferred costs of units in inventory (**)	
Developments under construction:	
(a) Budgeted costs	342,420
(b) Incurring cost	(131,397)
Deferred costs of units in inventory (a+b)	211,023

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27 Commitments

Commitments for purchase of land

Commitments have been undertaken by the Group for purchases of land, which have not yet been reflected in the accounting records, as there are matters pending resolution by the sellers before the formalization of the final deed and transfer of the related title to the Group. These commitments total R\$ 1,266,777 (R\$ 669,140 - 2018), of which: R\$ 931,438 (R\$ 580,233 - 2018) will be settled by transfers of real estate units to be constructed, R\$ 254,824 (R\$ 63,475 - 2018) and will be settled upon delivery of real estate units to be constructed and R\$ 80,515 (R\$ 25,433 - 2018) from a portion of the proceeds from the sale of the related developments.

28 Segment reporting

The main source of revenue of the Group is derived from real estate development activity. The chief operating decision-maker analyzes information by development for the purposes of allocating resources and assessing its performance. The management of activities relating to strategic planning, finance, purchases, the investment of resources and the assessment of the performance of developments is centralized and there is no segregation by type of development (residential - high and middle standard and commercial) that could indicate management by segment, or other factors that could identify a set of components as operating segments of the entity.

29 Insurance

As at December 31, 2019, the Group had contracted the following insurance coverage:

- a) Engineering risk insurance - civil works in progress: an all risk coverage for construction of real estate, such as fire, theft and damage resulting from construction works, among others. This type of insurance permits additional coverage considering the risks inherent to construction works, including civil liability and cross liability insurance, special expenses, riots, employer's civil liability and moral damages.
- b) Business risk insurance - coverage for the sales stands and model apartments, with coverage for damages caused by fire, theft, lightning and explosion, among others.
- c) Multiple risk insurance - coverage for electronic equipment against possible theft or electrical damage.
- d) Civil liability insurance (management).

Items	Cover		Novolar	Patrimar	Combined
	Beginning	End			
Aircraft	2019	2020	-	2,080	2,080
Commercial multiple peril and General civil liability - Multiple peril insurance	2019	2020	-	2,060	2,060
Contractor - Completion bond (SGTO)	2017	2020	2,787	-	2,787
Contractor - Completion bond (SGTO)	2018	2020	2,462	-	2,462
Contractor - Completion bond (SGTO)	2018	2021	4,318	-	4,318
Contractor - Completion bond (SGTO)	2019	2022	1,967	-	1,967

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Items	Cover		Novolar	Patrimar	Combined
	Beginning	End			
Contractor - Completion bond - Infrastructure not included	2019	2022	522	-	522
Civil liability (management) D&O	2019	2020	-	10,000	10,000
Engineering risk and Civil risk	2017	2020	21,512	-	21,512
Engineering risk and Civil risk	2017	2021	-	28,000	28,000
Engineering risk and Civil risk	2018	2020	16,412	-	16,412
Engineering risk and Civil risk	2018	2021	28,784	-	28,784
Engineering risk and Civil risk	2018	2023	-	169,625	169,625
Engineering risk and Civil risk	2019	2020	-	-	-
Engineering risk and Civil risk	2019	2023	13,112	-	13,112
Post-completion bond - maintenance bond - SGPE	2018	2023	539	-	539
Post-completion bond - maintenance bond - SGPE	2019	2024	591	-	591
Insurance for barter transactions	2017	2021	-	18,751	18,751

30 Events after the reporting period

Effects of the COVID-19 pandemic on the Group's business

The Brazilian market has evidenced increased volatility as a result, among other factors, of the spread of the coronavirus (Covid-19) pandemic and the restrictive measures that have been adopted in Brazil and worldwide in an attempt to contain the contagion, which may result in a slowdown in the global economy.

The Group has been monitoring development and possible impacts on its operations. As the construction industry was included in the list of essential activities by the Brazilian government, several incentive measures were provided greatly reducing impacts. Work on projects continue unabated and without interruption, with no identified risk of delay of delivery to customers. All requirements are being met and every effort is being made to ensure the health and safety of employees and service providers. Administrative and commercial areas staff are working from home as are partners across the supply chains. Financial performance metrics of works are operating without major incident. No impairment of financial and non-financial assets have been identified to-date.

No cases of significant customer delinquencies have been forthcoming and the medium and long-term fundamentals of the business remain unchanged.

* * *

Opinions and Statements / Officers' Statement on the Financial Statements

Officers' Statement on the Financial Statements

Pursuant to the provisions of Article 25, paragraph 1, items V and VI, of the Brazilian Securities Commission Instruction No. 480 of December 7, 2009, the Executive Board states that it has reviewed, discussed and agreed with the presentation of the combined consolidated financial statements as at and for the year ended December 31, 2019.

Belo Horizonte, August 5, 2020.

Chief Executive Officer - ALEXANDRE ARAÚJO ELIAS VEIGA

Chief Administrative and Financial Officer - MARCOS ROGÉRIO ALMEIDA DUTRA

Opinions and Statements / Officers' Statement on the Independent Auditor's Report

Officers' Statement on the Independent Auditor's Report

Pursuant to the provisions of Article 25, paragraph 1, items V and VI, of the Brazilian Securities Commission Instruction No. 480 of December 7, 2009, the Executive Board states that it has reviewed, discussed and agreed with the opinion expressed in the Independent Auditor's Report dated August 5, 2020, on the combined consolidated financial statements as at and for the year ended December 31, 2019.

Belo Horizonte, August 5, 2020.

Chief Executive Officer - ALEXANDRE ARAÚJO ELIAS VEIGA

Chief Administrative and Financial Officer - MARCOS ROGÉRIO ALMEIDA DUTRA

EXECUTIVE BOARD

ALEXANDRE ARAÚJO ELIAS VEIGA
Chief Executive Officer

MARCOS ROGÉRIO ALMEIDA DUTRA
Chief Administrative and Financial Officer

RESPONSIBLE ACCOUNTANT

ROGER TADEU VILELA FERREIRA
Contador

CRC - MG 122.560/O