

(A free translation of the original in Portuguese)

Patrimar Group
Combined financial statements at
December 31, 2018
and independent auditor's report



(A free translation of the original in Portuguese)

Independent auditor's report

To the Management and Quotaholders
Patrimar Group

Opinion on the combined 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 financial statements of Patrimar Engenharia Ltda. and its subsidiaries combined with those of Construtora Novolar Ltda. and its subsidiaries ("Patrimar Group", "Group"), which comprise the combined balance sheet as at December 31, 2018 and the combined 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 financial statements referred to above present fairly, in all material respects, the Group's combined financial position as at December 31, 2018, and the combined financial performance and the combined 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 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 matters

As described in Notes 2.1. and 2.18, the combined financial statements were 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 Company to recognize revenue from incomplete real estate units under construction, with regards to determining the timing of transfer of control, follows the guidance in CVM's 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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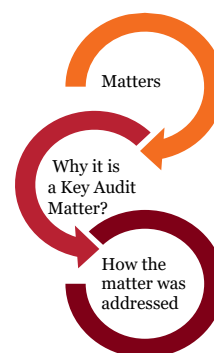
We draw attention to Note 2.2 to the combined financial statements, which describes that the companies included in these combined financial statements do not operate as a single legal entity. These combined financial statements, therefore, do not necessarily represent the results of operations that would have been obtained had these entities operated under a single legal entity during the year nor the results of future combined operations. Our opinion is not qualified in respect of this matter.

We draw attention to Note 2.3 to the combined financial statements, which describes the changes to and restatement of the combined financial statements as originally issued, for the reasons explained therein. Our reported dated May 29, 2019 on those financial statements as originally issued, had included a qualified opinion with respect to matters which have since been corrected and are now encompassed by our current updated report.

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 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, 2018 was planned and performed taking into consideration that the operations carried out by the Group 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 2.18 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	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.

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Why it is a Key Audit Matter	How the matter was addressed in the audit
costs. The resultant percentage is applied to the fair value of revenue from units sold or construction services rendered, 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 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.	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 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 involve 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 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, regarding 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 to be consistent with the advice provided by legal counsel.

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Other matters

Combined statements of value added

The combined statements of value added for the year ended December 31, 2018, 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 Group's combined financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the combined 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 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 financial statements taken as a whole.

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

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined 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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the combined 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 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 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.

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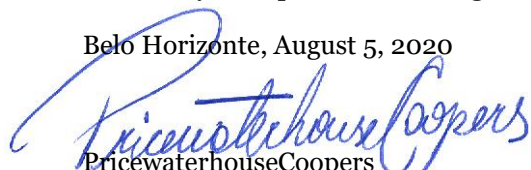
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 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 financial statements, including the disclosures, and whether these combined 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 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.

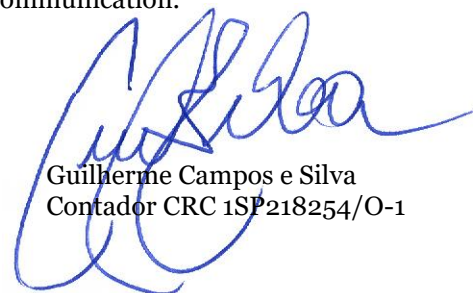
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the combined 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 balance sheet at December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	2018 (Restated) (Note 2.3)	2017		Note	2018 (Restated) (Note 2.3)	2017
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and cash equivalents	6	34,936	35,148	Trade payables	14	5,555	17,482
Trade receivables	7	49,163	169,919	Salaries and social charges		4,187	4,748
Properties for sale	8	293,761	287,932	Tax liabilities	15	7,679	10,383
Taxes recoverable		2,495	2,095	Real estate purchase obligations	16	15,558	6,516
Prepaid expenses		3,482	3,196	Borrowings	13	41,169	160,144
Other receivables		2,651	2,295	Dividends payable		-	173
Total current assets		386,488	500,585	Advances from customers	17	68,166	4,196
				Provision for canceled sales		1,976	2,705
Non-current assets				Other payables		6,835	8,224
Long-term receivables				Total current liabilities		151,125	214,571
Restricted financial investments	6	2,920	1,954	Non-current liabilities			
Trade receivables	7	62,909	30,068	Real estate purchase obligations	16	7,224	18,926
Judicial deposits	18	2,521	225	Borrowings	13	33,929	35,377
Properties for sale	8	3,091	57,906	Tax liabilities	15	-	192
Related parties	9	18,697	16,666	Advances from customers	17	-	74,978
Other receivables		-	37	Provision for contingencies	18	4,497	1,959
		90,138	106,856	Provision for real estate maintenance	19	9,296	12,325
Investments	10	48,235	52,780	Provision for net capital deficiency	10	3,072	1,549
Property and equipment	11	21,268	14,685	Related parties	9	6,431	9,879
Intangible assets	12	9,911	1,146	Other payables		7,131	8,476
Total non-current assets		169,552	175,467	Total non-current liabilities		71,580	163,661
				Equity	20		
				Capital		283,592	283,592
				Capital reserves		259	259
				Accumulated deficit		(2,642)	(20,999)
				Equity attributable to owners of the parent company		281,209	262,852
				Non-controlling interests		52,126	34,968
				Total equity		333,335	297,820
Total assets		556,040	676,052	Total liabilities and equity		556,040	676,052

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

Patrimar Group

Combined statement of income

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Note	2018 (Restated) (Note 2.3)	2017
Net operating revenue	21	301,448	246,041
Cost of properties sold	22	(200,207)	(177,763)
Gross profit		101,241	68,278
Operating income (expenses)			
General and administrative expenses	22	(23,499)	(20,197)
Selling expenses	22	(28,060)	(25,423)
Other operating income (expenses), net	22	(7,536)	(8,961)
Operating profit		42,146	13,697
Finance income	24	13,042	4,982
Finance costs	24	(11,216)	(4,739)
Finance income (costs), net		1,826	243
Equity in the results of investees	10	1,074	(10,208)
Profit before income tax and social contribution		45,046	3,732
Income tax and social contribution	25	(5,983)	(3,829)
Profit (loss) for the year		39,063	(97)
Attributable to:			
Controlling interests		24,678	(7,161)
Non-controlling interests		14,385	7,064
		39,063	(97)

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

Patrimar Group

Combined statement of comprehensive income

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2018 (Restated) (Note 2.3)	2017
Profit (loss) for the year	39,063	(97)
Total comprehensive income	<u>39,063</u>	<u>(97)</u>
Total comprehensive income (loss) attributed to:		
Controlling interests	24,678	(7,161)
Non-controlling interests	<u>15,048</u>	<u>7,064</u>
	<u>39,063</u>	<u>(97)</u>

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

Patrimar Group

Combined statement of changes in equity

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Attributable to owners of the parent company						
	Capital	Capital reserve	Revenue reserves Legal reserve	Retained earnings (accumulated deficit)	Equity	Non-controlling interests	Total equity
At December 31, 2016	283,592	259		(8,592)	275,259	28,823	304,082
Contributions to subsidiaries by non-controlling interests			-			(919)	(919)
Profit (loss) for the year			-	(7,161)	(7,161)	7,064	(97)
Distributed profits			-	(5,246)	(5,246)	-	(5,246)
At December 31, 2017	283,592	259		(20,999)	262,852	34,968	297,820
Contributions to subsidiaries by non-controlling interests	-		-			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 (Restated (Note 2.3))	283,592	259		(2,642)	281,209	52,126	333,335

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

Patrimar Group

Combined statement of cash flows

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2018	2017
Cash flows from operating activities		
Profit (loss) for the year	39,063	(97)
Adjustments for non-cash items		
Depreciation and amortization	4,224	3,763
Provision for contingencies	2,538	(13,148)
Provision for maintenance	(3,029)	(6,569)
Present value adjustment of receivables	83	(3,018)
Provision for losses	1,105	326
Equity in the results of investees	(1,074)	10,208
Provision for interest on borrowings	7,140	367
Loss on disposal of property and equipment	2,169	7,972
Income tax and social contribution	5,983	3,829
	58,202	3,633
Changes in working capital		
Increase (decrease) in assets and liabilities		
Trade receivables	86,304	40,174
Properties for sale	54,768	18,460
Taxes recoverable	(400)	(208)
Other assets	(3,282)	5,024
Trade payables	(11,927)	866
Salaries and social charges	(561)	2,476
Tax liabilities	(8,879)	(10,054)
Real estate purchase obligations	(2,660)	7,563
Advances from customers	(11,008)	(588)
Other liabilities	(4,157)	1,033
	98,198	64,746
Net cash provided by operating activities	156,400	68,379
Cash flows from investing activities		
Changes in financial investments	(966)	(344)
Contributions to (return on) investments	7,142	5,593
Additions to property and equipment	(11,987)	(11,231)
Additions to intangible assets	(8,848)	(1,088)
Advances to related parties	(5,479)	(4,945)
Net cash used in investing activities	(20,138)	(12,015)
Cash flows from financing activities		
Dividends paid	(5,692)	(5,617)
Non-controlling interests - contribution (distribution), net	2,773	(919)
Borrowings obtained	71,466	76,801
Repayment of principal and payment of interest on borrowings	(205,021)	(141,126)
Net cash used in financing activities	(136,474)	(70,861)
Decrease in cash and cash equivalents, net	(212)	(14,497)
Changes in cash		
Cash and cash equivalents at the beginning of the year	35,148	49,645
Cash and cash equivalents at the end of the year	34,936	35,148
	(212)	(14,497)

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

Patrimar Group

Combined statement of value added

Years ended December 31

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2018	2017
Revenue:		
Revenue from sales and services	307,951	250,240
	<u>307,951</u>	<u>250,240</u>
Inputs acquired from third parties:		
Cost of properties sold	(200,207)	(177,763)
Electricity, third-party services and other expenses	(33,725)	(35,466)
	<u>(233,932)</u>	<u>(213,229)</u>
Gross value added	74,019	37,011
	<u>74,019</u>	<u>37,011</u>
Depreciation and amortization	(4,224)	(3,763)
	<u>(4,224)</u>	<u>(3,763)</u>
Net value added generated by the entity	69,795	33,248
	<u>69,795</u>	<u>33,248</u>
Value added received through transfers:		
Equity in the results of investees	1,074	(10,208)
Finance income	11,099	4,982
	<u>12,173</u>	<u>(5,226)</u>
Total value added for distribution	<u>81,968</u>	<u>28,022</u>
Distribution of value added:		
Personnel	14,937	13,093
	<u>14,937</u>	<u>13,093</u>
Federal taxes and contributions	12,495	4,248
	<u>12,495</u>	<u>4,248</u>
Remuneration of third-party capital		
Finance costs	9,273	4,739
Lease expenses	681	793
	<u>9,954</u>	<u>5,532</u>
Remuneration of own capital:		
Dividends	5,519	5,246
Profit (loss) for the year	24,678	(7,161)
Non-controlling interests - retained earnings	14,385	7,064
	<u>44,582</u>	<u>5,149</u>
Value added distributed	<u>81,968</u>	<u>28,022</u>

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

(A free translation of the original in Portuguese)

Patrimar Group

Notes to the combined financial statements at December 31, 2018

All amounts in thousands of reais unless otherwise stated

1 Operations

The combined entities of the Patrimar Group, herein represented by Patrimar Engenharia Ltda. 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 two 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.

Patrimar's quotaholders are 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 economic group environment, where the costs of the operating and administrative structure are borne by the companies, as most practical in the circumstances.

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 combined financial statements was authorized by management on August 5, 2020.

2 Combined financial statement presentation and summary of significant accounting policies

2.1. Basis of preparation

The 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 (CFC), and disclose all (and only) the applicable significant information related to the combined financial statements, which is 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).

Patrimar Group

Notes to the combined financial statements at December 31, 2018

All amounts in thousands of reais unless otherwise stated

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 the Patrimar Group's management to exercise its judgment in the process of applying the 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 statements 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. Combination practices

The Group presents its combined financial statements in accordance with IFRS 10/CPC 36 – “Consolidated Financial Statements”, 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, that are under a common control and management, were a single entity, without changing the historical accounting records. Furthermore, the Group's management considers the business as a whole, and not only a part of it. In this regard, the presentation of the combined financial statements are more representative of the operations than the presentation of the parent company and consolidated financial statements of the Group's companies.

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.

Patrimar Group

Notes to the combined financial statements at December 31, 2018

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:

	2018		2017	
	Novolar	Patrimar	Novolar	Patrimar
Assets				
Current assets	134,021	293,350	167,204	335,202
Non-current assets	75,258	88,753	72,531	136,377
Long-term receivables	52,343	18,638	51,907	74,237
Investments	14,997	46,854	18,030	48,903
Property and equipment	7,300	13,967	2,083	12,602
Intangible assets	618	9,294	511	635
	<u>209,279</u>	<u>382,103</u>	<u>239,735</u>	<u>471,579</u>
Liabilities and equity				
Current liabilities	26,896	95,049	56,809	160,578
Non-current liabilities	55,150	73,793	72,971	109,333
Equity	<u>127,233</u>	<u>213,261</u>	<u>109,955</u>	<u>201,668</u>
	<u>209,279</u>	<u>382,103</u>	<u>239,735</u>	<u>471,579</u>
	2018		2017	
	Novolar	Patrimar	Novolar	Patrimar
Statement of income				
Net operating revenue	118,839	181,347	100,443	139,620
Cost of properties sold	<u>(75,782)</u>	<u>(125,184)</u>	<u>(71,310)</u>	<u>(102,140)</u>
Gross profit	<u>43,057</u>	<u>56,163</u>	<u>29,133</u>	<u>37,480</u>
Operating profit	<u>20,889</u>	<u>14,497</u>	<u>5,583</u>	<u>6,454</u>
Profit (loss) for the year	<u>18,763</u>	<u>17,165</u>	<u>(5,171)</u>	<u>7,544</u>
Attributable to:				
Controlling interests	18,518	3,890	(8,037)	938
Non-controlling interests	<u>245</u>	<u>13,275</u>	<u>2,866</u>	<u>6,606</u>
	<u>18,763</u>	<u>17,165</u>	<u>(5,171)</u>	<u>7,544</u>

(a) Subsidiaries

Subsidiaries are all entities (including special-purpose entities and special partnerships) over which the 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

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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 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 value of 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 "Adjustments of equity evaluation".

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.

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 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.

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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. Restatement of the combined financial statements

The Patrimar Group is disclosing on this same date the combined financial statements at December 31, 2017, 2016 and January 1, 2016, including adjustments in relation to the combined financial statements at December 31, 2017, as originally presented on May 29, 2019. The restated combined financial statements at December 31, 2017, 2016 and January 1, 2016, were also approved by management on August 5, 2020 and include, in addition to the adjustments described in the paragraph below, changes made by management with respect to the improvements required by the Brazilian Corporation Law for listed companies, including IFRS.

CPC 30 (IAS 18) has been replaced with CPC 47 (IFRS 15): The standard provides guidance for the transfer of control over the promise of goods or services, determining when control is transferred, at a single point or over time, as contractual performance obligations are satisfied.

Pursuant to CVM Circular Letter/CVM/SNC/SEP/No. 02/2018, issued by the CVM on the adoption of NBC TG 47 (IFRS 15), the Group has concluded that there has been a continuous transfer of risks and rewards of ownership and, consequently, that the revenue recognition criterion over time, also known as Percentage-of-Completion (POC), is the most appropriate, and such procedure has remained unchanged.

However, the same document considers the predictive adjustment when revenue does not present a degree of reliability regarding the receipt by an entity of the cash flows provided by a recognized revenue. Based on its assessment, the Group made adjustments to the opening balance sheet to the "Provision for canceled sales", not accounted for in the original financial statements, as required.

Adjustments were made to the financial statements at December 31, 2018, 2017 and 2016, related to the indexation of the allocation of construction costs of the Acqua Galleria project of subsidiary MRV Patrimar Galleria Incorporação SPE Ltda., which had previously been allocated on a straight-line basis to the units constructed; these new take into account the different ideal share of each apartment; also, there were reclassifications between current and non-current assets and liabilities and a revaluation of the useful life of leasehold improvements, previously improperly estimated at 25 years, which was adjusted to five years, as well as steel beams. The balance of land, previously recognized as transactions between investors and investees, recorded under "Related parties", was reclassified to "Inventories of land".

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As a result, the restatement of the combined financial statements at December 31, 2018, 2017 and 2016, gave rise to the following effects on the original combined financial statements at December 31, 2018, which were previously disclosed on May 29, 2019:

	At December 31, 2018		
	As originally presented	Adjustment	Restated
Assets			
Current assets			
Trade receivables	58,271	(9,108)	49,163
Properties for sale	286,386	7,375	293,761
Related parties	29,734	(29,734)	-
Total current assets	417,955	(31,467)	386,488
Non-current assets			
Related parties	7,137	11,560	18,697
Investments	52,534	(4,299)	48,235
Property and equipment	28,951	(7,683)	21,268
Total non-current assets	169,974	(422)	169,552
Total assets	587,929	(31,889)	556,040
Liabilities and equity			
Current liabilities			
Borrowings	20,278	20,891	41,169
Provision for canceled sales	-	1,976	1,976
Advances from customers	18,264	49,902	68,166
Real estate purchase obligations	4,758	10,800	15,558
Related parties	6,365	(6,365)	-
Total current liabilities	73,921	77,204	151,125
Non-current liabilities			
Borrowings	54,820	(20,891)	33,929
Provision for contingencies	4,370	127	4,497
Provision for net capital deficiency	4,335	(1,263)	3,072
Advances from customers	50,902	(50,902)	-
Real estate purchase obligations	18,024	(10,800)	7,224
Related parties	-	6,431	6,431
Total non-current liabilities	148,878	(77,298)	71,580
Equity			
Retained earnings (accumulated deficit)	26,067	(28,709)	(2,642)
Equity attributable to owners of the parent company	309,918	(28,709)	281,209
Non-controlling interests	55,212	(3,086)	52,126
Total equity	365,130	(31,795)	333,335
Total liabilities and equity	587,929	(31,889)	556,040
At December 31, 2018			
	As originally presented	Adjustment	Restated

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	presented		
Net operating revenue	300,735	713	301,448
Cost of properties sold	(198,512)	(1,695)	(200,207)
Gross profit	102,223	(982)	101,241
General and administrative expenses	(23,674)	175	(23,499)
Equity in the results of investees	5,201	(5,201)	-
Other operating expenses, net	(5,123)	(2,413)	(7,536)
Operating profit	50,567	(8,421)	42,146
Finance income (costs), net	(621)	2,447	1,826
Equity in the results of investees	-	1,074	1,074
Profit before income tax	49,946	(4,900)	45,046
Income tax and social contribution	(5,983)	-	(5,983)
Profit for the year	43,963	(4,900)	39,063
Attributable to:			
Controlling interests	28,597	(3,919)	24,678
Non-controlling interests	15,366	(981)	14,385
	43,963	(4,900)	39,063

2.4. Foreign currency translation

(a) Functional and presentation currency

The 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.

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(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".

2.5. Financial assets

2.5.1. Classification

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

- . Measured at fair value through profit or loss.
- . 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 entity 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.

2.5.2. 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.

2.5.3. 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.

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2.6. 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.

2.7. 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.

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.

2.8. 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.

2.9. Inventories

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.

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Financial exchanges: In barter transactions involving financial exchanges, the Companies transfer 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 budgeted costs 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.

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.

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.

2.10. 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.

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2.11. 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.

2.12. Impairment of non-financial assets

Property and equipment and intangible assets and, where applicable, other non-financial assets, are reviewed annually by management for impairment, primarily evaluating internal and external indicators affecting 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, 2018 and 2017.

2.13. 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 settlement of the liability for at least 12 months after the reporting period.

2.14. 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.

2.15. 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.

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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.

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 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.

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2.16. 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.

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.

2.17. Capital

Capital comprises fully subscribed and paid-up quotas with a par value of R\$0.01 each.

2.18. 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 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 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 recognition of revenue from the 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

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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.

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

The parent companies 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.

2.19. 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.

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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.

2.20. Adoption of new accounting pronouncements

The following amendments and interpretations to existing standards effective for the year beginning on January 1, 2018, had no significant impacts on the Group's financial statements:

- (i) IFRS 9/CPC 48 - "Financial instruments" addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014 and is effective as from January 1, 2018. It replaces the orientation included in IAS 39 related to the classification and measurement of financial instruments. The main amendments introduced by IFRS 9 are: (i) new criteria for the classification of financial assets; (ii) new impairment model for impairment of financial assets, which is hybrid of expected and incurred losses, replacing the current model of incurred losses; and (iii) relaxation of the requirements for the adoption of the hedge accounting.

The impacts of the new criteria for the classification of financial assets are described below:

Financial assets/liabilities	CPC 38 classification	CPC 48 classification
Cash and cash equivalents	Loans and receivables	Amortized cost
Financial investments with immediate liquidity	Loans and receivables	Amortized cost
Restricted financial investments	Fair value through profit or loss	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Related parties	Loans and receivables	Amortized cost
Trade payables	Other financial liabilities	Amortized cost
Real estate purchase obligations	Other financial liabilities	Amortized cost
Related parties	Other financial liabilities	Amortized cost

The Patrimar Group recognized the effects of adopting the new standards in the jointly-controlled investee SPE Barbacena Empreendimentos Imobiliários S.A., in the amount of R\$802, as described in item 7.2.15 of CPC 48 (IFRS 9), and elected not to restate information related to previous periods, thus recognizing the impact from the initial adoption in Equity on January 1, 2018.

- (ii) IFRS 15/CPC 47 - "Revenue from Contracts with Customers" - This new standard replaces IAS 11/ CPC 17 - "Construction Contracts", IAS 18/ CPC 30 - "Revenue" and related interpretations and introduces the principles to be applied by an entity to determine revenue measurement and recognition. It is based on the principle that revenue is recognized when the control of goods or services is transferred to a customer, so the control principle will replace the principle of risks and rewards. Pursuant to IFRS 15/CPC 47, the CVM issued a Circular Letter in which it ratifies that the POC on an over time basis is in compliance with IFRS 15/CPC 47 and establishes that the Companies' management is responsible for determining the revenue recognition criterion. Based on this understanding and on the Group's business model, the Patrimar Group has continued to adopt the POC method for revenue recognition.

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2.21. Amendments to new standards that are not yet effective

The following amendments to standards were issued by the IASB, but are not effective for 2018. The early adoption of these standards, even though encouraged by the IASB, has not been implemented in Brazil by the Brazilian Accounting Pronouncements Committee (CPC).

(a) CPC 06 (R2)/IFRS 16 - "Leases"

The new standard requires lessees to recognize the liability for the future payments and the right-of-use of the leased asset for virtually all lease contracts, including operating leases. Certain short-term and low-value contracts may be out of the scope of this new standard. The criteria for recognition and measurement of leases in the financial statements of the lessors are substantially maintained. IFRS 16 is effective for years beginning on or after January 1, 2019 and replaces IAS 17 - "Leases" and corresponding interpretations.

The main effect relates to the lease of the building where the Patrimar Group is headquartered.

The contracts in which the Group is the lessee have been reviewed and the expectation so far is that the main effect relates to the lease of the building where the Group is headquartered. The adoption of the new criteria may impact the Group's financial position as from January 1, 2019, with an increase of approximately R\$5,063 in non-current assets, as well as R\$5,063 in current and non-current liabilities, referring to the present value of the rights-of-use of the leased assets and the related lease liabilities.

(b) ICPC 22 - "Uncertainty over Income Tax Treatments"

The standard describes how to determine the tax and accounting position when there is uncertainty over income tax treatments. The interpretation requires that the Group:

- Determines whether uncertain tax positions are assessed separately or as a group; and
- Assesses whether the taxing authority is likely to accept the use of an uncertain tax treatment, or its proposed use, by a company in its income tax return:

If so, the Group must determine its tax and accounting position consistently with the tax treatment used or to be used in its income tax returns.

If not, the Group must reflect the effect of the uncertainty in determining its tax and accounting position.

This interpretation is effective for annual periods beginning on or after January 1, 2019. The Group may adopt the interpretation on the basis of the full retrospective approach or the modified retrospective approach without restating comparative information retrospectively or prospectively.

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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:

(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 their 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 Company 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 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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(v) 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.

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, to define the risk limits and proper controls, and to monitor risks and adherence to defined limits.

Risk management policies and systems 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 value 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 independently rated parties with a minimum rating of "Good" in the rating scale 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

At December 31, 2018, the Group had "Cash and cash equivalents" amounting to R\$ 34,736 (R\$ 35,148 at December 31, 2017) at banks and financial institutions with a "Satisfactory" rating, based on the internal and external credit ratings.

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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.

Trade receivables

	<u>2018</u>	<u>2017</u>
Completed units:	65,984	104,663
With real guarantee	50,115	97,862
Without real guarantee	15,869	6,801
Units under construction:	60,591	103,470
With real guarantee	60,591	103,470
	<u>126,575</u>	<u>208,133</u>

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 is 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 (except for "Trade payables") for the following 30 days.

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
At December 31, 2017					
Borrowings (Note 12)	160,144	35,377	-	-	195,521
Trade payables (Note 13)	17,482	-	-	-	17,482
Real estate purchase obligations (Note 16)	6,516	18,926	-	-	25,442
	<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)	4,758	18,024	-	-	22,782

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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.

(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 and fair value interest rate risk

Interest rate risk - interest rate risk is the risk that the fair value or future cash flows of a certain financial instrument fluctuate due to market interest rate changes. The Group's exposure to the risk of changes in market interest rates refers mainly to the Group's long-term obligations subject to floating interest rates. The Group manages interest rate risk by keeping a balanced portfolio of borrowings that are subject to fixed and floating rates. The Group analyzes its interest rate exposure on a dynamic basis, simulating various scenarios 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 borrowings from third parties at fixed interest rates, which do not present fluctuation risks. The financial investment balances are exposed to fluctuations in the interest rates, which, in this case, is the CDI rate. At December 31, 2018, the Group's management carried out a sensitivity analysis for a 12-month scenario, as required by CVM Instruction 475, of December 17, 2008, which does not represent necessarily the Group's expectations.

Borrowings linked to the TR rate were not considered in the sensitivity test, as this index has been 0.00% since September 2017, with no prospects of change.

Decreases (increases) of 25% and 50% in interest rates on financial investment balances were considered, adopting an expected CDI rate of 6.00% p.a.:

Combined						
Indicators	Index	Rate	Base Scenario	Scenario I Probable	Scenario II (25%)	Scenario III (50%)
Assets						
Financial investments	CDI	6.04%	19,087	1,153	865	577
Liabilities						
Borrowings for working capital purposes (In Reais – R\$)	CDI	6.04%	24,567	1,484	1,113	742

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 quotaholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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In order to maintain or adjust the capital structure of the Group, management can make, or may propose to the quotaholders when their approval is required, adjustments to the amount of dividends distributed to quotaholders, return capital to quotaholders, make payments of new 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 divided by 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 balance sheet plus net debt.

	<u>2018</u>	<u>2017</u>
Total borrowings (Note 13)	75,098	195,521
Less: cash and cash equivalents and financial investments (Note 6)	<u>(34,936)</u>	<u>(35,148)</u>
Net debt	<u>40,162</u>	<u>160,373</u>
Total equity	<u>333,335</u>	<u>297,820</u>
Total capitalization	<u><u>373,497</u></u>	<u><u>458,193</u></u>
Gearing ratio - %	11%	35%

4.3 Fair value estimation

The Group adopts the measurement at fair value of its financial assets and liabilities. Fair value is measured at market value based on assumptions on which market participants can 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.
- 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.

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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 fair value.

In 2018 and 2017, the Group did not have derivative financial instruments and/or transactions involving embedded derivatives.

5 Financial instruments by nature

	2018	2017
	(Restated)	
	(Note 2.3)	
Financial assets		
Measured at amortized cost		
Cash at bank and on hand	18,769	14,847
Trade receivables	112,072	199,987
Highly liquid financial investments	16,167	20,301
Restricted financial investments	2,920	1,954
Judicial deposits	2,521	225
Related parties	18,697	16,666
	<u>171,146</u>	<u>253,980</u>
Financial liabilities		
Measured at amortized cost		
Borrowings	75,098	195,521
Trade payables	5,555	17,482
Real estate purchase obligations	22,782	25,442
Related parties	6,431	9,879
	<u>109,866</u>	<u>248,324</u>

6 Cash and cash equivalents and restricted financial investments

Cash and cash equivalents

	2018	2017
Cash	60	115
Banks	18,709	14,732
Highly liquid financial investments	16,167	20,301
	<u>34,936</u>	<u>35,148</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, 2017).

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Restricted financial investments

	<u>2018</u>	<u>2017</u>
Restricted financial investments	2,920	1,954
	<u>2,920</u>	<u>1,954</u>

The Group's restricted financial investments in Bank Deposit Certificates (CDB) to be redeemed in not less than one year, correspond to a collateral for the borrowing obtained for the purchase of land. The yields on these investments are linked to the CDI rate and correspond to 108% of the CDI rate (108% of the CDI rate at December 31, 2017), according to the nature and timing of the instrument.

7 Trade receivables

	<u>2018</u>	<u>2017</u>
<u>Trade receivables from real estate development</u>		
Completed units	65,984	104,663
Units under construction	60,591	103,470
Provision for canceled sales	(9,202)	(4,033)
Provision for losses	(1,431)	(326)
Adjustments to present value	<u>(3,870)</u>	<u>(3,787)</u>
	<u>112,072</u>	<u>199,987</u>
Current	49,163	169,919
Non-current	62,909	30,068

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.

The balance of receivables from the sale of units not yet completed is not fully recognized in the consolidated financial statements, because the amount of revenue recorded is limited to the portion of revenue recognized considering the progress of the works, net of the installments already received.

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

	<u>2018</u>	<u>2017</u>
Falling due in up to 1 year	116,188	164,680
Falling due from 1 to 2 years	57,012	46,517
Falling due from 2 to 3 years	77,394	10,447
Falling due from 3 to 4 years	1,838	8,977
Falling due in more than 4 years	<u>675</u>	<u>2,408</u>
	<u>253,107</u>	<u>233,029</u>
Overdue for up to 1 year	23,895	25,537
Overdue from 1 to 2 years	2,181	321
Overdue from 2 to 3 years	130	646
Overdue from 3 to 4 years	366	1,815
Overdue for more than 4 years	<u>3,279</u>	<u>1,593</u>
	<u>29,851</u>	<u>29,912</u>
	<u>282,958</u>	<u>262,941</u>
Trade receivables - accounting	112,072	199,987
Total sales - deferred revenue (Note 28)	191,373	83,437
Advances from customers (Note 17)	(34,990)	(28,627)
Provision for canceled sales/losses	10,633	4,359
Present value adjustment	<u>3,870</u>	<u>3,787</u>
	<u>282,958</u>	<u>262,943</u>

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8 Properties for sale

	2018 (Restated) (Note 2.3)	2017
Inventories of land	58,931	60,513
Properties under construction	139,343	149,380
Inovatto	2,970	7,636
Mia Felicita	651	8,252
Solar Da Penha	7,494	6,952
Villaggio Florença	-	-
Villaggio Verona	1,576	95
Villaggio Novita	-	821
Apia	15,917	15,282
Bernardo Vasconcelos	-	8,682
Mirataia	21,249	17,747
Spe Axis 1	10,064	5,517
Saint Tropez	13,797	21,890
Avignon	8,233	-
Manhattan Square	-	10,960
Quintas Do Morro	3,637	3,637
Jardim Das Mangabeiras	33,931	5,217
Acqua Galleria	10,369	16,648
Jardinaves	3,301	1,500
The Plaza	-	4,599
Other	6,154	13,945

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	2018 (Restated) (Note 2.3)	2017
Completed properties	90,332	129,859
Stand-alone properties	-	875
Villagio Ventura	283	-
Bernardo Vasconcelos	3,646	-
Palo Alto	3,027	5,654
Park Residence	9,690	14,170
Ruth Silveira	4,028	5,889
Springfield	-	740
The Plaza	3,702	-
Villagio Gutierrez	-	4,848
Union Square	3,526	6,115
Neuchâtel	-	173
Mayfair Offices	160	160
Priorato Residences	-	88
Holliday Inn	6,658	6,656
Olga Chiari	11,334	20,325
Manhattan Square	12,248	-
Quintas Do Morro	-	111
Engefor Patrimar	-	37
Maura Valadares	60	60
Jota Patrimar	-	30
Acqua Galleria	31,970	63,928
	288,606	339,752
Changes in canceled sales	8,246	6,086
	296,852	345,838
Current assets	293,761	287,932
Non-current assets	3,091	57,906

(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 8.3% to 10.8% p.a. (from 8.8% to 10.8% p.a. at December 31, 2017).

At December 31, 2018, the amount of interest capitalized in inventories was R\$ 12,637 (R\$ 19,293 at December 31, 2017).

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9 Related parties

	2018	2017
(a) Intercompany loans receivable	15,717	15,599
Construtora Real Ltda.	8,506	8,461
Rpmv S.A.	7,137	5,296
Somattos Engenharia e Comércio LTDA.	74	1,842
(b) Receivables from developments	2,980	1,067
Direcional Patrimar Maragogi Empr Imob	1,734	5
Mrl Mrv Novolar Vii Incorp. Spe Ltda.	436	-
Ed Duo - Alameda Do Morro	415	-
Patrimar Somattos Gasp Empr Spe Ltda.	89	90
Spe Barbacena Empr Imobiliários S.A.	122	22
Scp Novolar-Reality/Renovare	-	119
Scp Novolar Ruth Silveira	104	-
Other	80	831
	18,697	16,666
(a) Intercompany loans payable	2,684	2,767
Somattos Engenharia Comercio Ltda.	2,684	2,767
(b) Payables for developments	3,747	7,112
Mrv Engenharia E Participações S.A.	1,165	2,541
Edificio Apogée works	1,217	-
Scp Patrimar-Mayfair Offices	-	299
Scp Novolar-Decaminada (Safira)	-	275
Santa Cecilia Empreendimento	829	829
Other developments	536	3,168
	6,431	9,879
(c) Related-party transactions with effects on profit or loss	50	-
Construtora Real Ltda.	50	-

(a) Intercompany loans receivable and payable

These refer to loans made to and obtained from related parties, which bear no interest and whose maturities are previously agreed.

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(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/or capitalized after a supplementary contribution to adjust the quotaholders' interests.
- (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 transaction with effects on profit and loss

Payment of lease to the lessee Construtora Real Ltda. related to the building (Company's principal offices).

10 Investments

The Group recognizes a "Provision for net capital deficiency" for investee that present a net capital deficiency.

	<u>2018</u>	<u>2017</u>
Investments	48,235	52,780
Provision for net capital deficiency	(3,072)	(1,549)
	<u>45,163</u>	<u>51,231</u>

Changes in the balance of investments were as follows:

	<u>2018</u>	<u>2017</u>
Opening balance	<u>51,231</u>	<u>67,032</u>
Changes in investments - assets and liabilities (i)	(7,142)	(5,593)
Equity in the results of investees	<u>1,074</u>	<u>(10,208)</u>
Closing balance	<u>45,163</u>	<u>51,231</u>

- (i) Refers to changes in contributions and redemptions of funds related to projects established as Special Partnerships (SCP) or Special-Purpose Entities (SPE). In 2018, the Group reversed capital contributions to joint ventures.

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The analysis of investments for the year ended December 31, 2018 was as follows:

Company	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	3,614	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 PatrimarSomattos 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	42,105	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
SCPPaçaré	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	(301)	226
			(11,330)	7,518	(4,637)	3,058	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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The analysis of investments at December 31, 2017 was as 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	2017	2016	2017	2017	2017	2017	2016
Jointly-controlled investees:							
SPE Mirante do Ibituruna Ltda.	34%	34%	21	8,044	7	2,714	2,692
SPE Padre Marinho	50%	0%	220	5,870	110	2,935	1,125
SPE Acaba Mundo E. Imob Ltda.	50%	50%	(16)	1,602	(7)	800	792
SPE Colina Engefor Patrimar	50%	50%	(2,324)	3,054	(1,162)	1,527	7,513
SPE MRV Patrimar RJ IX Ltda.	40%	40%	555	840	222	336	(89)
SPE Park Riversul (MRV)	35%	35%	(781)	138	(273)	48	60
SPE Recreio Bandeirantes	35%	35%	(154)	72	(54)	25	122
SPE RecreioGaveas (MRVSPE V)	35%	35%	(6,998)	7,664	(2,449)	2,682	4,365
SPE Recreio Pontal (MRVSPE I)	35%	35%	(451)	(206)	(158)	(72)	(157)
SPE Barbacena Empr Imobiliários	50%	50%	4,524	47,592	2,262	23,796	21,655
SPE Patrimar Somattos Gasparini	50%	50%	(2,096)	22,056	(1,048)	11,028	13,086
SPE Direcional Patrimar Maragogi	45%	45%	387	952	174	428	1,426
Ponctuel Participações Ltda.	50%	50%	(1,553)	746	-	373	-
			(8,666)	98,424	(2,376)	46,620	52,590
Associates							
SCP RJ 04	50%	50%	(266)	904	(133)	452	268
SCP Portal do Bosque	50%	50%	(126)	(48)	(62)	(24)	(42)
SCP Park Ritz	48%	48%	63	1,163	30	558	523
SCP Recanto das Águas	51%	51%	(431)	(98)	(220)	(51)	10
SCP MRV Belo Campo	50%	50%	(2,786)	(180)	(1,393)	(90)	998
SCP MRV Rec. Pássaros (Rouxinol)	40%	40%	(2,522)	553	(1,009)	221	1,113
SCP MRV Res. Beija Flor	40%	40%	528	220	211	88	29
SCP Rivoli	40%	40%	(748)	175	(299)	71	176
SCP Paçuaré	50%	50%	51	(927)	25	(464)	(522)
SCP Manchete	40%	40%	(3,152)	7,301	(1,261)	2,920	5,090
SCP Parque Araras	50%	50%	(167)	(219)	(84)	(109)	850
SCP Parque Bem Te Vi	50%	50%	(494)	(512)	(247)	(256)	280
SCP Parque Gaivotas	50%	50%	20	91	10	45	(105)
SCP Parque Sabia	50%	50%	54	26	27	13	(111)
SCP Park Rossete	51%	51%	(358)	2,169	(182)	1,106	1,292
SCP Reality e Renovare	51%	51%	(3,598)	579	(1,835)	295	1,357
SCP Recanto do Tingui	35%	35%	(659)	(1,380)	(231)	(483)	(329)
SCP Riviera da Costa e Sol	48%	48%	(2,448)	194	(1,175)	93	1,384
Other investments	-	-	-	-	(4)	226	2,181
			(17,039)	10,011	(7,832)	4,611	14,442
			(25,705)	108,435	(10,208)	51,231	67,032

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, 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	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 RecreioGaveas (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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All amounts in thousands of reais unless otherwise stated

At December 31, 2017, 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	Equity	Net revenue	Profit (loss) for the year
Companies	2017	2017	2017	2017	2017	2017	2017
Jointly-controlled investees							
SPE Mirante do Ibituruna Ltda.	8,043	6	(5)	-	(8,044)	(35)	21
SPE Padre Marinho	24,736	-	(182)	(18,684)	(5,870)	3,246	220
SPE Acaba Mundo E. Imob Ltda.	1,602	-	(192)	192	(1,602)	-	(16)
SPE Colina Engefor Patrimar E.	3,754	13	(713)	-	(3,054)	7,707	(2,324)
SPE MRV Patrimar RJ IX Ltda.	952	274	(116)	(270)	(840)	(222)	555
SPE Barbacena Empr	55,722	13,391	(2,653)	(18,868)	(47,592)	26,468	4,524
SPE Patrimar Somattos	25,238	19	(593)	(2,608)	(22,056)	12,316	(2,096)
SPE Direcional Patrimar	1,504	23	(573)	(2)	(952)	2,135	387
SPE Park Riversul (MRV)	147	135	(93)	(51)	(138)	139	(781)
SPE Recreio Bandeirantes (MRV)	170	42	(93)	(47)	(72)	(85)	(154)
SPE Recreio Gaveas (MRV SPE)	2,905	888	4,367	(496)	(7,664)	(1,667)	(6,998)
SPE Recreio Pontal (MRV SPE I)	562	36	(638)	(166)	206	(64)	(451)
Ponctuel Participações Ltda.	-	746	-	-	(746)	-	(1,553)
	125,335	15,573	(1,484)	(41,000)	(98,424)	49,938	(8,666)
Associates							
SCP RJ 04	967	-	(63)	-	(904)	76	(266)
SCP Portal do Bosque	24	-	(72)	-	48	-	(126)
SCP Park Ritz	1,396	6	(97)	(142)	(1,163)	(131)	63
SCP Recanto das Águas	239	-	(121)	(216)	98	-	(431)
SCP MRV Belo Campo	232	40	(253)	(199)	180	2,128	(2,786)
SCP MRV Rec. Pássaros	711	157	(52)	(263)	(553)	2,191	(2,522)
SCP MRV Res. Beija Flor	482	216	(321)	(157)	(220)	(508)	528
SCP Rívoli	275	69	(107)	(62)	(175)	305	(748)
SCP Paçuaré	259	-	(287)	(899)	927	(1)	51
SCP Manchete	7,077	2,036	(745)	(1,067)	(7,301)	(5,080)	(3,152)
SCP Parque Araras	99	(2)	(181)	(135)	219	(14)	(167)
SCP Parque Bem Te Vi	116	73	(287)	(414)	512	(12)	(494)
SCP Parque Gaivotas	133	8	(36)	(14)	(91)	2	20
SCP Parque Sabia	82	(9)	(34)	(13)	(26)	-	54
SCP Park Rossete	2,467	-	(213)	(85)	(2,169)	74	(358)
SCP Reality e Renovare	1,623	-	(493)	(551)	(579)	657	(3,598)
SCP Recanto do Tingui	(1,004)	-	(123)	(253)	1,380	286	(659)
SCP Riviera da Costa e Sol	689	-	(186)	(309)	(194)	614	(2,448)
	15,867	2,594	(3,671)	(4,779)	(10,011)	587	(17,039)
	141,202	18,167	(5,155)	(45,779)	(108,435)	50,525	(25,705)

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Notes to the combined financial statements at December 31, 2018

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11 Property and equipment

Property and equipment items are depreciated as table below:

	Depreciation rate % (p.a.)
Sales stands and model apartments (*)	-
Computers	
Works	33.33%
Management	20.00%
Furniture and fittings	
Works	33.33%
Management	10.00%
Machinery and equipment	
Works	33.33%
Management	10.00%
Machinery and heavy equipment	10.00%
Vehicles	20.00%
Aircraft	3.33%
Sundry facilities	10.00%
Constructions and properties for use	
Land	0.00%
Improvements	20.00%
Telephone equipment	
Works	33.33%
Management	10.00%

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

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The analysis of property and equipment at December 31, 2018 was as follows:

	Balance 2017	Additions	Write-offs	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
Addition of property and equipment acquired in investee (ii)	-	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)
Addition of property and equipment acquired in investee (ii)	-	(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.
- (ii) During 2018, control over SPE Colina Engefor Patrimar Empreendimentos Imobiliários Ltda., which previously was a jointly-controlled investee, was transferred to the Group, which recognized the balance of this investee's property and equipment at its net value.

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The analysis of property and equipment for the year ended December 31, 2017 was as follows:

	Balance 2016	Additions	Write-offs	Balance 2017
Cost				
Sales stands and model apartments	12,035	4,413	(285)	16,163
IT equipment	1,054	-	(1)	1,053
Furniture and fittings	1,280	1,765	(5)	3,040
Machinery and equipment	16,921	58	(11,695)	5,284
Vehicles	1,637	-	(104)	1,533
Sundry facilities	111	-	-	111
Improvements	206	4,995	-	5,201
Telephone equipment	372	-	(7)	365
	<u>33,616</u>	<u>11,231</u>	<u>(12,097)</u>	<u>32,750</u>
Depreciation				
Sales stands and model apartments	(9,701)	(1,695)	204	(11,192)
IT equipment	(945)	(66)	-	(1,011)
Furniture and fittings	(1,107)	(86)	4	(1,189)
Machinery and equipment	(4,830)	(1,631)	3,807	(2,654)
Vehicles	(1,301)	(249)	104	(1,446)
Sundry facilities	(104)	(5)	-	(109)
Improvements	(115)	(5)	-	(120)
Telephone equipment	(324)	(26)	6	(344)
	<u>(18,427)</u>	<u>(3,763)</u>	<u>4,125</u>	<u>(18,065)</u>
Total property and equipment, net	<u>15,189</u>	<u>7,468</u>	<u>(7,972)</u>	<u>14,685</u>

12 Intangible assets

	Balance 2016	Additions	Write-offs	Balance 2017	Balance 2017	Additions	Write-offs	Balance 2018
Cost								
Right-of-use	190	107	(154)	143	143	171	(27)	287
Software under development (i)	-	1,014	-	1,014	1,014	8,647	-	9,661
Addition of intangible assets acquired in investee	-	-	-	-	-	30	-	30
	<u>190</u>	<u>1,121</u>	<u>(154)</u>	<u>1,157</u>	<u>1,157</u>	<u>8,848</u>	<u>(27)</u>	<u>9,978</u>
Amortization								
Right-of-use	(132)	(11)	132	(11)	(11)	(44)	7	(48)
Addition of intangible assets acquired in investee	-	-	-	-	-	(19)	-	(19)
	<u>(132)</u>	<u>(11)</u>	<u>132</u>	<u>(11)</u>	<u>(11)</u>	<u>(63)</u>	<u>7</u>	<u>(67)</u>
Total intangible assets, net	<u>58</u>	<u>1,110</u>	<u>(22)</u>	<u>1,146</u>	<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), expected to generate future benefits, with a useful life of 10 years; to be assessed at least annually.

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13 Borrowings

	<u>2018</u>	<u>2017</u>
Financing for construction - Financial Housing System (SFH)	50,315	183,190
Equipment financing	216	23
Borrowings - working capital	<u>24,567</u>	<u>12,308</u>
	<u>75,098</u>	<u>195,521</u>
Current liabilities	41,169	160,144
Non-current liabilities	33,929	35,377

Changes in the amount borrowed by the Parent company were as follows:

	<u>2018</u>	<u>2017</u>
Opening balance	195,521	248,710
Draw downs	71,466	76,801
Interest	13,132	11,136
Amortization	<u>(205,021)</u>	<u>(141,126)</u>
Closing balance	<u>75,098</u>	<u>195,521</u>

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

	<u>2018</u>	<u>2017</u>
2018	-	160,144
2019	41,169	35,377
2020	14,082	-
2021	11,126	-
2022	<u>8,721</u>	<u>-</u>
	<u>75,098</u>	<u>195,521</u>

Group's borrowings are of two types:

Financing for construction: This type of borrowing is designed to fund projects during the construction period. The applicable interest rates range from 8.3% to 10.8 % p.a., depending on the operation, plus the Reference Rate (TR) (from 8.8% to 10.8% p.a. at December 31, 2017).

Working capital: This type of borrowing is designed to finance the Group's working capital requirements. The average interest rate applicable to borrowings of this type is the CDI rate ranging from 2.95% to 4.78% p.a.

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 quotaholders.

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14 Trade payables

	<u>2018</u>	<u>2017</u>
Trade payables	2,533	10,882
Technical retentions	<u>3,022</u>	<u>6,600</u>
	<u>5,555</u>	<u>17,482</u>

The balance of trade payables represents commitments by the Group for the acquisition of the inputs required to perform the contracted services or for the purchase of equipment with 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 contractual agreement, which aims to ensure that all existing technical details in the construction contracts are fully complied with. Accordingly, a specific percentage (provided for in contract) is withheld from the amounts payable to the contractor so that, in case of any non-compliance with the contract provisions, the customer is preserved. At the end of the contract, if all requirements are met, the amount is refunded to the service provider.

15 Tax liabilities

These comprise the provision for current taxes, the taxable event of which is the realization of trade receivables, and also of the provision for deferred taxes through the recognition of revenue based on the POC method, under which the receipt of receivables is deferred over the flow of payments of each contract:

<u>Current taxes</u>	<u>2018</u>	<u>2017</u>
Withheld taxes	777	782
Special Taxation Regime (RET)	1,288	1,158
Social Integration Program (PIS)	74	26
Social Contribution on Revenues (COFINS)	284	131
Corporate Income Tax (IRPJ)	163	23
Social Contribution on Net Income (CSLL)	<u>12</u>	<u>22</u>
	<u>2,598</u>	<u>2,142</u>

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	<u>2018</u>	<u>2017</u>
Deferred taxes		
IRPJ	1,586	2,670
CSLL	830	1,401
PIS	464	774
COFINS	<u>2,201</u>	<u>3,588</u>
	<u>5,081</u>	<u>8,433</u>
	<u>7,679</u>	<u>10,575</u>
Current liabilities	7,679	10,383
Non-current liabilities	-	192

16 Real estate purchase obligations

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

	<u>2018</u>	<u>2017</u>
Axis Porto Fino	4,000	5,118
Tratex	315	350
Penha	-	300
Porto Venere	43	43
Mia Felicitá	-	3,696
Villagio Novita	144	144
Jardinaves	800	-
Avignon	387	-
Jardim das Mangabeiras	1,084	-
Manhattan Square	227	-
Jambreiro (Ouro Velho Country Club)	2,139	2,208
Alameda do Morro	10,800	10,800
Ed. Saint Tropez	-	287
Other liabilities for purchase of developments (i)	<u>2,843</u>	<u>2,496</u>
	<u>22,782</u>	<u>25,442</u>
Current liabilities	15,558	6,516
Non-current liabilities	7,224	18,926

(i) Lower and highly dispersed 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.

	<u>2018</u>	<u>2017</u>
SPE Brooklin Bernardo Vasconcelos	-	457
SPE Novo Ápia (Jaraguá)	7,670	7,670
Penha Land	4,000	4,000
Campinas – Cerâmica	-	13,320
Inovatto Land	3,091	6,582
Manhattan Square	450	133
The Plaza	-	131
Jardim das Mangabeiras	24,174	-
Jardinaves	773	-
Villagio Gutierrez	-	3,382
Alta Vila	20,650	20,650
Avignon	4,055	2,790
Saint Tropez	3,220	19,987
Other	83	72
	<u>68,166</u>	<u>79,174</u>
Advances from customers and barter made for construction in progress	34,990	4,103
Barter made for land/advances - not launched developments	33,176	75,071
Current liabilities	68,166	4,196
Non-current liabilities	-	74,978

18 Provision for contingencies and judicial deposits

	Deposits Judicial		Provision for contingencies	
	2018	2017	2018 (Restated) (Note 2.3))	2017
Civil	1,774	-	2,454	443
Tax	15	36	315	-
Labor	732	189	1,728	1,516
	2,521	225	4,497	1,959

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Contingencies	2018
Opening balance	1,959
Additions	6,665
Write-offs	(4,127)
Closing balance	4,497
Judicial deposit	
Opening balance	225
Additions	4,581
Write-offs	(2,285)
Closing balance	2,521

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, 2018, the Group had risks of possible losses of a tax, civil and labor nature estimated at R\$46,142 (R\$15,424 at December 31, 2017), for which no provisions were recorded. Management uses information on the likelihood of loss provided by the Group's legal counsel to estimate amounts of possible loss.

Of the amounts of possible loss contingencies the more significant refers to 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.

Patrimar Group

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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 these taxes. The probability of loss in this case has been classified as possible and the estimated risk involved at December 31, 2018 amounts to R\$31,508. As a result, no provision for contingencies with respect to this matter has been recorded in the financial statements.

19 Provision for real estate maintenance

The Companies and its subsidiaries offer a five-year warranty against construction problems, as required by the Brazilian legislation. In order to fulfill this commitment, mitigating potential 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 Companies' engineering departments, which are reviewed annually. The provision is recorded as the work progresses, by applying this percentage to actual costs incurred.

Changes in the provision for maintenance were as follows:

	<u>2018</u>	<u>2017</u>
Opening balance	12,325	18,894
Additions	5,271	2,106
Write-offs	<u>(8,300)</u>	<u>(8,675)</u>
Closing balance	<u>9,296</u>	<u>12,325</u>

20 Equity (Restated (Note 2.3))

(a) Capital

(i) Patrimar Engenharia Ltda.

At December 31, 2018, capital was R\$179,032 (R\$179,032 at December 31, 2017).

Corporate structure

PRMV Participações S.A.: 99.99%

RPMV Participações S.A.: 00.01%

The corporate structure of PRMV Participações S.A. and RPMV Participações S.A. is as follows:

Alexandre Araújo Elias Veiga - 5%

Heloisa Magalhães Martins Veiga - 5%

Renata Martins Veiga Couto - 45%

Patrícia Martins Veiga - 45%

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(ii) Construtora Novolar Ltda.

At December 31, 2018, capital was R\$104,560 (R\$104,560 at December 31, 2017).

(b) Corporate structure

The Group's corporate structure is as follows:

RPMV Participações S.A.: 99.99%
PRMV Participações S.A.: 0.01%

The corporate structure of RPMV Participações S.A. and PRMV Participações S.A. is as follows:

Alexandre Araújo Elias Veiga – 5%
Heloisa Magalhães Martins Veiga – 5%
Renata Martins Veiga Couto – 45%
Patrícia Martins Veiga – 45%

(c) Legal reserve

The legal reserve balances relate to the period in which Novolar was a privately-held corporation under the terms of Law 6,404/76.

(d) Profit distribution policy

The articles of association of Patrimar and Novolar provide that profits may be distributed or retained as declared by the quotaholders' meeting.

At December 31, 2018, dividends in the amount of R\$ 5,521 (R\$5,246 at December 31, 2017), were approved based on the financial statements as originally presented by Patrimar and Novolar, before the accounting adjustments and restatements (Note 2.3). The financial statements as originally presented for the years ended December 31, 2018 and 2017, had presented a balance of retained earnings.

21 Net operating revenue

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

	2018	2017
Gross revenue from the sales of properties	327,467	249,544
Service revenue	2,743	3,403
Canceled sales	(23,991)	(4,812)
Changes in canceled sales	1,815	(913)
Adjustment to present value (i)	(83)	3,018
Taxes on billings (ii)	(6,503)	(4,199)
	<u>301,448</u>	<u>246,041</u>

- (i) Because the Group considers the financing to its customers inherent to its operations, it classifies the accretion (reversals) of the present value adjustments of trade receivables as operating revenue.

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- (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>2018</u>	<u>2017</u>
Cost of properties sold		
Materials	(35,450)	(32,790)
Land	(48,600)	(1,695)
Completed properties	(48,833)	(73,523)
Personnel expenses	(10,087)	(9,960)
Subcontractors	(40,465)	(39,192)
Leases	(546)	(3,528)
Housing loan costs	(1,695)	-
Depreciation and amortization	(956)	(1,463)
Other	(13,575)	(15,612)
	<u>(200,207)</u>	<u>(177,763)</u>
Operating expenses		
Administrative and general expenses		
Personnel expenses	(12,300)	(11,133)
Depreciation and amortization	(2,492)	(1,807)
Third-party services	(4,425)	(3,595)
Other	(4,282)	(3,662)
	<u>(23,499)</u>	<u>(20,197)</u>
Selling expenses		
Personnel expenses	(2,637)	(1,960)
Commissions and brokerage	(4,941)	(4,455)
Advertising	(9,827)	(9,814)
Expenses with properties in inventory (Municipal real estate tax (IPTU)/Condominium fees)	(6,961)	(4,523)
Other	(3,694)	(4,671)
	<u>(28,060)</u>	<u>(25,423)</u>
Other operating income (expenses), net		
Expenses with real estate credit	(922)	(178)
Tax expenses	(974)	(419)
Disposal of property and equipment and other	(2,955)	(6,499)
Indemnities	(2,685)	(1,865)
	<u>(7,536)</u>	<u>(8,961)</u>

23 Management fees

During 2018, the Group recognized as management fees in the combined accounts the amount of R\$ 2,968 (R\$ 2,047 at December 31, 2017). Management fees are fixed amounts.

Patrimar Group

Notes to the combined financial statements at December 31, 2018

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24 Finance income (costs), net

	<u>2018</u>	<u>2017</u>
Finance income		
Indexation accruals and interest as per contracts	8,647	2,438
Interest on financial investments	1,630	2,544
Other finance income	2,765	-
	<u>13,042</u>	<u>4,982</u>
Finance costs		
Interest on borrowings	(7,140)	(367)
Bank fees and charges	(2,338)	(735)
Financing expenses	(581)	(2,573)
Other finance costs	(1,157)	(1,064)
	<u>(11,216)</u>	<u>(4,739)</u>
Finance income (costs), net	<u>1,826</u>	<u>243</u>

25 Income tax and social contribution expenses

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

	<u>2018</u>	<u>2017</u>
Profit before IRPJ and CSLL	<u>45,046</u>	<u>3,732</u>
Rate - 34%	<u>(15,316)</u>	<u>(1,268)</u>
Effect on exclusions (Equity accounting)	365	(3,471)
Unrecognized tax credits due to temporary difference - RET	8,968	910
IRPJ and CSLL expenses	<u>(5,983)</u>	<u>(3,829)</u>
Effective rate	<u>13.28%</u>	<u>96.16%</u>

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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 deferred revenue and deferred costs of units under construction.

	<u>12/31/2018</u>
Developments under construction	
(i) Deferred revenue from units sold	
Developments under construction:	
(a) Revenue from contracted sales	379,892
Revenue from recognized sales:	
Revenue from recognized sales	<u>(188,519)</u>
(b) Revenue from recognized sales, net	<u>(188,519)</u>
Deferred revenue (a+b)	<u><u>191,373</u></u>
 (ii) Budgeted deferred cost of sold units	
Developments under construction:	
(a) Budgeted costs	230,888
Incurred costs:	
Construction costs	<u>(117,500)</u>
(b) Incurred costs, net	<u>(117,500)</u>
Deferred costs of units sold (a+b)	<u><u>113,388</u></u>
 (iii) Budgeted deferred costs of units in inventory	
Developments under construction:	
(a) Budgeted costs	236,525
(b) Incurred costs	<u>(72,195)</u>
Deferred costs of units in inventory (a+b)	<u><u>164,330</u></u>

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 Patrimar, its subsidiaries or partners. These commitments total R\$ 669,140 (R\$ 644,992 - 2017), of which: R\$ 643,707 (R\$ 617,672 - 2017) will be settled upon delivery of real estate units to be constructed and R\$ 25,433 (R\$ 27,320 - 2017) from a portion of the proceeds from the sale of the related developments.

Patrimar Group

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28 Segment reporting

The main source of revenue of the Group is derived from real estate development activities. The chief operating decision-maker analyzes information by development for the purposes of allocating resources and assessing 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

At December 31, 2019, the Group has the following insurance policies:

a) Engineering risk insurance - civil works in progress: 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) Insurance to guarantee the delivery of the real estate units by means of barter agreements.

Items	Effective period		Novolar	Patrimar	Combined
	Beginning	End			
Completion bond (SGTO)	2017	2020	2,787	-	2,787
Completion bond (SGTO)	2018	2020	2,462	-	2,462
Completion bond (SGTO)	2018	2021	4,318	-	4,318
Engineering risk and Civil risk	2017	2020	21,512	-	21,512
Engineering risk and civil risk	2018	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	2018	2023	13,112	-	13,112
Post-completion bond (SGPE)	2018	2023	539	-	539
Performance bond (barter transaction)			-	18,751	18,751

30 Events after the reporting period

(a) Corporate reorganizations

On December 11, 2019, the quotaholder PRMV approved the transformation of Patrimar from a limited liability corporate partnership to a corporation. A Quotaholders' Meeting and subsequently an Extraordinary General Meeting were held.

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.

Patrimar Group

Notes to the combined financial statements at December 31, 2018

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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.

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

The Brazilian market has shown 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 of the global economy.

The Group has been monitoring developments 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. 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 financial statements for the year ended December 31, 2018.

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 financial statements for the year ended December 31, 2018.

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