

**Individual and Consolidated  
Financial Statements**

**Direcional Engenharia S.A.**

December 31, 2020  
with Independent Auditor's Report

# Direcional Engenharia S.A.

## Individual and consolidated financial statements

December 31, 2020

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A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated financial statements prepared in Brazilian currency 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 and Exchange Commission (CVM)

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## Independent auditor's report on individual and consolidated financial statements

To the  
Shareholders, Board of Directors and Officers of  
**Direcional Engenharia S.A.**  
Belo Horizonte, Minas Gerais (MG)

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

We have audited the individual and consolidated financial statements of Direcional Engenharia S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2020, and the statements of profit or loss, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Direcional Engenharia S.A. as at December 31, 2020, and its individual and consolidated financial performance and 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 and Exchange Commission (CVM).

### **Basis for opinion**

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities, under those standards, are further described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) 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 opinion.

## **Emphasis of matter**

As described in Note 2.1.1, the individual and consolidated financial statements were 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 and Exchange Commission (CVM) Accordingly, the determination of the accounting policy adopted by the entity for recognition of revenue in contracts for the purchase and sale of incomplete real estate units on the aspects related to transfer of control follow the understanding expressed in Circular Letter CVM/SNC/SEP No. 02/2018 on application of NBC TG 47 (IFRS 15). Our opinion is not qualified in respect of this matter.

## **Key audit matter**

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. This matter was addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an individual opinion on this matter. For the matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in the context of the financial statements taken as a whole.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

### *Recognition of revenue from incomplete real estate units and from construction services*

As mentioned in Notes 2.1.17, 2.2. (a) and 17, the Company and its subsidiaries recognize revenue from contracts for the purchase and sale of incomplete real estate units and revenue from construction services using the Percentage of Completion method (POC).

The POC method requires that management estimate the costs to be incurred until completion of the construction and delivery of the keys to the real estate units sold of the development projects and of each stage of the construction services. Based on the costs incurred and the contractual conditions, the fair value of revenue from sales and services to be recognized in each period is estimated, proportionally to the estimated value.

Given the significance, complexity, and judgments involved in determining revenue from sales and construction services to be recognized, and the risk of material impacts on P&L for each period that these changes in estimates may bring, we consider this matter significant for our audit. How our audit addressed this matter:

Our audit procedures included an evaluation of the design of key processes and internal controls related to recognition of revenue from the sale of incomplete real estate units and the provision of construction services, including preparation, review and timely approval of budgets of costs to be



incurred, as well as the comparison and sample testing of costs incurred, with examination of contracts, payments made and related supporting documents, among other procedures. We also involved our valuation experts to assist in the identification of evidence contrary to the estimated costs to be incurred, analyzing the stages of execution of certain construction works, and checking if the expected period for completion thereof within the respective budgets of the Company and its subsidiaries corresponded to the reality of operations.

In addition to comparing POC's auxiliary records with accounting balances, considering the different systems that support these transactions, we made independent calculations of the revenue from sale of incomplete units and construction services, and examined a sample of the documents that support the units sold considered in the POC.

We performed analytical procedures to evaluate significant changes in margins and budgets of real estate projects for the year ended December 31, 2020 compared to the previous year, and we also analyzed the disclosures made by the Company and its subsidiaries and their compliance with accounting practices adopted in the Brazil and with the IFRS applicable to real estate development entities in Brazil registered with the CVM.

Based on the results of our audit procedures, which are consistent with management's assessment, the estimates prepared by management related to the balances of revenue from the sale of incomplete real estate units and from provision of construction services, as well as the respective disclosures in Notes 2.1.17, 2.2 (a) and 17, were considered acceptable in the context of the individual and consolidated financial statements taken as a whole.

## **Other matters**

### *Statements of value added*

The individual and consolidated statements of value added (SVA) for year ended December 31, 2020, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by Accounting Pronouncement NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned standard, and are consistent in relation to the overall individual and consolidated financial statements.

## **Other information accompanying the individual and consolidated financial statements and auditor's report**

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management



Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) applicable to Brazilian real estate development entities registered with the CVM, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditor's responsibilities for the audit of the individual and consolidated financial statements**

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

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

- Identified and assessed risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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 the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained 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 Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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 Company'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 individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represented the underlying transactions and events in a manner that achieves fair presentation.



- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group's audit and, consequently, for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit 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, including applicable independence requirements, and 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 determined the matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe this matter 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, March 15, 2021

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-6

Rogério Xavier Magalhães  
Accountant CRC-1MG080613/O-1

## Direcional Engenharia S.A.

Statements of financial position  
December 31, 2020 and 2019  
(In thousands of reais)

|                                      | Note | Individual       |            | Consolidated     |            |
|--------------------------------------|------|------------------|------------|------------------|------------|
|                                      |      | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| <b>Current assets</b>                |      |                  |            |                  |            |
| Cash and cash equivalents            | 3.1  | <b>416,630</b>   | 337,067    | <b>731,569</b>   | 533,795    |
| Short-term investments               | 3.2  | <b>194,246</b>   | 160,220    | <b>195,360</b>   | 195,587    |
| Accounts receivable                  | 4.1  | <b>6,540</b>     | 3,475      | <b>246,717</b>   | 347,538    |
| Inventories                          | 5    | <b>1,369</b>     | 3,302      | <b>1,268,195</b> | 1,080,672  |
| Receivables from related parties     | 6.1  | <b>47,417</b>    | 39,190     | <b>37,363</b>    | 44,973     |
| Taxes recoverable                    |      | <b>11,051</b>    | 14,752     | <b>21,185</b>    | 24,560     |
| Accounts receivable from divestiture | 4.2  | <b>40,000</b>    | 11,500     | <b>50,000</b>    | 22,514     |
| Other receivables                    |      | <b>72,499</b>    | 52,005     | <b>115,943</b>   | 83,786     |
| <b>Total current assets</b>          |      | <b>789,752</b>   | 621,511    | <b>2,666,332</b> | 2,333,425  |
| <b>Noncurrent assets</b>             |      |                  |            |                  |            |
| Accounts receivable                  | 4.1  | <b>765</b>       | 37         | <b>128,727</b>   | 96,579     |
| Inventories                          | 5    | <b>72,457</b>    | 20,565     | <b>2,071,074</b> | 2,008,992  |
| Receivables from related parties     | 6.1  | -                | -          | <b>1,636</b>     | -          |
| Judicial deposits                    |      | <b>9,064</b>     | 8,912      | <b>15,928</b>    | 16,472     |
| Accounts receivable from divestiture | 4.2  | <b>30,685</b>    | 29,722     | <b>30,685</b>    | 29,722     |
| Other receivables                    |      | <b>10,004</b>    | 9,651      | <b>10,214</b>    | 10,854     |
| Investments                          | 7    | <b>1,457,058</b> | 1,437,970  | <b>73,064</b>    | 48,885     |
| Property and equipment               | 8    | <b>62,583</b>    | 73,784     | <b>89,594</b>    | 101,972    |
| Intangible assets                    |      | <b>12,988</b>    | 6,959      | <b>14,155</b>    | 7,815      |
| <b>Total noncurrent assets</b>       |      | <b>1,655,604</b> | 1,587,600  | <b>2,435,077</b> | 2,321,291  |
| <b>Total assets</b>                  |      | <b>2,445,356</b> | 2,209,111  | <b>5,101,409</b> | 4,654,716  |

|  | Note | Individual |                          | Consolidated |                          |
|--|------|------------|--------------------------|--------------|--------------------------|
|  |      | 12/31/2020 | 12/31/2019<br>(Restated) | 12/31/2020   | 12/31/2019<br>(Restated) |
| Current liabilities                              |      |            |                          |              |                          |
| Loans and financing                              | 9.1  | 217,365    | 192,813                  | 219,061      | 212,514                  |
| Trade accounts payable                           |      | 5,615      | 8,809                    | 90,086       | 51,601                   |
| Labor obligations                                | 10   | 9,637      | 12,771                   | 28,253       | 30,640                   |
| Tax obligations                                  | 11   | 663        | 514                      | 25,227       | 22,968                   |
| Lease financing                                  | 9.2  | 9,190      | 8,194                    | 9,887        | 8,468                    |
| Real estate commitments payable                  | 12   | -          | -                        | 77,434       | 94,094                   |
| Advances from customers                          | 13   | 2,362      | 19,253                   | 22,249       | 37,745                   |
| Other accounts payable                           | 14   | 25,086     | 25,141                   | 49,536       | 19,015                   |
| Provision for guarantees                         | 15.1 | 3,687      | 3,997                    | 27,377       | 20,752                   |
| Payables to related parties                      | 6.1  | 14,605     | 14,333                   | 23,022       | 18,767                   |
| Total current liabilities                        |      | 288,210    | 285,825                  | 572,132      | 516,564                  |
| Noncurrent liabilities                           |      |            |                          |              |                          |
| Loans and financing                              | 9.1  | 797,751    | 589,901                  | 812,107      | 618,554                  |
| Trade accounts payable                           |      | 1,915      | 1,163                    | 17,368       | 13,098                   |
| Provision for guarantees                         | 15.1 | 557        | 1,931                    | 11,530       | 15,347                   |
| Tax obligations                                  | 11   | 36         | 40                       | 3,594        | 3,924                    |
| Lease financing                                  | 9.2  | 29,199     | 33,365                   | 29,679       | 33,465                   |
| Real estate commitments payable                  | 12   | 69,577     | 20,227                   | 1,878,215    | 1,639,109                |
| Advances from customers                          | 13   | 380        | -                        | 372,800      | 368,161                  |
| Provision for tax, labor and civil contingencies | 15.2 | 4,329      | 2,328                    | 29,142       | 33,747                   |
| Other accounts payable                           | 14   | 8,844      | 17,404                   | 34,844       | 43,403                   |
| Payables to related parties                      | 6.1  | 18,246     | -                        | -            | -                        |
| Total noncurrent liabilities                     |      | 930,834    | 666,359                  | 3,189,279    | 2,768,808                |
| Equity   |      |            |                          |              |                          |
| Capital  | 16.1 | 752,982    | 752,982                  | 752,982      | 752,982                  |
| Capital reserves                                 | 16.3 | 208,484    | 208,484                  | 208,484      | 208,484                  |
| Stock options granted                            |      | 4,050      | 5,951                    | 4,050        | 5,951                    |
| Equity adjustment                                |      | (19,023)   | (18,679)                 | (19,023)     | (18,679)                 |
| Treasury shares                                  |      | (52,129)   | (32,076)                 | (52,129)     | (32,076)                 |
| Income reserves                                  | 16.4 | 331,948    | 340,265                  | 331,948      | 340,265                  |
|  |      | 1,226,312  | 1,256,927                | 1,226,312    | 1,256,927                |
| Noncontrolling interests                         |      | -          | -                        | 113,686      | 112,417                  |
|  |      | 1,226,312  | 1,256,927                | 1,339,998    | 1,369,344                |
| Total liabilities and equity                     |      | 2,445,356  | 2,209,111                | 5,101,409    | 4,654,716                |

See accompanying notes.

## Direcional Engenharia S.A.

Statements of profit or loss  
 Years ended December 31, 2020 and 2019  
 (In thousands of reais, unless otherwise stated)

|  | Note | Individual       |            | Consolidated     |            |
|--|------|------------------|------------|------------------|------------|
|  |      | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| Net revenue  | 17   | <b>41,951</b>    | 136,013    | <b>1,500,723</b> | 1,458,228  |
| Cost of real estate sold and services rendered     | 18   | <b>(20,572)</b>  | (108,967)  | <b>(978,154)</b> | (967,112)  |
| Gross profit                                       |      | <b>21,379</b>    | 27,046     | <b>522,569</b>   | 491,116    |
| Operating income (expenses)                        |      |                  |            |                  |            |
| General and administrative expenses                | 18   | <b>(102,202)</b> | (101,826)  | <b>(115,572)</b> | (112,406)  |
| Selling expenses                                   | 18   | <b>(2,604)</b>   | (6,130)    | <b>(158,044)</b> | (146,206)  |
| Equity pickup                                      | 7    | <b>232,143</b>   | 240,585    | <b>3,464</b>     | 2,394      |
| Other operating income (expenses)                  | -    | <b>(2,541)</b>   | (17,284)   | <b>(31,054)</b>  | (41,881)   |
|  |      | <b>124,796</b>   | 115,345    | <b>(301,206)</b> | (298,099)  |
| Finance costs                                      | 19   | <b>(71,574)</b>  | (72,757)   | <b>(84,236)</b>  | (80,156)   |
| Finance income                                     | 19   | <b>38,687</b>    | 31,464     | <b>44,116</b>    | 40,941     |
| Finance income (costs)                             | 19   | <b>(32,887)</b>  | (41,293)   | <b>(40,120)</b>  | (39,215)   |
| Income before income and social contribution taxes |      | <b>113,288</b>   | 101,098    | <b>181,243</b>   | 153,802    |
| Income and social contribution taxes               | 20   | <b>(215)</b>     | (622)      | <b>(31,110)</b>  | (32,986)   |
| Net income for the year                            |      | <b>113,073</b>   | 100,476    | <b>150,133</b>   | 120,816    |
| Net income attributable to                         |      |                  |            |                  |            |
| Direcional Engenharia S.A.                         |      | <b>113,073</b>   | 100,476    | <b>113,073</b>   | 100,476    |
| Noncontrolling interests in SPEs and SCPs          |      | -                | -          | <b>37,060</b>    | 20,340     |
| Earnings per share                                 |      |                  |            |                  |            |
| Basic  |      | <b>0.76</b>      | 0.68       |                  |            |
| Diluted  |      | <b>0.76</b>      | 0.67       |                  |            |

See accompanying notes.

## Direcional Engenharia S.A.

Statements of comprehensive income  
Years ended December 31, 2020 and 2019  
(In thousands of reais)

|   | Individual     |            | Consolidated   |            |
|---|----------------|------------|----------------|------------|
|   | 12/31/2020     | 12/31/2019 | 12/31/2020     | 12/31/2019 |
| Net income for the year                 | <b>113,073</b> | 100,476    | <b>150,133</b> | 120,816    |
| Total comprehensive income for the year | <b>113,073</b> | 100,476    | <b>150,133</b> | 120,816    |
| Attributable to:                        |                |            |                |            |
| Company shareholders                    |                |            | <b>113,073</b> | 100,476    |
| Noncontrolling interests                |                |            | <b>37,060</b>  | 20,340     |
|   |                |            | <b>150,133</b> | 120,816    |

See accompanying notes.

## Direcional Engenharia S.A.

Statements of changes in equity  
Years ended December 31, 2020 and 2019  
(In thousands of reais)

|  | Attributable to Company shareholders |                  |                 |                               |                 |                   |                 |                 |  |                   |                          |                     |
|--|--------------------------------------|------------------|-----------------|-------------------------------|-----------------|-------------------|-----------------|-----------------|--|-------------------|--------------------------|---------------------|
|  | Note                                 | Capital reserves |                 |                               |                 |                   | Income reserves |                 |  |                   |                          |                     |
|  |                                      | Capital          | Treasury shares | Shares issued/<br>disposed of | Options granted | Equity adjustment | Legal           | For investments | Retained earnings/<br>accumulated losses | Individual equity | Noncontrolling interests | Consolidated equity |
| Balances at December 31, 2018 (restated)         |                                      | 752,982          | (37,531)        | 208,484                       | 6,922           | (18,621)          | 25,345          | 345,110         | -  | 1,282,691         | 110,585                  | 1,393,276           |
| Stock options recognized                         | 16.3                                 | -                | -               | -                             | 3,788           | -                 | -               | -               | -  | 3,788             | -                        | 3,788               |
| Capital reduction by noncontrolling shareholders | 16.6                                 | -                | -               | -                             | -               | -                 | -               | -               | -  | -                 | (18,508)                 | (18,508)            |
| Income (loss) for the year                       |                                      | -                | -               | -                             | -               | -                 | -               | -               | 100,476                                  | 100,476           | 20,340                   | 120,816             |
| Dividends proposed                               | 16.4.3                               | -                | -               | -                             | -               | -                 | -               | (56,068)        | (73,901)                                 | (129,969)         | -                        | (129,969)           |
| Disposal of treasury shares                      | 16.2                                 | -                | 5,455           | -                             | (4,759)         | -                 | -               | (696)           | -  | -                 | -                        | -                   |
| Set-up of reserves                               | 16.4.1                               | -                | -               | -                             | -               | -                 | 5,025           | 21,549          | (26,574)                                 | -                 | -                        | -                   |
| Transactions with noncontrolling shareholders    | 16.6                                 | -                | -               | -                             | -               | (58)              | -               | -               | (1)                                      | (59)              | -                        | (59)                |
| Balances at December 31, 2019 (restated)         |                                      | 752,982          | (32,076)        | 208,484                       | 5,951           | (18,679)          | 30,370          | 309,895         | -  | 1,256,927         | 112,417                  | 1,369,344           |
| Stock options recognized                         | 16.3                                 | -                | -               | -                             | 1,883           | -                 | -               | -               | -  | 1,883             | -                        | 1,883               |
| Capital reduction by noncontrolling shareholders | 16.6                                 | -                | -               | -                             | -               | -                 | -               | -               | -  | -                 | (35,791)                 | (35,791)            |
| Income (loss) for the year                       |                                      | -                | -               | -                             | -               | -                 | -               | -               | 113,073                                  | 113,073           | 37,060                   | 150,133             |
| Dividends proposed                               | 16.4.3                               | -                | -               | -                             | -               | -                 | -               | (120,364)       | -  | (120,364)         | -                        | (120,364)           |
| Disposal of treasury shares                      | 16.2                                 | -                | 3,886           | -                             | (3,784)         | -                 | -               | (102)           | -  | -                 | -                        | -                   |
| Share buyback                                    |                                      | -                | (23,939)        | -                             | -               | -                 | -               | -               | -  | (23,939)          | -                        | (23,939)            |
| Set-up of reserves                               | 16.4.1                               | -                | -               | -                             | -               | -                 | 5,652           | 106,497         | (112,149)                                | -                 | -                        | -                   |
| Prior years' adjustments                         | 16.7                                 | -                | -               | -                             | -               | -                 | -               | -               | (924)                                    | (924)             | -                        | (924)               |
| Transactions with noncontrolling shareholders    | 16.6                                 | -                | -               | -                             | -               | (344)             | -               | -               | -  | (344)             | -                        | (344)               |
| Balances at December 31, 2020                    |                                      | 752,982          | (52,129)        | 208,484                       | 4,050           | (19,023)          | 36,022          | 295,926         | -  | 1,226,312         | 113,686                  | 1,339,998           |

See accompanying notes.

## Direcional Engenharia S.A.

Statements of cash flows  
Years ended December 31, 2020 and 2019  
(In thousands of reais)

|   | Individual       |            | Consolidated     |            |
|---|------------------|------------|------------------|------------|
|   | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| Cash flows from operating activities                                  |                  |            |                  |            |
| Income before income and social contribution taxes                    | <b>113,288</b>   | 101,098    | <b>181,243</b>   | 153,802    |
| Adjustments to reconcile net income to cash from operating activities |                  |            |                  |            |
| Depreciation and amortization   | <b>14,879</b>    | 15,253     | <b>41,445</b>    | 35,872     |
| Equity pickup   | <b>(232,143)</b> | (240,585)  | <b>(3,464)</b>   | (2,394)    |
| Provision for guarantees  | <b>482</b>       | (1,866)    | <b>22,428</b>    | 5,841      |
| Interest on charges and financing                                     | <b>51,608</b>    | 66,950     | <b>63,367</b>    | 79,613     |
| Exchange differences on loans and financing                           | <b>7,819</b>     | -          | <b>7,819</b>     | -          |
| Provision for tax, labor and civil contingencies                      | <b>2,964</b>     | (425)      | <b>5,732</b>     | 2,439      |
| Gains (losses) on barter transactions                                 | -                | -          | <b>(10,266)</b>  | (6,593)    |
| Gains (losses) on sale of equity interest                             | <b>(40,586)</b>  | (34,425)   | <b>(40,572)</b>  | (53,425)   |
| Present value adjustment on accounts receivable                       | -                | -          | <b>2,133</b>     | (4,251)    |
| Present value adjustment on lease financing                           | <b>2,609</b>     | 2,728      | <b>2,647</b>     | 2,758      |
| Interest on accounts payable for acquisition of right of use          | -                | (23)       | -                | (23)       |
| Adjustment to net realizable value of finished inventories            | -                | -          | <b>3,597</b>     | -          |
| Allowance for doubtful accounts, net                                  | -                | -          | <b>(302)</b>     | 5,530      |
| Provision for losses on related parties                               | -                | -          | <b>5,240</b>     | -          |
| Provision for stock option plan                                       | <b>1,883</b>     | 3,788      | <b>1,883</b>     | 3,788      |
| Provision for profit sharing  | <b>207</b>       | 2,305      | <b>207</b>       | 2,305      |
| Increase (decrease) in assets   |                  |            |                  |            |
| Accounts receivable   | <b>(3,793)</b>   | 11,477     | <b>67,245</b>    | 38,087     |
| Inventories   | <b>3,371</b>     | (2,876)    | <b>148,088</b>   | 145,309    |
| Sundry receivables  | <b>(20,847)</b>  | (14,609)   | <b>(31,517)</b>  | (9,982)    |
| Transactions with related parties                                     | <b>9,448</b>     | 50,171     | <b>5,380</b>     | 33,689     |
| Judicial deposits   | <b>(152)</b>     | (782)      | <b>544</b>       | (1,329)    |
| Taxes recoverable   | <b>3,701</b>     | 1,955      | <b>3,375</b>     | 1,575      |
| (Decrease) increase in liabilities                                    |                  |            |                  |            |
| Trade accounts payable  | <b>(9,807)</b>   | (3,307)    | <b>29,559</b>    | (18,813)   |
| Labor obligations   | <b>(3,341)</b>   | 359        | <b>(2,594)</b>   | 2,152      |
| Tax obligations   | <b>66</b>        | (21)       | <b>670</b>       | (2,436)    |
| Real estate commitments payable                                       | <b>(3,600)</b>   | -          | <b>(171,986)</b> | (150,008)  |
| Advances from customers   | <b>(16,891)</b>  | 19,253     | <b>(12,962)</b>  | 26,547     |
| Accounts payable  | <b>(8,615)</b>   | (25,957)   | <b>21,962</b>    | (18,871)   |
| Provision for tax, labor and civil contingencies                      | <b>(963)</b>     | -          | <b>(10,337)</b>  | -          |
| Transactions with related parties                                     | <b>18,518</b>    | (3,411)    | <b>4,255</b>     | 38         |
| Construction guarantee  | <b>(2,166)</b>   | -          | <b>(19,620)</b>  | -          |
| Income and social contribution taxes paid                             | <b>(136)</b>     | (788)      | <b>(29,851)</b>  | (30,703)   |
| Net cash flows from (used in) operating activities                    | <b>(112,197)</b> | (53,738)   | <b>285,348</b>   | 240,517    |

## Direcional Engenharia S.A.

Statements of cash flows (Continued)  
 Years ended December 31, 2020 and 2019  
 (In thousands of reais)

|  | Individual       |            | Consolidated     |            |
|--|------------------|------------|------------------|------------|
|  | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| Cash flows from investing activities                       |                  |            |                  |            |
| Increase (decrease) in investments (SPCs and SPEs)         | <b>(110,952)</b> | 5,135      | <b>(22,589)</b>  | 16,789     |
| Dividends received   | <b>323,083</b>   | 254,707    | <b>1,874</b>     | 881        |
| Disposal of equity interests                               | <b>11,123</b>    | 23,188     | <b>12,123</b>    | 31,187     |
| Additions to property and equipment                        | <b>(1,091)</b>   | (1,696)    | <b>(7,384)</b>   | (11,021)   |
| P&E leased   | <b>(3,195)</b>   | (5,656)    | <b>(4,295)</b>   | (5,753)    |
| Additions to intangible assets                             | <b>(10,084)</b>  | (3,715)    | <b>(10,640)</b>  | (4,278)    |
| Short-term investments                                     | <b>(34,026)</b>  | (28,823)   | <b>227</b>       | (51,537)   |
| Net cash flows from (used in) investing activities         | <b>174,858</b>   | 243,140    | <b>(30,684)</b>  | (23,732)   |
| Cash flows from financing activities                       |                  |            |                  |            |
| Dividends paid   | <b>(120,364)</b> | (129,969)  | <b>(120,364)</b> | (129,969)  |
| Share buyback  | <b>(23,939)</b>  | -          | <b>(23,939)</b>  | -          |
| Additions to lease financing                               | <b>3,180</b>     | (2,443)    | <b>4,155</b>     | (2,627)    |
| Amortization of lease financing                            | <b>(8,507)</b>   | -          | <b>(8,717)</b>   | -          |
| Interest paid on leases                                    | <b>(452)</b>     | (176)      | <b>(452)</b>     | (180)      |
| New borrowings   | <b>489,078</b>   | 304,809    | <b>616,768</b>   | 404,891    |
| Repayment of borrowings                                    | <b>(285,486)</b> | (338,853)  | <b>(448,510)</b> | (569,233)  |
| Interest paid  | <b>(36,264)</b>  | (76,617)   | <b>(39,696)</b>  | (82,601)   |
| Capital increase (decrease) by noncontrolling shareholders | <b>(344)</b>     | (57)       | <b>(36,135)</b>  | (18,565)   |
| Net cash flows from (used in) financing activities         | <b>16,902</b>    | (243,306)  | <b>(56,890)</b>  | (398,284)  |
| Increase in cash and cash equivalents                      | <b>79,563</b>    | (53,904)   | <b>197,774</b>   | (181,499)  |
| Cash and cash equivalents                                  |                  |            |                  |            |
| At beginning of year                                       | <b>337,067</b>   | 390,971    | <b>533,795</b>   | 715,294    |
| At end of year   | <b>416,630</b>   | 337,067    | <b>731,569</b>   | 533,795    |

See accompanying notes.

## Direcional Engenharia S.A.

Statements of value added  
 Years ended December 31, 2020 and 2019  
 (In thousands of reais)

|  | Individual      |            | Consolidated     |            |
|--|-----------------|------------|------------------|------------|
|  | 12/31/2020      | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| Revenue  |                 |            |                  |            |
| Real estate sold and services rendered                                   | <b>48,020</b>   | 141,959    | <b>1,649,500</b> | 1,550,861  |
| Other operating income (expenses)  | <b>(2,541)</b>  | (17,284)   | <b>(31,054)</b>  | (41,881)   |
| Allowance for doubtful accounts – reversal (set-up)                      | -               | -          | <b>(12,914)</b>  | (5,530)    |
|  | <b>45,479</b>   | 124,675    | <b>1,605,532</b> | 1,503,450  |
| Inputs acquired from third parties                                       |                 |            |                  |            |
| Raw materials used   | <b>(17,454)</b> | (90,357)   | <b>(783,554)</b> | (778,923)  |
| Materials, electricity, outsourced services and other operating expenses | <b>(13,008)</b> | (11,844)   | <b>(21,857)</b>  | (20,594)   |
| Other  | <b>(10,364)</b> | (23,967)   | <b>(167,646)</b> | (162,034)  |
|  | <b>(40,826)</b> | (126,168)  | <b>(973,057)</b> | (961,551)  |
| Gross value added  | <b>4,653</b>    | (1,493)    | <b>632,475</b>   | 541,899    |
| Depreciation and amortization, net                                       | <b>(14,879)</b> | (15,253)   | <b>(41,445)</b>  | (35,872)   |
| Net value added generated by the Company                                 | <b>(10,226)</b> | (16,746)   | <b>591,030</b>   | 506,027    |
| Value added received in transfer   |                 |            |                  |            |
| Equity pickup  | <b>232,143</b>  | 240,585    | <b>3,464</b>     | 2,394      |
| Finance income   | <b>38,687</b>   | 31,464     | <b>44,116</b>    | 40,941     |
|  | <b>270,830</b>  | 272,049    | <b>47,580</b>    | 43,335     |
| Total value added to be distributed                                      | <b>260,604</b>  | 255,303    | <b>638,610</b>   | 549,362    |
| Distribution of value added  |                 |            |                  |            |
| Personnel  | <b>69,674</b>   | 75,501     | <b>226,513</b>   | 216,980    |
| Taxes, charges and contributions   | <b>6,283</b>    | 6,569      | <b>166,973</b>   | 120,089    |
| Debt remuneration  | <b>71,574</b>   | 72,757     | <b>94,991</b>    | 91,477     |
| Retained earnings (accumulated losses)                                   | <b>113,073</b>  | 100,476    | <b>113,073</b>   | 100,476    |
| Portion of P&L attributed to noncontrolling shareholders                 | -               | -          | <b>37,060</b>    | 20,340     |
|  | <b>260,604</b>  | 255,303    | <b>638,610</b>   | 549,362    |

See accompanying notes.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **1. Operations**

Direcional Engenharia S.A. (“Direcional” or “Company”) is a publicly-held company headquartered in Belo Horizonte, Minas Gerais state, with shares traded on B3, under ticker symbol DIRR3.

Direcional is a real estate development and construction company engaged in developing medium low-income-oriented projects through its wholly-owned subsidiary Riva, primarily in the Northern, Northeastern, Midwestern and Southeastern regions of Brazil. Over its 40 years’ experience in developing and building low-income-oriented projects, the Company established a verticalized structure and a standardized and industrial construction process, which has allowed the construction of projects with high operational efficiency.

The Company carries out its development and construction activities through Silent Partnerships (SCPs) and Special Purpose Entities (SPEs) used in the normal course of business with a view to establishing partnerships, allowing the individual monitoring of projects, facilitating new financing lines for production as well as financial accounting control. The SCPs and the SPEs operate exclusively in the real estate sector, and in most cases are linked to a specific project.

On March 15, 2021, the Company’s Board of Directors approved the individual and consolidated financial statements and authorized their disclosure.

#### **1.1. COVID-19 analysis**

In March 2020, the World Health Organization (WHO) declared a state of pandemic due to the novel coronavirus, COVID-19. This disease spread rapidly around the world, which led governments and private sector entities to adopt social isolation measures in order to contain the advancement of this pandemic.

To deal with this unexpected situation, Company management created a crisis committee, comprised of Executive Board members, to address the matters relating to COVID-19. This committee continuously monitors the news about this matter in the media and from government authorities, so as to define the best strategy for keeping all employees safe, in the first place, and for Company business to be appropriately performed.

All measures adopted also aim at preserving, to the highest extent possible, all the ecosystem involved in the business, i.e. from Company employees to the suppliers and service providers.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 1. Operations (Continued)

#### 1.1. COVID-19 analysis (Continued)

In general terms, these measures are as follows:

##### Safety measures

###### *Procedures in construction sites*

For our construction workers to be kept safe and appropriately perform their roles, the following procedures became mandatory: before entering the construction site, measuring the employee's or visitor's temperature (this procedure is repeated after lunch), wearing appropriate protection masks (mandatorily during the entire work shift), hand hygiene procedures (inputs provided by the Company), daily screening by a security technician and counting on the recurring presence of a nurse technician in each regional office to assess the employees' health. Construction sites are well-ventilated and spacious, which enables Company employees to maintain the appropriate security distancing suggested by WHO. In addition to the IPE items usually provided to each employee, the Company delivered hygiene kits containing soap, detergent and toilet paper every week.

Common spaces such as canteens, water fountains and dressing rooms in work sites are sanitized at least 4 times a day. For the hygiene of work tools, the Company provides 70% alcohol, disinfectants and bleach. Work and meal times are also more flexible in order to prevent crowds.

###### *Procedures in the administrative office*

For the safety and proper performance of administrative activities, we made the working schedule more flexible for main office workers. Employees whose activities do not require their physical presence in the Company's main office as well as professionals belonging to risk groups began to work from home.

We provided masks to all employees, whose must wear them during their working hours, and 70% alcohol in all floors and restrooms. Work stations and the building's common areas are sanitized at least twice a day. Additionally, the employees' temperature is measured twice a day. The employees that display any COVID-19 symptoms are released from work and take the appropriate tests and, if necessary, go into quarantine.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 1. Operations (Continued)

#### 1.1. COVID-19 analysis (Continued)

##### Safety measures (Continued)

##### *Cash protection*

With a view to reinforcing Company cash in these unstable times, the Board of Directors approved the 1<sup>st</sup> issue of commercial promissory notes amounting to R\$100,000 over a one-year period at the CDI+4% p.a. rate. On June 16, 2020, the Company took out another longer credit line in the amount of R\$100,000 at a more attractive rate (CDI + 2.5% p.a.) and settled the promissory notes previously contracted. On September 21, the Company carried out the 6<sup>th</sup> issue of Debentures in the total nominal value of R\$250,000, maturing on September 21, 2025, at the rate of CDI + 2.85% p.a.

From March to August 2020, the working hours of administrative employees was also changed, leading to significant reduction in the work volume. The employment contracts of employees were suspended in locations where, due to a state or municipal decree, we are not allowed to operate, in accordance with the guidance set out by Provisional Executive Order No. 936/2020. In September, all employees resumed work full-time.

The Company chose to defer tax payments pursuant to Ruling No. 139/2020 of the Ministry of Economy, dated April 3, 2020. Management contacted its suppliers and service providers seeking to adjust the agreements to the new market reality, either by negotiating prices or extending payment terms.

##### *Analysis of impacts on the business*

Management carefully considers the information available and government decisions in Company decision-making process. Its activities are classified as essential and, as such, the construction sites operating normally. In the state of Ceará, due to a state decree, activities were suspended from April 20 to May 29, 2020, resuming in June. Prudently, we took all safety measures required, both in the construction sites and in our main office, with a view to protecting the health of our employees.

In 2020, the Company's net sales increased 31% compared to net sales in 2019. We believe that the strong sales performance is due to the Company's business model focused on the CVA - Casa Verde Amarela program (former MCMV Program) , in which the transfer from the customer to the financing agent

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **1. Operations (Continued)**

#### **1.1. COVID-19 analysis (Continued)**

##### Safety measures (Continued)

##### *Analysis of impacts on the business (Continued)*

occurs at the time of sale during the construction work (associative method) and not at the end of the project, allowing the shortening of the business financial cycle and reducing the impacts on the operation's cash flow. In addition, there was no restriction on bank credit for the sector. Stands and points of sale were gradually opened and the Company is working hard on the online digital sales channels. There was no significant increase in the Company's defaults in the year.

##### *Social cooperation*

The Company is inserted in the social context of the cities where it develops its projects. As such, we believe in the large social impact that safe and decent housing represents for a family. Therefore, we are sparing no efforts to maintain our Company operational, always keeping in mind all WHO recommendations and prioritizing our employees' health.

Given this scenario of health crisis and potential collapse in the hospital infrastructure, in the 1<sup>st</sup> quarter, the Company made a donation of R\$500 to Santa Casa de Misericórdia in Belo Horizonte and R\$119 to Empresa Pública de Saúde do Rio de Janeiro S.A. In the 2<sup>nd</sup> quarter, the Company donated hospital furniture in the amount of R\$249 to the Temporary Hospital under construction in pavilion 3 of Riocentro, in Rio de Janeiro. In the period, the Company also donated R\$19 in staple foods to Instituto Hortense de Uberlândia, Minas Gerais state. In the 3<sup>rd</sup> quarter, the Company made a R\$100 donation to the Butantan Institute.

The Company has been considering other manners in which to actively contribute with society in these critical times in Brazil.

#### **1.2. Going concern**

Management assessed the company's ability to continue as a going concern and is comfortable with its financial and operating position. It is not aware of any significant uncertainty that could put its operational capacity at risk. As such, these financial statements were prepared on a going concern basis.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance**

The financial statements were prepared in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Financial Accounting Standards Board (CPC) and the International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (IASB), applicable to Brazilian real estate development entities registered with the Brazilian Securities and Exchange Commission (CVM), and disclose all significant financial statements information, and this information only, which is consistent with that used for management of the business.

#### **2.1. Presentation of financial statements**

##### **2.1.1. Basis of preparation**

The financial statements have been prepared under the historical cost convention, with financial assets and financial liabilities measured at fair value.

The preparation of the financial statements requires the use of certain critical accounting estimates and also that the Company management exercise its judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to these financial statements, are disclosed in Note 2.2.

##### **a) *Consolidated financial statements***

The consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) applicable to Brazilian real estate development entities, as approved by the Brazilian Financial Accounting Standards Board (CPC), the Brazilian Securities and Exchange Committee (CVM) and Brazil's National Association of State Boards of Accountancy (CFC), which additionally consider the Brazilian Accounting Standard NBC TG 47 (IFRS 15) that provides for revenue from contracts with the customers, as well as certain matters related to the meaning and application of the concept of continuous transfer of risks, rewards and control in the sale of real estate units by the real estate development companies in Brazil, basis for revenue recognition, as described in detail in Note No 2.1.17.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.1. Basis of preparation (Continued)**

###### **a) *Consolidated financial statements* (Continued)**

The subsidiaries included in the consolidation process are detailed in Note 7.

The presentation of the individual and consolidated Statement of Added Value (SVA) is required by Brazilian Corporation law for publicly-held companies. IFRS does not require the presentation of this statement. Consequently, under IFRS, this statement is presented as supplementary information, without prejudice to the set of financial statements.

The Company participates in real estate projects through Silent Partnerships (SCPs) and Special Purpose Entities (SPEs). SCP operations are carried out on behalf of the ostensible partner who is usually the project leader.

###### **b) *Individual financial statements***

The Company's individual financial statements were prepared in accordance with accounting practices adopted in Brazil, in accordance with Accounting Pronouncement CPC 26 (R1) - Presentation of Financial Statements, identified as Company.

In the individual financial statements, subsidiaries, affiliates and joint operations with or without legal a legal status are accounted for using the equity pickup method adjusted to the proportion held in the Group's contractual rights and obligations.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.1. Basis of preparation (Continued)**

###### **b) *Individual financial statements* (Continued)**

For equity pickup purposes, the financial statements of subsidiaries, jointly-controlled subsidiaries and affiliates are prepared for the same reporting period as the Company and, when necessary, adjustments are made to ensure that the accounting policies are in accordance with those adopted by the Company.

Equity in P&L of subsidiaries, jointly-controlled subsidiaries and affiliates is recorded in the Company's P&L as equity pickup, representing the investee's P&L attributed to shareholders.

After applying the equity pickup method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its subsidiary and affiliate. At each closing date, the Company determines whether there is objective evidence of impairment loss of its investments in subsidiaries and affiliates.

In this case, the Company calculates impairment loss as the difference between the subsidiary's recoverable amount and book value, and recognizes such amount in the Company's statement of profit or loss.

##### **2.1.2. Consolidation**

The following accounting practices are applied in the preparation of the consolidated financial statements.

###### **a) *Subsidiaries***

Subsidiaries are all entities (including structured entities), with or without legal status, over which the Group holds control. The Group controls an entity when it is exposed or entitled to variable returns deriving from its involvement in the entity and can interfere in these returns due to the power it exercises over the entity.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.2. Consolidation (Continued)**

###### **a) *Subsidiaries* (Continued)**

The subsidiaries are fully consolidated as from the date when the control is transferred to the Group. The consolidation is discontinued on the date such control ceases.

The Group adopts the acquisition method to account for business combinations. The consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and any equity instruments issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, where applicable. Acquisition-related costs are recorded in P&L as incurred. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are initially measured at fair value on the acquisition date. The Group recognizes the noncontrolling interest in the acquiree, both for its fair value and for the proportional portion of the noncontrolling interest in the fair value of the acquiree's net assets. Measurement of the noncontrolling interest is determined at each acquisition made.

The excess (i) consideration transferred; (ii) amount of noncontrolling interests in the acquiree; and (iii) fair value on the acquisition date of any previous equity interest held in the acquiree in relation to the fair value of the net identifiable assets acquired is recognized as goodwill. When the total consideration transferred, noncontrolling interests recognized and measurement of interest held previously is less than the fair value of net assets of the acquiree, the difference is recognized directly in P&L for the year.

Intercompany transactions, balances and unrealized gains on transactions are eliminated.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.2. Consolidation (Continued)

###### a) *Subsidiaries* (Continued)

Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset. The accounting policies of subsidiaries are adjusted, when necessary, to ensure consistency with the policies adopted by the Group.

###### b) *Transactions with noncontrolling interests*

The Group treats transactions with noncontrolling interests as transactions with owners of assets of the Group. For acquisition of noncontrolling interests, the difference between any consideration paid and the acquired portion of the book value of the subsidiary's net assets is recorded in equity. Gains or losses on disposal to noncontrolling interests are also recorded directly in equity, under "Equity adjustments".

###### c) *Loss of control in subsidiaries*

When the Group ceases to have control, any interest held in the entity is measured at fair value, and the change in the book value is recognized in profit or loss. Fair value is the book value for subsequent accounting of the interest held in an affiliate, a joint venture or a financial asset. In addition, any amounts previously recognized in other comprehensive income relating to such entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This could mean that amounts previously recognized in other comprehensive income are reclassified to P&L.

###### d) *Affiliates and joint ventures*

Affiliates are all entities over which the Group has significant influence, but not control, generally through a 20% to 50% ownership interest in the voting rights.

Joint arrangements are all entities over which the Group has shared control with one or more parties.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.2. Consolidation (Continued)**

###### **d) *Affiliates and joint ventures* (Continued)**

Investments in joint arrangements are classified as joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Investments in affiliates and joint ventures are accounted for using the equity pickup method and are initially recognized at cost. The Group's investment in affiliates and joint ventures includes the goodwill identified in the acquisition, net of any accumulated impairment loss.

The Group's share in P&L of its affiliates and joint ventures is accounted for in the statement of profit of loss and the share in changes in reserves is recognized in the Group's reserves. When the Group's share in the losses of an affiliate or joint venture is equal to or greater than the investment's book value, including any other receivables, the Group does not recognize additional losses unless it has incurred obligations or made payments on behalf of the affiliate or joint venture.

Unrealized gains on transactions between the Group and its affiliates and joint ventures are eliminated in proportion to the Group's interest therein. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset. The accounting policies of affiliates are adjusted, when necessary, to ensure consistency with the policies adopted by the Group.

If the equity interest in the affiliate is reduced, but significant influence is retained, only a proportional part of the amounts previously recognized in other comprehensive income will be reclassified to P&L, as appropriate. Gains and losses from dilution in investments in affiliates are recognized in P&L.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.3. Segment information**

Operating segments are defined as components of a business for which separate financial information is available and is assessed regularly by the operating decision-maker so that funds may be allocated to a given segment and its performance may be assessed. The Company management bases its internal management reports for decision-making on its own consolidated financial statements, on the same basis as these statements are disclosed, that is, only a segment considered internally as "Real Estate Business".

##### **2.1.4. Functional and presentation currency**

The items included in the financial statements of each Group company are measured using the currency of the primary economic environment in which the entity operates (functional currency). The individual and consolidated financial statements are presented in Brazilian reais, which is the Company's functional currency as well as its presentation currency.

##### **2.1.5. Cash and cash equivalents**

Cash and cash equivalents include cash, bank deposits and other highly liquid short-term investments, maturing within three months, with insignificant risk of any change in value. The balance is stated net of overdraft facilities in the statement of cash flows. Overdraft facilities are presented in the statement of financial position as Loans and financing, under current liabilities.

##### **2.1.6. Financial assets**

###### **a) *Classification***

The Group classifies its financial assets, upon initial recognition, into the following categories: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. Financial assets are classified according to the purpose for which they were acquired.

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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.6. Financial assets (Continued)

###### a) *Classification* (Continued)

###### I) Financial assets at amortized cost

Assets held to receive contractual cash flows on specific dates, according to the Company's business model, are classified as financial assets.

###### II) Financial assets at fair value through profit or loss

Financial assets classified at fair value through profit or loss are not specifically defined to be held to receive contractual cash flows on specific dates or for sale in the Company's business model.

###### III) Financial assets at fair value through other comprehensive income

Financial assets classified at fair value through other comprehensive income are all other assets not classified in the above categories.

###### b) *Recognition and measurement*

The financial instruments are initially recognized at fair value, plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are charged to P&L. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred; in the latter case, provided the Group has transferred substantially all the risks and rewards of ownership of the asset. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are accounted for at amortized cost, using the effective interest rate method.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.6. Financial assets (Continued)

###### b) *Recognition and measurement* (Continued)

Gains or losses arising from changes in the fair value of financial assets measured at fair value through profit or loss are presented in P&L, under Other operating income (expenses), in the period in which they occur.

Dividends of financial assets measured at fair value through profit or loss and available-for-sale equity instruments, such as shares, are recognized in the statement of profit or loss as part of other income when the Group's right to receive dividends is established.

The fair value of publicly traded investments is based on the current purchase prices. If the market for a financial asset (and securities not listed on the stock exchange) is not active, the Group establishes fair value through valuation techniques. These techniques include the use of recently contracted transactions with third parties, reference to other instruments that are substantially similar, analysis of discounted cash flows, and option pricing models that make maximum use of information generated by the market and rely as little as possible on information generated by the Company management.

###### c) *Offset of financial instruments*

Financial assets and liabilities are offset and the net value is stated in the statement of financial position when there is a legal right to offset the amounts recognized and the intention to settle them on a net basis or realize the asset and settle the liability simultaneously. The legal right should not be contingent on future events and should be applicable in the ordinary course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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## 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

### 2.1. Presentation of financial statements (Continued)

#### 2.1.6. Financial assets (Continued)

##### d) *Impairment of financial assets*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. An asset or group of financial assets is impaired and impairment loss is recognized only if there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of assets (a loss event) and such loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that may be reliably estimated.

The criteria used by the Group to determine whether there is objective evidence of impairment loss include:

- (i) Significant financial difficulties faced by the issuer or debtor;
- (ii) Breach of contract, such as default or payment in arrears of interest or principal;
- (iii) The Group, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower a concession that a lender would not otherwise consider;
- (iv) It becomes probable that the borrower will file for bankruptcy or undergo another type of financial reorganization;
- (v) The extinction of an active market for such financial asset due to financial difficulties; or
- (vi) Observable data indicating that there is a measurable reduction in the estimated future cash flows from a financial asset portfolio, since the initial recognition of those assets, although the decrease may not yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment condition of borrowers in the portfolio; and
  - National or local economic conditions correlated to defaults on portfolio assets.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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## 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

### 2.1. Presentation of financial statements (Continued)

#### 2.1.6. Financial assets (Continued)

##### d) *Impairment of financial assets* (Continued)

The impairment loss amount is measured as the difference between the asset's book value and the present value of estimated future cash flows (excluding future credit losses not incurred), discounted at the financial asset's original effective interest rate. The book value of the asset is reduced and the loss is recognized in the statement of profit or loss. If a loan or investment held to maturity is subject to a variable interest rate, the discount rate to measure the impairment loss is the current effective interest rate determined according to the agreement. As a practical expedient, the Group is able to measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recorded in P&L.

#### 2.1.7. Accounts receivable for real estate development and for services rendered

Accounts receivable is substantially represented by receivables (current and noncurrent) arising from sales of residential real estate units ("accounts receivable for real estate development") and from performance of services related to administration of construction works ("accounts receivable for services rendered").

Accounts receivable from customers for units launched but not completed are calculated by applying the percentage of completion (POC) of the construction on the revenue from units sold, adjusted according to the conditions of the sales agreements (monetary restatement), less installments received. If the amount of the installments received exceeds the accumulated revenue recognized, the balance is classified as advance from customers, under liabilities.

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Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.7. Accounts receivable for real estate development and for services rendered (Continued)

The balance of accounts receivable from incomplete real estate units is stated at net present value, i.e., discounted to present value by the difference between the contractual interest charged after delivery of the property and the restatement rate installments upon construction of the property (Brazilian Construction Cost Index - INCC).

If the period of receipt of the amount corresponding to the accounts receivable balance is of one year or less, the receivables are classified as current assets. Otherwise, the exceeding portion is stated as noncurrent assets.

Trade accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method less allowance for doubtful accounts (ADA or impairment).

##### 2.1.8. Inventories

###### a) *Inventories of land to be developed*

Inventories of land are recorded at historical build-up cost, which includes all related, directly linked and measurable expenses, including barter transactions calculated at fair value.

Land can be acquired through partnerships with landowners (physical barter and financial exchanges).

Physical barter: The fair value of the land is recorded as a component of inventories of real estate land for sale, in return for advances from customers, at the time of execution of the agreement or when the contractual covenants are met. Revenue from barter transactions are allocated to P&L over the period of construction of the projects.

Financial barter: In financial exchanges, the Company transfers a percentage of the sales value to the landowners. This amount is recorded as a component of inventories of real estate land for sale, against accounts payable, on occasion of execution of the agreement or contract related to said transaction.

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Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.8. Inventories (Continued)

###### a) *Inventories of land to be developed* (Continued)

###### Financial barter (Continued)

Inventories of land to be developed are classified according to the expectation of launching of the project. If the project, to which the land is tied, is expected to be launched within the next 12 months, the land is classified in current assets. Otherwise the land is stated as noncurrent assets.

###### b) *Inventories of units under construction*

Inventories of units under construction are stated as a portion of inventories corresponding to the cost incurred of units not yet sold, adjusted to the net realizable value, when lower than the cost incurred.

The cost includes the cost of acquisition of the land, project and legalization expenses,, materials, labor (own or contracted from third parties), and other related construction costs, including the financial cost of capital applied (financial charges of accounts payable for land acquisition and financing operations incurred during the construction period).

##### 2.1.9. Property and equipment

Property and equipment items are measured at historical cost, less accumulated depreciation. Historical cost includes expenses directly attributable to acquisition of the items. Historical cost also considers financing cost related to acquisition of qualifying assets.

Subsequent costs are included in the asset's book value or recognized as a separate asset, as the case may be, only when it is probable that future economic benefits associated with such costs will flow to the Company and they may be reliably measured. The book value of replaced items or parts is written off. All other repair and maintenance services are recorded against P&L for the year, when incurred.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.9. Property and equipment (Continued)**

The depreciation of other assets is calculated by the straight-line method considering their costs and net book values over the estimated useful life described in Note 8.

The aluminum molds used in the construction of units are subject to depreciation using the unit of production method, which results in expenses recognized based on production.

Residual value and useful life of the assets are reviewed and adjusted, as appropriate, at each year-end.

Sales stand expenses, including its construction, decoration, furniture and maintenance, are recognized as property and equipment, as long as the estimated useful life is not less than 12 months, and depreciation is posted to P&L as selling expenses over its useful life.

Gains and losses from disposals are calculated by comparing the results with the book value, recognized as Other operating income (expenses), under P&L.

##### **2.1.10. Impairment of nonfinancial assets**

Assets subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the book value cannot be recovered. An impairment loss is recognized when the book value of the asset exceeds its recoverable amount, which represents the greater of an asset's fair value less costs to sell and its value in use. For impairment testing purposes, assets are grouped into the lower levels for which there are separately identifiable cash flows (Cash Generating Units (CGU)). Nonfinancial assets, except goodwill, that have been adjusted for impairment are subsequently reviewed for possible reversal of impairment at each reporting date.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.11. Loans and financing

Loans and financing are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in P&L over the period in which the loans are outstanding, using the effective interest rate method.

Loans and financing 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 date.

The costs of general and specific loans and financing directly attributable to acquisition, construction or production of a qualifying asset, necessarily requiring a significant time to be concluded for the purpose of use or sale, are capitalized as part of the corresponding cost of the asset when it is probable that future economic benefits will be generated for the Company and such costs may be reliably measured. Other borrowing costs are recorded as expense in the period in which they incur.

##### 2.1.12. Lease financing

###### a) *Right-of-use assets*

The Company recognizes its right-of-use assets at cost less any depreciation, loss or impairment, and adjusted for any measurement of the liability. The cost of the right-of-use asset comprises the initial value of the measurement of the lease liability, lease payments made up to the start date, initial costs incurred, and the estimated costs to be incurred for decommissioning of the asset.

The right-of-use assets are depreciated on a straight-line basis over the lease term.

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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.12. Lease financing (Continued)

###### b) *Lease liabilities*

On the lease start date, the Company recognizes lease liabilities at the present value of the payments, using the incremental rate on its loans, given that the interest rate implicit in the lease is not easily determinable. The incremental financing rate was calculated by the average weighted by the outstanding balance of the Company's current financing agreements.

###### c) *Short-term and low-value asset leases*

The Company applies the recognition exemption for short-term leases (whose term is equal to or less than 12 months) or low-value leases. Such lease payments are recognized as expenses.

##### 2.1.13. Provisions

Provision for guarantee and provision for contingencies (labor, civil and tax lawsuits) are recognized when: (i) the Group has a present or constructive obligation, as a result of past events, (ii) it is probable that an outflow of funds will be required to settle the obligation, and (iii) a reliable estimate of the amount can be made.

When there are a number of similar obligations, the likelihood of their settlement is determined taking into consideration the class of obligations as a whole. A provision is recognized even if the likelihood of settlement with respect to any one item included in the same class of obligations is low.

Provisions are measured at the present value of expenses that are expected to be required to settle the obligation, using a pre-tax rate, which reflects the current market evaluation of the time value of money and the specific risks of the obligation. Increase in obligations due to passage of time is recognized as finance costs.

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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.13. Provisions (Continued)**

###### *a) Provision for contingencies*

The Group is party to various legal and administrative proceedings. Provisions are set up for all contingencies relating to legal proceedings for which it is likely that an outflow of funds will be required to settle the contingency/obligation and a reasonable estimate of its amount can be made. Assessment of the likelihood of loss includes an evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their significance in the legal system, as well as the opinion of outside legal advisors.

Provisions are reviewed and adjusted to take into consideration any changes in circumstances, such as applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court decisions.

###### *b) Provision for guarantees*

The Group sets up provision for guarantee to cover project repair expenses during the period established in the contracts, based on the history of expenses incurred. The provision is recorded against P&L (cost of real estate sold), to the extent costs of units sold incur. Any remaining unused balances of the provision are reversed after the contractual term of the guarantee. The average term of the guarantee is approximately 5 years after delivery of the real estate development.

##### **2.1.14. Current and deferred income and social contribution taxes**

Income and social contribution tax expenses for the period include current and deferred taxes. Income taxes are recognized in P&L, except to the extent they relate to items directly recognized in equity. In such case, the tax is also recognized in equity.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### 2.1.14. Current and deferred income and social contribution taxes (Continued)

Current and deferred income and social contribution tax charges are calculated based on tax laws enacted, or substantially enacted, at the statement of financial position date. Management regularly assesses the positions assumed in the income tax calculations with respect to situations in which applicable tax regulations give rise to different interpretations, and records provisions, when appropriate, based on estimated amounts payable to tax authorities.

The Group structures its operations in specific purpose entities (Silent Partnerships (SCPs) and Special Purpose Entities (SPEs)), whose business purpose is the construction and sale of real estate units. The Company calculates and pays taxes on revenue from sale of real estate units on a cash basis rather than on an accrual basis, as established by Revenue Procedure No. 84/79. In addition, such specific purpose entities are subject to the regime whereby taxable profit is computed as a percentage of gross revenue, with income tax at 8% (real estate development, including monetary restatement) and 32% (provision of services), and social contribution tax at 12% (real estate development), at 32% (provision of services) and at 100% on finance income, on which the regular rates of the respective tax and contribution apply.

The Group has adopted the Special Taxation Regime (RET) applied to real estate development entities. For such, certain standards related to the pool of assets available for lien should be complied with, according to Revenue Procedure IN RFB No. 1435 of December 30, 2013, under which a tax burden of up to 4% for real estate developments is allowed.

Direcional Engenharia S.A. is subject to the regime whereby taxable profit is based on accounting records, and income and social contribution taxes are calculated at the regular rates of 15%, plus surtax of 10% for income tax and 9% for social contribution tax on the book profit for the year, adjusted according to accounting criteria established by current legislation.

Current income and social contribution taxes are stated net, by taxpayer, under liabilities, when there are amounts payable, or under assets when the amounts previously paid exceed the total owed at the reporting date.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.14. Current and deferred income and social contribution taxes (Continued)

Deferred income and social contribution taxes are recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their book values in the financial statements. One of the main temporary differences corresponds to the difference in the calculation of revenue by the tax regime (cash basis) and by the corporate regime (accrual basis).

Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences may be used.

Deferred tax assets and liabilities are stated net in the statement of financial position when there is 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 are usually presented separately, and not for the net amount.

##### 2.1.15. Employee benefits

###### a) *Share-based compensation*

The Group operates two share-based compensation plans according to which the entity receives employee services as consideration for the Group's equity instruments (options). The fair value of employee services, received in exchange for options granted, is recognized as expense. The total amount to be expensed is determined by reference to the fair value of the options granted, not including the impact of any vesting conditions based on the service. The total amount of expenses is recognized during the period in which the right is vested; period during which the specific vesting conditions should be met. At the statement of financial position date, the entity reviews its estimates of the number of options to be vested based on nonmarket vesting conditions. Any impact of the review of initial estimates is recognized in P&L, with a corresponding adjustment in equity.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.15. Employee benefits (Continued)

###### a) *Share-based compensation* (Continued)

The amounts received, net of any directly attributable transaction costs, are credited to capital (nominal value) and the goodwill reserve, if applicable, when the options are exercised.

The social contributions payable in connection with stock options granted are considered an integral part of the granting itself, and the charge will be treated as a cash-settled transaction.

###### b) *Profit sharing*

The Group recognizes a profit sharing liability and expense in P&L based on a methodology that takes into consideration earnings attributable to its shareholders after certain adjustments. The Group recognizes a provision when it is contractually bound or when there is an earlier practice that has generated an unrealized obligation.

##### 2.1.16. Capital

Common and preferred shares are classified in equity.

Additional costs directly attributable to issue of new shares or options are stated in equity as a deduction of the amount raised, net of taxes.

When a Group company buys shares from the Company's capital (treasury shares), the amount paid, including any directly attributable additional costs (net of income tax), is deducted from equity attributable to Company shareholders until shares are canceled or reissued. When such shares are subsequently reissued, any amount received, net of any directly attributable additional transaction costs and the related income and social contribution tax effects, is included in equity attributable to Company shareholders.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.17. Revenue recognition**

Revenue is stated net of taxes, returns, rebates and discounts, as well as elimination of sales between Group companies. The Group recognizes revenue when it can be reliably measured, it is probable that future economic benefits will flow to the entity, and the specific criteria have been met for each of the Group's activities, as described below.

##### **a) *Completed real estate units***

In installment sales of completed units, the P&L is allocated upon signature of the purchase and sale commitment, and at this point the most significant risks and rewards inherent in the property are transferred, regardless of the term of receipt of the contractual value.

Fixed interest and monetary variation are allocated on a time proportion basis to P&L, under finance income, on an accrual basis, irrespective of receipt thereof.

##### **b) *Real estate units under construction***

The Company adopted the POC revenue recognition methodology, as it understands that this is the best manner to evidence the results of the follow-up, since it is possible to monitor the results during the construction process, enabling a concrete analysis of the results of the projects. To ensure that there are no material misstatements in this process, the Company uses robust ERP where all financial transactions are recorded, the entire procurement process is computerized, from quotation to tracking of deliveries, all payments are carried out based on definitions of authority levels, and the accounting closing process is computerized. We hold monthly committee meetings to validate budgets and define deviations. Budgets are only sent to the accounting area after validation by this committee, so the Company may have secure information for application of POC.

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Notes to individual and consolidated financial statements (Continued)  
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### 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

#### 2.1. Presentation of financial statements (Continued)

##### 2.1.17. Revenue recognition (Continued)

###### b) *Real estate units under construction* (Continued)

In the sales of incomplete units, the Company observed the procedures and standards established in CPC 47 "Revenue from contracts with customers" for recognition of revenue from sales of goods with continued transfer of significant risks and rewards inherent in the ownership. The following procedures are adopted for recognition of sales revenue from units under construction:

Costs incurred upon sale of units, including cost of land, are fully recognized in P&L.

The percentage of the cost incurred of units sold, including the land, in relation to total budgeted cost (POC) is calculated, and this percentage is applied to the fair value of the revenue of the units sold (including the fair value of the land barter transactions carried out), adjusted according to the terms of the sales agreements, which provides for the monetary restatement of amounts receivable in accordance with the National Civil Construction Index (INCC), thus determining the amount of sales revenue to be recognized.

The sales revenue determined, including monetary restatement of accounts receivable, net of installments already received (including the fair value of barter with land), are accounted for as accounts receivable, or as advances from customers, as applicable.

The fair value of the revenue from units sold is calculated at present value based on the highest rate identified in the comparison between the average borrowing and financing rate of the Company, excluding inflation, and the National Treasury Bill (NTNB) rate, from the contract execution date to the date scheduled for delivery of the unit. Upon delivery of the unit, accounts receivable is subject to interest of 12% per year, plus monetary restatement by the IPCA. The interest rate for remuneration of government bonds indexed by the IPCA is compatible with the nature, timing and risks of similar transactions under market conditions. Subsequently, with elapse of time, interest is incorporated into the new fair value to determine the revenue to be appropriated, on which the POC will be applied.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
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### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.1. Presentation of financial statements (Continued)**

##### **2.1.17. Revenue recognition (Continued)**

###### **b) *Real estate units under construction* (Continued)**

The interest and financial charges, the financing of works and the acquisition of land are appropriated to the cost of the project, and appropriated to P&L in accordance with the units sold, not interfering in the determination of the percentage of the cost incurred in relation to the total budgeted cost (POC).

###### **c) *Finance income***

Finance income is recognized on an accrual basis, using the effective interest rate method. When an impairment is identified in relation to an account receivable, the Group reduces the book value to its recoverable amount, which corresponds to the estimated future cash flow, discounted at the instrument's original effective interest rate.

Subsequently, as time elapses, interest is incorporated into the accounts receivable, matched against finance income. This finance income is calculated at the same effective interest rate used to determine the recoverable amount, that is, the instrument's original rate.

##### **2.1.18. Payment of dividends and interest on equity**

Payment of dividends and interest on equity to the Company's shareholders are recognized as a liability in financial statements at the year-end, according to the Company's articles of incorporation. Any dividend amount in excess of mandatory minimum dividends is accrued on the date of related approval by the shareholders at the Annual Shareholders' Meeting.

The tax benefit of interest on equity is recognized in the statement of profit or loss.

## Direcional Engenharia S.A.

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## 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

### 2.1. Presentation of financial statements (Continued)

#### 2.1.19. New and revised standards and interpretations already issued and adopted by the Company

| <u>Pronouncement</u>   | <u>Description</u>  |
|--|---|
| Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest rate benchmark reform | The amendments to CPC 38 and CPC 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments did not significantly impact the Company's financial statements.   |
| Amendments to CPC 15 (R1): Definition of business                            | Amendments to CPC 15 (R1) clarify that, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments did not impact the Company's individual and consolidated financial statements.  |
| Amendments to CPC 26 (R1) and CPC 23: Definition of material                 | Omitting, misstating or obscuring information could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the individual and consolidated financial statements of, nor is there expected to be any future impact to the Group. |
| Amendment to CPC 00 (R2) – Conceptual framework for financial reporting      | The reviewed pronouncement provides updated definitions and criteria for recognition of assets and liabilities and clarifies important concepts. These amendments did not impact on the Group's individual and consolidated financial statements.   |
| Amendments to CPC 06 (R2): Covid-19 related rent concessions                 | The amendments provide relief to lessees from applying CPC 06 (R2) guidance on lease modification when accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This amendment did not impact the Group's individual and consolidated financial statements.  |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

## 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

### 2.1. Presentation of financial statements (Continued)

#### 2.1.20. Standards and interpretations issued but not yet effective

| <u>Pronouncement</u>         | <u>Description</u>   | <u>Effective period</u>                               |
|------------------------------|--|---|
| CPC 50 - Insurance contracts | Correlation to IFRS 17 - Establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.                      | Annual periods beginning on or after January 1, 2023. |
| IAS 1                        | Classification of liabilities as current or noncurrent. Clarifies aspects to be considered for the classification of liabilities as current or noncurrent. | Annual periods beginning on or after January 1, 2023. |

### 2.2. Critical accounting estimates and judgments

The estimates and judgments are continuously assessed and are based on historical experience and other factors, including expected future events considered reasonable in the circumstances.

The Group makes estimates concerning the future based on assumptions. By definition, accounting estimates seldom correspond to actual results. Estimates and assumptions presenting a significant risk and that are likely to cause a material adjustment to the book values of assets and liabilities in the next year are addressed below.

#### a) Recognition of revenue from real estate units under construction

For the purpose of applying the accounting policy for recognition of revenue from real estate units under construction, management follows CPC 47 – Revenue from contracts with customers.

The Company and its subsidiaries use the Percentage of Completion method (POC) to account for its sales agreements for units in real estate development projects and the provision of services. Use of the POC method requires the Company to estimate the costs to be incurred until the completion of construction and delivery of the keys of real estate units belonging to each development project to establish a ratio in relation to the costs already incurred. Revenue is calculated by multiplying this percentage (POC) by the fair value of revenue from sales already contracted. Accordingly, revenue is recognized continuously throughout the construction of the real estate development project. This determination requires significant judgment by management.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **2. Summary of significant accounting practices and policies and statement of compliance (Continued)**

#### **2.2. Critical accounting estimates and judgments (Continued)**

b) Budgeted cost of works

The total budgeted costs, consisting of costs incurred and estimated costs to be incurred for completion of the works, are reviewed periodically throughout the works, and the effect of such reviews on the estimates impacts P&L of the Company and its subsidiaries, as described above in Note 2.1.17 (b) Revenue recognition.

c) Provision for contingencies

The Company recognizes provision for tax, labor and civil contingencies. Assessment of the likelihood of loss includes an evaluation of available evidence, the hierarchy of laws, available case law, recent court decisions and their significance in the legal system, as well as the opinion of outside legal advisors. The provisions are reviewed and adjusted to take into consideration changes in circumstances, such as applicable statute of limitations, conclusions of tax audits or additional exposures identified based on new matters or court rulings. The Company and subsidiaries are periodically audited by tax, labor, social security, environmental and sanitary inspection authorities, among others. It is not possible to guarantee that the Company and its subsidiaries will not be served notices by such authorities, or that the related violations will not be converted into administrative proceedings and, subsequently, into legal suits, or is it possible to anticipate the outcome of any such proceedings.

d) Impairment testing of inventories

The Company annually tests its inventories of completed units for impairment to assess whether the book value of the asset exceeds its recoverable amount. The recoverable amount of the unit is determined by the current market price for the sale of units similar to those being tested, less the estimated cost to sell the unit. If the recoverable amount is less than the cost, the Company writes off the excess.

e) Allowance for losses

The Company periodically evaluates its accounts receivable in order to identify amounts that will not be realized, amounts already identified as losses or amounts that may not be realized in the future. The Company uses the potential loss method to determine the amount of the allowance for estimated losses, evaluating sales that have accounts receivable overdue for more than 90 days.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

## 2. Summary of significant accounting practices and policies and statement of compliance (Continued)

### 2.3. Restatement of individual and consolidated financial statements for 2019

As of December 31, 2020, the Company made accounting reclassifications related to the recognition of the matching plan. As described in Note 22, the matching plan is a program that grants the right to purchase shares and grants incentive shares to management and employees of the Company and/or of the SPEs in which the Company holds interest (“beneficiaries”), previously selected by the Board of Directors, with the objective of attracting, motivating and retaining such professionals, as well as aligning their interests with those of the Company and its shareholders.

The Company reclassified the amounts that were presented in the Capital reserves column – Shares issued/disposed of to the Capital reserves column – Options granted. The variation between the acquisition price of treasury shares and their disposal to plan beneficiaries was reclassified to the income reserves column.

These reclassifications did not result in an increase or decrease in the Company's equity.

For purposes of comparison, the balances as of December 31 and January 1, 2020 are being restated, as shown below:

|                             | Capital reserves          |             |          |                       |             |          |                      |             |           |
|-----------------------------|---------------------------|-------------|----------|-----------------------|-------------|----------|----------------------|-------------|-----------|
|                             | Shares issued/disposed of |             |          | Stock options granted |             |          | Income reserves      |             |           |
|                             | As originally stated      | Adjustments | Restated | As originally stated  | Adjustments | Restated | As originally stated | Adjustments | Restated  |
| Balances at 12/31/2017      | 206,877                   | -           | 206,877  | 7,729                 | -           | 7,729    | 549,591              | -           | 549,591   |
| Disposal of treasury shares | (3,262)                   | 4,869       | 1,607    | -                     | (4,798)     | (4,798)  | -                    | (71)        | (71)      |
| Other changes               | -                         | -           | -        | 3,991                 | -           | 3,991    | (179,065)            | -           | (179,065) |
| Balances at 12/31/2018      | 203,615                   | 4,869       | 208,484  | 11,720                | (4,798)     | 6,922    | 370,526              | (71)        | 370,455   |
| Disposal of treasury shares | (5,455)                   | 5,455       | -        | -                     | (4,759)     | (4,759)  | -                    | (696)       | (696)     |
| Other changes               | -                         | -           | -        | 3,788                 | -           | 3,788    | (29,494)             | -           | (29,494)  |
| Balances at 12/31/2019      | 198,160                   | 10,324      | 208,484  | 15,508                | (9,557)     | 5,951    | 341,032              | (767)       | 340,265   |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 3. Cash and cash equivalents and short-term investments

#### 3.1. Cash and cash equivalents

| Description                               | Individual |            | Consolidated |            |
|---|------------|------------|--------------|------------|
|   | 12/31/2020 | 12/31/2019 | 12/31/2020   | 12/31/2019 |
| Cash and banks                            | 1,563      | 13,385     | 217,303      | 135,808    |
| Cash equivalents – short-term investments | 415,067    | 323,682    | 514,266      | 397,987    |
| Total                                     | 416,630    | 337,067    | 731,569      | 533,795    |

The Company's investments are made through investment funds or in transactions performed directly with first-tier financial institutions. The Company's policy is to invest resources in funds or directly in conservative, highly liquid financial instruments. The short-term investment yield is linked to the Interbank Deposit Certificate (CDI), bearing interest at 154.25% of the CDI as of December 31, 2020. The average gross profitability in the last 12 months of the Company's short-term investments was 96.23% of the CDI.

#### 3.2. Short-term investments

|   | Individual |            | Consolidated |            |
|---|------------|------------|--------------|------------|
|   | 12/31/2020 | 12/31/2019 | 12/31/2020   | 12/31/2019 |
| Investment in Financial Treasury Bills (government bonds) | 97,507     | 117,555    | 128,391      | 143,504    |
| Financial Bills (private securities)                      | 96,739     | 42,665     | 66,969       | 52,083     |
| Total   | 194,246    | 160,220    | 195,360      | 195,587    |

The Company invests in restricted funds administered by first-tier banks, which seek conservative instruments that guarantee capital preservation. The funds set up are intended to monitor the variation of the Interbank Deposit Certificate (CDI), with investments in fixed income securities, government bonds of other financial institutions, and open-ended investment funds, which provide liquidity and allow the best financial return within the pre-established risk limits.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 4. Accounts receivable

#### 4.1. Accounts receivable from operations

| Accounts receivable for<br>real estate development   | Individual   |            | Consolidated   |            |
|--|--------------|------------|----------------|------------|
|  | 12/31/2020   | 12/31/2019 | 12/31/2020     | 12/31/2019 |
| Completed units                                      | 3,499        | 2,668      | 176,015        | 235,548    |
| Incomplete units                                     | -            | -          | 192,288        | 193,923    |
| Receivables for land sold                            | -            | -          | 1,425          | 1,200      |
| (-) Allowance for doubtful accounts                  | -            | -          | (17,030)       | (17,332)   |
| (-) Adjustment to present value                      | -            | -          | (4,702)        | (2,569)    |
|  | <b>3,499</b> | 2,668      | <b>347,996</b> | 410,770    |
| <b>Accounts receivable<br/>for services rendered</b> |              |            |                |            |
| Real estate intermediation                           | -            | -          | 923            | 893        |
| Firm-price construction contract                     | 3,623        | 753        | 25,170         | 31,277     |
| Other services                                       | 183          | 91         | 1,355          | 1,177      |
|  | <b>3,806</b> | 844        | <b>27,448</b>  | 33,347     |
|  | <b>7,305</b> | 3,512      | <b>375,444</b> | 444,117    |
| Current  | 6,540        | 3,475      | 246,717        | 347,538    |
| Noncurrent   | 765          | 37         | 128,727        | 96,579     |

The Company recognizes allowance for doubtful accounts and changes in the year were as follows:

|  | 12/31/2019 | (-)<br>Allowance | (+) Reversal | 12/31/2020 |
|--|------------|------------------|--------------|------------|
| Changes in allowance for doubtful accounts | (17,332)   | (31,936)         | 32,238       | (17,030)   |

Because of the revenue recognition criteria, the balance of trade accounts receivable from incomplete units sold is not fully reflected in the financial statements since its recording is limited to the portion of revenue recognized, net of installments already received. Note 17 (a) presents the balances receivable not recognized in the financial statements.

The Company calculated the present value of accounts receivable for incomplete units and recorded the amount considering the average discount rate of 3.69%, which is represented by the average funding rate of loans and financing, less inflation.

Trade receivables from real estate sales are restated according to the Brazilian Construction Cost Index (INCC) variation until the occupancy permit has been registered. After the occupancy permit is registered, these amounts are mostly restated by reference to IPCA, bearing interest of 12% p.a.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 4. Accounts receivable (Continued)

#### 4.1. Accounts receivable from operations (Continued)

On December 15, the Company entered into a Real Estate Credit Assignment agreement, through its subsidiaries, with True Securitizadora S.A. The net value of the transaction was of R\$116,968.

The aging list of trade accounts receivable from real estate development and services rendered, recorded in current assets at December 31, 2020 and 2019, is as follows:

|                         | Consolidated   |                |
|-------------------------|----------------|----------------|
|                         | 12/31/2020     | 12/31/2019     |
| Falling due             |                |                |
| Up to 3 months          | 120,965        | 233,631        |
| From 3 to 6 months      | 25,179         | 27,309         |
| From 6 to 9 months      | 25,401         | 18,160         |
| From 9 months to 1 year | 36,136         | 27,117         |
|                         | <u>207,681</u> | <u>306,217</u> |
| Overdue                 |                |                |
| Up to 1 month           | 13,293         | 24,539         |
| From 1 to 2 months      | 917            | 558            |
| From 2 to 3 months      | 4,201          | 482            |
| From 3 to 4 months      | 1,671          | 1,104          |
| From 4 to 6 months      | 754            | 658            |
| Above 6 months          | 18,200         | 13,980         |
|                         | <u>39,036</u>  | <u>41,321</u>  |
|                         | <u>246,717</u> | <u>347,538</u> |

The maturity of amounts falling due, recorded in noncurrent assets at December 31, 2020 and 2019, is scheduled as follows:

|               | 12/31/2020     | 12/31/2019    |
|---------------|----------------|---------------|
| 1-2 years     | 63,898         | 50,539        |
| Up to 3 years | 39,435         | 29,542        |
| Up to 4 years | 9,207          | 8,001         |
| After 4 years | 16,187         | 8,497         |
|               | <u>128,727</u> | <u>96,579</u> |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 4. Accounts receivable (Continued)

#### 4.2. Other accounts receivable

|   | Individual    |            | Consolidated  |            |
|---|---------------|------------|---------------|------------|
|   | 12/31/2020    | 12/31/2019 | 12/31/2020    | 12/31/2019 |
| Accounts receivable for Disposal of units of interest | <b>70,685</b> | 41,222     | <b>80,685</b> | 52,236     |
|   | <b>70,685</b> | 41,222     | <b>80,685</b> | 52,236     |
| Current   | <b>40,000</b> | 11,500     | <b>50,000</b> | 22,514     |
| Noncurrent  | <b>30,685</b> | 29,722     | <b>30,685</b> | 29,722     |

On September 3, 2018, the Company sold the Lago da Pedra Participações S.A. to a real estate investment fund for R\$183,156. The amount receivable for this sale at December 31, 2020 is R\$30,685, referring to the additional installment, with observance of the terms and conditions set forth in the agreement regarding the initial price adjustment, restated by the DI rate.

On May 24, 2019, the Company sold all the units of interest held in Linha Verde Participações Ltda. to LMN Empreendimentos e Participações Ltda. for R\$19,000, which will be paid in 19 fixed installments of R\$1,000. The last 10 installments are conditioned to issue of the construction permit in the land paid relating to the SPE sold, which is expected for the end of 2021. The balance receivable at December 31, 2020 totals R\$10,000.

On August 31, 2019, the Company sold 20% of the units of interest of Alterosa Empreendimentos Imobiliários Ltda. for R\$6,500, settled on January 17, 2020.

On October 23, 2019, the Company spun off Âmbar Empreendimentos Ltda. and sold 100% of the units of interest of Viseu Empreendimentos Imobiliários Ltda. resulting from the spin-off, for R\$4,800. The amount is payable in installments, with a down payment of R\$200, five installments of R\$800, and a final installment of R\$600. The balance receivable was settled on April 28, 2020.

On June 1, 2020, the Company sold 1% of the interest held in Riva Empreendimentos Imobiliários S.A., corresponding to 10 shares, to Direcional Participações S.A. for R\$1,623, settled on July 20, 2020.

On December 30, 2020, the Company sold 51% of the interest held in Napoli Empreendimentos Imobiliários S.A., corresponding to 23,349,751 units of interest, to BDI Realty 05 Sociedade Patrimonial Ltda., for R\$40,000, payable in the first quarter of 2021.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 5. Inventories

|                          | Individual    |               | Consolidated     |                  |
|--------------------------|---------------|---------------|------------------|------------------|
|                          | 12/31/2020    | 12/31/2019    | 12/31/2020       | 12/31/2019       |
| Completed units          | 1,369         | 3,302         | 109,857          | 163,978          |
| Units under construction | -             | -             | 702,778          | 538,693          |
| Land to be developed     | 72,457        | 20,565        | 2,526,634        | 2,386,993        |
|                          | <b>73,826</b> | <b>23,867</b> | <b>3,339,269</b> | <b>3,089,664</b> |
| Current                  | 1,369         | 3,302         | 1,268,195        | 1,080,672        |
| Noncurrent               | 72,457        | 20,565        | 2,071,074        | 2,008,992        |

As of December 31, 2020, inventories of completed real estate units were submitted to impairment tests. The decrease of R\$3,597 in inventories of completed real estate units was recorded in the Company's P&L under Costs real estate units sold, as an adjustment to net realizable value.

|              | 12/31/2019 | (-) Write-off of inventories<br>due to impairment | 12/31/2020 |
|--------------|------------|---|------------|
| Individual   | -          | -   | -          |
| Subsidiaries | -          | (3,597)   | (3,597)    |
| Consolidated | -          | (3,597)   | (3,597)    |

The total balance of adjustment to realizable value in December 2020 is R\$3,597 (no adjustment in December 2019).

#### 5.1. Capitalized interest

Interest incurred in connection with project financing is recorded under the captions "Units under construction" and "Completed units" in accordance with OCPC 01, and posted to P&L when the units are sold. At December 31, 2020, interest totaling R\$2,473 (R\$7,153 for the year ended December 31, 2019) was capitalized in the inventories account. The amount of R\$8,402 (R\$19,126 at December 31, 2019) remains capitalized in the inventories account, referring to unsold units. The average interest capitalization rate was 5.98% in December 2020 (7.07% for the year ended December 31, 2019). At December 31, 2020 and 2019, there was no production financing at the Parent Company.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 6. Transactions with related parties

#### 6.1. Related companies

|   | Individual    |               | Consolidated  |               |
|---|---------------|---------------|---------------|---------------|
|   | 12/31/2020    | 12/31/2019    | 12/31/2020    | 12/31/2019    |
| <u>Assets</u>                                     |               |               |               |               |
| Receivables from venture partners in projects (a) | 25,166        | 6,987         | 33,505        | 38,707        |
| Checking account with ventures in projects (b)    | 22,251        | 32,203        | 5,494         | 6,266         |
|   | <b>47,417</b> | <b>39,190</b> | <b>38,999</b> | <b>44,973</b> |
| Current   | 47,417        | 39,190        | 37,363        | 44,973        |
| Noncurrent  | -             | -             | 1,636         | -             |
| <u>Liabilities</u>                                |               |               |               |               |
| Payables to venture partners in projects (a)      | 3,825         | 325           | 23,022        | 18,694        |
| Checking account with ventures in projects (b)    | 29,026        | 14,008        | -             | 73            |
|   | <b>32,851</b> | <b>14,333</b> | <b>23,022</b> | <b>18,767</b> |
| Current   | 14,605        | 14,333        | 23,022        | 18,767        |
| Noncurrent  | 18,246        | -             | -             | -             |

(a) Receivables and payables to venture partners: The Company carries out loan transactions with certain venture partners, generally noncontrolling shareholders of said SPEs. These transactions are settled upon completion of the construction work. These transactions are adjusted by reference to the CDI rate variation plus *spread* of up to 4.13% p.a. or by the IGPM plus spread of up to 1% p. m. These transactions are secured by the results obtained in the ventures, so that the partners' right to share such results is conditional upon settlement of the transactions. In 2020, the Company recognized allowance for expected credit losses of R\$5,240 referring to receivables from a specific partner. The allowance for expected credit losses on accounts receivable as of December 31, 2020 totals R\$5,240. No allowance was recorded as of December 31, 2019.

(b) These transactions refer exclusively to the contribution of funds for the construction of units, and are not subject to interest.

#### Profit or loss

The Company charters aircraft from ALVG Investimentos e Participações Ltda. ("ALVG") for the transportation of executives during the performance of business-related activities. In the year ended December 31, 2020, the average monthly amount of R\$67 related to aircraft chartering was paid. ALVG is a company controlled by the same controlling group as that of Direcional.

On December 10, 2014, the Company performed a sale and lease back transaction of the property where its head office is located, through an agreement effective for 12 years, entered into with Fundo de Investimentos BRL Edifícios Comerciais, the buyer of this property. This transaction was approved by the Company's Board of Directors and carried out at market value, as assessed by CB Richard Ellis (CBRE).

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
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### 6. Transactions with related parties (Continued)

#### 6.1. Related companies (Continued)

In the year ended December 31, 2020, the average monthly amount of R\$523 was paid (R\$506 as of December 31, 2019) in connection with the property lease. This investment fund is controlled by the same controlling group as that of Direcional.

During assessment of the lease agreements for adoption of CPC 06 (R2)/IFRS 16, we identified that the lease agreement of the property met the requirements of the standard and, as such, the amount of the net debt discounted at the incremental rate of the Company's loans on right-of-use assets was recognized against lease liabilities payable.

#### 6.2. Key management personnel compensation

Total annual compensation of key management personnel (i) approved at the GSM of May 24; and (ii) paid in 2019 is set out in the table below:

| Paid in 2020                    | 2020               |                   |                 | Total        |
|---------------------------------|--------------------|-------------------|-----------------|--------------|
|                                 | Board of Directors | Supervisory Board | Statutory Board |              |
| Number of members (*)           | 7                  | 3                 | 5               | 15           |
| Fixed annual compensation (R\$) | 1,378              | 141               | 2,555           | 4,074        |
| Variable compensation (R\$)     | -                  | -                 | 416             | 416          |
| Share-based payment (R\$) (**)  | 13                 | -                 | 1,028           | 1,041        |
|                                 | <u>1,391</u>       | <u>141</u>        | <u>3,999</u>    | <u>5,531</u> |

  

| Paid in 2019                    | 2019               |                   |                 | Total        |
|---------------------------------|--------------------|-------------------|-----------------|--------------|
|                                 | Board of Directors | Supervisory Board | Statutory Board |              |
| Number of members (*)           | 7                  | 3                 | 5               | 15           |
| Fixed annual compensation (R\$) | 1,073              | 138               | 2,814           | 4,025        |
| Variable compensation (R\$)     | -                  | -                 | 567             | 567          |
| Share-based payment (R\$)       | 36                 | -                 | 2,281           | 2,317        |
|                                 | <u>1,109</u>       | <u>138</u>        | <u>5,662</u>    | <u>6,909</u> |

(\*) The number of members of the Company's Board of Directors, Supervisory Board and Statutory Board was calculated in accordance with the provisions in CVM/SEP Circular Memorandum No. 02/2020.

(\*\*) Share-based payment of Riva is made through the Company's stock option plan. The amount in 2020 totaled R\$23.

Key management personnel also receive compensation through the stock option plan of the Company, as described in Note 22. The Company does not offer private pension plans or any post-employment pension or benefit plans.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 7. Investments

#### a) Changes in the most significant balances from December 31, 2019 to December 31, 2020:

| Subsidiaries  | Interest held<br>- % | 12/31/2019       | Dividends/<br>amortization | Equity<br>pickup | Capital<br>subscription<br>(reduction)/<br>Future<br>capital<br>contribution | Other        | 12/31/2020       |
|---|----------------------|------------------|----------------------------|------------------|--|--------------|------------------|
| RIVA INCORPORADORA S/A  | 99.00%               | 163,273          | -                          | (3,288)          | (1,629)  | (924)        | 157,432          |
| CANARIO ENGENHARIA LTDA.  | 100.00%              | 59,150           | -                          | 5,069            | 12,653   | -            | 76,872           |
| BELLA MOEDA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                   | 100.00%              | 44,377           | -                          | (4)              | 70   | -            | 44,443           |
| DIRECIONAL TAGUATINGA ENGENHARIA LTDA                           | 100.00%              | 71,829           | (55,504)                   | 27,436           | (422)  | -            | 43,339           |
| AGUA MARINHA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                  | 90.00%               | 31,592           | -                          | (376)            | 6,057  | -            | 37,273           |
| AZURITA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                       | 99.90%               | 37,037           | -                          | 383              | (1,529)  | -            | 35,891           |
| TARAUACA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                      | 99.90%               | 33,195           | -                          | (1,504)          | 3,113  | -            | 34,804           |
| ITAPEMA EMPREENDIMENTOS IMOBILIÁRIOS SPE LTDA                   | 99.90%               | 5,677            | (5,119)                    | 25,631           | 5,792  | -            | 31,981           |
| RIO LARGO EMPREENDIMENTO IMOBILIÁRIOS LTDA                      | 99.90%               | 13,803           | -                          | 3,917            | 12,720   | -            | 30,440           |
| NOVA DIAMANTINA EMPREENDIMENTOS LTDA                            | 99.90%               | 10,755           | -                          | 9,072            | 7,365  | -            | 27,192           |
| RIACHO BRANCO EMPREENDIMENTOS IMOBILIÁRIOS LTDA                 | 95.87%               | 27,240           | -                          | 6,604            | (7,148)  | -            | 26,696           |
| ALTO SANTO EMPREENDIMENTOS IMOBILIÁRIOS LTDA.                   | 99.90%               | 20,162           | -                          | 8,957            | (2,647)  | -            | 26,472           |
| DIRECIONAL SANTO ANTÔNIO EMPREENDIMENTOS<br>IMOBILIÁRIOS LTDA   | 100.00%              | 25,824           | -                          | (10)             | 339  | -            | 26,153           |
| AMATURA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                       | 99.90%               | 15,269           | (10,774)                   | 14,928           | 5,996  | -            | 25,419           |
| SAO GOTARDO EMPREENDIMENTOS IMOBILIÁRIOS LTDA                   | 99.90%               | 12,035           | -                          | 4,121            | 9,181  | -            | 25,337           |
| CONSTANTINA EMPREENDIMENTOS IMOBILIÁRIOS LTDA                   | 99.90%               | 15,123           | -                          | 9,126            | 700  | -            | 24,949           |
| JARDIM AMARALINA EMPREENDIMENTOS IMOBILIÁRIOS SPE<br>LTDA.      | 50.00%               | 16,920           | (9,312)                    | 18,684           | (1,688)  | -            | 24,604           |
| NAPOLI EMPREENDIMENTOS IMOBILIÁRIOS LTDA                        | 49.00%               | 38,898           | -                          | (178)            | (16,092)   | -            | 22,628           |
| MANAUARA VII EMPREENDIMENTOS IMOBILIÁRIOS SPE LTDA              | 100.00%              | 20,185           | -                          | (57)             | 999  | -            | 21,127           |
| ALCOBAÇA CONSTRUÇÕES E EMPREENDIMENTOS<br>IMOBILIÁRIOS SPE LTDA | 99.90%               | 18,760           | -                          | (1)              | 2  | -            | 18,761           |
| Other subsidiaries  | -                    | 707,981          | (240,500)                  | 100,146          | 55,039   | -            | 622,666          |
| Total – Subsidiaries:   |                      | 1,389,085        | (321,209)                  | 228,656          | 88,871   | (924)        | 1,384,479        |
| Jointly-controlled entities (parent company)                    | -                    | 48,885           | (1,874)                    | 3,487            | 22,081   | -            | 72,579           |
| <b>Total - Individual</b>                                       |                      | <b>1,437,970</b> | <b>(323,083)</b>           | <b>232,143</b>   | <b>110,952</b>   | <b>(924)</b> | <b>1,457,058</b> |
| Jointly-controlled entities (parent company)                    | -                    | 48,885           | (1,874)                    | 3,487            | 22,081   | -            | 72,579           |
| Jointly-controlled entities (subsidiaries)                      | -                    | -                | -                          | (23)             | 508  | -            | 485              |
| <b>Total - Consolidated</b>                                     |                      | <b>48,885</b>    | <b>(1,874)</b>             | <b>3,464</b>     | <b>22,589</b>  |              | <b>73,064</b>    |

(\*) In the Annual and Special Meeting held on March 4, 2020, Riva 9 shareholders decided to start Riva 9's going public process and application for registration as a category "A" publicly held company with the Brazilian Securities and Exchange Commission (CVM). The registration was approved by the CVM on 07/28/2020. Also on 07/28/2020, according to material news release disclosed by the Company, for marketing reasons, the offering was canceled.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 7. Investments (Continued)

#### b) Breakdown of balances of subsidiaries and jointly-controlled entities at 12/31/2020

| Subsidiaries   | Interest held<br>- % | Assets           |                  | Liabilities    |                  | Equity           |
|--|----------------------|------------------|------------------|----------------|------------------|------------------|
|  |                      | Current          | Noncurrent       | Current        | Noncurrent       |                  |
| Riva Incorporadora S/A                                       | 99.0000%             | 139,169          | 100,083          | 50,930         | 29,250           | 159,022          |
| Canario Engenharia Ltda.                                     | 100.0000%            | 108,680          | 286              | 15,284         | 16,810           | 76,872           |
| Jardim Amaralina Empreendimentos Imobiliários Spe Ltda.      | 50.0000%             | 69,200           | 1,664            | 23,076         | 478              | 47,310           |
| Bella Moeda Empreendimentos Imobiliários Ltda                | 100.0000%            | -                | 44,446           | 3              | -                | 44,443           |
| Direcional Taguatinga Engenharia Ltda                        | 100.0000%            | 56,960           | 19,231           | 16,787         | 16,065           | 43,339           |
| Agua Marinha Empreendimentos Imobiliários Ltda               | 90.0000%             | 24,596           | 20,424           | 2,657          | 948              | 41,415           |
| Azurita Empreendimentos Imobiliários Ltda                    | 99.9000%             | 33,993           | 2,209            | 142            | 133              | 35,927           |
| Tarauaca Empreendimentos Imobiliários Ltda                   | 99.9000%             | 30,548           | 6,946            | 2,408          | 248              | 34,838           |
| Itapema Empreendimentos Imobiliários Spe Ltda                | 99.9000%             | 47,576           | 47,116           | 9,924          | 52,755           | 32,013           |
| Rio Largo Empreendimento Imobiliários Ltda                   | 99.9000%             | 38,900           | 833              | 8,623          | 639              | 30,471           |
| Riacho Branco Empreendimentos Imobiliários Ltda              | 95.8700%             | 34,836           | 11,493           | 6,672          | 12,352           | 27,305           |
| Nova Diamantina Empreendimentos Ltda                         | 99.9000%             | 30,220           | 1,433            | 4,072          | 362              | 27,219           |
| Alto Santo Empreendimentos Imobiliários Ltda.                | 99.9000%             | 42,402           | 25,264           | 8,758          | 32,410           | 26,498           |
| Direcional Santo Antônio Empreendimentos Imobiliários Ltda   | 100.0000%            | -                | 26,163           | 10             | -                | 26,153           |
| Amatura Empreendimentos Imobiliários Ltda                    | 99.9000%             | 29,931           | 31,810           | 2,837          | 33,459           | 25,445           |
| Sao Gotardo Empreendimentos Imobiliários Ltda                | 99.9000%             | 28,482           | 585              | 3,439          | 266              | 25,362           |
| Constantina Empreendimentos Imobiliários Ltda                | 99.9000%             | 30,633           | 1,182            | 6,165          | 676              | 24,974           |
| Manauara Vii Empreendimentos Imobiliários Spe Ltda           | 100.0000%            | 19,966           | 778              | 80             | 1                | 20,663           |
| Bello Villarinho Empreendimentos Imobiliários Spe Ltda       | 50.0000%             | 23,073           | 3,008            | 2,584          | 3,312            | 20,185           |
| Alcobaça Construções E Empreendimentos Imobiliários Spe Ltda | 99.9000%             | 20               | 177,516          | -              | 158,757          | 18,779           |
| Alto Bunitis Participações Societárias Ltda                  | 60.0000%             | 32,674           | 61,959           | 68             | 77,591           | 16,974           |
| Parque Das Cerejeiras Incorporação Imobiliária Spe Ltda      | 75.0000%             | 18,799           | 1,723            | 4,531          | 122              | 15,869           |
| Direcional Feijo Empreendimentos Imobiliários Ltda           | 99.9000%             | 16               | 17,603           | 12             | 2,303            | 15,304           |
| Grauna Incorporadora Ltda                                    | 100.0000%            | 13,788           | 1,198            | 308            | 39               | 14,639           |
| Other subsidiaries   | -                    | 1,080,618        | 1,580,290        | 198,586        | 1,780,700        | 681,672          |
| <b>Total - Subsidiaries</b>                                  |                      | <b>1,935,080</b> | <b>2,185,243</b> | <b>367,956</b> | <b>2,219,676</b> | <b>1,532,691</b> |
| <b>Jointly-controlled entities</b>                           |                      | <b>97,409</b>    | <b>86,639</b>    | <b>8,415</b>   | <b>3,162</b>     | <b>172,471</b>   |

At December 31, 2020 and 2019, 48% and 35.72%, respectively, of the Company's assets were included in the equity segregation structure, as established by Law No. 10931/04.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 8. Property and equipment

#### Individual

|                           | Machinery and equipment | Aluminum molds  | Furniture and fixtures | Vehicles     | IT equipment   | Leasehold improvements | Right-of-use assets | Other        | Total property and equipment |
|---------------------------|-------------------------|-----------------|------------------------|--------------|----------------|------------------------|---------------------|--------------|------------------------------|
| Depreciation rate         | 10%                     | (b)             | 10%                    | 20%          | 20%            | 8.33%                  | (c)                 | -            | -                            |
| Cost                      |                         |                 |                        |              |                |                        |                     |              |                              |
| Balance at 12/31/2019     | 12,065                  | 104,608         | 3,439                  | 779          | 5,290          | 9,100                  | 47,129              | 275          | 182,685                      |
| Additions                 | <b>96</b>               | <b>11,669</b>   | <b>101</b>             | -            | <b>1,781</b>   | <b>52</b>              | <b>3,212</b>        | <b>19</b>    | 16,930                       |
| Write-offs                | -                       | <b>(185)</b>    | -                      | -            | -              | -                      | <b>(47)</b>         | <b>(69)</b>  | <b>(301)</b>                 |
| Balance at 12/31/2020     | <b>12,161</b>           | <b>116,092</b>  | <b>3,540</b>           | <b>779</b>   | <b>7,071</b>   | <b>9,152</b>           | <b>50,294</b>       | <b>225</b>   | <b>199,314</b>               |
| Depreciation              |                         |                 |                        |              |                |                        |                     |              |                              |
| Balance at 12/31/2019     | (10,373)                | (81,651)        | (1,959)                | (715)        | (3,561)        | (3,609)                | (6,838)             | (195)        | (108,901)                    |
| Depreciation for the year | <b>(894)</b>            | <b>(17,659)</b> | <b>(293)</b>           | <b>(19)</b>  | <b>(543)</b>   | <b>(840)</b>           | <b>(7,606)</b>      | <b>(6)</b>   | (27,860)                     |
| Write-offs                | -                       | -               | -                      | -            | -              | -                      | <b>30</b>           | -            | <b>30</b>                    |
| Balance at 12/31/2020     | <b>(11,267)</b>         | <b>(99,310)</b> | <b>(2,252)</b>         | <b>(734)</b> | <b>(4,104)</b> | <b>(4,449)</b>         | <b>(14,414)</b>     | <b>(201)</b> | <b>(136,731)</b>             |
| Carrying amount           |                         |                 |                        |              |                |                        |                     |              |                              |
| At 12/31/2019             | 1,692                   | 22,957          | 1,480                  | 64           | 1,729          | 5,491                  | 40,291              | 80           | 73,784                       |
| At 12/31/2020             | <b>894</b>              | <b>16,782</b>   | <b>1,288</b>           | <b>45</b>    | <b>2,967</b>   | <b>4,703</b>           | <b>35,880</b>       | <b>24</b>    | <b>62,583</b>                |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 8. Property and equipment (Continued)

#### Consolidated

|                           | Machinery<br>and<br>equipment | Aluminum<br>molds | Furniture<br>and fixtures | Vehicles       | IT equipment   | Leasehold<br>improvements | Sales<br>stands | Right-of-<br>use assets | Other          | Total<br>property<br>and<br>equipment |
|---------------------------|-------------------------------|-------------------|---------------------------|----------------|----------------|---------------------------|-----------------|-------------------------|----------------|---------------------------------------|
| Depreciation rate         | 10%                           | (b)               | 10%                       | 20%            | 20%            | 8%                        | (a)             | (c)                     | -              |                                       |
| Cost                      |                               |                   |                           |                |                |                           |                 |                         |                |                                       |
| Balance at 12/31/2019     | 23,957                        | 105,976           | 7,753                     | 2,458          | 10,079         | 9,169                     | 70,155          | 47,794                  | 1,346          | 278,687                               |
| Additions                 | <b>283</b>                    | <b>14,657</b>     | <b>252</b>                | -              | <b>2,619</b>   | <b>52</b>                 | <b>9,735</b>    | <b>4,508</b>            | <b>19</b>      | <b>32,125</b>                         |
| Write-offs                | <b>(304)</b>                  | <b>(185)</b>      | -                         | -              | -              | -                         | -               | <b>(541)</b>            | <b>(103)</b>   | <b>(1,133)</b>                        |
| Balance at 12/31/2020     | <b>23,936</b>                 | <b>120,448</b>    | <b>8,005</b>              | <b>2,458</b>   | <b>12,698</b>  | <b>9,221</b>              | <b>79,890</b>   | <b>51,761</b>           | <b>1,262</b>   | <b>309,679</b>                        |
| Depreciation              |                               |                   |                           |                |                |                           |                 |                         |                |                                       |
| Balance at 12/31/2019     | (19,243)                      | (81,652)          | (4,927)                   | (2,364)        | (7,084)        | (3,617)                   | 49,496          | (7,157)                 | (1,175)        | (176,715)                             |
| Depreciation for the year | <b>(1,679)</b>                | <b>(20,548)</b>   | <b>(646)</b>              | <b>(28)</b>    | <b>(968)</b>   | <b>(855)</b>              | <b>11,190</b>   | <b>(7,966)</b>          | <b>(35)</b>    | <b>(43,915)</b>                       |
| Write-offs                | <b>217</b>                    | -                 | -                         | -              | -              | -                         | -               | <b>328</b>              | -              | <b>545</b>                            |
| Balance at 12/31/2020     | <b>(20,705)</b>               | <b>(102,200)</b>  | <b>(5,573)</b>            | <b>(2,392)</b> | <b>(8,052)</b> | <b>(4,472)</b>            | <b>60,686)</b>  | <b>(14,795)</b>         | <b>(1,210)</b> | <b>(220,085)</b>                      |
| Carrying amount           |                               |                   |                           |                |                |                           |                 |                         |                |                                       |
| At 12/31/2019             | 4,714                         | 24,324            | 2,826                     | 94             | 2,995          | 5,552                     | 20,659          | 40,637                  | 171            | 101,972                               |
| At 12/31/2020             | <b>3,231</b>                  | <b>18,248</b>     | <b>2,432</b>              | <b>66</b>      | <b>4,646</b>   | <b>4,749</b>              | <b>19,204</b>   | <b>36,966</b>           | <b>52</b>      | <b>89,594</b>                         |

(a) Sales stands are subject to depreciation in accordance with the estimated flow of sales of each project, written off or due to discontinuance.

(b) The aluminum molds used in the construction of units are subject to depreciation using the unit of production method, which results in expenses recognized based on production.

(c) Right-of-use assets are subject to depreciation on a straight-line basis over the life of each lease contract.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 8. Property and equipment (Continued)

#### Consolidated (Continued)

The Company's right-of-use assets comprise properties, vehicles, machinery and equipment. The most significant leased asset is the Company's administrative head office.

The Company and its subsidiaries have entered into 33 finance lease agreements for the acquisition of aluminum molds. The book value of property and equipment items under finance lease agreements at December 31, 2020 totaled R\$120,448 (R\$105,976 at December 31, 2019). Property and equipment acquired in the year on a conditional sale basis amounted to R\$14,657, and are guaranteed by the leased items.

### 9. Loans, financing and leases

#### 9.1. Loans and financing

|                                       | Individual       |            | Consolidated     |            |
|---------------------------------------|------------------|------------|------------------|------------|
|                                       | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| Construction financing                | -                | -          | <b>12,607</b>    | 44,230     |
| FINAME and finance lease of equipment | <b>12,196</b>    | 15,248     | <b>15,641</b>    | 16,630     |
| Mortgage-backed securities (CRI)      | <b>602,123</b>   | 767,466    | <b>602,123</b>   | 767,466    |
| Bank Credit Bills (CCB)               | <b>48,999</b>    | -          | <b>48,999</b>    | 2,742      |
| Working capital                       | <b>100,165</b>   | -          | <b>100,165</b>   | -          |
| Debentures                            | <b>251,633</b>   | -          | <b>251,633</b>   | -          |
| Grand total                           | <b>1,015,116</b> | 782,714    | <b>1,031,168</b> | 831,068    |
| Current                               | <b>217,365</b>   | 192,813    | <b>219,061</b>   | 212,514    |
| Noncurrent                            | <b>797,751</b>   | 589,901    | <b>812,107</b>   | 618,554    |

Company's loans and financing are divided into five main types, namely:

#### Construction financing

This type of loan aims to finance projects during construction. Interest rates applicable to these loans range from 8.3% to 9.75% p.a., according to the transaction, restated by the Referential Rate (TR) and also 137% of the CDI. These transactions are backed by mortgages of properties of the respective projects.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 9. Loans, financing and leases (Continued)

#### 9.1. Loans and financing (Continued)

##### Leases

This type of loan aims to finance investments in machinery and equipment. Interest rates applicable to these loans are variable interest with margins on CDI of 1.49% to 3.43% per year, according to the transaction. These transactions are guaranteed by machinery and equipment acquired through the financing arrangements.

##### Mortgage-backed securities (CRI)

*107<sup>th</sup> series:* This consists of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. The remuneration of CRIs on the balance of unit par value of CRIs from the date of issue of CRIs, comprises conventional interest of 0.80% per year, plus accumulated variation of the DI rate. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not be an issuer's floating guarantee either.

*175<sup>th</sup> series:* This consists of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. The remuneration of CRIs on the balance of unit par value of CRIs from the date of issue of CRIs, comprises conventional interest of 5% per year, plus IPCA. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not be an issuer's floating guarantee either.

For this transaction, in April 2020, a derivative financial instrument (swap) was contracted over the same period (up to December 2024), to hedge Company exposure to the IPCA rate. The swap transaction aims at equity protection, mitigating the effects of currency fluctuation by replacing IPCA plus a fixed spread of 5.0814% for CDI plus a fixed spread of 2.78%. Despite maturity in 2024, the Company opted to dismantle/discontinue the operation, which occurred in July 2020. The effects of this transaction are shown in Note 21.

*193<sup>rd</sup> series:* This consists of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. The remuneration of CRIs on the balance of unit par value of CRIs from the date of issue of CRIs, comprises conventional interest of 104.00% per year, plus accumulated variation of the DI rate. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not be an issuer's floating guarantee either.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 9. Loans, financing and leases (Continued)

#### 9.1. Loans and financing (Continued)

##### Working capital

Foreign loan issued by Banco Itaú, referring to Loan 4131, amounting to EUR7,497,656.98 (seven million, four hundred and ninety-seven thousand, six hundred and fifty-six euros and ninety-eight cents). The exchange rate agreed for this transaction was R\$5.3350, which resulted in R\$39,999,999.99 (thirty-nine million, nine hundred and ninety-nine thousand, nine hundred and ninety-nine reais and ninety-nine cents). The CCBs were issued in March 2020 and will mature within one year. The interest rate contracted was 2.3625% p.a. For this transaction, a derivative financial instrument (swap) was contracted over the same period (March 2020 to March 2021), to hedge Company exposure to foreign currency. The swap transaction aims at equity protection, mitigating the effects of currency fluctuation by replacing BRL/EUR for CDI plus a fixed spread of 4%. The impacts of this transaction are presented in Note 21.

##### Corporate Bank Credit Bills

This concerns CCB Plano Empresário Final issued with Banco ABC in the amount of R\$2,660,000 (two million, six hundred and sixty thousand reais). Interest rate charged under this type is 2.00% p.a. plus CDI rate, calculated and disclosed by CETIP (“DI rate”).

CCB Compror issued by Banco Santander in the amount of R\$100,000.00 (one hundred million reais). Interest rate charged under this type is 2.50% p.a. plus CDI rate, calculated and disclosed by CETIP (“DI rate”).

##### Debenture

On September 21, 2020, the Company carried out the 6<sup>th</sup> issue of simple, unsecured, nonconvertible debentures in a single series, for public distribution with restricted distribution efforts. The Debentures have a maturity of five years, counting from the Issue Date, therefore, maturing on September 21, 2025. Debentures totaling 250,000 (two hundred and fifty thousand) were issued, whose unit value on the issue date was R\$R\$1,000.00 (one thousand reais). Regarding the remuneration, the debenture unit par value will bear conventional interest corresponding to 100% (one hundred percent) of the accumulated variation of the DI Rate, plus a spread (surcharge) equivalent to 2.85% (two point eighty-five percent).

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### 9. Loans, financing and leases (Continued)

#### 9.1. Loans and financing (Continued)

The noncurrent portion of loans as at December 31, 2020 matures as follows:

| Period                        | 12/31/2020     |                |
|-------------------------------|----------------|----------------|
|                               | Individual     | Consolidated   |
| January 2022 to December 2022 | 134,329        | 137,602        |
| January 2023 to December 2023 | 266,180        | 269,410        |
| January 2024 to December 2024 | 231,335        | 233,313        |
| January 2025 onwards          | 165,907        | 171,782        |
|                               | <u>797,751</u> | <u>812,107</u> |

#### 9.2. Lease financing

The Company has real estate and vehicle leases. The term of real estate leases varies between 1 and 7 years, while vehicles have a term of one year.

The Company's main leases are the building where the headquarters are located, properties for regional offices, and fleet vehicles.

Breakdown of leases is as follows:

|                             | 12/31/2020    |               |
|-----------------------------|---------------|---------------|
|                             | Individual    | Consolidated  |
| Balance at 12/31/2019       | 41,559        | 41,933        |
| Additions                   | 1,767         | 3,063         |
| Write-offs/cancellations    | (32)          | (353)         |
| Payments of principal       | (8,507)       | (8,717)       |
| Payments of interest        | (452)         | (452)         |
| Restatement                 | 1,445         | 1,445         |
| PVA (interest appropriated) | 2,609         | 2,647         |
| Balance at 12/31/2020       | <u>38,389</u> | <u>39,566</u> |
| Current                     | 9,190         | 9,887         |
| Noncurrent                  | 29,199        | 29,679        |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 9. Loans, financing and leases (Continued)

#### 9.2. Lease financing (Continued)

|                             | <b>12/31/2019</b> |                     |
|-----------------------------|-------------------|---------------------|
|                             | <b>Individual</b> | <b>Consolidated</b> |
| First-time adoption         | 39,456            | 39,980              |
| Additions                   | 6,123             | 6,212               |
| Payments of principal       | (8,099)           | (8,380)             |
| Payments of interest        | (198)             | (205)               |
| Restatement                 | 1,550             | 1,567               |
| PVA (interest appropriated) | 2,727             | 2,759               |
| Balance at 12/31/2019       | <u>41,559</u>     | <u>41,933</u>       |
| Current                     | 8,194             | 8,468               |
| Noncurrent                  | 33,365            | 33,465              |

Breakdown of the lease balance by maturity of the installments is as follows:

|                          | <b>12/31/2020</b>    |                      |
|--------------------------|----------------------|----------------------|
|                          | <b>Individual</b>    | <b>Consolidated</b>  |
| Maturity within one year | <b>9,190</b>         | <b>9,887</b>         |
| Between 1 and 2 years    | <b>6,907</b>         | <b>7,253</b>         |
| Between 2 and 3 years    | <b>6,127</b>         | <b>6,179</b>         |
| More than 3 years        | <b>16,165</b>        | <b>16,247</b>        |
|                          | <u><b>38,389</b></u> | <u><b>39,566</b></u> |

The table below shows the effects of projected inflation on the balance of lease agreements:

| <b>Consolidated</b>  | <b>Consideration<br/>(no future<br/>inflation)</b> | <b>Consideration<br/>(with future<br/>inflation)</b> | <b>Inflation not<br/>included in<br/>agreements</b> |
|----------------------|--|--|---|
| 1 <sup>st</sup> year | 9,887  | 10,342   | 455   |
| 2 <sup>nd</sup> year | 7,252  | 7,563  | 311   |
| 3 <sup>rd</sup> year | 6,179  | 6,443  | 264   |
| 4 <sup>th</sup> year | 5,521  | 5,754  | 233   |
| 5 <sup>th</sup> year | 5,152  | 5,369  | 217   |
| 6 <sup>th</sup> year | 4,803  | 5,006  | 203   |
| 7 <sup>th</sup> year | 772  | 804  | 32  |
|                      | <u><b>39,566</b></u>                               | <u><b>41,281</b></u>                                 | <u><b>1,715</b></u>                                 |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

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### 10. Labor obligations

Breakdown of labor obligations is as follows:

| Description                       | Individual   |               | Consolidated  |               |
|-----------------------------------|--------------|---------------|---------------|---------------|
|                                   | 12/31/2020   | 12/31/2019    | 12/31/2020    | 12/31/2019    |
| Salaries and withdrawals payable  | 1,431        | 1,806         | 5,019         | 5,600         |
| Labor and social security charges | 1,839        | 1,476         | 5,557         | 4,978         |
| Labor accruals                    | 5,879        | 8,725         | 16,221        | 18,611        |
| Other                             | 488          | 764           | 1,456         | 1,451         |
|                                   | <b>9,637</b> | <b>12,771</b> | <b>28,253</b> | <b>30,640</b> |

### 11. Tax obligations

The balances below comprise the provision for current taxes whose triggering event is the realization of accounts receivable, as well as the provision for deferred taxes upon recognition of revenue by the POC method, in which the realization of accounts receivable is deferred throughout the flow of each contract:

| Current taxes           | Individual |            | Consolidated  |               |
|-------------------------|------------|------------|---------------|---------------|
|                         | 12/31/2020 | 12/31/2019 | 12/31/2020    | 12/31/2019    |
| PIS                     | 75         | 19         | 118           | 38            |
| COFINS                  | 384        | 108        | 581           | 196           |
| Special taxation regime | -          | 46         | 11,358        | 5,870         |
| IRPJ                    | -          | 3          | 205           | 1,580         |
| CSLL                    | -          | 2          | 100           | 641           |
| Other                   | 204        | 328        | 2,598         | 2,408         |
|                         | <b>663</b> | <b>506</b> | <b>14,960</b> | <b>10,733</b> |
| Deferred taxes          | Individual |            | Consolidated  |               |
|                         |            |            |               |               |
| PIS                     | 3          | 4          | 1,437         | 1,606         |
| COFINS                  | 16         | 21         | 6,219         | 7,185         |
| PVA                     | -          | -          | (199)         | (110)         |
| IRPJ                    | 11         | 15         | 4,632         | 5,342         |
| CSLL                    | 6          | 8          | 2,426         | 2,800         |
| Other                   | -          | -          | (654)         | (664)         |
|                         | <b>36</b>  | <b>48</b>  | <b>13,861</b> | <b>16,159</b> |
|                         | <b>699</b> | <b>554</b> | <b>28,821</b> | <b>26,892</b> |
| Current                 | 663        | 514        | 25,227        | 22,968        |
| Noncurrent              | 36         | 40         | 3,594         | 3,924         |

## Direcional Engenharia S.A.

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### 12. Real estate commitments payable

Accounts payable arising from the acquisition of land for real estate development, with land itself being part of the guarantee. These contracts are restated by reference to INCC.

|                     | 12/31/2019 | (+)<br>Acquisitions | (-)<br>Payments | (-)<br>Transfer to SPEs | 12/31/2020                          |                  |
|---------------------|------------|---------------------|-----------------|-------------------------|-------------------------------------|------------------|
| <u>Individual</u>   | 20,227     | 189,684             | (3,600)         | (136,734)               | 69,577                              |                  |
| Current             | -          |                     |                 |                         | -                                   |                  |
| Noncurrent          | 20,227     |                     |                 |                         | 69,577                              |                  |
|                     | 12/31/2019 | (+)<br>Acquisitions | (-) Payments    | (+/-)<br>Revisions      | (-)<br>Cancellation<br>of contracts | 12/31/2020       |
| <u>Consolidated</u> | 1,733,203  | 432,390             | (171,986)       | 37,491                  | (75,449)                            | 1,955,649        |
| Current             | 94,094     |                     |                 |                         |                                     | 77,434           |
| Noncurrent          | 1,639,109  |                     |                 |                         |                                     | 1,878,215        |
|                     |            |                     |                 |                         | <b>Consolidated</b>                 |                  |
|                     |            |                     |                 |                         | 12/31/2020                          | 12/31/2019       |
| <i>Aging list:</i>  |            |                     |                 |                         |                                     |                  |
| Up to 1 year        |            |                     |                 |                         | 77,434                              | 94,094           |
| 1-2 years           |            |                     |                 |                         | 932,308                             | 857,733          |
| 2-3 years           |            |                     |                 |                         | 575,383                             | 501,386          |
| 3-4 years           |            |                     |                 |                         | 134,342                             | 135,784          |
| After 4 years       |            |                     |                 |                         | 236,182                             | 144,206          |
|                     |            |                     |                 |                         | <b>1,955,649</b>                    | <b>1,733,203</b> |

### 13. Advances from customers

| <u>Individual</u>                  | 12/31/2019 | (+)<br>Acquisitions/<br>receipts | (-)<br>Amortization | (-) Transfer to<br>SPEs | 12/31/2020 |
|------------------------------------|------------|----------------------------------|---------------------|-------------------------|------------|
| Advances from customers - physical |            |                                  |                     |                         |            |
| barter of land plot (i)            | -          | 65,360                           | -                   | (64,980)                | 380        |
| Advances for receipt (ii)          | 19,253     | 10,021                           | (26,912)            | -                       | 2,362      |
| Total advances                     | 19,253     | 75,381                           | (26,912)            | (64,980)                | 2,742      |
| Current                            | 19,253     |                                  |                     |                         | 2,362      |
| Noncurrent                         | -          |                                  |                     |                         | 380        |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 13. Advances from customers (Continued)

| Consolidated                       | 12/31/2019     | (+)<br>Acquisitions/<br>receipts | (-)<br>Amortization    | (-) Write-offs/<br>cancellations/<br>reviews | 12/31/2020            |
|------------------------------------|----------------|----------------------------------|------------------------|--|-----------------------|
| Advances from customers - physical |                |                                  |                        |  |                       |
| barter of land plot (i)            | 372,287        | <b>128,800</b>                   | <b>(10,266)</b>        | <b>(116,429)</b>                             | <b>374,392</b>        |
| Advances for receipt (ii)          | 33,619         | <b>35,011</b>                    | <b>(47,973)</b>        | -  | <b>20,657</b>         |
| Total advances                     | <u>405,906</u> | <u><b>163,811</b></u>            | <u><b>(58,239)</b></u> | <u><b>(116,429)</b></u>                      | <u><b>395,049</b></u> |
| Current                            | 37,745         |                                  |                        |  | <b>22,249</b>         |
| Noncurrent                         | 368,161        |                                  |                        |  | <b>372,800</b>        |

(i) Commitments to deliver ready and completed real estate projects in connection with acquisition of land plots through barter, i.e. exchange of land plot for units to be built;

(ii) Advances from customers in connection with sales of real estate units.

### 14. Other accounts payable

|   | Individual           |               | Consolidated         |               |
|---|----------------------|---------------|----------------------|---------------|
|   | 12/31/2020           | 12/31/2019    | 12/31/2020           | 12/31/2019    |
| Debts to customers                                      | <b>4,202</b>         | 4,929         | <b>6,236</b>         | 7,096         |
| Debts to partners (a)                                   | -                    | -             | <b>26,920</b>        | 26,920        |
| Accounts payable for acquisition of equity interest (b) | <b>8,844</b>         | 19,254        | <b>32,371</b>        | 19,254        |
| Capital deficiency (c)                                  | <b>10,888</b>        | 16,764        | -                    | -             |
| Other   | <b>3,018</b>         | 1,598         | <b>18,875</b>        | 9,148         |
| Total   | <u><b>33,952</b></u> | <u>42,545</u> | <u><b>81,402</b></u> | <u>62,418</u> |
| Current   | <b>25,108</b>        | 25,141        | <b>49,558</b>        | 19,015        |
| Noncurrent  | <b>8,844</b>         | 17,404        | <b>34,844</b>        | 43,403        |

(a) On April 20, 2011 the Company entered into a commercial agreement with an investor for the development of projects that will be built in four land plots located in the Federal District, in exchange for R\$44,300 received in cash, with no further remuneration thereon. In December 2012, the green light was given to the project of one of the land plots addressed by the commercial agreement, capitalizing R\$10,380 in SPE Direcional Turquesa Empreendimentos Imobiliários, responsible for the development, construction and sales of the project to be constructed. In April 2014, R\$7,000 was capitalized in SPE Ouro Branco Empreendimentos Imobiliários Ltda., responsible for the construction and sale of the second project to be built.

(b) This account represents the balance of accounts payable for acquisition of equity interest in companies in which the Group has investments.

(c) This account shows investments in subsidiaries or jointly-controlled entities with capital deficiency.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

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### 15. Provisions

#### 15.1. Provision for guarantees

|                              | Individual   | Consolidated  |
|------------------------------|--------------|---------------|
| Balance at 12/31/2019        | 5,928        | 36,099        |
| (+) Provisions               | 482          | 22,428        |
| (-) Payments                 | (2,166)      | (19,620)      |
| <b>Balance at 12/31/2020</b> | <b>4,244</b> | <b>38,907</b> |

  

|            | Individual   |              | Consolidated  |               |
|------------|--------------|--------------|---------------|---------------|
|            | 12/31/2020   | 12/31/2019   | 12/31/2020    | 12/31/2019    |
| Current    | 3,687        | 3,997        | 27,377        | 20,752        |
| Noncurrent | 557          | 1,931        | 11,530        | 15,347        |
|            | <b>4,244</b> | <b>5,928</b> | <b>38,907</b> | <b>36,099</b> |

The Company sets up provisions for guarantee expenses during the construction period only for units already sold, so that maintenance costs, if any, after handover of keys of real estate units will be deducted from the provision set up.

The provision for guarantee set up is based on evaluations of historical cash outflows regarding expenses with maintenance, representing the average budget cost of each project for development work (1.30%) and for service work (0.97%) in December 2020.

#### 15.2. Provision for tax, labor and civil contingencies

|                                     | Individual |              |              |              |
|-------------------------------------|------------|--------------|--------------|--------------|
|                                     | Tax        | Labor        | Civil        | Total        |
| Balance at December 31, 2019        | -          | 1,774        | 554          | 2,328        |
| Provisions                          | -          | 2,034        | 1,821        | 3,855        |
| Reversals                           | -          | (723)        | (168)        | (891)        |
| Payments                            | -          | (502)        | (461)        | (963)        |
| <b>Balance at December 31, 2020</b> | <b>-</b>   | <b>2,583</b> | <b>1,746</b> | <b>4,329</b> |

  

|                                     | Consolidated |               |               |               |
|-------------------------------------|--------------|---------------|---------------|---------------|
|                                     | Tax          | Labor         | Civil         | Total         |
| Balance at December 31, 2019        | 106          | 13,152        | 20,489        | 33,747        |
| Provisions                          | 6            | 5,032         | 6,147         | 11,185        |
| Reversals                           | -            | (1,876)       | (3,577)       | (5,453)       |
| Payments                            | -            | (4,807)       | (5,530)       | (10,337)      |
| <b>Balance at December 31, 2020</b> | <b>112</b>   | <b>11,501</b> | <b>17,529</b> | <b>29,142</b> |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
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### 15. Provisions (Continued)

#### 15.2. Provision for tax, labor and civil contingencies (Continued)

The Company is a party to other tax, civil and labor claims arising from its ordinary course of business considered possible losses by management and its legal advisors. At December 31, 2020, consolidated amounts are as follows: labor claims total R\$18,672, tax proceedings total R\$11,382, and civil proceedings total R\$168,456. Consequently, no provision was set up to cover a possible unfavorable outcome.

### 16. Equity

#### 16.1. Capital

The Company's fully subscribed and paid in capital amounts to R\$752,982, comprising 153,398,749 common, registered, book-entry shares with no par value, including 146,935,719 outstanding shares and 6,463,030 treasury shares.

Authorized capital on the date of disclosure of the financial statements totals R\$1,200,000.

In the year ended December 31, 2020, 474,711 treasury shares were assigned under the Share Matching Programs I and II and the Stock Option Program 1.

|                          | Number<br>of shares | Treasury shares  | Total              |
|--------------------------|---------------------|------------------|--------------------|
| December 31, 2017        | 146,437,554         | 6,961,195        | 153,398,749        |
| Treasury shares assigned | 556,486             | (556,486)        | -                  |
| December 31, 2018        | 146,994,040         | 6,404,709        | 153,398,749        |
| Treasury shares assigned | 930,970             | (930,970)        | -                  |
| December 31, 2019        | 147,925,010         | 5,473,739        | 153,398,749        |
| Treasury shares assigned | <b>663,209</b>      | <b>(663,209)</b> | -                  |
| Share buyback            | <b>(1,882,500)</b>  | <b>1,882,500</b> | -                  |
| <b>December 31, 2020</b> | <b>146,705,719</b>  | <b>6,693,030</b> | <b>153,398,749</b> |

#### 16.2. Treasury shares

The Board of Directors approved five buyback programs of Company shares issued between 2011 and 2020, in order to hold in treasury and later cancellation or sale, without capital reduction, in order to maximize shareholder value. Accordingly, 10,676,905 shares were acquired, disbursing R\$83,348 at an average price of R\$7.81 per share.

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
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### **16. Equity (Continued)**

#### **16.3. Capital reserves**

##### **16.3.1. Capital reserve for stock option grants**

As described in Note 22, the Company recognizes in this account the services received in consideration for the grant of stock options. Together with the exercise of stock options, the reserve is transferred to retained earnings.

#### **16.4. Income reserve**

##### **16.4.1. Legal reserve**

The legal reserve is set up at 5% of net income for each year, under the terms of article 193 of Law No. 6404/76, limited to 20% of capital stock.

##### **16.4.2. Retained profits reserve**

This reserve is set up especially for maintenance of the Company's investment ability and completion of work in progress. Additionally, the Annual General Meeting will decide on the allocation of the amount of income reserves in excess of total capital, pursuant to article 199 of Brazil's Corporation Law (Law No. 11638/2007).

##### **16.4.3. Dividend distribution**

The holders of common shares are entitled to a minimum mandatory dividend of 25%, based on net income adjusted for changes in reserves, according to the corporation law in force.

On March 11, 2019, the Board of Directors approved the allocation of interim dividends to the income reserve account, according to financial statements for the year ended December 31, 2018, in the amount of R\$56,068, corresponding to R\$0.38 per share (not considering treasury shares). Dividends were paid on March 25, 2019, without monetary adjustment or interest. Holders of the Company's shares were entitled to the dividends as at March 14, 2019.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
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### 16. Equity (Continued)

#### 16.4. Income reserve (Continued)

##### 16.4.3. Dividend distribution (Continued)

On October 9, 2019, the Board of Directors approved the allocation of interim dividends to the income reserve account, according to financial statements for the year ended December 31, 2019, in the amount of R\$73,901, corresponding to R\$0.50 per share (not considering treasury shares). Dividends were paid on October 23, 2019, without monetary adjustment or interest. Holders of the Company's shares were entitled to the dividends as at October 14, 2019.

On October 5, 2020, the Board of Directors approved the distribution of interim dividends, in the estimated amount of R\$120,204, corresponding to R\$0.81 (eighty-one cents) per share, considering the position of 148,399,721 shares on the date in question, not including treasury shares. Shareholders holding Company shares as of October 9, 2020 were entitled to the dividends, which were paid on October 20, 2020, in the total amount of R\$120,364, corresponding to R\$0,81 (eighty-one cents) per share. The variation between the estimated and the paid amount is due to the transfer of shares carried out under the "Matching Program", which is configured in the stock option and incentive plan linked to the shares of the Company.

#### 16.5. Earnings per share

The table below presents the calculation of earnings per share for the years ended December 31, 2020 and 2019:

|   | <u>12/31/2020</u>   | <u>12/31/2019</u> |
|---|---------------------|-------------------|
| Net income for the period                   | <b>113,073</b>      | 100,476           |
| Weighted average number of shares           | <b>148,297,470</b>  | 147,592,544       |
| Basic earnings per share, net - R\$         | <b>0.76</b>         | 0.68              |
| Weighted average number of shares (diluted) | <b>149,1174,527</b> | 149,001,970       |
| Diluted net earnings per share - R\$        | <b>0.76</b>         | 0.67              |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
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### 16. Equity (Continued)

#### 16.6. Noncontrolling interests

In the year ended December 31, 2020, changes in equity of subsidiaries generated a reduction of R\$35,791 in equity of noncontrolling interests. In the same period, noncontrolling interests in profit or loss amounted to R\$37,060.

Acquisitions of interests from noncontrolling shareholders generated a R\$344 reduction recorded directly in the Company's equity.

#### 16.7. Prior years' adjustments

At December 31, 2019, due to issue of the individual financial statements of Riva 9 Empreendimentos Imobiliários S.A. ("Riva 9") (former Jequiá Empreendimentos Imobiliários SPE), we changed the accounting estimate referring to the depreciation method for sales stands and estimated allowance for doubtful accounts.

These changes, presented on an item-by-item basis in the financial statements of Riva 9 at 12/31/2019, were not reflected in the presentation of the consolidated balances of Direcional Engenharia at referred to base date.

Considering that the balances not presented in a consolidated manner at the end of 2019 were not material and the changes presented were one-off, with no impact on the other balances presented in these financial statements, we do not restate such balances, based on the assumptions of CPC 23 – Accounting Policies, Changes in Accounting Estimates and of Errors.

The impacts of the change in estimate are as follows:

|                                    | 03/31/2020   |              |
|------------------------------------|--------------|--------------|
|                                    | Individual   | Consolidated |
| <u>Impacts of the Adjustments:</u> |              |              |
| (a) Accounts receivable            | -            | 403          |
| (b) Property and equipment         | -            | (1,327)      |
| (c) Investments                    | (924)        | -            |
| <b>Total adjustments</b>           | <b>(924)</b> | <b>(924)</b> |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
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### 16. Equity (Continued)

#### 16.7. Prior years' adjustments (Continued)

- (a) Adjustment in estimated allowance for doubtful accounts.
- (b) Adjustment in estimated depreciation rate of sales stands.
- (c) Impact of the adjustments in the holding company's investments.

### 17. Net revenue

|                             | Individual     |         | Consolidated     |           |
|-----------------------------|----------------|---------|------------------|-----------|
|                             | 2020           | 2019    | 2020             | 2019      |
| Gross revenue from sales    | <b>4,007</b>   | 1,178   | <b>1,566,757</b> | 1,352,267 |
| Gross revenue from services | <b>44,013</b>  | 140,781 | <b>72,006</b>    | 188,813   |
| Total gross revenue         | <b>48,020</b>  | 141,959 | <b>1,638,763</b> | 1,541,080 |
| Present value adjustment    | -              | -       | <b>(2,176)</b>   | 4,251     |
| Taxes on sales              | <b>(4,445)</b> | (4,294) | <b>(41,708)</b>  | (36,353)  |
| Cancelled sales/discounts   | <b>(1,624)</b> | (1,652) | <b>(94,156)</b>  | (50,750)  |
| Net operating revenue       | <b>41,951</b>  | 136,013 | <b>1,500,723</b> | 1,458,228 |

Taxes on sales and services consist of contribution tax on gross revenue for social integration program (PIS) and contribution tax on gross revenue from social security funding (COFINS), i.e. 1.65% and 7.6%, respectively, for revenue earned under the noncumulative regime, 0.65% and 3%, respectively, for revenue earned under the cumulative regime, 0.37% and 1.71%, respectively, for revenue earned under the special taxation regime applied to construction and real estate development companies, and 0.09% and 0.44%, respectively, for revenue earned in connection with the "Minha Casa Minha Vida" Program (PMCMV) for units up to R\$100.

The Company also recognized gross revenue for the year of projects under construction amounting to R\$10,266 at December 31, 2020 and R\$6,593 at December 31, 2019 regarding barter of units to be constructed for land plots.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 17. Net revenue (Continued)

a) Unearned revenue

Budgeted costs to be incurred of sales of units under construction and unearned revenue from sales of real estate, arising from projects in progress, not reflected in the financial statements, are as follows:

|   |                  |
|---|------------------|
| <b>I) Unearned revenue from units sold</b>  | <b>1,287,505</b> |
| <i>Projects under construction</i>  |                  |
| <b>a) Revenue from contracted sales</b>   | <b>4,021,684</b> |
| <b>b) Allocated sales revenue, net</b>  | <b>2,734,179</b> |
| <i>Allocated sales revenue</i>  | 2,848,855        |
| <i>Dissolution of agreements – Reversed revenue</i>                                       | (114,676)        |
| <b>II) Revenue from indemnification for dissolution agreements</b>                        | <b>2,667</b>     |
| <b>III) Budgeted cost to be allocated from units sold</b>                                 | <b>864,719</b>   |
| <i>Projects under construction</i>  |                  |
| <b>a) Budgeted cost of units (no financial charges)</b>                                   | <b>2,500,434</b> |
| <b>b) Construction cost incurred</b>  | <b>1,699,905</b> |
| <b>Accrued financial charges</b>  | <b>3,906</b>     |
| <b>c) Dissolution agreements – Construction cost</b>                                      | <b>(67,888)</b>  |
| <b>Dissolution of agreements – Financial charges</b>                                      | <b>(208)</b>     |
| <b>Budgeted cost to be allocated to profit or loss (no financial charges) (a – b – c)</b> | <b>868,417</b>   |
| <b>Drive CI / CO (no financial charges)</b>   | <b>65.27%</b>    |
| <b>IV) Budgeted cost to be allocated to inventories</b>                                   | <b>1,035,840</b> |
| <i>Projects under construction</i>  |                  |
| <b>a) Budgeted cost of units (no financial charges)</b>                                   | <b>1,738,618</b> |
| <b>b) Construction cost incurred</b>  | <b>702,067</b>   |
| <b>Accrued financial charges</b>  | <b>711</b>       |
| Units sold  | 31,576           |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

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### 17. Net revenue (Continued)

#### b) Earned revenue

| Income earned from:                    | 2020                     |                        | 2019                     |                        |
|--|--------------------------|------------------------|--------------------------|------------------------|
|  | Revenues from units sold | (-) Cost of units sold | Revenues from units sold | (-) Cost of units sold |
| <b>Individual</b>                      |                          |                        |                          |                        |
| Services                               | 38,643                   | (18,259)               | 134,937                  | (108,890)              |
| Development – completed units          | 3,308                    | (2,313)                | 1,076                    | (77)                   |
| Total - Individual                     | 41,951                   | (20,572)               | 136,013                  | (108,967)              |
| <b>Subsidiaries</b>                    |                          |                        |                          |                        |
| Services                               | 23,755                   | (41,817)               | 44,420                   | (56,808)               |
| Development – completed units          | 409,271                  | (289,649)              | 433,733                  | (296,943)              |
| Development – units under construction | 1,025,746                | (626,116)              | 844,062                  | (504,394)              |
| Total - Subsidiaries                   | 1,458,772                | (957,582)              | 1,322,215                | (858,145)              |
| <b>Total - Consolidated</b>            | <b>1,500,723</b>         | <b>(978,154)</b>       | <b>1,458,228</b>         | <b>(967,112)</b>       |

### 18. Costs and expenses by nature

| Description   | Individual |           | Consolidated |             |
|---|------------|-----------|--------------|-------------|
|   | 2020       | 2019      | 2020         | 2019        |
| Raw materials and materials for use and consumption | (17,454)   | (90,357)  | (783,554)    | (778,925)   |
| Personnel expenses                                  | (69,674)   | (75,502)  | (226,513)    | (216,982)   |
| Capitalized interest                                | -          | -         | (10,755)     | (11,321)    |
| Depreciation and amortization                       | (14,879)   | (15,253)  | (41,445)     | (35,872)    |
| Third-party services                                | (10,501)   | (9,153)   | (17,405)     | (15,794)    |
| Electric power, water supply and telephone services | (2,507)    | (2,691)   | (4,452)      | (4,800)     |
| General selling expenses                            | 53         | (560)     | (52,295)     | (50,950)    |
| Sales commissions                                   | (1,238)    | (4,384)   | (90,864)     | (87,063)    |
| Provision for stock option plan                     | (1,883)    | (3,788)   | (1,883)      | (3,788)     |
| Other expenses                                      | (7,295)    | (15,235)  | (22,604)     | (20,229)    |
|   | (125,378)  | (216,923) | (1,251,770)  | (1,225,724) |
| <b>Classified as</b>                                |            |           |              |             |
| Costs of real estate sold                           | (3,221)    | (1,756)   | (918,985)    | (803,092)   |
| Costs of services rendered                          | (17,351)   | (107,211) | (59,169)     | (164,020)   |
| Selling expenses                                    | (2,604)    | (6,130)   | (158,044)    | (146,206)   |
| General and administrative expenses                 | (102,202)  | (101,826) | (115,572)    | (112,406)   |
|   | (125,378)  | (216,923) | (1,251,770)  | (1,225,724) |

## Direcional Engenharia S.A.

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December 31, 2020

(In thousands of reais, unless otherwise stated)

### 19. Finance income (costs)

The balances below present the Company's net earnings from short-term investments, collection of interest from contracts, finance costs from some credit facilities used by the Company, and finance costs of accounts held with financial institutions.

| Finance income                            | Individual      |          | Consolidated    |          |
|---|-----------------|----------|-----------------|----------|
|   | 2020            | 2019     | 2020            | 2019     |
| Income from short-term investments        | 14,341          | 28,175   | 16,982          | 35,312   |
| Monetary adjustment and contract interest | 4,338           | 3,289    | 7,126           | 5,629    |
| Revenue from derivatives                  | 17,412          | -        | 17,412          | -        |
| Exchange losses                           | 2,596           | -        | 2,596           | -        |
|   | <b>38,687</b>   | 31,464   | <b>44,116</b>   | 40,941   |
| <b>Finance costs</b>                      |                 |          |                 |          |
| Interest expenses                         | (53,321)        | (70,133) | (53,990)        | (73,066) |
| Exchange losses                           | (10,415)        | -        | (10,415)        | -        |
| Bank fees                                 | (1,574)         | (2,624)  | (6,046)         | (7,090)  |
| Expenses with sale of portfolio           | -               | -        | (7,469)         | -        |
| Interest paid on leases                   | (2,885)         | -        | (2,937)         | -        |
| Expenses with derivatives                 | (3,379)         | -        | (3,379)         | -        |
|   | <b>(71,574)</b> | (72,757) | <b>(84,236)</b> | (80,156) |
| Finance income (costs), net               | <b>(32,887)</b> | (41,293) | <b>(40,120)</b> | (39,215) |

## Direcional Engenharia S.A.

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(In thousands of reais, unless otherwise stated)

### 20. Income and social contribution taxes

|  | Individual       |           | Consolidated     |           |
|--|------------------|-----------|------------------|-----------|
|  | 2020             | 2019      | 2020             | 2019      |
| <b>Income before IRPJ and CSLL</b>   | <b>113,288</b>   | 101,098   | <b>181,243</b>   | 153,802   |
| IRPJ and CSLL at 34%   | <b>34%</b>       | 34%       | <b>34%</b>       | 34%       |
| <b>Estimated expenses with IRPJ and CSLL</b>                               | <b>38,518</b>    | 34,373    | <b>61,623</b>    | 52,293    |
| <b>Companies computing taxable profit based on accounting records</b>      |                  |           |                  |           |
| Additions and exclusions   | <b>8,732</b>     | (9,755)   | -                | -         |
| Addition (exclusion) of equity pickup                                      | <b>(232,143)</b> | (240,585) | -                | -         |
| Tax base   | <b>(110,123)</b> | (149,242) | -                | -         |
| <b>Companies computing taxable profit as a percentage of gross sales</b>   |                  |           |                  |           |
| Tax base   | <b>498</b>       | (473)     | <b>20,257</b>    | 128,046   |
| Rates applicable to taxable profit computed as a percentage of gross sales | <b>2.28%</b>     | 2.28%     | <b>2.28%</b>     | 2.28%     |
| Tax expenses   | <b>11</b>        | -         | <b>535</b>       | 2,946     |
| Expenses with deferred tax   | -                | (11)      | <b>(73)</b>      | (26)      |
| <b>Companies taxed by RET (1%)</b>   |                  |           |                  |           |
| Tax base   | <b>43,259</b>    | 134,749   | <b>212,180</b>   | 668,414   |
| Rates applicable to the special taxation regime (RET)                      | <b>0.47%</b>     | 0.47%     | <b>0.47%</b>     | 0.47%     |
| Tax expenses   | <b>101</b>       | 772       | <b>982</b>       | 3,386     |
| Expenses with deferred tax   | <b>103</b>       | (139)     | <b>15</b>        | (245)     |
| <b>Companies taxed by RET (4%)</b>   |                  |           |                  |           |
| Tax base   | -                | -         | <b>1,544,293</b> | 1,402,323 |
| Rates applicable to the special taxation regime (RET)                      | <b>1.92%</b>     | 1.92%     | <b>1.92%</b>     | 1.92%     |
| Tax expenses   | -                | -         | <b>30,560</b>    | 27,450    |
| Expenses with deferred tax   | -                | -         | <b>(909)</b>     | (525)     |
| IRPJ and CSLL expenses for the year  | <b>215</b>       | 622       | <b>31,110</b>    | 32,986    |
| <b>Effective rate</b>  | <b>0.19%</b>     | 0.62%     | <b>17.16%</b>    | 21.45%    |

The breakdown of expenses with income and social contribution taxes for the years ended December 31, 2020 and 2019 shows the timing difference between the cash basis used by SCPs and SPEs, whose taxable profit is computed as a percentage of gross sales, and RET (Special Tax Regime), and the provision for taxes on the balance of accounts receivable.

The Company (parent company) has a balance of income and social contribution tax losses carryforward on which deferred taxes recoverable were not recognized due to the absence of perspectives for realization through future taxable profit, as the Company has characteristics of a holding company. Due to the taxation regime of SCPs and SPEs (taxable profit computed as a percentage of gross sales or RET), they do not present temporary differences and the profits calculated in the SPEs are not subject to offset with the loss determined by the Holding.

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### 21. Financial instruments

The Company and its subsidiaries engage in transactions involving financial instruments in order to fund their activities or invest available financial resources. These risks are managed through conservative strategies aimed at liquidity, profitability and security. The control policy consists of actually monitoring contract rates versus those effective in the market.

The financial instruments usually entered into by Direcional and its subsidiaries are those recorded under "Cash and cash equivalents," and financing for construction of real estate projects and for acquisition of machinery and equipment.

#### Interest rate risk

The Company is exposed to floating interest rates, substantially to the CDI rate, which remunerates short-term investments in Brazilian reais, interest on loans obtained from the Housing Financial System and pegged to the Referential Rate (TR), interest on loans for acquisition of machinery and equipment obtained from BNDES (FINAME) and pegged to the long-term interest rate (TJLP) and TJ462 and interest on working capital loans, leases, debentures and CRI pegged to the CDI.

#### Liquidity risk

The Company manages its liquidity risk by managing its cash flows, in order to maintain a level of cash and cash equivalents sufficient to meet its needs. The contractual exposures of financial liabilities are as follows:

|   | Consolidated        |                      |                      |                      | Total     |
|---|---------------------|----------------------|----------------------|----------------------|-----------|
|   | Less than<br>1 year | From 1 to 2<br>years | From 2 to 3<br>years | More than<br>3 years |           |
| At December 31, 2020                      |                     |                      |                      |                      |           |
| Loans and financing (Note 9)              | 219,061             | 137,602              | 269,410              | 405,095              | 1,031,168 |
| Trade accounts payable                    | 90,086              | 17,368               | -                    | -                    | 107,454   |
| Related parties (Note 6.1)                | 23,022              | -                    | -                    | -                    | 23,022    |
| Real estate commitments payable (Note 12) | 77,434              | 932,308              | 575,383              | 370,524              | 1,955,649 |
| Advances for receipt (Note 13)            | 20,657              | -                    | -                    | -                    | 20,657    |

Cash flows included in the analysis of maturity of the Company and its subsidiaries are not expected to occur significantly earlier or in significantly different amounts.

Regarding accounts receivable, the Company limits its exposure to credit risks through sales to a wide customer base and ongoing credit rating. At December 31, 2020, there was no significant concentration of credit risk associated to customers. Trade accounts receivable are guaranteed by the very real estate units, and the ownership of real estate is transferred only after fully paid.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 21. Financial instruments (Continued)

#### Fair value of financial instruments by category

The balances of trade accounts receivable and trade accounts payable at carrying amount, less impairment in case of receivables, are assumed to approximate their fair values.

Fair value hierarchy of assets and liabilities of the Company and its subsidiaries is as follows:

|                                       | Note | Individual       |            | Consolidated     |            |
|---------------------------------------|------|------------------|------------|------------------|------------|
|                                       |      | 12/31/2020       | 12/31/2019 | 12/31/2020       | 12/31/2019 |
| <b>Financial assets</b>               |      |                  |            |                  |            |
| Amortized cost                        |      |                  |            |                  |            |
|                                       |      | <b>88,001</b>    | 56,101     | <b>466,345</b>   | 507,884    |
| Accounts receivable                   | 4.1  | <b>7,305</b>     | 3,512      | <b>375,444</b>   | 444,117    |
| Accounts receivable from divestiture  | 4.2  | <b>70,685</b>    | 41,222     | <b>80,685</b>    | 52,236     |
| Other accounts receivable             | -    | <b>10,011</b>    | 11,367     | <b>10,216</b>    | 11,531     |
| Fair value through profit or loss (*) |      |                  |            |                  |            |
|                                       |      | <b>617,881</b>   | 497,287    | <b>933,934</b>   | 729,382    |
| Cash and banks                        | 3.1  | <b>1,563</b>     | 13,385     | <b>217,303</b>   | 135,808    |
| Cash equivalents                      | 3.1  | <b>415,067</b>   | 323,682    | <b>514,266</b>   | 397,987    |
| Short-term investments                | 3.2  | <b>194,246</b>   | 160,220    | <b>195,360</b>   | 195,587    |
| Derivatives receivable                |      | <b>7,005</b>     | -          | <b>7,005</b>     | -          |
| <b>Total financial assets</b>         |      |                  |            |                  |            |
|                                       |      | <b>705,882</b>   | 553,388    | <b>1,400,279</b> | 1,237,266  |
| <b>Financial liabilities</b>          |      |                  |            |                  |            |
| Amortized cost                        |      |                  |            |                  |            |
|                                       |      | <b>1,158,388</b> | 889,042    | <b>3,219,352</b> | 2,743,774  |
| Real estate commitments payable       | 12   | <b>69,577</b>    | 20,227     | <b>1,955,649</b> | 1,733,203  |
| Advances for receipt                  | 13   | <b>2,362</b>     | 19,253     | <b>20,657</b>    | 33,619     |
| Loans and financing                   | 9    | <b>1,015,116</b> | 782,714    | <b>1,031,168</b> | 831,068    |
| Trade accounts payable                | -    | <b>7,530</b>     | 9,972      | <b>107,454</b>   | 64,699     |
| Transactions with related parties     | 6.1  | <b>32,851</b>    | 14,333     | <b>23,022</b>    | 18,767     |
| Other accounts payable                | 14   | <b>30,952</b>    | 42,545     | <b>81,402</b>    | 62,418     |
| <b>Financial liabilities</b>          |      |                  |            |                  |            |
|                                       |      | <b>1,158,388</b> | 889,042    | <b>3,219,352</b> | 2,743,774  |

(\*) Financial assets recognized in the financial statements at fair value through profit or loss with level 2 measurement in the fair value hierarchy.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

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### 21. Financial instruments (Continued)

#### Fair value of financial instruments

At December 31, 2020, fair value of financial instruments is as follows:

|                                      | Individual      |            |            | Consolidated    |            |            |
|--------------------------------------|-----------------|------------|------------|-----------------|------------|------------|
|                                      | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| Financial assets                     |                 |            |            |                 |            |            |
| Amortized cost                       | 88,001          | 88,001     | -          | 466,345         | 466,345    | -          |
| Accounts receivable                  | 7,305           | 7,305      | -          | 375,444         | 375,444    | -          |
| Accounts receivable from divestiture | 70,685          | 70,685     | -          | 80,685          | 80,685     | -          |
| Other accounts receivable            | 10,011          | 10,011     | -          | 10,216          | 10,216     | -          |
| Fair value through profit or loss    | 617,881         | 617,881    | -          | 933,934         | 933,934    | -          |
| Cash and banks                       | 1,563           | 1,563      | -          | 217,303         | 217,303    | -          |
| Cash equivalents                     | 415,067         | 415,067    | -          | 514,266         | 514,266    | -          |
| Short-term investments               | 194,246         | 194,246    | -          | 195,360         | 195,360    | -          |
| Derivatives receivable               | 7,005           | 7,005      | -          | 7,005           | 7,005      | -          |
| Total financial assets               | 705,882         | 705,882    | -          | 1,400,279       | 1,400,279  | -          |
| Financial liabilities                |                 |            |            |                 |            |            |
| Amortized cost                       | 1,158,388       | 1,163,980  | (5,592)    | 3,219,352       | 3,224,968  | (5,616)    |
| Real estate commitments payable      | 69,577          | 69,577     | -          | 1,955,649       | 1,955,649  | -          |
| Advances for receipt                 | 2,362           | 2,362      | -          | 20,657          | 20,657     | -          |
| Loans and financing                  | 1,015,116       | 1,020,708  | (5,592)    | 1,031,168       | 1,036,784  | (5,616)    |
| Trade accounts payable               | 7,530           | 7,530      | -          | 107,454         | 107,454    | -          |
| Transactions with related parties    | 32,851          | 32,851     | -          | 23,022          | 23,022     | -          |
| Other accounts payable               | 30,952          | 30,952     | -          | 81,402          | 81,402     | -          |
| Financial liabilities                | 1,158,388       | 1,163,980  | (5,592)    | 3,219,352       | 3,224,968  | (5,616)    |

At December 31, 2019, fair value of financial instruments is as follows:

|                                      | Individual      |            |            | Consolidated    |            |            |
|--------------------------------------|-----------------|------------|------------|-----------------|------------|------------|
|                                      | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| Financial assets                     |                 |            |            |                 |            |            |
| Amortized cost                       | 56,101          | 56,101     | -          | 507,884         | 507,884    | -          |
| Accounts receivable                  | 3,512           | 3,512      | -          | 444,117         | 444,117    | -          |
| Accounts receivable from divestiture | 11,367          | 11,367     | -          | 11,531          | 11,531     | -          |
| Other accounts receivable            | 41,222          | 41,222     | -          | 52,236          | 52,236     | -          |
| Fair value through profit or loss    | 497,287         | 497,287    | -          | 729,382         | 729,382    | -          |
| Cash and banks                       | 13,385          | 13,385     | -          | 135,808         | 135,808    | -          |
| Cash equivalents                     | 323,682         | 323,682    | -          | 397,987         | 397,987    | -          |
| Short-term investments               | 160,220         | 160,220    | -          | 195,587         | 195,587    | -          |
| Total financial assets               | 553,388         | 553,388    | -          | 1,237,266       | 1,237,266  | -          |
| Financial liabilities                |                 |            |            |                 |            |            |
| Amortized cost                       | 889,044         | 889,044    | -          | 2,743,774       | 2,743,774  | -          |
| Real estate commitments payable      | 20,227          | 20,227     | -          | 1,733,203       | 1,733,203  | -          |
| Advances for receipt                 | 19,253          | 19,253     | -          | 33,619          | 33,619     | -          |
| Loans and financing                  | 782,714         | 782,714    | -          | 831,068         | 831,068    | -          |
| Trade accounts payable               | 9,972           | 9,972      | -          | 64,699          | 64,699     | -          |
| Transactions with related parties    | 14,333          | 14,333     | -          | 18,767          | 18,767     | -          |
| Other accounts payable               | 42,545          | 42,545     | -          | 62,418          | 62,418     | -          |
| Financial liabilities                | 889,044         | 889,044    | -          | 2,743,774       | 2,743,774  | -          |

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Notes to individual and consolidated financial statements (Continued)  
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### 21. Financial instruments (Continued)

#### Fair value of financial instruments (Continued)

Management is of the understanding that the financial instruments present no significant changes as compared with respective fair value.

The Company does not engage in transactions involving derivatives or any other assets for speculation purposes.

The Company contracted a derivative financial instruments (*SWAP*) to hedge against a debt pegged to Euro. This derivative is aimed at reducing, or mitigating, the Company's risk of exposure to exchange fluctuation by replacing the exchange rate for CDI.

At December 31, 2020, the position of swap agreements is as follows:

| <u>Fair value hedge</u>                     | <u>Notional value</u> | <u>Rates</u>    | <u>Fair value</u> | <u>Gain (loss) on transaction – P&amp;L</u> |
|---|-----------------------|-----------------|-------------------|---|
| Bank Credit Bills (hedged item)             | 40,000                | BRL-EUR + 2.36% | <b>48,999</b>     | -   |
| Swap transaction:                           | <b>Receivables</b>    | BRL-EUR + 2.36% | <b>48,999</b>     | <b>48,999</b>                               |
|   | <b>Payables</b>       | CDI + 4%        | <b>(41,994)</b>   | <b>(41,994)</b>                             |
| Net position – swap – derivative receivable |                       |                 | <b>7,005</b>      | <b>7,005</b>                                |

#### Sensitivity analysis

The Company and its subsidiaries should present a sensitivity analysis for each type of market risk originating from financial instruments and considered significant by management, to which the Company is exposed at each year-end. The exposure refers only to the fluctuation of variable rates that affect both finance income from short-term investments and finance cost from borrowings. Therefore, the financial assets of the Company and its subsidiaries are free of significant risks, as they yield interest at the CDI rate, and loans and financing are pegged to the fluctuation of TR plus fixed spread, in case of project financing (SFH), pegged to the fluctuation of CDI plus fixed spread, in case of Leases, CRI, Debenture and Derivatives and, in the case of Debentures, pegged to IPCA. The Company also has a loan in foreign currency (euro) which is, however, not subject to currency fluctuation (currency risk) since the Company took out a swap pegged to the CDI, maturing on the same date, for hedging purposes. The Company believes that there is no actual impact from analyzing the risk relating to foreign currency for this contract, reason why management will consider, for the sensitivity analysis, the swap contract pegged to the CDI.

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### 21. Financial instruments (Continued)

#### Sensitivity analysis (Continued)

To conduct the sensitivity analysis, the Company relied on financial market projections for 2020, considering it as probable scenario. Increasing and decreasing scenarios of 25% and 50% on Net Assets and Liabilities were calculated. The probable scenario adopted by the Company corresponds to the abovementioned projections, that is, the projections expected by the Financial market for the CDI, IPCA and INCC, and the statement of sensitivity analysis is as follows:

| Index | Financial asset<br>subject to<br>exposure | Financial<br>liability subject<br>to exposure | Net balance at<br>12/31/2020 | 50%<br>decrease | 25%<br>decrease | Probable<br>scenario | 25%<br>increase | 50%<br>increase |
|-------|---|---|------------------------------|-----------------|-----------------|----------------------|-----------------|-----------------|
| TR    | -   | (5,782)                                       | (5,782)                      | -               | -               | -                    | -               | -               |
| CDI   | 709,626                                   | (752,919)                                     | (43,293)                     | (736)           | (1,104)         | (1,472)              | (1,840)         | (2,208)         |
| IPCA  | 164,544                                   | (1,122,457)                                   | (957,913)                    | (17,242)        | (25,864)        | (34,485)             | (43,106)        | (51,727)        |
| INCC  | 179,678                                   | (935,818)                                     | (756,140)                    | (12,132)        | (18,198)        | (24,265)             | (30,331)        | (36,397)        |

  

| Index | 50%<br>decrease | 25%<br>decrease | Probable<br>scenario | 25%<br>increase | 50%<br>increase |
|-------|-----------------|-----------------|----------------------|-----------------|-----------------|
| TR    | 0.00%           | 0.00%           | <b>0.00%</b>         | 0.00%           | 0.00%           |
| CDI   | 1.70%           | 2.55%           | <b>3.40%</b>         | 4.25%           | 5.10%           |
| IPCA  | 1.80%           | 2.70%           | <b>3.60%</b>         | 4.50%           | 5.40%           |
| INCC  | 1.60%           | 2.41%           | <b>3.21%</b>         | 4.01%           | 4.81%           |

#### Business risk management

##### *Risk control system*

In order to efficiently manage its risk, the Company carries out the operational control of all projects in course. In light of the management model, the Company calculates potential losses in simulations of unfavorable conditions for each individual project and for the set of projects as a whole, as well as the required maximum cash exposure.

##### *Control over maximum cash exposure*

The risk control system monitors the future cash requirements to develop the scheduled portfolio projects, based on an economic feasibility study of each project, as well as the individual cash flow requirements in relation to projected cash flows of the set of projects as a whole. This projection assists with the designing of the financing strategy and in making decisions about the selection of projects.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

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### 21. Financial instruments (Continued)

#### Demand risk management

Through market knowledge and local partners' support, Direcional identifies the demand for new projects in different regions, and the income bracket of potential buyers to be served. Launches are defined in view of the potential each region has to absorb a certain amount of real estate and respond to price changes. The Company does not intend to operate in markets where there are no reliable data available for analysis of market potential. Accordingly, the Company believes the demand risk of its launches is reduced.

#### Operational risks

Operational risk management is developed basically by ongoing monitoring of projects as to the completion of the physical and financial schedule of work, in relation to the initial planning of the financial and accounting audit by an independent firm, of judicious analysis of legal risks and credit risks of buyers of units through active management of receivables from projects.

#### Capital management

Capital management risk arises from the Company's decision to adopt a financing structure for its operations. The Company manages its capital structure, which consists of a ratio between the financial debt and equity (net assets, retained earnings and income reserves), based on internal policies and benchmarks. The key indicators related to this objective are: WACC (Weighted Average Cost of Capital), Net Debt/EBITDA and Net Debt/Equity. Total Debt comprises Loans and Financing (Note 9). The Company may change its capital structure, according to the economic and financing conditions in order to improve its financial leverage and debt management.

The Company's net debt structure includes: Loans and financing less cash and cash equivalents.

|                               | <b>Consolidated</b> |                   |
|-------------------------------|---------------------|-------------------|
|                               | <b>12/31/2020</b>   | <b>12/31/2019</b> |
| Loans and financing           | <b>1,031,168</b>    | 831,068           |
| (-) Cash and cash equivalents | <b>731,569</b>      | 533,795           |
| (-) Short-term investments    | <b>195,360</b>      | 195,587           |
| (-) Derivatives               | <b>7,005</b>        | -                 |
| Net debt                      | <b>97,234</b>       | 101,686           |
| Dividend payment              | <b>120,364</b>      | 129,969           |
| Share buyback                 | <b>20,961</b>       | -                 |
| Equity                        | <b>1,339,976</b>    | 1,369,344         |
| Net debt on equity            | <b>7.25%</b>        | 7.43%             |

## **Direcional Engenharia S.A.**

Notes to individual and consolidated financial statements (Continued)  
December 31, 2020  
(In thousands of reais, unless otherwise stated)

### **21. Financial instruments (Continued)**

#### Capital management (Continued)

In the year ended December 31, 2020, the Company presented cash generation of R\$145,777 (adjusted for derivatives, payment of dividends and share buybacks) compared to cash generation in 2019 of R\$166,531.

#### Assets pledged as guarantees

Assets pledged as a guarantee of loans and financing are described in Notes 8 and 9. The Company and its subsidiaries recorded judicial deposits at December 31, 2020 of R\$15,928 (R\$16,472 at December 31, 2019) as part of the discussion of its contingent liabilities.

### **22. Stock option plan and incentives associated with Company shares - stock option compensation**

#### Shared-based payment ("Matching Program")

At the Board of Directors' meetings held on May 15, 2015 and March 20, 2017, the regulations of the 1<sup>st</sup> and 2<sup>nd</sup> Incentive Programs tied to Direcional Engenharia S.A.'s shares ("Program 1 and Program 2, respectively"), were approved, as amended.

The Programs establish the rules and conditions for granting the right to purchase of shares and granting incentive shares to management and employees of the Company and/or Specific Purpose Entities in which the Company holds an interest ("beneficiaries"), previously selected by the Board of Directors, in order to attract, encourage and retain them, and align their interests with those of the Company and its shareholders.

To participate in the Matching Program, the beneficiaries should acquire common shares issued by the Company, whose number and deadline are set individually by the Board of Directors. For each common share of the Company acquired by the beneficiaries under the 1<sup>st</sup> Program, the Company will grant the beneficiaries two common shares, while under the 2<sup>nd</sup> Program, five common shares will be granted, to be delivered in lots of 25% of total shares over four years. For the beneficiary to be entitled to receive incentive shares at the end of each Vesting Period, the shares held by such beneficiary under the Program may not be fully or partially sold or transferred.

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 22. Stock option plan and incentives associated with Company shares - stock option payment (Continued)

#### Shared-based payment ("Matching Program") (Continued)

In the case of termination at the initiative of the beneficiary or termination at the initiative of the Company for just cause during a given vesting period, the beneficiary will cease to be entitled to all shares granted thereto under the programs, except for those already transferred due to expiration of previous vesting periods. In cases of termination by the Company without cause or retirement during a given vesting period, the beneficiary will be entitled (i) to the lot of shares that would be transferred at the end of the respective vesting period in proportion to the number of months of the beneficiary's relationship with the Company over the respective vesting period; and (ii) to all shares that have already been transferred due to expiration of previous vesting periods. The beneficiary of the new plan, however, will not be entitled to the shares that would be transferred due to expiration of the vesting periods that would start after his/her termination. In cases of termination due to death or disability retirement, the retired beneficiary or his/her legal heirs, as the case may be, will receive, regardless of the expiration of the respective vesting periods, all the shares to which they would be entitled under the Matching Programs.

In 2020, the Company granted the beneficiaries of the share-based compensation plan the amount of R\$3,886, corresponding to 663,209 shares.

The number of shares granted, vesting periods and exercise, approved by the Board of Directors are shown below:

| Program                  | Year of grant | Period for transfer of shares | Beginning | Shares granted (a) | Grants not activated (b) | Grants cancelled (c) | Shares transferred | Grants in force (a-b-c-d) |
|--------------------------|---------------|-------------------------------|-----------|--------------------|--------------------------|----------------------|--------------------|---------------------------|
| 1 <sup>st</sup> Matching | 2015          | 4 years                       | 2017      | 506,000            | 61,200                   | 127,557              | 317,243            | -                         |
| 1 <sup>st</sup> Matching | 2017          | 4 years                       | 2018      | 450,000            | 86,056                   | 45,408               | 245,950            | 72,586                    |
| 2 <sup>nd</sup> Matching | 2017          | 4 years                       | 2018      | 1,760,000          | -                        | 100,000              | 1,320,000          | 340,000                   |
| 2 <sup>nd</sup> Matching | 2018          | 4 years                       | 2019      | 360,000            | -                        | -                    | 180,000            | 180,000                   |
| 2 <sup>nd</sup> Matching | 2018          | 4 years                       | 2020      | 170,923            | -                        | 10,768               | 105,761            | 54,394                    |
| 1 <sup>st</sup> Matching | 2019          | 1 year                        | 2020      | 13,628             | -                        | 1,217                | 9,391              | 3,020                     |
| 2 <sup>nd</sup> Matching | 2019          | 3 years                       | 2020      | 58,985             | -                        | 4,559                | 30,714             | 23,712                    |
| 1 <sup>st</sup> Matching | 2019          | 3 years                       | 2020      | 9,662              | -                        | 734                  | 5,878              | 3,050                     |
| 2 <sup>nd</sup> Matching | 2019          | 3 years                       | 2020      | 52,888             | -                        | 4,620                | 24,304             | 23,964                    |
| 1 <sup>st</sup> Matching | 2020          | 4 years                       | 2020      | 60,000             | -                        | -                    | -                  | 60,000                    |
| 2 <sup>nd</sup> Matching | 2020          | 4 years                       | 2020      | 340,000            | -                        | -                    | -                  | 340,000                   |
| 1 <sup>st</sup> Matching | 2020          | 4 years                       | 2020      | 8,105              | -                        | -                    | -                  | 8,105                     |
| 2 <sup>nd</sup> Matching | 2020          | 4 years                       | 2020      | 55,947             | -                        | -                    | -                  | 55,947                    |
| <b>Total</b>             |               |                               |           | <b>3,846,138</b>   | <b>147,256</b>           | <b>294,863</b>       | <b>2,239,241</b>   | <b>1,164,778</b>          |

## Direcional Engenharia S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2020

(In thousands of reais, unless otherwise stated)

### 23. Insurance

The Group adopts a policy on insurance coverage that considers mainly the concentration of risks and their materiality, considering the nature of its activities and advice of insurance brokers. At December 31, 2020, insurance coverage is as follows:

| Items                                      | Type of coverage   | Insured amount |
|--|--|----------------|
| Civil works (engineering risks)            | Guarantees, during the period of construction of the project, indemnification arising from damages caused to the work, such as: fire, lightning, theft, among other specific coverages for facilities and assemblies at the insured location | 3,495,808      |
| Post-delivery guarantee insurance          | Guarantees the maintenance and resolution of problems in works delivered for up to 5 years, on damages set forth in the consumer code  | 66,829         |
| Civil liability (construction in progress) | Guarantees compensation (limited to the sum insured) of the amounts for which the Company may come to be liable for civil damages related to involuntary personal injuries and/or material damages caused to third parties.                  | 471,950        |
| Infrastructure                             | Guarantees given to the Local Government as to execution of the infrastructure works that are required for the licensing processes of the projects under construction  | 229,262        |
| Business insurance                         | Guarantees indemnification to the Company related to the events covered that take place in the commercial property leased, such as fire, lightning and explosion of any nature, and flood, riots, strike and lockout, windstorm, and smoke.  | 58,500         |
| Civil liability (D&O)                      | Guarantees coverage of pain and suffering to Company's Directors and Officers  | 60,000         |
| Civil liability (D&O)                      | Guarantees coverage of "Multiple perils – cyber risks" insurance   | 16,000         |

### 24. Non-cash transactions

|   | Individual    |            | Consolidated  |            |
|---|---------------|------------|---------------|------------|
|   | 12/31/2020    | 12/31/2019 | 12/31/2020    | 12/31/2019 |
| <b>Financing activities</b>               | <b>3,180</b>  | 47,106     | <b>4,155</b>  | 47,735     |
| Right-of-use financing                    | <b>3,180</b>  | 47,106     | <b>4,155</b>  | 47,735     |
| Acquisition of shares – Treasury shares   | <b>2,778</b>  | -          | <b>2,778</b>  | -          |
| <b>Investing activities</b>               | <b>45,781</b> | 81,554     | <b>46,867</b> | 101,183    |
| Sale of equity interest                   | <b>41,623</b> | 32,689     | <b>41,623</b> | 51,689     |
| Restatement - Sale of equity interest     | <b>963</b>    | 1,736      | <b>949</b>    | 1,736      |
| Acquisition (cancellation) of P&E - Lease | <b>3,195</b>  | 47,129     | <b>4,295</b>  | 47,758     |