Individual and Consolidated Financial Statements

Direcional Engenharia S.A.

December 31, 2022
with Independent Auditor's Report

Direcional Engenharia S.A.

Individual and consolidated financial statements

December 31, 2022

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Audited financial statements

Edifício Phelps Offices Towers
Rua Antônio de Albuquerque, 156
11º andar - Savassi
30112-010 - Belo Horizonte - MG - Brasil
Tel: +55 31 3232-2100
Fax: +55 31 3232-2106
ey.com.br

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 the International Financial Reporting Standards (IFRS) applicable to Brazilian real estate development entities registered with the Brazilian Securities and Exchange Commission (CVM)

Independent auditor's report on individual and consolidated financial statements

To the
Shareholders, Board of Directors and Officers
Direcional Engenharia S.A.
Belo Horizonte - 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, 2022, and the statements of profit or loss, of comprehensive income, 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 accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Direcional Engenharia S.A. as at December 31, 2022, 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 unfinished real estate units in relation 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 unfinished real estate units and from construction services

As mentioned in Notes 2.1.18, 2.2. (a) and 18, the Company and its subsidiaries recognize revenue from contracts for the purchase and sale of unfinished real estate units and revenue from construction services using the Percentage of Completion method (POC).

The POC method requires that the Company's executive board 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 unfinished 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 unfinished real estate 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, 2022 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 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 the executive board's assessment, the estimates prepared by the executive board related to the balances of revenue from the sale of unfinished real estate units and from provision of construction services, as well as the respective disclosures in Notes 2.1.18, 2.2 (a) and 18, 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, 2022, prepared under the responsibility of the Company's executive board, 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 individual and consolidated financial statements taken as a whole.

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

The executive board is responsible for such other information, which comprises 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 the executive board and those charged with governance for the individual and consolidated financial statements

The Company's executive board is responsible for the preparation and fair presentation of the individual and consolidated financial statements 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 CVM, and for such internal control as the executive board 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, the executive board 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 the executive board 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 the executive board.

- Concluded on the appropriateness of the executive board'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 individual and consolidated financial statements, including the disclosures, and whether these financial statements represent 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 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 these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, March 13, 2023

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

Rogério Xavier Magalhães
Accountant CRC-MG080613/O

A free translation from Portuguese into English of individual and consolidated financial statements prepared in Brazilian currency 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)

Statements of financial position
December 31, 2022
(In thousands of reais)

		Individual		Consolidated	
	Note	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Current assets					
Cash and cash equivalents	3.1	**453,095**	287,215	**733,124**	723,954
Short-term investments	3.2	**401,582**	323,337	**454,248**	325,206
Accounts receivable	4.1	**12,810**	11,340	**363,372**	231,761
Inventories	5	**181**	181	**952,782**	1,230,591
Receivables from related parties	6.1	**113,852**	132,735	**64,551**	82,261
Taxes recoverable	-	**14,649**	12,228	**29,562**	24,462
Accounts receivable from divestiture	4.2	**501**	10,258	**501**	17,540
Other receivables	4.3	**133,896**	130,126	**259,303**	220,565
Total current assets		**1,130,566**	907,420	**2,857,443**	2,856,340
Noncurrent assets					
Accounts receivable	4.1	**987**	1,026	**314,813**	244,585
Inventories	5	**169,821**	97,322	**3,018,121**	2,303,436
Receivables from related parties	6.1	-	-	**-**	1,636
Judicial deposits	-	**10,513**	8,918	**17,367**	16,097
Accounts receivable from divestiture	4.2	-	-	**7,129**	-
Other receivables	4.3	**12,967**	21,247	**14,210**	21,457
Investments	7	**1,578,383**	1,519,013	**144,462**	117,980
Property and equipment	8	**97,239**	68,011	**140,115**	99,075
Intangible assets		**19,461**	17,315	**20,948**	19,013
Total noncurrent assets		**1,889,371**	1,732,852	**3,677,165**	2,823,279
Total assets		**3,019,937**	2,640,272	**6,534,608**	5,679,619

	Note	Individual 12/31/2022	Individual 12/31/2021	Consolidated 12/31/2022	Consolidated 12/31/2021
Current liabilities					
Loans and financing	9.1	**308,408**	125,358	**309,722**	127,205
Trade accounts payable	10	**10,446**	8,337	**112,474**	77,052
Trade accounts payable - Forfait	10	**-**	-	**10,220**	15,002
Labor obligations	11	**18,835**	12,649	**39,233**	31,827
Tax obligations	12	**1,565**	1480	**28,690**	25,094
Lease financing	9.2	**10,687**	9,339	**11,324**	10,088
Real estate commitments payable	13	**-**	-	**113,361**	62,779
Advances from customers	14	**-**	-	**28,540**	14,705
Other accounts payable	15	**46,625**	28,991	**84,799**	90,346
Dividends proposed	17.4	**104,287**	-	**104,287**	-
Assignment liabilities	15.1	**-**	**-**	**88,320**	**-**
Provision for warranty	16.1	**1,233**	2,258	**28,392**	28,143
Payables to related parties	6.1	**27,595**	10,741	**33,348**	14,600
Total current liabilities		**529,681**	199,153	**992,710**	496,841
Noncurrent liabilities					
Loans and financing	9.1	**964,717**	1,012,001	**1,080,104**	1,114,197
Trade accounts payable	10	**191**	210	**9,471**	5,958
Provision for warranty	16.1	**-**	-	**13,887**	12,051
Tax obligations	12	**-**	-	**12,737**	9,701
Lease financing	9.2	**19,728**	24,985	**19,821**	25,129
Real estate commitments payable	13	**169,637**	70,877	**2,388,485**	2,060,218
Advances from customers	14	**380**	27,086	**398,915**	375,344
Provision for tax, labor and civil contingencies	16.2	**3,764**	4,055	**26,198**	24,008
Other accounts payable	15	**2,028**	2,028	**97,392**	97,392
Total noncurrent liabilities		**1,160,445**	1,141,242	**4,047,010**	3,723,998
Equity					
Capital	17.1	**752,982**	752,982	**752,982**	752,982
Capital reserves	17.3	**177,690**	177,690	**177,690**	177,690
Stock options granted	-	**2,513**	2,259	**2,513**	2,259
Equity adjustment	-	**(31,880)**	(29,847)	**(31,880)**	(29,847)
Treasury shares	-	**(9,749)**	(7,360)	**(9,749)**	(7,360)
Income reserve	17.4	**438,255**	404,153	**438,255**	404,153
		1,329,811	1,299,877	**1,329,811**	1,299,877
Noncontrolling interests		-	-	**165,077**	158,903
		1,329,811	1,299,877	**1,494,888**	1,458,780
Total liabilities and equity		**3,019,937**	2,640,272	**6,534,608**	5,679,619

See accompanying notes.

DIRECIONAL

Statements of profit or loss
Year ended December 31, 2022
(In thousands of reais, unless otherwise stated)

	Note	Individual		Consolidated	
		12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Net revenue	18	**20,883**	40,264	**2,162,616**	1,776,380
Cost of real estate sold and services rendered	19	**(14,109)**	(11,736)	**(1,400,965)**	(1,129,274)
Gross profit		**6,774**	28,528	**761,651**	647,106
Operating income (expenses)					
General and administrative expenses	19	**(128,136)**	(112,482)	**(151,631)**	(132,511)
Selling expenses	19	**(7,479)**	(4,779)	**(203,082)**	(190,902)
Equity pickup	7	**382,586**	289,413	**22,483**	17,559
Other operating income (expenses)	-	**30,688**	28,424	**(25,357)**	(18,387)
		277,659	200,576	**(357,587)**	(324,241)
Finance costs	20	**(250,590)**	(140,404)	**(277,148)**	(159,174)
Finance income	20	**175,017**	70,841	**195,489**	80,632
Finance income (costs)	20	**(75,573)**	(69,563)	**(81,659)**	(78,542)
Income before income and social contribution taxes (IRPJ and CSLL)		**208,860**	159,541	**322,405**	244,323
Income and social contribution taxes	21	**(16)**	(37)	**(45,846)**	(35,563)
Net income for the year		**208,844**	159,504	**276,559**	208,760
Net income attributable to					
Direcional Engenharia S.A.		**208,844**	159,504	**208,844**	159,504
Noncontrolling interests in SPEs and SCPs		**-**	-	**67,715**	49,256
Earnings per share					
Basic		**1.40**	**1.10**		
Diluted		**1.40**	**1.09**		

See accompanying notes.

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Statements of comprehensive income
Year ended December 31, 2022
(In thousands of reais)

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Net income for the year	**208,844**	159,504	**276,559**	208,760
Total comprehensive income for the year	**208,844**	159,504	**276,559**	208,760
Attributable to:				
Company shareholders			**208,844**	159,504
Noncontrolling interests			**67,715**	49,256
			276,559	208,760

See accompanying notes.

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Statements of changes in equity
Year ended December 31, 2022
(In thousands of reais)

		Attributable to Company shareholders										
				Capital reserves			Income reserves					
	Note	Capital	Treasury shares	Shares issued/ disposed of	Stock options granted	Equity adjustment	Legal	Investment	Retained earnings (accumulated losses)	Individual equity	Noncontrolling interests	Consolidated equity
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
Stock options recognized	17.3	-	-	-	3,284	-	-	-	-	3,284	-	3,284
Cancelation of treasury shares	-	-	30,749	(30,749)	-	-	-	-	-	-	-	-
Capital reduction by noncontrolling interests	17.6	-	-	-	-	-	-	-	-	-	(4,039)	(4,039)
Income (loss) for the year	-	-	-	-	-	-	-	-	159,504	159,504	49,256	208,760
Dividends proposed	17.4.3	-	-	-	-	-	-	(100,147)	-	(100,147)	-	(100,147)
Disposal of treasury shares – Matching Plan	17.2	-	6,352	(45)	(5,075)	-	-	-	(1,277)	(45)	-	(45)
Disposal of treasury shares - Market		-	36,635	-	-	-	-	-	14,125	50,760	-	50,760
Share buyback		-	(28,967)	-	-	-	-	-	-	(28,967)	-	(28,967)
Set-up of reserves	17.4.1	-	-	-	-	-	7,975	164,377	(172,352)	-	-	-
Transactions with noncontrolling shareholders	17.6	-	-	-	-	(10,824)	-	-	-	(10,824)	-	(10,824)
Balances at December 31, 2021		752,982	(7,360)	177,690	2,259	(29,847)	43,997	360,156	-	1,299,877	158,903	1,458,780
Stock options recognized	17.3	-	-	-	2,914	-	-	-	-	2,914	-	2,914
Capital reduction by noncontrolling interests	17.6	-	-	-	-	-	-	-	-	-	(61,541)	(61,541)
Income (loss) for the year		-	-	-	-	-	-	-	208,844	208,844	67,715	276,559
Dividends proposed	17.4.3	-	-	-	-	-	-	(174,251)	-	(174,251)	-	(174,251)
Disposal of treasury shares	17.2	-	3,151	-	(2,660)	-	-	-	(491)	-	-	-
Share buyback	17.2	-	(5,540)	-	-	-	-	-	-	(5,540)	-	(5,540)
Set-up of reserves		-	-	-	-	-	10,442	197,911	(208,353)	-	-	-
Transactions with noncontrolling shareholders	17.6	-	-	-	-	(2,033)	-	-	-	(2,033)	-	(2,033)
Balances at December 31, 2022		**752,982**	**(9,749)**	**177,690**	**2,513**	**(31,880)**	**54,439**	**383,816**	**-**	**1,329,811**	**165,077**	**1,494,888**

See accompanying notes.

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Statements of cash flows
Year ended December 31, 2022
(In thousands of reais)

	Note	Individual 12/31/2022	Individual 12/31/2021 (Restated)	Consolidated 12/31/2022	Consolidated 12/31/2021 (Restated)
Cash flows from operating activities					
Income before income and social contribution taxes		**208,860**	159,541	**322,405**	244,323
Adjustments to reconcile income to cash from operating activities					
Depreciation and amortization	19	**22,287**	22,574	**53,425**	51,287
Equity pickup	7	**(382,586)**	(289,413)	**(22,483)**	(17,559)
Short-term investment yield		**(39,499)**	(13,316)	**(44,959)**	(13,606)
Provision for warranty	16.1	**1,388**	580	**15,926**	25,217
Interest on loans and financing		**152,050**	107,393	**163,862**	115,759
Hedge accounting – fair value	20	**(15,465)**	(17,243)	**(15,465)**	(17,243)
Exchange differences on loans and financing		**-**	1,097	**-**	1,097
Provision for tax, labor and civil contingencies	16.2	**4,053**	898	**17,890**	5,839
Gains (losses) on barter transactions	18	**-**	-	**(28,781)**	(18,930)
Disposal of investment		**(73,313)**	(30,734)	**(83,353)**	(21,174)
Restatement of accounts receivable for acquisition of equity interests	4.2	**-**	(330)	**(2,373)**	(330)
Present value adjustment on accounts receivable	4.1	**-**	-	**17,599**	10,039
Present value adjustment on lease financing	9.2	**1,930**	2,294	**1,979**	2,356
Adjustment to net realizable value of finished inventories	5	**-**	-	**117**	(541)
Allowance for doubtful accounts	4.1	**-**	-	**4,029**	8,506
Provision for stock option plan	19	**2,914**	3,284	**2,914**	3,284
Provision for profit sharing	19	**9,999**	7,125	**11,042**	7,879
Increase (decrease) in assets					
Accounts receivable		**(1,431)**	(5,061)	**(223,467)**	(119,447)
Inventories		**(445)**	4,305	**249,188**	176,187
Sundry receivables		**22,889**	(68,870)	**(31,885)**	(115,865)
Transactions with related parties		**57,523**	76,771	**23,747**	(35,509)
Judicial deposits		**(1,595)**	146	**(1,270)**	(169)
Taxes recoverable		**(2,421)**	(1,177)	**(5,100)**	(3,277)
(Decrease) increase in liabilities					
Trade accounts payable and Forfait		**(12,752)**	(12,103)	**7,765**	(34,890)
Labor obligations		**(3,813)**	(4,113)	**(3,636)**	(4,305)
Tax obligations		**80**	759	**(1,886)**	3,377
Real estate commitments payable	13	**-**	-	**(237,683)**	(184,698)
Advances from customers		**-**	(2,362)	**(3,166)**	(7,668)
Accounts payable		**17,634**	87	**(6,223)**	106,356
Provision for tax, labor and civil contingencies	16.2	**(4,344)**	(1,172)	**(15,700)**	(10,973)
Transactions with related parties		**16,854**	(22,110)	**18,748**	(8,422)
Assignment liabilities		**-**	-	**88,320**	-
Construction warranty	16.1	**(2,413)**	(2,566)	**(13,841)**	(23,930)
Income and social contribution taxes paid		**(11)**	(15)	**(37,328)**	(32,966)
Net cash flows from (used in) operating activities		**(21,627)**	(83,731)	**220,357**	90,004

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Statements of cash flows (Continued)
Year ended December 31, 2022
(In thousands of reais)

		Individual		Consolidated	
	Note	**12/31/2022**	12/31/2021 (Restated)	**12/31/2022**	12/31/2021 (Restated)
Cash flows from investing activities					
Increase (decrease) in investments (SCPs and SPEs)		**(166,256)**	(153,990)	**(116,872)**	(221,591)
Dividends received	7	**368,756**	112,492	**8,493**	11,451
Disposal of investment	4.2	**166,209**	215,183	**200,016**	267,432
Increase in property and equipment		**(31,169)**	(897)	**(39,351)**	(11,681)
Property and equipment leased		**-**	(2,512)	**-**	(2,510)
Increase in intangible assets		**(14,239)**	(13,194)	**(17,337)**	(14,202)
Short-term investments		**(38,746)**	(115,775)	**(84,083)**	(116,240)
Net cash flows from (used in) investing activities		**284,555**	41,307	**(49,134)**	(87,341)
Cash flows from financing activities					
Disposal of treasury shares		**-**	50,715	**-**	50,715
Dividends paid out		**(69,964)**	(100,147)	**(69,964)**	(100,147)
Share buyback		**(5,540)**	(31,965)	**(5,540)**	(31,965)
Additions to lease financing		**-**	2,512	**-**	2,510
Amortization of lease financing		**(7,506)**	(8,158)	**(7,718)**	(8,502)
Interest paid on lease		**(772)**	(713)	**(772)**	(713)
Loans taken out		**300,000**	294,165	**561,490**	472,170
Payment of debt structuring costs		**(15,618)**	-	**(15,618)**	-
Repayment of loans		**(194,167)**	(229,110)	**(448,007)**	(319,375)
Interest paid		**(101,448)**	(53,466)	**(113,420)**	(60,108)
Capital increase (decrease) by noncontrolling shareholders		**(2,033)**	(10,824)	**(62,504)**	(14,863)
Net cash flows used in financing activities		**(97,048)**	(86,991)	**(162,053)**	(10,278)
Increase (decrease) in cash and cash equivalents		**165,880**	(129,415)	**9,170**	(7,615)
Cash and cash equivalents					
At beginning of year		**287,215**	416,630	**723,954**	731,569
At end of year		**453,095**	287,215	**733,124**	723,954

See accompanying notes.

DIRECIONAL

Statements of value added
Year ended December 31, 2022
(In thousands of reais)

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Revenues				
Real estate sold and services rendered	**31,881**	45,917	**2,262,957**	1,924,099
Other operating income (expenses)	**30,688**	28,424	**(25,357)**	(18,387)
(Set-up) reversal of allowance for doubtful accounts	**-**	-	**(4,039)**	(20,177)
	62,569	74,341	**2,233,561**	1,885,535
Bought-in inputs				
Raw materials consumed	**(3,537)**	(7,664)	**(1,150,190)**	(924,105)
Materials, power, outsourced services and other operating expenses	**(10,141)**	(9,281)	**(25,276)**	(23,269)
Other	**(16,432)**	(15,110)	**(211,043)**	(203,859)
	(30,110)	(32,055)	**(1,386,509)**	(1,151,233)
Gross value added	**32,459**	42,286	**847,052**	734,302
Depreciation and amortization, net	**(22,287)**	(22,574)	**(53,425)**	(51,287)
Net value added produced by the Company	**10,172**	19,712	**793,627**	683,015
Value added received in transfer				
Equity pickup	**382,586**	289,413	**22,483**	17,559
Finance income	**175,017**	70,841	**195,489**	80,632
	557,603	360,254	**217,972**	98,191
Total value added to be distributed	**567,775**	379,966	**1,011,599**	781,206
Distribution of value added				
Personnel	**97,327**	74,362	**307,279**	246,086
Taxes, charges and contributions	**11,014**	5,689	**142,148**	163,105
Debt remuneration	**250,590**	140,411	**285,613**	163,255
Retained profits/losses	**208,844**	159,504	**208,844**	159,504
Portion of profit or loss attributed to noncontrolling interests		-	**67,715**	49,256
	567,775	379,966	**1,011,599**	781,206

See accompanying notes.

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.

The Company is a construction and real estate development company focused on the development of low- and middle-income projects. Riva Incorporadora, a wholly-owned subsidiary of Direcional, is responsible for carrying out middle-income projects and popular developments. The Company operates through subsidiaries and affiliates and operates primarily in the North, Northeast, Midwest and Southeast regions of the country. Over its 42 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 ordinary 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 13, 2023, the Company's Board of Directors approved the individual and consolidated financial statements and authorized their disclosure.

1.1. Covid-19 analysis

Direcional continues to be attentive to communications from health authorities and government entities to always position itself correctly and preventively, aiming at the well-being and health of all employees and business partners. Although the COVID-19 pandemic is not yet over, there are no more restrictions on circulation or the operation of activities, much of which is due to the safety measures adopted and, in special, the vaccination. Today, the COVID-19 pandemic effects on the economy are no longer significant and, as such, there have been no impacts on the Company's business.

1.2. Analysis of the impacts of the Russia-Ukraine conflict

Since February 2022, the conflict between Russia and Ukraine is being closely monitored, especially because of the tension caused in the markets and the direct consequence of the increase in prices of certain inputs directly affected by the conflict, either due to the impossibility of importing or exporting as a direct result of the war, or restrictions imposed by the allied countries. This new scenario of product shortages and price increases has raised concerns about inflation in the domestic and global markets.

1. Operations (Continued)

1.2. Analysis of the impacts of the Russia-Ukraine conflict (Continued)

The Company was able to transfer part of the cost increase to its products, gradually increasing the sales price. The excellent sales performance helps to keep margins stable, confirming how well positioned the Company is in the market, and shows that the launch and sales strategy has been assertive. The Company opts for a conservative position in the preparation of budgets, considering the impacts of the past, the current situation and future projections. This resilience is a result of a conservative and professional management of the day-to-day activities of the business. Direcional has undergone turbulent and difficult times, always adopting a humble and realistic position. It is a long journey that starts with the assertive choice of land and the best form of payment, approval of the economic feasibility of the project, marketing and sales strategy, and budget development and project execution. Any changes in the economic scenario, from rising interest rates, increased inflation, and even the political scenario, are being closely monitored by the managing officers.

1.3. Going concern

The executive board assessed the Company’s ability to continue as a going concern in the coming years and, based on the business plan and the information known today, it is comfortable with its financial and operational position. It is not aware of any significant uncertainty that could put the operational capacity at risk. We are attentive to internal political scenarios, economic policies, fluctuations in interest rates, and inflation. As such, these individual and consolidated financial statements were prepared on a going concern basis.

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

The individual and consolidated 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 by the executive board for management of the business.

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

2.1. Presentation of financial statements

2.1.1. Basis of preparation

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

The preparation of the individual and consolidated financial statements requires the use of certain critical accounting estimates and also that management exercise its judgment in the process of applying the Company'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.

The individual and 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 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 recognition of revenues, as detailed in Note 2.1.18. The subsidiaries included in the consolidation process are described 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.

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)

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

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.

The share 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.

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

2.1. Presentation of financial statements (Continued)

2.1.2. Consolidation

The following accounting policies 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.

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

The Company adopts the acquisition method to account for business combinations. The consideration transferred for acquisition of a subsidiary is the fair value of transferred assets, incurred liabilities, and any equity instruments issued by the Company. 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 Company 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, the noncontrolling interest recognized and the measurement of the previously held interest are lower than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in P&L for the year.

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)

Intercompany transactions, balances and unrealized gains are eliminated.

b) *Transactions with noncontrolling interests*

The Company treats transactions with noncontrolling interests as transactions with owners of assets of the Company. 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 Company 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 Company 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.

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*

Affiliates are all entities over which the Company 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 Company has shared control with one or more parties.

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 Company's investment in affiliates and joint ventures includes the goodwill identified in the acquisition, net of any accumulated impairment loss.

The Company'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 Company's reserves. When the Company'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 Company 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 Company and its affiliates and joint ventures are eliminated in proportion to the Company'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 Company.

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)

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.

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, a single segment considered internally as "Real Estate Business".

2.1.4. Functional and presentation currency

The items included in the financial statements of each Company entity 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. Summary of significant accounting practices and policies and statement of compliance (Continued)

2.1. Presentation of financial statements (Continued)

2.1.6. Financial assets

a) *Classification*

The Company 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.

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.

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*

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 Company 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.

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 Company'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 Company 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.

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)

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.

d) *Impairment of financial assets*

The Company 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 Company 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 Company, 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

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)

(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.

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 Company 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. 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

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.

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

2.1. Presentation of financial statements (Continued)

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 barters 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 is 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.

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. 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

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.

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

2.1. Presentation of financial statements (Continued)

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.

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.

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

2.1. Presentation of financial statements (Continued)

2.1.12. Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments such as interest rate SWAP agreements to hedge against interest rate risk. These derivative instruments are initially recognized at fair value and subsequently remeasured at fair value. Derivatives are recorded as assets when the fair value is positive and as liabilities when negative.

For hedge accounting purposes, hedging instruments are classified as follows:

(a) Fair value hedge, when intended to protect against exposure to changes in the fair value of a recognized asset or liability or a firm commitment;
(b) Cash flow hedge, when intended to protect against exposure to changes in cash flows attributable to a specific risk associated with a recognized asset or liability, or a projected highly probable transaction, or against currency risk in a firm commitment not recognized; or
(c) Hedge of a net investment in a foreign operation.

At the outset of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy to carry out the hedge.

2.1.13. 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 commencement 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.

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

2.1. Presentation of financial statements (Continued)

2.1.13. Lease financing (Continued)

b) *Lease liabilities*

On the lease commencement 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.

2.1.14. Provisions

Provision for guarantee and provision for contingencies (labor, civil and tax lawsuits) are recognized when: (i) the Company 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.

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

2.1. Presentation of financial statements (Continued)

2.1.14. Provisions (Continued)

a) *Provision for tax, labor and civil contingencies*

The Company 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 warranty*

The Company sets up provision for warranty 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 warranty. The average term of the warranty is approximately 5 years after delivery of the real estate development.

2.1.15. 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.

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

2.1. Presentation of financial statements (Continued)

2.1.15. 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 Company structures its operations in special 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 special 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 Company 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.

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

2.1. Presentation of financial statements (Continued)

2.1.15. 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.

2.1.16. Employee benefits

a) *Share-based compensation*

The Company operates two share-based compensation plans according to which the entity receives employee services as consideration for the Company'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.

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

2.1. Presentation of financial statements (Continued)

2.1.16. 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 to the goodwill reserve, if applicable, when the options are exercised.

The social contribution taxes 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 Company 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 Company recognizes a provision when it is contractually bound or when there is an earlier practice that has generated an unrealized obligation.

2.1.17. 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 Company entity 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.

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

2.1. Presentation of financial statements (Continued)

2.1.18. Revenue recognition

Revenue is stated net of taxes, returns, rebates and discounts, as well as elimination of sales between Company entities. The Company 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 Company'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.

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

2.1. Presentation of financial statements (Continued)

2.1.18. Revenue recognition (Continued)

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

In the sales of unfinished 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 barters 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, term and risks of similar transactions under market conditions. Subsequently, with the lapse of time, interest is added to the new fair value to determine the revenue to be appropriated, on which the POC will be applied.

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

2.1. Presentation of financial statements (Continued)

2.1.18. 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 Company 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.

2.1.19. 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 the financial statements at the year end, according to the Company's bylaws. 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.

(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

Pronouncement	Description	Effective period
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.
IAS 8	Definition of accounting estimates - The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.	Annual periods beginning on or after January 1, 2023.
IAS 1 and IFRS Practice Statement	Disclosure of accounting policies - Provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.	Annual periods beginning on or after January 1, 2023.
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction - narrows the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.	

2.2. Significant accounting judgments and estimates

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

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

2.2. Significant accounting judgments and estimates (Continued)

The Company 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 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.

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.

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

2.2. Critical accounting estimates and judgments (Continued)

c) Provision for tax, labor and civil 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 expected credit 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 360 days.

f) Provision for dissolution of agreements

The Company conducts periodic analyses of units sold and not yet transferred, with a view to identifying possible risks of sales cancelations. These analyses are carried out taking into account the current economic scenario, interest rates, housing policies, in addition to reassessment of the buyer's financial condition. Once the customer's inability to obtain bank financing is identified, and the resources to settle the unit are insufficient, the contract is terminated.

The Company's business model is based on the construction of low-income housing units with a focus on the “Minha Casa Minha Vida Program” (PMCMV) with a commercial value of units of up to R$264 and a range just above, outside the program, of up to R$550.

In this business model, the transfer of sold units is made during the construction of the projects, through the associative model, together with the financial institution. This type of financing allows the customer to sign the contract with the financial institution right after signing the PCV (Purchase and Sale Commitment), and the Company receives the economic rights arising from the sale in accordance with the construction of the project.

For sales in which the financing is taken out directly with the construction company, the unit is only transferred to the customer at the end of the development and only when the customer has already settled the entire financial flow with the Company. In case of dissolution of this agreement, the unit returns to inventory and the Company can retain up to 50% of the amounts paid to cover costs and expenses already incurred.

The Company conducted analyses for December 31, 2022 and concluded that there is no expectation of loss with cancelations, thus not requiring the recognition of a provision.

(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 12/31/2021

As of December 31, 2021, the Company carried out accounting reclassifications referring to the breakdown of short-term investment yield in the cash flow. The table below shows the amounts after reclassification:

	12/31/2021					
	Individual			Consolidated		
	As originally stated	Adjustments	(Restated)	As originally stated	Adjustments	(Restated)
From operating activities						
Short-term investment yield	-	(13,316)	(13,316)	-	(13,606)	(13,606)
Net cash flow from (used in) operating activities	(70,415)	(13,316)	(83,731)	103,610	(13,606)	90,004
Cash flows from investing activities						
Short-term investments	(129,091)	13,316	(115,775)	(129,846)	13,606	(116,240)
Net cash flows from (used in) investing activities	27,991	13,316	41,307	(100,947)	13,606	(87,341)

The restatement did not impact the statements of financial position, of profit or loss for the year, of comprehensive income, of changes in equity, of value added, or of cash flows from financing activities.

3. Cash and cash equivalents and short-term investments

3.1. Cash and cash equivalents

	Individual		Consolidated	
Description	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Cash and banks	**1,384**	1,332	**161,298**	239,215
Cash equivalents – short-term investments	**451,711**	285,883	**571,826**	484,739
Total	**453,095**	287,215	**733,124**	723,954

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. These short-term investments have yields pegged to the Interbank Deposit Certificate (CDI) rate, ranging from 92.76% to 105.22% of the CDI, according to the nature and timing of each instrument. At December 31, 2022, the average gross remuneration over the past 12 months of the Company´s short-term investments corresponded to 103.01% of CDI.

(In thousands of reais, unless otherwise stated)

3. Cash and cash equivalents and short-term investments (Continued)

3.2. Short-term investments

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Investments in Financial Treasury Bills (Government bonds)	**373,815**	251,412	**422,432**	252,985
Financial Bills (private securities)	**27,767**	71,925	**31,816**	72,221
Total	**401,582**	323,337	**454,248**	325,206

The Company has restricted investment funds managed by first-tier banking institutions, aimed at securing investments in instruments with a conservative profile 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 securities of other financial institutions, and open-ended investment funds, which provide liquidity and allow the best financial return within the pre-established risk limits.

4. Accounts receivable

4.1. Accounts receivable from operations

Accounts receivable for real estate development	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Completed units	**3,077**	4,215	**202,248**	170,034
Unfinished units	**-**	-	**516,271**	329,174
Receivables for land sold	**-**	-	**4,008**	2,126
(-) Allowance for doubtful accounts	**-**	-	**(29,565)**	(25,536)
(-) Present value adjustment	**-**	-	**(32,340)**	(14,741)
	3,077	4,215	**660,622**	461,057
Accounts receivable for services rendered				
Real estate intermediation	**-**	-	**1,097**	1,476
Firm-price construction contract	**8,934**	5,802	**14,389**	11,323
Other services	**1,786**	2,349	**2,077**	2,490
	10,720	8,151	**17,563**	15,289
	13,797	12,366	**678,185**	476,346
Current	**12,810**	11,340	**363,372**	231,761
Noncurrent	**987**	1,026	**314,813**	244,585

(In thousands of reais, unless otherwise stated)

4. Accounts receivable (Continued)

4.1. Accounts receivable from operations (Continued)

The Company recognizes allowance for doubtful accounts on receivables from installments of direct financing with the customer. The changes in the balance are as follows:

	12/31/2021	(-) Allowance	(+) Reversal	12/31/2022
Changes in ADA	(25,536)	**(25,386)**	**21,357**	**(29,565)**

As a result of the revenue recognition criteria, the balance of accounts receivable from units sold and not yet completed is not fully reflected in the individual and consolidated financial statements, as the recognition is limited to the portion of revenue recognized in accounting, net of the portions already received. Note 18 (a) presents the balances receivable not recognized in the individual and consolidated financial statements.

The Company calculated the present value of accounts receivable for unfinished units and recorded the amount considering the average discount rate of 6.98% p.a., which is represented by the average funding rate of loans and financing, less the Extended Consumer Price Index (IPCA).

Accounts receivable from real estate sales are restated according to the Brazilian Construction Cost Index (“INCC”) variation until the occupancy permit has been registered, or a fixed rate equivalent to the INCC. After the occupancy permit is registered, these amounts are mostly restated by reference to IPCA, bearing interest of 12% p.a., or a fixed rate equivalent to the IPCA + 12% p.a.

On December 15, 2020, the Company entered into a Real Estate Credit Assignment agreement, through its subsidiaries, with True Securitizadora S.A. The net amount of the transaction was of R$116,968. At December 31, 2022, the balance receivable related to this transaction was R$156.

On December 13, 2021, the Company entered into a new Real Estate Credit Assignment agreement, through its subsidiaries, with True Securitizadora S.A. The net amount of the assignment was of R$100,789. At December 31, 2022, the balance receivable totaled R$336.

On March 31, 2022, the Company entered into, through its subsidiaries, a new Real Estate Credit Assignment Instrument with Banco XP S.A. The net amount of the assignment was R$36,818. The amount of the assignment of the assignment was fully settled on the date of the instrument, with no amount receivable relating to the operation remaining.

On June 23, 2022 the Company entered into a Real Estate Credit Rights Assignment agreement, through its subsidiaries, with True Securitizadora S.A. The net amount of the assignment was of R$43,281. At December 31, 2022, the balance receivable totaled R$1,132.

(In thousands of reais, unless otherwise stated)

4. Accounts receivable (Continued)

4.1. Accounts receivable from operations (Continued)

In 3Q22, the Company entered into a Definitive Real Estate Credit Rights Assignment agreement, through its subsidiaries, with Banco XP S.A. The net amount of the transaction was of R$113,520, which was received in full at September 30, 2022. For this item, a Credit Rights Assignment liability was established, as explained in Note 15.

The aging list of accounts receivable from real estate development and services rendered, recorded in current assets at December 31, 2020 and 2021, is as follows:

	Consolidated	
	12/31/2022	**12/31/2021**
Falling due		
Within 3 months	**128,569**	97,924
From 3 to 6 months	**82,955**	26,915
From 6 to 9 months	**34,288**	27,090
From 9 months to 1 year	**81,547**	38,572
	327,359	190,501
Overdue		
Within 1 month	**4,986**	8,847
From 1 to 2 months	**1,973**	1486
From 2 to 3 months	**1,327**	936
From 3 to 4 months	**1,135**	1,066
From 4 to 6 months	**2,126**	1,309
Above 6 months	**24,466**	27,616
	36,013	41,260
	363,372	231,761

The maturity of amounts falling due, recorded in noncurrent assets at December 31, 2022 and 2021, is scheduled as follows:

	12/31/2022	**12/31/2021**
1-2 years	**180,487**	153,089
Up to 3 years	**56,051**	52,957
Up to 4 years	**27,480**	12,548
After 4 years	**50,795**	25,991
	314,813	244,585

(In thousands of reais, unless otherwise stated)

4. Accounts receivable (Continued)

4.2. Other accounts receivable

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Accounts receivable for disposal of units of interest	**501**	10,258	**7,630**	17,540
	501	10,258	**7,630**	17,540
Current	**501**	10,258	**501**	17,540
Noncurrent	**-**	-	**7,129**	-

Changes in accounts receivable for disposal of units of interest are as follows:

	Individual	Consolidated
12/31/2021	10,258	17,540
(+) Disposals	**156,452**	**187,733**
(+/-) Corrections	-	**2,373**
(-) Receipts	**(166,209)**	**(200,016)**
12/31/2022	**501**	**7,630**

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 were subject to the issue of a construction permit on the land paid up in the sold SPE. In 3Q21, an agreement was reached between the parties and three (3) installments were paid relating to those 10 installments, remaining only 7 installments conditioned on the permit. The balance of R$7,000 was settled in December 2022.

On December 10, 2020, Riva Incorporadora S.A, a Company subsidiary, sold 50% of the interest held in Osasco Lote 2 Empreendimentos Imobiliarios SPE Ltda. to Eztec Empreendimentos e Participações S.A. for R$8,250. At December 31, 2021, the balance receivable totaled R$4,743, which was fully settled on February 23, 2022.

On June 2, 2021, the Company entered into another transaction with Eztec and sold 50% of the interest held in Osasco Lote 3 Empreendimentos Imobiliários SPE Ltda. for R$9,250. The balance was settled on July 23, 2022.

On August 20, 2021, the Company carried out a new sale transaction of Lago da Pedra Participações S.A. to a new real estate fund, with disposal of 90% of the units of interest for R$55,051. The balance receivable at December 31, 2022 amounts to R$501.

4. Accounts receivable (Continued)

4.2. Other accounts receivable (Continued)

On February 3, 2021, the Company sold 100% of the units of interest of SPE Braga Empreendimentos Imobiliarios Ltda. for R$6,822. This amount was settled on June 6, 2022.

On April 13, 2021, the Company sold 100% of the units of interest of SPE Nova Brasilia Empreendimentos Imobiliarios Ltda. for R$8. This amount was settled on June 6, 2022.

On March 9, 2021, the Company sold 100% of the units of interest of SPE Verona Empreendimentos Imobiliários Ltda. for R$2,927. This amount was settled on June 6, 2022.

On April 28, 2022, Riva Incorporadora S.A. sold 25% of the units of interest of Braga Empreendimentos Imobiliários Ltda. to Balandria Desenvolvimento Imobiliário Ltda. for R$1,832, which corresponds to the balance receivable as of December 31, 2022.

On June 21, 2022, Riva Incorporadora S.A. sold 35% of the units of interest of Riva Incorporadora S/A – SCP Riva Barra to Ager Projeto 11 Empreendimentos Imobiliários Ltda. for R$5,297, and this amount remains outstanding at December 31, 2022.

On November 30, 2022, Direcional sold 80% of the units of interest of Canário Engenharia Ltda. for R$140,457 and 60% of Sobrália Empreendimentos Ltda. for R$15,996. On December 31, 2022, there was no balance receivable.

On this same date, Riva Incorporadora S.A. also sold 100% of the units of interest of Bella Carioca Empreendimentos SPE Ltda. to Lago da Pedra S.A., for R$24,151. On December 31, 2022, there was no balance receivable.

(In thousands of reais, unless otherwise stated)

4. Accounts receivable (Continued)

4.3. Other receivables

Description	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Receivables for sale of property and equipment	**8,225**	7,272	**8,280**	7,272
Sundry advances	**17,700**	17,700	**24,953**	18,020
Receivables from customers	**50,021**	39,736	**79,205**	49,155
Derivatives receivable	**17,457**	-	**17,457**	-
Intercompany loans receivable	**12,964**	21,243	**14,004**	21,243
New business prospecting	**10,065**	6,470	**23,391**	8,927
Prepaid selling expenses	**28**	27	**33,069**	26,638
Prepaid finance costs	**-**	-	**51,802**	32,891
Other receivables	**30,403**	58,925	**21,352**	77,876
Total	**146,863**	151,373	**273,513**	242,022
Current	**133,896**	130,126	**259,303**	220,565
Noncurrent	**12,967**	21,247	**14,210**	21,457

5. Inventories

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Completed units	**181**	181	**62,138**	77,447
Units under construction	**-**	-	**679,517**	660,864
Land to be developed	**169,821**	97,322	**3,229,248**	2,795,716
	170,002	97,503	**3,970,903**	3,534,027
Current	**181**	181	**952,782**	1,230,591
Noncurrent	**169,821**	97,322	**3,018,121**	2,303,436

As of December 31, 2022, inventories of completed real estate units were submitted to impairment tests. The total balance of adjustment to realizable value in December 2022 is R$3,173 (R$3,056 in December 2021).

	12/31/2021	(+) Adjustment to net recoverable amount	(-) Reversal of adjustment to net recoverable amount	12/31/2022
Individual	-	**-**	**-**	**-**
Subsidiaries	(3,056)	**(117)**	**-**	**(3,173)**
Consolidated	(3,056)	**(117)**	**-**	**(3,173)**

(In thousands of reais, unless otherwise stated)

5. Inventories (Continued)

5.1. Capitalized interest

Interest incurred in connection with project financing is recorded under “Units under construction” and “Completed units” in accordance with OCPC 01, and posted to profit or loss when the units are sold. At December 31, 2022, interest totaling R$9,392 (R$2,604 for the year ended December 31, 2021) was capitalized in the inventories account. The amount of R$7,854 (R$6,929 at December 31, 2021) remains capitalized in the inventories account, referring to unsold units. The average interest capitalization rate was 13.85% in December 2022 (9.70% for the year ended December 31, 2021). At December 31, 2022 and 2021, there was no production financing at the Parent Company.

6. Transactions with related parties

6.1. Related companies

Assets	Individual		Consolidated	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Receivables from venture partners in projects (a)	**4,342**	5,578	**16,491**	36,120
Checking account with ventures in projects (b)	**109,510**	127,157	**48,060**	47,777
	113,852	132,735	**64,551**	83,897
Current	**113,852**	132,735	**64,551**	82,261
Noncurrent	**-**	**-**	-	1,636

Liabilities	Individual		Consolidated	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Payables to venture partners in projects (a)	**325**	325	**16,129**	8,264
Checking account with ventures in projects (b)	**27,270**	10,416	**17,219**	6,336
Current	**27,595**	10,741	**33,348**	14,600

(a) Receivables and payables to venture partners: The Company carries out loan transactions with certain venture partners, generally noncontrolling shareholders of said SPEs, which are settled upon completion of the construction work. These transactions are restated by reference to the CDI variation plus spread of up to 4.13% p.a. or by the IGPM plus spread of up to 1% p.m., and are secured by the results obtained from the ventures, so that the partners’ right to share such results is conditional upon settlement of the transactions. In 2020, the Company recognized a provision for loss of R$5,240 referring to receivables from a specific partner. There was no additional provision in the year ended December 31, 2021 and year ended December 31, 2022.

(b) Checking account with ventures in projects: These transactions refer exclusively to the contribution of funds for the construction of units, and are not subject to interest.

6. Transactions with related parties (Continued)

6.1. Related companies (Continued)

On February 17, 2021, Riva reduced its capital in order to return capital to shareholders, in the amount of R$86,531, with R$85,666 paid to the Company. The amounts of R$18,246 and R$40,000 were paid to the Company on November 5, 2021 and December 31, 2021, respectively, as capital reduction made on February 17, 2021. At December 31, 2022, the balance receivable from Riva is R$28,285.

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, 2022, the average monthly amount of R$174 related to aircraft chartering was paid. ALVG is a company controlled by the same controlling company as that of Direcional.

On December 10, 2014, the Company entered into a sale and lease back contract relating to the property where its head office is located, effective for 12 years, 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). In the year ended December 31, 2022, the average monthly amount of R$646 was paid (R$591 as of December 31, 2021) in connection with the property lease. This investment fund is controlled by the same company as that of Direcional.

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

(In thousands of reais, unless otherwise stated)

6. Transactions with related parties (Continued)

6.2. Management and Supervisory Board compensation

Total annual compensation of management and board members (i) paid in 2022 and (ii) paid in 2021 is set out in the table below:

	2022			
Paid in 2022	**Board of Directors**	**Supervisory Board**	**Statutory Board**	**Total**
Number of members (*)	**7**	**3**	**7**	**17**
Fixed annual compensation	**1,680**	**157**	**3,751**	**5,588**
Variable compensation	**255**	**-**	**1,462**	**1,717**
Share-based payment (**)	**-**	**-**	**1,325**	**1,325**
	1,935	**157**	**6,538**	**8,630**

	2021			
Paid in 2021	**Board of Directors**	**Supervisory Board**	**Statutory Board**	**Total**
Number of members (*)	7	3	6	16
Fixed annual compensation	1,610	157	3,320	5,087
Variable compensation	337	-	1,871	2,208
Share-based payment (**)	42	-	716	758
	1,989	157	5,907	8,053

(*) 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 Memorandum Circular No. 02/2020.

(**) Share-based payment of Riva is made through the Company's stock option plan. The amount for 2021 was R$386, while the amount for 2022 is R$271.

Management members also receive compensation through the stock option plan of the Company, as described in Note 23. The Company does not offer private pension plans or any post-employment pension plan or benefits.

(In thousands of reais, unless otherwise stated)

7. Investments

a) Changes in the most significant balances from December 31, 2021 to December 31, 2022:

Subsidiaries	Equity interest	12/31/2021	Dividends/ amortization	Equity pickup	Capital subscription (reduction)/ Future capital contribution	12/31/2022
RIVA INCORPORADORA S/A	94.50%	305,477	(18,379)	77,387	76	364,561
ITAPEMA EMPREENDIMENTOS IMOBILIÁRIOS SPE LTDA	99.90%	55,643	(36,554)	38,684	5,437	63,210
BELLA MOEDA EMPREENDIMENTOS IMOBILIÁRIOS LTDA	100.00%	44,467	-	(171)	472	44,768
PITANGUI EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	-	-	-	43,555	43,555
DIRECIONAL TAGUATINGA ENGENHARIA LTDA	100.00%	53,184	(29,546)	11,412	(3,130)	31,920
VISTA SERRANA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	18,118	-	10,375	3,257	31,750
ABRANTES EMPREENDIMENTOS IMOBILIARIOS LTDA	99.90%	2,402	-	8,247	20,941	31,590
ARAPUA EMPREENDIMENTOS IMOBILIARIOS LTDA	99.90%	8,692	-	2,796	18,904	30,392
AZURITA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	30,879	-	(716)	(1,373)	28,790
NOVA ALMENARA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	17,052	-	9,799	(1,762)	25,089
ALEGRE EMPREENDIMENTOS IMOBILIÁRIOS LTDA	100.00%	16,952	-	2,248	109	19,309
ALCOBAÇA CONSTRUÇÕES E EMPREENDIMENTOS IMOBILIÁRIOS SPE LTDA	100.00%	18,761	-	1	139	18,901
COLINA EMPREENDIMENTOS IMOBILIARIOS SPE LTDA	100.00%	20,198	(1,777)	13,168	(12,953)	18,636
SAQUAREMA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	23,933	(2,107)	17,956	(21,167)	18,615
MANGABEIRA EMPREENDIMENTOS IMOBILIARIOS LTDA.	99.90%	6,086	-	-	10,609	16,695
ARAGUACEMA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	27,251	(12,313)	14,081	(12,578)	16,441
NOVO HAMBURGO EMPREENDIMENTOS IMOBILIARIOS LTDA	50.00%	13,144	(3,669)	7,369	(920)	15,924
SANTA ETELVINA EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	9,056	-	1,118	5,245	15,419
DIRECIONAL FEIJO EMPREENDIMENTOS IMOBILIARIOS LTDA	100.00%	15,314	-	-	64	15,378
CANARIO ENGENHARIA LTDA. (a)	20.00%	92,444	(1,003)	19,577	(92,606)	18,412
SOBRALIA EMPREENDIMENTOS IMOBILIARIOS LTDA (a)	40.00%	12,129	-	(104)	(6,764)	5,261
Other subsidiaries	-	665,520	(276,866)	138,282	87,159	614,095
Total subsidiaries:		**1,456,702**	**(382,214)**	**371,509**	**42,714**	**1,488,711**
Joint ventures (Individual)	**-**	**62,311**	**(4,921)**	**11,077**	**21,205**	**89,672**
Total - Individual		**1,519,013**	**(387,135)**	**382,586**	**63,919**	**1,578,383**
Joint ventures (Individual)	-	62,311	(4,921)	11,077	21,202	89,669
Joint ventures (subsidiaries)	-	55,669	(3,572)	11,406	(8,710)	54,793
Total - Consolidated		**117,980**	**(8,493)**	**22,483**	**12,492**	**144,462**

(a) The Company carried out the partial disposal of the equity interest, as detailed in Note 4.2.

(In thousands of reais, unless otherwise stated)

7. **Investments** (Continued)

b) Breakdown of balances of subsidiaries and joint ventures at December 31, 2022

		Assets		Liabilities		
Subsidiaries	**Equity interest**	**Current**	**Noncurrent**	**Current**	**Noncurrent**	**Equity**
Riva Incorporadora S/A	94.50%	108,516	498,983	89,398	132,916	385,185
Itapema Empreendimentos Imobiliários Spe Ltda	100.00%	48,879	66,420	13,331	38,695	63,273
Bella Moeda Empreendimentos Imobiliários Ltda	100.00%	-	45,046	278	-	44,768
Alto Buritis Participações Societárias Ltda	62.00%	4,541	32,050	3,359	-	33,232
Direcional Taguatinga Engenharia Ltda	100.00%	14,740	26,461	6,830	2,451	31,920
Novo Hamburgo Empreendimentos Imobiliários Ltda	50.00%	42,608	3,017	1,829	11,948	31,848
Vista Serrana Empreendimentos Imobiliários Ltda	100.00%	22,225	56,220	6,478	40,186	31,781
Abrantes Empreendimentos Imobiliários Ltda	99.90%	38,175	23,837	5,402	24,989	31,621
Altos Pilares Empreendimentos Imobiliários Ltda	100.00%	34,826	123	3,635	-	31,314
Arapua Empreendimentos Imobiliários Ltda	100.00%	22,898	18,230	3,690	7,016	30,422
Coroados Empreendimentos Imobiliários Ltda	99.90%	33,182	6,609	6,881	2,689	30,221
Manauara Vii Empreendimentos Imobiliários Spe Ltda	100.00%	37,371	8,918	17,241	712	28,336
Direcional Santo Antônio Empreendimentos Imobiliários Ltda	100.00%	1	27,943	25	-	27,919
Nova Itabira Empreendimentos Imobiliários Ltda - Scp Confisco	50.00%	25,930	6,282	4,070	951	27,191
Santa Ines Empreendimentos Imobiliários Ltda	65.00%	46,136	45,824	40,948	23,846	27,166
Nova Almenara Empreendimentos Imobiliários Ltda	100.00%	34,862	5,557	5,532	9,773	25,114
Viçosa Empreendimentos Imobiliários Ltda	100.00%	1,182	20,555	7	-	21,730
Bfre Assessoria Empresarial E Participacoes Ltda	100.00%	-	20,683	148	-	20,535
Riva Incorporadora S/A - Scp Riva Barra	65.00%	28	24,670	4,198	-	20,500
Lajeado Empreendimentos Imobiliários Ltda	100.00%	26,639	1,710	4,823	3,537	19,989
Alegre Empreendimentos Imobiliários Ltda	100.00%	8,668	11,751	1,090	-	19,329
Alcobaça Construções E Empreendimentos Imobiliários Spe Ltda	100.00%	20	177,799	143	158,756	18,920
Colina Empreendimentos Imobiliários Spe Ltda	100.00%	32,565	7,184	6,932	14,181	18,636
Other subsidiaries	-	1,339,586	2,554,530	475,240	2,414,013	1,004,863
TOTAL SUBSIDIARIES		**1,923,578**	**3,690,402**	**701,508**	**2,886,659**	**2,025,813**
JOINT VENTURES		**330,841**	**174,468**	**148,476**	**94,034**	**262,799**

At December 31, 2022 and 2021, 54.84% and 51.23% of the Company's assets were respectively included in the equity segregation structure, as established by Law No. 10931/04.

(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 rates	10%	(b)	10%	20%	20%	8.33%	(c)	-	-
Cost									
Balance at 12/31/2021	12,186	144,516	3,568	779	8,122	9,353	52,806	227	231,557
Additions	**4**	**53,943**	**139**	**-**	**1,167**	**532**	**2,439**	**-**	58,224
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 12/31/2022	**12,190**	**198,459**	**3,707**	**779**	**9,289**	**9,885**	**55,245**	**227**	**289,781**
Depreciation									
Balance at 12/31/2021	(11,729)	(116,088)	(2,531)	(753)	(4,952)	(5,251)	(22,022)	(220)	(163,546)
Depreciation for the year	**(138)**	**(19,437)**	**(282)**	**(15)**	**(1,068)**	**(843)**	**(7,208)**	**(5)**	**(28,996)**
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 12/31/2022	**(11,867)**	**(135,525)**	**(2,813)**	**(768)**	**(6,020)**	**(6,094)**	**(29,230)**	**(225)**	**(192,542)**
Carrying amount									
At 12/31/2021	457	28,428	1,037	26	3,170	4,102	30,784	7	68,011
At 12/31/2022	**323**	**62,934**	**894**	**11**	**3,269**	**3,791**	**26,015**	**2**	**97,239**

(In thousands of reais, unless otherwise stated)

8. Property and equipment (Continued)

Consolidated

	Machinery and equipment	Aluminum molds	Furniture and fixtures	Vehicles	IT equipment	Leasehold improvements	Sales stands	Right-of-use assets	Other	Total property and equipment
Depreciation rates	10%	(b)	10%	20%	20%	8%	(a)	(c)	-	
Cost										
Balance at 12/31/2021	23,970	148,871	8,629	2,458	14,538	9,903	100,011	54,271	1,260	363,911
Additions	**108**	**63,469**	**552**	**-**	**2,619**	**659**	**14,746**	**2,439**	**-**	**84,592**
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**	**(59,718)**	**-**	**-**	**(59,718)**
Balance at 12/31/2022	**24,078**	**212,340**	**9,181**	**2,458**	**17,157**	**10,562**	**55,039**	**56,710**	**1,260**	**388,785**
Depreciation										
Balance at 12/31/2021	(21,600)	(119,601)	(6,156)	(2,419)	(9,392)	(5,313)	(76,117)	(23,016)	(1,222)	(264,836)
Depreciation for the year	**(684)**	**(19,438)**	**(612)**	**(24)**	**(1,879)**	**(954)**	**(12,411)**	**(7,538)**	**(12)**	**(43,552)**
Write-offs	**-**	**-**	**-**	**-**	**-**	**-**	**59,718**	**-**	**-**	**59,718**
Balance at 12/31/2022	**(22,284)**	**(139,039)**	**(6,768)**	**(2,443)**	**(11,271)**	**(6,267)**	**(28,810)**	**(30,554)**	**(1,234)**	**(248,670)**
Carrying amount										
At 12/31/2021	2,370	29,270	2,473	39	5,146	4,590	23,894	31,255	38	99,075
At 12/31/2022	**1,794**	**73,301**	**2,413**	**15**	**5,886**	**4,295**	**26,229**	**26,156**	**26**	**140,115**

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

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

(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 22 finance lease agreements for the acquisition of aluminum molds. The book value of property and equipment items under finance lease agreements at December 31, 2022 totaled R$42,698 (R$148,871 at December 31, 2021). Property and equipment items 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	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Construction financing	-	-	**115,006**	42,172
FINAME and finance lease of equipment	**8,554**	10,800	**10,249**	12,768
Mortgage-backed securities (CRI)	**925,631**	681,229	**925,631**	741,374
Bank Credit Note (CCB)	**-**	100,445	**-**	100,445
Debentures	**363,937**	358,784	**363,937**	358,784
Total debt	**1,298,122**	1,151,258	**1,414,823**	1,255,543
Issue/structuring costs				
Mortgage-backed securities (CRI)	**(23,553)**	(12,248)	**(23,553)**	(12,490)
Debentures	**(1,444)**	(1,651)	**(1,444)**	(1,651)
Total issue/structuring costs	**(24,997)**	(13,899)	**(24,997)**	(14,141)
Grand total	**1,273,125**	1,137,359	**1,389,826**	1,241,402
Current	**308,408**	125,358	**309,722**	127,205
Noncurrent	**964,717**	1,012,001	**1,080,104**	1,114,197

The Company incurred costs related to issue and structuring of Mortgage-backed securities - CRI and debentures. The amount incurred in 2022 totaled R$15,618 (R$6,096 in 2021). Repayments were also made in the amount of R$4,762 in 2022 (R$4,037 in 2021).

Construction financing

This type of loan aims to finance projects during construction. Interest rates applicable to these loans vary, according to the transaction, between 8.3% p.a. and 9.75% p.a., restated by the Referential Rate (TR), between 127% and 137% of the CDI, and also savings rate plus spread between 4% and 5% of the CDI. These transactions are backed by mortgages of properties of the respective projects.

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% p.a., according to the transaction. These transactions are guaranteed by machinery and equipment acquired through the financing arrangements.

Mortgage-backed securities (CRI)

175th 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 issue date of CRIs, comprises conventional interest of 5.08% p.a., plus IPCA. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not have an issuer's floating guarantee either. Maturity is in December 2024.

In March 2021, a derivative financial instrument (swap) was entered into for the same period (up to December 2024), to hedge the Company exposure to the IPCA rate. The swap transaction aims at equity hedge, mitigating the effects of rate fluctuations by replacing IPCA for CDI less 1.45% p.a. In December 2021, this swap was settled, so as to enable - from a new swap agreement taken out on the same date - accounting for the transaction under the hedge accounting methodology. The purpose of this change is of a purely accounting nature, to protect the Company's statement of financial position from possible fluctuations arising from the mark-to-market (MtM), while ensuring continuing protection in relation to the variation of the IPCA. This contract allowed the replacement of the IPCA with CDI minus 0.89% p.a. The impacts of this transaction are presented in Note 22.

9. Loans, financing and leases (Continued)

9.1. Loans and financing (Continued)

Mortgage-backed securities (CRI) (Continued)

193rd 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 issue date of CRIs, comprises conventional interest of 104% of the accumulated variation of the DI rate. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not have an issuer's floating guarantee either. Maturity is in July 2025.

356th and 357th series: These consist of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. This is the 1st issue of subsidiary Riva Incorporadora S/A, carried out in two series, and Direcional is its guarantor within the scope of the debenture issue indenture. For each series, thirty thousand (30,000) unsecured debentures were issued. The remuneration of CRIs, on the balance of unit par value from the issue date, comprises conventional interest ranging from 3.60% to 3.40% p.a., respectively, 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 have an issuer's floating guarantee either. This issue will mature in July 2033 and July 2032, respectively. These securities, however, were partially settled in advance. The early settlement corresponded to a total of R$51,054 (fifty-one million and fifty-four thousand reais).

371st series: This consists of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. This is the 7th issue of non-privileged unsecured nonconvertible debentures of Direcional. Two hundred thousand (200,000) debentures were issued. The remuneration of CRIs, on the balance of unit par value of CRI from the issue date of CRIs, comprises conventional interest of 4.8444% p.a., plus 100% of the accumulated variation of IPCA. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not have an issuer's floating guarantee either. Maturity is in April 2028.

Subsequently to the issue, another derivative financial instrument (swap) was entered into for the same period (up to April 2028), to hedge the Company exposure to the IPCA rate. The swap transaction aims at equity hedge, mitigating the effects of the price index volatility. Accordingly, the exposure to the debenture yield is now pegged to the CDI variation plus 1.4522% p.a.

9. Loans, financing and leases (Continued)

9.1. Loans and financing (Continued)

Mortgage-backed securities (CRI) (Continued)

The impacts of this transaction are presented in Note 22.

2E Series 001: These consist of a registered credit instrument exclusively issued by securitization companies and backed by mortgages, representing a promise to pay in cash. This is the 2nd issue of non-privileged unsecured nonconvertible debentures of Direcional. Three hundred thousand (300,000) debentures were issued. The remuneration of CRIs, on the balance of unit par value of CRI from the issue date of CRIs, comprises conventional interest of 6.4899% p.a., plus 100% of the accumulated variation of IPCA. No specific guarantees were established, whether as a security interest or personal guarantee, on CRIs, which will not have an issuer's floating guarantee either. This issue will mature in June 2032.

Subsequently to the issue, another derivative financial instrument (swap) was entered into for the same period (up to June 2032), to hedge the Company exposure to the IPCA rate. The swap transaction aims at equity hedge, mitigating the effects of the price index volatility. Accordingly, the exposure to the debenture yield is now pegged to the CDI variation plus 1.2200% p.a.

Corporate Bank Credit Notes

CCB Compror issued by Banco Santander in the amount of R$100,000 (one hundred million reais). The interest rate charged is 2.50% p.a. plus CDI rate, as calculated and disclosed by CETIP ("DI rate"). No specific guarantees were established, whether as a security interest or personal guarantee, on this CCB Compror, which will not have an issuer's floating guarantee either. This issue will mature in July 2023, but the debit balance was fully settled in April 2022.

Debentures

6th Issue: In September 2020, the Company carried out the 6th issue of single-series non-privileged unsecured nonconvertible debentures, for public distribution with restricted distribution efforts. The Debentures have a maturity of five years, counting from the Issue Date, therefore, maturing in September 2025. Debentures totaling 250,000 (two hundred and fifty thousand) were issued, whose unit value on the issue date was R$1,000.00 (one thousand reais). Regarding the remuneration, the debenture unit par value will bear conventional interest equivalent 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) p.a.

(In thousands of reais, unless otherwise stated)

9. Loans, financing and leases (Continued)

9.1. Loans and financing (Continued)

Debentures (Continued)

No specific guarantees were established, whether as a security interest or personal guarantee, on debentures, which will not have an issuer's floating guarantee either.

8th Issue: In October 2021, the Company carried out its 8th issue of single-series non-privileged unsecured nonconvertible debentures, for public distribution with restricted distribution efforts. The Debentures have a maturity of five years, counting from the Issue Date, therefore, maturing in October 2026. Debentures totaling 100,000 (one hundred thousand) were issued, whose unit value on the issue date was R$1,000.00 (one thousand reais). Regarding the remuneration, the debenture unit par value will bear conventional interest equivalent to 100% (one hundred percent) of the accumulated variation of the DI Rate, plus a spread (surcharge) equivalent to 1.65% (one point sixty-five percent) p.a. No specific guarantees were established, whether as a security interest or personal guarantee, on debentures, which will not have an issuer's floating guarantee either.

Debenture contracts and CRIs are subject to a financial covenant, which can be calculated using the formula below. Maturities will only be brought forward if they exceed this limit, which at December 31, 2022, was 0.1293.

$$\frac{\textbf{Corporate net debt}}{\text{Equity}} < 0.5$$

The noncurrent portion of loans as at December 31, 2022 matures as follows:

Period	12/31/2022 Individual	12/31/2022 Consolidated
January 2024 to December 2024	**242,474**	**246,040**
January 2025 to December 2025	**213,758**	**224,063**
January 2026 to December 2026	**114,370**	**137,896**
January 2027 onwards	**394,115**	**472,105**
	964,717	**1,080,104**

(In thousands of reais, unless otherwise stated)

9. Loans, financing and leases (Continued)

9.2. Lease financing

The Company has real estate and vehicle leases. The term of real estate leases ranges from 1 to 5 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:

	12/31/2022	
	Individual	**Consolidated**
Balance at 12/31/2021	34,324	35,217
Additions	2,439	2,439
Payment of principal	(7,506)	(7,718)
Payment of interest	(772)	(772)
PVA (interest allocated)	1,930	1,979
Balance at 12/31/2022	**30,415**	**31,145**
Current	**10,687**	**11,324**
Noncurrent	**19,728**	**19,821**

	12/31/2021	
	Individual	**Consolidated**
Balance at 12/31/2020	38,389	39,566
Additions	795	793
Payment of principal	(8,158)	(8,502)
Payment of interest	(713)	(713)
Restatement	1,717	1,717
PVA (interest allocated)	2,294	2,356
Balance at 12/31/2021	34,324	35,217
Current	9,339	10,088
Noncurrent	24,985	25,129

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

	12/31/2022	
	Individual	**Consolidated**
Within one year	10,687	11,324
Between 1 and 2 years	6,958	7,013
Between 2 and 3 years	6,112	6,151
More than 3 years	6,658	6,657
	30,415	31,145

(In thousands of reais, unless otherwise stated)

9. Loans, financing and leases (Continued)

9.2. Lease financing (Continued)

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

Consolidated	Consideration (no future inflation)	Consideration (with future inflation)	Inflation not included in contracts
1st year	11,324	11,880	556
2nd year	7,012	7,423	411
3rd year	6,151	6,513	362
4th year	5,737	6,079	342
5th year	921	977	56
	31,145	32,872	1,727

10. Trade accounts payable

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Suppliers of construction inputs	**513**	2,006	**106,414**	76,861
Suppliers of Marketing and Advertising	**159**	92	**6,100**	4,889
Suppliers of inputs and administrative services	**7,718**	5,325	**9,226**	6,604
Other suppliers	**2,247**	1,124	**10,425**	9,658
Total	**10,637**	8,547	**132,165**	98,012
Trade accounts payable	**10,637**	8,547	**121,945**	83,010
Suppliers – Agreement (a)	**-**	-	**10,220**	15,002
Total	**10,637**	8,547	**132,165**	98,012
Current	**10,446**	8,337	**122,694**	92,054
Noncurrent	**191**	210	**9,471**	5,958

The Company enters into agreements with partner banks with the objective of giving the supplier cash relief via prepayment of receivables, if necessary. If suppliers opt for prepayment, the right to receive the prepaid notes belongs to the bank, which becomes the creditor of the transaction, and the Company settles the note on the same date originally agreed with its supplier. The bank pays a commission for intermediating and confirming the notes payable, but the Company opted to convert this commission into an extension of the payment period. The average extension period for suppliers was of 77 days in December 2021 and of 31 days in December 2022. These credit assignments due to prepayments are accounted for under trade accounts payable.

(In thousands of reais, unless otherwise stated)

11. Labor obligations

Breakdown of labor obligations is as follows:

Description	Individual 12/31/2022	Individual 12/31/2021	Consolidated 12/31/2022	Consolidated 12/31/2021
Salaries and withdrawals payable	**3,254**	2,249	**7,309**	6,338
Labor and social security charges	**2,374**	2,032	**6,386**	5,332
Labor accruals	**11,528**	6,988	**23,374**	17,612
Other	**1,679**	1,380	**2,164**	2,545
	18,835	12,649	**39,233**	31,827

12. 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 using the POC method, in which the realization of accounts receivable is deferred throughout the flow of each contract:

Current taxes	Individual 12/31/2022	Individual 12/31/2021	Consolidated 12/31/2022	Consolidated 12/31/2021
PIS	**133**	157	**218**	238
COFINS	**775**	853	**1,168**	1,228
Special taxation regime	**-**	-	**6,533**	11,027
IRPJ	**-**	-	**1,305**	703
CSLL	**-**	-	**618**	331
Other	**567**	411	**5,313**	3,093
	1,475	1,421	**15,155**	16,620
Current taxes with deferred payment				
PIS	**8**	6	**2,669**	1,783
COFINS	**39**	26	**12,278**	8,176
Present value adjustment	**-**	-	**(1,299)**	(605)
IRPJ	**28**	18	**9,052**	6,031
CSLL	**15**	9	**4,741**	3,159
Other	**-**	-	**(1,169)**	(369)
	90	59	**26,272**	18,175
	1,565	1,480	**41,427**	34,795
Current	**1,565**	1,480	**28,690**	25,094
Noncurrent	**-**	-	**12,737**	9,701

(In thousands of reais, unless otherwise stated)

13. 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.

	Individual	Consolidated
12/31/2021	70,877	2,122,997
(+) Acquisitions	**195,220**	**629,349**
(-) Payments	**-**	**(237,683)**
(+/-) Revisions	**-**	**41,268**
(+/-) Transfer to SPEs	**(96,460)**	**(54,085)**
12/31/2022	**169,637**	**2,501,846**

	Individual		Consolidated	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Current	**-**	-	**113,361**	62,779
Noncurrent	**169,637**	70,877	**2,388,485**	2,060,218

	Consolidated	
	12/31/2022	**12/31/2021**
Aging list:		
Within 1 year	**113,361**	62,779
1-2 years	**1,369,341**	1,289,516
2-3 years	**425,267**	446,073
3-4 years	**208,495**	105,703
After 4 years	**385,382**	218,926
	2,501,846	2,122,997

14. Advances from customers

Individual	12/31/2021	(+) Acquisitions/ receipts	(-) Amortization	(-) Transfer to SPEs	12/31/2022
Advance - physical barter of plot of land (i)	27,086	20,875	-	**(47,581)**	**380**
Total advances	27,086	**20,875**	**-**	**(47,581)**	**380**
Current	-				**-**
Noncurrent	27,086				**380**

(In thousands of reais, unless otherwise stated)

14. Advances from customers (Continued)

Consolidated	12/31/2021	(+) Acquisitions/ receipts	(-) Amortization	(+/-) Revisions	(-) Write-offs/ cancelations/ sale SPE	12/31/2022
Advance - physical barter of plot of land (i)	377,060	79,263	(28,781)	(3,104)	(6,806)	417,632
Advances for receipt (ii)	12,989	27,043	(22,010)	-	(8,199)	9,823
Total advances	390,049	**106,306**	**(50,791)**	**(3,104)**	**(15,005)**	**427,455**
Current	14,705					**28,540**
Noncurrent	375,344					**398,915**

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

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

15. Other accounts payable

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Debts to customers	**16,824**	6,571	**21,653**	9,760
Debts to partners (a)	**-**	-	**26,920**	26,920
Accounts payable for acquisition of equity interest (b)	**2,439**	2,028	**89,182**	116,129
Capital deficiency (c)	**13,782**	8,904	**-**	-
Derivatives payable	**8,430**	3,669	**8,430**	3,669
Other	**7,178**	9,847	**36,006**	31,260
Total	**48,653**	31,019	**182,191**	187,738
Current	**46,625**	28,991	**84,779**	90,346
Noncurrent	**2,028**	2,028	**97,392**	97,392

(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 plots of land 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 plots of land 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 Company has investments. On December 10, 2020, Direcional's subsidiary Riva acquired 100% of the units of interest of Grauna Incorporadora Ltda. for R$11,400, settled on July 6, 2022. On June 15, 2021, the Company acquired 83.33% interest in Jardim Santo Antonio Incorporação Imobiliária SPE Ltda. for R$4,607, and the balance in December 2022 totaled R$1,226. On this same date, the Company acquired 83.33% interest in Jardim Bela Vista Incorporação Imobiliária SPE Ltda. for R$5,109, maturing in June 2025.

(In thousands of reais, unless otherwise stated)

15. Other accounts payable (Continued)

On May 5, 2021, Riva acquired 100% interest in BFRE Assessoria Empresarial e Participações Ltda. for R$86,564. The balance payable at December 31 was R$74,298. On June 2, 2021, Riva acquired 100% of the units of interest of Osasco Lote 3 Empreendimentos Imobiliários SPE Ltda. for R$18,500, with installments restated by reference to the IPCA. The balance was settled on July 29, 2022. On August 23, 2021, the Company acquired all units of interest of companies Muqui, Mirante, Guarinos, Arapiraca, Mar Turmalina and Lagoa for the amount of R$28,163, settled on that same date. On July 27, Riva acquired 100% of the units of interest of Diorama Empreendimentos Imobiliários Ltda. for R$4,550, and this amount remains outstanding at December 31, 2022. On June 22, 2022, the Company acquired the units of interest of Resedas, Dream, Jupiá, Parque das Cerejeiras, Santorini, Florence and Limoeiro for R$1,420, settled on June 27, 2022. On December 22, 2022, Riva acquired 60% of the units of interest of QRTZ26 Incorporações de Imóveis Ltda. for R$1,971, ad this amount remains outstanding at December 31.

(c) This account shows investments in subsidiaries or joint ventures with capital deficiency.

15.1. Assignment liabilities

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Credit from assignment of receivables – sale of portfolio	-	-	**88,320**	-

The Company and its subsidiaries carried out Assignment of Real Estate Receivables, as described in Note 4, for which accounts receivable were not derecognized, as it is still subject to the risks inherent in the transaction. Consequently, the Company recorded assignment liabilities.

From the assignment date, the assignee enjoys the benefits and already has the right to receive the amounts according to the agreed flow. The Company did not retain any benefit from the accounts receivable subject matter of the assignment.

As the receivables assigned have not yet been performed, it was not possible to transfer all risks to the assignee. Thus, the Company is exposed to a minor risk in the event of default or dissolution of the agreement of the unit, being required to reimburse the assignee for the respective amount. This risk extinguishes when the units are sold in favor of the assignee.

(In thousands of reais, unless otherwise stated)

16. Provisions

16.1. Provision for warranty

	Individual	Consolidated
Balance at 12/31/2021	2,258	40,194
(+) Provisions	**1,802**	**17,214**
(-) Reversals/write-offs	**(414)**	**(1,288)**
(-) Payments	**(2,413)**	**(13,841)**
Balance at 12/31/2022	**1,233**	**42,279**

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Current	**1,233**	2,258	**28,392**	28,143
Noncurrent	**-**	-	**13,887**	12,051
	1,233	2,258	**42,279**	40,194

The Company recognizes provisions for warranty expenses during the construction period only for units already sold, so that maintenance costs, if any, after handover of keys of real estate units are deducted from the provision.

The provision for warranty 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 (1.07%) and for service work (0.97%) in December 2022.

(In thousands of reais, unless otherwise stated)

16. Provisions (Continued)

16.2. Provision for tax, labor and civil contingencies

	Individual			
	Tax	Labor	Civil	Total
Balance at December 31, 2021	-	1,771	2,284	4,055
Provisions	**316**	**28**	**5,410**	**5,754**
Reversals	**-**	**(159)**	**(1,542)**	**(1,701)**
Payments	**-**	**(1,212)**	**(3,132)**	**(4,344)**
Balance at December 31, 2022	**316**	**428**	**3,020**	**3,764**

	Consolidated			
	Tax	Labor	Civil	Total
Balance at December 31, 2021	102	7,508	16,398	24,008
Provisions	**316**	**7,797**	**20,036**	**28,149**
Reversals	**(87)**	**(3,700)**	**(6,472)**	**(10,259)**
Payments	**-**	**(4,952)**	**(10,748)**	**(15,700)**
Balance at December 31, 2022	**331**	**6,653**	**19,214**	**26,198**

The Company is a party to other tax, civil and labor claims arising from its ordinary course of business for which the likelihood of loss is considered possible by management and its legal advisors. At December 31, 2022, consolidated amounts are as follows: labor claims total R$30,038, tax proceedings total R$14,521, and civil proceedings total R$357,537. Consequently, no provision was set up to cover a possible unfavorable outcome.

17. Equity

17.1. Capital

In May 2021, the Company's Board of Directors approved the cancelation of 3,398,749 (three million, three hundred and ninety-eight thousand, seven hundred and forty-nine) common shares held in treasury.

In December 2021, the Company's Board of Directors approved the contracting of a derivative transaction referenced to the Company's shares, which resulted in 4,000,000 shares sold for completion of this transaction. This contract was executed with a first-rate financial institution and will be effective for at most 18 (eighteen) months.

(In thousands of reais, unless otherwise stated)

17. Equity (Continued)

17.1. Capital (Continued)

Accordingly, the Company's fully subscribed and paid-in capital amounts to R$752,982, comprising 150,000,000 registered, book-entry common shares with no par value, of which 148,985,192 are outstanding shares and 1,014,808 are treasury shares.

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

17.2. Treasury shares

In the year ended December 31, 2022, 337,784 treasury shares were assigned under the Share Matching Programs I and II, with a remaining balance of 522,290 shares. The expense recognized with respect to assigned treasury shares was R$3,151 and the average acquisition price of the assigned shares was R$2,660, thus generating a loss of R$491 recognized directly in retained earnings (accumulated losses).

In the year ended December 31, 2022, 549,000 shares were repurchased at market value totaling R$5,540, resulting in 148,985,192 outstanding shares and 1,014,808 treasury shares.

	Number 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	663,209	(663,209)	-
Share buyback	(1,882,500)	1,882,500	-
December 31, 2020	146,705,719	6,693,030	153,398,749
Cancelation of treasury shares	-	(3,398,749)	(3,398,749)
Treasury shares sold/assigned	4,733,489	(4,733,489)	-
Share buyback	(2,242,800)	2,242,800	-
December 31, 2021	149,196,408	803,592	150,000,000
Cancelation of treasury shares	**-**	**-**	**-**
Treasury shares sold/assigned	**337,784**	**(337,784)**	**-**
Share buyback	**(549,000)**	**549,000**	**-**
December 31, 2022	**148,985,192**	**1,014,808**	**150,000,000**

17. Equity (Continued)

17.2. Treasury shares (Continued)

The Board of Directors approved five buyback programs of Company shares issued between 2011 and 2021, to be held in treasury and later canceled or sold, without capital reduction, in order to maximize shareholder value. Accordingly, 12,769,705 shares were acquired, with disbursement of R$110,416 at an average price of R$8.65 per share. In May 2021, the Company's Board of Directors approved the cancelation of 3,398,749 (three million, three hundred and ninety-eight thousand, seven hundred and forty-nine) common shares held in treasury. In December 2021, the Company's Board of Directors approved the contracting of a derivative transaction referenced to the Company's shares, which resulted in 4,000,000 shares sold and 803,592 treasury shares for completion of this transaction. The total value of the transaction was of R$50,760.

17.3. Capital reserves

17.3.1. Capital reserve for stock option grants

As described in Note 23, the Company recognizes in this account the services received in consideration for the grant of stock options, together with the exercise of stock options.

17.4. Income reserve

17.4.1. Legal reserve

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

17.4.2. Retained profits reserve

This reserve is set up especially for maintenance of the Company's investment ability and completion of construction 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).

(In thousands of reais, unless otherwise stated)

17. Equity (Continued)

17.4. Income reserve (Continued)

17.4.3. Distribution of dividends

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

On July 11, 2022, the Company approved the distribution of interim dividends equivalent to the amount of R$0.47 (forty-seven cents) per share, which totals the amount to be distributed of R$69,964. The dividends were paid on July 22, 2022.

On July 8, 2022, the Company approved the distribution of interim dividends equivalent to the amount of 0.70 (forty-seven cents) per share, which totals the amount to be distributed of 104,287. The dividends were paid on January 9, 2023.

17.5. Earnings per share

The table below presents the calculation of earnings per share for the years ended December 31, 2022 and 2021:

	12/31/2022	12/31/2021
Net income for the year	**208,844**	159,504
Weighted average number of shares	**149,092,079**	145,377,671
Basic earnings per share, net - R$	**1.40**	1.10
Weighted average number of shares (diluted)	**149,744,805**	146,464,216
Diluted earnings per share, net - R$	**1.40**	1.09

17.6. Noncontrolling interests

In the year ended December 31, 2022, changes in equity of subsidiaries generated a reduction of R$61,541 in equity of noncontrolling interests. In the same year, noncontrolling interests in profit or loss amounted to R$67,715.

Acquisitions of interests from noncontrolling shareholders generated a reduction of R$2,033 recorded directly in the Company’s equity.

(In thousands of reais, unless otherwise stated)

18. Net revenue

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Gross revenue from sales	**-**	1,373	**2,205,211**	1,833,725
Gross revenue from services	**31,881**	44,543	**71,390**	81,549
Total gross revenue	**31,881**	45,916	**2,276,601**	1,915,274
Present value adjustment	-	-	**(17,683)**	(11,353)
Taxes on sales	**(9,335)**	(5,278)	**(60,604)**	(48,326)
Canceled sales	**(1,663)**	(374)	**(35,698)**	(79,215)
Operating revenue, net	**20,883**	40,264	**2,162,616**	1,776,380

Taxes on sales and services consist of Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Contribution Tax on Gross Revenue for Social Security Financing (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 “Programa Casa Verde e Amarela” (PCVA) for units of up to R$100.

The Company also recognized gross revenue for the year of projects under construction amounting to R$28,781 at December 31, 2022 (R$18,930 at December 31, 2021) regarding barters of units to be constructed for land plots.

(In thousands of reais, unless otherwise stated)

18. Net revenue (Continued)

a) Unearned income

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 individual and consolidated financial statements, are as follows:

I) Unearned revenue from units sold	**1,070,959**
Projects under construction	
a) Revenue from contracted sales	**3,551,490**
b) Allocated sales revenue, net	**2,480,895**
Allocated sales revenue	*2,611,781*
Dissolution of agreements – Reversed revenue	*(130,886)*
II) Revenues from indemnification for dissolution of agreements	**4,604**
III) Budgeted cost to be allocated from units sold	**645,125**
Projects under construction	
a) Budgeted cost of units (no financial charges)	**2,127,491**
b) Construction cost incurred	**1,555,127**
Accrued financial charges	**6,294**
c) Dissolution of agreements – Construction cost	**(72,761)**
Dissolution of agreements – Financial charges	**(211)**
Drive CI / CO (no financial charges)	**69.68%**
IV) Budgeted cost to be allocated to inventories	**1,231,671**
Projects under construction	
a) Budgeted cost of units (no financial charges)	**1,909,161**

b) Construction cost incurred	**677,490**
Accrued financial charges	**2,027**
Units sold	16,815

(In thousands of reais, unless otherwise stated)

18. Net revenue (Continued)

b) Earned income

	12/31/2022		12/31/2021	
Income earned from:	**Revenues from units sold**	**(-) Cost of units sold**	**Revenues from units sold**	**(-) Cost of units sold**
Individual				
Services	**20,883**	**(14,109)**	1,374	(1,188)
Development – completed units	**-**	**-**	38,890	(10,548)
Total - Individual	**20,883**	**(14,109)**	40,264	(11,736)
Subsidiaries				
Services	**33,683**	**(29,505)**	32,449	(39,397)
Land	**2,402**	**(2,910)**	840	(784)
Development – completed units	**518,635**	**(319,387)**	453,211	(286,819)
Development – units under construction	**1,587,013**	**(1,035,054)**	1,249,616	(790,538)
Total Subsidiaries	**2,141,733**	**(1,386,856)**	1,736,116	(1,117,538)
Total Consolidated	**2,162,616**	**(1,400,965)**	1,776,380	(1,129,274)

(In thousands of reais, unless otherwise stated)

19. Costs and expenses by nature

Description	Individual 12/31/2022	Individual 12/31/2021	Consolidated 12/31/2022	Consolidated 12/31/2021
Raw materials and materials for use and consumption	**(3,537)**	(7,664)	**(1,150,190)**	(924,105)
Personnel expenses	**(87,327)**	(74,362)	**(296,237)**	(246,086)
Capitalized interest	**-**	-	**(8,465)**	(4,074)
Depreciation and amortization	**(22,287)**	(22,574)	**(53,425)**	(51,287)
Third-party services	**(7,892)**	(6,881)	**(19,785)**	(18,087)
Electric power, water supply and telephone services	**(2,249)**	(2,403)	**(5,493)**	(5,185)
General selling expenses	**(3,183)**	(809)	**(68,729)**	(76,059)
Sales commissions	**-**	-	**(114,129)**	(103,400)
Provision for stock option plan	**(2,914)**	-	**(2,914)**	-
Provision for profit sharing	**(9,999)**	-	**(11,042)**	-
Other expenses	**(10,336)**	(14,304)	**(25,269)**	(24,404)
	(149,724)	(128,997)	**(1,755,678)**	(1,452,687)

Classified as	Individual 12/31/2022	Individual 12/31/2021	Consolidated 12/31/2022	Consolidated 12/31/2021
Costs of real estate sold	**(1,280)**	(2,838)	**(1,358,631)**	(1,082,080)
Costs of services rendered	**(12,829)**	(8,898)	**(42,334)**	(47,194)
Selling expenses	**(7,479)**	(4,779)	**(203,082)**	(190,902)
General and administrative expenses	**(128,136)**	(112,482)	**(151,631)**	(132,511)
	(149,724)	(128,997)	**(1,755,678)**	(1,452,687)

(In thousands of reais, unless otherwise stated)

20. 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.

	Individual		Consolidated	
Finance income	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Income from short-term investments	**77,876**	22,802	**94,890**	30,032
Gain - hedge accounting	**44,179**	20,508	**44,179**	20,508
Monetary restatement and contract interest	**2,744**	5,335	**6,202**	7,897
Income from derivatives	**50,218**	20,772	**50,218**	20,772
Foreign exchange differences	**-**	1,424	**-**	1,423
	175,017	70,841	**195,489**	80,632
Finance costs				
Interest expenses	**(143,845)**	(107,622)	**(151,378)**	(113,359)
Foreign exchange differences	**-**	(2,521)	**-**	(2,521)
Bank charges	**(1,231)**	(1,329)	**(8,234)**	(6,284)
Expenses with sale of portfolio	**-**	-	**(11,867)**	(7,934)
Hedge accounting expenses	**(28,714)**	(3,265)	**(28,714)**	(3,265)
Interest paid on leases	**(2,809)**	(2,848)	**(2,964)**	(2,992)
Expenses with derivatives	**(73,991)**	(22,819)	**(73,991)**	(22,819)
	(250,590)	(140,404)	**(277,148)**	(159,174)
Finance income (costs), net	**(75,573)**	(69,563)	**(81,659)**	(78,542)

(In thousands of reais, unless otherwise stated)

21. Income and social contribution taxes

	Individual		Consolidated	
	12/31/2022	12/31/2021	**12/31/2022**	12/31/2021
Income before IRPJ and CSLL	**208,860**	159,541	**322,405**	244,323
IRPJ and CSLL at 34%	**34%**	34%	**34%**	34%
Estimated expenses with IRPJ and CSLL	**71,012**	54,244	**109,618**	83,070
Companies computing taxable profit based on accounting records				
Additions and exclusions	**82,917**	39,054	**-**	-
Additions (exclusions) - equity pickup	**(382,586)**	(289,413)	**-**	-
Tax base	**(90,809)**	**(90,818)**	**-**	-
Companies computing taxable profit as a percentage of gross sales				
Tax base	**-**	-	**19,848**	9,682
Rates applicable to taxable profit computed as a percentage of gross sales	**34.00%**	34.00%	**34.00%**	34.00%
Tax expenses	**-**	-	**6,700**	3,307
Expenses with deferred tax	**-**	-	**48**	(15)
Companies taxed under the Special Taxation Regime - RET (1%)				
Tax base	**3,131**	7,728	**4,424**	(3,334)
Rates applicable to the RET	**0.47%**	0.47%	**0.47%**	0.47%
Tax expenses	**-**	16	**7**	46
Expenses with deferred tax	**16**	21	**14**	(62)
Companies taxed under the Special Taxation Regime - RET (4%)				
Tax base	**-**	-	**2,035,217**	1,681,594
Rates applicable to the RET	**1.92%**	1.92%	**1.92%**	1.92%
Tax expenses	**-**	-	**35,336**	30,431
Expenses with deferred tax	**-**	-	**3,741**	1,856
IRPJ and CSLL expenses for the year	**16**	37	**45,846**	35,563
Effective rate	**0.01%**	0.02%	**14.22%**	14.56%

The breakdown of expenses with income and social contribution taxes for the years ended December 31, 2022 and 2021 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 loss carryforwards on which deferred tax assets were not recognized due to the absence of prospects 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 company.

(In thousands of reais, unless otherwise stated)

22. 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 to ensure 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 and IPCA.

To manage part of the interest rate risk, the Company contracts different swaps, aiming to exchange the variation of the IPCA for the CDI, based on the par value referring to the CRIs indexed to the price index. These derivative instruments are solely intended to hedge debt obligations.

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				
	Less than 1 year	From 1 to 2 years	From 2 to 3 years	More than 3 years	Total
At December 31, 2022					
Loans and financing (Note 9)	**309,722**	**246,040**	**224,063**	**610,001**	**1,389,826**
Trade accounts payable	**122,694**	**9,471**	**-**	**-**	**132,165**
Related parties (Note 6.1)	**33,348**	**-**	**-**	**-**	**33,348**
Real estate commitments payable (Note 13)	**113,361**	**1,369,341**	**425,267**	**593,877**	**2,501,846**
Advances for receipt (Note 14)	**9,823**	**-**	**-**	**-**	**9,823**

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.

(In thousands of reais, unless otherwise stated)

22. Financial instruments (Continued)

Liquidity risk (Continued)

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, 2022, there was no significant concentration of credit risk associated to customers. Today, most trade accounts receivable are transferred while the project is under construction through the "*crédito associativo*" financing modality (a type of financing for off-plan projects granted by public banks in which buyers of the project units participate). Installment payments of direct sales are mostly guaranteed by the units themselves. The Company records an Allowance for ECL for installments that are not guaranteed by the units based on their history of default.

Fair value of financial instruments by category

The carrying amounts of trade accounts receivable and payable, less impairment loss for the case of accounts receivable, are assumed to approximate their fair values.

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

		Individual		Consolidated	
	Note	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Financial assets					
Amortized cost		**23,637**	30,044	**696,137**	501,579
Accounts receivable	4.1	**13,797**	12,366	**678,185**	476,346
Accounts receivable from divestiture		**501**	10,258	**7,630**	17,540
Other accounts receivable	-	**9,339**	7,420	**10,322**	7,693
Fair value through profit or loss (*)		**872,134**	610,552	**1,204,829**	1,049,160
Cash and banks	3.1	**1,384**	1,332	**161,298**	239,215
Cash equivalents	3.1	**451,711**	285,883	**571,826**	484,739
Short-term investments	3.2	**401,582**	323,337	**454,248**	325,206
Derivatives receivable		**17,457**	-	**17,457**	-
Total financial assets		**895,771**	640,596	**1,900,966**	1,550,739
Financial liabilities					
Amortized cost		**1,521,217**	1,258,543	**4,328,413**	3,677,738
Real estate commitments payable	13	**169,637**	70,877	**2,501,846**	2,122,997
Advances for receipt	14	**-**	-	**9,823**	12,989
Loans and financing	9	**1,273,125**	1,137,359	**1,389,826**	1,241,402
Trade accounts payable	-	**10,637**	8,547	**132,165**	98,012
Transactions with related parties	6.1	**27,595**	10,741	**33,348**	14,600
Other accounts payable	15	**40,223**	31,019	**173,085**	187,738
Assignment liabilities	15.1	**-**		**88,320**	
Fair value through profit or loss		**8,430**	3,669	**8,430**	3,669
Derivatives payable	15	**8,430**	3669	**8,430**	3,669
Financial liabilities		**1,529,647**	1,258,543	**4,336,843**	3,677,738

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

(In thousands of reais, unless otherwise stated)

22. Financial instruments (Continued)

Fair value of financial instruments by category (Continued)

At December 31, 2022, fair value of financial instruments is as follows:

	Individual			Consolidated		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Amortized cost	23,637	23,637	-	696,137	696,137	-
Accounts receivable	13,797	13,797	-	678,185	678,185	-
Accounts receivable from divestiture	501	501	-	7,630	7,630	-
Other accounts receivable	9,339	9,339	-	10,322	10,322	-
Fair value through profit or loss	872,134	872,134	-	1,204,829	1,204,829	-
Cash and banks	1,384	1,384	-	161,298	161,298	-
Cash equivalents	451,711	451,711	-	571,826	571,826	-
Short-term investments	401,582	401,582	-	454,248	454,248	-
Derivatives receivable	17,457	17,457	-	17,457	17,457	-
Total financial assets	895,771	895,771	-	1,900,966	1,900,966	-
Financial liabilities						
Amortized cost	1,521,217	1,547,943	(26,726)	4,240,093	4,266,591	(26,498)
Real estate commitments payable	169,637	169,637	-	2,501,846	2,501,846	-
Advances for receipt	-	-	-	9,823	9,823	-
Loans and financing	1,273,125	1,299,851	(26,726)	1,389,826	1,416,324	(26,498)
Trade accounts payable	10,637	10,637	-	132,165	132,165	-
Transactions with related parties	27,595	27,595	-	33,348	33,348	-
Other accounts payable	40,223	40,223	-	173,085	173,085	-
Assignment liabilities	-	-	-	88,320	88,320	-
Fair value through profit or loss	8,430	8,430	-	8,430	8,430	-
Derivatives payable	8,430	8,430	-	8,430	8,430	-
Financial liabilities	1,529,647	1,556,373	(26,726)	4,336,843	4,363,341	(26,498)

(In thousands of reais, unless otherwise stated)

22. Financial instruments (Continued)

Fair value of financial instruments by category (Continued)

At December 31, 2021, fair value of financial instruments is as follows:

	Individual			Consolidated		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Financial assets						
Amortized cost	30,044	30,044	-	501,579	501,579	-
Accounts receivable	12,366	12,366	-	476,346	476,346	-
Accounts receivable from divestiture	10,258	10,258	-	17,540	17,540	-
Other accounts receivable	7,420	7,420	-	7,693	7,693	-
Fair value through profit or loss	610,552	610,552	-	1,049,160	1,049,160	-
Cash and banks	1,332	1,332	-	239,215	239,215	-
Cash equivalents	285,883	285,883	-	484,739	484,739	-
Short-term investments	323,337	323,337	-	325,206	325,206	-
Total financial assets	640,596	640,596	-	1,550,739	1,550,739	-
Financial liabilities						
Amortized cost	1,258,543	1,266,561	(8,018)	3,677,738	3,683,542	(5,804)
Real estate commitments payable	70,877	70,877	-	2,122,997	2,122,997	-
Advances for receipt	-	-	-	12,989	12,989	-
Loans and financing	1,137,359	1,145,377	(8,018)	1,241,402	1,247,206	(5,804)
Trade accounts payable	8,547	8,547	-	98,012	98,012	-
Transactions with related parties	10,741	10,741	-	14,600	14,600	-
Other accounts payable	31,019	31,019	-	187,738	187,738	-
Financial liabilities	1,258,543	1,266,561	(8,018)	3,677,738	3,683,542	(5,804)

Management understands that the financial instruments present no significant changes compared with their respective fair values.

The Company contracted a derivative financial instrument (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. In March 2021 the debt pegged to the Euro was settled and the *SWAP* was terminated, and the transaction’s closing position is as follows:

(In thousands of reais, unless otherwise stated)

22. Financial instruments (Continued)

Fair value of financial instruments by category (Continued)

Fair value hedge	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Bank Credit Notes (hedged item)	200,000	IPCA	204,137	
Swap transaction:	**Long position**	IPCA	204,137	4,137
	Short position	CDI -1.45%	(201,463)	(1,463)
Swap position, net			2,674	2,674
(+/-) Hedge accounting - Fair value			23,142	23,142

Fair value hedge	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Mortgage-backed Securities (CRI) (hedged item)	229,554	IPCA + 4.8444%	160,797	
Swap transaction:	**Long position**	IPCA + 4.8444%	160,797	(68,757)
	Short position	CDI + 1.4522%	(154,814)	74,740
Swap position, net			5,983	5,983
(+/-) Hedge accounting - Fair value			2,454	2,454

Swap transaction	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Disposal of treasury shares	16,920	DIRR3+Proceeds	22,449	
Swap transaction:	**Long position**	DIRR3+Proceeds	22,449	5,529
	Short position	CDI + 1.75%	(19,516)	(2,596)
Swap position, net			2,933	2,933

Swap transaction	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Disposal of treasury shares	16,920	DIRR3+Proceeds	22,449	
Swap transaction:	**Long position**	DIRR3+Proceeds	22,449	5,529
	Short position	CDI + 1.75%	(19,516)	(2,596)
Swap position, net			2,933	2,933

22. Financial instruments (Continued)

Fair value of financial instruments by category (Continued)

(In thousands of reais, unless otherwise stated)

Swap transaction	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Sale of treasury shares (hedged item)	16,920	DIRR3+Proceeds	22,449	
Swap transaction:	**Long position**	DIRR3+Proceeds	22,449	5,529
	Short position	CDI + 1.75%	(19,516)	(2,596)
Swap position, net			2,933	2,933

Fair value hedge	Notional value	Rates	Fair value	Gain (loss) on the transaction – P&L
Mortgage-backed Securities (CRI) (hedged item)	300,000	IPCA+6.4899%	293,563	
Swap transaction:	**Long position**	IPCA+6.4899%	293,563	(6,437)
	Short position	CDI + 1.22%	(301,993)	(1,993)
Swap position, net			(8,430)	(8,430)
(+/-) Hedge accounting - Fair value			7,112	7,112

At December 31, 2022, the position of swap agreements is as follows:

Transaction type	Taken out in	Assets/Liabilities	Maturity	Notional value	Long position	Short position	Gain (loss) on the transaction – P&L	Hedge
SWAP (b)	Apr/21	IPCA + 4.8444% / CDI + 1.4522%	Apr/28	200,000	204,137	201,463	2,674	23,142
SWAP (b)	Jul/22	IPCA+4.00% / CDI - 0.8900%	Dec/24	229,554	160,797	154,814	5,983	2,454
SWAP (a)	Dec/21	DIRR3+Proceeds / CDI + 1.75%	May/23	16,920	22,449	19,516	2,933	-
SWAP (a)	Dec/21	DIRR3+Proceeds / CDI + 1.75%	Jun/23	16,920	22,449	19,516	2,933	-
SWAP (a)	Dec/21	DIRR3+Proceeds / CDI + 1.75%	Jun/23	16,920	22,449	19,516	2,933	-
SWAP (b)	Apr/22	IPCA+6.4899% / CDI + 1.22%	Jun/32	300,000	293,563	301,993	(8,430)	7,112

22. Financial instruments (Continued)

Fair value of financial instruments by category (Continued)

(a) Derivatives not designated as hedging instruments: In December 2021, the Company sold 4,000,000 (four million) shares that were held in treasury for the amount of R$50,760. On the same date, the Company contracted a swap, under which it undertook to pay CDI +1.75% p.a. in exchange for the variation in the price of its shares plus any proceeds possibly paid during the term of the swap.

(b) Derivatives designated as fair value hedging instruments: At December 31, 2022, the Company had interest rate SWAP agreement with a notional value of R$200,000, which provides that the Company will receive interest rates of IPCA+4.8444% p.a. and pay a rate of CDI+1.4522% p.a. on the Notional value, with a notional amount of R$229,554, which provides that the Company will receive interest rates of IPCA+4.0000% p.a. and pay a rate of CDI-0.8900% p.a. on the Notional value, and with a notional amount of R$300,000, which provides that the Company will receive interest rates of IPCA+6.4899% p.a. and pay a rate of CDI+1.2200% p.a. on the Notional value.

The Swaps are used to hedge the exposure in the loan's fair value. There is a savings relationship between the hedged item and the hedging instruments, as the interest rate swap terms matches the loan terms (i.e., amount, notional, term, and payment). The Company established a coverage ratio of 100% for hedging relationships, considering that the swap risk is identical to the hedged risk component. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares changes in the fair value of the hedging instrument with changes in the fair value of the hedged item. Hedge ineffectiveness may arise from: 1) Different interest rate curve applied to discount hedged item and hedging instrument. 2) Temporary differences in cash flows of hedged items and hedging instruments. 3) Difference in Credit Risk of counterparties and changes in the fair value of the hedging instrument and hedged item.

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 period 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 from significant risks, as they yield interest at a fixed spread rate plus the CDI, TR, Savings, or IPCA rate, where, for the latter, a swap of rates pegged to the CDI is used. In March 2021, the Company settled a loan in foreign currency (Euro) which was, however, not subject to currency fluctuation (currency risk), since the Company had a swap pegged to the CDI, maturing on the same date, for hedging purposes. The Company understands that there was no actual impact from analyzing the risk relating to foreign currency for this contract, reason why management considered, for the sensitivity analysis, the swap contract pegged to the CDI.

22. Financial instruments (Continued)

Sensitivity analysis (Continued)

To conduct the sensitivity analysis, the Company relied on financial market projections for 2022, 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, Savings, and INCC, and the statement of sensitivity analysis is as follows:

Net assets and liabilities (in thousands of reais)	Net balance at 12/31/2020	50% decrease	25% decrease	Probable scenario	25% increase	50% increase
TR	(102,148)	(833)	(1,249)	(1,665)	(2,081)	(2,498)
CDI	426,818	29,130	43,695	58,261	72,826	87,391
IPCA	(1,189,736)	(38,488)	(57,732)	(76,976)	(96,220)	(115,464)
Savings rate	(12,858)	(397)	(595)	(793)	(992)	(1,190)
INCC	(1,267,089)	(42,017)	(63,025)	(84,034)	(105,042)	(126,051)
Total	**(2,145,013)**					

	-50%	-25%		25%	50%
Index	**50% decrease**	**25% decrease**	**Probable scenario**	**25% increase**	**50% increase**
TR	0.82%	1.22%	**1.63%**	2.04%	2.45%
CDI	6.83%	10.24%	**13.65%**	17.06%	20.48%
IPCA	3.24%	4.85%	**6.47%**	8.09%	9.71%
Savings rate	3.09%	4.63%	**6.17%**	7.71%	9.26%
INCC	3.32%	4.97%	**6.63%**	8.29%	9.95%

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.

22. Financial instruments (Continued)

Business risk management (Continued)

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.

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 understands the demand risk of its launches is reduced.

Operational risks

Operational risk management consists basically of 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 financial debt to equity (net assets, retained earnings and income reserves) ratio, 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.

(In thousands of reais, unless otherwise stated)

22. Financial instruments (Continued)

Capital management (Continued)

The Net Debt structure comprises loans and financing less cash and cash equivalents, as shown in the table below:

	Consolidated	
	12/31/2022	12/31/2021
Loans and financing	**1,389,826**	1,241,402
(-) Cash and cash equivalents	**733,124**	723,954
(-) Short-term investments	**454,248**	325,206
(-) Derivatives	**9,027**	(3,668)
Net debt	**193,427**	195,910
Payment of dividends	**69,964**	100,147
Share buyback	**5,540**	31,965
Sale of treasury shares	**-**	(50,760)
Equity	**1,495,958**	1,458,804
Net debt on equity	**12.93%**	13.43%

Assets pledged as guarantee

Assets pledged as guarantee of loans and financing are described in Notes 8 and 9. The Company and its subsidiaries record judicial deposits at December 31, 2022 of R$17,367 (R$16,097 at December 31, 2021) as part of the discussion of its contingent liabilities.

23. Stock option plan and incentives associated with Company shares - share-based payment

Shared-based payment ("Matching Program")

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

23. Stock option plan and incentives associated with Company shares - share-based payment (Continued)

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

The Programs establish the rules and conditions for granting the right to purchase shares and grant incentive shares to management and employees of the Company and/or Special 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 must acquire common shares issued by the Company, in a number and for a term set individually by the Board of Directors. For each common share of the Company acquired by the beneficiaries under the 1st Program, the Company will grant the beneficiaries two common shares, while under the 2nd 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.

In the case of termination at the initiative of the beneficiary or termination at the initiative of the Company for cause during a given vesting period, the beneficiary will cease to be entitled to all shares granted 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 thousands of reais, unless otherwise stated)

23. Stock option plan and incentives associated with Company shares - share-based payment (Continued)

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

In 2021, the Company granted R$4,991 to the Plan beneficiaries, corresponding to 733,489 shares. In 2022, the Company granted RR3,077 to the Plan beneficiaries, corresponding to 337,784 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	**Shares granted (a)**	Grants activated	Grants not activated (b)	Grants canceled (c)	Shares transferred	**Grants in force (a-b-c-d)**
1st Matching	2015	4 years	**506,000**	444,800	61,200	127,557	317,243	**-**
1st Matching	2017	4 years	**450,000**	363,944	86,056	47,058	316,884	**2**
2nd Matching	2017	4 years	**1,760,000**	1,760,000	-	100,000	1,660,000	**-**
2nd Matching	2018	4 years	**360,000**	360,000	-	-	360,000	**-**
2nd Matching	2018	4 years	**170,923**	170,923	-	10,768	157,136	**3,019**
1st Matching	2019	1 year	**13,628**	13,628	-	1,286	12,342	**-**
2nd Matching	2019	3 years	**58,985**	58,985	-	4,559	54,426	**-**
1st Matching	2019	3 years	**9,662**	9,662	-	804	8,858	**-**
2nd Matching	2019	3 years	**52,888**	52,780	108	4,620	48,160	**-**
1st Matching	2020	4 years	**60,000**	60,000	-	-	30,000	**30,000**
2nd Matching	2020	4 years	**340,000**	340,000	-	-	170,000	**170,000**
1st Matching	2020	4 years	**8,105**	8,105	-	106	6,255	**1,744**
2nd Matching	2020	4 years	**55,947**	55,947	-	-	46,067	**9,880**
1st Matching	2020	4 years	**378,000**	367,600	10,400	23,150	90,800	**253,650**
2nd Matching	2021	4 years	**26,804**	26,804	-	1,250	10,197	**15,357**
2nd Matching	2021	4 years	**26,853**	26,703	150	-	17,055	**9,648**
2nd Matching	2022	4 years	**13,107**	13,107	-	336	-	**12,771**
2nd Matching	2022	4 years	**13,071**	13,071	-	-	5,091	**7,980**
2nd Matching	2022	4 years	**16,262**	16,262	-	-	-	**16,262**
2nd Matching	2022	4 years	**10,146**	10,146	-	-	-	**10,146**
Total			**4,330,381**	**4,172,467**	**157,914**	**321,494**	**3,310,514**	**540,459**

(In thousands of reais, unless otherwise stated)

24. Insurance

The Company adopts an insurance policy that considers mainly the concentration of risks and their significance, taking into account the nature of its activities and advice of insurance advisors. At December 31, 2022, 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.	3,554,139
Post-delivery warranty insurance	Guarantees the maintenance and resolution of problems in works delivered for up to 5 years, on damages set forth in the consumer code.	115,524
Civil liability (construction in progress)	Guarantees indemnification (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.	535,607
Infrastructure insurance	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.	117,412
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 lock out, windstorm, and smoke.	58,500
Civil liability (D&O)	Guarantees coverage of pain and suffering to the Company's Directors and Officers	60,000
Civil liability (D&O)	Guarantees coverage of "Multiple perils – cyber risks" insurance	16,000

(In thousands of reais, unless otherwise stated)

25. Noncash transactions

	Individual		Consolidated	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Financing activities	**2,439**	2,512	**11,831**	2,510
Right-of-use financing	**2,439**	2,512	**2,439**	2,510
Capitalization of interest	**-**	-	**9,392**	-
Investing activities	**2,439**	2,842	**4,812**	2,840
Restatement - Sale of equity interest	**-**	330	**2,373**	330
Acquisition of property and equipment - Lease	**2,439**	2,512	**2,439**	2,510

26. Subsequent events

On December 15, 2022, the Company's shareholders approved at the Extraordinary General Meeting the authorization to cancel the registration as a publicly held company with the Brazilian Securities and Exchange Commission (CVM) of its subsidiary Riva Incorporadora S.A. On February 27, 2023, the Company filed a request for cancellation of registration with the CVM and is awaiting approval.

On February 08, 2023, the Brazilian Supreme Court ('STF') concluded the trial of Themes 881 and 885 in favor of the loss of the effects of individual decisions that have become res judicata, following a subsequent change in the court's understanding on tax matters. The Company conducted an assessment and did not identify any cases that would have a significant impact on its operations.