

# **Quarterly Information**

## **Pacaembu Construtora S.A.**

June 30, 2020  
with Independent Auditor's Report

# **Pacaembu Construtora S.A.**

## Quarterly information

June 30, 2020

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São Paulo Corporate Towers  
Av. Presidente Juscelino Kubitschek, 1,909  
Vila Nova Conceição  
04543-011 - São Paulo - SP - Brasil

Tel: +55 11 2573-3000  
ey.com.br

A free translation from Portuguese into English of Independent Auditor's Review Report on Quarterly Information prepared in Brazilian currency in accordance with NBC TG 21 and IAS 34 - Interim Financial Reporting applicable to real estate development entities, and with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR)

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## Independent auditor's review report on quarterly information

The Shareholders, Board of Directors and Officers

**Pacaembu Construtora S.A.**

São Paulo - SP

### Introduction

We have reviewed the individual and consolidated interim financial information of Pacaembu Construtora S.A. (the "Company") contained in the Quarterly Information Form (ITR) for the quarter ended June 30, 2020, which comprise the statement of financial position as at June 30, 2020, and the statements of profit or loss and of comprehensive income for the three and six-month periods then ended, and the statements of changes in equity and of cash flows for the six-month period then ended, and notes to the interim financial information.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with NBC TG 21 - Interim Financial Reporting and the international standard IAS 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), applicable to real estate development entities in Brazil registered with the Brazilian Securities and Exchange Commission (CVM), as well as for the presentation of this information in accordance with the rules issued by CVM applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

We conducted our review in accordance with the Brazilian and international standards on review engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual and consolidated interim financial information included in the quarterly information referred to above is not prepared, in all material respects, in accordance with Accounting Pronouncement NBC TG 21 and IAS 34 applicable to real estate development entities in Brazil registered with the Brazilian Securities and Exchange Commission (CVM), and to the preparation of Quarterly Information (ITR), and is not presented in conformity with the rules issued by CVM.

## **Emphasis of a matter**

As described in Note 2.1, the individual and consolidated interim financial information has been prepared in accordance with Accounting Pronouncement NBC TG 21 and IAS 34 applicable to real estate development entities in Brazil registered with CVM. Accordingly, the determination of the accounting policy adopted by the entity for recognition of revenue from contracts involving purchase and sale of unfinished real estate units, as regards the aspects relating to transfer of control, follows the understanding of the Company management regarding the application of NBC TG 47, in line with CVM Memorandum Circular CVM/SNC/SEP No. 02/2018. Our conclusion is not qualified in respect of this matter.


## **Other matters**

### *Statements of value added*

The interim financial information referred to above includes the individual and consolidated statements of value added (SVA) for the six-month period ended June 30, 2020, prepared under the responsibility of the Company management and presented as supplementary information under IAS 34. These statements have been subject to review procedures performed in conjunction with the review of the quarterly information, in order to determine whether they are reconciled with the interim financial information and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in NBC TG 09 Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that these statements of value added were not prepared, in all material respects, in accordance with the criteria set forth by this Standard and consistently with the individual and consolidated interim financial information as a whole.

São Paulo, August 7, 2020.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6



Fernando Próspero Neto  
Accountant CRC-1SP189791/O-0

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## Pacaembu Construtora S.A.

Statements of financial position  
At June 30, 2020 and December 31, 2019  
(In thousands of reais)

	Note	Individual		Consolidated	
		06/30/2020	12/31/2019	06/30/2020	12/31/2019
Assets					
Current assets					
Cash and cash equivalents	3.1	218,427	141,064	251,192	188,025
Restricted cash	3.2	28,893	3,914	43,358	5,805
Accounts receivable	4	23,650	15,249	73,650	39,453
Inventories	5	17,341	40,635	71,780	82,465
Advances for acquisition of land		9,474	11,611	11,674	12,896
Other assets		12,230	15,170	17,103	18,863
Taxes recoverable		3,795	3,230	3,903	3,411
Total current assets		313,810	230,873	472,660	350,918
Noncurrent assets					
Accounts receivable	4	-	-	33,317	31,510
Inventories	5	6,895	6,762	6,895	6,762
Judicial deposits		4,905	4,342	4,905	4,342
Other assets		731	877	1,319	877
Advances for acquisition of land		14,801	10,752	14,801	10,752
Investments	7	155,485	155,212	2,422	6,464
Property and equipment		6,068	7,480	6,068	7,480
Total noncurrent assets		188,885	185,425	69,727	68,187
Total assets		502,695	416,298	542,387	419,105

	Note	Individual		Consolidated	
		06/30/2020	12/31/2019	06/30/2020	12/31/2019
Liabilities and equity					
Current liabilities					
Loans and financing	8	1,858	4,584	1,858	4,584
Trade accounts payable	9	13,974	27,142	40,271	32,075
Labor obligations	10	9,280	10,290	9,651	10,339
Tax obligations		1,548	7,181	7,496	8,456
Accounts payable for acquisition of land		-	-	1,551	-
Current taxes with deferred payment		49	49	274	274
Advances from customers		842	20,203	1,564	21,891
Provision for warranty	12a	2,609	2,835	2,609	2,835
Interest on equity	14d	3,336	10,478	3,336	10,478
Dividends payable		16,022	16,022	16,022	16,022
Leases		1,656	2,268	1,656	2,268
Other accounts payable		3,827	2,260	3,828	3,661
Total current liabilities		55,001	103,312	90,116	112,883
Noncurrent liabilities					
Loans and financing	8	120,000	1,835	120,000	1,835
Trade accounts payable	9	6,708	4,139	6,708	4,139
Current taxes with deferred payment		1,136	651	6,959	4,111
Provision for warranty	12a	5,706	8,390	6,330	8,511
Provision for contingencies	12b	10,256	9,234	10,610	9,343
Provision for loss on investments	7	2,232	1,560	9	-
Related parties	6	83	11,601	83	2,708
Leases		863	929	862	929
Other liabilities		-	1	-	-
Total noncurrent liabilities		146,984	38,340	151,561	31,576
Equity					
Capital	14	263,985	128,895	263,985	128,895
Statutory reserve		2	117,719	2	117,719
Legal reserve		11,176	11,176	11,176	11,176
Profits at the disposal of the AGM		-	17,373	-	17,373
Retained earnings		26,064	-	26,064	-
Share issue costs		(517)	(517)	(517)	(517)
Total equity		300,710	274,646	300,710	274,646
Total liabilities and equity		502,695	416,298	542,387	419,105

See accompanying notes.

## Pacaembu Construtora S.A.

### Statements of profit or loss

Three and six-month periods ended June 30, 2020 and 2019

(In thousands of reais)

	Note	Individual				Consolidated			
		04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Net operating revenue	15	66,289	137,291	153,986	247,667	149,971	252,593	155,646	304,004
Cost of properties sold	16	(51,372)	(101,064)	(82,564)	(155,644)	(111,324)	(184,002)	(83,195)	(161,045)
Gross profit		14,917	36,227	71,422	92,023	38,647	68,591	72,451	142,959
Expenses and income									
General and administrative expenses	16	(14,152)	(28,116)	(13,851)	(29,069)	(14,207)	(28,195)	(13,855)	(29,136)
Selling expenses	16	(1,495)	(4,351)	(6,219)	(12,223)	(6,151)	(14,516)	(6,268)	(12,924)
Tax expenses	16	(85)	(215)	(362)	(588)	(153)	(312)	(388)	(1,948)
Other income (expenses)		(1,866)	(49)	(364)	(2,709)	(1,663)	220	(328)	(36)
Equity pickup	7	18,751	24,828	1,208	50,233	953	2,741	(488)	(582)
		1,153	(7,903)	(19,588)	5,644	(21,221)	(40,062)	(21,327)	(44,626)
Operating income before finance income (costs) and taxes		16,070	28,324	51,834	97,667	17,426	28,529	51,124	98,333
Finance income (costs)									
Finance costs	17	(724)	(1,160)	(503)	(925)	(1,309)	(2,201)	(538)	(999)
Finance income	17	783	1,875	3,055	6,164	3,098	7,033	4,247	7,966
		59	715	2,552	5,239	1,789	4,832	3,709	6,967
Operating income before income and social contribution taxes		16,129	29,039	54,386	102,906	19,215	33,361	54,833	105,300
Current income and social contribution taxes	11	89	(471)	(4,865)	(7,818)	(2,613)	(4,022)	(4,890)	(7,869)
Deferred income and social contribution taxes	11	(1,202)	(2,504)	(35)	(63)	(1,586)	(3,275)	(457)	(2,406)
Net income for the period		15,016	26,064	49,486	95,025	15,016	26,064	49,486	95,025
Income attributable to controlling interests		15,016	26,064	49,486	95,025	15,016	26,064	49,486	95,025
Income attributable to noncontrolling interests		-	-	-	-	-	-	-	-
Weighted number of shares	18	128,894,845	128,894,845	72,500,000	72,500,000				
Basic and diluted earnings per share, net – R\$	18	0.116	0.202	0.682	1.310				

See accompanying notes.

## Pacaembu Construtora S.A.

Statements of comprehensive income  
Three and six-month periods ended June 30, 2020 and 2019  
(In thousands of reais)

	Individual			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Net income for the period	15,016	26,064	49,486	95,025
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>15,016</u>	<u>26,064</u>	49,486	95,025

	Consolidated			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Net income for the period	15,016	26,064	49,486	95,025
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	<u>15,016</u>	<u>26,064</u>	49,486	95,025
Income attributable to controlling interests	15,016	26,064	49,486	95,025
Income attributable to noncontrolling interests	-	-	-	-

See accompanying notes.



## Pacaembu Construtora S.A.

Statements of changes in equity  
Six-month periods ended June 30, 2020 and 2019

(In thousands of reais)

Note	Income reserve				Share issue costs	Retained earnings	Total equity attributable to controlling interests	Total consolidated equity
	Subscribed capital	Statutory reserve	Legal reserve	Profits at the disposal of the AGM				
Balances at December 31, 2019	128,895	117,719	11,176	17,373	(517)	-	274,646	274,646
Capital increase	14	135,090	(117,717)	-	(17,373)	-	-	-
Net income for the period		-	-	-	-	26,064	26,064	26,064
Balances at June 30, 2020		263,985	2	11,176	-	(517)	26,064	300,710

## Pacaembu Construtora S.A.

Statements of changes in equity (Continued)  
Six-month periods ended June 30, 2020 and 2019  
(In thousands of reais)

	Income reserve				Retained earnings	Total equity attributable to controlling interests	Noncontrolling interests	Total consolidated equity
	Subscribed capital	Statutory reserve	Legal reserve	Additional dividends proposed				
Balances at December 31, 2018	72,500	70,511	5,597	49,397	-	198,005	11	198,016
Distribution of profits	-	(3,400)	-	-	-	(3,400)	-	(3,400)
Noncontrolling interests	-	-	-	-	-	-	(11)	(11)
Net income for the period	-	-	-	-	95,025	95,025	-	95,025
Balances at June 30, 2019	72,500	67,111	5,597	49,397	95,025	289,630	-	289,630

See accompanying notes.

## Pacaembu Construtora S.A.

### Statements of cash flows Six-month periods ended June 30, 2020 and 2019 (In thousands of reais)

	Individual		Consolidated	
	06/30/2020	06/30/2019	06/30/2020	06/30/2019
Operating activities				
Operating income before income and social contribution taxes	29,039	102,906	33,361	105,300
Adjustments to reconcile profit or loss to cash from operating activities				
(Reversal) provision for guarantee	(1,575)	1,830	(1,072)	1,830
Depreciation and amortization	1,648	1,785	1,648	1,785
Provision for impairment of assets	1,141	-	1,141	-
Provision for contingencies	1,022	347	1,267	1,603
Allocation of appreciation of inventories	103	2,653	-	-
Equity pickup	(24,828)	(50,233)	(2,741)	582
Provision for interest on loans and financing	1,610	216	1,610	216
Present value adjustment	93	-	93	-
	<b>8,253</b>	<b>59,504</b>	<b>35,307</b>	<b>111,316</b>
Decrease/(increase) in assets:				
Restricted cash	(24,979)	53,933	(37,553)	54,114
Accounts receivable	(9,542)	2,102	(37,145)	(31,512)
Inventories	23,161	(6,224)	12,103	(22,681)
Other assets	3,086	(5,406)	1,318	(5,879)
Taxes recoverable	(565)	2,365	(492)	2,374
Judicial deposits	(563)	(365)	(563)	(366)
Advances for acquisition of land	(1,912)	(4,984)	(2,827)	(4,984)
(Decrease)/increase in liabilities:				
Trade accounts payable	(10,599)	(4,210)	10,765	(4,737)
Labor obligations	(1,010)	(988)	(688)	(991)
Tax obligations	(6,104)	(3,562)	(4,982)	(6,779)
Advances from customers	(19,361)	(40,283)	(20,327)	(40,221)
Current taxes with deferred payment	(2,019)	(5,060)	(427)	(7,934)
Other liabilities	1,566	(1,478)	167	11,160
Payment of provision for warranty	(1,334)	(1,573)	(1,335)	(1,573)
Interest paid on loans and financing	(409)	(270)	(409)	(270)
Net cash from (used in) operating activities	<b>(42,331)</b>	<b>43,501</b>	<b>(47,088)</b>	<b>51,037</b>
Cash flow from investing activities				
Acquisition of property and equipment items	(236)	(407)	(236)	(407)
Contribution (return) of capital in subsidiaries and associates	(1,554)	(8,661)	734	(3,318)
Dividends received	26,354	-	6,150	-
Investments written off	323	-	(92)	-
Related parties	-	-	-	(728)
Net cash from (used in) investing activities	<b>24,887</b>	<b>(9,068)</b>	<b>6,556</b>	<b>(4,453)</b>
Cash flow from financing activities with third parties				
Loans and financing raised	121,045	-	121,045	-
Borrowing costs	(226)	-	(226)	-
Amortization of loans and financing	(7,352)	(6,681)	(7,353)	(6,681)
Payment of dividends	-	(3,400)	-	(3,400)
Payment of interest on equity	(7,142)	-	(7,142)	-
Related parties	(11,518)	4,501	(2,625)	-
Capital contribution by noncontrolling interests	-	-	-	(11)
Net cash from (used in) financing activities	<b>94,807</b>	<b>(5,580)</b>	<b>103,699</b>	<b>(10,092)</b>
Net increase in cash and cash equivalents	<b>77,363</b>	<b>28,853</b>	<b>63,167</b>	<b>36,492</b>
Cash and cash equivalents				
At beginning of year	141,064	195,494	188,025	214,674
At end of year	<b>218,427</b>	<b>224,347</b>	<b>251,192</b>	<b>251,166</b>
Net increase in cash and cash equivalents	<b>77,363</b>	<b>28,853</b>	<b>63,167</b>	<b>36,492</b>

See accompanying notes.

## Pacaembu Construtora S.A.

Statements of value added  
Six-month periods ended June 30, 2020 and 2019  
(In thousands of reais)

	Individual		Consolidated	
	06/30/2020	06/30/2019	06/30/2020	06/30/2019
Revenue				
Revenue from real estate development	141,941	256,692	261,634	315,163
Other revenues	54	47	221	64
	<b>141,995</b>	256,739	<b>261,855</b>	315,227
Materials acquired from third parties				
Cost of properties sold	(101,064)	(155,644)	(184,002)	(161,045)
Materials, power, services from suppliers and other	(13,252)	(23,663)	(23,388)	(21,775)
	<b>(114,316)</b>	(179,307)	<b>(207,390)</b>	(182,820)
Gross value added	<b>27,679</b>	77,432	<b>54,465</b>	132,407
Retentions				
Depreciation and amortization	(1,648)	(1,785)	(1,648)	(1,785)
	<b>(1,648)</b>	(1,785)	<b>(1,648)</b>	(1,785)
Net value added	<b>26,031</b>	75,647	<b>52,817</b>	130,622
Value added received from transfers				
Share of profit of a subsidiary, an associate and a joint venture	24,828	50,233	2,741	(582)
Finance income	1,875	6,164	7,033	7,966
Total value added received from transfers	<b>26,703</b>	56,397	<b>9,774</b>	7,384
Total value added to be distributed	<b>52,734</b>	132,044	<b>62,591</b>	138,006
Value added distributed	<b>52,734</b>	132,044	<b>62,591</b>	138,006
Employee benefits expense	17,670	18,600	17,676	18,600
Salaries and related charges	15,848	17,574	15,854	17,574
Management fees	1,822	1,026	1,822	1,026
	<b>9,000</b>	18,419	<b>18,851</b>	24,381
Taxes and contributions	7,840	17,494	16,650	23,382
Debt remuneration – interest	1,160	925	2,201	999
Equity remuneration	<b>26,064</b>	95,025	<b>26,064</b>	95,025
Net income for the period	<b>26,064</b>	95,025	<b>26,064</b>	95,025
Net income attributed to noncontrolling interests	-	-	-	-

See accompanying notes.

# **Pacaembu Construtora S.A.**

Notes to quarterly information

June 30, 2020

(In thousands of reais, unless otherwise stated)

## **1. General information**

### **1.1. Operations**

Pacaembu Construtora S.A. (the “Company”), with head office in the city of Bauru, State of São Paulo, and its subsidiaries and associates are engaged in the civil construction and engineering business, as well as in purchase and sale of real properties, administration, advisory and management of construction work and housing estates. On May 1, 2018, the Company’s legal nature changed from limited liability company to joint-stock company. It was formerly known as Pacaembu Empreendimentos e Construções Ltda.

The Company is a developer engaged in the development of large low-income real estate projects within the scope of the Federal Government’s housing program *Minha Casa, Minha Vida* primarily in the countryside of the State of São Paulo.

### **1.2. Disclosure on coronavirus (COVID-19)**

On March 10, 2020, the Brazilian Securities and Exchange Commission (CVM) issued Memorandum Circular No. 02/2020 (“Ofício Circular/CVM/SNC/SEP/nº02/2020”) that addressed the possible effects of the coronavirus on businesses and on financial statements. The Memorandum Circular states the importance of publicly held Companies and their independent auditors to carefully consider the impacts of Covid-19 on their business and the risks and uncertainties to which they are exposed.

In this regard, the Company clarifies that, considering the current information and data on the potential impacts of the Covid-19 pandemic on its activities, it considers that there are currently no material impacts on its quarterly information, ability to continue as a going concern and/or accounting estimates. Nevertheless, the Company continues to monitor diligently any and all information about this subject, and continues to evaluate, considering the development of the crisis caused by the pandemic and its impact on the market in general and on its business, the need to disclose new material information and/or any changes in projections and estimates relating to the risks reported, in order to disclose any changes in such evaluation that could have a material impact.

Since the end of February 2020, when the first case of Covid-19 was confirmed in Brazil, the Company has prepared itself to understand the new context and take measures to preserve the integrity of its employees and customers and the Company’s financial strength.

## **Pacaembu Construtora S.A.**

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

The Company has been facing this delicate time with an adequate cash position, with capital from cash and cash equivalents and restricted cash amounting to R\$294,550 as at June 30, 2020. In June 2020, the Company concluded raising R\$120,000 from financial institutions in Brazil with maturities ranging from 2 to 3 years in order to increase cash. This liquidity position makes going through this time easier and, despite the uncertainties of the current economic scenario, our long-term strategy has not changed.

The launching of certain projects in cities where the Company does not yet have an effective participation has been postponed in sixty days, for a better visibility of product acceptance and of benefits of the flexibilization measures that has been implemented by local authorities.

The use of technology through digital platforms has proven to be an efficient strategy for achieving and maintaining the pace of sales, in an scenario of social distancing, which prevents visits to stores.

During this period of social distancing, construction work continued with extremely strict safety and hygiene protocols aimed at preventing Covid-19 contagion and preserving the health of employees and of the society in general.

The demand for real estate properties in the cities where we operate remained strong, even after the implementation of quarantine measures, thus allowing healthy sales volumes and transfers throughout the period.

We have no impact relating to impairment of inventory of land and properties for sale and to the fair value measurement of assets and liabilities for the period, and there were no significant changes in payment conditions of customers and suppliers.

To monitor the developments and to support the Company management in this scenario, a crisis committee was created to focus primarily on measures to protect the health of employees, customers and partners, as well as on supporting management of other actions implemented for this period.

## **Pacaembu Construtora S.A.**

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### **2. Basis of preparation of financial statements and significant accounting policies**

#### **2.1. Statement of compliance and basis of preparation**

The accounting policies adopted for the preparation of the condensed interim financial statements, as well as the significant judgments and uncertainties of the estimates used in applying the accounting practices are consistent with those used in preparing the financial statements for the year ended December 31, 2019. The interim financial information should be read together with the financial statements for the year ended December 31, 2019.

The individual and consolidated quarterly information is presented in a condensed form, pursuant to CPC 21 (R1) and the guidelines of the Brazilian Securities and Exchange Commission (CVM) disclosed in the Memorandum Circular No. 003/2011, contemplating aspects related to the transfer of control upon sale of real estate units that follow the understanding of the Company management, and in line with that expressed by CVM in the Memorandum Circular CVM/SNC/SEP No. 02/18 on the application of Accounting Pronouncement NBC TG 47 (IFRS 15).

In the Company's case, these practices differ from the IFRSs applicable to real estate development entities in Brazil that are subject to the CVM rules, as regards separate financial statements, solely with regard to capitalization of interest incurred by the parent company in connection with the funds invested in subsidiaries for construction purposes. For the purposes of the IFRSs applicable to separate financial statements, interest capitalization is only permitted for qualifying assets, and the investments in subsidiaries presented in the separate financial statements are not qualifying assets.

The Company management represents that all significant information related to the interim financial information, and only that information, is being evidenced and corresponds to the information used by management for management purposes. Therefore, the interim financial information as at June 30, 2020 was not fully completed due to redundancy in relation to that presented in the individual and consolidated annual financial statements as at December 31, 2019 approved by the Board of Directors on February 19, 2020, and as provided for in Memorandum Circular CVM/SNC/SEP No. 003/2011. In this individual and consolidated interim financial information, the notes listed below are not presented or are not as detailed as the notes to the annual financial statements.

## **Pacaembu Construtora S.A.**

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

In these individual and consolidated interim financial statements, the notes listed below are not presented or are not as detailed as the notes to the annual financial statements:

- 6. Other assets
- 9. Property and equipment and leases
- 13. Tax obligations
- 14. Current taxes with deferred payment
- 15. Advances from customers
- 21. Other operating income (expenses)

The Company's Executive Board authorized these individual and consolidated financial statements for issue on February 7, 2020, considering events up to that date that have had an impact on these financial statements.

### **2.2. Going concern**

The accounting standards require that, in preparing the financial statements, management shall assess the entity's ability to continue as a going concern in the foreseeable future. Considering the balance of the Company's net working capital, its compliance with the covenants provided for in loan and financing agreements, in addition to the expectation of sufficient cash to settle liabilities in the next 12 months, management concluded that there is no material uncertainty that could cast significant doubt about the Company's ability to continue as a going concern and, therefore, concluded that the use of the going-concern assumption for the preparation of its financial statements is adequate.

### **2.3. Functional and presentation currency**

The financial statements are presented in Brazilian Real (R\$), which is the Company's functional currency. All financial information presented in thousands of Reais was rounded to the nearest amount, unless otherwise stated.

### **2.4. Basis of consolidation**

The accounting policies described in detail below were consistently applied to all periods presented in these individual and consolidated financial statements. The consolidated financial statements include the operations of the Company and the subsidiaries described in Note 7. All transactions, balances, revenues and expenses between the subsidiaries and the Company are fully eliminated, and noncontrolling interest is stated in the financial statements.

#### **i) Subsidiaries**

The subsidiaries' financial statements are prepared in accordance with accounting



## **Pacaembu Construtora S.A.**

Notes to quarterly information (Continued)

June 30, 2020

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policies that are consistent with those of the Parent Company. They are included in the consolidated financial statements from the date on which the Company obtains control and continue to be consolidated until the date such control ceases to exist. Under this method, components of assets, liabilities and profit or loss are fully combined, and the equity value of noncontrolling interest is determined by applying their percentage of interest on the subsidiaries' equity.

### ii) Joint ventures

A joint venture is a contractual arrangement through which the Company and other parties engage in an economic activity subject to joint control, a situation in which decisions on strategic financial and operational policies relating to the joint venture's activities require approval from all parties sharing control. The Company presents the interest it holds in joint ventures in its consolidated financial statements using the equity method. Interest in subsidiaries and joint ventures are accounted for using the equity method in the Company's individual financial statements.

## **2.5. Significant accounting judgments, estimates and assumptions**

Accounting estimates and judgments are continuously assessed and are based on historical experience and other factors, including expectations of future events, considered reasonable for the circumstances.

### Judgments

The preparation of the Company's individual and consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date.

However, uncertainty about these assumptions and estimates could result in outcomes that do not require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that do not have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

- **Budgeted costs:** total budgeted costs, comprising costs incurred and expected costs for completion of construction, are reviewed on a monthly basis, according to the construction progress, and adjustments based on this review are reflected in the Company's profit or loss according to the accounting method used. Such information is fundamental for revenue recognition.
- **Taxes:** the Company and its subsidiaries are periodically reviewed by different authorities, including tax, labor, social security and environmental authorities. It is not possible to ensure that these authorities will not serve the Company and its subsidiaries a delinquency notice, or that these infringements will not result in administrative proceedings giving rise to lawsuits, nor the final outcome of such legal or administrative proceedings.
- **Provisions for contingencies (tax, civil and labor):** the Company management revises the provision for civil, labor and tax contingencies on a quarterly basis. Assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court rulings and their relevance to the legal system, as well as the opinion of outside legal advisors. Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court rulings.
- **Impairment testing of assets:** management reviews the net carrying amount of assets periodically, so as to assess events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment of accounts receivable, investments, inventories and property and equipment. When such evidence is identified, a provision for impairment is recognized by adjusting the net carrying amount to the recoverable amount.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### 3. Cash and cash equivalents and restricted cash

#### 3.1. Cash and cash equivalents

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Cash and banks	31,965	26,381	57,444	32,094
Short-term investments (i)	186,462	114,683	193,748	155,931
	<b>218,427</b>	<b>141,064</b>	<b>251,192</b>	<b>188,025</b>

- (i) Short-term investments are represented by fixed income investment funds and bank deposit certificates, bearing interest by reference to Interbank Deposit Certificates (CDI) and with immediate liquidity. Short-term investments bear interest ranging from 78% to 105% of CDI and investments in savings account provide an average yield of 70% of the Central Bank Benchmark Rate (SELIC) plus monthly reference rate (TR).

#### 3.2. Restricted cash

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Bank checking account (i)	28,893	3,914	43,358	5,805
	<b>28,893</b>	<b>3,914</b>	<b>43,358</b>	<b>5,805</b>

- (i) Restricted checking accounts are represented by funds from transfers from owner financing. The release and use of these funds are contingent on the registration of respective contracts with the Real Estate Registry Office of each location, and are not available for the Company at respective reporting dates.

### 4. Accounts receivable

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Accounts receivable for real estate units	26,791	17,249	110,108	72,963
Allowance for expected credit losses (a)	(3,141)	(2,000)	(3,141)	(2,000)
	<b>23,650</b>	<b>15,249</b>	<b>106,967</b>	<b>70,963</b>
Current	23,650	15,249	73,650	39,453
Noncurrent	-	-	33,317	31,510

- (a) In adopting CPC 48, the Company revised its accounting practices for recognition of allowance for expected credit losses and set up an allowance for the installments that are received directly from buyers (financing by the real estate developer); considering that sales of residential real estate are almost in its entirety received through transfer from financial institutions due to the *Minha Casa Minha Vida* Program the risk of losses on receivables is low, and the Company recorded amounts considered sufficient to cover possible losses. At June 30, 2020, the Company recorded an increase of (R\$1,141) in the allowance for expected credit losses.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

Due to the procedures adopted for recognition of revenue from sales of units under construction, the balance of accounts receivable from units sold and not yet finished is not fully reflected in the financial statements, since the recording of these amounts is limited to the portion of revenue recognized based on the progress of the construction work, net of the installments already received.

At June 30, 2020, the current and noncurrent portions of the consolidated accounts receivable were as follows:

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
2020	<b>23,650</b>	15,249	<b>73,650</b>	39,453
2021	-	-	<b>17,964</b>	16,000
2022	-	-	<b>6,372</b>	8,729
2023	-	-	<b>4,793</b>	5,694
2024 onwards	-	-	<b>4,188</b>	1,087
	<b>23,650</b>	15,249	<b>106,967</b>	70,963

## 5. Inventories

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Land and lots (i)	-	-	<b>29,691</b>	28,824
Properties under construction (ii)	<b>8,381</b>	25,532	<b>23,499</b>	32,928
Project development costs (iii)	<b>15,855</b>	21,865	<b>25,485</b>	27,475
	<b>24,236</b>	47,397	<b>78,675</b>	89,227
Current	<b>17,341</b>	40,635	<b>71,780</b>	82,465
Noncurrent	<b>6,895</b>	6,762	<b>6,895</b>	6,762

(i) Land lots for new ventures and lots for sale are recorded at historical acquisition cost and include costs with legalization and other costs. The lots refer to finished commercial units available for sale.

(ii) Costs of real estate units under construction comprise materials used, own or outsourced workforce, expenses with land legalization, and other related costs incurred during the construction phase.

(iii) Costs with projects approved by Caixa Econômica Federal in connection with *Minha Casa Minha Vida* Program, which will be reclassified to real properties under construction when launched.

Management periodically prepares analyses and valuation tests of the lower of cost or net realizable value, on all inventory line items. We identified no adjustments relating to this matter.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)  
June 30, 2020  
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### 6. Related parties

#### Liabilities

These refer to checking account balances between partners and intercompany loan agreements, subject to no interest or monetary adjustment and with no determined maturity.

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
União do Mandaguari Emp. Imobiliário Ltda (ii)	83	58	83	58
Companhia Poa (i)	-	8,893	-	-
Veronese Empreendimento Imobiliário Ltda (i)	-	2,650	-	2,650
	<b>83</b>	<b>11,601</b>	<b>83</b>	<b>2,708</b>

(i) Advance of profits received from subsidiaries to be settled with future profits. Amounts not subject to charges and with no stipulated maturity date.

(ii) Loan to related party not subject to charges and with no stipulated maturity date.

No commercial transactions or expenses were recorded in the three-month period ended June 30, 2020 and in prior years in relation to amounts payable by related parties.

#### Key management personnel compensation

The global annual key management personnel compensation for the year was approved, in the amount of up to R\$8,917. Key management personnel compensation for the six-month period ended June 30, 2020 amounted to R\$1,822 (R\$1,026 for the six-month period ended June 30, 2019), and was recorded under general administrative expenses with personnel and refers basically to management fees.

#### Sale of aircraft

As at December 31, 2019, the Company sold aircraft Piper M500 purchased in 2018 to the shareholders for the residual value of R\$7,470. This amount was offset against dividends owed by the Company to the shareholders referring to 2019.

#### Sale of vehicle

On June 8, 2020, the Company sold to shareholder Mr. Eduardo Robson Raineri de Almeida the vehicle model Passat HL TSI purchased in 2018, for the residual value of the asset of R\$92. The amount was offset with interest on equity owed by the Company to the shareholder referring to 2019.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)  
June 30, 2020  
(In thousands of reais, unless otherwise stated)

### 7. Investments

#### a) Breakdown

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Subsidiaries	<b>107,757</b>	73,464	-	-
Joint ventures	<b>2,397</b>	5,728	<b>2,419</b>	5,728
Appreciation of inventories (i)	<b>290</b>	394	-	-
Future capital contribution	<b>45,041</b>	75,626	<b>3</b>	736
Investment	<b>155,485</b>	155,212	<b>2,422</b>	6,464
Provision for loss on subsidiary (ii)	<b>(2,232)</b>	(1,561)	<b>(9)</b>	-
Net investments	<b>153,253</b>	153,651	<b>2,413</b>	6,464

(i) Goodwill based on appreciation of land lots acquired through subsidiaries C.M. Aparecidinha Empreendimentos Imobiliários Ltda. Residencial Quinta da Colina Empreendimento SPE Ltda. and Poá Empreendimento Imobiliário Ltda. In the consolidated financial statements, these balances are reclassified to inventories.

(ii) This is recorded under provision for loss on investments in noncurrent liabilities.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### b) Significant information on equity interest and breakdown of investments

	Equity interest		Assets		Liabilities		Equity		P&L for the period	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Haus Compra e Venda de Bens Imoveis Ltda	99.94%	99.94%	11,721	13,234	1,959	5,894	9,762	7,340	3,071	3,318
Embrás Empreendimentos e Construções Ltda	99.37%	99.37%	121	126	354	109	(233)	17	(250)	(12)
Haus Marília I - Empreendimentos Imobiliários SPE Ltda	99.00%	99.00%	360	361	1	7	359	354	5	247
Pacaembu Loteadora - Olimpia IV Ltda	99.00%	99.00%	9,566	9,710	926	1,123	8,640	8,587	1,001	2,621
Residencial Quinta da Colina Empreendimento Imobiliário SPE Ltda	99.00%	99.00%	356	352	-	-	356	352	3	68
Pacaembu Ribeirão Preto 'B' Compra E Venda de Imoveis Ltda	99.00%	99.00%	-	-	1	-	(1)	-	-	-
POA Empreendimento Imobiliário Ltda	99.00%	99.00%	39,002	80,399	3,279	2,859	35,723	77,540	4,257	66,054
Pacaembu Piracicaba Incorporadora Ltda	99.99%	99.99%	6,899	6,270	963	6,274	5,936	(4)	(48)	(4)
Pacaembu Sao Carlos - Empreendimento Imobiliário Ltda	99.00%	99.00%	5,696	5,354	420	5,387	5,276	(33)	(2)	(33)
Pacaembu Bauru - Empreendimento Imobiliário Ltda	99.00%	99.00%	34,297	27,282	8,729	25,814	25,568	1,468	4,447	1,468
Pacaembu Bauru II - Empreendimento Imobiliário Ltda	99.00%	99.00%	13,718	13,607	8,279	7,709	5,439	5,898	(459)	(119)
Vida Nova Araras - Empreendimento Imobiliário Ltda	99.00%	99.00%	17,097	2,996	10,019	2,423	7,078	573	6,505	(755)
Vida Nova Barretos III - Empreendimento Imobiliário Ltda	99.00%	99.00%	10,638	11,223	7,800	11,109	2,838	114	2,723	(681)
Vida Nova Botucatu - Empreendimento Imobiliário Ltda	99.00%	99.00%	14,215	11,126	13,440	11,340	775	(214)	990	(1,095)
Vida Nova Itapetininga III - Empreendimento Imobiliário Ltda	99.00%	99.00%	11,898	6,463	11,497	6,709	401	(246)	646	(654)
Vida Nova Sao Carlos - Empreendimento Imobiliário Ltda	99.00%	99.00%	10,651	2,422	11,018	2,530	(367)	(108)	(259)	(1,262)
Vida Nova Tatui III - Empreendimento Imobiliário Ltda	99.00%	99.00%	3,157	11	2,783	12	374	(1)	365	(1)
Pacaembu Presidente Prudente - Empreendimento Imobiliário Ltda	99.00%	99.00%	451	262	454	262	(3)	-	(3)	-
Pacaembu Sao Jose do Rio Preto - Empreendimento Imobiliário Ltda	99.00%	99.00%	6,294	509	7,689	1,478	(1,395)	(969)	(435)	(969)
Vida Nova Dignidade 2 Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	102	-	105	-	(3)	-	(3)	-
Vida Nova Araraquara Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	28	-	28	-	-	-	-	-
Vida Nova Rio Preto Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Vida Nova Dignidade 3 Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	23	-	24	-	(1)	-	(1)	-
Vida Nova Ribeirão Preto Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	1	-	(1)	-	(1)	-
Vida Nova Trindade Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	54	-	134	-	(80)	-	(79)	-
Vida Nova Salto de Pirapora Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	22	-	22	-	-	-	-	-
Pacaembu Agua Santa Empreendimento Imobiliário LTDA (i)	99.00%	0.00%	56	-	72	-	(16)	-	(16)	-
Vida Nova Anápolis Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Vida Nova Londrina Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Piracicaba com Viva Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Vida Nova Barretos IV Empreendimento Imobiliário LTDA (i)	99.00%	0.00%	4	-	11	-	(7)	-	(7)	-
Vida Nova Ponta Grossa Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Ourinhos Constante Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Ourinhos Constante 2 Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Bauru Nasralla Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Bauru Nasralla 2 Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Pacaembu Bauru Azevedo Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
Vida Nova Goias II Empreendimento Imobiliário Ltda (i)	99.00%	0.00%	-	-	-	-	-	-	-	-
União do Mandaguari Empreendimento Imobiliário Ltda. (ii)	0.00%	5.07%	1,922	1,951	1,822	1,444	100	507	984	3,556
Veronese Empreendimento Imobiliário Ltda.	50.00%	50.00%	19,119	20,417	12,605	13,778	6,514	6,639	5,143	-
Sol + Lar S.A.	20.00%	20.00%	266	11	216	15	50	(4)	231	(109)

(i) Companies organized in 2020 for the development of real estate projects.

(ii) Equity interest transferred in 2020 to União e Alto do Mandaguari Participações Ltda. corresponding to 2,180,100 units of interest, equivalent to 5.07% of total units of interest.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### c) Changes in investments in equity interest

Interest held in subsidiaries and joint ventures, valued under the equity method, were computed based on the statements of financial position of respective investees at the reporting date.

	<u>Individual</u>	<u>Consolidated</u>
Balances at January 1	153,651	6,464
Future capital contributions	(30,585)	(734)
Dividends received	(26,354)	(6,150)
Capital contribution in subsidiaries	32,139	-
Equity pickup	24,828	2,741
Write-offs/others	(323)	92
Allocation of appreciation of inventories	(103)	-
Balances at June 30, 2020	<u>153,253</u>	<u>2,413</u>

## 8. Loans and financing

Loans and financing are as follows:

	Rate	<u>Individual/Consolidated</u>	
		<u>06/30/2020</u>	<u>12/31/2019</u>
Banco ABC do Brasil (i)	2.65% p.a. + CDI	-	2,311
Banco Safra	0.30% p.m. + CDI	1,858	2,958
Banco ABC do Brasil (ii)	3.00% p.a. + CDI	60,000	-
Banco Itaú (iii)	2.70% p.a + CDI	60,000	-
CRI - Pacaembu Construtora S.A (iv)	0.90% p.a. + CDI	-	1,150
		<u>121,858</u>	<u>6,419</u>
Current		1,858	4,584
Noncurrent		120,000	1,835

#### (i) Banco ABC do Brasil

The Company recorded a cash flow swap transaction including a verification index, in which the interest rate for receivables is 6.5% and the floating interest rate for payables ranges from 6.7% (if the verification index is not achieved) to 6.5% (if the verification index is achieved) to be defined based on the positive or negative range of the US dollar established by contract. The dollar verification index was achieved. As such, until the maturity date of the cash flow swap, the payables rate will be 6.5%; as such, the Company is not subject to the risk of loss, since the interest rates for receivables and payables have the same index. The loan was fully settled in February 2020.

#### (ii) Bank Credit Notes - CCB: refer to the issue of CCB in the amount of R\$60,000, subject to interest of 100% of the CDI - Average CDI rate overnight interbank DI - CETIP, capitalized daily, plus 3.00% per annum. The funds are taken to finance real estate developments. The CCB matures on June 15, 2023.

#### (iii) Bank Credit Notes - CCB: refer to the issue of CCB in the amount of R\$60,000, subject to interest of 100% of the CDI, plus 2.7% per annum. The funds are taken to finance real estate developments. The CCB matures on June 30, 2022.

#### (iv) CRI - Pacaembu Construtora:

In April 2020, the Public Distribution of Certificates of Real Estate Receivables (CRIs) of the 139<sup>th</sup> series of the 1<sup>st</sup> issue ended. The amounts deposited by investors were returned by the Company to the Issuer and by the Issuer to Investors, in the amount of R\$3,142.



## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### Aging list

The aging list of financing as at June 30, 2020 and December 31, 2019 is as follows:

<b>06/30/2020</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Banco Safra	1,122	736	-	-	1,858
Banco Itau	-	30,000	30,000	-	60,000
Banco ABC do Brasil	-	3,158	37,895	18,947	60,000
	<b>1,122</b>	<b>33,894</b>	<b>67,895</b>	<b>18,947</b>	<b>121,858</b>

<b>12/31/2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Total</b>
Banco ABC do Brasil	2,311	-	-	-	2,311
Banco Safra	2,273	685	-	-	2,958
CRI - Pacaembu Construtora S.A.	-	-	1,150	-	1,150
	<b>4,584</b>	<b>685</b>	<b>1,150</b>	<b>-</b>	<b>6,419</b>

### Covenants relating to transactions - Banco Safra and ABC do Brasil

The loans taken out by the parent company and subsidiaries have specific early maturity covenants, all of which provide for early maturity in case the debtor is in default of the contractual obligations and does not achieve certain financial ratios. As at June 30, 2020 and December 31, 2019, the Company was compliant with the covenants relating to early maturity.

### Changes in loans and financing

Changes in loans and financing for the six-month period ended June 30, 2020 is as follows:

	<u>Individual/Consolidated</u>
Balances at January 1, 2020	6,419
(+) New agreements	121,045
(-) Amortization of principal	(3,439)
(-) Return of CRI	(3,142)
(+) Finance charges on loans and financing	1,610
(-) Interest paid	(409)
CRI raising costs	(226)
Balances at June 30, 2020	<u>121,858</u>

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### 9. Trade accounts payable

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Trade accounts payable (i)	<b>10,646</b>	17,381	<b>35,729</b>	22,183
Guarantees payable (ii)	<b>10,036</b>	13,900	<b>11,250</b>	14,031
	<b>20,682</b>	31,281	<b>46,979</b>	36,214
Current	<b>13,974</b>	27,142	<b>40,271</b>	32,075
Noncurrent	<b>6,708</b>	4,139	<b>6,708</b>	4,139

(i) Domestic trade accounts payable are not subject to interest and are usually settled within 120 days.

(ii) Guarantees payable are not subject to interest and are usually settled at an average period of up to 360 days.

### 10. Labor obligations

	Individual		Consolidated	
	06/30/2020	12/31/2019	06/30/2020	12/31/2019
Payroll and management fees	<b>1,252</b>	1,265	<b>1,338</b>	1,276
Accrual for vacation pay	<b>3,584</b>	5,212	<b>3,715</b>	5,243
Accrual for 13 <sup>th</sup> salary	<b>1,299</b>	-	<b>1,349</b>	-
Social Security Tax (INSS)	<b>438</b>	391	<b>499</b>	397
Withholding Income Tax (IRRF)	<b>418</b>	663	<b>420</b>	664
Unemployment Compensation Fund (FGTS)	<b>762</b>	283	<b>790</b>	284
Rewards and bonuses	<b>1,325</b>	393	<b>1,325</b>	393
Other labor obligations	<b>202</b>	2,083	<b>215</b>	2,082
	<b>9,280</b>	10,290	<b>9,651</b>	10,339

### 11. Income and social contribution taxes

#### Reconciliation of the effective rate of income and social contribution taxes

Reconciliation of the income and social contribution tax amounts recorded in P&L and their respective amounts at nominal rates is as under:

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

	Individual			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Income before income and social contribution taxes:	16,129	29,039	54,386	102,906
Income tax at statutory rate - 34%	(5,484)	(9,873)	(18,491)	(34,988)
Effect on differences:				
Permanent effects on special taxation regime (RET) of <i>Minha Casa Minha Vida</i> Program and taxable profit computed as a percentage of gross revenue (" <i>lucro presumido</i> ") of subsidiaries	(1,480)	(3,757)	10,739	9,660
Equity pickup	6,375	8,442	411	17,079
Goodwill amortization	(19)	(35)	(9)	(902)
<i>Minha Casa Minha Vida</i> Program	(285)	2,604	2,597	1,489
Temporary differences	(220)	(356)	(147)	(219)
Income tax expense in P&L (current)	89	(471)	(4,865)	(7,818)
Income tax expense in P&L (deferred)	(1,202)	(2,504)	(35)	(63)
Total income and social contribution tax expenses/income (P&L)	<b>(1,113)</b>	<b>(2,975)</b>	<b>(4,900)</b>	<b>(7,881)</b>
Effective rate	7%	10%	9%	8%

	Consolidated			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Income before income and social contribution taxes:	19,215	33,361	54,833	105,300
Income tax at statutory rate - 34%	(6,533)	(11,343)	(18,643)	(35,802)
Effect on differences:				
Permanent effects on special taxation regime (RET) of <i>Minha Casa Minha Vida</i> Program and taxable profit computed as a percentage of gross revenue (" <i>lucro presumido</i> ") of subsidiaries	2,512	918	10,734	25,356
Equity pickup	324	932	(166)	(198)
Goodwill amortization	(19)	(35)	(9)	(902)
<i>Minha Casa Minha Vida</i> Program	(263)	2,587	2,597	1,489
Temporary differences	(220)	(356)	140	(218)
Income tax expense in P&L (current)	(2,613)	(4,022)	(4,890)	(7,869)
Income tax expense in P&L (deferred)	(1,586)	(3,275)	(457)	(2,406)
Total income and social contribution tax expenses/income (P&L)	<b>(4,199)</b>	<b>(7,297)</b>	<b>(5,347)</b>	<b>(10,275)</b>
Effective rate	22%	22%	10%	10%

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### 12. Provisions

#### a) Provisions for warranty for construction work

	<u>Individual</u>	<u>Consolidated</u>
Balances at December 31, 2019	11,225	11,346
(+) New provisions	827	1,330
(-) Reversals	(2,402)	(2,402)
(-) Payments	(1,335)	(1,335)
Balances at June 30, 2020	<u>8,315</u>	<u>8,939</u>
Current	2,609	2,609
Noncurrent	5,706	6,330

The Company and its subsidiaries grant a limited five-year warranty against defects and corrections in construction works, in compliance with the Brazilian legislation. In order to comply with this commitment, with no impact on future years, and to provide an appropriate balance between revenues and costs for each project under construction, provisions are recorded based on estimates per unit built. This estimate is based on historical average amounts, and is analyzed by Company engineering department and reviewed periodically.

#### b) Provision for contingencies

Based on the information provided by its legal advisors, management analyses ongoing lawsuits and, based on previous experiences referring to the amounts claimed, sets up provisions in amounts deemed sufficient to cover probable losses on ongoing lawsuits, as follows:

	<u>Individual</u>				<u>Total</u>
	<u>Civil claims</u>	<u>Tax claims</u>	<u>Labor claims</u>	<u>Social security claims</u>	
Balances at December 31, 2019	1,006	3,453	1,291	3,484	9,234
Provision for the period	2,341	560	2,800	81	5,782
Reversal in the period	(2,027)	(4)	(2,729)	-	(4,760)
Balances at June 30, 2020	<u>1,320</u>	<u>4,009</u>	<u>1,362</u>	<u>3,565</u>	<u>10,256</u>
	<u>Consolidated</u>				
	<u>Civil claims</u>	<u>Tax claims</u>	<u>Labor claims</u>	<u>Social security claims</u>	<u>Total</u>
Balances at December 31, 2019	1,115	3,453	1,291	3,484	9,343
Provision for the period	2,695	560	2,800	81	6,136
Reversal in the period	(2,136)	(4)	(2,729)	-	(4,869)
Balances at June 30, 2020	<u>1,674</u>	<u>4,009</u>	<u>1,362</u>	<u>3,565</u>	<u>10,610</u>

Provisions for and reversals of contingencies had an impact on tax expenses and other

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

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operating income and expenses in P&L for the year. Provision for civil and social security proceedings refers to contractual settlements and claims relating to construction works and third parties. Provision for tax proceedings mostly refer to payment of PIS and COFINS on finance income, which are deposited in court. In addition, the Company is a party to civil and social security lawsuits, whose likelihood of loss is considered “possible” by the Company legal advisors. As such, these proceedings, amounting to R\$6,511 at June 30, 2020 (R\$1,061 at December 31, 2019) were not recorded in Company financial statements.

### 13. Unearned revenue from sale of real properties and budgeted costs of real properties sold to be recorded – information and commitments

In accordance with paragraphs 20 and 21 of ICPC 02 and with memorandum circular CVM/SNC/SEP No. 02/2018, profit or loss from real estate transactions is allocated based on costs incurred. Accordingly, the balance of accounts receivable from unfinished units sold is reflected in part in the Company’s financial statements, since the recording of these amounts in accounting books reflects the revenue recognized, net of installments already received. Unearned revenue from real estate units sold of projects under construction (unfinished) and the respective costs to be incurred in connection with such real estate units sold are not reflected in the financial statements.

Projects under construction	Individual		Consolidated	
	06/2020	12/2019	06/2020	12/2019
(i) Unearned revenue from units sold				
(a) Revenue from sales made	<b>232,985</b>	415,908	<b>659,642</b>	596,624
(b) Sales revenue recorded, net	<b>200,898</b>	318,432	<b>339,473</b>	343,364
Unearned sales revenue (a-b)	<b>32,087</b>	97,476	<b>320,169</b>	253,260
(ii) Budgeted cost of units sold to be recorded				
Projects under construction:				
(a) Budgeted cost of units (without finance charges)	<b>168,563</b>	296,237	<b>468,699</b>	425,735
(b) Construction costs incurred	<b>(146,634)</b>	(228,385)	<b>(244,454)</b>	(246,160)
(c) Construction costs incurred – finance charges	-	(20)	-	(20)
Budgeted cost to be recorded in P&L (a+b)	<b>21,929</b>	67,852	<b>224,245</b>	179,575
Driver CI/CO (without finance charges)	<b>86.99%</b>	77.10%	<b>52.16%</b>	57.82%
(iii) Budgeted cost to be recorded in inventories				
Projects under construction:				
(a) Budgeted cost of units (without finance charges)	<b>23,964</b>	51,852	<b>182,196</b>	256,123
Costs incurred, net	<b>(8,273)</b>	(25,531)	<b>(25,373)</b>	(32,928)
(b) Construction costs incurred	<b>(8,273)</b>	(25,531)	<b>(25,373)</b>	(32,928)
Budgeted cost to be recorded in inventories without finance charges (a+b)	<b>15,691</b>	26,321	<b>156,823</b>	223,195

Unearned revenue from real properties sold is measured at the nominal amount of contracts, plus contractual adjustments, net of earned revenue installments, and does not contemplate present

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June 30, 2020

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value adjustment and taxes. Budgeted costs of real properties sold to be recorded do not include finance charges, which are allocated to the properties to be sold and to P&L (cost of real properties sold), in proportion to the units sold, to the extent these costs are incurred, and do not include provision for warranty to be allocated to units sold based on the progress of the construction work.

### 14. Equity

#### a) Capital

The Company's capital amounts to R\$263,985 (R\$128,895 at December 31, 2019), divided into 128,894,845 registered common shares with no par value.

On January 9, 2020, the capitalization of the income reserve into the Company's capital in the amount of R\$61,383 was approved, without issue of shares or impact on cash.

On January 13, 2020, the Company shareholders entered into a share purchase and sale agreement and other covenants, to which the Company was only as consenting intervening party. The shareholders sold to Mr. Wilson Amaral de Oliveira (member of the Board of Directors and Chief Executive Officer of the Company) 12,889 shares held by them, representing 10% of the Company's capital, free and clear of any and all encumbrances. The shares were held by the shareholders who sold them to Mr. Wilson Amaral. Therefore, these were not treasury shares of the Company.

At June 30, 2020, the capitalization of the income reserve into the Company's capital in the amount of R\$73,707 was approved, without issue of shares or impact on cash. The shareholder structure as at June 30, 2020 and December 31, 2019 is as follows:

Shareholders	06/30/2020		12/31/2019	
	Shares	Equity interest	Shares	Equity interest
Eduardo Robson de Almeida	52,202,412	40.50%	58,002,680	45.00%
Wilson de Almeida Junior	46,402,144	36.00%	51,557,938	40.00%
Wilson Amaral de Oliveira	12,889,485	10.00%	-	-
Victor Bassan de Almeida	11,600,536	9.00%	12,889,485	10.00%
Fernando Bassan de Almeida	5,800,268	4.50%	6,444,742	5.00%
	<b>128,894,845</b>	<b>100.00%</b>	<b>128,894,845</b>	<b>100.00%</b>

#### b) Legal reserve

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Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

Legal reserve is recorded at 5% of net income computed each year, capped at 20% of capital, and the Company has the option of recording it when the balance of this reserve, plus capital reserve, exceeds 30% of capital.

The Company shall maintain a statutory profits reserve called "Statutory reserve" intended to increase the Company working capital and to fund maintenance, expansion and development of new projects and other activities of the Company's and/or its subsidiaries' core business, including by subscribing capital increases or creating new projects. This reserve will be formed by up to 70% (seventy per cent) of net income for each year and its balance, plus the other income reserves, except unrealized income reserves and reserve for contingencies, may not exceed the Company's subscribed capital. Should the income reserve balance exceed capital, the General Meeting will decide on allocation of the excess amount to capital payment or increase, or to payment of additional dividends to shareholders.

### c) Distribution of profits

The Company's Articles of Incorporation provide for payment of mandatory minimum dividend of 25% of net income for the year, adjusted pursuant to article 22 of Law No. 6404/76.

The Company did not pay dividends in the six-month period ended June 30, 2020 (the Company paid dividends amounting to R\$3,400, i.e. R\$0.05 cents per share, in the six-month period ended June 30, 2019). In the six-month period ended June 30, 2020, the Company paid interest on equity amounting to R\$7,142 (in the six-month period ended June 30, 2019, the Company did not pay interest on equity). The balances of interest on equity payable totaled R\$3,336 at June 30, 2020, presented in current liabilities.

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### 15. Net operating revenue

	Individual				Consolidated			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Revenue from real estate development	68,597	141,941	159,497	256,692	155,473	261,634	161,220	315,163
Taxes on revenue	(2,308)	(4,650)	(5,511)	(9,025)	(5,502)	(9,041)	(5,574)	(11,159)
	<b>66,289</b>	<b>137,291</b>	<b>153,986</b>	<b>247,667</b>	<b>149,971</b>	<b>252,593</b>	<b>155,646</b>	<b>304,004</b>

### 16. Costs and expenses by nature

	Individual				Consolidated			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Expenses by function								
Cost of properties sold	(51,372)	(101,064)	(82,564)	(155,644)	(111,324)	(184,002)	(83,195)	(161,045)
General and administrative expenses	(14,152)	(28,116)	(13,851)	(29,069)	(14,207)	(28,195)	(13,855)	(29,136)
Selling expenses	(1,495)	(4,351)	(6,219)	(12,223)	(6,151)	(14,516)	(6,268)	(12,924)
Tax expenses	(85)	(215)	(362)	(588)	(153)	(312)	(388)	(1,948)
	<b>(67,104)</b>	<b>(133,746)</b>	<b>(102,996)</b>	<b>(197,524)</b>	<b>(131,835)</b>	<b>(227,025)</b>	<b>(103,706)</b>	<b>(205,053)</b>
Construction costs	(47,862)	(96,034)	(76,261)	(148,147)	(107,739)	(178,357)	(79,521)	(156,183)
Services engaged	(3,220)	(6,833)	(4,116)	(8,069)	(3,647)	(7,277)	(4,117)	(8,081)
Commissions	(272)	(1,087)	(1,525)	(4,343)	(1,901)	(3,382)	(1,547)	(4,510)
Expenses with delivery events	(462)	(1,191)	(3,392)	(5,443)	(286)	(1,380)	(3,307)	(5,529)
Other costs/expenses	(4,305)	(8,250)	(5,312)	(7,574)	(4,425)	(8,373)	(2,676)	(4,993)
Bonuses	(1,038)	(1,603)	(218)	(1,718)	(1,038)	(1,603)	(218)	(1,718)
Personnel	(8,616)	(15,848)	(9,238)	(17,574)	(8,620)	(15,854)	(9,238)	(17,574)
Advertising and promotion	(757)	(1,997)	(1,128)	(1,987)	(3,533)	(9,221)	(1,238)	(2,434)
Cost of construction work warranty	(405)	(566)	(926)	(1,237)	(369)	(1,070)	(926)	(1,237)
Taxes and charges	(85)	(215)	(362)	(588)	(153)	(312)	(388)	(1,948)
Expenses with model home	(30)	(102)	(294)	(466)	(71)	(174)	(294)	(466)
Maintenance expenses	(52)	(20)	(224)	(378)	(53)	(22)	(236)	(380)
	<b>(67,104)</b>	<b>(133,746)</b>	<b>(102,996)</b>	<b>(197,524)</b>	<b>(131,835)</b>	<b>(227,025)</b>	<b>(103,706)</b>	<b>(205,053)</b>



## Pacaembu Construtora S.A.

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### 17. Finance income (costs)

	Individual				Consolidated			
	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
Finance income								
Short-term investment income	747	1,765	3,020	6,002	856	2,006	3,367	6,662
Interest	36	110	35	162	2,242	5,027	880	1,304
	<b>783</b>	<b>1,875</b>	<b>3,055</b>	<b>6,164</b>	<b>3,098</b>	<b>7,033</b>	<b>4,247</b>	<b>7,966</b>
Finance costs								
Bank charges	(320)	(553)	(390)	(655)	(804)	(1,351)	(408)	(677)
Interest expenses	(339)	(473)	(106)	(217)	(339)	(473)	(106)	(217)
Other finance costs	(65)	(134)	(7)	(53)	(166)	(377)	(24)	(105)
	<b>(724)</b>	<b>(1,160)</b>	<b>(503)</b>	<b>(925)</b>	<b>(1,309)</b>	<b>(2,201)</b>	<b>(538)</b>	<b>(999)</b>
	<b>59</b>	<b>715</b>	<b>2,552</b>	<b>5,239</b>	<b>1,789</b>	<b>4,832</b>	<b>3,709</b>	<b>6,967</b>

### 18. Earnings per share

Earnings or loss per share is calculated by dividing profit or loss attributable to the Company's shareholders by the weighted average number of shares outstanding in each period presented. The weighted average number of shares is calculated based on the periods in which the shares were outstanding with no dilutive effects.

	04/01/20 to 06/30/20	01/01/20 to 06/30/20	04/01/19 to 06/30/19	01/01/19 to 06/30/19
<b>Basic earnings per share</b>				
Net income for the period	15,016	26,064	49,486	95,025
Weighted average number of outstanding shares	128,894,845	128,894,845	72,500,000	72,500,000
<b>Basic and diluted earnings per share – R\$</b>	<b>0.116</b>	<b>0.202</b>	0.682	1.310

### 19. Segment information

## **Pacaembu Construtora S.A.**

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The Company has only one operating segment (real estate development), in accordance with the rules of NBC TG 22 (R2), which approves Accounting Pronouncement CPC 22 (R2) Segment Information. The Company management analyzes its internal management reports for decision making based on the consolidated financial statements, on the same basis upon which these statements are disclosed, that is, only one segment and region. For that reason, the Company does not present segment information.

Concerning information on major customers, as the Company focus its residential real estate activity on the same economic segment, it has no individual customers that represent more than 10% of consolidated total revenue, and the amounts relating to *Minha Casa Minha Vida* Program are entirely transferred by Caixa Econômica Federal.

### **20. Financial instruments**

The Company senior management supervises the management of such risks. Senior management believes that the activities posing financial risks are governed by adequate policies and procedures and that financial risks are identified, assessed and managed in accordance with the Company's risk policies and the group's risk appetite. The Company follows the policy of not participating in any negotiations involving derivatives for speculative purposes.

a) Interest rate risk

Interest rate risk is related to the possibility of loss due to fluctuations in rates or currency mismatch in its investment portfolios. The index used for short-term investments is the Interbank Deposit Certificate (CDI). The Company's short positions are basically represented by loans and financing, which are based on the fluctuation of the CDI. The Company has conducted market studies and is prepared to assume any mismatches between these indices.

b) Credit risk

The Company and its subsidiaries maintain bank checking accounts and short-term investments with financial institutions approved by management in accordance with the objective criteria (top-tier financial institutions, analysis of charges) for credit risk diversification.

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In order to manage losses on accounts receivable, the Company's policy is to perform analyses on credit, liquidity and financial exposure that may compromise the financial capacity of potential buyers in honoring their commitment of acquiring the properties. These analyses are supported by documentation and an internal analysis model. Detailed information on credit quality of trade accounts receivable is provided in Note 5.

c) Liquidity risk

In the Company's subsidiaries, this risk is mitigated by matching amortization terms and flows between securities issued and guarantees acquired. The Parent Company conducts market funding transactions in order to invest in new projects, in which the future flow of receivables from the sale of units will be the guarantee for the settlement of borrowings.

d) Operational risk

Operational risk relates to direct or indirect losses arising from a variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors, except credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted corporate behavior standards. Operational risks arise from all Company's operations.

The Company's objective is to manage operational risk in order to avoid financial losses and damage to its reputation while seeking cost effectiveness and avoiding control procedures that hamper initiative and creativity.

The main responsibility for developing and implementing controls to address operational risks is incumbent upon senior management within each business unit. This responsibility is supported by the development of the Company's general standards to manage operational risks in the following areas:

- Requirements for appropriate segregation of duties, including independent authorization of operations; requirements for operation reconciliation and monitoring;
- Compliance with regulatory and legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks and adequacy of controls and procedures to address the identified risks;
- Required reporting of operating losses and proposed corrective actions;
- Development of contingency plans;
- Professional training and development;
- Ethical and commercial standards;
- Risk mitigation, including insurance when applicable.

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### e) Sensitivity analysis

The Company conducted a sensitivity analysis of the main risks to which its financial assets and liabilities are exposed, basically represented by fluctuations in interest rates (CDI), Extended Consumer Price Index (IPCA) and Reference Rate (TR). The Companhia considered the CDI projection disclosed by the Brazilian Financial and Capital Markets Association (Anbima) for July 2020 and the IPCA disclosed in *Boletim Focus* of July 2020 for the probable scenario. Scenarios with an increase and decrease by 25% and 50% were calculated on net assets and liabilities. In addition, the Company had R\$403 referring to investments in savings accounts exposed to TR, which presents no risk of oscillation in a stress scenario, reason why we did not conduct a sensitivity test thereon. The probable scenario adopted by the Company corresponds to aforementioned projections, i.e. expectation for CDI. The sensitivity analysis is presented below.

Index	Decrease of 50%	Decrease of 25%	Probable Scenario	Increase of 25%	Increase of 50%
CDI	1.08%	1.61%	2.15%	2.69%	3.23%
IPCA	0.86%	1.29%	1.72%	2.15%	2.58%

Net assets and liabilities	Consolidated					
	Balance at 06/30/2020	Decrease of 50%	Decrease of 25%	Probable Scenario	Increase of 25%	Increase of 50%
CDI	71,890	773	1,159	1,546	1,932	2,318
IPCA	37,691	324	486	648	810	972
<b>Total</b>	<b>109,581</b>	<b>1,097</b>	<b>1,645</b>	<b>2,194</b>	<b>2,742</b>	<b>3,290</b>

	Balances at 06/30/20			
	CDI	IPCA	No index	
Balances in the consolidated financial statements				
Cash and cash equivalents (Note 3.1)	251,192	193,748	-	57,444
Restricted cash (Note 3.1)	43,358	-	-	43,358
Accounts receivable (Note 4)	106,967	-	37,691	69,276
Advance for acquisition of land	26,475	-	-	26,475
Other assets	18,422	-	-	18,422
<b>Total assets subject to financial risks</b>	<b>446,414</b>	<b>193,748</b>	<b>37,691</b>	<b>214,975</b>
Trade accounts payable (Note 9)	46,979	-	-	46,979
Loans and financing (Note 8)	121,858	121,858	-	-
Leases	2,518	-	-	2,518
Other liabilities	3,829	-	-	3,829
<b>Total liabilities subject to financial risks</b>	<b>175,184</b>	<b>121,858</b>	<b>-</b>	<b>53,326</b>
<b>Total assets and liabilities subject to financial risks</b>	<b>271,230</b>	<b>71,890</b>	<b>37,691</b>	<b>161,649</b>

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

(In thousands of reais, unless otherwise stated)

### *Determination of fair value of financial instruments*

The market values reported at June 30, 2020 do not reflect subsequent changes in the economy, such as interest rates, tax rates and other variables that could have an effect on their determination. Specifically regarding disclosure, the Company applies the hierarchy requirements that involve the following aspects:

- Definition of fair value: the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction;
- Three-level hierarchy for measuring fair value, based on observable inputs for valuing an asset or liability at measurement date.

The three-level hierarchy for the measurement of fair value is based on observable and non-observable inputs. Observable inputs reflect market data obtained from independent sources, while non-observable inputs reflect the Company's market assumptions. These two types of input create the fair value hierarchy presented below.

- Level 1 – prices quoted for identical instruments in active markets;
- Level 2 – prices quoted in active markets for similar instruments, prices quoted for identical or similar instruments in non-active markets, and valuation models for which inputs are observable; and
- Level 3 – instruments whose significant inputs are not observable. **Breakdown of the Company financial assets based on hierarchy is as follows:**

	Hierarchy level	06/30/2020	12/31/2019
Assets			
Financial assets measured at fair value through profit or loss – Cash and cash equivalents	2 (a)	<b>193,748</b>	155,931

(a) Fair value through the price quotation of similar financial instruments in non-active markets.

### f) Capital management

The objectives of the Company in managing its capital are to safeguard its ability to continue as a going concern in order to provide returns to its shareholders and benefits to other stakeholders, and to maintain an optimal capital structure to reduce this cost.

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In order to maintain or adjust its capital structure, the Company may revise its policy for payment of dividends, return capital to shareholders, or even issue new shares or sell assets to reduce its indebtedness level, for example.

Consistently with other companies of the same industry, the Company monitors capital based on indebtedness, which corresponds to net debt divided by equity. Net debt, in turn, corresponds to total loans (including short and long-term loans, as disclosed in the consolidated statement of financial position), less cash and cash equivalents, financial assets measured at fair value through profit or loss and restricted accounts. As at June 30, 2020, and December 31, 2019, in accordance with the consolidated financial statements, indebtedness is summarized as follows:

	<u>06/30/2020</u>	<u>12/31/2019</u>
Loans and financing (Note 8)	121,858	6,419
Leases	2,518	3,197
Cash and cash equivalents (Note 3.1)	(251,192)	(188,025)
Restricted cash (Note 3.2)	(43,358)	(5,805)
Net debt	<u>(170,174)</u>	<u>(184,214)</u>
Total equity	300,710	274,646
Total equity and third-party capital	<u>130,536</u>	<u>90,432</u>
Financial leverage ratio - %	<u>106.6%</u>	<u>102.16%</u>

### g) Classification of financial instruments

The Company's financial instruments are classified as follows:

#### *Individual*

	<u>06/30/2020</u>			<u>12/31/2019</u>		
	Amortized cost	Fair value through profit or loss	Total	Amortized cost	Fair value through profit or loss	Total
Cash and cash equivalents	31,965	186,462	218,427	26,381	114,683	141,064
Restricted cash	28,893	-	28,893	3,914	-	3,914
Accounts receivable	23,650	-	23,650	15,249	-	15,249
Advances for acquisition of land	24,275	-	24,275	22,363	-	22,363
Other assets	12,961	-	12,961	16,047	-	16,047
Total financial assets	<u>121,744</u>	<u>186,462</u>	<u>308,206</u>	83,954	114,683	198,637
Loans and financing	121,858	-	121,858	6,419	-	6,419
Trade accounts payable	20,682	-	20,682	31,281	-	31,281
Intercompany loans	83	-	83	11,601	-	11,601
Leases	2,519	-	2,519	3,197	-	3,197
Other liabilities	3,827	-	3,827	2,261	-	2,261
Total financial liabilities	<u>148,969</u>	<u>-</u>	<u>148,969</u>	54,759	-	54,759

## Pacaembu Construtora S.A.

Notes to quarterly information (Continued)

June 30, 2020

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### Consolidated

	06/30/2020			12/31/2019		
	Amortized cost	Fair value through profit or loss	Total	Amortized cost	Fair value through profit or loss	Total
Cash and cash equivalents	57,444	193,748	251,192	32,094	155,931	188,025
Restricted cash	43,358	-	43,358	5,805	-	5,805
Accounts receivable	106,967	-	106,967	70,963	-	70,963
Advances for acquisition of land	26,475	-	26,475	23,648	-	23,648
Other assets	18,422	-	18,422	19,740	-	19,740
<b>Total financial assets</b>	<b>252,666</b>	<b>193,748</b>	<b>446,414</b>	<b>152,250</b>	<b>155,931</b>	<b>308,181</b>
Loans and financing	121,858	-	121,858	6,419	-	6,419
Trade accounts payable	46,979	-	46,979	36,214	-	36,214
Intercompany loans	83	-	83	2,708	-	2,708
Leases	2,518	-	2,518	3,197	-	3,197
Other liabilities	3,829	-	3,829	3,661	-	3,661
<b>Total financial liabilities</b>	<b>175,267</b>	<b>-</b>	<b>175,267</b>	<b>52,199</b>	<b>-</b>	<b>52,199</b>

#### h) Liquidity risk management

The Company and its subsidiaries manage liquidity risk by maintaining reserves and bank lines of credit considered appropriate, by continuously monitoring forecasts and real cash flow, and by combining maturities of financial assets and liabilities.

At June 30, 2020, the Company projected the obligations' undiscounted contractual cash flows, adding contractual interest and the maturity of such obligations to the amortizations, as follows:

At June 30, 2020	Book balance	Within 1 year	1 to 5 years	Total
Loans and financing	121,858	7,249	126,800	134,049
Trade accounts payable	46,979	40,271	6,708	46,979
Leases	2,518	2,418	948	3,366
	<b>171,355</b>	<b>49,938</b>	<b>134,456</b>	<b>184,394</b>

## **Pacaembu Construtora S.A.**

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### **21. Stock option plan**

On January 9, 2020, the Company approved the stock option plan at a Special General Meeting. Such plan regulates the general terms and conditions for granting and exercising stock options for managing officers and employees considered key personnel, which must be approved by the Board of Directors.

On February 12, 2020, the Board of Directors approved the Company's first stock option program, as part of the stock option plan approved at the Special General Meeting. The options have not yet been granted, and the first program and the granting of stock options will be implemented in the second half of 2020 by the Board of Directors.

The main rules of this program address the free granting of stock options to eligible employees, with payment of the strike price after the vesting period, when such option becomes exercisable. The vesting period is 5 years, and at each full year the beneficiary is entitled to exercise 1/5 of the options granted. In addition to the vesting period of 5 years, there is lock-up period of 1 year for each tranche exercised according to the respective vesting period. Such lock-up period corresponds to the fractions of the respective vesting and exercise periods.



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### 22. Insurance

As at June 30, 2020, the Company and its subsidiaries recorded the following insurance contracts:

- (a) Engineering risk – civil construction works, which provide guarantee against all risks involved in the construction of a venture such as fire, theft and performance damages. This type of policy allows additional coverage for risks inherent in the construction work, such as general and joint civil liability, extraordinary expenses, riots, civil liability of the employer, and pain and suffering.
- (b) General and D&O civil liability – The insurance coverage is deemed sufficient by management to cover possible risks to its assets and/or liabilities, as follows:

Summary by type	Coverage	
	Individual	Consolidated
Aircraft insurance	64,258	64,258
Automobile insurance	1,020	1,020
Construction insurance (engineering risks)	2,097,064	2,559,041
Civil liability insurance - D&O	60,000	60,000
Corporate insurance	237,459	238,779
Third-party coverage	660	660
Infrastructure work warranty	146,365	228,997
Construction work completion guarantee	388,841	476,647
Construction work completion insurance – corrective maintenance	50,220	60,298
Performance bond	35,428	47,910