# Vulcabras S.A.

*(formerly Vulcabras Azaleia S.A.)*

**Individual and consolidated financial statements**
**December 31, 2021**

*(A Free Translation of the original report in Portuguese as published in Brazil contain individual and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and IFRS)*

KPDS 988615

# Contents

KPMG Auditores Independentes Ltda.
Ed. BS Design - Avenida Desembargador Moreira, 1300
SC 1001 - 10º Andar - Torre Sul - Aldeota
60170-002 - Fortaleza/CE - Brasil
Telefone +55 (85) 3457-9500
kpmg.com.br

# Independent auditors' report on individual and consolidated financial statements

To the Shareholders of
Vulcabras S.A.
Jundiaí – SP

## Opinion

We have examined the individual and consolidated financial statements of Vulcabras S.A. ("Company"), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2021 and the related Statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other clarifying information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of Vulcabras S.A as of December 31, 2021, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in conformity with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board (IASB).

## Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the following section denominated "Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements." We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles provided for in the Accountant's Code of Professional Ethics and in professional standards issued by the Federal Accounting Council, and we comply with other ethical responsibilities according to these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year. These matters were 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 a separate opinion on these matters.

| Goodwill recoverable amount in business combinations | |
|---|---|
| See Notes 3.10, 14 and 15 to the individual and consolidated financial statements | |
| **Key audit matters** | **How our audit addressed this matter** |
| As disclosed in notes 3.10, 14 and 15, on December 31, 2021, the Company recorded the goodwill paid for expected future profitability in its consolidated intangible assets in the amount of R$ 198,214, arising from the acquisition of businesses. The Company carries out the impairment of goodwill test every year. This process is complex and involves a high level of subjectivity, and it is based on several assumptions, such as the determination of cash generating units, discount rates, projection of inflation, growth percentages, and profitability of business of the Company for the next years. These assumptions will be affected by the market conditions or future economic scenarios, which cannot be precisely estimated. We consider the annual impairment test of goodwill generated from business combinations as one of the key audit matters due to the high degree of subjectivity and complexity in the assumptions and calculations involved, as well as due to the impact that any changes in assumptions could have on the amounts recorded in the individual financial statements based on the impact on investments and on the adoption of the equity method and consolidated financial statements. | Our audit procedures included, among others, the evaluation, assisted by our corporate finance experts, of the model adopted to measure the recoverable value and assumptions, projections and methodologies adopted by the Company, specially those related to estimates of future sales, growth and discount rates used in discounted cash flows and the profit margin of cash generating unit to which goodwill was allocated. Evaluate the adequacy of the disclosures made by the Company on the assumptions used in the impairment calculation, especially those that had the most significant effect on its calculation. Our audit procedures also included assessing the reliability of the information produced by the entity, assessing the flow and design of internal controls.<br><br>As a result of evidence from the procedures summarized above, we consider that the balance of intangible assets related to goodwill generated in business combination is acceptable in the context of individual financial statements due to possible effects in the balance of investments and equity in net income of subsidiaries and consolidated financial statements taken as a whole for the year ended December 31, 2021. |

## Other matters – Statements of added value

Individual and consolidated statements of added value for the year ended December 31, 2021, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures carried out together with the audit of Company's financial statements. To form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

## Other information accompanying individual and consolidated financial statements and the auditors' report

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the other information 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 other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated 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 this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management and governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of individual and consolidated financial statements, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

## Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our purposes are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and to issue audit report containing our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that the audit conducted pursuant to Brazilian and international auditing standards will always detect any existing material misstatements. Misstatements may arise from fraud or error, and are considered material when, individually or in aggregate, may influence, from a reasonable perspective, the economic decisions of users taken based on such financial statements.

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

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' 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.

Fortaleza, March 08, 2022

KPMG Auditores Independentes Ltda.
CRC SP-014428/O-6 S-CE

*Original in Portuguese signed by*
Marcelo Pereira Gonçalves
Accountant CRC 1SP220026/O-3

## Vulcabras S.A.

### Balance sheets

***December 31, 2021 and 2020***

***(In thousands of reais)***

| Assets | Note | Consolidated 12/31/2021 | Consolidated 12/31/2020 | Parent company 12/31/2021 | Parent company 12/31/2020 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 4 | 114,635 | 158,552 | 33 | 18 |
| Interest earning bank deposits | 5 | - | 80,949 | - | 80,949 |
| Trade accounts receivable | 6 | 616,275 | 574,104 | - | - |
| Inventories | 7 | 493,497 | 256,924 | - | - |
| Recoverable taxes | 8 | 46,852 | 18,330 | 576 | 563 |
| Income tax and social contribution | 9a | 7,073 | 5,108 | 746 | 154 |
| Amounts receivable from disposal of operation | | 3,850 | 3,440 | - | - |
| Other trade receivables | | 17,115 | 13,478 | 2,124 | 736 |
| **Total current assets** | | **1,299,297** | **1,110,885** | **3,479** | **82,420** |
| Interest earning bank deposits | 5 | 10,312 | 9,594 | 2 | 2 |
| Trade accounts receivable | 6 | 3,631 | - | - | - |
| Recoverable taxes | 8 | 63,099 | 6,787 | 1,821 | 1,805 |
| Deferred income tax and social contribution | 9b | 493 | 1,359 | - | - |
| Judicial deposits | 10 | 16,005 | 15,080 | 338 | 543 |
| Loans with related parties | 11 | - | - | 118,324 | 120,602 |
| Amounts receivable from disposal of operation | | 1,720 | 5,160 | - | - |
| Assets for sale | | 194 | 194 | - | - |
| Other trade receivables | | 2,208 | 2,702 | 1,299 | 1,537 |
| **Long-term assets** | | **97,662** | **40,876** | **121,784** | **124,489** |
| Investments | 12 | 69,408 | 59,999 | 1,439,905 | 1,115,038 |
| Investment property | | 5 | 2,121 | - | 2,115 |
| Right-of-use | 18 | 17,442 | 15,145 | - | - |
| Property, plant and equipment | 13 | 302,337 | 241,311 | - | 160 |
| Intangible assets | 14 | 209,086 | 208,917 | 111 | 111 |
| | | **598,278** | **527,493** | **1,440,016** | **1,117,424** |
| **Total non-current assets** | | **695,940** | **568,369** | **1,561,800** | **1,241,913** |
| **Total Assets** | | **1,995,237** | **1,679,254** | **1,565,279** | **1,324,333** |

| Liabilities | Note | Consolidated 12/31/2021 | Consolidated 12/31/2020 | Parent company 12/31/2021 | Parent company 12/31/2020 |
|---|---|---|---|---|---|
| Suppliers | 16 | 78,006 | 62,457 | 1,672 | 289 |
| Loans and financing | 17 | 291,497 | 127,894 | - | - |
| Taxes payable | | 8,944 | 11,938 | 130 | 97 |
| Salaries and vacation payable | | 45,618 | 30,105 | 13 | - |
| Provisions | 19 | 22,488 | 22,021 | 418 | 765 |
| Lease liabilities | 18 | 7,129 | 8,343 | - | - |
| Commissions payable | | 14,305 | 16,121 | - | - |
| Deferred income tax and social contribution | 9b | 2,576 | - | - | - |
| Dividends and profits payable | | 4 | - | 4 | - |
| Other trade payables | | 24,337 | 26,296 | 153 | 217 |
| **Total current liabilities** | | **494,904** | **305,175** | **2,390** | **1,368** |
| Loans and financing | 17 | 69,753 | 183,735 | - | - |
| Loans with related parties | 11 | 18,041 | 17,632 | 206,533 | 197,763 |
| Provisions | 19 | 37,390 | 34,542 | - | - |
| Deferred taxes on revaluation of property, plant and equipment | 9b | 2,272 | 2,406 | - | - |
| Lease liabilities | 18 | 12,650 | 10,187 | - | - |
| Provision for loss with investment | 12 | - | - | 135 | 124 |
| Other trade payables | | 3,665 | 183 | - | - |
| **Total non-current liabilities** | | **143,771** | **248,685** | **206,668** | **197,887** |
| **Equity** | | | | | |
| Capital | 20 | 1,106,717 | 1,106,717 | 1,106,717 | 1,106,717 |
| Revaluation reserves | 20 | 4,410 | 4,670 | 4,410 | 4,670 |
| Capital reserves | 20 | 4,731 | 3,034 | 4,731 | 3,034 |
| Legal reserve | 20 | 15,692 | - | 15,692 | - |
| Unrealized profit reserve | 20 | 201,927 | - | 201,927 | - |
| Equity valuation adjustments | 20 | 22,744 | 21,114 | 22,744 | 21,114 |
| Retained earnings (losses) | | - | (10,457) | - | (10,457) |
| **Equity attributable to controlling shareholders** | | **1,356,221** | **1,125,078** | **1,356,221** | **1,125,078** |
| **Non-controlling interest** | | **341** | **316** | **-** | **-** |
| **Total equity** | | **1,356,562** | **1,125,394** | **1,356,221** | **1,125,078** |
| **Total liabilities** | | **638,675** | **553,860** | **209,058** | **199,255** |
| **Total liabilities and equity** | | **1,995,237** | **1,679,254** | **1,565,279** | **1,324,333** |

See the accompanying notes to the individual and consolidated financial statements

**Vulcabras S.A.**

**Statements of profit or loss**

**December 31, 2021 and 2020**

***(In thousands of reais, except net income per share)***

| | | Consolidated | | Parent company | |
|---|---|---|---|---|---|
| | **Note** | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Continued operation** | | | | | |
| **Net sales revenue** | 21 | 1,867,176 | 1,179,227 | - | - |
| Cost of sales and resales | 22 | (1,207,761) | (831,045) | - | - |
| **Gross income** | | **659,415** | **348,182** | **-** | **-** |
| Sales expenses | 23 | (301,398) | (190,482) | - | - |
| Reversal (allowance) for expected losses for doubtful accounts | 23 | 11,929 | (9,593) | - | - |
| Administrative expenses | 24 | (118,135) | (110,561) | (7,703) | (7,262) |
| Other operating revenues (expenses), net | 25 | 70,784 | 797 | 4,867 | 5,434 |
| Equity in net income of subsidiaries | 12b | 3,072 | (2,047) | 317,491 | 33,319 |
| **Income before net financial expenses and revenues and taxes** | | **325,667** | **36,296** | **314,655** | **31,491** |
| Financial revenues | | 88,023 | 46,345 | 7,952 | 871 |
| Financial expenses | | (75,565) | (46,406) | (8,776) | (772) |
| **Net financial revenues and expenses** | 26 | **12,458** | **(61)** | **(824)** | **99** |
| **Income before income taxes** | | **338,125** | **36,235** | **313,831** | **31,590** |
| Deferred income tax and social contribution | 9c | (24,286) | (4,681) | - | - |
| **Net income for the year** | | **313,839** | **31,554** | **313,831** | **31,590** |
| **Profit or loss attributable to:** | | | | | |
| Controlling shareholders | | 313,831 | 31,590 | 313,831 | 31,590 |
| Non-controlling shareholders | | 8 | (36) | - | - |
| **Net income for the year** | | **313,839** | **31,554** | **313,831** | **31,590** |
| **Earnings per share** | | | | | |
| Earnings per common share - basic | | 1.2770 | 0.1285 | | |
| Earnings per common share - diluted | | 1.2606 | 0.1274 | | |
| **Number of shares at the end of the year** | | | | | |
| Outstanding common shares | | 245,756,244 | 245,756,346 | | |
| Outstanding common shares with a dilution effect | | 248,956,244 | 248,016,346 | | |

See the accompanying notes to the individual and consolidated financial statements.

## Vulcabras S.A.

### Statements of comprehensive income

**December 31, 2021 and 2020**

***(In thousands of reais)***

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Income for the year** | 313,839 | 31,554 | 313,831 | 31,590 |
| **Other comprehensive income - OCI** | 1,630 | 4,833 | 1,630 | 4,833 |
| **Items that can be subsequently reclassified to profit (loss)** | | | | |
| Exchange differences from translation of foreign operations | 1,194 | 4,648 | 1,194 | 4,648 |
| Financial assets at fair value through other comprehensive income (FVTOCI) | 436 | 185 | 436 | 185 |
| **Total comprehensive income** | 315,469 | 36,387 | 315,461 | 36,423 |
| **Comprehensive income attributable to:** | | | | |
| Controlling shareholders | 315,461 | 36,423 | 315,461 | 36,423 |
| Non-controlling shareholders | 8 | (36) | - | - |

See the accompanying notes to the individual and consolidated financial statements.

**Vulcabras S.A.**

**Statement of changes in equity - Parent company and Consolidated**

**December 31, 2021 and 2020**

***(In thousands of reais)***

| | Parent company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital** | **Reflected revaluation reserve in subsidiaries** | **Capital reserve** | **Other comprehensive income** | **Legal reserve** | **Unrealized profit reserve** | **Retained earnings (losses)** | **Total** | **Non-controlling interest** | **Total equity** |
| **Balances at January 01, 2020** | **1,106,717** | **5,532** | **1,517** | **16,281** | **-** | **-** | **(42,909)** | **1,087,138** | **290** | **1,087,428** |
| Realization of revaluation reserve in subsidiary, net of taxes | - | (862) | - | - | - | - | 862 | - | - | - |
| Transaction with share-based payments | - | - | 1,517 | - | - | - | - | 1,517 | - | 1,517 |
| **Other comprehensive income** | | | | | | | | | | |
| Exchange differences from translation of foreign operations | - | - | - | 4,648 | - | - | - | 4,648 | 62 | 4,710 |
| Financial assets at fair value through other comprehensive income (FVTOCI) | - | - | - | 185 | - | - | - | 185 | - | 185 |
| Net income for the year | - | - | - | - | - | - | 31,590 | 31,590 | (36) | 31,554 |
| **Balances at December 31, 2020** | **1,106,717** | **4,670** | **3,034** | **21,114** | **-** | **-** | **(10,457)** | **1,125,078** | **316** | **1,125,394** |
| **Balances at January 01, 2021** | **1,106,717** | **4,670** | **3,034** | **21,114** | **-** | **-** | **(10,457)** | **1,125,078** | **316** | **1,125,394** |
| Realization of revaluation reserve in subsidiary, net of taxes | - | (260) | - | - | - | - | 260 | - | - | - |
| Distribution of dividends | - | - | - | - | - | - | (86,015) | (86,015) | - | (86,015) |
| Transaction with share-based payments | - | - | 1,697 | - | - | - | - | 1,697 | - | 1,697 |
| Constitution of the unrealized profit reserve | - | - | - | - | - | 201,927 | (201,927) | - | - | - |
| Constitution of the legal reserve | - | - | - | - | 15,692 | - | (15,692) | - | - | - |
| **Other comprehensive income** | | | | | | | | | | |
| Exchange differences from translation of foreign operations | - | - | - | 1,194 | - | - | - | 1,194 | 17 | 1,211 |
| Financial assets at fair value through other comprehensive income (FVTOCI) | - | - | - | 436 | - | - | - | 436 | - | 436 |
| Net income for the year | - | - | - | - | - | - | 313,831 | 313,831 | 8 | 313,839 |
| **Balances at December 31, 2021** | **1,106,717** | **4,410** | **4,731** | **22,744** | **15,692** | **201,927** | **-** | **1,356,221** | **341** | **1,356,562** |

See the accompanying notes to the individual and consolidated financial statements.

## Vulcabras S.A.

### Statements of cash flows - Indirect method

**December 31, 2021 and 2020**

***(In thousands of reais)***

| | Note | Consolidated 12/31/2021 | Consolidated 12/31/2020 | Parent company 12/31/2021 | Parent company 12/31/2020 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| **Net income for the year** | | 313,839 | 31,554 | 313,831 | 31,590 |
| **Adjustments for:** | | | | | |
| Depreciation and amortization | | 73,192 | 75,948 | 183 | 408 |
| Provision for impairment losses on inventories | 7b | 26,456 | (91) | - | - |
| Interest on provisioned leases | 18 | 1,859 | 2,835 | - | - |
| Net value of written off tangible and intangible assets | | 10,473 | 11,492 | - | - |
| Yields from interest earning bank deposits | | (3,321) | (776) | (2,504) | (27) |
| Provision (reversal) for contingencies | 19 | 10,529 | 7,927 | (16) | 38 |
| Equity in net income of subsidiaries | 12 | (3,072) | 2,047 | (317,491) | (33,319) |
| Transaction with share-based payments | 20c | 1,697 | 1,517 | 1,697 | 1,517 |
| Expected losses for allowance for doubtful accounts | 6d | (11,929) | 9,593 | - | - |
| Gain on settlement of pre-existing relationship | 25 | (13,980) | - | - | - |
| Gain or loss on lease termination | 18 | (308) | (61) | - | - |
| Recovery of PIS and Cofins on ICMS | | (126,080) | - | - | - |
| Loss in the sale of subsidiary | | - | 7,641 | - | - |
| Financial charges and exchange-rate change recognized in income (loss) | | 29,198 | 14,846 | - | - |
| Deferred taxes | 9b | 2,576 | (1,473) | - | - |
| Current tax | 9c | 21,710 | - | - | - |
| Non-controlling interest | | (8) | 36 | - | - |
| | | **332,831** | **163,035** | **(4,300)** | **207** |
| **Changes in assets and liabilities** | | | | | |
| Trade accounts receivable | | (33,403) | (135,741) | - | - |
| Inventories | | (258,117) | (28,344) | - | - |
| Recoverable taxes | | 39,281 | (8,102) | (621) | 256 |
| Deferred taxes | 9b | 732 | - | - | - |
| Amounts receivable from disposal of operation | | 3,030 | - | - | - |
| Other trade receivables | | (3,117) | 9,364 | (1,150) | 582 |
| Judicial deposits | | 12 | 465 | 205 | (4) |
| Suppliers | | 69,151 | 19,894 | 1,383 | (799) |
| Commissions payable | | (1,816) | 2,585 | - | - |
| Taxes and social contributions | | (3,370) | 8,410 | 33 | 14 |
| Salaries and vacation payable | | 15,348 | (9,986) | 13 | (17) |
| Other trade payables | | (6,370) | 11,002 | (64) | 85 |
| Provisions made | | (8,151) | (5,432) | (331) | (131) |
| **Cash generated by (used in) operating activities** | | **146,041** | **27,150** | **(4,832)** | **193** |
| Interest paid | 17d | (25,124) | (5,309) | - | - |
| Payment of lease interest | 17d | (2,183) | (1,760) | - | - |
| Income taxes paid | | (20,363) | (3,617) | - | - |
| | | **(47,670)** | **(10,686)** | **-** | **-** |
| **Net cash flow from (used in) operating activities** | | **98,371** | **16,464** | **(4,832)** | **193** |
| **Cash flow from investing activities** | | | | | |
| Acquisition of property, plant and equipment (*) | 13 | (130,357) | (82,305) | (2) | - |
| Redemption of (investment in) interest earning bank deposits | | 83,552 | (86,961) | 83,453 | (80,922) |
| Fund from the disposal of subsidiary, net of cash | | - | (2,754) | - | - |
| Payment for acquisition of subsidiary | 1,1,2 | (37,273) | - | - | - |
| Funds from disposal of property, plant and equipment | | 1,387 | 949 | - | - |
| Acquisitions of intangible assets | 14 | (2,524) | (2,630) | - | - |
| Increase in investee's interest | 12b | (6,337) | - | (3,641) | (20) |
| **Net cash (used in) from investment activities** | | **(91,552)** | **(173,701)** | **79,810** | **(80,942)** |
| **Cash flow from financing activities** | | | | | |
| Loans obtained - Principal | 17d | 190,098 | 285,779 | - | - |
| Payment of loans obtained - Principal | 17d | (143,617) | (22,378) | - | - |
| Receipt (payments) of loans with related parties | 17d | 409 | 702 | 11,048 | 77,161 |
| Dividends and interest on own capital paid | | (86,011) | - | (86,011) | - |
| Payment of lease liabilities | 17d | (10,261) | (9,794) | - | - |
| **Net cash flow from (used in) financing activities** | | **(49,382)** | **254,309** | **(74,963)** | **77,161** |
| **Increase (decrease) in cash and cash equivalents** | | **(42,563)** | **97,072** | **15** | **(3,588)** |
| Cash and cash equivalents at the beginning of the year | | 158,552 | 62,164 | 18 | 3,606 |
| Effect of changes in exchange rate on cash and cash equivalents | | (1,354) | (684) | - | - |
| Cash and cash equivalents at the end of the year | | 114,635 | 158,552 | 33 | 18 |
| **Increase (decrease) in cash and cash equivalents** | | **(42,563)** | **97,072** | **15** | **(3,588)** |

See the accompanying notes to the individual and consolidated financial statements.

(*) The amount of R$ 1,213 regarding unsettled acquisitions of property, plant and equipment in suppliers did not have a cash effect for the year December 31, 2021.

# Vulcabras S.A.

## Statements of added value

**December 31, 2021 and 2020**

***(In thousands of reais)***

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Revenues** | **2,202,657** | **1,341,725** | **761** | **1,178** |
| Sale of goods, products and services | 2,101,650 | 1,338,711 | - | - |
| Other revenues and expenses | 89,078 | 12,607 | 761 | 1,178 |
| Expected losses for allowance for doubtful accounts | 11,929 | (9,593) | - | - |
| **Inputs acquired from third parties** | **(1,012,023)** | **(663,173)** | **(6,237)** | **(5,396)** |
| Raw materials used | (471,218) | (347,752) | - | - |
| Cost of products and goods sold and services rendered | (301,267) | (100,629) | - | - |
| Materials, energy, outsourced services and other | (239,543) | (214,766) | (6,237) | (5,396) |
| Loss/recovery of asset values | 5 | (26) | - | - |
| **Gross added value** | **1,190,634** | **678,552** | **(5,476)** | **(4,218)** |
| **Retentions** | **(73,192)** | **(75,948)** | **(183)** | **(408)** |
| Depreciation and amortization | (73,192) | (75,948) | (183) | (408) |
| **Net added value generated by the Company** | **1,117,442** | **602,604** | **(5,659)** | **(4,626)** |
| **Added value received as transfer** | **96,692** | **48,408** | **330,500** | **39,211** |
| Equity in net income of subsidiaries | 3,072 | (2,047) | 317,491 | 33,319 |
| Financial revenues | 88,023 | 46,345 | 7,952 | 872 |
| Other | 5,597 | 4,110 | 5,057 | 5,020 |
| **Total added value payable** | **1,214,134** | **651,012** | **324,841** | **34,585** |
| **Distribution of added value** | **1,214,134** | **651,012** | **324,841** | **34,585** |
| **Personnel** | **537,376** | **394,501** | **705** | **829** |
| Direct remuneration | 355,393 | 265,467 | - | - |
| Benefits | 67,823 | 52,118 | - | - |
| FGTS (severance indemnity fund) | 28,486 | 22,241 | - | - |
| Sales commissions | 71,764 | 43,698 | - | - |
| Directors' fees | 13,910 | 10,977 | 705 | 829 |
| **Taxes, rates and contributions** | **294,236** | **185,562** | **1,533** | **1,399** |
| Federal | 252,098 | 154,269 | 1,222 | 1,084 |
| State | 41,244 | 30,303 | - | - |
| Municipal | 894 | 990 | 311 | 315 |
| **Third-party capital remuneration** | **68,683** | **39,395** | **8,772** | **767** |
| Interest | 66,833 | 38,474 | 8,773 | 765 |
| Rentals | 1,850 | 919 | - | - |
| Other | - | 2 | (1) | 2 |
| **Remuneration of own capital** | **313,839** | **31,554** | **313,831** | **31,590** |
| Retained earnings | 313,831 | 31,590 | 313,831 | 31,590 |
| Non-controlling interest | 8 | (36) | - | - |

See the accompanying notes to the individual and consolidated financial statements.

# Notes to the individual and consolidated financial statements

***(In thousands of reais - R$)***

## 1 Operations

Vulcabras Azaleia S.A. is a publicly-held company headquartered in Jundiaí - State of São Paulo (SP), Brazil. Manufacturing operations are concentrated in subsidiaries located in the Northeast region, in the States of Ceará and Bahia. As of April 23, 2021, at the Annual and Extraordinary Shareholders' Meeting, the change of its corporate name was approved, as Vulcabras S.A. ("Company").

The Company has also investments in other companies, and is engaged in trading and production in the domestic and foreign markets of apparel and accessories products, particularly sportswear, male, female and professional footwear, through its direct and indirect subsidiaries:

- Vulcabras CE, Calçados e Artigos Esportivos S.A. (formerly Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.) ("Vulcabras CE") - which has the following subsidiaries:
- Vulcabras SP, Comércio de Artigos Esportivos Ltda. (formerly Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.) ("Vulcabras SP");
- Vulcabras Distribuidora de Artigos Esportivos Ltda. ("Vulcabras Distribuidora");
- Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.;
- Vulcabras BA, Calçados e Artigos Esportivos S.A. (formerly Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.) ("Vulcabras BA");
- Vulcabras Empreendimento Imobiliário SPE Ltda.;
- Globalcyr S.A.;
- Calzados Azaléia Peru S.A.; and
- Running Comércio e Indústria de Artigos Esportivos Ltda.

The brands managed by the companies include:

- **Own brands:** Azaléia, Dijean, Olk, Olympikus, Opanka and Vulcabras.
- **Third parties' brands:** Under Armour and Mizuno.

## 1.1 Relevant events during the year 2021:

### *1.1.1 Impacts of COVID-19 (Coronavirus):*

Even more than a year and a half after the beginning of the COVID-19 pandemic, the effects of measures to combat the pandemic still persist and have impacts on the economy. Due to the advance of vaccination against COVID-19 in all regions of the country led to a positive reaction from the economy and the effects of this reaction were felt by almost all economic segments. Despite the inconvenience caused by the mismatch between the production chains and consumers, the 4th quarter of 2021 was very positive and the Company recorded sales growth, demonstrating an assertive market strategy. However, the Company's Management continues to monitor the developments related to the COVID-19 pandemic, carefully following the guidelines of the Government authorities and measuring the possible impacts on its business. Even in the face of this crisis scenario, the Company does not foresee any going concern risk, nor any risk to the accounting estimates and judgments made.

The Company has been adopting several measures aimed at preserving the health of its employees, clients, suppliers and the community, and where following measures have been implemented:

(i) Establishment of a Crisis Committee in March 2020 for the management of action plans to minimize the impacts of COVID-19. Subsequently, with the resumption of activities and businesses, this work group started being called "Opportunities Committee."

(ii) Containment of personnel expenses: The Company started the year 2021 with the full operation of plants and all other areas of the Company, but due to the worsening of the pandemic and the consequent closure of retail operations in most Brazilian States, which made it impossible to continue delivering products to clients, the Company anticipated vacations for the second fortnight of April that were expected to be granted during the second semester of 2021.

(iii) The budget for 2021 was prepared with an optimistic view considering the robust recovery observed during the second half of 2020, but the Company is prepared to respond quickly to possible changes in scenarios due to the possible worsening of the pandemic. Therefore, in the 1st quarter of 2021, considering the worsening of the pandemic scenario, Capex and marketing budgets were revised, considering a reduction in investments and expenses.

(iv) In 2021, the Company settled R$ 143.6 million of the principal amount of its debt. On the other hand, it contracted another R$ 190.1 million, which resulted in a net increase of R$ 46.5 million, whose funds were used in the working capital expansion, mainly in inventories and accounts receivable.

Also, the Company, based on CVM/SNC Circular Letters No. 02, 03/2020 and 01/2021, analyzed the main risks and uncertainties arising from Covid-19 regarding its individual and consolidated financial statements. We list the main analyzes performed below:

- **Cash and cash equivalents:** The Company does not estimate any relevant risks, as the amounts continue to be held in prime banks (see Note 28), with immediate liquidity and in investments with fixed rates.

- **Inventories** The Company's accounting policy is to record and present its inventory at the lower value between the acquisition average cost and net realizable value. This analysis was carried out on the base date and the impact presented in Note 7.

- **Accounts receivable:** The Company maintains an ongoing analysis of the changes in accounts receivable so that, if necessary, it complements the provision for expected loss. Considering the capillarity of sales distribution and the Company's credit policy, there is no concentration of clients in sales or in the receivables portfolio. The Company's policy of measuring losses with clients is described in Note 6c.

- **Loans and financing:** Since the first impacts of the COVID-19 pandemic, the Company has maintained its financial discipline and sought to reinforce its cash with contributions made through pre-approved credit facilities, prioritizing incentivized operations with extended terms.

- **Intangible assets:** The most relevant intangible assets, susceptible to the effects of the COVID-19 crisis, are as follows: the goodwill of one Under Armor store and the goodwill paid on the acquisition of equity interest. These two assets are tested on an annual basis, either in comparison with the current realization values, in the case of the goodwill, or in the expectation of future profitability of the operations acquired, in the case of goodwill.

- For goodwill, the Company does not believe that there is a need for a new adjustment in the value in accordance with the expected recoverability of such asset,

- For the goodwill paid on the acquisition of ownership interest, although the effects of COVID-19 may adversely affect the Company's future results, there is enough surplus cash to support the fluctuation. In the analysis of the recoverable value of goodwill due to expected future results, arising from business combination processes, carried out on December 31, 2021, obtained an estimated recoverable amount higher than its book value (see Note 15c). It is worth highlighting that in 2021 there was a licensing for the sale of products with the Mizuno brand in Brazil and this resulted in a significant increase in revenues for the Company. When comparing the projected revenue for the last projected year (2031) with the 2022 and 2031 projections, the Company observed that the revenue growth with CAGR (**Compound Annual Growth Rate** reached approximately 6.8%, taking as a base period the revenue realized in the year 2021.

- For the amount recognized in the right-of-use assets, which is linked to the lease agreements for properties destined mainly to the retail stores of the Company's brands operated with restrictions on opening and business hours during a good part of the 1st quarter of 2021. The impacts suffered with the closing of the stores have already been recorded during the 1st semester of 2021, with the flexibility of restrictive measures, their operation was normalized. It is expected that the effects of COVID-19 will still be felt for many months to come, but the Management believes that the greatest impacts took place from April to June 2020.

  In the face of the current scenario, the Company is confident in its solidity, knowing that there are still many challenges ahead regarding consumption and the recovery of the macroeconomic scenario. Although it is still very difficult to predict what will happen, the Company is confident that the strength of its brands, coupled with the flexibility of its business model, will offer the competitive differential that will lead it to overcome this crisis quickly.

### *1.1.2 Mizuno Operation*

In September 2020, the Company announced to the market that it had signed a purchase and sale agreement with Alpargatas S.A. for the acquisition of the Mizuno brand operation in Brazil.

On January 29, 2021, the first phase of the transaction closing took place, involving the merging by its subsidiaries Vulcabras CE, Calçados e Artigos Esportivos S.A. and Vulcabras Distribuidora de Artigos Esportivos Ltda. of the Mizuno brand operations in Brazil, under the terms of the agreements signed with Alpargatas S.A. and Mizuno Kabushiki Kaisha d/b/a Mizuno Corporation.

In common agreement, with the purpose of providing a more efficient transition of the Operation and avoiding any disruption, the parties signed a closing term on January 29, 2021 to establish that the conclusion of the Operation occurred in two phases:

(i) Step 1: As of January 29, 2021, (a) the transfer of all the quotas held by Alpargatas in the company Wave Comércio e Indústria de Artigos Esportivos was carried out. Ltda., which held the assets (mainly inventories) and employees of the Operation that are not related to the Mizuno stores was carried out. Ltda, (b) the assumption by the Subsidiaries of the contractual relationship with Mizuno Corporation, and (c) the other acts of the operation closing, as originally provided for in the contract, except for the transfer of the e-commerce operation and the brand's stores;

Step 2: On March 15, 2021, the Company assumed the Mizuno assets related to the e-commerce operation, but the transfer of stores' assets was postponed until June 30, 2021. On June 30, 2021, the operation was closed with the transfer by Alpargatas to the Company of the full equity interest held by it in the company Running Comércio e Indústria de Artigos Esportivos Ltda., incorporated for the transfer of assets and employees related to the Mizuno stores. The Company performed the asset concentration test and substantive processes in accordance with CPC 15 (IFRS 3) and identified that the transaction involved an acquisition of assets and recorded said transaction. The total value of the operation was R$ 46,939 thousand, of which R$ 37,273 thousand was the net amount disbursed for the acquisition of the assets involved in the operation, mainly composed of inventories and property, plant and equipment. The gains incurred in the settlement of the pre-existing relationship are disclosed in Note 25.

As of January 29, 2021, the Master Distributor and License Agreement signed between the Company and Mizuno Corporation became effective, through which the Company will (i) develop and produce products of the "Mizuno" brand, including footwear, clothing and accessories, and (ii) distribute "Mizuno" brand products in national territory until December 2033.

Mizuno is a brand with a worldwide presence, with strong recognition in the running category, with a broad portfolio of high performance products for athletes of all levels. Within Vulcabras' strategy, Mizuno products will complement the Company's product portfolio, positioning itself at the top of the price pyramid, reaching specific audiences that other brands cannot.

### *1.1.3 Opening of a new Distribution Center*

In the second half of March 2021, the Company started Mizuno's e-commerce operation from the new Distribution Center in the investees Vulcabras SP, Comércio de Artigos Esportivos Ltda. and Vulcabras Distribuidora de Artigos Esportivos Ltda. located in the city of Extrema, State of Minas Gerais, consolidating the DTC (Direct to Consumer) logistics operation and the distribution of products purchased from third parties (imported and domestic) of the three brands (Olympikus, Under Armor and Mizuno), thus bringing more efficiency and better service levels for the business.

### *1.1.4 Partial spin-off - Running Comércio e Indústria de Artigos Esportivos Ltda.*

On August 31, 2021, there was a partial spin-off of the subsidiary Running Comércio e Indústria de Artigos Esportivos Ltda. (spun-off company) and subsequent merger by the subsidiary Vulcabras CE, Calçados e Artigos Esportivos S.A. (company resulting from the spin-off) after approval at the Extraordinary General Meeting ("EGM"). The net assets transferred are presented below:

| **In thousands of Reais** | **R$** |
|---|---|
| Current assets | 55,560 |
| Current liabilities | (1,990) |
| **Spun-off net assets** | **53,570** |

## 1.2 List of subsidiaries

The consolidated financial statements include the information of the Company and its following direct and indirect subsidiaries, with the following percentage interest on the balance sheet date:

| | | **% Direct interest** | | **% Indirect interest** | | **% Total interest** | |
|---|---|---|---|---|---|---|---|
| | **Country** | **2021** | **2020** | **2021** | **2020** | **2021** | **2020** |
| Vulcabras CE, Calçados e Artigos Esportivos S.A. | Brazil | 99.99 | 99.99 | - | - | 99.99 | 99.99 |
| Vulcabras SP, Comércio de Artigos Esportivos Ltda. | Brazil | - | - | 100 | 100 | 100 | 100 |
| Vulcabras Distribuidora de Artigos Esportivos Ltda. | Brazil | 0.14 | 0.22 | 99.86 | 99.78 | 100 | 100 |
| Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. | Brazil | - | - | 100 | 100 | 100 | 100 |
| Globalcyr S.A. | Uruguay | 1.55 | 1.55 | 98.45 | 98.45 | 100 | 100 |
| Vulcabras BA, Calçados e Artigos Esportivos S.A. | Brazil | - | - | 99.99 | 99.99 | 99.99 | 99.99 |
| Calzados Azaleia de Colômbia Ltda. (*) | Colombia | - | - | - | 100 | - | 100 |
| Calzados Azaleia Peru S.A. | Peru | - | - | 99.11 | 99.11 | 99.11 | 99.11 |
| Vulcabras Empreendimento Imobiliário SPE Ltda. | Brazil | 100 | - | - | - | 100 | - |
| Running Comércio e Indústria de Artigos Esportivos Ltda (*) | Brazil | - | - | 100 | - | 100 | - |

(*) In August 2021, the partial spin-off of Running Comércio e Indústria de Artigos Esportivos Ltda and subsequent merger by the subsidiary of Vulcabras CE,Calçados e Artigos Esportivos S.A and Calzados Azaleia de Colômbia Ltda. discontinued its operations in December 2021.

## *a. Main characteristics of subsidiaries included in consolidation*

*Vulcabras CE, Calçados e Artigos Esportivos S.A.*
Vulcabras CE, Calçados e Artigos Esportivos S.A. is the company responsible for the manufacture and development of sports shoes. It is engaged in the production, sale, import and export in general of shoes and sport gear.

*Vulcabras SP, Comércio de Artigos Esportivos Ltda.*
Vulcabras SP, Comércio de Artigos Esportivos Ltda. is engaged in the trading and distribution of footwear, sports apparel and accessories.

*Vulcabras Distribuidora de Artigos Esportivos Ltda.*
Vulcabras Distribuidora de Artigos Esportivos Ltda. is responsible for the sale and distribution of sports shoes and apparel.

*Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.*
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. is engaged in sale and distribution of sports shoes and apparel and boots for professional use.

*Globalcyr S.A.*
Globalcyr S.A. has as corporate purpose the trade and distribution of footwear. Its operations are currently shutdown.

*Vulcabras BA, Calçados e Artigos Esportivos S.A.*
Vulcabras BA, Calçados e Artigos Esportivos S.A is a Brazilian shoes manufacturer, mainly engaged in the manufacture, sale, import and export of sports shoes, women's shoes and boots for professional use.

*Calzados Azaleia Peru S.A.*
Calzados Azaleia Peru S.A. is responsible for the import and sale of shoes and sport gear and women's shoes in the Peruvian market.

*Calzados Azaleia de Colômbia Ltda.*
Calzados Azaleia de Colômbia Ltda. is responsible for the import and sale of shoes and sport gear and women's shoes in the Colombian market. Operations were discontinued in December 2021.

*Wave Comércio e Indústria de Artigos Esportivos Ltda.*
Wave Comércio e Indústria de Artigos Esportivos Ltda. is responsible for commercial representation for the sale of footwear, clothing and sporting goods, on its own account or for third parties. In August 2021, the merger of Wave Comércio e Indústria de Artigos Esportivos Ltda. was approved by its parent company Vulcabras CE.

*Running Comércio e Indústria de Artigos Esportivos Ltda.*
Running Comércio e Indústria de Artigos Esportivos Ltda. is responsible for the sale of footwear, apparel and sports accessories under the Mizuno brand.

*Vulcabras Empreendimento Imobiliário SPE Ltda.*
Vulcabras Empreendimento Imobiliária SPE Ltda. is a company engaged in the planning, promotion, real estate development and sale of a real estate projects, to be developed in the property located in the City of Jundiaí, State of São Paulo.

# 2 Basis of preparation and presentation of financial statements

## 2.1 Statement of compliance (in relation to IFRS standards and CPC standards)

The individual and consolidated financial statements were prepared in accordance with the International Financial Reporting System ("IFRS") issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil (BR GAAP).

The conclusion of financial statements was authorized by the Board of Directors on March 08, 2022.

All material information proper to the financial statements, and only it, is being evidenced, and corresponds to those used by Management for administration.

### *Functional and presentation currency*

These individual and consolidated financial statements are being presented in Reais, functional currency of the Company. The financial statements presented in Reais have been rounded to the nearest value, except otherwise indicated. The companies abroad have the USD and the Colombian Peso as their functional currency, and the balance sheets were translated to Brazilian reais for reporting purposes.

## 2.2 Use of estimates and judgments

The preparation of these financial statements, Management used judgments, estimates and assumptions that affect the application of accounting policies of the Company, and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a continuous basis. Reviews of estimates are recognized on a prospective basis.

### *a. Judgments*

Information about judgment referring to the adoption of accounting policies which impact significantly the amounts recognized in the financial statements are included in the following notes:

- **Note 3.1.b -** Equity in net income in investees: determines if the Company has significant influence over an investee;

- **Note 3.1.e –** consolidation: determine if the Company in fact holds control over an investee;

- **Note 18 -** Lease term: if the Company and its subsidiaries are reasonably certain of exercising extension options.

### *b. Uncertainties on assumptions and estimates*

Information on uncertainties as to assumptions and estimates as of December 31, 2021 that pose a high risk of resulting in a material adjustment in book balances of assets and liabilities in the next fiscal year are included in the following notes:

- **Note 6** – Accounts receivable: measurement of estimated credit loss for accounts receivable:

- **Note 7** - Inventories: recognition of losses in inventories without movement;

- **Note 15** - Impairment test of non-financial assets, main assumptions regarding recoverable values;

- **Note 19** – Recognition and measurement of provisions for lawsuits: key assumptions regarding the likelihood and magnitude of an outflow of resources.

## 2.3 Fair value measurement

A number of the Company and its subsidiaries' accounting policies and disclosures requires the measurement of fair value to financial assets and liabilities.

The Company and its subsidiaries establish a control structure related to measurement of fair value.

The Management periodically reviews non-observable data considered significant and valuation adjustments. If third-party information, such as brokerage firm quotes or pricing services, is used to measure fair value, Management analyzes evidences obtained from the third parties to support the conclusion that such valuations meet the requirements of CPC/IFRS standards, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring fair value of an asset or liability, the Company and its subsidiaries use market observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets and liabilities.

- **Level 2:** inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

- **Level 3:** inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

The Company and its subsidiaries recognize transfers between fair value hierarchic levels at the end of the financial statements period in which changes occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- **Note 28** - Financial instruments.

### 2.4 Measuring basis

The financial statements were prepared based on the historical cost, except for debt securities at FVTOCI which are measured at fair value and financial assets measured at fair value through profit or loss and other financial liabilities measured at fair value.

## 3 Significant accounting policies

The Company and its subsidiaries have adopted the accounting policies described below have been consistently applied to all the years presented in these financial statements, unless otherwise indicated.

### 3.1 Consolidation basis

#### *a. Business combination*

Business combinations are recorded using the acquisition method when the set of activities and acquired assets addresses the definition of a business and the control is transferred to the Company and its subsidiaries. When determining whether a set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes at least an input and a substantive process that, together, contribute significantly to the ability to generate an output.

The Company has the option of adopting a "concentration test" that allows a simplified assessment if a set of acquired activities and assets is not a business. The optional concentration test is met if, substantially, the full fair value of the acquired gross assets is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred is usually measured at fair value, as well as the identifiable net assets acquired. Any goodwill arising from the transaction is annually tested for evaluation of impairment. Gains in a bargain purchase are immediately recognized in income (loss). Transaction costs are recorded in income (loss) as incurred, except the costs related to the issuance of debt or equity instruments.

Transferred consideration does not include amounts referring to payment of pre-existing relations. These amounts are usually recognized in income (loss) for the year.

Any contingent consideration payable is measured at its fair value on acquisition date. If the contingent consideration is classified as an equity instrument, it is not remeasured and the liquidation is recorded in equity. The remaining contingent consideration is remeasured at fair value on each reporting date, and subsequent changes in fair value are recorded in the statement of profit and loss for the year.

#### *b. Subsidiaries*

The Company controls an entity when it is exposed to, or has a right over the variable returns arising from its involvement with the entity and has the ability to affect those returns exerting its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements as from the date that the Company starts to be controlled by the Company until such control ceases.

The financial information of subsidiaries is recognized under the equity method in the individual financial statements of the parent company.

***c. Non-controlling interest***

The Company and its subsidiaries chose to measure non-controlling interests at their proportion interest in identifiable net assets of the acquiree on the acquisition date.

Changes to the Company's interest in a subsidiary that do not result in loss of control are accounted for as transactions from equity.

***d. Loss of control***

When the entity loses control over a subsidiary, the Company derecognizes the assets and liabilities and any non-controlling interest and other items recorded in the equity related to this subsidiary. Any gain or loss resulting from loss of control is recognized in income. If the Company holds any in interest in former subsidiary, this interest is measured at fair value on the date control is lost.

***e. Investments in entities are accounted for at the equity method.***

The Company's investments in entities accounted for at the equity method include interests in associated companies.

Associated companies are the entities in which the Company has, directly or indirectly, significant influence but not control or jointly-control on financial and operating policies.

These investments are initially recognized at cost, which includes transaction expenditures. After initial recognition, financial statements include the Company's interest in net income or loss for the year and other comprehensive income of the investee up to the date in which significant influence or joint control no longer exists. In the Parent Company financial statements, investments in subsidiaries are also accounted for using this method.

***f. Transactions eliminated in the consolidation***

Intragroup balances and transactions, and any unrealized revenues or expenses derived from intragroup transactions, are eliminated. Unrealized gains originating from transactions with investees recorded using the equity method are eliminated against the investment in the proportion of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

## 3.2 Translation of balances in foreign currencies

***(i) Transactions in foreign currency***

Transactions in foreign currency are converted into the respective functional currencies of the entities of the Company and its subsidiaries at foreign exchange rates on transaction dates.

Monetary assets and liabilities denominated and calculated in foreign currencies on the balance sheet date are reconverted into the functional currency at the exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date the fair value was determined. Non-monetary items that are measured based on the historical cost in foreign currency are translated using the rate of the transaction date. Exchange differences arising from the translated are recognized in income (loss).

### *(ii) Foreign operations*

Foreign operations' assets and liabilities, including goodwill and adjustments to fair value resulting in the acquisition, are translated into reais (R$) at the exchange rate prevailing on balance sheet date. Foreign transactions' revenues and expenses are translated into reais (R$) at exchange rates prevailing on transaction dates.

The differences in foreign currencies generated for the translation into the presentation currency are recognized in other comprehensive income and accumulated in the equity valuation adjustments in equity account. If the subsidiary is not a wholly-subsidiary, the corresponding portion of the translation difference is allocated to the non-controlling stockholders.

When an entity abroad is written-off in whole or in part, thus losing control, significant influence or joint control, the accumulated amount of exchange-rate changes related to that entity abroad is reclassified to profit or loss as part of the gain or loss on the write-off.

## 3.3 Revenue from contracts with customers

Revenue is measured based on the consideration specified in the contract with the client. A The Company and its subsidiaries recognize the revenue when the control over the product is transferred to the client. In this context, the revenue is recognized when products are delivered and accepted by the clients in their facilities.

For sales that allow the return of goods, the revenue is recognized to the extent that it is highly likely that a significant reversal in the value of accumulated revenue will not occur.

Therefore, the value of the recognized revenue is adjusted for the expected returns, which are estimated based on historical data for specific types of returns.

## 3.4 Employee benefits

### *a. Short-term employee benefits*

Obligations for short-term employee benefits are recognized as personnel expenses as the related service is provided. Liability is recognized for the amount of expected payment in case the Company and its subsidiaries have a legal or constructive obligation of paying this amount due to service provided in the past by the employee and the obligation can be estimated reliably.

### *b. Agreement for share-based payment*

The fair value of share-based payment agreements is recognized at the grant date, as personnel expenses, with a corresponding increase in equity, over the period when employees become unconditionally entitled to the premiums. The amount recognized as an expense is adjusted to reflect the actual number of awards for which the related service and performance conditions will be met, so that the amount ultimately recognized as an expense is based on the number of awards meeting these performance conditions at vesting date.  For share-based payment awards with non-vesting conditions, the fair value at grant date of share-based payment is measured to reflect such conditions and no further adjustments are made for differences between expected and actual results.

The fair value of the amount payable to the employees in relation to stock appreciation rights, which are payable in cash, is recognized as an expense, with a corresponding increase in liability over the period the employees become unconditionally entitled to the benefits. The liability is measured again at each balance sheet date and at settlement date based on the fair value on stock appreciation rights. Any changes in the fair value of the liability are recognized in the income (loss) as personnel expenses.

## 3.5 Government grant

Government grants and assistance are recognized when there is reasonable assurance that the terms and conditions set forth by the government agencies. They are recorded as deduction of revenue in income (loss) for the year necessary to confront them with the expense that the government grant or assistance intends to offset.

## 3.6 Financial revenues and expenses

Financial revenues and expenses comprise:

- Interest revenue;
- Interest expense;
- Net gains/losses from financial assets measured at fair value through profit or loss;
- Exchange-rate change on financial assets and liabilities.

Interest revenue and expenses are recognized in income (loss) at the effective interest method.

The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- gross book value of financial asset; or
- amortized cost of financial liabilities.

In the calculation of interest revenue or expenses, the actual interest rate is levied on the gross book value of the assets (when the assets have no recovery issues) or at amortized cost of liabilities. However, interest revenue is calculated by applying the actual interest rate at amortized cost of financial assets with recovery issues after the initial recognition. If the asset is no longer credit-impaired, the calculation of interest revenue reverts to the gross basis.

## 3.7 Taxes

### *a. Sales tax*

Revenues, expenses and assets not recognized, net of taxes levied on sales, except for:

- When the net value of the sales tax, recoverable or payable, is included in the amounts receivable and payable in the balance sheet.

Non-cumulative revenues from sales of goods is taxed at the rates of 1.65% and 7.60% for PIS and COFINS, respectively. ICMS tax is paid at the rates in force in each State. Furthermore, the Company also pays social security contribution at a rate of 1.5%.

### b. *Income tax and social contribution*

Current and deferred income taxes and social contribution for the year are calculated based on rates of 15%, with additional 10% on taxable income exceeding R$ 240, for income tax, and 9% on taxable income for social contribution on net income, and consider offset of tax losses and negative basis of social contribution, limited to 30% from taxable income for the year.

Income tax and social contribution expense comprises both current and deferred income tax and social contribution. Current taxes and deferred taxes are recognized in income (loss) unless they are related to the business combination, or items directly recognized in equity or other comprehensive income.

#### (i) *Current*

Current tax expense is the tax payable or receivable on the taxable income or loss for the year and any adjustments to taxes payable in relation to prior years.

The amount of current taxes payable or receivable is recognized in the balance sheet as tax asset or liability at the best estimate of the expected amount of taxes payable or receivable that reflects the uncertainties related to its determination, if any. It is measured based on tax rates enacted on the balance sheet date.

Current tax assets and liabilities are offset only if certain criteria are met.

#### (ii) *Deferred assets*

Deferred income tax and social contribution are recognized on the differences generated between assets and liabilities recognized for tax purposes and corresponding amounts recognized in the consolidated financial statements.

The Company also recognizes deferred corporate income tax and social contribution on tax losses and social contribution tax loss carryforwards, whose offsetting is limited to 30% of annual taxable income.

However, the deferred income tax and social contribution are not recognized if generated in the initial record of assets and liabilities in operations that do not affect the calculation bases, except in business combination operations. Deferred income tax and social contribution are determined considering rates (and laws) prevailing on consolidated financial statements preparation date and applicable when respective income tax and social contribution are realized.

Deferred income tax and social contribution assets are recognized only in the proportion of the probability that the positive taxable base will be available and temporary differences can be used for it and the tax losses may be offset.

## 3.8 Inventories

Inventory is valued based on the historical cost of acquisition and production, or at the net realizable value, whichever is lower. The cost of inventories is determined by the weighted average cost criteria and includes all acquisition and transformation costs and other costs incurred to bring inventories to current condition and location.

In case of industrialized, in process and finished products, inventory includes general manufacturing expenditures based on the normal capacity of production.

Net realizable value is formed by estimated sales price, throughout the normal course of business less estimated costs for its completion and estimated sales expenditures. Estimated losses from slow-moving or obsolete inventories are formed when considered necessary by Management.

## 3.9 Property, plant and equipment

### *(i) Recognition and measurement*

Property, plant and equipment is stated at historical cost less the respective depreciation and impairment losses, if applicable.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets constructed by the own Company itself include:

- The cost of materials and direct labor;
- Any other costs attributable to bringing the assets to the location and condition required for them to operate in the manner intended by the Management;
- The costs for dismantling and restoration of the site where these assets are located; and
- Loan costs on qualifiable assets.

Other expenditures are capitalized only when there is an increase in the future economic benefits to the item of property, plant and equipment. All other expenditures are recognized in the statement of profit or loss as an expense when incurred. Residual value and estimated useful life of assets are measured and adjusted, if necessary, on the year closing date.

Purchased software that can be integral to the functionality of a piece of equipment is capitalized as part of that equipment.

Gains and losses on disposal of a property, plant and equipment item (determined by comparing the proceeds from disposal with the book value of property, plant and equipment) are recognized in other operating revenues/expenses in income (loss).

### *(ii) Subsequent expenditures*

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company. Maintenance expenditures and recurring repairs are recorded in income (loss).

### *(iii) Depreciation*

Fixed asset items are depreciated under the straight-line method in the income (loss) for the year in the useful life of each component based on the rates mentioned in Note 14. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset unless it is reasonably certain that the Company and its subsidiaries will obtain ownership at the end of the lease term. Land is not depreciated.

## 3.10 Intangible assets and goodwill

### *(i) Goodwill*

The goodwill is measured at cost, less accumulated impairment losses.

### *(ii) Research and development*

Research and development expenditures are recognized in income (loss) as incurred.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company and its subsidiaries intend to and has sufficient resources to complete development and use or sell the asset.

Other development expenditures are recognized in the income (loss) as incurred. After the initial recognition, capitalized development expenditures are measured at cost less accumulated amortization and any accumulated impairment losses.

### *(iii) Other intangible assets*

Other intangible assets acquired by the Company and its subsidiaries with finite useful lives are carried at cost, less accumulated amortization and any accumulated impairment losses.

### *(iv) Subsequent expenditures*

Subsequent expenditures are capitalized only when they increase the future economic economic benefits incorporated to the specific asset to which they relate. All other expenditures, including expenditures on internally-generated goodwill and trademarks and patents, are recognized in the income (loss) as incurred.

### *(v) Amortization*

The useful life of the intangible asset is evaluated as defined or undefined. The cost of intangible assets acquired in a business combination is the fair value on acquisition date.

Intangible assets with undefined useful life are not amortized and have their recoverable value tested on an annual basis. Intangible assets with a defined useful life are amortized over their useful lives.

Estimated useful life is reviewed at the end of each year. The amortization expense of intangible assets with defined life is recognized in the statement of profit or loss in the caption of expense consistent with the function of the intangible assets.

## 3.11 Financial instruments

### *(i) Recognition and measurement*

Trade accounts receivable and debt securities issued are initially recognized on the date that they were originated. All other financial assets and liabilities are initially recognized when the Company and its subsidiaries become a party to the instrument's contractual provisions.

A financial asset (unless it is trade accounts receivable without a material financing component) or a financial liability is initially measured at fair value, plus, for an item not measured at FVTPL (fair value through profit or loss), transaction costs which are directly attributable to its acquisition or issue. Trade accounts receivable without a significant financing component is initially measured at the price of operation.

### *(ii) Classification and subsequent measurement*

*Financial assets*
In the initial recognition, a financial asset is classified as measured: at cost Amortized, at FVTPL (fair value through other comprehensive income) - debt instrument, at FVTOCI - equity instrument; or financial assets at FVTPL

Financial assets are not reclassified after initial recognition, unless the Company and its subsidiaries change the business model for the management of financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period subsequent to the change in the business model.

A financial asset is measured at amortized cost if it meets both conditions below and is not designated as measured at FVTPL:

- It is held within a business model whose purpose is to maintain financial assets to receive contractual cash flows; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVTOCI if it meets both conditions below and is not designated as measured at FVTPL:

- It is maintained within a business model whose purpose is achieved by both the receipt of contractual cash flows and the sale of financial assets; and

- Its contractual terms generate, on specific dates, cash flows which are only payments of principal and interest on outstanding principal value.

In the initial recognition of an investment in an equity instrument not held for trading, the Company and its subsidiaries may irrevocably choose to present subsequent changes in the fair value of the investment in other comprehensive income (“OCI”). This choice is made on an investment basis.

All financial assets not classified as measured at amortized cost as described above or at FVTOCI, are classified as FVTPL.

*Financial assets - Evaluation of business model*

The Company and its subsidiaries and its subsidiaries carry out an evaluation of the purpose of the business in which a financial asset is held in the portfolio, since this better reflects the way in which the business is managed and the information is provided to management. The information considered includes:

- The stated policies and objectives established for the portfolio and operation of those policies in practice. They include the question of whether management's strategy focuses on obtaining contractual interest revenue, maintaining a certain interest rate profile, matching the duration of financial assets with the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets;

- How the performance of the portfolio is evaluated and reported to the management of the Company and its subsidiaries;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- The sales rate, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales expectations.

*Financial assets – evaluation whether the contractual cash flows represent solely payments of principal and interest*

For the purpose of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as a consideration for the amount of cash at the time and for the credit risk associated to the outstanding principal value during a certain period and for other risks and base costs of loans (for example, liquidity risk and administrative costs), as well as for the profit margin.

The Company considers the contractual terms of the instruments to assess whether the contractual cash flows are solely payments of principal and interest. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- Contingent events that would change the amount or timing of cash flows;

- Terms that may adjust the contractual coupon rate, including variable-rate features;

- Prepayment and extension features; and

- Terms that limit the Company's claim to cash flows of specified assets (e.g. non-recourse features).

*Financial assets - Subsequent measurement and gains and losses*

- **Financial assets at FVTPL** - These assets are subsequently measured at fair value. Net income (loss), plus interest, is recognized in income (loss).

- **Financial assets at amortized cost** - These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is impaired. Interest revenue, foreign exchange gains and impairment losses are recognized in the income (loss). Any gain or loss on derecognition is recognized in income (loss).

- **Equity instruments measured at FVTOCI -** These assets are subsequently measured at fair value. Interest revenue calculated using the effective interest method, foreign exchange gains and losses and impairment loss are recognized in income (loss). Other net profit (loss) is recognized in OCI. In derecognition, the retained earnings in OCI are reclassified to the income (loss).

*Financial liabilities – classification, subsequent measurement and gains and losses*
Financial liabilities were classified as measured as amortized cost. A financial liability is classified as measured at fair value through profit or loss if it is classified as held-for-trading it is a derivative or it is designated as such on initial recognition.

Financial liabilities measured at FVTPL are measured at fair value and net income (loss), plus interest, is recognized in income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

### *(iii) Derecognition*

*Financial assets*
The Company derecognizes a financial asset when:

- Contractual rights to the cash flows of the asset expire; or

- Transfers the rights to the reception of contractual cash flows on a financial asset in a transaction that:

- Substantially all the risks and rewards of ownership of the financial asset are transferred; or

- The Company neither transfers nor retains all of the risks and rewards of the ownership and it does not retain control over the financial asset.

The Company carries out transactions in which it transfers assets recognized in the balance sheet, but retains all or substantially all risks and rewards of the assets transferred. In such cases, financial assets are not derecognized.

*Financial liabilities*
The Company and its subsidiaries derecognize a financial liability when its contractual obligations are discharged or canceled or expired. The Company and its subsidiaries also derecognize a financial liability when terms are modified, and the cash flows of the modified liability are substantially different if a new financial liability based on the terms changed is recognized at fair value.

In the derecognition of a financial liability, the difference between the extinct book value and the consideration paid (including assets transferred that do not pass through the cash or assumed liabilities) is recognized in the income (loss).

***(iv) Offset***
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when the Company and its subsidiaries have a legally exercisable right to offset and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

## 3.12 Capital

***Common shares***
Common shares are classified as equity. Additional costs directly attributable to the issue of shares and share options are recognized as a deduction from equity, net of any tax effects.

## 3.13 Impairment

***(i) Non-derivative financial assets***
The Company and its subsidiaries recognize provisions for expected credit losses on financial assets measured at amortized cost.

The Company and its subsidiaries measure the provision for loss in an amount equal to credit loss expected for the whole life time.

When determining if the credit risk of a financial asset has significantly increased since the initial recognition and when estimating expected credit losses, the Company and its subsidiaries consider reasonable and tolerable information that is relevant and available without excessive cost or effort. This includes quantitative and qualitative information and analysis, based on the historical experience, credit assessment, and considering forward-looking information.

The Company and its subsidiaries assume that a financial asset has significantly increased if it:

- It is very unlikely that the debtor will fully pay its credit obligations, without having to resort to actions like the realization of guarantee (if any); or

- Financial asset is overdue for more than 90 days.

On each reporting date, the Company evaluates whether the financial assets accounted for at amortized cost and are experiencing recovery problems. A financial asset has “recovery problems” when one or more events with a negative impact on the estimated future cash flows of the financial asset occur.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulties of the debtor;
- Delinquency or late payment of more than 90 days;
- Restructuring of an amount owed to the Company at conditions that the Company would not accept under normal conditions;
- The probability that the borrower will enter bankruptcy or will go through other type of financial reorganization or court-ordered reorganization; or
- The disappearance of an active market for a security because of financial difficulties.

### *(ii) Non-financial assets*

On each reporting date, the Company and its subsidiaries review book values of non-financial assets to determine if there is an indication of impairment. If certain evidence exists the recoverable amount of the asset is determined. In case of goodwill, recoverable value is tested on an annual basis.

For impairment tests, assets are grouped into the cash generating units (CGUs), that is, smallest identifiable group of assets that can generate cash inflows by continuous use, which are highly independent from cash inflows referring to other assets or cash generating units. Goodwill from business combinations is allocated to cash generating units or groups of cash generating units that are expected to benefit combination synergy.

Recoverable value or CGU of an asset is the higher of value in use and fair value less selling costs. Value in use is based on estimated future cash flows discounted to present value using a discount rate before taxes that reflects current market evaluations of times value of money and the specific risks of the assets or CGU.

An impairment loss is recognized when the book value of an asset or its CGU exceeds its recoverable value.

Impairment losses are recognized in profit or loss.

An impairment loss related to goodwill is not reversed. Regarding other assets, impairment losses are reversed only with the condition that the new book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

## 3.14 Provisions

Pursuant to CPC 25 (IAS 37), provisions are recognized when the Company has a present obligation (legal or unformalized), as a result of a past event, and it is likely that an outflow of funds involving economic benefits will be necessary to settle the obligation, and a reliable estimate of the amount of this obligation can be made. If the effect of the time value of money is material, provisions are discounted using the current rate that reflects the specific risks for the liability, where appropriate. When the discount is made, the increase in the provision due to the lapse of time is recognized as a financial cost.

## 3.15 Leases

At the inception of an agreement, the Company and its subsidiaries evaluate whether the agreement is for or contains a lease.

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### *(i) As a lessee*

At the inception or amendment of an agreement containing a lease component, the Company and its subsidiaries allocate the lease consideration to each lease and non-lease component based on its individual prices. However, for leases of real estate, the Company and its subsidiaries have chosen to not separate non-lease components and lease and non-lease components are calculated as a single component.

The Company and its subsidiaries recognize a right-of-use asset and a lease liability on the lease inception date. The right-of-use asset is initially measured at cost, which comprises the value of initial measurement of the lease liability adjusted to any lease payments made to the initial date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee to disassemble and remove the underlying asset, by returning it to the place where it is located or returning the underlying asset to the state required under the lease terms and conditions, less any lease incentives received accordingly.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the inception date, and discounted using the interest rate implied in the lease or, if that rate cannot be immediately determined, the incremental loan rate of the Company and its subsidiaries.

The Company and its subsidiaries set its incremental rate on loans by obtaining interest rates from a number of external funding sources and making some adjustments to reflect the agreement terms and the type of leased asset.

Lease payments included in the measurement of lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments based on an index or rate, initially measured based on the index or rate at the initial date;

- Amounts expected to be paid by the lessee, in accordance with the residual value guarantees; and

- The call option strike price if the lessee is reasonably certain to exercise such option, and payments of fines due to termination of the lease agreement, if the term of the lease reflects the fact that the lessee is exercising their option to terminate the lease agreement.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when a change occurs in future lease payments as a result of a change in an index or rate, if there is a change in the amounts expected to be paid in accordance with the residual value guarantee, if the Company and its subsidiaries change its assessments if they exercise a call option, extend or terminate it, or if there is a payment of a initially fixed revised lease.

When the lease liability is thus remeasured, an adjustment corresponding to the book value of the right-of-use asset is made or recorded in income (loss) if the right-of-use asset is reduced to zero.

The Company and its subsidiaries record right-of-use assets that fall outside the definition of investment property in "property, plant and equipment" and lease liabilities in "loans and financing" in the balance sheet.

*Low-value asset leases*
The Company and its subsidiaries opted not to recognize the assets of right-of-use and the lease liabilities for low-value lease assets and short-term lease, including IT equipment. The Company and its subsidiaries recognize payments of those leases as an straight-line method expense during the lease term.

## 3.16 Statements of added value

The Company prepared individual statements of added value in compliance with CPC 09, which are presented as part of the financial statements under BRGAAP applicable to publicly-held companies. The consolidated statement of added value is not required under international accounting standards issued by the IASB and is being presented as supplementary information.

## 3.17 Fair value measurement

Fair value is the price that would be received upon the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants on the measurement date, on the primary market or, in the absence thereof, on the most advantageous market to which the Company and its subsidiaries have access on such date. Fair value of a liability reflects its risk of not being performed.

A series of accounting policies and disclosures of the Company and its subsidiaries requires the measurement of fair value, for financial and non-financial assets and liabilities (See Note 2.2(b)).

When available, the Company and its subsidiaries measure the fair value of a security using the price quoted on an active market for such securities. A market is considered as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no price quoted on an active market, the Company and its subsidiaries use valuation techniques that maximize the use of relevant observable data and minimize the use of unobservable data. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a purchase price and a selling price, the Company and its subsidiaries measure assets based on purchase prices and liabilities based on selling prices.

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price – i.e., the fair value of the consideration given or received. If the Company and its subsidiaries determine that the fair value at initial recognition differs from the transaction price and the fair value is not evidenced by a price quoted on an active market for an identical asset or liability or based on an evaluation technique for which any non-observable data are judged to be insignificant in relation to measurement, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value at the initial recognition and the transaction price. That difference is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out, whichever occurs first.

### 3.18 New standards and interpretations not yet effective

The following changed standards and interpretations should not have a significant impact on individual and consolidated financial statements.

- Onerous Contracts - Costs to fulfill a contract (amendment to CPC 25/IAS 37), with effectiveness scheduled for January 1, 2022.
- Deferred taxes related to assets and liabilities arising from a single transaction (amendment to CPC 32/IAS 12), with estimated effectiveness on January 01, 2023.
- Rental concessions related to COVID-19 (amendment to CPC 06/IFRS 16), to become effective on July 01, 2021.
- Annual review of IFRS 2018-2020 standards.
- Property, Plant and Equipment: Revenues before intended use (amendments to CPC 27/IAS 16), with effectiveness scheduled for January 1, 2022.
- Reference to the Conceptual Framework (amendments to CPC 15/IFRS 3)
- Classification of Liabilities in Current or Non-Current (Amendments to CPC 26/IAS 1) to become effective on January 01, 2023.
- IFRS 17 - Insurance Contracts.
- Disclosure of accounting policies (amendment to CPC 26/IAS 1 and IFRS Practice Statement 2)
- Definition of accounting estimates (amendment to CPC 23/IAS 8).

# 4 Cash and cash equivalents

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Current account | 4,760 | 2,197 | 5 | 3 |
| Post-fixed CDB (Invest Fácil) | 2,751 | 10,183 | 28 | 15 |
| Post-fixed CDB | 101,465 | 133,494 | - | - |
| Investment Funds | 713 | - | - | - |
| Cash and cash equivalents abroad | 4,946 | 12,678 | - | - |
| | **114,635** | **158,552** | **33** | **18** |

Balance of checking account is represented by bank deposits without interest accrual.

Interest earning bank deposits classified as cash equivalents consist of short-term investments, with daily liquidity, which can be redeemed at any time regardless of maturity, without forfeiting the yield.

Interest earning bank deposits accruing interest on the bank account balance (Invest Fácil and Investment Funds) are made automatically according to the availability of bank balance and the redemptions occur according to the immediate cash requirements of the Company and its subsidiaries. Profitability is from 5% to 40% of the CDI - Interbank Deposit Certificate as of December 31, 2021 (from 10% to 40% of the CDI - Interbank Deposit Certificate as of December 31, 2020).

Floating-rate CDBs (Bank Deposit Certificate) are remunerated from 98.0% to 100.50% of CDI as of December 31, 2021 (from 97.0% to 101.25% of CDI as of December 31, 2020). See Note 28 on credit risk exposure.

# 5 Interest earning bank deposits

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Interest earning bank deposits - Domestic: | | | | |
| Floating-rate CDB (*) | 5,005 | 85,784 | - | 80,949 |
| Investment funds – fixed income | 4,413 | 4,301 | 2 | 2 |
| Share investment funds | 894 | 458 | - | - |
| | **10,312** | **90,543** | **2** | **80,951** |
| Current | - | 80,949 | - | 80,949 |
| Non-current | 10,312 | 9,594 | 2 | 2 |

(*) The reduction is due to the redemption of the investment for the payment of interim dividends approved in the MINUTES of September 8, 2021.

Floating-rate CDBs (Bank Deposit Certificate) have no liquidity since they are linked to guarantees for financing contracts (BNB) and are remunerated at 98.0% of CDI (98.0% of CDI as of December 31, 2020).

Investments in fixed income investment funds in the amount of R$ 4,413 (R$ 4,301 as of December 31, 2020) are remunerated from 28% to 46% of CDI as of December 31, 2021 (from 70% to 120.5% of CDI as of December 31, 2020), no liquidity since they are pegged to guarantees of financing contracts (BNB).

Equity investment funds in the amount of R$ 894 (R$ 458 as of December 31, 2020) are financial assets measured at fair value through other comprehensive income. The shares were valued according to the B3 quotation on the date of these financial statements.

# 6 Trade accounts receivable

## a. Breakdown of balances

| | Consolidated | |
|---|---|---|
| **Accounts receivable** | **12/31/2021** | **12/31/2020** |
| Domestic: | | |
| Clients | 629,540 | 594,927 |
| Foreign: | | |
| Clients | 25,440 | 29,706 |
| Subtotal trade accounts receivable | 654,980 | 624,633 |
| Impairment losses | (35,074) | (50,529) |
| Total trade accounts receivable, net | 619,906 | 574,104 |
| Current | 616,275 | 574,104 |
| Non-current | 3,631 | - |

## b. By maturity

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Falling due (days):** | | |
| 01–30 | 194,604 | 143,662 |
| 31–60 | 191,466 | 171,540 |
| 61–90 | 138,199 | 123,248 |
| >90 | 90,996 | 140,547 |
| | 615,265 | 578,997 |
| **Overdue (days):** | | |
| 01–30 | 5,129 | 5,250 |
| 31–60 | 578 | 616 |
| 61–90 | 624 | 454 |
| >90 | 33,384 | 39,316 |
| | 39,715 | 45,636 |
| | 654,980 | 624,633 |

The exposure of the Company and its subsidiaries to credit risk is influenced, mainly, by the individual characteristics of each client. However, management also considers the factors that may influence the credit risk of its client base, including the risk of non-payment of the industry, sales and of the country in which the client operates.

Details on gross sales in the foreign and domestic market, are disclosed in Note 21. The Management understands that the amount that better represents its maximum exposure to credit risk for the year ended December 31, 2021 is R$ 35,074 (R$ 50,529 as of December 31, 2020), which derives from the criteria mentioned in item (c).

## c. Measurement criteria of losses with clients (impairment)

The analysis of the credit granting to the customers is made when he/she is registered in the system of the Company and its subsidiaries, for which there is a requirement related to all necessary documentation, including financial statements and commercial references. The credit limit is revalued at each posting of new orders, due to the seasonality of the financial market.

In addition to the individual analysis of each client in default, the Company and its subsidiaries use a matrix of provision to calculate the expected loss on accounts receivable. The provision rates applied are based on arrears for groupings of segments of clients with similar loss patterns, such as, for example, by geographic region, line of product or type of client, credit risk, among other.

The provision matrix is initially based on the historical loss rates observed by the Company and its subsidiaries. The Company and its subsidiaries review the matrix on a forward-looking basis in order to adjust it according to historical loss experience. For example, if there is expectation of deterioration of economic conditions for the following year, which could cause increase of default, the expected loss rates are adjusted, when deemed necessary. In every accounting closing date, the loss rates are updated and the need of changes in the prospective estimates is assessed.

The criteria used to form impairment losses is the same for the portfolio of domestic and foreign clients.

The Company and its subsidiaries carry out an individual analysis of each client. For clients under court-ordered reorganization, the Company has a policy of provisioning the amount of 40% for the expected loss of the outstanding balance for clients with a financial restructuring profile and for those who do not have the same profile, 100% is applied on the outstanding balance.

## d. Changes in provision for impairment

Changes in provision for impairment losses in the year ended December 31, 2021 and December 31, 2020 are shown below:

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Opening balance** | (50,529) | (42,078) |
| Supplement of provision (*) | (4,831) | (21,410) |
| Reversal for credit assignment (**) | 8,604 | - |
| Write-offs | 3,526 | 1,142 |
| Recovery of provisions | 8,156 | 11,817 |
| **Closing balance** | (35,074) | (50,529) |

(*) In the year ended December 31, 2021, compared to the year of 2020, the Company recorded a decrease in the provision complement, which was due to the increase in 2020, because of expected default derived from the pandemic.

(**) On June 30, 2021, the Company carried out credit assignments with trade notes already provisioned as losses that were under court-ordered reorganization, with no impact on income due to the reversal of the provision for expected credit losses and financial discounts of the operation.

Considering the capillarity of sales distribution and the Company's credit policy, the concentration of clients in sales or in the receivables portfolio is lower than 10%. Thus, at the end of the year as of December 31, 2021, there was no significant change in the participation or concentration in the main clients due to the effects of the COVID-19 pandemic (see Note 1.1.1).

The exposure of the Company and its subsidiaries to credit and currency risks and impairment losses related to trade accounts receivable and other accounts are disclosed in Note 28.

# 7 Inventories

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Finished products | 113,212 | 28,418 |
| Good for resale | 178,131 | 95,142 |
| Work in progress | 42,862 | 28,139 |
| Raw material | 105,311 | 67,242 |
| Packaging and storeroom materials | 24,283 | 20,865 |
| Goods in transit | 22,148 | 15,269 |
| Imports in progress | 5,456 | 1,849 |
| Other | 2,094 | - |
| | 493,497 | 256,924 |

The significant increase is due to the increase in sales, entry of a new brand and safety inventories of raw materials.

### a. Measurement criteria of provision (impairment)

The Company's subsidiaries, based on a historical analysis and estimate of losses, form a provision for losses in the realization of inventories. An allowance was set up for 100% of the raw materials and work in progress inventories without movement for over 180 days. All items of the finished products and goods for resale inventory were valued and an allowance was set up for potential losses due to the perspectives of sale of each of them, with an allowance for all the items that presented negative contribution margin.

As of December 31, 2021, the provision for losses for finished products and resales is R$ 8,904 (R$ 6,578 as of December 31, 2020), the provision for losses on raw materials is R$ 16,368 (R$ 21,197 at December 31, 2020) and the provision for losses for work in process is R$ 3,252 (R$ 3,908 as of December 31, 2020).

The amount of raw material, labor, and indirect manufacturing costs used in the breakdown of costs of products sold is R$ 908,490 as of December 31, 2021 (R$ 647,734 as of December 31, 2020).

### b. Changes in provision (impairment)

Changes in provision for losses in the realization of inventory in the year ended December 31, 2021 and December 31, 2020 are shown below:

| | **Consolidated** | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Opening balance** | (31,683) | (40,235) |
| Additions/Reversals for the year | (26,456) | (17,362) |
| Low | 29,615 | 25,914 |
| **Closing balance** | **(28,524)** | **(31,683)** |

## 8 Recoverable taxes

| | **Consolidated** | | **Parent company** | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| ICMS (value added tax) | 7,211 | 9,707 | 20 | 20 |
| IPI | 1,214 | 514 | - | - |
| PIS/COFINS * | 95,809 | 9,683 | - | - |
| FINSOCIAL | 2,377 | 2,359 | 1,821 | 1,805 |
| Reintegra | 517 | 460 | - | - |
| Other | 2,823 | 2,394 | 556 | 543 |
| | **109,951** | **25,117** | **2,397** | **2,368** |
| Current | 46,852 | 18,330 | 576 | 563 |
| Non-current | 63,099 | 6,787 | 1,821 | 1,805 |

(*) The relevant increase in PIS and COFINS credits arise from lawsuits claiming ICMS Exclusion from PIS and COFINS calculation basis recorded throughout 2021.

The Company has other lawsuits in different instances, but none with characteristics to be accounted for at this time.

# 9 Income tax and social contribution

## a. Income tax prepayment

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Income tax prepayment | 7,073 | 5,108 | 746 | 154 |
| | **7,073** | **5,108** | **746** | **154** |

## b. Deferred income tax and social contribution on temporary differences

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Temporary differences during the year** | | |
| Revaluation of property, plant and equipment | (2,272) | (2,406) |
| Deferred income tax and social contribution - Domestic | (2,576) | - |
| Deferred income tax - foreign subsidiary | 493 | 1,359 |
| **Deferred income tax and social contribution on temporary differences** | **(4,355)** | **(1,047)** |
| Total deferred income tax and social contribution in assets | 493 | 1,359 |
| Total deferred income and social contribution tax liabilities | (4,848) | (2,406) |

## c. Income tax and social contribution - deferred and current

Deferred and current income tax and social contribution in the consolidated income (loss). As shown in Note 9d. The rate used to calculate the tax was 34%:

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Current income tax and social contribution | (21,710) | (4,681) |
| Deferred income tax and social contribution | (2,576) | - |
| | (24,286) | (4,681) |

## d. Reconciliation of effective tax rate

| | Consolidated | |
|---|---|---|
| | IRPJ / CSLL | |
| | **12/31/2021** | **12/31/2020** |
| **Income before income tax and social contribution** | 338,124 | 36,235 |
| Income tax and social contribution at a rate of 34% | 114,962 | 12,320 |
| Non-deductible expenses | 4,848 | 2,713 |
| Tax incentives - State **(a)** | (52,749) | (40,286) |
| Incentive to technological innovation | (8,361) | - |
| IRPJ incentive | (5,945) | - |
| Offsetting of tax loss and negative basis | (16,167) | (1,742) |
| Other additions | 8,476 | 5,095 |
| Non-taxable revenues | (4,035) | (2,430) |
| Restatement of undue tax payments | (7,350) | - |
| Other | (11,968) | 29,011 |
| Expense with income tax and social contribution | 24,287 | 4,681 |
| Current | 21,711 | 4,681 |
| Deferred | 2,576 | - |
| **Effective rate (b)** | 7.18% | 12.92% |

**(a)** See description of tax benefits in Note 30.

**(b)** Effective rate on income before income tax and social contribution.

## e. Tax losses to be offset

The Company and its subsidiaries Vulcabras CE, Calçados e Artigos Esportivos S.A., Vulcabras BA, Calçados e Artigos Esportivos S.A. and Vulcabras Distribuidora de Artigos Esportivos Ltda., have significant tax incentives that considerably reduce their capacity to offset any deferred income tax credits. Management is constantly monitoring the renewal of tax incentives. The Company and its subsidiaries do not record the deferred income tax and social contribution on tax losses. As of December 31, 2021 and December 31, 2020, the parent company and its subsidiaries had tax losses to be utilized for offset, related to the following base amounts:

| | 12/31/2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Vulcabras CE, Calçados e Artigos Esportivos S.A** | **Vulcabras BA, Calçados e Artigos Esportivos S.A.** | **Vulcabras Distribuidora de Artigos Esportivos Ltda.** | **Vulcabras SP, Comércio de Artigos Esportivos Ltda.** | **Running, Comércio e Indústria de Artigos Esportivos Ltda.** | **Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.** | **Vulcabras S.A.** | **Total** |
| Tax losses calculated on 12/31/2021 | 314,055 | 613,812 | 73,889 | 340,958 | 142 | 39,265 | 146,149 | 1,528,270 |
| Negative basis of social contribution on 12/31/2021 | 1,127,399 | 625,834 | 73,889 | 340,958 | 142 | 39,265 | 148,264 | 2,355,751 |

| | 12/31/2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.** | **Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A.** | **Vulcabras Distribuidora de Artigos Esportivos Ltda.** | **Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda.** | **Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.** | **Vulcabra s Azaleia S.A.** | **Total** |
| Tax losses calculated on 12/31/2020 | 362,622 | 622,101 | 80,736 | 329,364 | 35,104 | 142,326 | 1,572,253 |
| Negative basis of social contribution on 12/31/2020 | 1,162,515 | 634,122 | 80,736 | 329,364 | 35,104 | 144,441 | 2,386,282 |

Compensation of income tax losses and negative basis of social contribution tax may be offset against a maximum of 30% of annual taxable income earned from 1995 onwards, with no statutory limitation period.

# 10 Judicial deposits

The Company and its subsidiaries have judicial deposits related to civil, labor and tax lawsuits (Note 19), as shown below:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Judicial deposits | | | | |
| Civil | 65 | 487 | - | 20 |
| Labor | 13,944 | 14,593 | 222 | 402 |
| Tax | 1,996 | - | 116 | 121 |
| **Total** | **16,005** | **15,080** | **338** | **543** |

## a. Labor

Labor lawsuits refer mainly to requests related to overtime, salary equivalence, health hazard premium, hazardous duty premium, moral damages and occupational illness.

Labor judicial deposits refer mostly to amounts deposited in connection with lawsuits and are related to extraordinary appeals, motions to review, security deposits and online pledges of part of amounts contained in ongoing labor lawsuits.

## b. Civil

Civil lawsuits are mostly related to requests for indemnity in general for property damages and pain and suffering, and also requests related to alleged manufacturing defects. Civil judicial deposits are related to these lawsuits, made to guarantee the discussion of the amounts claimed.

## c. Tax

The tax judicial deposits refer to the lawsuits in which the Company and its subsidiaries are defendants, mainly involving the following taxes: IRPJ, COFINS, PIS, ICMS.

# 11 Related-party transactions

The main balances of assets and liabilities as of December 31, 2021 and December 31, 2020, as well as the transactions that influenced income (loss) for the period, relating to operations with related parties, result from transactions of the Company with its subsidiaries in Colombia, Brazil and Peru besides loan transactions with subsidiaries.

Loan agreements are restated at the DI-CETIP rate.

## a. Parent company and final parent company

The Company's parent company is Gianpega Negócios e Participações S.A. The ultimate parent company is Mr. Pedro Grendene Bartelle.

## b. Transactions with parent company

The transactions between the parent company and its subsidiaries, which are eliminated for consolidation purposes, were carried out under conditions and terms agreed between the parties, as follows:

| | Vulcabras CE | Vulcabras Distribuidora | Vulcabras BA | 12/31/2021 | 12/31/2020 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans - subsidiaries | - | 118,324 | - | 118,324 | 120,602 |
| **Liabilities** | | | | | |
| Loan agreement with subsidiaries (*) | 157,288 | - | 49,245 | 206,533 | 197,763 |
| | | | | **12/31/2021** | **12/31/2020** |
| **Income (loss)** | | | | | |
| Financial income (loss) | (6,679) | 5,262 | (2,091) | (3,508) | (161) |

(*) Loan agreements are restated at 100% of CDI rate and have no incidence of Tax on Financial Operations (IOF), pursuant to Decree 10.504/2020. The agreements are effective for five years.

## c. Transactions between subsidiaries

### *Vulcabras CE, Calçados e Artigos Esportivos S.A. and subsidiaries*

The subsidiary Vulcabras CE, Calçados e Artigos Esportivos S.A. carries out transactions with its subsidiaries involving purchase and sale transactions and loans to cover temporary cash requirements, which are subject to charges related to changes in the CDI rate, and are comprised as follows:

| | **Globalcyr** | **Running** | **Wave** | **Calzados Azaleia Peru.** | **Vulcabras SP** | **Vulcabras Distribuidora** | **Vulcabras BA** | **Distribuidora Cruzeiro do Sul** | **12/31/2021** | **12/31/2020** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Accounts receivable | - | 2,941 | - | 1,350 | 42,851 | 49,989 | 736 | 5 | 97,872 | 42,443 |
| Other credits | - | - | - | - | 541 | 1,579 | 3,352 | - | 5,472 | 2,569 |
| **Liabilities** | | | | | | | | | | |
| Accounts payable | - | - | - | - | - | 1,090 | 473 | - | 1,563 | 150 |
| Other debits | - | - | - | - | - | - | - | - | - | 19 |
| **Income (loss)** | | | | | | | | | **12/31/2021** | **12/31/2020** |
| Financial income (loss) | 104 | - | 8 | - | - | - | - | - | 112 | (8) |
| Intercompany sale | - | 2,941 | - | 8,772 | 30,779 | 225 | 19,587 | 732 | 63,036 | 47,723 |
| Intercompany purchase | - | - | - | - | - | (5,867) | (16,858) | (3,195) | (25,920) | (5,562) |

Related party balances are eliminated for the purpose of consolidated presentation. The main type of the transactions is the purchase and sale of shoes and apparel.

## d. Management remuneration

At the Annual Shareholders' Meeting held April 23, 2021, the Company established the annual overall remuneration of the Directors at up to R$ 13,962. In the year ended December 31, 2021, the Company paid Directors' fees totaling R$ 13,910 (R$ 10,977 as of December 31, 2020).

The Company's directors have no loans, advances or other transactions than their normal services with the Company and its subsidiaries.

As of December 31, 2021 and December 31, 2020, the Company and its subsidiaries did not pay the key management personnel in relation to the categories: a) Long-term benefits; b) Benefits on termination of employment contract; and c) share-based payment

### e. Other related party transactions

Vulcabras CE, Calçados e Artigos Esportivos S.A. through its indirect subsidiary Vulcabras BA, Calçados e Artigos Esportivos S.A. has loan payable to Brisa Indústria de Tecidos Tecnológicos S.A. in the amount of R$ 18,041 as of December 31, 2021 (R$ 17,632 as of December 31, 2020), remunerated at 4% p.a. and 2.20% p.a. (4% p.a. and TJLP + 2% p.a. as of December 31, 2020) (Note 17).

## 12 Investments

### a. Breakdown of balance

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 12/31/2021 | 12/31/2020 | 12/31/2021 | 12/31/2020 |
| Permanent equity interests, net of losses: | | | | |
| In subsidiaries | - | - | 1,439,905 | 1,115,038 |
| In associated companies | 62,792 | 59,720 | - | - |
| Other investments | 6,616 | 279 | - | - |
| Investments | 69,408 | 59,999 | 1,439,905 | 1,115,038 |
| Provision for loss with investment | - | - | (135) | (124) |
| **Total** | **69,408** | **59,999** | **1,439,770** | **1,114,914** |

The subsidiary Vulcabras BA, Calçados e Artigos Esportivos S.A. holds an interest of 50% as of December 31, 2021 (50% as of December 31, 2020) in the associated company PARS Participações Ltda., which holds 100% as of December 31, 2021 (100% as of December 31, 2020) of Brisa Indústria de Tecidos Tecnológicos S.A. Considering that the Company only has significant influence, this investment is not consolidated in the financial statements under the terms of CPC 36 (R3) / IFRS 10 - Consolidated Statements.

The Company, through its subsidiaries Vulcabras BA and Vulcabras CE, acquired interests of 14% and 19%, respectively, as of September 30, 2021, as other investments in the company Ventos de São Mizael Holding S.A. in the amount of R$ 6,337.

### b. Changes in investments

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 12/31/2021 | 12/31/2020 | 12/31/2021 | 12/31/2020 |
| Opening balances | 59,999 | 62,046 | 1,114,914 | 1,076,742 |
| Equity in net income of subsidiaries | 3,072 | (2,047) | 317,491 | 33,319 |
| Exchange differences from translation of foreign operations | - | - | 1,194 | 4,648 |
| Investment acquisition (Note 12a) | 6,337 | - | 5,700 | - |
| Financial assets at fair value through other comprehensive income | - | - | 436 | 185 |
| Increase in investee’s interest | - | - | 35 | 20 |
| Closing balances | 69,408 | 59,999 | 1,439,770 | 1,114,914 |

## c. Information on direct interest - Parent company

| | Vulcabras CE, Calçados e Artigos Esportivos S.A. | | Vulcabras Distribuidora de Artigos Esportivos Ltda. | | Globalcyr S.A. | | Vulcabras Empreendimentos Ltda. | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Total assets | 1,951,194 | 1,550,825 | 316,490 | 205,833 | 2 | 2 | 2,094 | - | - | - |
| Total liabilities | 513,482 | 435,849 | 241,407 | 175,311 | 8,730 | 8,030 | - | - | - | - |
| Capital | 1,190,892 | 1,363,676 | 139,315 | 96,045 | 1,056 | 1,056 | 2,094 | - | - | - |
| Net revenue | 988,876 | 693,214 | 355,991 | 100,359 | - | - | - | - | - | - |
| Income (loss) for the year | 317,492 | 33,312 | 1,291 | 3,850 | (104) | (100) | - | - | - | - |
| Number of shares/quotas held (per thousand shares/quotas) | 537,467 | 537,467 | 200 | 200 | 10 | 10 | 2,094 | - | - | - |
| Equity | 1,437,712 | 1,114,976 | 75,083 | 30,522 | (8,728) | (8,028) | 2,094 | - | - | - |
| Interest in capital at the end of the year - % | 99.99% | 99.99% | 0.14% | 0.22% | 1.54% | 1.54% | 100.00% | - | - | - |
| Permanent ownership interest in subsidiaries | 1,437,706 | 1,114,971 | 105 | 67 | - | - | 2,094 | - | 1,439,905 | 1,115,038 |
| Provision for liabilities for loss on investment | - | - | - | - | (135) | (124) | - | - | (135) | (124) |
| Equity in net income of subsidiaries | 317,491 | 33,312 | 2 | 8 | (2) | (1) | - | - | 317,491 | 33,319 |

## d. Information on indirect interest

As of December 31, 2021 and December 31, 2020, the Company has indirect interest in companies listed below by means of its subsidiary Vulcabras CE, Calçados e Artigos Esportivos S.A.:

## *(i) Vulcabras CE, Calçados e Artigos Esportivos S.A.*

| 12/31/2021 | Vulcabras Distribuidora de Artigos Esportivos Ltda. | Vulcabras SP, Comércio de Artigos Esportivos Ltda. | Globalcyr S.A. | Vulcabras BA, Calçados e Artigos Esportivos S.A. | Running Comércio e Indústria de Artigos Esportivos Ltda. | Wave Comércio e Indústria de Artigos Esportivos Ltda | Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*) | Calzados Azaleia de Colômbia Ltda. | Calzados Azaleia Peru S.A. | PARS Participações Ltda. |
|---|---|---|---|---|---|---|---|---|---|---|
| Total assets | 316,490 | 136,441 | 2 | 522,866 | 12,331 | - | 736 | - | 57,760 | 125,584 |
| Total liabilities | 241,407 | 120,781 | 8,730 | 107,559 | 11,045 | - | 13,950 | - | 20,935 | 1 |
| Capital | 139,315 | 402,984 | 1,056 | 365,403 | 3,621 | - | 26,207 | - | 1,072 | 36,116 |
| Equity | 75,083 | 15,660 | (8,728) | 415,307 | 1,285 | - | (13,214) | - | 36,825 | 125,583 |
| Net revenue | 355,991 | 84,087 | - | 515,341 | 7,708 | - | 10,957 | 3,199 | 63,940 | - |
| Income (loss) for the year | 1,291 | (14,848) | (104) | 73,214 | (2,325) | (969) | (2,540) | (6,964) | 503 | 6,144 |
| Interest in capital | 99.86% | 100.00% | 98.45% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 99.11% | 50.00% |

| 12/31/2020 | Vulcabras Azaleia RS, Calçados e Artigos Esportivos S.A. | Vulcabras Distribuidora de Artigos Esportivos Ltda. | Vulcabras Azaleia SP, Comércio de Artigos Esportivos Ltda. | Globalcyr S.A. | Vulcabras Azaleia BA, Calçados e Artigos Esportivos S.A. | Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*) | Calzados Azaleia de Colômbia Ltda. | Calzados Azaleia Peru S.A. | PARS Participações Ltda. |
|---|---|---|---|---|---|---|---|---|---|
| Total assets | - | 205,833 | 99,350 | 2 | 450,982 | 17,160 | 12,752 | 57,757 | 119,441 |
| Total liabilities | - | 175,311 | 68,842 | 8,030 | 109,073 | 27,834 | 20,787 | 23,380 | 1 |
| Capital | - | 96,045 | 402,984 | 1,056 | 459,929 | 26,207 | 841 | 1,072 | 36,116 |
| Equity | - | 30,522 | 30,508 | (8,028) | 341,909 | (10,674) | (8,035) | 34,377 | 119,440 |
| Net revenue | 1,538 | 100,359 | 73,523 | - | 374,063 | 21,429 | 14,092 | 42,288 | - |
| Income (loss) for the year | 26,503 | 3,850 | (31,196) | (100) | 44,430 | (6,584) | (4,065) | (4,083) | (4,094) |
| Interest in capital | 100.00% | 99.78% | 100.00% | 98.45% | 100.00% | 100.00% | 100.00% | 99.11% | 50.00% |

**(*)** Indirect interest

# 13 Property, plant and equipment

## a. Breakdown of account

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| | | 12/31/2021 | | | 12/31/2020 | | |
| **December 31, 2021** | **Average rate of depreciation % p.a.** | **Cost** | **Depreciation** | **Net** | **Cost** | **Depreciation** | **Net** |
| Buildings | 2–4 | 131,113 | (91,221) | 39,892 | 130,375 | (87,487) | 42,888 |
| Machinery and equipment | 10 | 395,160 | (279,326) | 115,834 | 362,699 | (270,166) | 92,533 |
| Molds | 100 | 278,863 | (262,565) | 16,298 | 262,557 | (250,588) | 11,969 |
| Furniture and fixtures | 10–20 | 40,777 | (27,285) | 13,492 | 32,131 | (23,665) | 8,466 |
| Vehicles | 20 | 2,241 | (1,953) | 288 | 2,241 | (1,939) | 302 |
| IT equipment | 20–25 | 32,775 | (25,000) | 7,775 | 28,606 | (22,771) | 5,835 |
| Land | - | 3,326 | - | 3,326 | 3,486 | - | 3,486 |
| Works in progress | - | 7,719 | - | 7,719 | 3,541 | - | 3,541 |
| Facilities | 10 | 135,563 | (71,758) | 63,805 | 127,027 | (62,652) | 64,375 |
| Leasehold improvements | 10–20 | 4,586 | (603) | 3,983 | 89 | (89) | - |
| Imports in progress | - | 29,249 | - | 29,249 | 5,309 | - | 5,309 |
| Leasehold Improvements | 20 | 1,671 | (996) | 675 | 1,524 | (664) | 860 |
| Other | 10–20 | 28 | (27) | 1 | 3,356 | (1,609) | 1,747 |
| | | **1,063,071** | **(760,734)** | **302,337** | **962,941** | **(721,630)** | **241,311** |

## b. Changes in cost

| | Consolidated | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01/01/2020 | 12/31/2020 | | | | | 12/31/2021 | | | | |
| December 31, 2021 | Opening balance | Additions | Write-offs | Transfer | Translation adjustment | Closing balance | Additions | Write-offs | Transfer | Translation adjustment | Closing balance |
| Buildings | 127,881 | 828 | - | - | 1,666 | 130,375 | 1,421 | - | (1,306) | 623 | 131,113 |
| Machinery and equipment | 362,297 | 10,145 | (27,926) | 18,183 | - | 362,699 | 11,628 | (6,935) | 27,768 | - | 395,160 |
| Molds | 272,492 | 22,720 | (33,195) | 540 | - | 262,557 | 34,346 | (18,360) | 320 | - | 278,863 |
| Furniture and fixtures | 32,099 | 1,459 | (2,076) | - | 649 | 32,131 | 3,823 | (900) | 5,262 | 461 | 40,777 |
| Vehicles | 2,258 | 115 | (238) | 1 | 105 | 2,241 | 87 | (107) | - | 20 | 2,241 |
| IT equipment | 27,810 | 1,579 | (1,766) | - | 983 | 28,606 | 3,152 | (275) | 973 | 319 | 32,775 |
| Land (*) | 3,490 | - | (5) | 1 | - | 3,486 | - | (160) | - | - | 3,326 |
| Molds in progress | - | 740 | (199) | (541) | - | - | 1,165 | (851) | (314) | - | - |
| Works in progress | - | 4,182 | (719) | - | 78 | 3,541 | 11,435 | (641) | (6,616) | - | 7,719 |
| Facilities | 112,686 | 18,147 | (3,806) | - | - | 127,027 | 9,463 | (445) | (482) | - | 135,563 |
| Leasehold improvements | 89 | - | - | - | - | 89 | 551 | - | 3,946 | - | 4,586 |
| Imports in progress | 2,279 | 24,884 | (3,670) | (18,184) | - | 5,309 | 55,124 | (4,948) | (26,236) | - | 29,249 |
| Leasehold improvements | 3,537 | 79 | (2,092) | - | - | 1,524 | 147 | - | - | - | 1,671 |
| Other | 2,463 | 203 | - | - | 690 | 3,356 | - | (13) | (3,315) | - | 28 |
| | **949,381** | **85,081** | **(75,692)** | **-** | **4,171** | **962,941** | **132,342** | **(33,635)** | **-** | **1,423** | **1,063,071** |

## c. Changes in depreciation

| | Consolidated | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **01/01/2020** | **12/31/2020** | | | | | **12/31/2021** | | | | |
| **December 31, 2021** | **Opening balance** | **Additions** | **Write-offs** | **Transfer** | **Translation adjustment** | **Closing balance** | **Additions** | **Write-offs** | **Transfer** | **Translation adjustment** | **Closing balance** |
| Buildings | (83,552) | (3,561) | - | - | (374) | (87,487) | (3,576) | - | - | (158) | (91,221) |
| Machinery and equipment | (276,247) | (14,399) | 20,481 | - | (1) | (270,166) | (15,371) | 6,211 | - | - | (279,326) |
| Molds | (249,011) | (32,218) | 30,641 | - | - | (250,588) | (27,550) | 15,573 | - | - | (262,565) |
| Furniture and fixtures | (23,541) | (1,444) | 1,677 | - | (357) | (23,665) | (1,816) | 30 | (1,570) | (264) | (27,285) |
| Vehicles | (1,918) | (144) | 205 | - | (82) | (1,939) | (99) | 101 | - | (16) | (1,953) |
| IT equipment | (22,058) | (1,736) | 1,566 | - | (543) | (22,771) | (2,120) | 98 | - | (207) | (25,000) |
| Facilities | (54,327) | (9,522) | 1,197 | - | - | (62,652) | (9,218) | 1 | 111 | - | (71,758) |
| Leasehold improvements | (89) | - | - | - | - | (89) | (403) | - | (111) | - | (603) |
| Leasehold improvements | (2,459) | (292) | 2,087 | - | - | (664) | (332) | - | - | - | (996) |
| Other | (1,059) | (254) | 1 | - | (297) | (1,609) | (1) | 13 | 1,570 | - | (27) |
| | **(714,261)** | **(63,570)** | **57,855** | **-** | **(1,654)** | **(721,630)** | **(60,486)** | **22,027** | **-** | **(645)** | **(760,734)** |

Interest on loans and financings was not capitalized in the cost of construction in progress since the main contracts are related to acquisitions of machinery and equipment immediately placed in service.

Every year, the Company and its subsidiaries review the useful life of fixed asset items. The Company and its subsidiaries have a policy of maintaining the main items of property, plant and equipment until the end of their useful lives.

# 14 Intangible assets

## a. Breakdown of account

| | | Consolidated | | | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2021** | | **12/31/2021** | | | **12/31/2020** | | |
| **Defined useful life** | **Useful life** | **Cost** | **Amortization** | **Net** | **Cost** | **Depreciation** | **Net** |
| Software | 5 years | 41,516 | (34,289) | 7,227 | 39,040 | (32,218) | 6,822 |
| Assignment of right | Contractual period | 566 | (453) | 113 | 531 | (391) | 140 |
| Goodwill | Contractual period | 1,464 | - | 1,464 | 1,873 | - | 1,873 |
| Provision for impairment (*) | Contractual period | - | - | - | (199) | - | (199) |
| **Undefined useful life** | | | | | | | |
| Trademarks and patents | | 2,068 | - | 2,068 | 2,067 | - | 2,067 |
| Goodwill | | 198,214 | - | 198,214 | 198,214 | - | 198,214 |
| | | **243,828** | **(34,742)** | **209,086** | **241,526** | **(32,609)** | **208,917** |

The amortization of intangible assets is recorded as a counterparty to (loss) in the group of cost of sales (industrial software) and selling expenses (assignment of rights).

(*) The provision for impairment refers to impairment of goodwill in stores of the subsidiary Vulcabras SP as of June 30, 2021, there was a decrease in the provision since stores were closed.

## b. Changes in cost

| | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2021** | **Useful life** | **Amortization methods** | **Balance at 01/01/2021** | **Additions** | **Write-offs** | **Translation adjustment** | **Balance at 12/31/2021** |
| **Defined useful life** | | | | | | | |
| Software | 5 years | Straight-line | 39,040 | 2,523 | (148) | 101 | 41,516 |
| Assignment of right | Contractual period | Straight-line | 531 | - | - | 35 | 566 |
| Goodwill | Contractual period | Straight-line | 1,873 | - | (409) | - | 1,464 |
| Impairment of goodwill | Contractual period | Straight-line | (199) | - | 199 | - | - |
| **Undefined useful life** | | | | | | | |
| Trademarks and patents | | | 2,067 | 1 | - | - | 2,068 |
| Goodwill | | | 198,214 | - | - | - | 198,214 |
| **Total** | | | 241,526 | 2,524 | (358) | 136 | 243,828 |

| | | | | Consolidated | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2020** | **Useful life** | **Amortization methods** | **Balance at 01/01/2020** | **Additions** | **Write-offs** | **Translation adjustment** | **Balance at 12/31/2020** |
| **Defined useful life** | | | | | | | |
| Software | 5 years | Straight-line | 36,413 | 2,588 | (264) | 303 | 39,040 |
| Assignment of right | Contractual period | Straight-line | 391 | 42 | - | 98 | 531 |
| Goodwill (*) | Contractual period | Straight-line | 10,976 | - | (9,103) | - | 1,873 |
| Impairment of goodwill | Contractual period | Straight-line | (4,047) | - | 3,848 | - | (199) |
| **Undefined useful life** | | | | | | | |
| Trademarks and patents | | | 2,194 | - | (127) | - | 2,067 |
| Goodwill | | | 198,214 | - | - | - | 198,214 |
| **Total** | | | 244,141 | 2,630 | (5,646) | 401 | 241,526 |

(*) As of December 31, 2020, we disposed of two stores in the amount of R$ 9,103, whose consequences affected the provision for impairment in the amount of R$ 3,848.

## c. Changes in amortization

| **December 31, 2021** | | | | **Consolidated** | | | |
|---|---|---|---|---|---|---|---|
| **Defined useful life** | **Useful life** | **Amortization methods** | **Balance at 01/01/2021** | **Additions** | **Write-offs** | **Translation adjustment** | **Balance at 12/31/2021** |
| Software | 5 years | Straight-line | (32,218) | (2,119) | 106 | (58) | (34,289) |
| Assignment of right | Contract Term | Straight-line | (391) | (36) | - | (26) | (453) |
| **Total** | | | (32,609) | (2,155) | 106 | (84) | (34,742) |

| **December 31, 2020** | | | | **Consolidated** | | | |
|---|---|---|---|---|---|---|---|
| **Defined useful life** | **Useful life** | **Amortization methods** | **Balance at 01/01/2020** | **Additions** | **Write-offs** | **Translation adjustment** | **Balance at 12/31/2020** |
| Software | 5 years | Straight-line | (30,421) | (1,792) | 130 | (135) | (32,218) |
| Assignment of right | Contract Term | Straight-line | (280) | (47) | - | (64) | (391) |
| **Total** | | | (30,701) | (1,839) | 130 | (199) | (32,609) |

### d. Goodwill in business combination

The balances of goodwill determined in the acquisitions of ownership interest in subsidiary Vulcabras CE, are supported by reports issued by independent experts and are based on the expectation of future profitability of the acquired operations; in 2009, goodwill balances ceased to be amortized since these are assets with indefinite useful lives, as established by CVM Resolution 553/08 and CPC 01 (R1), and are annually tested for impairment, as described in Note 15.

## 15 Recoverability analysis of non-financial assets

### a. Tangible and intangible assets with defined useful life

Management reviews annually the net book value of tangible and intangible assets with defined useful life to assess events or changes in economic, operating or technological circumstances that might indicate an impairment of assets.

For the year ended December 31, 2021, an impairment test of intangible assets with finite useful lives was carried out by means of calculation of the value in use based on cash projections from financial budgets approved by the Top Management.

No indication of impairment on December 31, 2021.

### b. Goodwill paid on expected future profitability

The balance of goodwill on acquisitions of ownership interest is based on expected future profitability of the acquired business and amounts to R$ 198,214 at December 31, 2021 (R$ 198,214 as of December 31, 2020).

The Company annually tests impairment of its intangible assets with indefinite useful life, which are mostly comprised of goodwill for expected future earnings arising from combination of business processes using the “Value in use” concept by means of discounted cash flow models.

The goodwill arising from the acquisition of investment is impairment tested every year, at the cash generating unit level.

### c. Main assumptions used in impairment tests of tangible and intangible assets

For the purposes of impairment test of tangible and intangible assets, there is no possibility of separating a Cash Generating Unit (CGU) and defining it as the exclusive cash generating unit due to the purchase of Azaleia. Since the acquisition, the operations of the two companies were merged and it became impossible to distinguish what are the revenues generated by virtue of the exclusive assets acquired in the purchase of Azaleia. Thus, the Company and its subsidiaries are considered as a single Cash Generating Unit.

Future cash flows were discounted based on the rate representing the capital cost. Following the techniques of economic valuation, the assessment of value in use is carried out for a period of 10 years and, thereafter, considering the perpetuity of the assumptions based on the ability of the company to continue as a going concern for the foreseeable future.

For discounting the future cash flows, the rate used was 13.90%. p.a. as of December 31, 2021 (7.73% p.a. as of December 31, 2020).

The estimate of value in use considered the following assumptions:

***Revenues***
The sales volume and price were projected on a real basis (without inflation) based on the Company's estimates and result in aggregate compound growth (CAGR) of 6.78% p.a. as of December 31, 2021 (9.34% as of December 31, 2020) between 2021 and 2031. The change in relation to the previous year is discussed in Note 1.1.1.(iv).

***Cost***
The cost of sold products was projected based on the Company's estimates.

After establishing the sales projection, the production requirement distribution was defined according to the installed capacity and the efficiency level to be obtained.

Other manufacturing overheads were based on the budget approved by the Top Management for the indirect cost centers.

***Expenses***
Variable sales expenses were projected based on historical percentages of the gross operating revenue.

The administrative and general sales expenses were based on the expenditures budgeted and approved by the Top Management for the cost centers.

***Net income and free cash generation***
Net Income resulting from the application of the above assumptions grows with a compounded growth rate (CAGR) of 8.85% p.a. (34.50% p.a. as of December 31, 2020) between 2021 and 2031.

Free Cash Flow Generation is then calculated based on projections of investments and changes in working capital. For perpetuity, the growth rate used is zero.

The value in use was higher than the book value by approximately R$ 2,910 billion as of December 31, 2021 (R$ 3,755 billion as of December 31, 2020).

# 16 Suppliers

## a. Breakdown of account

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Suppliers** | | | | |
| Domestic | | | | |
| Sundry | 61,816 | 56,355 | 1,672 | 289 |
| Abroad | | | | |
| Sundry | 16,190 | 6,102 | - | - |
| | 78,006 | 62,457 | 1,672 | 289 |

## b. By maturity

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Falling due (days):** | | |
| 01–30 | 58,892 | 51,198 |
| 31–60 | 13,246 | 8,603 |
| 61–90 | 2,678 | 1,245 |
| >90 | 2,999 | 1,397 |
| | 77,815 | 62,443 |
| **Overdue (days):** | | |
| 01–30 | 186 | 51,198 |
| 31–60 | 1 | |
| 61–90 | 1 | 8,603 |
| >90 | 3 | 1,397 |
| | 191 | 62,443 |
| | 78,006 | 62,457 |

Considering the characteristics of the Company's products and the supply chain, there is a wide offer of raw materials, supplies and suppliers. Thus, the Company does not present a concentration of the supplier portfolio.

In compliance with CVM Resolution 564 issued December 17, 2008, which approved CPC 12, the Company conducted studies to calculate the adjustment to present value of its current liabilities. Considering the average term of payment of these liabilities of approximately 41 days as of December 31, 2021 (37 days at December 31, 2020), the effects of present value adjustments were considered immaterial and, therefore, were not recognized in income (loss), as occurred with current assets and non-current assets.

# 17 Loans and financing

## a. Breakdown of account

| | Interest rates for 2021 | Interest rates for 2020 | Consolidated 12/31/2021 | Consolidated 12/31/2020 |
|---|---|---|---|---|
| **Domestic currency** | | | | |
| Fixed assets | IPCA + 2.04% p.a. | IPCA + 2.04% p.a. | 64,330 | 77,561 |
| Tax incentive | TJLP | TJLP | 2,571 | 2,276 |
| Working capital | IPCA + 2.07% p.a.; CDI + 1.10–1.23% p.a. | IPCA + 2.07% p.a.; CDI + 3.05–3.55% p.a.; 180% CDI p.a. | 286,237 | 205,221 |
| | | | **353,138** | **285,058** |
| **Foreign currency** | | | | |
| Export financing | | | | |
| Finimp | Fixed rate 7.10–7.20% p.a. | Fixed rate 7.10–7.20% p.a. | - | 16,451 |
| Working capital | Fixed rate 1.18–2.15% p.a. | Fixed rate 1.18% p.a. | 8,112 | 10,120 |
| | | | **8,112** | **26,571** |
| **Total loans and financing** | | | **361,250** | **311,629** |
| Current | | | 291,497 | 127,894 |
| Non-current | | | 69,753 | 183,735 |

As of December 31, 2021 and December 31, 2020, installments related to the balance of loans and financing had the following maturities:

| Maturity | 12/31/2021 Amount | 12/31/2021 % | 12/31/2020 Amount | 12/31/2020 % |
|---|---|---|---|---|
| **Current** | **291,497** | **81%** | **127,894** | **41%** |
| 2021 | - | 0% | 127,894 | 41% |
| 2022 | 291,497 | 81% | 93,056 | 30% |
| 2023 | 29,848 | 8% | 55,819 | 18% |
| 2024 | 18,117 | 5% | 13,072 | 4% |
| 2025 | 13,072 | 4% | 13,072 | 4% |
| 2026 | 8,716 | 2% | 8,715 | 3% |
| **Non-current** | **69,753** | **19%** | **183,735** | **59%** |
| **Total** | **361,250** | **100%** | **311,629** | **100%** |

## b. Sureties and guarantees

In guarantee of financing, promissory notes, personal guarantee and surety of parent company, mortgage of Horizonte-CE and Itapetinga-BA plants and disposal of machinery and equipment acquired from financing were offered.

## c. Covenants

Some financing contracted have covenants that require the Company to demonstrate through document and physical evidences, the purchases of property, plant and equipment and objectives achieved in Research and Development (R&D). These covenants are monitored and have been fully complied with within the deadlines defined in the agreements. We do not have covenants for working capital loans.

## d. Reconciliation of equity changes with cash flows from financing activities

| | Liabilities | | | | |
|---|---|---|---|---|---|
| | Borrowings and financing | Loans with related parties | Lease liabilities | Dividends and profits payable | Total |
| **Balance at January 1, 2021** | **311,629** | **17,632** | **18,530** | **-** | **347,791** |
| **Changes in cash flow from financing** | | | | | |
| Loans obtained - Principal | 190,098 | - | - | - | 190,098 |
| Loans with related parties | - | 409 | - | - | 409 |
| Payment of financial lease liabilities | - | - | (10,261) | - | (10,261) |
| Payment of loans obtained - Principal | (143,617) | - | - | - | (143,617) |
| Dividends and interest on own capital paid | - | - | - | (86,011) | (86,011) |
| **Total changes in financing cash flows** | **46,481** | **409** | **(10,261)** | **(86,011)** | **(49,382)** |
| **Other changes related to liabilities** | | | | | |
| Interest paid | (25,124) | - | (2,183) | - | (27,307) |
| Distribution of dividends | - | - | - | 86,015 | 86,015 |
| Provin additions (without cash effect) | 971 | - | - | - | 971 |
| Contractual additions/adjustments | - | - | 15,221 | - | 15,221 |
| Lease discounts | - | - | (582) | - | (582) |
| Accrued interest | - | - | 1,859 | - | 1,859 |
| Write-off of lease | - | - | (2,805) | - | (2,805) |
| Financial charges recognized in profit or loss | 27,293 | - | - | - | 27,293 |
| **Total other changes related to liabilities** | 3,140 | - | 11,510 | 86,015 | 100,665 |
| **Balance at December 31, 2021** | **361,250** | **18,041** | **19,779** | **4** | **399,074** |

| | Liabilities | | | |
|---|---|---|---|---|
| | **Borrowings and financing** | **Loans with related parties** | **Lease liabilities** | **Total** |
| **Balance at January 1, 2020** | **43,053** | **16,930** | **15,845** | **75,828** |
| **Changes in cash flow from financing** | | | | |
| Loans obtained - Principal | 285,779 | - | - | 285,779 |
| Loans with related parties | - | 702 | - | 702 |
| Payment of financial lease liabilities | - | - | (9,794) | (9,794) |
| Payment of loans obtained - Principal | (22,378) | - | - | (22,378) |
| **Total changes in financing cash flows** | **263,401** | **702** | **(9,794)** | **254,309** |
| **Other changes related to liabilities** | | | | |
| Interest paid | (5,309) | - | (1,760) | (7,069) |
| Provin additions (without cash effect) | 675 | - | - | 675 |
| Contractual additions/adjustments | - | - | 17,000 | 17,000 |
| Lease discounts | - | - | (1,373) | (1,373) |
| Accrued interest | - | - | 2,835 | 2,835 |
| Write-off of lease | - | - | (4,223) | (4,223) |
| Financial charges recognized in profit or loss | 9,809 | - | - | 9,809 |
| **Total other changes related to liabilities** | 5,175 | - | 12,479 | 17,654 |
| **Balance at December 31, 2020** | **311,629** | **17,632** | **18,530** | **347,791** |

# 18 Leases

## a. Operating leases

The Company and its subsidiaries lease only properties.

This lease normally lasts 5 years, with renewal option after this period. The amounts are adjusted annually to reflect the price practiced in the market. Some commercial leases provide additional rental payments, which are based on the monthly turnover of the real estate.

Information on leases for which the Company is the lessee is presented below:

| | Consolidated | |
|---|---|---|
| **Right-of-use** | **12/31/2021** | **12/31/2020** |
| Opening balance | 15,145 | 15,845 |
| Additions / Adjustments | 15,745 | 14,965 |
| Low | (2,497) | (4,162) |
| Amortization (*) | (10,951) | (11,503) |
| **Closing balance** | **17,442** | **15,145** |

| Lease liabilities | Consolidated 12/31/2021 | 12/31/2020 |
|---|---|---|
| Opening balance | 18,530 | 15,845 |
| Additions / Adjustments | 15,221 | 17,000 |
| Accrued interest | 1,859 | 2,835 |
| Low | (2,805) | (4,223) |
| Payment of principal (**) | (10,843) | (11,167) |
| Interest | (2,183) | (1,760) |
| **Closing balance** | **19,779** | **18,530** |
| **Current** | 7,129 | 8,343 |
| **Non-current** | 12,650 | 10,187 |

(*) The change was due to the termination of certain store agreements of the subsidiary Vulcabras SP. In the amortization recognized in the income (loss), we had a lower amount of R$ 10,369 due to the granting of discounts of R$ 582, based on the practical expedient of CPC 06/IFRS 16.

(**) The discount of R$ 582 that deducts the payment amount presented in the Consolidated Financial Statements has no effect on the write-off of the lease liability.

### *Payment schedule for long-term installments*

| | 12/31/2021 | | 12/31/2020 | |
|---|---|---|---|---|
| **Maturity** | **Amount** | **%** | **Amount** | **%** |
| 2022 | - | 0% | 5,993 | 59% |
| 2023 | 5,208 | 41% | 2,465 | 24% |
| 2024 | 4,368 | 35% | 1,190 | 12% |
| 2025 | 3,074 | 24% | 539 | 5% |
| **Total** | **12,650** | **100%** | **10,187** | **100%** |

*Extension options*

A few leases contain extension options exercisable by the Company up to one year prior to the end of the non-cancellable agreement period. Whenever possible, the Company seeks to include extension options in new leases so as to provide operating flexibility.

## 19 Provisions

The Company and its subsidiaries are parties (defendants) to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, civil and other matters.

Based on information from its legal advisors, Management recognizes provisions in accordance with the procedures established by CVM Resolution 489/05 and CPC 25/IAS 37, which establishes that a provision should be recognized when: (i) the entity has a present obligation deriving from a past event; (ii) an outflow of funds will probably be required to settle the obligation; and (iii) the sum of the obligation can be estimated with sufficient assurance. If any of these conditions are not met a provision should not be made, and it might be necessary to disclose a contingent liability.

The review of pending legal proceedings, based on previous experience relating to amounts claimed, records a provision in an amount deemed sufficient to cover possible losses from the ongoing lawsuits and classified them as current and non-current, as follows:

## a. Breakdown of balances

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Provisions for lawsuits and administrative proceedings: | | | | |
| Civil | 18,455 | 18,919 | 53 | 82 |
| Labor | 40,041 | 36,982 | 189 | 507 |
| Tax | 1,382 | 662 | 176 | 176 |
| **Total** | **59,878** | **56,563** | **418** | **765** |
| **Current** | **22,488** | **22,021** | **418** | **765** |
| **Non-current** | **37,390** | **34,542** | **-** | **-** |

## b. Labor lawsuits (Consolidated)

Refer mainly to claims regarding overtime, salary differences, health hazard, hazardous duty and occupational disease. The effect of the provision for loss on labor lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

## c. Civil lawsuits (Consolidated)

Refer to compensation for property damages and pain and suffering. The effect of the provision for loss on civil lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

The effects on the provision for indemnities are charged to "selling expenses" in income (loss).

## d. Tax lawsuits (Consolidated)

They refer to lawsuits in which the Companies and its subsidiaries are parties mainly to the following taxes: IRPJ, COFINS, PIS and ICMS. The effect of the provision for loss on tax lawsuits is recorded as contra-entry to profit or loss in the account of other expenses.

## e. Changes in proceedings

| | Consolidated | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2021** | **12/31/2019** | **12/31/2020** | | | | | **12/31/2021** | | | | |
| **Type** | **Opening balance** | **Additions** | **Reversal** | **Payment** | **Adjustment to net presentation (*)** | **Closing balance** | **Additions** | **Reversal** | **Payment** | **Adjustment to net presentation (*)** | **Closing balance** |
| Civil | 20,107 | 1,210 | (2,206) | (192) | - | 18,919 | 1,181 | (1,466) | (179) | - | 18,455 |
| Labor | 36,254 | 5,136 | (4,618) | (1,336) | 1,546 | 36,982 | 13,151 | (4,522) | (7,147) | 1,577 | 40,041 |
| Tax | 148 | 802 | (215) | (1,137) | 1,064 | 662 | 2,350 | (165) | (825) | (640) | 1,382 |
| **Total** | **56,509** | **7,148** | **(7,039)** | **(2,665)** | **2,610** | **56,563** | **16,682** | **(6,153)** | **(8,151)** | **937** | **59,878** |

| | Parent company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2021** | **12/31/2019** | **12/31/2020** | | | | **12/31/2021** | | | |
| **Type** | **Opening balance** | **Additions** | **Reversal** | **Payment** | **Closing balance** | **Additions** | **Reversal** | **Payment** | **Closing balance** |
| Civil | 510 | 63 | (453) | (38) | 82 | 48 | (17) | (60) | 53 |
| Labor | 229 | 371 | - | (93) | 507 | - | (47) | (271) | 189 |
| Tax | 119 | 57 | - | - | 176 | 60 | (60) | - | 176 |
| **Total** | **858** | **491** | **(453)** | **(131)** | **765** | **108** | **(124)** | **(331)** | **418** |

**(*)** The net amounts refer only to reclassifications between judicial deposits and provisions for contingencies in compliance with item 35 of CPC 26 (IAS 1). Thus, said amounts had no cash effect and were not considered in the Statements of cash flows.

### *Contingencies*

Based on the opinion of its legal advisors, Management believes that the resolution of the civil, labor and tax matters listed below will not have a material adverse effect on its financial situation.

As of December 31, 2021 and December 31, 2020, the breakdown of the amounts under litigation at various court levels, estimated with a possible loss was as follows:

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Contingencies** | | |
| Civil | 2,741 | 2,149 |
| Labor | 34,950 | 41,006 |
| Tax | 31,250 | 37,051 |
| **Total** | 68,941 | 80,206 |

There was no material lawsuit in 2021.

# 20 Equity (Parent company)

## a. Capital

As of December 31, 2021, capital totals R$ 1,106,717 (R$ 1,106,717 as of December 31, 2020), is represented by 245,756,244 (245,756,346 as of December 31, 2020) common, nominative shares with no par value.

By means of Board of Directors' resolution, the Company is authorized to increase the capital, regardless of any amendments to the bylaws up to the limit of R$ 2,000,000.

## b. Reserves

### *(i) Revaluation reserve*

The reserve was constituted as a result of the revaluations of fixed assets of its subsidiaries, based on an appraisal report prepared by independent appraisers. Corresponding income tax and social contribution are classified in non-current liabilities. As of December 31, 2021, the balance of revaluation reserve is R$ 4,410 (R$ 4,670 on December 31, 2020).

The revaluation reserve is being realized by depreciation or write-off of revalued assets against accumulated losses, net of tax effects. As permitted by Law 11638/07, Management elected to maintain the revaluation reserves until their full realization.

## c. Capital reserve

### *(i) Stock option*

*General conditions*
The Company has four (4) Stock Option Plans in effect.

*1st Stock Option Plan*

**Approval of the plan**
On January 16, 2018, the Board of Directors approved the first granting of options under the Stock Option Contract. The total options granted on this date amounted to 835,000 options, with a unit strike price of R$ 9.50, distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6,404, dated December 15, 1976.

**Characteristics of the plan**

| **1st Stock Option Plan - 2018** | **1st granting** |
|---|---|
| Grant date | 01/16/2018 |
| Quantity of options granted | 835,000 |
| Vesting period | 3 years |
| Maturity for the year | 03/31/2021 |
| Maximum period for exercise | 03/31/2022 |
| Strike price | R$ 9.50 **(1)** |
| Beneficiaries (employees) | 24 **(2)** |

**(1)** The strike price is set at R$ 9.50 (nine reais and fifty cents), restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

**(2)** Originally, 24 employees qualified for the 1st stock option plan, but on 12/31/2021 due to the separation of 06 employees, the total is 18 beneficiaries.

*Beneficiaries*
Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

*Pricing Method*
The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

_2$^{nd}$ Stock Option Plan_

**Approval of the plan**
On May 06, 2019, the Board of Directors approved the 2$^{nd}$ stock option plan in the context of the Grant Agreement. The total options granted on this date were 780,000 options, with unit strike price of R$ 7.96, distributed among the qualified beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6404, dated December 15, 1976.

**Characteristics of the plan**

| **2$^{nd}$ Stock Option Plan - 2019** | **2$^{nd}$ granting** |
|---|---|
| Grant date | 05/06/2019 |
| Quantity of options granted | 780,000 |
| Vesting period | 3 years |
| Maturity for the year | 03/31/2022 |
| Maximum period for exercise | 03/31/2023 |
| Strike price | R$ 7.96 **(1)** |
| Beneficiaries (employees) | 22 **(2)** |

**(1)** The strike price is set at R$ 7.96, restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

**(2)** Originally, 22 employees qualified for the 2$^{nd}$ stock option plan, but on 12/31/2021 due to the separation of 02 employees, the total is 20 beneficiaries.

_Beneficiaries_
Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

_Pricing Method_
The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

_3$^{rd}$ Stock Option Plan_

**Approval of the plan**
On August 10, 2020, the Board of Directors approved the 3$^{rd}$ stock option plan in the context of the Grant Agreement. The total options granted on this date amounted to 870,000 options, with a unit strike price of R$ 8.57, distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6,404, dated December 15, 1976.

**Characteristics of the plan**

| 3rd Stock Option Plan – 2020 | 3rd granting |
|---|---|
| Grant date | 08/10/2020 |
| Quantity of options granted | 870,000 |
| Vesting period | 3 years |
| Maturity for the year | 03/31/2023 |
| Maximum period for exercise | 03/31/2024 |
| Strike price | R$ 8.57 **(1)** |
| Beneficiaries (employees) | 21 |

**(1)** The strike price is set at R$ 8.57 (eight reais and fifty-seven cents), restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

*Beneficiaries*
Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

*Pricing Method*
The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

*4th Stock Option Plan*

**Approval of the plan**
On May 11, 2021, the Board of Directors approved the 4th stock option plan in the context of the Grant Agreement. The total options granted on this date amounted to 970,000 options, with a unit strike price of R$ 8.06, distributed amongst the elected beneficiaries. Aiming to fulfill the exercise of options granted, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the current Company's shareholders, as allowed by article 171, paragraph 3, of Law 6404, dated December 15, 1976.

**Characteristics of the plan**

| 4th Stock Option Plan - 2021 | 4th granting |
|---|---|
| Grant date | 05/11/2021 |
| Quantity of options granted | 970,000 |
| Vesting period | 3 years |
| Maturity for the year | 03/31/2024 |
| Maximum period for exercise | 03/31/2025 |
| Strike price | R$ 8.06 **(1)** |
| Beneficiaries (employees) | 23 **(2)** |

**(1)** The strike price is set at R$ 8.06, restated by the change in the National Amplified Consumer Price Index - IPCA from the award date through the effective exercising of the Option.

**(2)** Originally, 23 employees qualified for the 4th stock option plan, but on 12/31/2021 due to the separation of 01 employee, the total is 22 beneficiaries.

*Beneficiaries*
Stock options can be awarded to officers (statutory or otherwise), division managers and employees of Vulcabras S.A. and the companies under its direct or indirect control (Subsidiaries), including in relation to new employees, all of which are subject to the approval of the Company's Board of Directors.

*Pricing Method*
The method used for options pricing is the "Black-Scholes" model, which uses the following basic assumptions: grant price, strike price, grace period, volatility of share price, percentage of distributed dividends, and risk-free rate as basic assumptions.

***Option Plan Expense***
Amounts of amortizations recorded as expense in financial statements, as a contra-entry to the Company's equity from grant date to December 31, 2021, are described below (presented in Reais):

| **Plan** | **Strike price** | **Grant date** | **Accumulated expense 12/31/2021** | **Accumulated expense 12/31/2020** |
|---|---|---|---|---|
| 1st Plan – 2018 | R$ 9.50 | 01/16/2018 | R$ 1,638 | R$ 1,515 |
| 2nd Plan – 2019 | R$ 7.96 | 05/05/2019 | R$ 1,579 | R$ 1,019 |
| 3rd Plan – 2020 | R$ 8.57 | 08/06/2020 | R$ 1,098 | R$ 500 |
| 4th Plan – 2021 | R$ 8.06 | 05/11/2021 | R$ 416 | - |
| **Total** | | | **R$ 4,731** | **R$ 3,034** |

## d. Profit reserve

### (i) *Legal reserve*
Established on December 31, 2021 in the amount of R$15,692, based on 5% of net income for the year.

### (ii) *Dividends*
On November 12, 2021, the Company paid interim dividends in the amount of R$86,015 (representing R$ 0.35 thirty-five cents per share).

### (iii) *Unrealized profit reserve*
According to art. 197 of Law 6,404/76, the unrealized profit reserve was set up, in the amount of R$ 201,927.

## e. Equity valuation adjustments
"Equity valuation adjustments" caption includes: (i) accumulated net changes in financial assets at fair value through other comprehensive income until the investments are derecognized or suffer impairment loss; and (ii) accumulated translation adjustments include all foreign currency differences deriving from the translation of financial statements of foreign operations. As of December 31, 2021, the balance of equity valuation adjustment is R$ 22,744 (R$ 21,114, on December 31, 2020).

# 21 Net sales revenue

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Gross operating revenue | | |
| Sale and resale of goods | | |
| Domestic market | 2,067,833 | 1,310,012 |
| Foreign market | 139,199 | 102,205 |
| Services rendered | 3,695 | 1,616 |
| | 2,210,727 | 1,413,833 |
| Deductions | | |
| Taxes on sales and services rendered | (238,031) | (160,811) |
| Returns, rebates and prompt-payment discount | (105,520) | (73,795) |
| | (343,551) | (234,606) |
| **Net operating revenue** | **1,867,176** | **1,179,227** |

In the year ended December 31, 2021, we had an increase in relation to the same period in 2020. This change is due to the effects of the COVID-19 pandemic that had relevant impacts in 2020.

# 22 Cost of sales and resales

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Raw material | (453,104) | (312,547) |
| Labor | (251,809) | (178,510) |
| Indirect costs | (203,577) | (156,676) |
| Unallocated indirect cost (*) | - | (36,384) |
| Resale | (299,271) | (146,928) |
| **Total cost of sales and resales** | **(1,207,761)** | **(831,045)** |

(*) In 2020, the Company classified production indirect costs, not allocated to products in the period in which the plants were closed due to government restrictions, as cost of goods sold, in accordance with CPC 16.38 (IAS 2.38). In 2021, the plants operated normally.

In the year ended December 31, 2021, we had an increase in relation to the same period in 2020. This change is due to the effects of the COVID-19 pandemic that had relevant impacts in 2020 and Mizuno’s operations which started in January 2021 (see Note 1.1.2).

# 23 Sales expenses

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Commissions | (71,764) | (43,698) |
| Freight | (70,565) | (55,439) |
| Advertising | (68,096) | (53,119) |
| Royalties (*) | (25,938) | (3,383) |
| Personnel expenditures | (46,482) | (28,284) |
| Other expenditures (**) | (18,553) | (6,559) |
| | (301,398) | (190,482) |
| Impairment losses (***) | 11,929 | (9,593) |
| **Total sales expenses** | **(289,469)** | **(200,075)** |

(*) Increase due to sales growth and introduction of the Mizuno brand.

(**) The most relevant amounts are R$ 5,709 with outsourced services as of December 31, 2021 (R$ 687 as of December 31, 2020) and R$ 2,048 with expenses from the Extrema subsidiary that started operations in January 2021 (R$ 0 as of December 31, 2020).

(***) Effect arising from the reversal of the provision for uncollectible trade notes (see Note 6d and Note 26).

# 24 Administrative expenses

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Personnel expenditures | (52,775) | (43,494) | (2,544) | (2,512) |
| Outsourced services | (23,277) | (27,611) | (3,065) | (2,581) |
| Rentals | (3,759) | (2,925) | - | - |
| Travel and lodging | (717) | (326) | (1) | - |
| Security guard | (1,418) | (1,442) | (197) | (171) |
| Legal disputes and taxes | (1,775) | (2,275) | (527) | (552) |
| IT and telecommunications | (9,005) | (6,128) | (45) | (51) |
| Energy, water and sewage | (1,071) | (655) | (24) | (11) |
| Maintenance, cleaning and environment. | (3,779) | (3,602) | (5) | (13) |
| Depreciation and amortization (*) | (16,203) | (16,668) | (183) | (408) |
| Other | (4,356) | (5,435) | (1,112) | (963) |
| **Total administrative expenses** | **(118,135)** | **(110,561)** | **(7,703)** | **(7,262)** |

(*) The most relevant amounts are comprised of lease amortization is due to the impacts of CPC 06 (R2)/IFRS 16, of R$ 10,370 as of December 31, 2021 (R$ 10,130 as of December 31, 2020).

# 25 Other operating revenues (expenses), net

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Other operating revenues** | | | | |
| Rental revenue | 5,074 | 5,024 | 5,057 | 5,020 |
| Revenue from sales of power | 45 | 808 | - | - |
| Sale of scrap | 1,516 | 1,179 | - | - |
| Revenue from sale of property, plant and equipment | 3,218 | 3,485 | - | - |
| Recovery of PIS/COFINS over ICMS (*) | 66,946 | 8,686 | - | - |
| Court-ordered debt payment | - | 797 | - | - |
| Gain from settlement of pre-existing relationship (**) | 13,980 | - | - | - |
| Other | 7,721 | 10,229 | - | 451 |
| **Total other operating revenues** | **98,500** | **30,208** | **5,057** | **5,471** |
| **Other operating expenses** | | | | |
| Provision for contingencies | (9,740) | (5,137) | (35) | (37) |
| Expense in sale of property, plant and equipment | (3,430) | (5,492) | - | - |
| Other (***) | (14,546) | (18,782) | (155) | - |
| **Total other operating expenses** | **(27,716)** | **(29,411)** | **(190)** | **(37)** |
| **Other operating revenues (expenses), net** | **71,784** | **797** | **4,867** | **5,434** |

(*) In the year ended December 31, 2021, the subsidiaries Vulcabras BA, Vulcabras CE and Vulcabras Distribuidora recorded extemporaneous credit of R$ 971, R$ 63,266 and R$ 2,708, respectively, regarding the recovery of Pis/Cofins based on the thesis of exclusion of ICMS (R$ 6,881 at Vulcabras BA, R$ 1,805 at Vulcabras Distribuidora as of December 31, 2020).

(**) As of June 30, 2021, with the conclusion of the second stage of the acquisition of assets from Running, the Company recorded a net gain of R$ 13,980 related to the settlement of pre-existing relationship.

(***) The principal value on December 31, 2021 is comprised of R$ 4,429 related to ICMS expenses on other products (R$ 2,903 related to ICMS expenses on other products).

# 26 Finance result

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| **Financial revenues** | | | | |
| Capital structure | | | | |
| Revenue from investments | 6,170 | 4,944 | 2,576 | 242 |
| Other | 4 | - | - | - |
| Subtotal | 6,174 | 4,944 | 2,576 | 242 |
| Operating | | | | |
| Interest | 2,229 | 1,857 | 5,344 | 629 |
| Discounts obtained | 692 | 5,857 | - | - |
| Untimely restatement of credits (*) | 59,135 | - | - | - |
| Other | 5,260 | 5,287 | 32 | - |
| Subtotal | 67,316 | 13,001 | 5,376 | 629 |

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **12/31/2021** | **12/31/2020** | **12/31/2021** | **12/31/2020** |
| Exchange-rate changes | 14,533 | 28,400 | - | - |
| **Total financial revenues** | **88,023** | **46,345** | **7,952** | **871** |
| **Financial expenses** | | | | |
| Capital structure | | | | |
| Interest (**) | (30,436) | (14,585) | (8,770) | (763) |
| IOF | (253) | (120) | (4) | (7) |
| Other | (2,667) | (2,117) | - | - |
| Subtotal | (33,356) | (16,822) | (8,774) | (770) |
| Operating | | | | |
| Bank fees | (4,491) | (3,754) | (2) | (2) |
| Fee/commission sale card | (117) | (1,002) | - | - |
| Discounts granted (***) | (10,439) | (1,585) | - | - |
| AVP (Adjustment at present value) | (2,269) | - | - | - |
| Other rates | (3,398) | (2,363) | - | - |
| Subtotal | (20,714) | (8,704) | (2) | (2) |
| Exchange-rate changes | (21,495) | (20,880) | - | - |
| **Total finance costs** | **(75,565)** | **(46,406)** | **(8,776)** | **(772)** |
| **Finance result** | **12,458** | **(61)** | **(824)** | **99** |

(*) The main change refers to the restatement of extemporaneous credits in the amount of R$ 59,135 (R$ 1,658 as of December 31, 2021). See Note 8a.

(**) In the year ended December 31, 2021, there was an increase of R$ 13,111 arising from new funding for working capital.

(***) Discounts applied to the sale of bad debts in the amount of R$ 8,604 in June 2021.

# 27 Earnings per share

The calculation of basic earnings per share is made by dividing the income (loss) for the year, attributed to the holders of common shares of the Company, by the weighted average number of common shares free float during the year.

Diluted earnings per share are calculated by dividing the profit for the period attributable to holders of the Company’s common shares by the weighted average number of common shares that would be issued on the conversion of all potentially dilutive shares into their respective shares.

On December 31, 2021, the Company had potential outstanding shares which could affect the dilution of the result per share under CPC 41/IAS 33 in the total amount of 3,200,000 potential shares. Of the total amount, 635,000 potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 755,000 potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019, and 870,000 potential shares are related to the third grant of shares of Stock Option plan that was approved on August 6, 2020, while 940,000 potential shares refer to the fourth grant of shares of the Stock Options plan approved on May 11, 2021.

As of December 31, 2020, the Company had 2,260,000 potential outstanding shares. Of the total amount, 635,000 potential shares refer to the first grant of shares under the Stock Option Plan approved on January 16, 2018, and, 755,000 potential shares refer to the second grant of shares under the Stock Option Plan approved on May 05, 2019, and 870,000 potential shares are related to the third grant of shares of Stock Option plan that was approved on August 6, 2020 that could affect the dilution of earnings per shares under the terms of CPC 41/IAS 33.

The table below presents the calculations of basic and diluted earnings per share.

| | Consolidated | |
|---|---|---|
| | Number of common shares | |
| | 12/31/2021 | 12/31/2020 |
| Income (loss) attributable to shareholders | 313,839 | 31,554 |
| Weighted basic average of outstanding shares in the year | 245,756,244 | 245,756,346 |
| Weighted basic average of outstanding shares in the year | 248,956,244 | 248,016,346 |
| Basic earnings per share (per thousand) - R$ | 1.2770 | 0.1285 |
| Basic earnings per share (per thousand) - R$ | 1.2606 | 0.1274 |

# 28 Financial instruments and risk management

The main financial assets and liabilities of the Company and its subsidiaries refer to cash and cash equivalents, trade accounts receivable, trade accounts payable, loans with related parties, lease liability and loans and financing.

## Financial risk framework and management

The Company and its subsidiaries manage financial risks by monitoring the financial positions of assets and liabilities, controlling exposure limits.

The Company and its subsidiaries are exposed to the following risks arising from financial instruments:

- Credit risk
- Market risk
- Interest rate risk
- Liquidity risk

The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market.

The risk management policies of the Company and its subsidiaries were established to identify and analyze the exposure, to set adequate limits and controls by monitoring risks and compliance with limits. Risk policies and systems are reviewed regularly to reflect changes in the market conditions and in the activities of the Company and its subsidiaries.

The assessments of financial instruments and risk management are explained below:

### *(i) Credit risk*

Credit risk is the risk of the Company and its subsidiaries incurring financial losses due to a party, resulting from failure in complying with contract obligations. Such risk is mainly due to trade accounts receivable. The book values of financial assets and contract assets represent the maximum credit exposure.

The Company and its subsidiaries are exposed to the credit risk due to the possibility of not receiving trade accounts receivable or credits from financial institutions.

The Company and its subsidiaries' risk management adopts the following practices:

(i) Careful selection of financial institutions, which are considered as prime line by the market (largest asset management banks in Brazil), State banks or government development agencies, meaning that the credit risk posed by the financial institutions is extremely low and diversifying financial instruments used to invest the company's funds, which are invested in a basket of indexes consisting of the CDI rate, fixed rates or rates restated for inflation.

(ii) Analyzing credits granted to clients and establishing sales limits. There are no clients that individually represent more over 9.6% of total trade accounts receivable of the Company as of December 31, 2021 (14.2% on December 31, 2020); and

(iii) The Company's exposure to credit risk is influenced, mainly, by the individual characteristics of each client. However, management also considers the factors that may influence the credit risk of its client base, including the risk of non-payment of the industry and of the country in which the client operates.

The Company uses a provisioning matrix to measure the expected credit loss with individual trade accounts receivable:

| December 31, 2021 | Policy applied | Gross book balance | Provision for estimated losses |
|---|---|---|---|
| Stores | 0.00% | 32,337 | - |
| Falling due | 0.04% | 579,880 | (232) |
| Overdue 1–30 days | 0.50% | 5,129 | (26) |
| Overdue 31–60 days | 10.00% | 578 | (58) |
| Overdue 61–90 days | 25.00% | 624 | (156) |
| Overdue for more than 90 days | 100.00% | 17,294 | (17,294) |
| Clients under court-ordered reorganization (with financial restructuring) | 40.00% | 3,050 | (1,220) |
| Clients under court-ordered reorganization (without financial restructuring) | 100.00% | 16,088 | (16,088) |
| | | **654,980** | **(35,074)** |

| December 31, 2020 | Policy applied | Gross book balance | Provision for estimated losses |
|---|---|---|---|
| Stores | 0.00% | 13,520 | - |
| Falling due | 0.04% | 525,940 | (210) |
| Overdue 1–30 days | 0.50% | 4,173 | (21) |
| Overdue 31–60 days | 10.00% | 327 | (33) |
| Overdue 61–90 days | 25.00% | 263 | (66) |
| Overdue for more than 90 days | 100.00% | 31,433 | (31,433) |
| Clients under court-ordered reorganization (with financial restructuring) | 40.00% | 14,865 | (5,952) |
| Clients under court-ordered reorganization (without financial restructuring) | 100.00% | 4,406 | (4,406) |
| Foreign market | | 29,706 | (8,408) |
| | | **624,633** | **(50,529)** |

The criteria used to calculate the loss matrix are disclosed in note 6c.

Loss rates are based on the actual credit loss experience seen in the previous accounting year. These rates were multiplied by the scale factors to reflect differences among economic conditions during the period in which historic data was collected, current conditions, and the Company's vision on economic conditions over receivables' expected lives.

### *(ii) Market risk*

Market risk is the risk that alterations in market prices, such as foreign exchange, interest rates and prices of shares, will affect the Company's gains or the amount of its financial instruments. The objective of market risk management is to assess and control exposures to market risks, within acceptable parameters, and at the same time to optimize the return. The Company does not use derivatives to manage the market risk.

*Foreign exchange risk*

Considering the price risk on exports, which correspond to 3.64% of revenue from its subsidiaries as of December 31, 2021 (4.16% as of December 31, 2020), any volatility of the exchange rate represents, in fact, a price risk that can impair the results planned by Management.

*Sensitivity analysis*

The results of the Company and its subsidiaries are susceptible to significant changes, due to the effects of the volatility of the foreign exchange rate on the assets and liabilities indexed to foreign currencies, especially the USD, which ended the year as of December 31, 2021 with the positive change in 7.39% in relation to the last quotation as of December 31, 2020.

As a strategy to avoid and reduce the effects of foreign exchange fluctuations, Management tried to maintain a natural hedge in restricted assets, also pegged to exchange fluctuations. Management does not enter into financial instruments to eliminate its exposure to foreign exchange risks, which are as follows:

| | Consolidated | |
|---|---|---|
| **US dollar (US$ thousand)** | **12/31/2021** | **12/31/2020** |
| Assets in foreign currency (a) | 16,094 | 7,793 |
| Liabilities in foreign currency (b) | (4,355) | (6,287) |
| Surplus determined (a-b) | 11,739 | 1,506 |

In the light of the fluctuation risk exposure, the Company shows below three scenarios for foreign exchange fluctuations and the respective future outcome created. Namely:

1. **Probable scenario and that is adopted by the Company and its subsidiaries:** Dollar rate totaled R$ 5.5805 on December 31, 2021;

2. **Possible scenario:** As provided in the CVM Resolution, the scenario is built considering a 25% decrease in the US dollar rate amounting to R$ 4.1854; and

3. **Remote scenario:** Also in accordance with CVM standard, in this scenario the US dollar rate is decreased by 50%, amounting to R$ 2.7903.

**Foreign exchange sensitivity analysis - effect in come income (loss) as of December 31, 2021**

| **Transaction** | **Risk** | **Probable scenario** | **Possible scenario** | **Remote scenario** |
|---|---|---|---|---|
| | US$ 11,739 thousand | FX 5.5805 | FX 4.1854 | FX 2.7903 |
| Financial income (loss) | US$ decr. | - | (16,377) | (32,754) |

## *(iii) Interest rate risk*

*Sensitivity analysis*

The Company's and its subsidiaries' results are exposed to fluctuations, not significant, due to the effects of the volatility of the DI-CETIP, TJLP (Long-term interest rate) and IPCA (National Amplified Consumer Price Index) rate on interest earning bank deposits and part of loans and financing linked to these rates.

| | **Consolidated** | | **Consolidated** | |
|---|---|---|---|---|
| | **Book value 12/31/2021** | **Fair value 12/31/2021** | **Book value 12/31/2020** | **Fair value 12/31/2020** |
| Assets in CDI | 114,347 | 114,347 | 233,762 | 233,762 |
| Liabilities in TJPL | 2,571 | 2,442 | 2,276 | 2,365 |
| Liabilities at IPCA | 100,527 | 105,096 | 125,808 | 138,053 |
| Liabilities in CDI | 250,040 | 251,262 | 156,975 | 159,687 |

Given the exposure to the risk of changes in the indexes used in interest earning bank deposits and loans, the Company presents below scenarios for the changes in rates and the respective future results that would be generated. Namely:

(i) Probable scenario adopted by the Company and its subsidiaries, with a DI-CETIP rate of 9.15% p.a. and TJLP of 6.08% p.a. and IPCA of 10.06% p.a.;

(ii) Possible scenario, including an increase or decrease of 25% on rates;

(iii) Remote scenario, including an increase or decrease of 50% on rates.

Statement of changes in rates as of December 31, 2021 is as follows:

| **Operation** | **Risk** | **Probable scenario** | **Possible scenario 25%** | **Remote scenario 50%** |
|---|---|---|---|---|
| | | TJLP - 6.08% | TJLP - 7.60% | TJLP - 9.12% |
| Loans – TJLP | TJLP incr. | R$ 0 | R$ 39 | R$ 78 |
| | | IPCA - 10.06% | IPCA - 12.58% | IPCA - 15.09% |
| Loans at IPCA | IPCA incr. | R$ - | R$ 2,533 | R$ 5,057 |
| | | CDI - 9.15% | CDI - 11.44% | CDI - 13.73% |
| Loans in CDI | CDI incr. | R$ 0 | R$ 5,726 | R$ 11,452 |
| | | CDI - 9.15% | CDI - 6.86% | CDI - 4.58% |
| Investments in CDI | CDI decr. | R$ - | R$ (2,619) | R$ (5,226) |

### *(iv) Liquidity risk*

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's aim when managing the liquidity, is to guarantee, as much as possible, that it will have sufficient liquidity to perform its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sullying the Company's reputation.

The Company and its subsidiaries monitor their funds liquidity risk through cash monetary policies to avoid a mismatch between accounts receivable and accounts payable.

In addition, the Company and its subsidiaries maintain balances of interest earning bank deposits with daily liquidity, which may be redeemed at any time to cover possible mismatches between maturity dates of their contract obligations and cash generation.

The scheduled payments of long-term installments of loans and financing are presented below:

| | **12/31/2021** | |
|---|---|---|
| **Maturity** | **Amount** | **%** |
| 2023 | 35,061 | 46% |
| 2024 | 17,303 | 23% |
| 2025 | 14,826 | 19% |
| 2026 | 9,078 | 12% |
| **Total** | **76,268** | **100%** |

*Breakdown of balances*

The estimated realization values of the financial assets and liabilities of the Company and its subsidiaries were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable value.

The Management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

The book balances and the fair value of financial instruments included in balance sheets as of December 31, 2021 and December 31, 2020 are shown below:

| | | Consolidated | | | |
|---|---|---|---|---|---|
| | | 12/31/2021 | | 12/31/2020 | |
| **Description** | **Classification** | **Book balance** | **Fair value** | **Book balance** | **Fair value** |
| Cash and cash equivalents | Financial assets at amortized cost | 114,635 | 114,635 | 158,552 | 158,552 |
| Interest earning bank deposits | | | | | |
| CDB/Investment Fund | Financial assets at fair value through profit or loss | 9,418 | 9,418 | 90,049 | 90,049 |
| Share investment funds | Financial assets at fair value through other comprehensive income (FVTOCI) | 894 | 894 | 458 | 458 |
| Accounts receivable | Financial assets at amortized cost | 616,275 | 616,275 | 574,104 | 574,104 |
| Other trade receivables | Financial assets at amortized cost | 19,323 | 19,323 | 11,266 | 11,266 |
| Borrowings and financing: | | | | | |
| In local currency | Other financial liabilities | 353,138 | 358,800 | 285,058 | 300,104 |
| In foreign currency | Other financial liabilities | 8,112 | 7,664 | 26,571 | 26,727 |
| Suppliers | Other financial liabilities | 78,006 | 78,006 | 62,457 | 62,457 |
| Loan with related parties | Other financial liabilities | 18,041 | 18,041 | 17,632 | 17,632 |

| | | Parent company | | | |
|---|---|---|---|---|---|
| | | 12/31/2021 | | 12/31/2020 | |
| **Description** | **Classification** | **Book balance** | **Fair value** | **Book balance** | **Fair value** |
| Cash and cash equivalents | Financial assets at amortized cost | 33 | 33 | 18 | 18 |
| Interest earning bank deposits | | | | | |
| CDB/Investment Fund | Financial assets at fair value through profit or loss | 2 | 2 | 80,951 | 80,951 |
| Loans with related parties | Financial assets at amortized cost | 118,324 | 118,324 | 120,602 | 120,602 |
| Other trade receivables | Financial assets at amortized cost | 3,423 | 3,423 | 1,538 | 1,538 |
| Suppliers | Other financial liabilities | 1,672 | 1,672 | 289 | 289 |
| Loans with related parties | Other financial liabilities | 206,533 | 206,533 | 197,763 | 197,763 |

## (v) Fair value hierarchy

| | Consolidated | | | | Parent company | | | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2021 | | 12/31/2020 | | 12/31/2021 | | 12/31/2020 | |
| **Description** | **Level 1** | **Level 2** | **Level 1** | **Level 2** | **Level 1** | **Level 2** | **Level 1** | **Level 2** |
| Interest earning bank deposits | | | | | | | | |
| Floating-rate CDB | - | 5,005 | - | 85,748 | - | - | - | 80,949 |
| Investment fund | - | 4,413 | - | 4,301 | - | 2 | - | 2 |
| Share investment funds | 894 | - | 458 | - | - | - | - | - |
| Loans with related parties | - | - | - | - | - | 118,324 | - | 120,602 |
| Loans and financing | - | 366,464 | - | 326,831 | - | - | - | - |
| Loans with related parties | - | 18,041 | - | 17,632 | - | 206,533 | - | 197,763 |

- **Level 1 -** Prices charged (unadjusted) in active markets for identical assets or liabilities;
- **Level 2 -** different inputs of the prices negotiated in active markets included at Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
- **Level 3 -** inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

## (vi) Criteria, assumptions and limitations used in the calculation of fair value

*Interest earning bank deposits*
For interest earning bank deposits, the fair value against the income (loss) was calculated based on the market quotations of these securities and are stable considering investment rates and terms. The interest earning bank deposits are remunerated at a percentage of DI-CETIP and are restated at December 31, 2021 (see Note 5).

*Accounts receivable*
Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company and its subsidiaries are responsible. The estimated impairment losses were formed at an amount considered adequate by the management to cover any losses arising on collection of credits.

*Loans and financing*
The amount of loans and financing calculated at December 31, 2021 are measured at amortized cost using the effective interest method, and are recorded at their contractual values. We currently found interest rates applicable to these instruments identical to the contracts that were signed, given the objective of the financing, time frames and guarantees submitted. The valuation model considers the present value of the payment expected, discounted by a risk-adjusted discount rate.

*Suppliers*
Trade accounts payable derive directly from the commercial operations of the Company and its subsidiaries, are stated at their original values, subject to exchange and monetary restatement, when applicable, up to the balance sheet date.

*Limitations*
The fair value of instruments was estimated on the balance sheet date, based on “Relevant market information.” Changes in the assumptions may significantly affect the presented estimates.

### (vii) Capital management

The capital management of the Company and its subsidiaries aims to ensure that a strong credit rating is maintained before institutions, as well as a solid capital relationship, so as to support the business of the Company and leverage shareholders’ value.

The Company and its subsidiaries include within its net debt structure: loans and financing less cash, cash equivalents and interest earning bank deposits.

| | Consolidated | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| Borrowings and financing | (361,250) | (311,629) |
| Leases | (19,779) | (18,530) |
| Cash and cash equivalents | 114,635 | 158,552 |
| Interest earning bank deposits | 10,312 | 90,543 |
| **Net debt** | **(256,082)** | **(81,064)** |
| **Equity** | **1,356,562** | **1,125,394** |

## 29 Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity.

The risk assumptions adopted are out of the scope of the auditing of financial statements, and therefore were not examined by our independent auditors.

Coverage amounts as of December 31, 2021 are summarized as follows:

| Corporate insurance in reais (R$) | | |
|---|---|---|
| **Object** | **Risk covered** | **Amount of coverage** |
| Property | Fire, Windstorms, Electrical Damages, Machine Breakdown, Theft, Flooding, Electronic Equipment. | 195,000 |
| Loss of profits | Fixed expenses (P.I 3 months) | 60,000 |
| D&O | Management civil general liability | 20,000 |
| General civil responsibility | General civil liability | 2,000 |
| Light vehicles | Property, body damages, pain and suffering to third parties | 15,200 |
| Heavy vehicles | Property, body damages, pain and suffering to third parties | 11,200 |
| International transport - Imports | Limit per shipment - Goods / Raw materials | 8,371 |
| | **Total corporate insurance** | **311,771** |

# 30 Government grants and assistance

## a. Federal incentives

- **IRPJ REDUCTION** -Refer to the right to 75% reduction of the Income Tax and Surtax, calculated based on the operating profit in accordance with article 1 of the Provisional Act 2199-14 of August 24, 2001, as per the criteria established and also in compliance with the tax incentive regulation. Are considered as onerous conditions met the projects for total modernization currently in areas of the Northeast Development Agency - SUDENE. The beneficiaries of the incentive of 75% reduction of the income tax are the projects located in the states of Ceará, Bahia and Sergipe.

## b. State incentives

### *(i) Ceará*

*For footwear*

- **PROVIN** - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 99% of the ICMS levied on company manufacturing of footwear. On the amount of each installment of the benefit, 1% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

*For apparel*

- **PROVIN** - This is an incentive program for the industrial development fund of the State of Ceará (FDI), which consists in the deferral of 75% of the ICMS levied on company manufacturing of apparel. On the amount of each installment of the benefit, 25% will be paid in a single installment, with maturity on the last day of the month, and the amount will be adjusted after 36 months, from the disbursement date to the maturity date, restated at TJLP.

*Additional incentives*
In addition to PROVIN shoes and apparel, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces that do not have similar item in the State of Ceará, as well as the difference of rates on purchases of capital goods.

- **PCDM** – It is an incentive program to distribution business centers (PCDM), which consists of the reduction by 75% of the debt balance of the ICMS monthly calculated on interstate shipping activities. The subject of this instrument does not include the ICMS withheld of third parties by the company, in view of the tax replacement regime.

*Additional incentives*
It has as additional to PCDM the deferral of the ICMS levied: In import of foreign goods for subsequent shipment, import from abroad and other states, of goods to comprise property, plant and equipment.

### *(ii) Bahia*

- **PROBAHIA -** Refers to the development program for the State of Bahia, aiming at diversifying and stimulating the transformation of the industrial processes in the state. The incentive is the deferral of ICMS on the total debits calculated on the shipment of goods, where a presumed credit of 99% of the amount due is calculated. Its payment consists in 1% of the debit balance that should be paid in the month subsequent to the ICMS calculation.

  *Additional incentives*
  In addition to PROBAHIA, there is also the deferral of ICMS on imports of raw materials, machinery, equipment, parts, as well as the difference of rates on purchases of capital goods.

### *(iii) Minas Gerais*

- **Special Regime –** For the operation of Vulcabras Distr. Art. Esp. Ltda (Branch of Extrema-MG), we will have the e-PTA-RE Nº: 45.000024131-24, which addresses the Special Regime incentive with simplified protocol of intentions providing for deferrals, deemed credit and TTS/IMPORT CORRIDOR, which consists of the deferral of the ICMS payment on imports with a specific trading purpose; partial deferral, resulting in a ICMS highlight of 4% for imported products and 12% for domestic products due to domestic sales to taxpayers enjoying the special regime; in the deemed credit for the effective rate to be 3% in domestic and interstate operations with domestic products and in the deemed credit of 2.5% in interstate operations with imported products or 4% in internal operations with imported products, for an indefinite period.

- **Special Regime –** For the operation of Vulcabras SP (Branch of Extrema-MG), we will have e-PTA-RE Nº: 45.000024132-05, which addresses the Special Regime incentive as follows: UNRESTRICTED TTS/E-COMMERCE, which consists of the adoption of procedures for the assignment of responsibility for the retention and payment of ICMS due as tax substitution, the granting of deferral of ICMS on imports and the adoption of a simplified tax bookkeeping and calculation system in operations contracted within the scope of electronic commerce or telemarketing aimed at final consumers with deemed ICMS credit in domestic operations of 12% for domestic products and 4% for imported products and 1.3% of effective rate on interstate sales, for an indefinite period.

## c. Additional incentives

TTS/WHOLESALERS and TTS/E-COMMERCE also consider deferred payment of ICMS levied on the receipt of goods with a specific trading purpose, as a result of direct imports from abroad, for the subsequent operations practiced by Vulcabras.

| | Statement of Government grants | | |
|---|---|---|---|
| **Subsidiary** | **State incentive** | **%** | **Maturity** |
| Vulcabras CE, Calç. e Art. Esp. S.A. | Provin Calçados | 99% | Aug 2031 |
| Vulcabras CE, Calç. e Art. Esp. S.A. | Provin Confecções | 75% | June 2022 |
| Vulcabras BA, Calç. e Art. Esp. S.A. | Probahia | 99% | July 2027 |
| Vulcabras Distr. Art. Esp. Ltda. | PCDM | 75% | Dec 2022 |
| Vulcabras Distr. Art. Esp. Ltda. | TTS/WHOLESALERS | Variable | Undetermined |
| Vulcabras SP, Comércio de Art. Esp. Ltda. | TTS/E-COMMERCE | Variable | Undetermined |

| | Statement of Government grants | | |
|---|---|---|---|
| **Subsidiary** | **Federal incentive** | **%** | **Maturity** |
| Vulcabras CE, Calç. e Art. Esp. S.A. | IRPJ decr. | 75% | Dec 2025 |
| Vulcabras BA Calç. e Art. Esp. S.A. | IRPJ decr. | 75% | Dec 2026 |

## d. Consolidated

Considering that these incentives were recognized directly in profit (loss) of subsidiaries, as a consequence, they were recognized in the Company's profit (loss) through the calculation of equity in net income of subsidiaries, whose effects are shown below:

| **Value added tax on exports and investments (ICMS)** | | | **Equity in net income of subsidiaries in parent company** | |
|---|---|---|---|---|
| **Tax incentive recorded in income (loss) of subsidiaries** | **Consolidated tax incentive** | **% Interest** | **12/31/2021** | **12/31/2020** |
| Vulcabras CE, Calçados e Artigos Esportivos S.A. | 92,748 | 99.99% | 92,739 | 70,096 |
| Vulcabras Distr. Art. Esp. Ltda. | 17,645 | 0.14% | 25 | 8 |
| Vulcabras BA, Calçados e Artigos Esportivos S.A. | 62,313 | 100.00% | 62,313 | 46,265 |
| Vulcabras SP, Comércio de Art. Esp. Ltda. | 4,390 | 100.00% | 4,390 | - |
| | 177,096 | | 159,467 | 116,369 |

| **Reintegra** | | | **Equity in net income of subsidiaries in parent company** | |
|---|---|---|---|---|
| **Tax incentive recorded in income (loss) of subsidiaries** | **Consolidated tax incentive** | **% Interest** | **12/31/2021** | **12/31/2020** |
| Vulcabras CE, Calçados e Artigos Esportivos S.A. | 44 | 99.99% | 44 | 27 |
| Vulcabras BA, Calçados e Artigos Esportivos S.A. | 40 | 100.00% | 40 | 34 |
| | 84 | | 84 | 61 |

## 31 Product and geographic area information

The information of net sales in the domestic and foreign markets, by region, was prepared based on the country of origin of the revenue, that is, based on the sales made by its subsidiaries in Brazil and through foreign subsidiaries.

The Group operates in the segment of production and sale of synthetic shoes for the domestic and foreign markets.

Although shoes are intended to address various audiences and social classes, they are not controlled and managed by Management as independent segments. The Company's results are supervised, monitored and evaluated in an integrated manner.

The sales consolidated in the domestic and foreign market and non-current assets are stated as follows:

| | **12/31/2021** | **12/31/2020** |
|---|---|---|
| Net sales | | |
| Athletic shoes | 1,572,732 | 856,518 |
| Women's shoes | 48,621 | 142,732 |
| Other footwear and others | 105,468 | 86,724 |
| Apparel | 140,355 | 93,253 |
| | **1,867,176** | **1,179,227** |
| Domestic market | 1,729,430 | 1,078,060 |
| Foreign market | 137,746 | 101,167 |
| | **1,867,176** | **1,179,227** |

The non-current assets of each geographic region are shown below:

| | **Consolidated** | |
|---|---|---|
| | **12/31/2021** | **12/31/2020** |
| **Noncurrent assets in the domestic and foreign markets as of:** | | |
| Brazil | 680,587 | 547,935 |
| Other countries | 15,353 | 20,434 |
| **Total** | **695,940** | **568,369** |

# Members of the Board of Directors

Pedro Grendene Bartelle
Chairman

André de Camargo Bartelle
1st Vice-President

Pedro Bartelle
2nd Vice-President

Paulo Sérgio da Silva
Independent Board Member

Octávio Ferreira de Magalhães
Independent Board Member

## Members of the Executive Board

Pedro Bartelle
Chairman

Wagner Dantas da Silva
Administrative and Financial Director

Flávio de Carvalho Bento
Industrial Director

Rafael Carqueijo Gouveia
CEO

Rodrigo Miceli Piazer
Supply Chain Officer

Evandro Saluar Kollet
Corporate Director of Product Development and Technology

Márcio Kremer Callage
Marketing Director

### Investor Relations Director

Wagner Dantas da Silva

### Technician Responsible

Manoel Damião da Silveira Neto
Accountant CRC 1RJ052266/O-2 “S”-SP