Individual and Consolidated Financial Statements

Vulcabras S.A.

December 31, 2022
with Independent Auditor's Report

Vulcabras S.A.

Individual and consolidated financial statements

December 31, 2022

Contents

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A free translation from Portuguese into English of independent auditor's report on individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB)

Independent auditor's report on individual and consolidated financial statements

To the Shareholders, Board of Directors and Officers
Vulcabras S.A.
Jundiaí - SP

Opinion

We have audited the individual and consolidated financial statements of Vulcabras S.A. (the "Company"), identified as Individual and Consolidated, respectively, which comprise the statements of financial position as at December 31, 2022, and the statements of profit or loss, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2022, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide an individual opinion on these matters. For the matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

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

Impairment of assets with finite and indefinite useful lives

At December 31, 2022, the balance of intangible assets totaled R$ 111 thousand and R$ 209,096 thousand, including goodwill of R$ 198,214 thousand, individual and consolidated, respectively. Consolidated property, plant and equipment, including buildings, machinery and equipment, amounted to R$ 379,031 thousand as of December 31, 2022. In accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the Company is required to carry out, at least annually, an impairment test of the recorded amounts of these assets.

Monitoring of this matter was considered significant for our audit, since the impairment testing process for these items is complex, involving a high degree of subjectivity, and is based on various assumptions, such as determination of the cash-generating units, discount rates, growth rates, and profitability of the Company's and its subsidiaries' businesses several years ahead.

How our audit addressed this matter:

Our audit procedures included the following, among others: (i) updating of the understanding and assessment of the internal control environment on the processes for evaluating the recoverable amount of the Company’s finite- and indefinite-lived assets; (ii) assessment of the governance on the preparation and approval of cash flow projections; (iii) use of specialized professionals to assist us in evaluating the assumptions and methodology used by the Company and its subsidiaries, as well as examination of estimates of future sales, growth rate, discount rate used in discounted cash flows, profit margin of the cash-generating units; and (iv) arithmetic recalculation of the financial model. We also examined the adequacy of the disclosures made by the Company regarding the assumptions used in the asset impairment calculations, which are included in notes 3.13 and 15.

Based on the result of the audit procedures performed on the impairment of tangible and intangible assets, particularly goodwill, which is consistent with management's assessment, we consider that the criteria and assumptions used to determine the recoverable amount of goodwill and other tangible and intangible assets adopted by management, as well as the respective disclosures in Note 15, are acceptable, in the context of the individual and consolidated financial statements taken as a whole.

Other matters

Audit of corresponding figures

The Company's individual and consolidated financial statements for the year ended December 31, 2021, presented for comparison purposes, were audited by another independent auditor who issued a report dated March 8, 2022 containing an unmodified opinion.

Statements of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2022, prepared under the responsibility of the Company's executive board and presented as supplementary information for IFRS purposes, were submitted to audit procedures conducted jointly with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by Accounting Pronouncement NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in the abovementioned accounting pronouncement, and are consistent in relation to the individual and consolidated financial statements taken as a whole.

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

The executive board is responsible for such other information, which comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the executive board and those charged with governance for the individual and consolidated financial statements

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

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

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

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

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

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

- Identified and assessed risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.

- Concluded on the appropriateness of the executive board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determined the matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters 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.

Recife, March 1, 2023.

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

Francisco da Silva Pimentel
Accountant CRC-1SP171230/O-7-T-PE

Vulcabras S.A.

(Publicly-held corporation)

Statements of financial position

December 31, 2022 and 2021

(In thousands of reais)

		Consolidated		Individual	
Assets	**Note**	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Cash and cash equivalents	4	197.197	114.635	35.161	33
Short-term investments	5	4	-	4	-
Trade accounts receivable	6	769.457	616.275	-	-
Inventories	7	567.831	493.497	-	-
Taxes recoverable	8	18.685	46.852	582	576
Income and social contribution taxes	9a	13.859	7.073	1.331	746
Receivables for disposal of operation		-	3.850	-	-
Other accounts receivable		26.074	17.115	6.141	2.124
Total current assets		**1.593.107**	**1.299.297**	**43.219**	**3.479**
Financial investments	5	8.942	10.312	1	2
Trade accounts receivable	6	5.153	3.631	-	-
Taxes recoverable	8	193.504	63.099	1.831	1.821
Deferred income and social contribution taxes	9b	13.591	493	301	-
Judicial deposits	10	22.419	16.005	408	338
Intercompany loans	11	-	-	-	118.324
Receivables for disposal of operation		-	1.720	-	-
Goods for sale		194	194	-	-
Other accounts receivable		1.934	2.208	973	1.299
Long-term assets		**245.737**	**97.662**	**3.514**	**121.784**
Investments	12	75.662	69.408	1.798.458	1.439.905
Investment property		4	5	-	-
Right of use	18	18.119	17.442	-	-
Property, plant and equipment	13	379.031	302.337	-	-
Intangible assets	14	209.096	209.086	111	111
		681.912	**598.278**	**1.798.569**	**1.440.016**
Total noncurrent assets		**927.649**	**695.940**	**1.802.083**	**1.561.800**
Total assets		**2.520.756**	**1.995.237**	**1.845.302**	**1.565.279**

		Consolidated		Individual	
Liabilities and equity	Note	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Trade accounts payable	16	104.925	78.006	368	1.672
Loans and financing	17	283.638	291.497	-	-
Lease liabilities	18	8.509	7.129	-	-
Taxes payable		19.670	8.944	330	130
Salaries and vacation payable		56.139	45.618	13	13
Provisions	19	3.102	22.488	397	418
Deferred income and social contribution taxes	9b	-	2.576	-	-
Commissions payable		19.538	14.305	-	-
Dividends and profits payable		20.734	4	20.734	4
Other accounts payable		53.716	24.337	1.191	153
Total current liabilities		**569.971**	**494.904**	**23.033**	**2.390**
Loans and financing	17	133.410	69.753	-	-
Intercompany loans	11	18.448	18.041	109.889	206.533
Lease liabilities	18	12.059	12.650	-	-
Provisions	19	54.274	37.390	591	-
Provision for investment losses	12	-	-	-	135
Deferred income and social contribution taxes	9b	17.079	2.272	301	-
Other accounts payable		3.681	3.665	-	-
Total noncurrent liabilities		**238.951**	**143.771**	**110.781**	**206.668**
Equity					
Capital	20	1.106.717	1.106.717	1.106.717	1.106.717
Revaluation reserves	20	4.175	4.410	4.175	4.410
Capital reserves	20	4.647	4.731	4.647	4.731
Treasury shares	20	(6.119)	-	(6.119)	-
Legal reserve	20	39.187	15.692	39.187	15.692
Unrealized profits reserve	20	-	201.927	-	201.927
Statutory reserve	20	536.907	-	536.907	-
Equity adjustments	20	25.974	22.744	25.974	22.744
Equity attributable to controlling shareholders		**1.711.488**	**1.356.221**	**1.711.488**	**1.356.221**
Noncontrolling interests		**346**	**341**	**-**	**-**
Total equity		**1.711.834**	**1.356.562**	**1.711.488**	**1.356.221**
Total liabilities		**808.922**	**638.675**	**133.814**	**209.058**
Total liabilities and equity		**2.520.756**	**1.995.237**	**1.845.302**	**1.565.279**

Vulcabras S.A.

(Publicly-held corporation)

Statements of profit or loss

December 31, 2022 and 2021

(In thousands of reais, except earnings per share)

		Consolidated		Individual	
	Note	**12/31/2022**	**12/31/2021**	**12/31/2022**	**12/31/2021**
Continuing operations					
Net sales revenue	21	2.536.936	1.867.176	-	-
Cost of sales and resales	22	(1.599.498)	(1.207.761)	-	-
Gross profit		**937.438**	**659.415**	**-**	**-**
Selling expenses	23	(384.695)	(301.398)	-	-
(Setup) reversal of allowance for expected credit losses	23	(14.539)	11.929	-	-
Administrative expenses	24	(150.168)	(118.135)	(5.398)	(7.703)
Other operating income, net	25	50.233	70.784	5.050	4.867
Equity pickup	12b	5.298	3.072	473.848	317.491
Income (loss) before net finance income and costs and taxes		**443.567**	**325.667**	**473.500**	**314.655**
Finance income		125.916	88.023	18.244	7.952
Finance costs		(84.618)	(75.565)	(21.821)	(8.776)
Finance income (costs), net	26	**41.298**	**12.458**	**(3.577)**	**(824)**
Income (loss) before income taxes		**484.865**	**338.125**	**469.923**	**313.831**
Current and deferred income and social contribution taxes	9c	(14.935)	(24.286)	(23)	-
Net income for the year		**469.930**	**313.839**	**469.900**	**313.831**
Income attributable to:					
Controlling shareholders		465.582	313.831	469.900	313.831
Noncontrolling shareholders		4.348	8	-	-
Net income for the year		**469.930**	**313.839**	**469.900**	**313.831**
Earnings per share					
Earnings per common share - basic				1,9124	1,2770
Earnings per common share - diluted				1,9056	1,2606
Number of shares at end of year					
Common shares outstanding				245.710.968	245.756.244
Common shares outstanding with a dilution effect				246.595.701	248.956.244

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

Vulcabras S.A.

(Publicly-held corporation)

Statements of comprehensive income

December 31, 2022 and 2021

(In thousands of reais)

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Profit or loss for the year	469.930	313.839	469.900	313.831
Other comprehensive income - OCI	3.230	1.630	3.230	1.630
Items that can be subsequently reclassified to profit or loss				
Exchange differences from translation of foreign operations	2.873	1.194	2.873	1.194
Financial assets at fair value through other comprehensive income	357	436	357	436
Total comprehensive income	473.160	315.469	473.130	315.461
Comprehensive income attributable to:				
Controlling shareholders	473.130	315.461	473.130	315.461
Noncontrolling shareholders	30	8	-	-

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

Vulcabras S.A.

(Publicly-held corporation)

Statements of changes in equity – Individual and Consolidated

December 31, 2022 and 2021

(In thousands of reais)

	Consolidated										
	Individual										
				Other comprehensive income	Income reserves						
	Capital	Revaluation reserve at subsidiaries	Capital reserves and treasury shares	Equity adjustment	Legal reserve	Unrealized profits reserve	Statutory reserve	Retained earnings (accumulated losses	Total	Noncontrolling interests	Total equity
Balances at January 1, 2021	**1.106.717**	**4.670**	**3.034**	**21.114**	**-**	**-**	**-**	**(10.457)**	**1.125.078**	**316**	**1.125.394**
Revaluation reserve released to retained earnings at subsidiary, net of taxes	-	(260)	-	-	-	-	-	260	-	-	-
Distribution of dividends	-	-	-	-	-	-	-	(86.015)	(86.015)	-	(86.015)
Share-based payment transaction	-	-	1.697	-	-	-	-	-	1.697	-	1.697
Setup of unrealized profits reserve	-	-	-	-	-	201.927	-	(201.927)	-	-	-
Setup of 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	-	-	-	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**
Balances at January 1, 2022	**1.106.717**	**4.410**	**4.731**	**22.744**	**15.692**	**201.927**	**-**	**-**	**1.356.221**	**341**	**1.356.562**
Revaluation reserve released to retained earnings at subsidiary, net of taxes	-	(235)	-	-	-	-	-	235	-	-	-
Share-based payment transaction	-	-	(84)	-	-	-	-	-	(84)	-	(84)
Treasury shares acquired	-	-	(6.119)	-	-	-	-	-	(6.119)		(6.119)
Transfer from unearned profits reserve to statutory reserve	-	-	-	-	-	(201.927)	201.927	-	-	-	-
Other comprehensive income											
Exchange differences from translation of foreign operations	-	-	-	2.873	-	-	-	-	2.873	(25)	2.848
Financial assets at fair value through other comprehensive income	-	-	-	357	-	-	-	-	357	-	357
Net income for the year	-	-	-	-	-	-	-	469.900	469.900	30	469.930
Allocation of income:											
Setup of legal reserve	-	-	-	-	23.495	-	-	(23.495)	-	-	-
Mandatory minimum dividends	-	-	-	-	-	-	-	(111.660)	(111.660)	-	(111.660)
Setup of statutory reserve	-	-	-	-	-	-	334.980	(334.980)	-	-	-
Balances at December 31, 2022	**1.106.717**	**4.175**	**(1.472)**	**25.974**	**39.187**	**-**	**536.907**	**-**	**1.711.488**	**346**	**1.711.834**

Vulcabras S.A.
(Publicly-held corporation)

Statements of cash flows – indirect method

December 31, 2022 and 2021

(In thousands of reais)

	Note	Consolidated 12/31/2022	Consolidated 12/31/2021	Individual 12/31/2022	Individual 12/31/2021
Cash flow from operating activities					
Net income for the year		469.930	313.839	469.900	313.831
Adjustments for:					
Depreciation and amortization		82.253	73.192	-	183
Provision for impairment losses on inventories	7b	26.372	26.456	-	-
Accrued interest on leases	18	4.277	1.859	-	-
Net value of tangible and intangible assets written off		10.174	10.473	(52)	-
Financial investment yield		(889)	(3.321)	-	(2.504)
Setup (reversal) of provision for contingencies	19	5.767	10.529	635	(16)
Equity pickup	12	(5.298)	(3.072)	(473.848)	(317.491)
Share-based payment transaction	20c	(84)	1.697	(84)	1.697
(Setup) reversal of allowance for expected credit losses	6d	14.539	(11.929)	-	-
Gain on settlement of pre-existing relationship	25	-	(13.980)	-	-
Gain or loss on lease termination	18	-	(308)	-	-
Previously unused PIS and COFINS credits – exclusion of ICMS		(126.151)	(126.080)	-	-
Undue tax payment - SELIC		(8.792)	-	-	-
Financial charges and exchange differences recognized in profit or loss		42.078	29.198	-	-
Current and deferred income and social contribution taxes	9c	14.935	24.286	23	-
Noncontrolling interests		(30)	(8)	-	-
		529.081	**332.831**	**(3.426)**	**(4.300)**
Changes in assets and liabilities					
Trade accounts receivable		(166.396)	(33.403)	-	-
Inventories		(100.706)	(258.117)	-	-
Taxes recoverable		25.919	39.281	(601)	(621)
Receivables for disposal of operation		2.580	3.030	-	-
Other accounts receivable		(8.685)	(3.117)	(3.691)	(1.150)
Judicial deposits		(8.497)	12	(70)	205
Trade accounts payable		26.882	69.151	(1.304)	1.383
Commissions payable		5.233	(1.816)	-	-
Taxes payable		20.362	(3.370)	177	33
Salaries and vacation payable		10.521	15.348	-	13
Other accounts payable		29.278	(5.638)	1.038	(64)
Provisions		(6.186)	(8.151)	(65)	(331)
Net cash flow from (used in) operating activities		**359.386**	**146.041**	**(7.942)**	**(4.832)**
Interest paid on loans and financing	17d	(32.252)	(25.124)	-	-
Payment of interest on lease	17d	(2.306)	(2.183)	-	-
Income taxes paid		(24.203)	(20.363)	-	-
		(58.761)	**(47.670)**	**-**	**-**
Net cash flow from (used in) operating activities		**300.625**	**98.371**	**(7.942)**	**(4.832)**
Cash flow from investing activities					
Acquisitions of PPE (*)	13	(157.217)	(130.357)	-	(2)
Redemption of (investment in) financial investments		2.255	83.552	(3)	83.453
Payment for acquisition of subsidiary	1.1.2	-	(37.273)	-	-
Funds from disposal of PPE		1.057	1.387	-	-
Acquisitions of intangible assets	14	(2.537)	(2.524)	-	-
Dividends received		134	-	-	-
Increase in equity interests in investee	12b	-	(6.337)	118.442	(3.641)
Net cash flow from (used in) investing activities		**(156.308)**	**(91.552)**	**118.439**	**79.810**
Cash flow from financing activities					
Borrowings - principal	17d	337.630	190.098	-	-
Repayment of borrowings - principal	17d	(291.073)	(143.617)	-	-
Intercompany loans received (paid)	17d	-	409	21.680	11.048
Acquisition of treasury shares	17d	(6.119)	-	(6.119)	-
Dividends and interest on equity paid	17d	(90.930)	(86.011)	(90.930)	(86.011)
Payment of lease liabilities	17d	(12.397)	(10.261)	-	-
Net cash flow used in financing activities		**(62.889)**	**(49.382)**	**(75.369)**	**(74.963)**
Increase (decrease) in cash and cash equivalents		**81.428**	**(42.563)**	**35.128**	**15**
Cash and cash equivalents at beginning of year		114.635	158.552	33	18
Effect of exchange differences on cash and cash equivalents		1.134	(1.354)	-	-
Cash and cash equivalents at end of year		197.197	114.635	35.161	33
Increase (decrease) in cash and cash equivalents		**81.428**	**(42.563)**	**35.128**	**15**

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

Vulcabras S.A.

(Publicly-held corporation)

Statements of value added

December 31, 2022 and 2021

(In thousands of reais)

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Revenues	**2.907.754**	**2.202.657**	**1.435**	**761**
Goods, products and services sold	2.853.151	2.101.650	-	-
Other income and expenses	69.142	89.078	1.435	761
Expected losses on doubtful accounts	(14.539)	11.929	-	-
Inputs acquired from third parties	**(1.381.023)**	**(1.012.023)**	**(4.697)**	**(6.237)**
Raw materials consumed	(642.830)	(471.218)	-	-
Cost of products, goods and services sold	(417.712)	(301.267)	-	-
Materials, energy, third-party services and other	(320.281)	(239.543)	(4.697)	(6.237)
Loss/recovery of asset values	(200)	5	-	-
Gross value added	**1.526.731**	**1.190.634**	**(3.262)**	**(5.476)**
Retentions	**(82.253)**	**(73.192)**	**-**	**(183)**
Depreciation and amortization	(82.253)	(73.192)	-	(183)
Net value added generated by the Company	**1.444.478**	**1.117.442**	**(3.262)**	**(5.659)**
Value added received in transfer	**139.574**	**96.692**	**497.780**	**330.500**
Equity pickup	5.298	3.072	473.849	317.491
Finance income	125.916	88.023	18.244	7.952
Other	8.360	5.597	5.687	5.057
Total value added to be distributed	**1.584.052**	**1.214.134**	**494.518**	**324.841**
Distribution of value added	**1.584.052**	**1.214.134**	**494.518**	**324.841**
Personnel	**653.192**	**537.376**	**706**	**705**
Direct compensation	438.395	355.393	-	-
Benefits	81.741	67.823	-	-
Unemployment Compensation Fund (FGTS)	30.510	28.486	-	-
Sales commissions	87.282	71.764	-	-
Directors' fees	15.264	13.910	706	705
Taxes, charges and contributions	**378.225**	**294.236**	**2.096**	**1.533**
Federal	323.075	252.098	1.808	1.222
State	54.427	41.244	-	-
Local	723	894	288	311
Debt remuneration	**82.705**	**68.683**	**21.816**	**8.772**
Interest	79.117	66.833	21.815	8.773
Rent	3.589	1.850	-	-
Other	(1)	-	1	(1)
Equity remuneration	**469.930**	**313.839**	**469.900**	**313.831**
Interest on equity	-	-	-	-
Retained profits	469.900	313.831	469.900	313.831
Noncontrolling interests	30	8	-	-

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

1 Operations

Vulcabras 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. The Company is registered with B3 S.A. – Brasil, Bolsa, Balcão – in the Novo Mercado (New Market) segment, under the ticker VULC3.

The Company also holds investments in other companies, and is engaged in the sale and production in the domestic and foreign markets of clothing, particularly sportswear, and male, female and professional footwear, through its direct and indirect subsidiaries:

- Vulcabras CE, Calçados e Artigos Esportivos S.A. (formerly known as Vulcabras Azaleia CE, Calçados e Artigos Esportivos S.A.) ("Vulcabras CE") – which owns the following subsidiaries:
- Vulcabras SP, Comércio de Artigos Esportivos Ltda. (formerly known as 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 known as Vulcabras BA, Calçados e Artigos Esportivos S.A.) ("Vulcabras BA");
- Vulcabras Empreendimento Imobiliário SPE Ltda.;
- 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 party brands: Under Armour and Mizuno.

1.1 Significant events in 2022:

1.1.1 Impacts of Covid 19 (coronavirus)

Even after more than two years of the beginning of the COVID-19 pandemic, the effects of measures to combat the pandemic still persist. With the advance of vaccination against COVID-19 in all regions of the country, there was a positive reaction of the economy and the effects of such reaction were felt by almost all economic segments. The negative effects of the disturbances caused by the disruption between the production chains, mostly due to the measures adopted by China throughout 2022, were also experienced at the global level. Despite such external factors, performance in 2022 was very positive, and the Company and its subsidiaries recorded a growth in sales, which shows their assertive market strategy.

In any case, the Company management continues to monitor developments related to the COVID-19 pandemic, carefully following the guidance of government authorities and measuring the possible impacts on its business. The Company does not foresee any going concern risks, nor any risks to the accounting estimates and judgments made.

Considering CVM/SNC Memorandum Circulars No. 02, 03/2020 and 01/2021, the Company also analyzed the main risks and uncertainties arising from COVID-19 in relation to its individual and consolidated interim financial information. Below are the main analyses carried out:

- **Cash and cash equivalents:** The Company and its subsidiaries do not foresee significant risks, as the amounts continue to be held in prime banks (see Note 28) with immediate liquidity and in investments at fixed rates.

- **Inventories:** The Company and its subsidiaries adopt the accounting practice of recording and presenting inventories at the lower of the average acquisition cost and net realizable value. This analysis was carried out as of the base date and the impact is presented in Note 7.

- **Accounts receivable:** The Company carries out a constant analysis of the changes in its accounts receivable in order to supplement the allowance for expected losses, if necessary. Considering the capillarity of sales distribution and the Company's credit policy, there is no concentration of customers in sales or in the receivables portfolio. The subsidiaries' policy for measurement of losses on trade accounts receivable is described in Note 6c.

- **Loans and financing:** Since the first impacts of the COVID-19 pandemic, the Company's subsidiaries have maintained their financial discipline and sought to strengthen cash with contributions through credit facilities, which were pre-approved, prioritizing transactions that provide for incentives and have extended terms.

- **Intangible assets:** The most significant intangible assets susceptible to the effects of the COVID-19 crisis include: goodwill of an Under Armor brand store and premium paid on the acquisition of equity interest. These two assets are tested annually, whether in comparison with current realization values, in the case of goodwill, or in the expectation of future profitability of acquired operations, in the case of premium.

  In relation to goodwill, the need for a new adjustment in the value, according to the expected recoverability of such asset is not deemed necessary.

  For the premium paid on the acquisition of equity interest, although the effects of COVID-19 may impair the future P&L of the Company and its subsidiaries, there is sufficient surplus to cover such fluctuation. In the analysis of impairment of goodwill due to expectation of future income from business combination processes carried out as of December 31, 2022, the estimated recoverable amount obtained was higher than the carrying amount (see Note 15c). When comparing the projected revenue for the last projected year (2027), from the 2023 and 2027 projections, the Company observed the revenue growth with CAGR (**Compound Annual Growth Rate** or **annual growth rate**) of around 7.99%, using revenue realized in 2022 as the base period.

- **Lease:** For the amount recognized as right of use in assets, which is linked to the lease agreements of the properties intended mainly for the retail stores of the Company's brands that operated with restrictions on opening and opening hours during most of the 1st quarter of 2021. The impacts from the closure of stores were already recorded during the 1st half of 2021. With the lifting of restrictive measures in 2022, their operation was normalized.

Considering the current scenario, the Company is confident of its soundness, knowing that there are still many challenges ahead regarding consumption and recovery of the macroeconomic scenario.

(In thousands of reais)

1.2 List of subsidiaries

The consolidated financial statements include the information of the Company and its direct and indirect subsidiaries below, in which the equity interest held at the statement of financial position date is summarized as follows:

		Direct interest %		Indirect interest %		Total equity interest %	
	Country	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Calzados Azaleia Peru S.A.	Peru	-	-	99.11	99.11	99.11	99.11
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.	Brazil	-	-	100.00	100.00	100.00	100.00
Globalcyr S.A. (*)	Uruguay	-	1.55	-	98.45	-	100.00
Running Comércio e Indústria de Artigos Esportivos Ltda.	Brazil	-	-	100.00	100.00	100.00	100.00
Vulcabras BA, Calçados e Artigos Esportivos S.A.	Brazil	-	-	99.99	99.99	99.99	99.99
Vulcabras CE, Calçados e Artigos Esportivos S.A.	Brazil	99.99	99.99	-	-	99.99	99.99
Vulcabras Distribuidora de Artigos Esportivos Ltda.	Brazil	0.14	0.14	99.86	99.86	100.00	100.00
Vulcabras Empreendimento Imobiliário SPE Ltda.	Brazil	100.00	100.00	-	-	100.00	100.00
Vulcabras SP, Comércio de Artigos Esportivos Ltda.	Brazil	-	-	100.00	100.00	100.00	100.00

(*) Subsidiary Globalcyr S.A. discontinued its operations in October 2022.

a. Main characteristics of subsidiaries included in consolidation

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

Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda.
Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. is engaged in the sale and distribution of sports footwear and clothing and boots for professional use.

Globalcyr S.A.
Globalcyr S.A. was mainly engaged in the sale and distribution of footwear. Its operations were discontinued in October 2022.

Running Comércio e Indústria de Artigos Esportivos Ltda.
Running Comércio e Indústria de Artigos Esportivos Ltda. is engaged in marketing of sports footwear, clothing and gear under the Mizuno brand.

Vulcabras BA, Calçados e Artigos Esportivos S.A.
Vulcabras BA, Calçados e Artigos Esportivos S.A is mainly engaged in the manufacture, sale, import and export of sports footwear and boots for professional use.

Vulcabras CE, Calçados e Artigos Esportivos S.A.
Vulcabras CE, Calçados e Artigos Esportivos S.A is mainly engaged in the development, manufacture, sale, import and export of sports footwear.

Vulcabras Distribuidora de Artigos Esportivos Ltda.
Vulcabras Distribuidora de Artigos Esportivos Ltda. is responsible for the sale and distribution of sports footwear and clothing.

Vulcabras Empreendimento Imobiliário SPE Ltda.
Vulcabras Empreendimento Imobiliário SPE Ltda. is specifically engaged in the planning, promotion, real estate development and sale of a real estate project, to be developed in the property located in Jundiaí – SP.

Vulcabras SP, Comércio de Artigos Esportivos Ltda.
Vulcabras SP, Comércio de Artigos Esportivos Ltda. is engaged in the sale and distribution of sports footwear, clothing and gear through its stores and e-commerce.

2 Basis of preparation and presentation of the individual and consolidated financial statements

2.1 Statement of compliance (with the IFRS and CPC standards) and measurement basis

The individual and consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and with accounting practices adopted in Brazil, which comprise the rules of the Brazilian Securities and Exchange Commission (CVM), and the pronouncements, guidance and interpretations issued by the Brazilian Financial Accounting Standards Board (CPC), as approved by Brazil's National Association of State Boards of Accountancy (CFC) and by the CVM, and the rules and guidance issued by the CVM applicable to the preparation of financial information.

Management considered Accounting Guidance OCPC 07, issued by the CPC in November 2014, for preparation of the individual and consolidated financial statements. Accordingly, the significant information specific to the individual and consolidated financial statements, and only such information, is being disclosed, and corresponds to the information used in management of the Company´s operations.

Management assessed the ability of the Company and its subsidiaries to continue as a going concern and is convinced that they have the resources to continue their business in the future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt as to their ability to continue as a going concern. Accordingly, these individual and consolidated financial statements were prepared on a going concern basis.

The presentation of the Statement of Value Added (SVA), although not required by the IFRS, is mandatory for publicly-held companies in Brazil. As such, this statement is presented by the Company as supplementary information for IFRS purposes, without prejudice to its financial statements as a whole.

The financial statements were prepared on a historical cost basis, with the exception of equity funds at FVTOCI that are measured at fair value, and financial assets measured at fair value through profit or loss.

Authorization to complete and issue these financial statements was granted by the Board of Directors on March 1, 2023.

Functional and presentation currency

The individual and consolidated financial statements are presented in Brazilian reais, which is also the Company's functional currency. The financial statements presented in reais were rounded to the nearest thousand, unless otherwise stated. The functional currencies of the foreign companies are the US dollar and the Colombian peso, and the statements of financial position were translated into reais for presentation purposes.

2.2 Use of estimates and judgments

In preparing the financial statements, management used judgments, estimates and assumptions that affect the application of accounting policies and reported asset, liability, revenue and expense amounts. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revised estimates are recognized prospectively.

a. Judgments

Information on judgments made for application of accounting policies that have significant effects on the amounts recognized in the individual and consolidated financial statements is included in the following notes:

- **Note 3.1.b –** equity pickup at investees: determination of whether the Company has significant influence over an investee;
- **Note 3.1.e -** consolidation: determination of whether the Company effectively holds control over an investee;
- **Note 18 -** Lease term: whether the Company's subsidiaries are reasonably certain to exercise extension options**.**

b. Uncertainties about assumptions and estimates

Information on uncertainties related to assumptions and estimates as of December 31, 2022 that have a significant risk of resulting in a material adjustment to the accounting balances of assets and liabilities in the next fiscal year is included in the following notes:

- **Note 6 –** Accounts receivable: measurement of expected credit loss for accounts receivable;
- **Note 7 -** Inventories: recognition of provision for losses on inventories without movement;
- **Note 15 -** Analysis of recoverability of nonfinancial assets: impairment test of non-financial assets: key assumptions regarding recoverable amounts;
- **Note 19 –** Provisions: recognition and measurement of provisions for contingencies: key assumptions as to the likelihood of loss and amount of outflow of funds.

2.3 Fair value measurement

Certain accounting policies and disclosures of the Company and its subsidiaries require measurement of the fair value of financial assets and liabilities.

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

Management regularly reviews significant unobservable data and valuation adjustments. If third-party information, such as broker quotes or pricing services, is used for fair value measurement, management analyzes the evidence obtained from third parties to support the conclusion that such measurements meet CPC/IFRS requirements, including the level in the fair value hierarchy under which such measurements are to be classified.

When measuring the fair value of an asset or liability, the Company and its subsidiaries use observable market data, whenever possible. The fair values are classified into different hierarchical levels based on inputs used in the valuation techniques, as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets and liabilities;
- **Level 2 –** inputs, except quoted prices included in Level 1 that are observable for the asset or liability, either directly (based on prices) or indirectly (deriving from prices); and
- **Level 3 –** inputs for the asset or liability that are not based on market observable data (non-observable inputs).

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

Additional information on the assumptions for fair value measurement is included in the following note:

- **Note 28 -** Financial instruments and risk management.

3 Significant accounting policies

The Company and its subsidiaries have applied the accounting policies described below in a consistent manner to all the years presented in these financial statements, unless otherwise stated.

3.1 Basis of consolidation

a. Business combination

Business combinations are recorded using the acquisition method when the set of activities and assets acquired meet the definition of a business and control is transferred to the Company and its subsidiaries. In 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 significantly contribute to the ability to generate output.

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

The consideration transferred is usually measured at fair value, as are the identifiable net assets acquired. Any goodwill arising from the transaction is tested annually for impairment. Gains on bargain purchases are immediately recognized in profit or loss. Transaction costs are recorded in P&L as incurred, except for costs related to issue of debt or equity instruments.

The consideration transferred does not include amounts referring to payment of preexisting relationships. These amounts are usually accounted for in P&L for the year.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Other contingent consideration is measured at fair value at each reporting date with changes in fair value recognized in profit or loss for the year.

b. Subsidiaries

The Company controls an entity when it is exposed, or has a right, to the variable returns arising from its involvement with the entity and has the ability to affect such returns by exercising its power over the entity. The subsidiaries´ financial statements are included in the consolidated financial statements from the date that control commences until the date it ceases to exist.

In the Company’s individual financial statements, the subsidiaries’ financial information is recognized under the equity method.

c. Noncontrolling interests

The Company and its subsidiaries elected to measure noncontrolling interests initially by their proportional share in identifiable net assets of the acquiree on the acquisition date.

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

d. Loss of control

If the Company loses control over a subsidiary, it derecognizes the related assets, liabilities, noncontrolling interests, and other components of equity. Any resulting gain or loss is recognized in profit or loss. If the Company retains any interest in the former subsidiary, this interest is measured at fair value on the date on which control is lost.

e. Investments in entities accounted for under the equity method

The Company's investments in entities accounted for using the equity method include interests in associates.

Associates are entities over which the Company has significant influence, either directly or indirectly, but not the control, or joint control, over their financial and operating policies.

These investments are initially recognized at cost, which includes transaction costs. After initial recognition, the financial statements include the Company’s interests in the investee’s P&L for the year and other comprehensive income until the date the significant influence or joint control ceases to exist. In the individual financial statements, investments in subsidiaries are also accounted for using this method.

f. *Transactions eliminated on consolidation*

Intercompany balances and transactions and any unrealized revenues or expenses derived from intercompany transactions are eliminated. Unrealized gains arising from transactions with investees accounted for under the equity method are eliminated against the investment, proportionally to the interest held in the investee. Unrealized losses are eliminated similarly to unrealized gains, but only to the extent that there is no evidence of impairment loss.

3.2 Translation of balances in foreign currency

(i) *Foreign currency transactions*

Foreign currency transactions are translated into the respective functional currencies of the Company’s entities and subsidiaries at the exchange rate in force on the transaction dates.

Monetary assets and liabilities denominated and calculated in foreign currency as of the statement of financial position date are translated back into the functional currency at the exchange rate effective on such date. Nonmonetary assets and liabilities measured at fair value in foreign currency are translated back into the functional currency at the exchange rate effective on the date the fair value was determined. Nonmonetary items that are measured based on historical cost in foreign currency are translated using the exchange rate prevailing on the transaction date. Differences in foreign currencies resulting from translation are usually recognized in P&L.

(ii) *Foreign operations*

Assets and liabilities from foreign operations, including goodwill and fair value adjustments resulting from the acquisition, are translated into reais at the exchange rates calculated on the statement of financial position date. Income and expenses from foreign operations are translated into reais using the exchange rates on the transaction dates.

Differences in foreign currencies generated upon translation into the presentation currency are recognized in other comprehensive income and accumulated in equity adjustments, in equity. If the subsidiary is not a wholly-owned subsidiary, the corresponding portion of the translation difference is attributed to noncontrolling shareholders.

When a foreign entity is derecognized in whole or in part, resulting in loss of control, of significant influence or of joint control, the accumulated amount of exchange rate differences related to that foreign entity is reclassified to profit or loss as part of the gain or loss on derecognition.

3.3 Revenue from contracts with customers

Revenue is measured based on the consideration specified in the contract with the customer. The Company's subsidiaries recognize revenue when control over the product is transferred to the customer. In this context, revenue is recognized when products are delivered and accepted by the customers at their premises.

For sales in which return of goods is permitted, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of accrued revenue recognized will not occur. Therefore, the amount of recognized revenue is adjusted for expected returns, which are estimated based on historical data for specific types of returns.

3.4 Employee benefits

a. Short-term employee benefits

Short-term employee benefit obligations are recognized as personnel expenses as the related service is provided. The liability is recognized for the amount of payment expected if the Company and its subsidiaries have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

b. Share-based payment

The fair value on the date of grant of the share-based payment to employees is recognized as personnel expenses, with a corresponding increase in equity, during the period in which employees unconditionally acquire the right to the awards. The amount recognized as expense is adjusted to reflect the number of awards for which there is an expectation that the service and performance conditions will be met, so that the final amount recognized as expense is based on the number of awards that effectively meet service and performance conditions on the vesting date. For share-based payment awards containing non-vesting conditions, the fair value on the data of grant of the share-based payment awards 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 employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities during the period in which employees unconditionally acquire the right to the payment. The liability is remeasured at each statement of financial position date and on the settlement date, based on the fair value of the share appreciation rights. Any changes in the liability's fair value are recognized as personnel expenses in the statement of profit or loss.

3.5 Government grants

Government grants and assistance are recognized where there is reasonable assurance that all conditions set by the government agencies have been complied with. They are recorded as deductions from income in profit or loss during the period necessary to compensate the expense that the government grant or assistance is intended to offset.

3.6 Finance income and costs

The Company’s finance income and costs include the following:

- Interest income;
- Interest expense;
- Net gains/losses on financial assets measured at fair value through profit or loss;
- Exchange differences on financial assets and liabilities.

Interest income and expenses are recognized in P&L using the effective interest method.

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

- Gross carrying amount of the financial asset; or
- Amortized cost of the financial liability.

In calculating interest income or expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not impaired) or to the amortized cost of the liability. However, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset that has impairment issues after initial recognition. If the asset is no longer experiencing impairment issues, the calculation of interest income is again based on the gross amount.

3.7 Taxes

a. Sales taxes

Revenues, expenses and assets are recognized net of sales taxes, except when:

- The net amount of sales taxes, whether recoverable or payable, is included in the amounts receivable and payable in the statement of financial position.

Revenues from goods, under the noncumulative system, are subject to 1.65% Contribution Tax on Gross Revenue for Social Integration Program (PIS), 7.60% Contribution Tax on Gross Revenue for Social Security Financing (COFINS), ICMS at the rates in effect in each state, and 1.5% social security contribution.

b. *Income and social contribution taxes*

Current and deferred income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus 10% surtax on taxable profit exceeding R$ 240, whereas social contribution tax is computed at a rate of 9% on net income. These consider offset of income and social contribution tax losses, limited to 30% of taxable profit in the year.

Income and social contribution tax expenses include current and deferred taxes. Current and deferred taxes are recognized in P&L unless they refer to business combinations or to items recognized directly in equity or in other comprehensive income.

(i) Current

Current tax expense is the estimated tax payable or receivable on taxable profit for the year and any adjustment to taxes payable in relation to previous years.

The amount of current taxes payable or receivable is recognized in the statement of financial position as a tax asset or liability for the best estimate of the expected amount of taxes to be paid or received that reflects the uncertainties related to their determination, if any. It is measured based on tax rates established on the statement of financial position date.

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

(ii) Deferred

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

The Company also recognizes deferred IRPJ and CSLL on income and social contribution tax losses, whose offset is limited to 30% of annual taxable profit.

However, deferred income and social contribution taxes are not recognized if they are generated upon initial recognition of assets and liabilities in operations that do not affect the tax bases, except in operations involving business combinations. Deferred income and social contribution taxes are determined based on rates (and legislation) in force on the consolidated financial statements preparation date and applicable when the respective income and social contribution taxes are realized.

Deferred income and social contribution tax assets are recognized only to the extent that taxable profit is likely to be available for temporary differences to be used and tax losses offset.

3.8 Inventories

Inventories are valued at the lower of historical acquisition and/or production cost and net realizable value. Cost of inventories is attributed by use of the weighted average cost criterion, and includes all acquisition and transformation costs, as well as other costs incurred in bringing inventories to their current condition and location.

In the case of industrially processed products, work in process and finished products, inventories include general manufacturing expenses based on normal production capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated completion costs and costs required to carry out the sale. Provisions for losses on slow-moving or obsolete inventories are set up when deemed necessary by management.

3.9 Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenses directly attributable to acquisition of an asset. Costs of assets constructed by the Company and its subsidiaries include:

- The cost of materials and direct labor;
- Any other costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The costs of dismantling and restoring the location where these assets are located; and
- Borrowing costs on qualifying assets.

Other expenses are capitalized only when there is an increase in the economic benefits from the PPE item. All other types of expenditures are recognized as expenses in P&L as incurred. The residual value and estimated useful life of the assets are measured and adjusted, if necessary, at year-end date.

Purchased software that becomes an integral part of the functionality of an equipment is capitalized as part of such equipment.

Gains and losses on disposal of a PPE item (calculated as the difference between the proceeds from disposal and the carrying amount of the item) are recognized as other operating income (expenses) in profit or loss.

(ii) Subsequent costs

Subsequent costs are capitalized to the extent that future benefits associated with such expenses are likely to flow to the Company or its subsidiary. Recurring maintenance and repair costs are posted to profit or loss.

(iii) Depreciation

PPE items are depreciated under the straight-line method in P&L for the year, based on the estimated useful life of each component, considering the rates mentioned in Note 13. Leased assets are depreciated over the shortest period between the estimated useful life of the asset and the contract term unless it is reasonably certain that the Company and its subsidiaries will obtain ownership of the item at the end of the lease term. Land is not depreciated.

3.10 Intangible assets and goodwill

(i) Goodwill

Goodwill is measured at cost, less accumulated impairment losses.

(ii) Research and development

Expenses with research activities are recognized in profit of loss as incurred.

Development expenses are capitalized only if they can be reliably measured, the product or process is technically and commercially viable, future economic benefits are likely, and the Company and its subsidiaries intend and have sufficient resources to complete the development and use or sell the asset.

Other development expenses are recognized in profit or loss as incurred. Subsequent to initial recognition, capitalized development expenses 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 measured at cost, less accumulated amortization and any accumulated impairment losses.

(iv) Subsequent expenses

Subsequent expenses are capitalized only when they increase future economic benefits embodied in the specific asset to which they relate. All other expenses, including internally generated goodwill expenses and brands and patents, are recognized in profit or loss as incurred.

(v) Amortization

The useful life of intangible assets is assessed as finite or indefinite. Cost of intangible assets acquired in a business combination corresponds to fair value at the acquisition date.

Intangible assets with an indefinite useful life are not amortized, but undergo annual impairment testing. Intangible assets with a finite useful life are amortized considering their useful life.

The estimated useful life is reviewed at each year end. Amortization of intangible assets with finite lives is recognized in the statement of profit or loss as expense, consistent with the use of the intangible asset.

3.11 Financial instruments

(i) Recognition and measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

Upon initial recognition, a financial asset is classified as measured at amortized cost or at fair value through other comprehensive income (FVTOCI); a debt instrument at FVTOCI; and an equity instrument or financial assets at FVTPL.

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

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

- It is held within a business model whose objective is to hold financial assets for the purpose of receiving contractual cash flows; and
- Its contractual terms generate, on specific dates, cash flows that are related solely to the payment of principal and interest on the outstanding principal amount.

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

- It is held within a business model whose objective is achieved both by receiving contractual cash flows and by selling financial assets; and
- Its contractual terms generate, on specific dates, cash flows that are related solely to the payment of principal and interest on the outstanding principal amount.

Upon initial recognition of an investment in an equity instrument that is not held for trading, the Company and its subsidiaries may irrevocably elect to present subsequent changes in the fair value of the investment in Other comprehensive income (OCI). This election is made individually by investment.

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

Financial assets – business model evaluation

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

- The policies and objectives set forth for the portfolio and the practical operation of these policies. The issue of whether management's strategy is focused on obtaining contractual interest income, 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 asset held within such business model) and how these risks are managed;
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales, and expectations about future sales;

Financial assets - Assessment of whether contractual cash flows are solely payments of principal and interest

For the purpose of this evaluation, “principal” is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as a consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a given period of time, and for other basic borrowing risks and costs (e.g., liquidity risk and costs administrative), as well as a profit margin.

The Company considers the contractual terms of the instrument 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 value of contractual cash flows so that it would not meet this condition. When making this assessment, the Company considers:

- Contingent events that change the amount or timing of cash flows;
- Terms that can adjust the contractual rate, including variable rates;
- Prepayment and extension of the term; and
- The terms that limit the Company's access to specific asset cash flows (e.g., based on the performance of an asset).

Financial assets - subsequent measurement and gains and losses

- **Financial assets at FVTPL -** These assets are subsequently measured at fair value. Net gains (losses), including interest, is recognized in P&L.
- **Financial assets at amortized cost -** These assets are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is reduced by impairment losses. Interest income, exchange gains and losses, and impairment are recognized in P&L. Any gain or loss upon derecognition is stated in P&L.
- **Debt instruments at FVTOCI -** These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, exchange gains and losses, and impairment are recognized in P&L. Other net income is recognized in OCI. Upon derecognition, accumulated gains (losses) in OCI are reclassified to P&L.

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

Financial liabilities measured at FVTPL are measured at fair value and net gains (losses), including interest, are recognized in P&L. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and exchange gains and losses are recognized in P&L. Any gain or loss upon derecognition is also stated in P&L.

(iii) Derecognition

Financial assets
A financial asset is derecognized when:

- The contractual rights to the cash flows from the asset expire;
- It transfers contractual rights of receipt to contractual cash flows on a financial asset in a transaction in which:
- Substantially all risks and rewards of ownership of the financial asset are transferred; or
- The Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, nor does it retain control over the financial asset.

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

Financial liabilities
The Company and its subsidiaries derecognize a financial liability when the contractual obligation is discharged or canceled or expires. The Company and its subsidiaries also derecognize a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Upon derecognition of a financial liability, the difference between the extinguished carrying amount and the consideration paid (including transferred assets that do not flow through cash or liabilities assumed) is recognized in P&L.

(iv) Offset
Financial assets or liabilities are offset and the net amount is stated in the statement of financial position when, and only when, the Company and its subsidiaries have a currently enforceable legal right to offset the amounts and intend to settle on a net basis or realize the asset and settle the liability simultaneously.

3.12 Capital

Common shares
Common shares are classified under equity. Incremental costs that are directly attributable to issuing shares and stock options are recognized as a deduction from equity, net of any tax effects.

3.13 Impairment

(i) Nonderivative financial assets
The Company and its subsidiaries recognize allowance for expected credit losses on financial assets measured at amortized cost.

The Company and its subsidiaries elected to measure allowance for losses in an amount equal to the lifetime expected credit loss.

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

The Company and its subsidiaries assume that a financial asset has increased significantly if:
- It is unlikely that the debtor will pay its credit obligations in full without resorting to actions such as enforcement of the guarantee (if any); or
- The financial asset is past due for more than 90 days.

At each reporting date, the Company and its subsidiaries assess whether the financial assets recorded at amortized cost are experiencing recovery issues. A financial asset has “recovery issues” when one or more events occur that adversely impact the financial asset's estimated future cash flows.

Objective evidence that financial assets experienced recovery issues includes the following observable data:

- Significant financial difficulties faced by the borrower;
- Default or delay of more than 90 days;
- Restructuring of an amount payable to the Company under terms that would not be accepted in normal conditions;
- The likelihood that the debtor will file for bankruptcy or undergo another type of financial reorganization or in-court reorganization process; or
- The disappearance of an active market for the security because of financial difficulties.

(ii) Nonfinancial assets

At each reporting date, the Company and its subsidiaries review the carrying amounts of its nonfinancial assets to determine whether there is an indication of impairment. If this is the case, the recoverable amount of the asset is estimated. In the case of goodwill, the recoverable amount is tested on an annual basis.

For impairment tests, assets are grouped into Cash-Generating Units (CGUs), that is, the smallest possible group of assets that generates cash inflows through their continued use, where such inflows are mostly independent from cash inflows of other assets or CGUs. Goodwill from business combinations is allocated to CGUs or groups of CGUs that are expected to benefit from synergies from the combination.

The recoverable amount of an asset or CGU is the higher of the value in use and the fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to present value using a pre-tax discount rate that reflects current market valuations of the time value of money and risks specific to the asset or CGU.

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

Impairment losses are recognized in the statement of profit or loss.

An impairment loss relating to goodwill is not reversed. As for other assets, impairment losses are reversed only to the extent that the new carrying amount of the asset does not exceed the carrying amount that would otherwise have been computed, net of depreciation or amortization, had the impairment loss not been recognized.

3.14 Provisions

Provisions are recognized according to CPC 25 (IAS 37), when the Company and its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current tax rate that reflects, where appropriate, the specific liability risks. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

3.15 Lease

The Company and its subsidiaries assess, on the commencement date, whether the agreement is or contains a lease.

An agreement is or contains a lease if it transfers the right to control the use of an identified asset over a period of time in return for consideration.

(i) The Company as the lessee

Upon commencement or modification of an agreement that contains a lease component, the Company and its subsidiaries allocate the consideration in the agreement to each lease component based on their individual prices. However, for property leases, the Company and its subsidiaries elected not to separate the non-lease components and account for the lease and non-lease components as a single component.

The Company and its subsidiaries recognize a right-of-use asset and a lease liability on the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial measurement value of the lease liability, adjusted for any lease payments made up to the commencement date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the location in which it is located, or restoring the underlying asset to the condition required by the lease terms and conditions, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the lessee at the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise the purchase 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 the PPE item. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities are initially measured at the present value of lease payments that are not made on the commencement date, discounting the interest rate implicit in the lease, or, if this rate cannot be determined immediately, the incremental borrowing rate of the Company and its subsidiaries.

The Company and its subsidiaries determine the incremental borrowing rate by obtaining interest rates from various external sources of financing and making certain adjustments to reflect the terms of the agreement and the type of leased asset.

The lease payments included in measuring the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Index or rate-dependent variable lease payments initially measured using the index or rate on the commencement date;
- Amounts expected to be paid by the lessee in accordance with residual value guarantees; and
- The exercise price of the purchase option if the lessee is reasonably certain to exercise that option, and payments of lease termination penalties, if the lease term reflects the lessee exercising the option to terminate the lease.

Lease liabilities are measured at amortized cost, using the effective interest method. It is remeasured when there is a change in future lease payments resulting from a change in index or rate, if there is a change in the amounts that are expected to be paid in accordance with the residual value guarantee, if the Company and its subsidiaries change their assessment, if they will exercise an option to purchase, extend or terminate, or if there is a revised in-substance lease payment.

When the lease liability is remeasured this manner, an adjustment corresponding to the carrying amount of the right-of-use asset is made or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company and its subsidiaries present right-of-use assets that do not meet the definition of investment property under "property, plant and equipment" and lease liabilities under "loans and financing" in the statement of financial position.

Leases of low-value assets
The Company and its subsidiaries elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company and its subsidiaries recognize lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.16 Fair value measurement

Fair value is the price that would be received from the sale of an asset or paid for the transfer of a liability in a transaction between willing market players on the measurement date, in the main market or, in the absence thereof, in the most advantageous market to which the Company and its subsidiaries have access on that date. The fair value of a liability reflects the risk of non-performance.

A series of accounting policies and disclosures of the Company and its subsidiaries require the measurement of fair values, both for financial and nonfinancial assets and liabilities (see Note 2.2(b)).

When available, the Company and its subsidiaries measure the fair value of an instrument using the price quoted in an active market for that instrument. A market is considered “active” if transactions for the asset or liability occur with sufficient frequency and in volume to provide pricing information on an ongoing basis.

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

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

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price – that is, the fair value of the consideration given or received. If the Company and its subsidiaries determine that the fair value upon initial recognition differs from the transaction price and the fair value is not evidenced either by a quoted price in an active market for an identical asset or liability or based on a valuation technique for which any unobservable inputs are judged to be insignificant with respect to measurement, the financial instrument will be initially measured at fair value adjusted to defer the difference between the fair value upon initial recognition and the transaction price. Subsequently, this difference is recognized in profit or loss on an appropriate basis over the life of the instrument, or until the valuation is fully supported by observable market data or the transaction is closed, whichever occurs first.

3.17 New accounting standards and interpretations not yet effective

The following amended standards and interpretations should not have a significant impact on the Company's individual and consolidated financial statements.

- Deferred tax related to assets and liabilities arising from a single transaction (amendments to CPC 32/IAS 12), with estimated effectiveness as of January 1, 2023
- Annual review of 2018-2020 IFRS
- Reference to the conceptual framework (amendments to CPC 15/IFRS 3)

(In thousands of reais)

- Classification of liabilities as current or noncurrent (amendments to CPC 26/IAS 1), with estimated effectiveness as of January 1, 2023
- IFRS 17 - Insurance contracts
- Disclosure of accounting policies (amendments to CPC 26/IAS 1 and IFRS Practice Statement 2)
- Definition of accounting estimates (amendments to CPC 23/IAS 8)

4 Cash and cash equivalents

	Consolidated		**Individual**	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Checking account	10,587	4,760	4	5
Floating CDB (Invest Fácil)	10,803	2,751	21	28
Floating CDB	172,519	101,465	35,136	-
Investment funds	-	713	-	-
Foreign cash and cash equivalents	3,288	4,946	-	-
	197,197	**114,635**	**35,161**	**33**

The checking account balance is represented by bank deposits not subject to interest.

Financial investments classified as cash equivalents are represented by short-term investments, have daily liquidity, and can be redeemed at any time, regardless of their maturity, without loss of yield.

Investments that remunerate checking account balances (Invest Fácil) are automatic, according to the available bank balance, and redemptions take place based on immediate cash needs of the Company and its subsidiaries. Yield ranges from 5% to 10% of the Interbank Deposit Certificate (CDI) as of December 31, 2022 (from 5% to 40% of the CDI as of December 31, 2021).

Remuneration of floating Bank Deposit Certificates (CDB) ranges from 101.0% to 102.75% of the CDI as of December 31, 2022 (from 98.0% to 100.50% of the CDI as of December 31, 2021). Refer to Note 28 on credit risk exposure.

(In thousands of reais)

5 Financial investments

	Consolidated		Individual	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Domestic financial investments				
Floating CDB	2,257	5,005	4	-
Fixed income investment funds	6,271	4,413	1	2
Equity investment funds	418	894	-	-
	8,946	**10,312**	**5**	**2**
Current	**4**	**-**	**4**	**-**
Noncurrent	**8,942**	**10,312**	**1**	**2**

Floating CDBs do not have liquidity as they are linked to guarantees in financing agreements (BNB) and are remunerated at 98.0% of the CDI (98.0% of the CDI as of December 31, 2021).

Investments in fixed income funds in the amount of R$ 6,271 (R$ 4,413 as of December 31, 2021) bear interest of 84% of the CDI as of December 31, 2022 (from 28% to 46% of the CDI as of December 31, 2021), and do not have liquidity, as they are linked to guarantees in financing contracts (BNB).

Equity investment funds in the amount of R$ 418 (R$ 894 as of December 31, 2021) are financial assets valued at fair value through other comprehensive income. The shares were valued according to B3 quotation on the date of these financial statements.

6 Trade accounts receivable

a. Breakdown of balances

	Consolidated	
Accounts receivable	**12/31/2022**	**12/31/2021**
Domestic:		
Trade accounts receivable	751,487	629,540
Foreign:		
Trade accounts receivable	66,369	25,440
Subtotal trade accounts receivable	**817,856**	**654,980**
Impairment loss	(43,246)	(35,074)
Total trade accounts receivable, net	**774,610**	**619,906**
Current	**769,457**	**616,275**
Noncurrent	**5,153**	**3,631**

(In thousands of reais)

b. By maturity

	Consolidated	
	12/31/2022	**12/31/2021**
Falling due		
1 to 30 days	250,939	194,604
31 to 60 days	222,261	191,466
61 to 90 days	179,538	138,199
More than 90 days	115,494	90,996
	768,232	**615,265**
Days past due		
1 to 30 days	13,977	5,129
31 to 60 days	682	578
61 to 90 days	368	624
More than 90 days	34,597	33,384
	49,624	**39,715**
	817,856	**654,980**

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

Details on gross sales in the foreign and domestic markets are disclosed in Note 21. Management understands that the amount that best represents its maximum exposure to credit risk for the year ended December 31, 2022 is R$ 43,246 (R$ 35,074 as of December 31, 2021) resulting from the criteria described in item (c).

c. Criteria for measurement of losses on trade accounts receivable (impairment)

The analysis of credit granting to customers is carried out when registering them in the Company's and its subsidiaries' system, for which all necessary documentation is required, including financial statements and commercial references. The credit limit is reassessed whenever new orders are placed, due to the seasonal nature of the financial market.

In addition to the individual analysis of each past due payment from customers, the Company and its subsidiaries use an allowance matrix to calculate the expected losses on trade accounts receivable. The allowance rates are based on days past due for groupings of customer segments that have similar loss patterns, such as by geographical region, line of product or type of customer, credit risk, among others.

(In thousands of reais)

The allowance matrix is initially based on historical loss rates observed by the Company and its subsidiaries. The matrix is reviewed prospectively for adjustment according to the historical loss experience. For example, if there is an expectation of deterioration in economic conditions for the following year, which could lead to an increase in defaults, the expected loss rates are adjusted, when deemed necessary. At all accounting closing dates, loss rates are updated and the need for changes to prospective estimates is assessed.

The criteria used to set up impairment losses are the same for the domestic and foreign market customer portfolio.

The Company and its subsidiaries carry out an individual analysis of each customer. For customers under in-court reorganization, the Company adopts the policy of setting up an allowance for expected loss in an amount that may vary from 20% to 40% of the outstanding balance for customers with a financial restructuring profile and of 100% for customers who do not have the same profile.

d. Changes in the provision for impairment

Changes in the provision for impairment for the years ended December 31, 2022 and 2021 are shown below:

	Consolidated	
	12/31/2022	**12/31/2021**
Opening balance	**(35,074)**	**(50,529)**
Additional provision	(16,403)	(4,831)
Reversal for credit assignment (*)	-	8,604
Write-offs	3,377	3,526
Recovery of provisions	4,854	8,156
Closing balance	**(43,246)**	**(35,074)**

(*) On June 30, 2021, the Company carried out credit assignment transactions with notes for which a provision for loss had already been set up, subject matter of in-court reorganization, with no impact on P&L due to the reversal of the allowance for expected credit losses and financial discounts of the transaction.

Considering the capillarity of sales distribution and the credit policy of the Company’s subsidiaries, concentration of customers in sales or in the receivables portfolio is lower than 13%. As such, in the year ended December 31, 2022, there was no significant change in the share or concentration in the key customers.

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

(In thousands of reais)

7 Inventories

	Consolidated	
	12/31/2022	**12/31/2021**
Finished products	117,538	113,212
Goods for resale	185,895	178,131
Work in process	54,830	42,862
Raw materials	135,236	105,311
Packaging materials and supplies	26,176	24,283
Goods in transit	26,637	22,148
Imports in progress	19,425	5,456
Other	2,094	2,094
	567,831	**493,497**

a. Criteria for measurement of provision (impairment)

Based on historical analysis and estimated losses, the Company's subsidiaries set up provision for losses on realization of inventories. For inventories of raw materials and products in progress, a provision was set up for all items with no movement for more than 180 days. For inventories of finished products and goods for resale, all items were evaluated and provisions were set up for potential losses based on the respective sales prospects, with a provision for 100% of the items that presented a negative contribution margin.

As of December 31, 2022, provision for losses on finished products and resales is R$ 10,744 (R$ 8,904 as of December 31, 2021), provision for losses on raw materials is R$ 25,746 (R$ 16,368 as of December 31, 2021), and provision for losses on products in progress is R$ 3,275 (R$ 3,252 as of December 31, 2021).

The value of raw materials, labor and overhead used in the breakdown of the cost of sales totals R$ 1,226,908 as of December 31, 2022 (R$ 908,490 as of December 31, 2021).

b. Changes in the provision (impairment)

Changes in the provision for losses on realization of inventories for the year ended December 31, 2022 and 2021 are as follows:

(In thousands of reais)

	Consolidated	
	12/31/2022	**12/31/2021**
Opening balance	**(28,524)**	**(31,683)**
Additions/reversals in the year	(26,372)	(26,456)
Write-offs	15,131	29,615
Closing balance	**(39,765)**	**(28,524)**

8 Taxes recoverable

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
State VAT (ICMS)	4,315	7,211	20	20
Federal VAT (IPI)	1,175	1,214	-	-
PIS/COFINS (b)	192,405	95,809	-	-
FINSOCIAL	2,385	2,377	1,831	1,821
Brazilian Special Regime for Reinstatement of Taxes for Exporters (REINTEGRA)	610	517	-	-
Unduly paid taxes (a)	8,792	-	-	-
Other	2,507	2,823	562	556
	212,189	**109,951**	**2,413**	**2,397**
Current	**18,685**	**46,852**	**582**	**576**
Noncurrent	**193,504**	**63,099**	**1,831**	**1,821**

(a) Refers to recognition of undue tax payments (Central Bank Benchmark rate – SELIC), arising from non-taxation of monetary restatement based on the SELIC variation.

(b) In November 2022, the subsidiary Vulcabras CE was granted a final and unappealable decision on case 0002512-80.2007.4.05.8100 referring to the exclusion of ICMS from the PIS/Cofins tax bases, and recognized previously unused tax credits in the amount of R$ 126,151, of which R$ 53,352 refers to principal and R$ 72,799 to monetary restatement, recorded as other operating income and finance income in the current year, respectively.

The Company's subsidiaries are parties to other lawsuits at different court levels but that require no recognition at this point.

(In thousands of reais)

9 Income and social contribution taxes

a. Income tax - prepayment

	Consolidated		Individual	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Income tax - prepayment	13,859	7,073	1,331	746
	13,859	**7,073**	**1,331**	**746**

b. Deferred income and social contribution taxes on temporary differences,

	Consolidated	
	12/31/2022	12/31/2021
Temporary differences in the year		
Revaluation of property, plant and equipment	(2,151)	(2,272)
Provisions	(1,659)	(2,576)
Deferred income tax – foreign subsidiary	322	493
Deferred income and social contribution taxes on temporary differences	**(3,488)**	**(4,355)**
Total deferred income and social contribution tax assets	13,591	493
Total deferred income and social contribution tax liabilities	(17,079)	(4,848)

c. Current and deferred income and social contribution taxes

Current and deferred income and social contribution taxes are accounted for in the consolidated P&L. As explained in Note 9d, the rate of 34% was used for calculation of the tax:

	Consolidated	
	12/31/2022	12/31/2021
Current income and social contribution taxes	(15,851)	(21,710)
Deferred income and social contribution taxes	916	(2,576)
	(14,935)	**(24,286)**

(In thousands of reais)

d. Reconciliation of effective tax rate

	Consolidated	
	IRPJ / CSLL	
	12/31/2022	**12/31/2021**
Income before income and social contribution taxes	**484,865**	**338,124**
Income and social contribution taxes at the rate of 34%	164,854	114,962
Nondeductible expenses	4,620	4,848
Tax incentives – state **(a)**	(82,054)	(52,749)
Technological innovation incentive	(10,190)	(8,361)
IRPJ incentive	(30,973)	(5,945)
Offset of income and social contribution tax losses	(15,179)	(16,167)
Other additions/exclusions	(9,425)	8,476
Nontaxable revenues	(7,977)	(4,035)
Restatement of unduly paid taxes	(4,318)	(7,350)
Other	6,493	(11,968)
Income and social contribution tax expense	**14,935**	**24,287**
Current	15,851	21,711
Deferred	(916)	2,576
Effective rate (b)	**3.08%**	**7.18%**

(a) A description of the tax benefits is presented in Note 30.

(b) Effective rate on book income before income and social contribution taxes.

(In thousands of reais)

e. Tax loss carryforward

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. record significant tax incentives that considerably reduce the ability to offset any deferred income tax credits. Management periodically monitors tax incentive renewals. As such, the Company and its subsidiaries do not record deferred income and social contribution taxes on income and social contribution tax losses. As of December 31, 2022 and 2021, the Company and its subsidiaries recorded income and social contribution tax loss carryforward on the following base amounts:

	12/31/2022							
	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**
Income tax losses as of 12/31/2022	262,862	602,406	70,474	377,313	4,867	39,268	149,157	1,506,347
Social contribution tax losses as of 12/31/2022	1,102,811	614,428	70,610	377,817	5,115	39,268	151,272	2,361,321

	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**
Income tax losses as of 12/31/2021	314,055	613,812	73,889	340,958	142	39,265	146,149	1,528,270
Social contribution tax losses as of 12/31/2021	1,127,399	625,834	73,889	340,958	142	39,265	148,264	2,355,751

Offset of income and social contribution tax losses is limited to 30% of annual taxable profit accrued as of 1995, without expiration.

(In thousands of reais)

10 Judicial deposits

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

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Judicial deposits				
Civil	43	65	-	-
Labor	13,044	13,944	285	222
Tax	9,332	1,996	123	116
Total	**22,419**	**16,005**	**408**	**338**

a. Labor (consolidated)

The labor suits refer mostly to claims for overtime, equal pay, health exposure pay, hazard pay, pain and suffering, and occupational disease.

The judicial deposits mostly concern the amounts deposited in the records referring to appeals, review appeals, escrow deposits, and online attachment of part of the amounts included in the ongoing labor claims.

b. Civil (consolidated)

Civil lawsuits substantially involve claims for compensation in general for property damage and/or pain and suffering, as well as claims related to alleged defects arising from the manufacture of products. Judicial deposits related to the above civil suits were made as guarantee for the discussion of the claimed amounts.

c. Tax (consolidated)

Judicial deposits refer to lawsuits to which the Company and its subsidiaries are parties, mainly involving the following taxes: Corporate Income Tax (IRPJ), Contribution Tax on Gross Revenue for Social Security Financing (COFINS), Contribution Tax on Gross Revenue for Social Integration Program (PIS), and State VAT (ICMS).

11 Transactions with related parties

The main assets and liabilities balances as of December 31, 2022 and 2021, as well as transactions that influenced P&L for the years relating to transactions with related parties, stem from transactions between the Company and its subsidiaries in Brazil and Peru, as well as intercompany loans.

Intercompany loans are restated by reference to DI-CETIP.

a. Parent company and ultimate parent

The Company’s key parent company is Gianpega Negócios e Participações S.A., and its ultimate parent is Mr. Pedro Grendene Bartelle.

(In thousands of reais)

b. Transactions with the parent company

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	12/31/2022	12/31/2021
Assets					
Loans with subsidiaries (*)	-	-	-	-	118,324
Liabilities					
Borrowings from subsidiaries (*)	54,542	-	55,347	109,889	206,533
				12/31/2022	**12/31/2021**
P&L					
Finance income (costs)	(15,701)	9,956	(6,102)	(11,847)	(3,508)

(*) These loans and borrowings are restated at 100% of the CDI. The contracts are effective for five years, with final maturities between 2025 and 2026.

(In thousands of reais)

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 purchase and sale transactions and intercompany loans with its subsidiaries to cover temporary cash needs, which incur charges related to the variation of the CDI, broken down as follows:

	Globalcyr	Running	Calzados Azaleia Peru.	Vulcabras SP	Vulcabras Distribuidora	Vulcabras BA	12/31/2022	12/31/2021
Assets								
Accounts receivable	-	5,348	2,852	86,883	34	1,437	96,554	97,872
Other receivables	-	131	-	1,877	3,114	3,671	8,793	5,472
Liabilities								
Accounts payable	-	-	-	-	371	1,024	1,395	1,563
Other payables	-	-	-	-	-	495	495	-
P&L							**12/31/2022**	**12/31/2021**
Finance income (costs)	83	-	-	-	-	-	83	112
Intercompany sales	-	5,961	4,773	61,899	466	27,029	100,128	63,036
Intercompany purchases	-	-	-	-	(7,068)	(31,652)	(38,720)	(25,920)

Balances with related parties are eliminated for purposes of consolidated presentation. The main nature of the transactions refers to purchases and sales of footwear and gear.

(In thousands of reais)

d. Management compensation

At the Annual Shareholders' Meeting held on April 26, 2022, the annual global management compensation was set at up to R$ 15,818. In the year ended December 31, 2022, management compensation totaled R$ 15,264 (R$ 13,910 as of December 31, 2021).

The Company's managing officers do conduct any loans, advances or other transactions with the Company and its subsidiaries other than their normal services.

As of December 31, 2022 and 2021, the Company and its subsidiaries, despite recording provisions related to long-term benefits, did not make payments to their key management personnel related to: a) long-term benefits; b) severance pay; and c) share-based compensation. Refer to Note 20.c for details on the stock option plan.

e. Other transactions with related parties

A Vulcabras CE, Calçados e Artigos Esportivos S.A., through its indirect subsidiary Vulcabras BA, Calçados e Artigos Esportivos S.A., has an intercompany loan payable to Brisa Indústria de Tecidos Tecnológicos S.A. in the amount of R$ 18,448 as of December 31, 2022 (R$ 18,041 as of December 31, 2021) bearing interest of 2.20% p.a. (4% p.a. and 2.20% p.a. as of December 31, 2021). Further details are presented in Note 17.

12 Investments

a. Breakdown of balances

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Permanent equity interests, net of losses:				
In subsidiaries	-	-	1,798,458	1,439,905
In associates (a)	68,090	62,792	-	-
Other investments (b)	7,572	6,616	-	-
Investments	**75,662**	**69,408**	**1,798,458**	**1,439,905**
Provision for investment losses	-	-	-	(135)
Total	**75,662**	**69,408**	**1,798,458**	**1,439,770**

(a) Subsidiary Vulcabras BA, Calçados e Artigos Esportivos S.A. holds 50% equity interest as of December 31, 2022 (50% as of December 31, 2021) in the associate PARS Participações Ltda., which in turn holds 100% equity interest as of as of December 31, 2022 (100% as of December 31, 2021) in Brisa Indústria de Tecidos Tecnológicos S.A. Considering that the Company only has significant influence, this investment is not consolidated in its financial statements, pursuant to CPC 36 (R3) / IFRS 10 - Consolidated Financial Statements.

(In thousands of reais)

(b) The Company, through its subsidiaries Vulcabras BA and Vulcabras, holds equity interest in Ventos de São Mizael Holding S.A.

b. Changes in investments

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Opening balances	**69,408**	**59,999**	**1,439,770**	**1,114,914**
Equity pickup	5,298	3,072	473,848	317,491
Exchange differences from translation of foreign operations	-	-	2,873	1,194
Acquisition of/increase in investments (Note 12a)	1,090	6,337	52	5,700
Dividends received	(134)	-	-	-
Capital reduction (a)	-	-	(118,447)	-
Financial assets at fair value through other comprehensive income	-	-	357	436
Increase in equity interests in investee	-	-	5	35
Closing balances	**75,662**	**69,408**	**1,798,458**	**1,439,770**

(a) At the Special General Meeting held on August 2, 2022, a capital reduction of R$ 118,447 of the subsidiary Vulcabras CE was approved, without cancelation of shares.

c. Information on direct equity interests - individual

	Vulcabras CE, Calçados e Artigos Esportivos S.A.		Vulcabras Distribuidora de Artigos Esportivos Ltda.		Globalcyr S.A.		Vulcabras Empreendimentos Ltda.		Total	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021	12/31/2022	12/31/2021	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Total assets	2,278,,494	1,951,194	346,839	316,490	-	2	2,094	2,094	-	-
Total liabilities	482,265	513,482	243,803	241,407	-	8,730	-	-	-	-
Capital	1,072,445	1,190,892	94,018	139,315	-	1,056	2,094	2,094	-	-
Net revenue	1,349,322	988,876	418,329	355,991	-	-	-	-	-	-
P&L for the year	473,818	317,492	24,223	1,291	(83)	(104)	-	-	-	-
Number of shares or units of interest held (in thousands)	537,467	537,467	131	200	-	10	2,094	2,094	-	-
Equity	1,796,229	1,437,712	103,036	75,083	-	(8,728)	2,094	2,094	-	-
Equity interest in capital at the year end - %	99.99%	99.99%	0.14%	0.14%	-	1.54%	100%	100.00%	-	-
Investments	1,796,220	1,437,706	144	105	-	-	2,094	2,094	1,798,458	1,439,905
Provision for investment losses	-	-	-	-	-	(135)	-	-	-	(135)
Equity pickup	473,815	317,491	34	2	(1)	(2)	-	-	473,848	317,491

d. Information on indirect equity interests

As of December 31, 2022 and 2021, the Company holds indirect interest in the companies below, through its subsidiary Vulcabras CE, Calçados e Artigos Esportivos S.A.:

(In thousands of reais)

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

12/31/2022	**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.**	**Distribuidora de Calçados e Artigos Esportivos Cruzeiro do Sul Ltda. (*)**	**Calzados Azaleia Peru S.A.**	**PARS Participações Ltda.**
Total assets	346,839	186,042	-	641,252	17,861	728	57,457	136,181
Total liabilities	243,803	207,691	-	104,936	19,870	13,945	20,445	1
Capital	94,018	402,995	-	365,403	3,621	26,207	1,072	36,116
Equity	103,036	(21,649)	-	536,316	(2,009)	(13,217)	37,012	136,180
Net revenue	418,329	153,132	-	724,130	17,025	-	75,161	-
P&L for the year	24,223	(37,320)	(83)	120,543	(3,294)	(3)	2,936	10,596
Equity interest	99.86%	100.00%	98.45%	99.99%	100.00%	100.00%	99.11%	50.00%

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	-
P&L for the year	1,291	(14,848)	(104)	73,214	(2,325)	(969)	(2,540)	(6,964)	503	6,144
Equity interests	99.86%	100.00%	98.45%	100.00%	100.00%	100.00%	100.00%	100.00%	99.11%	50.00%

(*) Indirect interests

(In thousands of reais)

13 Property, plant and equipment

a. Breakdown

		Consolidated					
		12/31/2022			12/31/2021		
At December 31, 2022	**Average depreciation rate % p.a.**	**Cost**	**Depreciation**	**Net**	**Cost**	**Depreciation**	**Net**
Buildings	2 to 4	156,354	(94,888)	61,466	131,113	(91,221)	39,892
Machinery and equipment	10	437,061	(280,468)	156,593	395,160	(279,326)	115,834
Molds	100	288,976	(269,910)	19,066	278,863	(262,565)	16,298
Furniture and fixtures	10 to 20	43,272	(25,863)	17,409	40,777	(27,285)	13,492
Vehicles	20	2,393	(1,940)	453	2,241	(1,953)	288
IT equipment	20 to 25	38,882	(27,474)	11,408	32,775	(25,000)	7,775
Land	-	3,730	-	3,730	3,326	-	3,326
Molds in progress	-	823	-	823	-	-	-
Construction in progress	-	3,180	-	3,180	7,719	-	7,719
Facilities	10	157,697	(81,615)	76,082	135,563	(71,758)	63,805
Leasehold improvements	10 to 20	4,606	(1,549)	3,057	4,586	(603)	3,983
Imports in progress	-	25,763	-	25,763	29,249	-	29,249
Improvements in leased property	20	1,671	(1,671)	-	1,671	(996)	675
Other	10 to 20	26	(25)	1	28	(27)	1
		1,164,434	**(785,403)**	**379,031**	**1,063,071**	**(760,734)**	**302,337**

(In thousands of reais)

b. Changes in cost

	Consolidated										
	01/01/2021	12/31/2021					12/31/2022				
At December 31, 2022	Opening balance	Additions	Write-offs	Transfers	Translation adjustment	Closing balance	Additions	Write-offs	Transfers	Translation adjustment	Closing balance
Buildings	130,375	1,421	-	(1,306)	623	131,113	1,001	(68)	24,901	(593)	156,354
Machinery and equipment	362,699	11,628	(6,935)	27,768	-	395,160	24,076	(20,306)	38,131	-	437,061
Molds	262,557	34,346	(18,360)	320	-	278,863	34,806	(24,693)	-	-	288,976
Furniture and fixtures	32,131	3,823	(900)	5,262	461	40,777	6,294	(3,360)	-	(439)	43,272
Vehicles	2,241	87	(107)	-	20	2,241	287	(111)	-	(24)	2,393
IT equipment	28,606	3,152	(275)	973	319	32,775	6,490	(65)	-	(318)	38,882
Land	3,486	-	(160)	-	-	3,326	430	(26)	-	-	3,730
Molds in progress	-	1,165	(851)	(314)	-	-	823	-	-	-	823
Construction in progress	3,541	11,435	(641)	(6,616)	-	7,719	22,964	(2,594)	(24,901)	(8)	3,180
Facilities	127,027	9,463	(445)	(482)	-	135,563	22,144	(10)	-	-	157,697
Leasehold improvements	89	551	-	3,946	-	4,586	20	-	-	-	4,606
Imports in progress	5,309	55,124	(4,948)	(26,236)	-	29,249	38,912	(4,267)	(38,131)	-	25,763
Improvements in leased property	1,524	147	-	-	-	1,671	-	-	-	-	1,671
Other	3,356	-	(13)	(3,315)	-	28	-	(2)	-	-	26
	962,941	**132,342**	**(33,635)**	**-**	**1,423**	**1,063,071**	**158,247**	**(55,502)**	**-**	**(1,382)**	**1,164,434**

(In thousands of reais)

c. Changes in depreciation

	Consolidated										
	01/01/2021	12/31/2021					12/31/2022				
At December 31, 2022	**Opening balance**	**Additions**	**Write-offs**	**Transfers**	**Translation adjustment**	**Closing balance**	**Additions**	**Write-offs**	**Transfers**	**Translation adjustment**	**Closing balance**
Buildings	(87,487)	(3,576)	-	-	(158)	(91,221)	(3,824)	-	-	157	(94,888)
Machinery and equipment	(270,166)	(15,371)	6,211	-	-	(279,326)	(20,023)	18,881	-	-	(280,468)
Molds	(250,588)	(27,550)	15,573	-	-	(262,565)	(29,317)	21,972	-	-	(269,910)
Furniture and fixtures	(23,665)	(1,816)	30	(1,570)	(264)	(27,285)	(2,164)	3,324	-	262	(25,863)
Vehicles	(1,939)	(99)	101	-	(16)	(1,953)	(108)	96	-	25	(1,940)
IT equipment	(22,771)	(2,120)	98	-	(207)	(25,000)	(2,741)	58	-	209	(27,474)
Facilities	(62,652)	(9,218)	1	111	-	(71,758)	(9,860)	3	-	-	(81,615)
Leasehold improvements	(89)	(403)	-	(111)	-	(603)	(946)	-	-	-	(1,549)
Improvements in leased property	(664)	(332)	-	-	-	(996)	(675)	-	-	-	(1,671)
Other	(1,609)	(1)	13	1,570	-	(27)	(1)	3	-	-	(25)
	(721,630)	**(60,486)**	**22,027**	**-**	**(645)**	**(760,734)**	**(69,659)**	**44,337**	**-**	**653**	**(785,403)**

Interest on loans and financing was not capitalized in the cost of construction in progress, given that the main contracts are related to the acquisition of machinery and equipment put into immediate operation.

The Company and its subsidiaries review the useful lives of property, plant and equipment items on an annual basis. The Company and its subsidiaries adopt the policy of maintaining the key property, plant and equipment items until the end of their useful lives.

(In thousands of reais)

14 Intangible assets

a. Breakdown

		Consolidated					
		12/31/2022			12/31/2021		
At December 31, 2022	**Useful life**	**Cost**	**Amortization**	**Net**	**Cost**	**Amortization**	**Net**
Finite useful life							
Software	5 years	43,899	(36,626)	7,273	41,516	(34,289)	7,227
Assignment of rights	Contractual term	533	(456)	77	566	(453)	113
Goodwill	Contractual term	1,464	-	1,464	1,464	-	1,464
Indefinite useful life							
Trademarks and patents		2,068	-	2,068	2,068	-	2,068
Goodwill		198,214	-	198,214	198,214	-	198,214
		246,178	**(37,082)**	**209,096**	**243,828**	**(34,742)**	**209,086**

Amortization of intangible assets is recorded against P&L, in the cost of sales (industrial software) and selling expenses (assignment of rights) group.

(In thousands of reais)

b. Changes in cost

				Consolidated			
At December 31, 2021	**Useful life**	**Amortization method**	**Balance at 01/01/2022**	**Additions**	**Write-offs**	**Translation adjustment**	**Balance at 12/31/2022**
Finite useful life							
Software	5 years	Straight line	41,516	2,537	(66)	(88)	43,899
Assignment of rights	Contractual term	Straight line	566	-	-	(33)	533
Goodwill	Contractual term	Straight line	1,464	-	-	-	1,464
Indefinite useful life							
Trademarks and patents			2,068	-	-	-	2,068
Goodwill			198,214	-	-	-	198,214
Total			**243,828**	**2,537**	**(66)**	**(121)**	**246,178**

(In thousands of reais)

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

c. Changes in amortization

				Consolidated			
At December 31, 2022	**Useful life**	**Amortization method**	**Balance at 01/01/2022**	**Additions**	**Write-offs**	**Translation adjustment**	**Balance at 12/31/2022**
Finite useful life							
Software	5 years	Straight line	(34,289)	(2,394)	-	57	(36,626)
Assignment of rights	Contractual term	Straight line	(453)	(28)	-	25	(456)
Total			**(34,742)**	**(2,422)**	**-**	**82**	**(37,082)**

(In thousands of reais)

				Consolidated			
At December 31, 2021	**Useful life**	**Amortization method**	**Balance at 01/01/2021**	**Additions**	**Write-offs**	**Translation adjustment**	**Balance at 12/31/2021**
Finite useful life							
Software	5 years	Straight line	(32,218)	(2,119)	106	(58)	(34,289)
Assignment of rights	Contractual term	Straight line	(391)	(36)	-	(26)	(453)
Total			**(32,609)**	**(2,155)**	**106**	**(84)**	**(34,742)**

d. Goodwill from business combination

The goodwill balances determined in the acquisition of equity interests, presented in the subsidiary Vulcabras CE, Calçados e Artigos Esportivos S.A., are supported by reports issued by independent experts, are based on the expected future profitability of the operations acquired in 2009, are not amortized as they refer to assets with an indefinite useful life, pursuant to CVM Resolution No. 553/08 and CPC 01 (R1), and are subject to annual impairment testing, as per Note 15..

15 Impairment of nonfinancial assets

a. Tangible and intangible assets with finite useful lives

Management annually tests the net carrying amount of tangible and intangible assets with finite useful lives to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment.

For the year ended December 31, 2022, an impairment test was carried out on intangible assets with finite useful lives through calculation based on value in use based on cash projections from financial budgets approved by senior management.

There was no indication of impairment loss as of December 31, 2022.

b. Goodwill based on expected future profitability

The goodwill calculated on the acquisition of equity interests is based on expected profitability of the acquired operations and amounts to R$ 198,214 as of December 31, 2022 (R$ 198,214 as of December 31, 2021).

The Company annually tests the recoverable amount of its intangible assets with an indefinite useful life, which consists mainly of goodwill for expected profits arising from business combinations, using the concept of value in use, through discounted cash flow models.

Goodwill arising from acquisition of the investment is tested annually for impairment at the cash-generating unit level.

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

For purposes of impairment testing of tangible and intangible assets, it is not possible to separate a CGU (Cash-Generating Unit) and determine it as the exclusive cash generator due to the acquisition of Azaleia, given that since the acquisition, the operations of the two companies merged and it became impossible to distinguish which revenues were generated from the exclusive assets acquired in the acquisition of Azaleia. Therefore, the Company and its subsidiaries are considered a single cash-generating unit.

Future cash flows were discounted based on the rate corresponding to the cost of capital. Consistently with the economic valuation techniques, assessment of the value in use is made over a five-year period and, thereafter, considering the perpetuity of the assumptions in view of the ability to continue as a going concern for an indefinite period of time.

To discount future cash flows, the rate of 16.07% p.a. was used as of December 31, 2022 (13.90% p.a. as of December 31, 2021).

The estimate of value in use used the following assumptions:

Revenues
Volume and sales price were projected on a real basis (without inflation) based on the Company's estimates and result in a compound annual growth rate (CAGR) of 7.99% p.a. as of December 31, 2022 (6.78% p.a. as of December 31, 2021) between 2023 and 2027. The variation in relation to the previous year is commented in Note 1.1.1.

Cost
The cost of sales was projected based on the Companies' estimates.

After defining the sales projection, the distribution of the production need was defined according to the installed capacity and the level of efficiency to be obtained.

Other overhead costs were based on budgeted expenses and approved by senior management for the indirect cost centers.

Expenses
Variable selling expenses were projected based on historical percentages of gross operating revenue.

Administrative and general selling expenses were based on budgeted expenses and approved by senior management for the cost centers.

Net income and free cash generation
Net income resulting from application of the assumptions above grows with a compound growth rate (CAGR) of 10.96% p.a. (8.85% p.a. as of December 31, 2021) between 2023 to 2027.

Free cash generation is then calculated using investment projections and changes in working capital. For perpetuity, the growth rate used is zero.

The value in use was approximately R$ 3.9 billion as of December 31, 2022 (R$ 2.9 billion as of December 31, 2021), therefore significantly higher than the carrying amount of tangible and intangible assets.

(In thousands of reais)

16 Trade accounts payable

a. Breakdown

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Trade accounts payable				
Domestic	64,559	61,816	368	1,672
Foreign	40,366	16,190	-	-
	104,925	**78,006**	**368**	**1,672**

b. By maturity

	Consolidated	
	12/31/2022	**12/31/2021**
Falling due		
1 to 30 days	77,442	58,892
31 to 60 days	22,822	13,246
61 to 90 days	3,542	2,678
More than 90 days	270	2,999
	104,076	**77,815**
Days past due		
1 to 30 days	845	186
31 to 60 days	-	1
61 to 90 days	1	1
More than 90 days	3	3
	849	**191**
	104,925	**78,006**

Given the characteristics of the products and the supply chain of the Company and its subsidiaries, with a wide range of raw materials, supplies and suppliers, there is no concentration of the supplier portfolio.

In compliance with CVM Resolution No. 564, of December 17, 2008, which approved CPC 12, the Company and its subsidiaries carried out studies to calculate the present value adjustments of their current liabilities. Considering the average payment term for these liabilities of approximately 39 days as of December 31, 2022 (41 days as of December 31, 2021), the effects of present value adjustments were deemed immaterial and, therefore, were not accounted for in profit or loss, such as with current and noncurrent assets.

(In thousands of reais)

17 Loans and financing

a. Breakdown

			Consolidated	
	Interest rate 2022	**Interest rate 2021**	**12/31/2022**	**12/31/2021**
Domestic currency				
PPE	IPCA + 2.04% p.a./Fixed rate 10.22% p.a.	IPCA + 2.04% p.a.	68,929	64,330
Tax incentive	TJLP	TJLP	3,145	2,571
Working capital	IPCA + 2.07% p.a./ CDI + 1.28% to 1.70% p.a./TLP +1.90% p.a./Fixed rate 11.44% p.a.	IPCA + 2.07% p.a./ CDI + 1.10% to 1.23% p.a.	341,178	286,237
			413,252	**353,138**
Foreign currency				
Working capital	Fixed rate 1.18% to 6.09% p.a.	Fixed rate 1.18% to 2.15% p.a.	3,796	8,112
			3,796	**8,112**
Total loans and financing			**417,048**	**361,250**
Current			**283,638**	**291,497**
Noncurrent			**133,410**	**69,753**

As of December 31, 2022 and 2021, the installments related to the loans and financing balances matured as follows:

	12/31/2022		12/31/2021	
Maturity	**Amount**	**%**	**Amount**	**%**
Current	**283,638**	**68%**	**291,497**	**81%**
2022	-	0%	291,497	81%
2023	283,638	68%	29,848	8%
2024	94,257	22%	18,117	5%
2025	17,141	4%	13,072	4%
2026	11,466	2%	8,716	2%
2027	2,751	1%	-	-
2028	2,751	1%	-	-
2029	2,751	1%	-	-
2030	2,293	1%	-	-
Noncurrent	**133,410**	**32%**	**69,753**	**19%**
Total	**417,048**	**100%**	**361,250**	**100%**

(In thousands of reais)

b. Sureties and guarantees

Collaterals for financing include promissory notes, long-term financial investments, personal guarantee and endorsement of the parent company, mortgage of the Horizonte-CE and Itapetinga-BA plants, and disposal of machinery and equipment acquired with the financing.

c. Covenants

Certain financing agreements include provisions that require that the Company present, through documentary and physical evidence, the acquisition of PPE and objectives sought in Research and Development (R&D) activities. These provisions are monitored and had been fully complied with within the terms defined in the contracts. There are no covenants for working capital loans.

d. Reconciliation of the financial flow to cash flows from financing activities

		Liabilities				
	Loans and financing	**Intercompany loans**	**Lease liabilities**	**Dividends and profits payable**	**Treasury shares**	**Total**
Balance at January 1, 2022	**361,250**	**18,041**	**19,779**	**4**	**-**	**399,074**
Changes in cash flows from financing activities						
Borrowings - principal	337,630	-	-	-	-	337,630
Payment of lease liabilities	-	-	(12,397)	-	-	(12,397)
Dividends and interest on equity paid	-	-	-	(90,930)	-	(90,930)
Acquisition of treasury shares	-	-	-	-	(6,119)	(6,119)
Repayment of borrowings - principal	(291,073)	-	-	-	-	(291,073)
Total changes in cash flows from financing activities	**46,557**	**-**	**(12,397)**	**(90,930)**	**(6,119)**	**(62,889)**
Other changes related to liabilities						
Interest paid	(32,252)	407	(2,306)	-	-	(34,151)
Distribution of dividends	-	-	-	111,660	-	111,660
Additions related to Proade (non-cash effect)	1,284	-	-	-	-	1,284
Additions/adjustments of contracts	-	-	11,215	-	-	11,215
Accrued interest	-	-	4,277	-	-	4,277
Financial charges posted to P&L	40,209	-	-	-	-	40,209
Total other changes related to liabilities	**9,241**	**407**	**13,186**	**111,660**	**-**	**134,494**
Balance as of December 31, 2022	**417,048**	**18,448**	**20,568**	**20,734**	**(6,119)**	**470,679**

(In thousands of reais)

	Liabilities				
	Loans and financing	Intercompany loans	Lease liabilities	Dividends and profits payable	Total
Balance at January 1, 2021	**311,629**	**17,632**	**18,530**	**-**	**347,791**
Changes in cash flows from financing activities					
Borrowings - principal	190,098	-	-	-	190,098
Intercompany loans	-	409	-	-	409
Payment of lease liabilities	-	-	(10,261)	-	(10,261)
Repayment of borrowings - principal	(143,617)	-	-	-	(143,617)
Dividends and interest on equity paid	-	-	-	(86,011)	(86,011)
Total changes in cash flows from financing activities	**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
Additions related to Provin (non-cash effect)	971	-	-	-	971
Additions/adjustments of contracts	-	-	15,221	-	15,221
Lease discounts	-	-	(582)	-	(582)
Accrued interest	-	-	1,859	-	1,859
Write-off of lease	-	-	(2,805)	-	(2,805)
Financial charges posted to P&L	27,293	-	-	-	27,293
Total other changes related to liabilities	**3,140**	**-**	**11,510**	**86,015**	**100,665**
Balance as of December 31, 2021	**361,250**	**18,041**	**19,779**	**4**	**399,074**

18 Leases

a. Operating leases

The Company's subsidiaries only lease commercial properties.

These leases typically have a term of five years, with an option to renew the lease after that period. The amounts are adjusted annually to reflect the amount adopted in the market. Certain commercial leases provide for additional rent payments that are based on the property's monthly billing.

Information on leases for which the Company's subsidiaries are lessees is presented below:

	Consolidated	
	12/31/2022	**12/31/2021**
Right of use		
Opening balance	**17,442**	**15,145**
Additions / adjustments	10,848	15,745
Write-offs	-	(2,497)
Amortization	(10,171)	(10,951)
Closing balance	**18,119**	**17,442**

(In thousands of reais)

	Consolidated	
	12/31/2022	**12/31/2021**
Lease liabilities		
Opening balance	**19,779**	**18,530**
Additions / adjustments	11,215	15,221
Accrued interest	4,277	1,859
Write-offs	-	(2,805)
Repayments of principal	(12,397)	(10,843)
Interest paid	(2,306)	(2,183)
Closing balance	**20,568**	**19,779**
Current	**8,509**	**7,129**
Noncurrent	**12,059**	**12,650**

Noncurrent installment payment schedule

	12/31/2022		12/31/2021	
Maturity	**Amount**	**%**	**Amount**	**%**
2023	-	-	5,208	41%
2024	6,764	56%	4,368	35%
2025	4,558	38%	3,074	24%
2026	524	4%	-	-
2027	213	2%	-	-
Total	**12,059**	**100%**	**12,650**	**100%**

Extension options

Certain lease agreements contain extension options exercisable by the Company's subsidiaries up to one year before the end of the non-cancelable agreement period. Whenever possible, the Company's subsidiaries seek to include extension options in new leases to provide operational flexibility.

19 Provisions

The Company and subsidiaries are parties (defendants) to legal and administrative proceedings at certain courts and government agencies arising from the ordinary course of business, involving tax, labor and civil matters, among other issues.

Based on information from legal advisors, management follows the criteria for recognizing provisions established by CVM Resolution No. 489/05 and CPC 25/IAS 37, which determine that a provision must be recognized when: (i) the entity has a present obligation arising from a past event; (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation; and (iii) a reliable estimate can be made of the amount of the obligation. If any of these conditions are not met, a provision should not be set up, and the disclosure of a contingent liability may possibly be required.

(In thousands of reais)

Upon analysis of pending lawsuits, based on experience regarding the amounts claimed, provisions were set up in amounts considered sufficient to cover estimated losses on ongoing lawsuits, with classification as current and noncurrent, as follows:

a. Breakdown of balances

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Provision for legal and administrative proceedings:				
Civil	18,385	18,455	49	53
Labor	37,550	40,041	596	189
Tax	1,441	1,382	343	176
Total	**57,376**	**59,878**	**988**	**418**
Current	**3,102**	**22,488**	**397**	**418**
Noncurrent	**54,274**	**37,390**	**591**	**-**

b. Labor claims (consolidated)

The labor suits refer mostly to claims for overtime, equal pay, health exposure pay, hazard pay, and occupational disease. The effect of the provision for losses on labor claims is recorded as a contra entry to profit or loss, under Other expenses.

c. Civil suits (consolidated)

These refer substantially to compensation in general, including pain and suffering and material damages. The effect of the provision for losses on civil suits is recorded as a contra entry to profit or loss, under Other expenses. The effects of the provision for compensation are recorded as a contra entry to profit or loss, under Selling expenses.

d. Tax suits (consolidated)

These refer to lawsuits to which the Company and its subsidiaries are parties, mainly involving the following taxes: IRPJ, COFINS, PIS and ICMS. The effect of the provision for losses on tax suits is recorded as a contra entry to profit or loss, under Other expenses.

(In thousands of reais)

e. Changes in proceedings

		Consolidated									
	12/31/2020	12/31/2021					12/31/2022				
At December 31, 2022	Opening balance	Additions	Reversals	Payments	Adjustment for net presentation (*)	Closing balance	Additions	Reversals	Payments	Adjustment for net presentation (*)	Closing balance
Nature											
Civil	18,919	1,181	(1,466)	(179)	-	18,455	355	(320)	(105)	-	18,385
Labor	36,982	13,151	(4,522)	(7,147)	1,577	40,041	16,430	(15,124)	(5,143)	1,346	37,550
Tax	662	2,350	(165)	(825)	(640)	1,382	4,627	(201)	(938)	(3,429)	1,441
Total	**56,563**	**16,682**	**(6,153)**	**(8,151)**	**937**	**59,878**	**21,412**	**(15,645)**	**(6,186)**	**(2,083)**	**57,376**

		Individual							
	12/31/2020	12/31/2021				12/31/2022			
At December 31, 2022	Opening balance	Additions	Reversals	Payments	Closing balance	Additions	Reversals	Payments	Closing balance
Nature									
Civil	82	48	(17)	(60)	53	65	(4)	(65)	49
Labor	507	-	(47)	(271)	189	479	(72)	-	596
Tax	176	60	(60)	-	176	233	(66)	-	343
Total	**765**	**108**	**(124)**	**(331)**	**418**	**777**	**(142)**	**(65)**	**988**

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

(In thousands of reais)

Contingencies

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

The breakdown of the amounts under discussion at different court levels for which the likelihood of loss is considered possible as of December 31, 2022 and 2021 is as follows:

	Consolidated	
Contingencies	**12/31/2022**	**12/31/2021**
Civil	1,796	2,741
Labor	33,998	34,950
Tax	42,353	31,250
Total	**78,147**	**68,941**

Contingent assets

The subsidiary Vulcabras BA is plaintiff in a proceeding claiming recognition of the exclusion of ICMS related to sales of goods from the PIS and COFINS tax bases, which, in management's opinion, is significant to the business. At this point, it is not possible to guarantee when or if the estimated amount will be effectively realized. Consequently, the subsidiary assessed the status of the lawsuit and concluded that, as of December 31, 2022, the requirements of CPC 25/IAS 37 for recognition of the credit had not been met, therefore no amount was recorded.

20 Equity (individual)

a. Capital

At December 31, 2022, capital totals R$ 1,106,717 (R$ 1,106,717 as of December 31, 2021), represented by 245,756,244 common registered shares with no par value (245,756,244 as of December 31, 2021).

The Company, upon resolution of its Board of Directors, is authorized to increase capital, regardless of statutory amendment, up to the limit of R$ 2,000,000.

b. Reserves

(i) Revaluation reserve

This reserve is set up as a result of revaluation of property, plant and equipment of the subsidiaries, based on valuation report prepared by independent appraisers. Corresponding income and social contribution taxes are classified as noncurrent liabilities. The revaluation reserve balance as of December 31, 2022 totals R$ 4,175 (R$ 4,410 as of December 31, 2021).

(In thousands of reais)

The revaluation reserve is realized through the depreciation or write-off of the revalued assets against retained earnings (accumulated losses), net of taxes. As amended and permitted by Law No. 11638/07, management decided to maintain the revaluation reserves until their full realization.

c. Capital reserve

(i) Stock options

General conditions
The Company has four Stock Option Plans in force.

Stock option plan approved in 2019

Plan approval
On May 6, 2019, the Board of Directors approved the 2nd stock option grant within the scope of the Stock Option Plan. The options granted on this date totaled 780,000 (seven hundred and eighty thousand), with a unit strike price of R$ 7.96 (seven reais and ninety-six cents), distributed among the elected beneficiaries. To satisfy the exercise of options granted, the Company may issue new shares, within the authorized capital limit, excluding the preemptive right of the Company's current shareholders, as permitted by article 171, paragraph 3, of Law No. 6404, of December 15, 1976.

Plan characteristics

2nd stock option plan - 2019	**2nd grant**
Grant date	05/06/2019
Number of options granted	780,000(3)
Vesting period	3 years
Deadline for exercise	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 (seven reais and ninety-six cents), restated by the variation of the Extended National Consumer Price Index (IPCA) from the date of grant to the date of effective exercise of the Option.

(2) The initial number of participants upon approval of the plan was 22 (twenty-two) executives, but with the withdrawal of four of these beneficiaries, the current number of participants entitled to exercise the purchase of options is eighteen (18).

(3) The initial number of options granted upon approval of the plan was 780,000 (seven hundred and eighty thousand), but with the withdrawal of beneficiaries during the period, the current number of options that can be exercised is 685,000 (six hundred and eighty-five thousand).

(In thousands of reais)

Beneficiaries
Directors (whether statutory or not), division managers and employees of Vulcabras S.A. and companies under its direct or indirect control (subsidiaries) may be elected as beneficiaries of stock option grants, including in relation to new hires, all of whom are subject to approval by the Company's Board of Directors.

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

Stock option plan approved in 2020

Plan approval
On August 10, 2020, the Board of Directors approved the 3rd stock option grant within the scope of the Stock Option Plan. The options granted on this date totaled 870,000 (eight hundred and seventy thousand), with a unit strike price of R$ 8.57 (eight reais and fifty-seven cents), distributed among the elected beneficiaries. To satisfy the exercise of options granted, the Company may issue new shares, within the authorized capital limit, excluding the preemptive right of the Company's current shareholders, as permitted by article 171, paragraph 3, of Law No. 6404, of December 15, 1976.

Plan characteristics

3rd stock option plan - 2020	**3rd grant**
Grant date	08/10/2020
Number of options granted	870,000(3)
Vesting period	3 years
Deadline for exercise	03/31/2023
Maximum period for exercise	03/31/2024
Strike price	R$ 8.57 (1)
Beneficiaries (employees)	21(2)

(1) The strike price is set at R$ 8.57 (eight reais and fifty-seven cents), restated by the variation of the Extended National Consumer Price Index (IPCA) from the date of grant to the date of effective exercise of the Option.

(2) The initial number of participants upon approval of the plan was 21 (twenty-one) executives, but with the withdrawal of three of these beneficiaries, the current number of participants entitled to exercise the purchase of options is eighteen (18).

(3) The initial number of options granted upon approval of the plan was 870,000 (eight hundred and seventy thousand), but with the withdrawal of beneficiaries during the period, the current number of options that can be exercised is 785,000 (six hundred and eighty-five thousand).

Beneficiaries
Directors (whether statutory or not), division managers and employees of Vulcabras S.A. and companies under its direct or indirect control (subsidiaries) may be elected as beneficiaries of stock option grants, including in relation to new hires, all of whom are subject to approval by the Company's Board of Directors.

(In thousands of reais)

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

Stock option plan approved in 2021

Plan approval
On May 11, 2021, the Board of Directors approved the 4th stock option grant within the scope of the Stock Option Plan. The options granted on this date totaled 970,000 (nine hundred and seventy thousand), with a unit strike price of R$ 8.06 (eight reais and six cents), distributed among the elected beneficiaries. To satisfy the exercise of options granted, the Company may issue new shares, within the authorized capital limit, excluding the preemptive right of the Company's current shareholders, as permitted by article 171, paragraph 3, of Law No. 6404, of December 15, 1976.

Plan characteristics

4th stock option plan - 2021	**4th grant**
Grant date	05/11/2021
Number of options granted	970,000(3)
Vesting period	3 years
Deadline for exercise	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 (eight reais and six cents), restated by the variation of the Extended National Consumer Price Index (IPCA) from the date of grant to the date of effective exercise of the Option.

(2) The initial number of participants upon approval of the plan was 23 (twenty-three) executives, but with the withdrawal of four of these beneficiaries, the current number of participants entitled to exercise the purchase of options is nineteen (19).

(3) The initial number of options granted upon approval of the plan was 970,000 (nine hundred and seventy thousand), but with the withdrawal of beneficiaries during the period, the current number of options that can be exercised is 855,000 (eight hundred and fifty-five thousand).

Beneficiaries
Directors (whether statutory or not), division managers and employees of Vulcabras S.A. and companies under its direct or indirect control (subsidiaries) may be elected as beneficiaries of stock option grants, including in relation to new hires, all of whom are subject to approval by the Company's Board of Directors.

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

(In thousands of reais)

Stock option plan approved in 2022

Plan approval

On May 3, 2022, the Board of Directors approved the 5th stock option grant within the scope of the Stock Option Plan. The options granted on this date totaled 980,000 (nine hundred and eighty thousand), with a unit strike price of R$ 8.89 (eight reais and eighty-nine cents), distributed among the elected beneficiaries. To satisfy the exercise of options granted, the Company may issue new shares, within the authorized capital limit, excluding the preemptive right of the Company's current shareholders, as permitted by article 171, paragraph 3, of Law No. 6404, of December 15, 1976.

Plan characteristics

5th stock option plan - 2022	**5th grant**
Grant date	05/03/2022
Number of options granted	980,000(3)
Vesting period	3 years
Deadline for exercise	03/31/2025
Maximum period for exercise	03/31/2026
Strike price	R$ 8.89 (1)
Beneficiaries (employees)	23 (2)

(1) The strike price is set at R$ 8.89 (eight reais and eighty-nine cents), restated by the variation of the Extended National Consumer Price Index (IPCA) from the date of grant to the date of effective exercise of the Option.

(2) The initial number of participants upon approval of the plan was 23 (twenty-three) executives, but with the withdrawal of three of these beneficiaries, the current number of participants entitled to exercise the purchase of options is twenty (20).

(3) The initial number of options granted upon approval of the plan was 980,000 (nine hundred and eighty thousand), but with the withdrawal of beneficiaries during the period, the current number of options that can be exercised is 895,000 (eight hundred and ninety-five thousand).

Beneficiaries

Directors (whether statutory or not), division managers and employees of Vulcabras S.A. and companies under its direct or indirect control (subsidiaries) may be elected as beneficiaries of stock option grants, including in relation to new hires, all of whom are subject to approval by the Company's Board of Directors.

Pricing method

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

Stock option plan expenses

The amortization amounts recorded as expenses in profit or loss, against the Company's equity, from the grant date until December 31, 2022, are presented below (in reais):

(In thousands of reais)

Plan	Strike price	Grant date	Accumulated expense 12/31/2022 – R$	Accumulated expense 12/31/2021 – R$
Plan - 2018 (a)	R$ 9.50	01/16/2018	-	1,638
Plan - 2019	R$ 7.96	05/05/2019	1,558	1,579
Plan - 2020	R$ 8.57	08/06/2020	1,530	1,098
Plan - 2021	R$ 8.06	05/11/2021	961	416
Plan - 2022	R$ 8.89	05/03/2022	598	-
Total			**4,647**	**4,731**

(a) The accumulated expense until March 31, 2022, in the amount of R$ 1,638, was reversed in the 1Q22, due to the expiration of the maximum period to exercise this plan.

d. Income reserve

(i) *Legal reserve*

The amount of R$ 23,495 was allocated to this reserve as of December 31, 2022, based on 5% of net income for the year, with a closing balance of R$ 39,187 (R$ 15,692 as of December 31, 2021).

(ii) *Dividends*

The portion corresponding to at least 25% (twenty-five percent) of net income, calculated on the balance obtained with the deductions and additions provided for in article 202 II and III of the Brazilian corporation law, will be distributed to shareholders as mandatory dividend. Mandatory minimum dividends are shown below:

	12/31/2022
Net income for the year	469,900
(-) Legal reserve - 5%	(23,495)
(+) Revaluation reserve released to retained earnings	235
Calculation base	446,640
Mandatory minimum dividend – 25%	111,660

As of December 31, 2022, the Company declared dividends in the amount of R$ 111,660 (R$ 86,015 on November 12, 2021). As of December 31, 2022, the balance payable referring to these amounts totals R$ 20,734 (R$ 4 as of December 31, 2021).

(iii) *Statutory reserve*

The statutory reserve for new investments was set up pursuant to article 35 of the Company’s bylaws and article 194 of the Brazilian corporation law. As of December 31, 2022, the balance totals R$ 536,907.This reserve was set up with reallocation of a portion of the previous year's profit, which was originally classified as reserve for unrealized profits in the Company's financial statements, corresponding to the year ended December 31, 2021, and allocation of the remaining retained earnings balance for the year ended December 31, 2022.

(In thousands of reais)

e. Equity adjustments

This account includes: (i) accumulated net changes of financial assets at fair value through other comprehensive income until the investments are derecognized or undergo impairment loss; and (ii) cumulative translation adjustments include all foreign currency differences arising from the translation of the financial statements of foreign operations. At December 31, 2022, equity adjustments totaled R$ 25,974 (R$ 22,744 as of December 31, 2021).

21 Net sales revenue

	Consolidated	
	12/31/2022	**12/31/2021**
Gross operating revenue		
Sale and resale of products		
Domestic market	2,694,893	2,067,833
Foreign market	232,110	139,199
Services rendered	4,868	3,695
	2,931,871	**2,210,727**
Deductions		
Sales and service taxes	(561,724)	(415,210)
Tax incentives – ICMS (Note 30)	241,425	177,179
Returns, rebates and discounts for timely payment	(74,636)	(105,520)
	(394,935)	**(343,551)**
Net operating revenue	**2,536,936**	**1,867,176**

(In thousands of reais)

22 Cost of sales and resales

	Consolidated	
	12/31/2022	12/31/2021
Cost of sales		
Raw materials	(647,216)	(453,104)
Labor	(322,771)	(251,809)
Overhead	(256,921)	(203,577)
Resales	(372,590)	(299,271)
Total cost of sales and resales	**(1,599,498)**	**(1,207,761)**

23 Selling expenses

	Consolidated	
	12/31/2022	12/31/2021
Commissions	(87,282)	(71,764)
Freight	(89,707)	(70,565)
Advertising	(95,690)	(68,096)
Advertising – Personnel expenses	(4,720)	(4,589)
Advertising - Others	(2,693)	(952)
Royalties	(40,470)	(25,938)
Personnel expenses	(50,688)	(41,893)
Other expenses	(13,445)	(17,601)
	(384,695)	**(301,398)**
Impairment loss	(14,539)	11,929
Total selling expenses	**(399,234)**	**(289,469)**

24 Administrative expenses

	Consolidated		Individual	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Personnel expenses	(59,326)	(52,775)	(763)	(2,544)
Third-party services	(40,683)	(23,277)	(2,361)	(3,065)
Rent	(3,639)	(3,759)	-	-
Travel and lodging	(1,042)	(717)	(1)	(1)
Security	(1,539)	(1,418)	(226)	(197)
Litigation and taxes	(2,140)	(1,775)	(474)	(527)
IT and telecommunications	(14,044)	(9,005)	(83)	(45)
Electricity, water and sewage	(958)	(1,071)	(48)	(24)
Maintenance, cleaning and environment	(3,456)	(3,779)	(18)	(5)
Depreciation and amortization	(16,149)	(16,203)	-	(183)
Other	(7,192)	(4,356)	(1,424)	(1,112)
Total administrative expenses	**(150,168)**	**(118,135)**	**(5,398)**	**(7,703)**

(In thousands of reais)

25 Other operating income, net

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Other operating income				
Lease income	5,706	5,074	5,686	5,057
Income from sale of energy	-	45	-	-
Sale of scrap	1,559	1,516	-	-
Income from disposal of PPE	2,565	3,218	-	-
Previously unused PIS/COFINS credit – exclusion of ICMS (Note 8)	53,352	66,946	-	-
Gain on settlement of pre-existing relationship	-	13,980	-	-
Unduly paid taxes – SELIC (Note 8)	8,792	-	-	-
Other	6,354	7,721	-	-
Total other operating income	**78,328**	**98,500**	**5,686**	**5,057**
Other operating expenses				
(Reversal of) provision for contingencies	(3,432)	(9,740)	(563)	(35)
Expense with disposal of PPE	(3,754)	(3,430)	-	-
Other	(20,909)	(14,546)	(73)	(155)
Total other operating expenses	**(28,095)**	**(27,716)**	**(636)**	**(190)**
Other operating income, net	**50,233**	**70,784**	**5,050**	**4,867**

(In thousands of reais)

26 Finance income and costs

	Consolidated		Individual	
	12/31/2022	**12/31/2021**	**12/31/2022**	**12/31/2021**
Finance income				
Capital structure				
Investment yield	20,977	6,170	3,252	2,576
Other	18	4	-	-
Subtotal	**20,995**	**6,174**	**3,252**	**2,576**
Operating				
Interest	5,012	2,229	9,992	5,344
Discounts received	1,671	692	-	-
Restatement of previously unused tax credit (Note 8)	72,799	59,135	-	-
Other	5,226	5,260	5,000	32
Subtotal	**84,708**	**67,316**	**14,992**	**5,376**
Exchange differences	20,213	14,533	-	-
Total finance income	**125,916**	**88,023**	**18,244**	**7,952**
Finance costs				
Capital structure				
Interest	(43,722)	(30,436)	(21,805)	(8,770)
Tax on Financial Transactions (IOF)	(443)	(253)	(6)	(4)
Other	(4,040)	(2,667)	-	-
Subtotal	**(48,205)**	**(33,356)**	**(21,811)**	**(8,774)**
Operating				
Bank fees	(4,639)	(4,491)	(3)	(2)
Fee/commission on sales - cards	(202)	(117)	-	-
Discounts granted	(2,164)	(10,439)	-	-
PVA		(2,269)	-	-
Other tariffs	(5,117)	(3,398)	(7)	-
Subtotal	**(12,122)**	**(20,714)**	**(10)**	**(2)**
Exchange differences	(24,291)	(21,495)	-	-
Total finance costs	**(84,618)**	**(75,565)**	**(21,821)**	**(8,776)**
Finance income (costs)	**41,298**	**12,458**	**(3,577)**	**(824)**

27 Earnings per share

Basic earnings per share are calculated by dividing net income for the year attributed to common shareholders by the weighted average number of common shares outstanding in the same year.

Diluted earnings per share are calculated by dividing income attributed to the Company's common shareholders by the weighted average number of common shares that would be issued in the conversion of all potential dilutive shares into their respective shares.

As of December 31, 2022, the Company had outstanding potential shares that could affect the dilution of earnings per share pursuant to CPC 41/IAS 33 in the total amount of 3,220,000 (three million, two hundred and twenty thousand) potential shares. Of the total amount, 685,000 (six hundred and eighty-five thousand) potential shares refer to the second grant of shares of the Stock Option plan that was approved on May 5, 2019, 785,000 (seven hundred and eighty-five thousand) potential shares to the third grant of shares of the Stock Option plan that was approved on August 6, 2020, 855,000 (eight hundred and fifty-five thousand) potential shares to the fourth grant of shares of the Stock Option plan that was approved on May 11 of 2021, and 895,000 (eight hundred and ninety-five thousand) potential shares to the fifth grant of shares of the Stock Option plan that was approved on May 3, 2022.

As of December 31, 2021, the Company had 3,200,000 (three million, two hundred thousand) potential shares outstanding. Of the total amount, 635,000 (six hundred and thirty-five thousand) potential shares refer to the first grant of shares of the Stock Option plan that was approved on January 16, 2018, 755,000 (seven hundred and fifty-five thousand) potential shares to the second grant of shares of the Stock Option plan that was approved on May 5, 2019, 870,000 (eight hundred and seventy thousand) potential shares to the third grant of shares of the Stock Option plan that was approved on August 6, 2020, and 940,000 (nine hundred and forty thousand) potential shares to the fourth grant of shares of the Stock Option plan that was approved on May 11, 2021, that could affect the dilution of earnings per share pursuant to CPC 41/IAS 33.

The table below presents the calculation of basic and diluted earnings per share:

	Consolidated	
	Number of common shares	
	12/31/2022	**12/31/2021**
Profit attributable to shareholders	469,930	313,839
Basic weighted average number of shares outstanding in the year	245,710,968	245,756,244
Diluted weighted average number of shares outstanding in the year	246,595,701	248,956,244
Earnings per basic share (in thousands) - R$	1.9125	1.2770
Earnings per diluted share (in thousands) - R$	1.9057	1.2606

28 Financial instruments and risk management

The key financial assets and liabilities of the Company and its subsidiaries refer to cash and cash equivalents, trade accounts receivable, trade accounts payable, intercompany loans, leasing liabilities, and financing and loans.

Financial risk structure and management

The Company and its subsidiaries manage financial risks by monitoring financial positions of assets and liabilities and 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

These instruments are managed by means of operational strategies and internal controls with a view to ensuring liquidity, profitability and security. Control policy consists of permanent monitoring of contracted rates versus market rates in effect.

The risk management policies were established to identify and analyze exposure in order to establish appropriate risk limits and controls, monitoring risks and compliance with the limits. Systems and risk policies are reviewed from time to time to reflect changes in market conditions and activities of the Company and its subsidiaries.

Assessments of financial instruments and risk management are reported below:

(i) Credit risk

Credit risk is the risk of the Company and its subsidiaries incurring financial losses if a counterparty fails to comply with its contractual obligations. This risk arises substantially from trade accounts receivable. The carrying amounts of financial assets and contractual assets represent the maximum credit exposure.

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

(In thousands of reais)

The following risk management practices are adopted by the Company and its subsidiaries:

(i) Selection of top-tier financial institutions in the market (largest banks based on equity in the country), state-owned banks, or government development agencies, resulting in low credit risk with financial institutions, and diversification of financial instruments for investment of the company's resources, which are restated by reference to indicators such as the CDI, fixed rates or inflation-adjusted rates;

(ii) Analysis of credits granted to customers and establishment of sales limits; There are no customers that individually represent more than 12% of total trade accounts receivable as of December 31, 2022 (10% as of December 31, 2021); and

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

The Company uses a provision matrix to calculate the expected credit loss on receivables from individual customers:

December 31, 2022	**Policy applied**	**Gross book balance**	**Allowance for estimated losses**
Stores	0.00%	59,400	-
Falling due	0.04%	688,459	(275)
1-30 days past due	0.50%	13,977	(70)
31-60 days past due	10.00%	682	(68)
61-90 days past due	25.00%	368	(92)
More than 90 days past due	100.00%	23,716	(23,716)
Customers under in-court reorganization (with financial restructuring)	20.00%	8,845	(1,769)
Customers under in-court reorganization (with financial restructuring)	40.00%	8,589	(3,436)
Customers under in-court reorganization (without financial restructuring)	100.00%	13,820	(13,820)
		817,856	**(43,246)**

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

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

(In thousands of reais)

Loss rates are based on actual credit loss experienced in the previous accounting year. These rates have been multiplied by scaling factors to reflect differences between economic conditions during the period in which the historical information was collected, current conditions, and the Company's view of economic conditions over the expected life of the receivables.

(ii) Market risk

Market risk is the risk that changes in market prices - such as exchange rates, interest rates and share prices - will affect the Company's earnings or the value of its financial instruments. The objective of market risk management is to assess and control exposure to market risks, within acceptable parameters, while optimizing return. The Company and its subsidiaries use derivatives to manage market risk.

Currency risk

Considering the price risk in exports, which correspond to 5.36% of the revenue of the subsidiaries as of December 31, 2022 (3.64% as of December 31, 2021), any exchange rate volatility effectively represents a price risk that could jeopardize the results planned by management.

Sensitivity analysis

P&L of the Company and its subsidiaries is subject to minor variations due to the effects of the exchange rate volatility on assets and liabilities linked to foreign currencies, mainly the US dollar, which, in the year ended December 31, 2022, corresponded to a negative variation of 6.50% compared to the last quote as of December 31, 2021.

As a strategy for preventing and reducing the effects of exchange rate fluctuations, management seeks to maintain a natural hedge with linked assets, which are also subject to exchange rate differences. Management does not contract financial instruments to eliminate its exposure to currency risks, which are shown below:

	Consolidated	
US dollar (thousands of US$)	**12/31/2022**	**12/31/2021**
Assets in foreign currency (a)	28,347	16,094
Liabilities in foreign currency (b)	(8,464)	(4,355)
Surplus calculated (a-b)	**19,883**	**11,739**

Given the exposure to the risk of price fluctuation, the Company and its subsidiaries present below three scenarios of the variation of the dollar and the respective future results, as follows:

(In thousands of reais)

1. **Probable scenario adopted by the Company and its subsidiaries:** Dollar quoted at R$5.2177 as of December 31, 2022;

2. **Possible scenario:** As determined by the CVM resolution, the scenario is built considering a 25% decrease in the dollar exchange rate, falling to R$ 3.9133; and

3. **Remote scenario:** Still according to the CVM resolution, in this scenario the dollar exchange rate used in the probable scenario is reduced by 50%, falling to R$ 2.6089.

Exchange sensitivity analysis table - effect as of December 31, 2022

Transaction	Risk	Probable scenario	Possible scenario	Remote scenario
	US$ 19,883 thousand	Exchange rate of 5.2177	Exchange rate of 3.9133	Exchange rate of 2.6089
Finance income (costs)	Fall in US$	-	(25,935)	(51,871)

(iii) Interest rate risk

Sensitivity analysis
P&L of the Company and its subsidiaries is subject to minor variations due to the effects of the volatility of the DI-CETIP, TJLP and IPCA rates financial investments and part of loans and financing linked to these rates.

	Consolidated		Consolidated	
	Carrying amount 12/31/2022	Fair value 12/31/2022	Carrying amount 12/31/2021	Fair value 12/31/2021
Assets pegged to CDI	191,862	191,862	114,347	114,347
Liabilities pegged to TJLP	3,145	2,803	2,571	2,442
Liabilities pegged to IPCA	102,818	97,906	100,527	105,096
Liabilities pegged to CDI	256,920	259,121	250,040	251,262

Given the exposure to the risk of fluctuations in the indices of financial investments and loans, the Company presents below the rate variation scenarios and respective future results, as follows:

(i) Probable scenario adopted by the Company and its subsidiaries, 13.65% p.a. DI-CETIP, 7.20% p.a. TJLP, and 5.79% p.a. IPCA;

(ii) Possible scenario, considering a 25% rate increase or decrease;

(iii) Remote scenario, considering a 50% rate increase or decrease.

(In thousands of reais)

The rate variation as of December 31, 2022 is shown below:

Transaction	Risk	Probable scenario	Possible scenario - 25%	Remote scenario - 50%
Loans pegged to TJLP	Increase in TJLP	TJLP at 7.20% R$ -	TJLP at 9.00% R$ 57	TJLP at 10.80% R$ 113
Loans pegged to IPCA	Increase in IPCA	IPCA at 5.79% R$ -	IPCA at 7.24% R$ 1,491	IPCA at 8.69% R$ 2,982
Loans pegged to CDI	Increase in CDI	CDI at 13.65% R$ -	CDI at 17.06% R$ 8,761	CDI at 20.48% R$ 17,548
Investments pegged to CDI	Decrease in CDI	CDI at 13.65% R$ -	CDI at 10.24% R$ (6,542)	CDI at 6.83% R$ (13,085)

(iv) Liquidity risk

This refers to the risk of the Company facing difficulties in meeting obligations associated with its financial liabilities that are settled with cash payments or other financial assets. The Company's objective in managing liquidity is to ensure, to the extent possible, that it will always have sufficient liquidity to meet its obligations upon maturity, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company and its subsidiaries monitor the liquidity risk of funds through cash monitoring policies to avoid mismatch of receivables and payables.

The Company and its subsidiaries also maintain balances in short-term investments with daily liquidity, redeemable at any time, to cover any mismatches between the maturity date of contractual obligations and cash generation.

The payment schedule for noncurrent installments of loans and financing is presented below:

	12/31/2022	
Maturity	**Amount**	**%**
2024	105,353	70%
2025	19,730	13%
2026	12,824	9%
2027	3,615	2%
2028	3,359	2%
2029	3,103	2%
2030	2,390	2%
Total	**150,374**	**100%**

(In thousands of reais)

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

These instruments are managed by means of operational strategies with a view to ensuring liquidity, profitability and security. The control policy consists of permanent monitoring of contracted rates versus market rates in effect. The Company and its subsidiaries are not engaged in investments for speculative purposes, in derivatives, or any other risk assets.

The accounting balances and fair values of financial instruments included in the statements of financial position as of December 31, 2022 and 2021 are shown below.

		Consolidated			
		12/31/2022		**12/31/2021**	
Description	**Classification**	**Book balance**	**Fair value**	**Book balance**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	197,197	197,197	114,635	114,635
Financial investments					
CDB/Investment fund	Financial assets at fair value through profit or loss	8,528	8,528	9,418	9,418
Equity investment funds	Financial assets at fair value through other comprehensive income	418	418	894	894
Accounts receivable	Financial assets at amortized cost	774,610	774,610	616,275	616,275
Other accounts receivable	Financial assets at amortized cost	28,008	28,008	19,323	19,323
Loans and financing:					
Local currency	Amortized cost	413,252	462,556	353,138	358,800
Foreign currency	Amortized cost	3,796	3,835	8,112	7,664
Trade accounts payable	Amortized cost	104,925	104,925	78,006	78,006
Intercompany loans	Amortized cost	18,448	18,448	18,041	18,041

(In thousands of reais)

		Individual			
		12/31/2022		12/31/2021	
Description	**Classification**	**Book balance**	**Fair value**	**Book balance**	**Fair value**
Cash and cash equivalents	Financial assets at amortized cost	35,161	35,161	33	33
Financial investments					
CDB/Investment fund	Financial assets at fair value through profit or loss	5	5	2	2
Intercompany loans	Financial assets at amortized cost	-	-	118,324	118,324
Other accounts receivable	Financial assets at amortized cost	7,114	7,114	3,423	3,423
Trade accounts payable	Amortized cost	368	368	1,672	1,672
Intercompany loans	Amortized cost	109,889	109,889	206,533	206,533

(v) Fair value hierarchy

	Consolidated				Individual			
	12/31/2022		12/31/2021		12/31/2022		12/31/2021	
Description	**Level 1**	**Level 2**	**Level 1**	**Level 2**	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Financial investments								
Floating CDB	-	2,257	-	5,005	-	4	-	-
Investment funds	-	6,271	-	4,413	-	1	-	2
Equity investment funds	418	-	894	-	-	-	-	-

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2 –** different inputs for prices negotiated in active markets included in Level 1 that are observable for the asset or liability, either directly (based on prices) or indirectly (deriving from prices); and
- **Level 3** – inputs for the asset or liability that are not based on market observable variables (non-observable inputs).

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

Financial investments

For financial investments, the fair value against P&L was determined based on the market prices of these securities, which are stable considering the rates and terms of the investments. The investments have remuneration based on a percentage of DI - CETIP and are restated as of December 31, 2022 (see Note 5).

(In thousands of reais)

Accounts receivable
Trade accounts receivable are recognized at the invoiced amount, including related direct taxes for which the Company and its subsidiaries are responsible. Allowance for doubtful accounts was set up at an amount considered sufficient by management to cover any losses on realization of receivables.

Loans and financing
Loans and financing calculated as of December 31, 2022 are measured at amortized cost using the effective interest rate method, and are recorded at their contractual amounts. There are interest rates applicable to these instruments identical to the contracts that are signed, considering the purpose of the financing, terms and guarantees that are offered. The valuation model considers the present value of the expected payment, discounted using a risk-adjusted discount rate.

Trade accounts payable
Trade accounts payable arise directly from the commercial transactions carried out by the Company and its subsidiaries, are recorded at their original values and are subject to foreign exchange and monetary restatements, when applicable, up to the statement of financial position date.

Limitations
The fair value of the instruments was estimated at the statement of financial position date based on “significant market information”. Changes in assumptions may significantly affect the estimates presented.

(vii) Capital management
The objective of capital management is to ensure maintenance of a strong credit rating with institutions and a structured capital relationship in order to support business and maximize shareholder value.

The Company and its subsidiaries include loans and financing, less cash, cash equivalents and short-term investments in its net debt structure.

	Consolidated	
	12/31/2022	**12/31/2021**
Loans and financing	(417,048)	(361,250)
Lease liabilities	(20,568)	(19,779)
Cash and cash equivalents	197,197	114,635
Financial investments	8,946	10,312
Net debt	**(231,473)**	**(256,082)**
Equity	1,711,834	1,356,562

(In thousands of reais)

29 Insurance coverage

The Company and its subsidiaries take out insurance coverage for assets subject to risks at amounts deemed sufficient by management to cover claims, if any, considering the nature of their activity.

Insured amounts as of December 31, 2022 are summarized below:

Corporate insurance in reais		
Insured item	**Insured risk**	**Insurance amount**
Property	Fire, windstorm, electrical damage, machinery breakdown,	195,000
Loss of profits	Fixed expenses (indemnifiable loss - 3 months)	60,000
D&O	General civil liability (D&O)	20,000
General civil liability	General civil liability	2,000
Light and heavy vehicles	Material, bodily and moral damages to third parties	27,750
International transportation - Import	Limit per shipment - Goods/Raw material	7,827
Total corporate insurance		**312,577**

30 Government grants and assistance

a. Federal incentives

- **IRPJ REDUCTION -** Consists of the right to a 75% reduction in Income Tax and Surtax, calculated based on the operating profit pursuant to article 1 of Provisional Executive Order No. 2199-14 of August 24, 2001, in accordance with the established criteria and with the tax incentive regulations. Projects currently undergoing complete modernization in the areas covered by the Northeast Development Agency (SUDENE) are considered under onerous conditions. Projects installed in the states of Ceará and Bahia are beneficiaries of the 75% income tax reduction incentive.

b. State incentives

(i) Ceará

For footwear

- **PROADE -** An incentive program for the Ceará State Industrial Development Fund (FDI), which consists of deferring 99% of the calculated ICMS levied on own production of footwear exclusively. For each benefit installment, 1% will be paid only once, the base date being the last day of the month and, after 36 months, the amount will be duly restated, from the date of disbursement to the maturity date, by reference to the TJLP.

For clothing

- **PROVIN -** An incentive program for the Ceará State Industrial Development Fund (FDI), which consists of deferring 75% of the calculated ICMS levied on own production of clothing exclusively. For each benefit installment, 25% will be paid only once, the base date being the last day of the month and, after 36 months, the amount will be duly restated, from the date of disbursement to the maturity date, by reference to the TJLP.

Additional incentives
Additionally, the PROADE incentives for footwear and clothing include the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces with no equivalent in the state of Ceará, as well as rate differences on capital expenditures.

- **PCDM -** An incentive program for business centers for the distribution of goods (PCDM), which consists of a 75% reduction in the ICMS debit balance calculated monthly on interstate shipping of goods. The ICMS withheld from third parties by the company is not included in this incentive, due to the tax substitution regime.

Additional incentives
Additionally, the PCDM incentive grants the deferral of ICMS levied on the import of goods from abroad for subsequent shipping, and import from abroad and from other states of PPE items.

(ii) Bahia

- **PROBAHIA** – The objective of this Bahia State development program is the diversification and fostering of transformation of the state's industrial processes. The benefit includes deferral of ICMS on the total debits calculated on the shipping of goods, where a matching credit of 99% is calculated on the amount due. Payment consists of 1% of the outstanding balance payable in the month following the ICMS calculation.

Additional incentives
Additionally, the PROBAHIA grants the deferral of ICMS on imports of raw materials, machinery, equipment, parts and pieces, as well as the rate difference on capital expenditures.

(In thousands of reais)

(iii) Minas Gerais

- **Special Regime** – For operation of Vulcabras Distr. Art. Spec. Ltda. (Extrema-MG branch), the automated special taxation regime e-PTA-RE Nº: 45.000024131-24 will be adopted, which establishes the Special Regime incentive with a simplified statement of purposes providing for deferrals, matching credit and TTS/CORREDOR DE IMPORTAÇÃO, consisting in the deferral of the payment of ICMS on imports specifically for sales purposes; in the partial deferral, resulting in disclosure of 4% for imported products and 12% for domestic products of the ICMS due on domestic sales to beneficiaries of the special regime; in the matching credit so that the effective rate is 3% in intrastate and interstate operations with domestic products and in the matching credit of 2.5% in interstate operations with imported products or 4% in intrastate operations with imported products, for an indefinite period.
- **Special Regime –** For operation of Vulcabras SP (Extrema-MG branch), the automated special taxation regime e-PTA-RE Nº: 45.000024132-05 will be adopted, which establishes the Special Regime incentive TTS/E-COMMERCE NÃO VINCULADO, consisting in the adoption of procedures to assign responsibility for withholding and payment of ICMS due under the tax substitution regime, granting of deferral of ICMS on imports and adoption of simplified tax bookkeeping and calculation system in operations contracted within the scope of electronic trade or telemarketing intended to the final consumer, with ICMS matching credit on intrastate operations of 12% for domestic products and of 4% for imported products, and effective rate of 1.3% in intrastate sales, for an indefinite period.

c. Additional incentives

TTS/ATACADISTAS and TTS/E-COMMERCE also provide for deferral of payment of ICMS on receipt of goods specifically intended for sale, as a result of direct import from abroad, for subsequent operations carried out by Vulcabras.

	Statement of government grants		
Subsidiary	**State incentive**	**%**	**Maturity date**
Vulcabras CE, Calç. e Art. Esp. S.A.	Proade - footwear	99%	Aug/2031
Vulcabras CE, Calç. e Art. Esp. S.A.	Provin - clothing	75%	Jun/2022(*)
Vulcabras BA, Calç. e Art. Esp. S.A.	Probahia	99%	Jul/2027
Vulcabras Distr. Art. Esp. Ltda.	PCDM	75%	Dec/2027
Vulcabras Distr. Art. Esp. Ltda.	TTS/ATACADISTAS	Variable	Indefinite
Vulcabras SP, Comércio de Art. Esp. Ltda.	TTS/E-COMMERCE	Variable	Indefinite

(*) Vulcabras CE applied for a 10-year benefit extension with the state of Ceará.

(In thousands of reais)

	Statement of government grants		
Subsidiary	**Federal incentive**	**%**	**Maturity date**
Vulcabras CE, Calç. e Art. Esp. S.A.	IRPJ reduction	75%	Dec/2025
Vulcabras BA Calç. e Art. Esp. S.A.	IRPJ reduction	75%	Dec/2026

d. Consolidated

Considering that such incentives were accounted for directly in the subsidiaries' P&L, they were recognized in the Company's P&L through the equity pickup method, the effects of which are shown below:

ICMS			**Equity pickup**	
Tax incentive recognized in subsidiaries' P&L	**Incentive amount in consolidated**	**% Equity interest**	**12/31/2022**	**12/31/2021**
Vulcabras CE, Calçados e Artigos Esportivos S.A.	126,391	99.99%	126,378	92,739
Vulcabras Distr. Art. Esp. Ltda.	18,676	100.00%	18,676	25
Vulcabras BA, Calçados e Artigos Esportivos S.A	84,361	100.00%	84,361	62,313
Vulcabras SP, Comércio de Art. Esp. Ltda.	11,833	100.00%	11,833	4,390
	241,261		**241,248**	**159,467**

Brazilian Special Regime for Reinstatement of Taxes for Exporters (REINTEGRA)			**Equity pickup**	
Tax incentive recognized in subsidiaries' P&L	**Incentive amount in consolidated**	**% Equity interest**	**12/31/2022**	**12/31/2021**
Vulcabras CE, Calçados e Artigos Esportivos S.A.	89	99.99%	89	44
Vulcabras BA, Calçados e Artigos Esportivos S.A.	73	100.00%	73	40
	162		**162**	**84**

(In thousands of reais)

31 Information by product and geographical area

Information on net sales in the foreign and domestic market, by geographical region, was prepared based on the country of origin of the income, that is, based on sales made by the subsidiaries in Brazil and through foreign subsidiaries.

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

Although footwear is designed to serve different consumers and social classes, it is not controlled and managed by management as an independent segment, and the Company's results are tracked, monitored and evaluated in an integrated manner.

Consolidated sales in the domestic and foreign markets and noncurrent assets are as follows:

	12/31/2022	**12/31/2021**
Net sales revenue		
Sports shoes	2,098,542	1,572,732
Other footwear and other	202,013	154,089
Clothing	236,381	140,355
	2,536,936	**1,867,176**
Domestic market	2,308,963	1,729,430
Foreign market	227,973	137,746
	2,536,936	**1,867,176**

Noncurrent assets from each geographical region are as follows:

	Consolidated	
	12/31/2022	**12/31/2021**
Noncurrent assets in the domestic and foreign markets from		
Brazil	908,166	680,587
Other countries	19,483	15,353
Total	**927,649**	**695,940**

Board of Directors

Pedro Grendene Bartelle
Chairman

André de Camargo Bartelle
1st Vice Chairman

Pedro Bartelle
2nd Vice Chairman

Paulo Sérgio da Silva
Independent Board Member

Octávio Ferreira de Magalhães
Independent Board Member

Executive Board

Pedro Bartelle
Chairman

Wagner Dantas da Silva
Administrative and Financial Officer

Rafael Carqueijo Gouveia
CEO

Rodrigo Miceli Piazer
Supply Chain Officer

Evandro Saluar Kollet
Corporate Officer for Product Development and Technology

Márcio Kremer Callage
Marketing Officer

Investor Relations Officer

Wagner Dantas da Silva

Accountant in charge

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