Financial Statements

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

December 31, 2021 and 2020
with Independent Auditor’s Report

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Financial statements

December 31, 2021 and 2020

Contents

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A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

Independent auditor's report on financial statements

To the
Shareholders, Board of Directors and Officers of
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.
Hortolândia - SP

Opinion

We have audited the financial statements of Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. as at December 31, 2021, and its financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

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 financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

As mentioned in explanatory notes 1 and 9 to the financial statements, the Company has received financial support from related parties in recent years and maintains purchase and selling balances transactions with related parties based on terms and conditions negotiated between them. Our opinion is not qualified in respect to this matter.

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Key audit matter

Key audit matter is that matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the 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.

Leases

As described in Note 3.3j) and 21, the Company adopted the new accounting pronouncement CPC 06 (R2) / NBC TG 06 (R3) as of January 1, 2019, using the retrospective modified approach as its transition method. This pronouncement establishes changes in accounting practices for the recognition, measurement, presentation, and disclosure of leases, substantially represented by its administrative and operational properties, and requires that lessees account for all leases using a single model in its financial statements. On the lease commencement date, the lessee recognizes a lease liability, referring to future minimum payments, and an asset representing the right-of-use asset, during the lease term, and separately recognizes expenses with financial charges on the lease liability, and the amortization expense of the right-of-use asset.

At December 31, 2021, as mentioned in Notes 3.3 j) and 21, balances referring to the right-of-use asset and lease liability totaled R$21,245 thousand and R$23,546 thousand, respectively, accounting for 5.0% of total assets and 6.7% of total current and non-current liabilities, respectively. In addition, for the year then ended, right-of-use asset amortization amounts and the financial costs, amounted to R$13,658 thousand and R$7,163 thousand, respectively, and the lease liability paid amounted to R$13,989 thousand.

This matter was considered significant for our audit: i) due to the relevance of amounts involved; and, renegotiations undertaken by the Company ii) because the assessment involves significant judgments in determining the assumptions and estimates used to determine the right-of-use asset and lease liabilities.

How our audit addressed this matter

Our audit procedures included, among others: (i) assessment of the adequacy of accounting policies for recognizing the Company's right-of-use asset and lease liabilities; (ii) inspection and reviewing lease contracts, on a sample basis, for the adequacy to said standard; (iii) testing, on a sample basis, the measured values of the right-of-use asset and lease liabilities, both recorded at the present value of the minimum lease payments; (iv) testing, on a sample basis, the amortization values of the right-of-use asset; and (v) analysis of the incremental interest rate calculated by the Company.

As a result of these procedures, we identified an audit adjustment relating to remeasurement effects. This adjustment was not recorded by board of directors, since it was considered immaterial on the financial statements as a whole.

Based on the results of our audit procedures carried out, we believe that the criteria and assumptions adopted by management, as well as the respective disclosures in Notes 3.3 j) and 21, are acceptable, in the context of the financial statements taken as a whole.

Other matters

Audit of corresponding figures

The Company's financial statements for the year ended December 31, 2020 were examined by other independent auditors, who issued a report on March 23, 2021 including their unmodified opinion on these financial statements.

Responsibilities of board of directors and those charged with governance for the financial statements

Board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, board of directors 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 board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of 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 the risks of material misstatement of the 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by board of directors.
- Concluded on the appropriateness of board of directors' 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

From the matters communicated with those charged with governance, we determined the matter that was of most significance in the audit of the financial statements of the current period and is therefore the key audit matter. We describe this matter in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 22, 2022.

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

Luciano Ferreira da Cunha
Accountant CRC-1SP210861/O-2

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Statement of financial position
December 31, 2021 and 2020
(In thousands of Brazilian reais - R$)
A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	4	**90,184**	81,564
Trade receivables	5	**12,105**	91,088
Inventories	6	**165,374**	89,912
Recoverable taxes	7	**22,232**	22,943
Prepaid expenses		**863**	909
Other receivables		**3,011**	11,393
		293,769	297,809
Noncurrent assets			
Trade receivables	5	**11,012**	34,215
Recoverable taxes	7	**406**	707
Deferred income tax and social contribution	8	**27,013**	20,865
Escrow deposits	14	**7,614**	9,596
Other receivables		**1,000**	1,000
Right of use of leased assets	21	**21,145**	64,634
Property, plant and equipment	10	**63,992**	59,955
		132,182	190,972
Total assets		**425,951**	488,781

	Note	2021	2020
Liabilities and equity			
Current liabilities			
Borrowings, financing and debentures	11	**113,958**	193,725
Trade payables	12	**67,643**	94,991
Taxes payable		**1,808**	1,408
Payroll and related taxes	13	**24,950**	20,690
Advances from customers		**18,930**	37,794
Lease liability - right of use	21	**16,003**	12,395
Other payables		**38,469**	12,949
		281,761	373,952
Noncurrent liabilities			
Borrowings, financing and debentures	11	**39,117**	7,200
Provision for tax, civil and labor risks	14	**22,851**	10,046
Lease liability - right of use	21	**7,543**	53,211
Other payables		**-**	180
		69,511	70,637
Equity			
Capital	15	**87,707**	87,707
Equity adjustments		**666**	989
Accumulated losses		**(13,694)**	(44,504)
		74,679	44,192
Total liabilities and equity		**425,951**	488,781

See accompanying notes.

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Statement of profit or loss
Years ended December 31, 2021 and 2020
(In thousands of Brazilian reais - R$, except earnings per share)

	Note	2021	2020
Net sales revenue	16	**811,684**	687,536
Cost of sales and services	19	**(718,641)**	(615,833)
Gross profit		**93,043**	71,703
Operating expenses			
Selling expenses	19	**(9,126)**	(26,469)
General and administrative expenses	19	**(14,550)**	(14,874)
Management fees	19	**(6,317)**	(3,722)
Other operating expenses, net	20	**(8,165)**	(8,051)
Income before finance income		**54,885**	18,587
Finance income	17	**6,259**	2,951
Finance costs	17	**(15,572)**	(14,299)
Foreign exchange differences, net	18	**66**	435
Profit before income tax and social contribution		**45,638**	7,674
Income tax and social contribution			
Current	8.1	**(21,280)**	(1,615)
Deferred	8.1	**6,129**	(1,048)
Profit for the year		**30,487**	5,011
Earnings per share - basic and diluted - R$	15.3	**0.63086**	0.10369

See accompanying notes.

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Statement of comprehensive income
Years ended December 31, 2021 and 2020
(In thousands of Brazilian reais - R$)

	2021	2020
Profit for the year	**30,487**	5,011
Other comprehensive income	**-**	-
Total comprehensive income for the year	**30,487**	5,011

See accompanying notes.

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Statement of changes in equity
Year ended December 31, 2021 and 2020
(In thousands of Brazilian reais - R$)

	Note	Capital	Equity adjustments	Accumulated losses	Total
Balances at December 31, 2019		87,707	1,162	(49,688)	39,181
Realization of deemed cost, net of tax effects		-	(173)	173	-
Profit for the year		-	-	5,011	5,011
Balances at December 31, 2020		87,707	989	(44,504)	44,192
Realization of deemed cost, net of tax effects		**-**	**(323)**	**323**	**-**
Profit for the year		**-**	**-**	**30,487**	**30,487**
Balances at December 31, 2021		**87,707**	**666**	**(13,694)**	**74,679**

See accompanying notes.

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.

Statement of cash flows
Year ended December 31, 2021 and 2020
(In thousands of Brazilian reais - R$)

	Note	2021	2020
Cash flows from operating activities			
Profit for the year		**30,487**	5,011
Adjustments to reconcile net earnings for the year to cash from operating activities:			
Depreciation	10.2	**9,820**	7,494
Amortization of right of use	21	**13,658**	15,766
Recognition / derecognition of right of use	21	**(5,169)**	-
Deferred income tax and social contribution	8.1	**15,138**	2,663
Interest on borrowings and financing	11	**10,237**	10,006
Interest on lease liabilities	21	**7,168**	2,711
Residual value of property, plant and equipment items written off	10.1 and 10.2	**843**	142
Reversal of the allowance for inventory losses	6	**4,554**	1,685
Exchange differences on borrowings and financing	11	**-**	(341)
Provision for tax, civil, and labor risks, net of reversals	14	**12,805**	(3,417)
Other		**(7)**	(1,352)
Decrease (increase) in assets:			
Trade receivables		**102,186**	(116,294)
Inventories		**(80,015)**	113,525
Recoverable taxes		**1,012**	1,545
Escrow deposits		**1,982**	(668)
Other receivables and other assets		**8,428**	(7,258)
(Decrease) increase in liabilities:			
Trade payables		**(27,348)**	23,408
Advances from customers		**(18,864)**	37,764
Payroll and related taxes		**4,260**	9,438
Other payables and other liabilities		**25,741**	4,275
Cash from operating activities		**116,916**	106,103
Payment of income tax and social contribution	8.1	**(21,280)**	(1,615)
Payment of interest on lease liabilities	21	**(389)**	(411)
Payment of interest on borrowings, financing and debentures	11	**(8,255)**	(13,276)
Cash from operating activities		**86,992**	90,801
Cash flows from investing activities			
Purchase of property, plant, and equipment	10.1	**(14,701)**	(9,689)
Cash used in investing activities		**(14,701)**	(9,689)
Cash flows from financing activities			
Borrowing, financing and debentures taken out	11	**136,103**	209,566
Repayment of lease liabilities - principal	21	**(13,839)**	(17,399)
Repayment of borrowing and financing - principal	11	**(185,935)**	(262,685)
Cash used in financing activities		**(63,671)**	(70,518)
Increase in cash and cash equivalents		**8,620**	10,594
Cash and cash equivalents at beginning of year		**81,564**	70,970
Cash and cash equivalents at end of year		**90,184**	81,564
Increase in cash and cash equivalents		**8,620**	10,594

See accompanying notes.

1. Operations

1.1. General information

Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. ("Company") is a privately-held corporation, incorporated on September 16, 2014, with registered head office at Avenida Carlos Roberto Prataviera, s/n Lote 71 - Sítio São João, Jardim Nova Europa, Hortolândia/SP - CEP 13184-889.

The Company started its operations on May 1, 2015. The Company is engaged in the manufacturing, milling, assembly, repair, distribution, and sale of any type of railroad equipment, as well as import and export transactions.

The Company is jointly managed by two shareholders: Greenbrier do Brasil Participações Ltda. holding 60% stake and Amsted Maxion Fundição e Equipamentos Ferroviários S.A. holding 40% stake.

1.2. A word from our CFO

Year 2021 continued to be impacted by the coronavirus pandemic. We continued with control, prevention and communication actions over this period to ensure the health of employees and their families, with a low number of contaminated individuals being determined, which were monitored by the Company with all the necessary support for their recovery. Fortunately, we did not have any fatal victims on our workforce.
This scenario has led us to develop stronger and more sustainable relationships with our employees, customers and suppliers.

The railway sector also presented many changes and investments by the private sector, by means of concessions.

Since its inception, rail transportation has represented an important strategic element for the economy. This modal is the best alternative for transportation of grain and cargo by container, with the lowest cost and less environmental impact, high load capacity, more safety in the transportation of goods and lower risk of accidents. From January to November 2021, rail production increased by 2.1% compared to the same prior-year period, with emphasis on iron ore and general cargo, demonstrating that the modal is suitable for transporting large volumes of cargo and being extremely competitive and adaptable to all regions of Brazil.

1. **Operations** (Continued)

1.2. **A word from our CFO** (Continued)

Through its Ministry of Infrastructure, Brazil’s Federal Government started an important transformation process in the Brazilian rail modal. Provided for in Provisional Executive Order (MP) No. 1065/2021, the *Pro Trilhos* program allows new railways to be built under the authorization regime, at the free initiative of the private sector, which currently only invests in concession projects auctioned by the government. Until December 31, 2021, the Ministry of Infrastructure had received 64 applications. Together, they represent R$180 billion in investments and 15 thousand kilometers of new tracks crossing 16 states. Nine railroads passed through all stages and were authorized by the federal government. With the railroad authorizations, the Ministry of Infrastructure expects to increase the modal share in the transportation matrix from the current 20% to 40% by 2035, with the expansion of the railways from 30,000 km to 35,000 km. Investments in port concessions will also optimize the connection between railroads and terminals.

In 2021, the year ended with the full operation of the North-South Railway (FNS), with RUMO company being the winner of the auction, in addition to the auction of the 1st section of the West-East Integration Railway (Fiol I), between Ilhéus and Caetité, in Bahia state, with an investment of more than R$3 billion, won by Bahia Mineração (BAMIN) company.

In the planning of the Ministry of Infrastructure, through the PPI (Investment Partnership Program), the early renewal of the MRS and VLI concession is expected for the 1st half of 2022, in addition to the Ferrogrão auction. The construction of the Centro-Oeste Integration Railroad (FICO), scheduled to be delivered in 2025, was included as consideration for the grant amount in the early extension of the EFVM (Vale).

Altogether, investments in the Brazilian rail network will amount to approximately R$68.8 billion, with R$33.3 billion in concession renewals, R$28.5 billion in new concessions and R$8 billion in privatization.

Also worthy of notice is the continuity of the rail services business for the overhaul, maintenance, renovation and transformation of rail freight cars and components, permitting a better distribution and absorption of productive labor, in addition to meeting market demand. Currently, almost 50% of the Brazilian fleet is over 30 years old, and almost 14,000 of these wagons are over 50 years old, which requires a series of replacements and new acquisitions to ensure the operational safety and productivity of the railroad.

1. **Operations** (Continued)

1.2. **A word from our CFO** (Continued)

The Company is optimistic about the renewal of current concessions and also with the projection of new concessions, predicting an increase in sales for the coming years.

The speed of recovery of the railway industry generated challenges, mainly in the supply of raw materials, increase in costs and productivity gains, aiming at the maintenance of margins and also the delivery of wagons in compliance with the deadlines assumed with customers.

With these changes in the rail market, the Company exceeded the results for year 2020.

The Company is focused on environmental and sustainability actions (ESG). As a policy, we prioritize suppliers of raw materials and components that meet the criteria for reducing environmental impacts.

Steel is an important component in our production process, and in order to reduce the consumption of natural and energy resources, more than 50% of the steel supplied is provided through recycled materials.

Aiming at reducing electrical energy consumption, the Company replaced its welding machines, the new equipment features a new technology that reduces KWH consumption.

Advanced engineering works on projects to reduce the tare weight of wagons, and some actions have already been implemented in 2021. These actions result in a reduction in fuel consumption by rail operators, a reduction in the exchange of rolling stock and also greater transportation capacity.

1.3. **Operational plan and actions implemented by the Company's management**

Net revenue reached R$811.7 million in 2021, an increase of 18.1% compared to the same period of the previous year. Compared to the operational plan, revenue exceeded projections by 23.1%, the increase being primarily influenced by the increase in the sale of new rail cars and railway components (wagons).

Sales are predominantly to the Brazilian market and in Reais (R$), with no effect of exchange differences on operations.

1. **Operations** (Continued)

1.3. **Operational plan and actions implemented by the Company's management** (Continued)

The Company exceeded the projected results, net income reached R$30.5 million. One thousand five hundred and twenty-nine (1,529) railcars were billed, a reduction of 20.5% compared to 2020. This reduction was related to a change in the mix of the railcar sales model, where we had a reduction in the sale of gondola cars, and an increase in the sale of hopper and platform wagons.

The production of wagons was 3.9% higher than in 2020, totaling 1,546 units, with no need to increase the workforce. The investment in automation, standardization of wagons and reduction of the number of items per wagon helped to gain efficiency and productivity.

Cash management was an extremely important factor in improving the Company's operating income. Net cash generation reached R$63.9 million and borrowing, financing and debentures (does not include intercompany financing) was reduced by 35.6%, from R$114.3 million in 2020 to R$73.6 million in 2021.

An unprecedented and important factor for the Company was the first issue of debentures in July 2021 in the total amount of R$60.0 million, maturing in three years. The main objective of this issue was to lengthen the Company's debt profile. With this important operation, the short-term debt profile, which was 93.7% in (Dec/20), ended 2021 at 46.9%.

As at December 31, 2021, the Company has positive working capital of R$12.0 million, surpassing the 2020 scenario where working capital was negative by R$76.1 million. Shareholders are kept up to date on the Company's results and provide financial support to its operations with lines of credit, thus maintaining the commitment to finance the operations and provide the necessary financial support for the payment of its obligations, if necessary. With the measures and scenarios presented, management did not identify situations that could affect the Company's continuity of business operations.

1. Operations (Continued)

1.3. Operational plan and actions implemented by the Company's management (Continued)

Covid-19

Covid-19 was discovered in December 2019, when the first cases appeared in Wuhan City, Hubei Province, China. Since December 31, when the first cases were recorded in China, the virus has spread to more than 114 countries, and the World Health Organization (WHO) declared a pandemic on March 11, 2020.

The impact of the disease was also reflected in economic activity, which has been subjected to significant losses. In view of this, companies may be exposed to a number of strategic and operational risks, such as delays or interruption in the supply of raw materials, changes in customer demands, increased costs, logistical inadequacies that lead to delays in deliveries, health issues and employee safety, insufficient workforce, and challenges relating to product import and export.

In view of such scenario, the Company has been constantly monitoring the evolution of the topic and there is no expected impact on operations so far.
The Company has also been monitoring cases with employees and has carried out communication and awareness campaigns, in addition to providing assistance to employees and society.

There was no increase in delinquency in the Company's accounts receivable and no delay to suppliers, nor is there any forecast of loss of raw materials or materials due to the pandemic scenario.

2. Basis of preparation of the financial statements

2.1. Statement of compliance

The Company's financial statements have been prepared in accordance with the accounting practices adopted in Brazil.

The accounting practices adopted in Brazil ("BR GAAP") comprise those included in Brazilian corporate law and the accounting pronouncements, guidance and interpretations issued by the Brazilian Accounting Pronouncements Committee ("CPC") and approved by Federal Accounting Council (CFC).

Management states that all significant information in the financial statements, and only this information, is disclosed and corresponds to that used by management in its operations.

2. Basis of preparation of the financial statements (Continued)

2.2. Basis of measurement

The financial statements were prepared based on the historical cost, except for certain property, plant and equipment items, which were valued at deemed cost and, when applicable, financial instruments measured at fair values. Historical cost is generally based on the fair value of consideration paid in exchange for assets.

Fair value is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability in a transaction between market participants at measurement date, whether or not this price may be directly observed or estimated using a different valuation technique. In estimating fair value of an asset or liability, the Company takes into consideration the characteristics of the asset or liability in case the market participants take these characteristics into account in pricing the asset or liability at measurement date. For purposes of measurement and/or disclosure in these financial statements, fair value is calculated on this base, except for lease transactions within the scope of CPC 06 (R2) - Leases (equivalent to IFRS 16) and measurements that have certain similarity with fair value but are not fair value, such as unrealized net amounts mentioned in CPC 16 (R1) - Inventories (equivalent to IAS 2) or value in use in CPC (R1)) - Impairment of Assets (equivalent to IAS 36).

2.3. Functional and presentation currency

Items included in the Company's financial statements are measured in Brazilian reais (R$), the functional and presentation currency of the financial statements, which represents the currency of the main economic environment in which it operates.

2.4. Use of estimates and judgments

In applying the Company's accounting policies described in Note 3, management must make judgments and prepare estimates regarding the assets' and liabilities' carrying amounts, whenever they are not easily obtained from other sources. These estimates and associated assumptions are based on experience and other factors considered to be relevant. Actual results may occasionally differ from these estimates.

Estimates and underlying assumptions are revised on an ongoing basis. The effects from the revisions of accounting estimates are recognized in profit or loss from the current year.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

2. Basis of preparation of the financial statements (Continued)

2.4. Use of estimates and judgments (Continued)

Areas that involved estimates and judgments are disclosed as follows:

- Note 5 - Allowance for doubtful debts.
- Note 6 - Allowance for inventory losses.
- Note 8 - Income tax and social contribution.
- Note 14 - Provision for tax, civil and labor risks.
- Note 22 - Risk and financial instrument management.

3. Significant accounting policies

3.1. Impact of first-time adoption of new and amended IFRSs in effect in the current year

In the current year, the Company adopted the following amendments to the IFRS Standards and Interpretations issued by the IASB effective for annual periods beginning on or after January 1, 2021.

Standard	Requirement	Impact on the financial statements
Amendments to IFRS 9 and IFRS 7: Interest Rate Benchmark Reform	These amendments modify the specific requirements of hedge accounting to allow the maintenance of the hedge accounting for hedges affected during the uncertainty period before the hedged items or hedging instruments affected by the current interest rate benchmark are changed as a result of the continuing interest rate benchmark reforms.	The Company did not identify material impacts on its financial statements.
IFRS 16 - Covid-19 - Related Rent Concessions	This standard establishes practical measures for lessees in accounting for rent concessions occurred as a direct result of COVID-19, by introducing a practical expedient for IFRS 16. The practical expedient allows the lessee to choose not to assess whether the COVID-19-related rent concession is a lease modification. The lessee that makes its decision must account for any change in lease payments resulting from the COVID-19-related rent concession by applying IFRS 16 as if the change were not a lease modification.	The Company did not identify material impacts on its financial statements.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

3. Significant accounting policies (Continued)

3.2. Adoption of new and revised IFRS not yet applicable

The International Accounting Standards Board - IASB published or amended the following accounting pronouncements, guidance or interpretations, the mandatory adoption of which are not in place yet.

Standard	Requirement	Impact on the financial statements
IFRS 10 - Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. Amendments to IFRS 10 (CPC 36 (R3)) and IAS 28 (CPC 18 (R2)) address situations involving the sale or contribution of assets between an investor and its associate or joint venture. Effective date not yet defined.	The interpretation reflects the practice adopted by the Company and its accounting policies.
Amendments to IAS 1	Classification of Liabilities as Current or Noncurrent. Effective beginning January 1, 2023, early adoption is permitted.	The Company did not identify material impacts on its financial statements.
Amendments to IFRS 3	Reference to Conceptual Framework - Effective from January 1, 2022.	The Company did not identify material impacts on its financial statements.
Amendments to IAS 16	Property, Plant and Equipment - Proceeds Before Intended Use Effective from January 1, 2022.	The Company did not identify material impacts on its financial statements.
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract Effective January 1, 2022	The Company did not identify material impacts on its financial statements.
Annual Improvements to IFRS 2018-2020 Cycle	Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IFRS 16 - Leases, beginning January 1, 2022, except for IFRS	The Company did not identify material impacts on its financial statements.

3. Significant accounting policies (Continued)

3.3. Other accounting policies

a) General principles and revenue recognition criteria

a.1) *Revenue from sales of products*

Revenue is recognized to the extent that economic benefits are likely to flow to the Company and when it can be reliably measured, irrespective of when payment is received, and when control is transferred to the buyer.

Revenue is measured at the fair value of the consideration received, less any discounts, rebates and taxes or charges on sales. The Company measures revenue transactions in accordance with specific criteria to determine whether it is operating as an agent or a principal and eventually concluded that it has been operating as a principal in all its revenue agreements. The Company provides no guarantee other than the guarantee set forth by law, in line with the industry practice.

b) Foreign currency transactions

These are translated into the Company's functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated and calculated in foreign currencies at the end of each year are retranslated into the functional currency at the exchange rate prevailing at that date. Foreign exchange gains or losses on monetary items correspond to the difference between the amortized cost of the functional currency at the beginning of the year, and the amortized cost in foreign currency at the exchange rate prevailing at the end of each year. Foreign-currency-denominated nonmonetary assets and liabilities that are measured at fair value are retranslated into the functional currency at the exchange rate prevailing at the date their fair values were determined.

c) Cash and cash equivalents

These comprise cash, bank deposits and temporary investments redeemable within 90 days as from investment date, considered of immediate liquidity and convertible into a known cash amount, subject to a low risk of change in value, which are recorded at cost plus yield earned until year closing date, and do not exceed market or realizable value.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

d) Trade receivables and expected credit losses

Recognized and held in the statement of financial position at the original amount of the receivables, less the expected credit losses, which is recognized taking into account the expected credit loss criteria. The breakdown of trade receivables is analyzed as a whole, and an allowance is recognized for all receivables that are not expected to generate future economic benefits for the Company.

e) Inventories

These are recorded at average acquisition or build-up cost, adjusted to net realizable value and any losses, when applicable. Average cost includes expenses incurred upon acquisition, costs of production and transformation and other costs incurred to bring the inventories to the locations and selling conditions. In the case of manufacture inventories and products in process, cost includes a portion of manufacturing overhead base on normal operating capacity.

Net realizable value corresponds to the estimated selling price in the normal course of business, less estimated costs of completion and selling expenses.

The Company makes estimates to determine the allowance for losses on inventories, which it considers to be in an amount considered sufficient to cover probable losses on inventories, based on the policy set by management. The allowance for losses on inventories is recognized based on the history of consumption on an item-by-item basis for the past 12 months compared to the existing balance of inventories for the current year. For the quantities that exceeded the historical consumption for the past 12 months and are not expected to be sold in the future, an allowance for inventory losses is recorded.

f) Property, plant and equipment

f.1) *Recognition and measurement*

PPE items are recorded at acquisition or build-up cost and, when applicable, interest capitalized over the construction period, for the cases of qualifying assets, net of accumulated depreciation and provision for impairment of assets for paralyzed assets not expected to be reused or realized.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

f) <u>Property, plant and equipment</u> (Continued)

f.1) *Recognition and measurement* (Continued)

Machinery replacement parts, necessary for the normal operation of PPE items and which result in an increase to the useful life of these items in a period over 12 months, are classified as property, plant and equipment.

f.2) *Subsequent costs*

Replacement costs of a PPE item are recognized at book value of the item in case economic benefits embodied in the item are likely to flow to the Company, and their cost can be reliably measured. Maintenance costs of property, plant and equipment are recognized in P&L as incurred.

f.3) *Depreciation*

Depreciation is calculated on the amount subject to such depreciation, which is the cost of an asset item, or an amount that replaces cost, less residual value.

Depreciation is recognized in P&L on a straight-line basis with respect to estimated useful life of each component of each part of a PPE item, as this is the method that more closely reflects the pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The depreciation rates estimated based on the useful lives are disclosed in Note 10.

Depreciation methods, useful lives and net book values are reviewed at each financial year closing date, and any adjustments thereto are recognized as changes in accounting estimates.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

g) Impairment testing

g.1) *Property, plant and equipment*

The Company analyzes on an annual basis whether there is evidence that the carrying amount of an asset might be impaired. If there is any evidence of impairment, the recoverable amount of the asset is estimated, which is the higher of its fair value less costs to sell and its value in use. The value in use is equivalent to pretax discounted cash flows arising from the continuing use of the asset. When the residual value of the asset exceeds its recoverable amount, an impairment loss is recognized.

For impairment valuation purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (i.e., cash generating units - CGUs), which for the Company, only a CGU was considered.

g.2) *Financial assets (including receivables)*

Financial assets not measured at fair value through profit or loss are assessed at year end to identify whether there is objective evidence of impairment.

h) Provisions

h.1) *Provision for tax, civil and labor risks*

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of funds will be required to settle the obligation, and the obligation amount can be reliably estimated. The provision is quantified at the present value of the expected disbursement to settle the obligation using the appropriate discount rate, according to related risks.

This is adjusted up to the end of each fiscal year for the probable loss amount, according to the nature of each contingency and based on the opinion of the Company's legal counsel. The bases for and nature of the provision for tax, civil, and labor risks are described in Note 14.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

i) Taxation

i.1) *Current taxes*

The provision for income tax and social contribution is based on taxable profit for the year. Taxable profit differs from the income in the statement of profit or loss as it excludes income or expenses taxable or deductible in other years, and also nontaxable or nondeductible items on a permanent basis. The provision for income tax and social contribution is calculated at the rates prevailing at the end of each year, of 15%, plus a surtax of 10% on the taxable profit above R$240 (annual basis) for income tax and 9% on the taxable profit for social contribution, considering the offset of income and social contribution taxes loss carryforwards, limited to 30% of the taxable profit.

i.2) *Deferred taxes*

Deferred income tax and social contribution (“deferred taxes”) arise from temporary differences at the end of each fiscal year between the balances of assets and liabilities recognized in the financial statements and their tax bases used in the determination of taxable profit, including tax losses where applicable. Deferred tax liabilities are usually recognized on all temporary taxable differences and deferred tax assets are recognized on all temporary deductible differences, only when it is probable that the Company will present future taxable profit in a sufficient amount so that these temporary deductible differences can be utilized.

The recovery of deferred tax assets is reviewed at the end of each fiscal year, and when it is no longer probable that future taxable profits will be available to allow the recovery of all or part of the assets, the asset balance is adjusted based on the expected recoverable amount.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

i) Taxation (Continued)

i.2) *Deferred taxes* (Continued)

Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially enacted. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of each year, to recover or settle the carrying amount of these assets and liabilities.

Deferred tax assets and liabilities are offset when, and only when, there is the legal right to offset the tax asset against the tax liability and when they are related to the taxes managed by the same tax authority, and the Company intends to settle the net value of its tax assets and liabilities.

j) Leases

The Company assesses whether a contract is or contains a lease at the commencement of the agreement. That is, it assesses whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

j.1) *Lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and low-value asset leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (that is, the date the underlying asset is available for use). The right-of-use assets are measured at cost, less accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of recognized lease liabilities, initial direct costs incurred and lease payments made through the commencement date, less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis, for the shortest period between the lease term and the estimated useful life of the assets.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

j) Leases (Continued)

j.1) *Lessee* (Continued)

Right-of-use assets (Continued)

In certain cases, if ownership of the leased asset is transferred to the Company at the end of the lease term or if the cost represents the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of the lease payments to be made over the lease term. Lease payments include fixed payments (including, substantially, fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. Lease payments further include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition giving rise to those payments occurs.
When calculating the present value of lease payments, the Company uses its incremental borrowing rate at the commencement date because the interest rate implicit in the lease is not easily determinable. After the commencement date, the amount of the lease liability is increased to reflect accrued interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (for example, changes in future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the valuation of an option to purchase the underlying asset.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

j) Leases (Continued)

j.1) *Lessee* (Continued)

Lease liabilities (Continued)

Short-term leases and low-value asset leases: The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., leases whose lease term is equal to or less than 12 months from the commencement date and which do not contain a purchase option).
The Company also applies the low-value asset recognition exemption grant to leases of office equipment deemed to be low-value. Short-term lease payments and lease payments for low-value assets are recognized as an expense on a straight-line basis over the lease term.

j.2) *Lessor*

Leases to which the company does not transfer substantially all the risks and rewards inherent in the ownership of the asset are classified as operating leases. Rent income is recorded on a straight-line basis over the lease period and is included in income in the statement of profit or loss, due to its operational nature. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on a similar basis to rent income. Contingent rents are recognized as income over the time they are earned.

k) Financial instruments

k.1) *Classification and measurement of financial assets*

All financial assets recognized must be subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and their contractual cash flow characteristics.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

k) <u>Financial instruments</u> (Continued)

k.2) *Financial assets*

i) *<u>Amortized cost</u>*

Financial assets held within a business model whose purpose is to hold financial assets in order to receive contractual cash flows are recorded at amortized cost. These flows are received on specific dates and constitute solely payment of principal and interest. The following are examples of assets classified into this category: “Cash and cash equivalents”, “Trade receivables” and “Other receivables”.

ii) *<u>Fair value through profit or loss</u>*

The following assets are recorded at fair value through profit or loss: (i) assets that do not fall into the business models through which they could be classified at amortized cost or fair value through other comprehensive income (loss); (ii) equity instruments designated at fair value through profit or loss; and (iii) financial asset that are managed in order to obtain cash flow from the sale of assets.

k.3) *Initial measurement*

Upon initial recognition, the Company measures its financial assets and liabilities at fair value, considering transaction costs attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables are initially measured at transaction price.

k.4) *Subsequent measurement*

Assets are subsequently measured as follows:

i) *<u>Amortized cost</u>*

These assets are accounted for using the effective interest rate method less expected credit losses. In addition, the principal amount paid is considered for amortized cost calculation purposes.

Fair value through profit or loss

Assets classified within this business model are accounted for through recognition of gains and losses in P&L for the period.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

k) Financial instruments (Continued)

k.4) *Subsequent measurement* (Continued)

ii) *Impairment of financial assets*

Regarding the impairment of financial assets, CPC 38 requires an “expected credit loss” model compared to the “incurred credit loss” model set out in CPC 38 (IFRS 9). Under the “expected credit loss” model, the Company is required to recognize expected credit losses and related variations at each reporting date to reflect any changes in the credit risk occurred since the initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

CPC 38 (IFRS9) specifically requires the Company to recognize an allowance for expected credit losses on trade receivables. In particular, CPC 38 (IFRS9) requires the Company to measure the loss allowance for a financial instrument in an amount equivalent to lifetime expected credit losses (ECL) if the credit risk underlying such financial instrument has increased significantly since the initial recognition, or if the financial instrument corresponds to an acquired or originated financial asset that might be impaired. Nevertheless, if the credit risk underlying a financial instrument has not increased significantly since the initial recognition (except for acquired or originated financial assets that might be impaired), the Company is required to measure the loss allowance for that financial instrument in an amount equivalent to 12-month ECL. CPC 38 (IFRS9) also sets a simplified approach to measure a loss allowance in an amount equivalent to lifetime ECL for trade receivables, contract assets and lease receivables under certain circumstances.

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

k) Financial instruments (Continued)

k.4) *Subsequent measurement* (Continued)

ii) *Impairment of financial assets* (Continued)

Trade receivables, among the financial assets held by the Company, are subject to recognition of the allowance for impairment (Note 5). The Company's operations are focused on the railroad segment, and the large majority of its receivables derive from a few customers with appropriate financial soundness; for this reason, the loss on collection of receivables in the year ended 2021 did not show any changes. Therefore, the Company's profit or loss did not have significant impacts on the adoption of the recognition of credit losses.

l) Financial liabilities

Company financial liabilities are classified into:

(1) Amortized cost, comprised of trade payables, and borrowings and financing.

l.1) *Initial recognition and measurement*

Financial liabilities are initially recognized as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are measured initially at their fair value, plus or minus, in the case of a financial liability other than at fair value through profit or loss, the transaction costs that are directly attributable to the issuance of the financial liability.

The Company's financial liabilities include: trade payables and other payables, borrowings and financing.

l.2) *Subsequent measurement*

For subsequent measurement purposes, financial liabilities are classified into two categories:

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

l) Financial liabilities (Continued)

l.2) *Subsequent measurement* (Continued)

- Financial liabilities at fair value through profit or loss; and
- Financial liabilities at amortized cost.

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities for trading and financial liabilities designated on initial recognition at fair value through profit or loss.
Financial liabilities are classified as held for trading if incurred for short-term repurchase purposes.

Gains or losses on liabilities for trading are recognized in the statement of profit or loss.

Financial liabilities designated on initial recognition at fair value through profit or loss are designated on the initial recognition date and only if the criteria of CPC 48 are met.

Financial assets/liabilities	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Trade receivables	Amortized cost
Escrow deposits	Amortized cost
Other receivables	Amortized cost
Borrowings and financing	Amortized cost
Trade payables	Amortized cost
Lease liabilities	Amortized cost
Other payables	Amortized cost

3. Summary of significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

l) Financial liabilities (Continued)

l.2) *Subsequent measurement* (Continued)

Financial liabilities at amortized cost (borrowings and financing)

This is the most relevant category for the Company. After initial recognition, interest-bearing borrowings and financing taken out and granted are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in profit or loss when liabilities are written off, as well as through the amortization process under the effective interest rate method.

Amortized cost is calculated considering any discount or premium on the acquisition and fees or costs that are an integral part of the effective interest rate method. Amortization using the effective interest rate method is included as finance costs in the statement of profit or loss.

This category generally applies to borrowings and financing.

Derecognition

A financial liability is derecognized when the obligation under the liability is extinguished, that is, when the obligation specified in the contract is settled, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offset of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the individual and consolidated statement of financial position if there is a currently applicable legal right to offset the recognized amounts and if there is an intention to settle on a net basis, realize the assets and settle the liabilities, simultaneously.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

4. Cash and cash equivalents

R$	2021	2020
Cash and banks	**262**	237
Highly liquid short-term investments	**89,922**	81,327
Total	**90,184**	81,564

At December 31, 2021, the short-term investments held by the Company are represented by Bank Deposit Certificates - CDBs, distributed in several financial institutions with remuneration of 99.75% (rate calculated by the simple average) of the variation of the Interbank Deposit Certificate - CDI (97.02% in December 2020), and are classified as cash and cash equivalents, as they have a maximum period of 90 days for redemption from the date of application and are considered financial assets with an immediate redemption guarantee, subject to an insignificant risk of change in value.

5. Trade receivables

Breakdown - R$	2021	2020
In Brazil	**23,333**	125,556
Related parties	**262**	225
Expected credit loss	**(478)**	(478)
Total	**23,117**	125,303
Current assets	**12,105**	91,088
Noncurrent assets	**11,012**	34,215

Breakdown by maturity - R$	2021	2020
Falling due	**22,748**	125,097
Overdue:	**-**	-
1 to 30 days	**61**	9
31 to 60 days	**9**	9
61 to 90 days	**9**	9
91 to 180 days	**290**	179
Above 181 days	**478**	478
Total	**23,595**	125,781

Changes in expected credit loss

R$	2021	2020
Balance at beginning of year	**(478)**	(478)
Reversals	**-**	-
Additions	**-**	-
Balance at end of year	**(478)**	(478)

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

5. Trade receivables (Continued)

The Company negotiated through transactions of accounting receivable assignments without resources in the year ended December 31, 2021, the amount R$17,618 and had a fee of R$84 recorded in financial expenses.

6. Inventories

Breakdown - R$	2021	2020
Finished products	**44,057**	37,393
Work in progress	**29,201**	10,944
Raw materials	**97,363**	43,658
Ancillary materials	**3,594**	2,014
Imports in transit	**56**	246
Provision for losses	**(8,897)**	(4,343)
Total	**165,374**	89,912

Changes in provision for losses	2021	2020
Balance at beginning of year	**(4,343)**	(2,658)
Reversals	**3,855**	2,650
Additions	**(8,409)**	(4,335)
Balance at end of year	**(8,897)**	(4,343)

7. Taxes recoverable

Breakdown - R$	2021	2020
State Value Added Tax (State VAT (ICMS)	**3,303**	13,618
Contribution on Gross Revenue for Social Security Financing (COFINS)	**10,387**	3,770
Contribution on Gross Revenue for Social Integration Program (PIS)	**2,262**	797
Corporate Income Tax (IRPJ)	**3,998**	4,722
Federal Value Added Tax (IPI)	**2,688**	743
Total	**22,638**	23,650
Current assets	**22,232**	22,943
Noncurrent assets	**406**	707
Total	**22,638**	23,650

In order to encourage the growth and recovery of Brazilian ports, the Federal Government granted under Law No. 11033 of December 1, 2014 suspension of IPI, PIS/PASEP, COFINS and II taxes for those under an Incentive Program known as REPORTO - Tax Regime for Incentive to the Modernization and Expansion of Port Facilities.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

7. Taxes recoverable (Continued)

Beneficiaries of referred to regime are the Port operator; the organized port concessionaire; the lessee of a public-use port facility and the company authorized to operate a private mixed-use port facility.

This benefit can be used in sales carried out in the domestic market, with suspension of IPI (average rate of 5%), PIS/PASEP (rate of 1.65%), COFINS (rate of 7.6%) and on IPI imports (average rate of 5%), PIS/PASEP (rate of 1.65%), COFINS (rate of 7.6%) and Import Tax (rate of 14%).

In addition to these incentives, the regime also provides a benefit related to ICMS, which authorizes the Brazilian states listed in the Federal Official Gazette (D.O.U.) of April 5, 2005 to grant ICMS tax exemption on goods intended for the modernization of port areas in the state. As of January 2021, upon termination of REPORTO (Tax Regime for Incentive to the Modernization and Expansion of Port Facilities, which granted suspension of taxes on sales made to customers eligible for the aforementioned regime), the accumulated tax credits are no longer subject to request for compensation/reimbursement, which, together with the drop in sales volume in the third quarter, led to an increase in credit, with amortization forecast throughout fiscal year 2022.

In addition, the Company also recorded the amount of R$3.2 million was recorded in Taxes recoverable resulting from the recognition of the exclusion of ICMS from the PIS and COFINS contribution tax base, in a favorable decision rendered final and unappealable by the Federal Supreme Court (STF) in 2021.

8. Income tax and social contribution

Deferred taxes

R$	2021	2020
Tax loss carryforwards	**751**	16,739
Social contribution losses carryforwards	**270**	6,026
Provision for unrealizable credits	**-**	(11,987)
Provision for tax, civil and labor risks	**7,537**	3,416
Allowance for inventory losses	**3,024**	1,477
Allowance for expected credit loss	**163**	163
Accrued profit sharing	**2,927**	2,394
Provision for warranties and reviews	**3,645**	2,274
Provision for accrual basis	**9,419**	-
Other	**2,472**	2,049
Total deferred income tax and social contribution assets	**30,208**	22,551
Deemed cost of property, plant and equipment	**(507)**	(509)
Difference in depreciation criterion	**(2,688)**	(1,175)
Total deferred income tax and social contribution liabilities	**(3,195)**	(1,684)
Deferred tax asset, net	**27,013**	20,867

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

8. Income tax and social contribution (Continued)

Deferred taxes (Continued)

Based on taxable profit projections annually by management, the Company expects to recover tax credits arising from income and social contribution tax losses recorded, as well as on temporary differences, in the following years:

Year	R$
2022	**1,793**
2023	**3,331**
2024	**4,641**
2025	**5,989**
2026	**7,543**
2026 and thereafter	**3,716**
Total	**27,013**

The estimated recovery of tax credits was based on taxable profit forecasts, taking into consideration several financial and business assumptions.

8.1. Reconciliation of statutory income tax rates with the effective tax rates

Reconciliation of statutory income tax rates with the effective tax rates

R$	2021	2020
Profit before income tax and social contribution	**45,638**	7,674
Combined rate	**34%**	34%
Income tax and social contribution credit at combined rate	**(15,517)**	(2,609)
Permanent differences	**(887)**	(107)
Provision for unrealizable credits (*)	**1,253**	53
Income tax and social contribution in profit or loss	**(15,151)**	(2,663)
Current	**(21,280)**	(1,615)
Deferred	**6,129**	(1,048)
Effective rates	**33%**	35%

(*) Net effect of the provision for unrealizable credits and temporary adjustments on the filing of accessory obligations for 2020 carried out in September 2021.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

9. Related parties

9.1. The amounts referring to the compensation of key management personnel, pursuant to the bylaws, are as follows:

R$	2021	2020
Key management personnel (salaries and benefits)	**6,317**	3,722

9.2. In the ordinary course of business, the Company conducted intragroup transactions under prices, terms and finance charges according to the conditions established among the parties. The main asset and liability balances as at December 31, 2021, as well as the transactions that impacted profit or loss for the year then ended, regarding the transactions with related parties are as follows:

	2021			
	Assets	Liabilities	Profit or loss	
R$	Trade receivables	Trade payables	Sales	Purchases
Amsted Rail Brasil Equip. Ferroviários S.A.	**108**	**25,472**	**-**	**95,237**
Amsted Maxion Fundição e Equip. Ferroviários S.A.	**154**	**14,962**	**188**	**164,767**
Total	**262**	**40,434**	**188**	**260,004**

	2020			
	Assets	Liabilities	Profit or loss	
R$	Trade receivables	Trade payables	Sales	Purchases
Amsted Rail Brasil Equip. Ferroviários S.A.	90	15,336	26	203,844
Amsted Maxion Fundição e Equip. Ferroviários S.A.	135	11,258	3,686	99,639
Total	225	26,594	3,712	303,483

Intercompany loans

		31/12/2021		
Lender	Nature	Rate	Currency	Total
GREENBRIER COMPANIES	Bridge Loan	CDI	BRL	79,468

The Company acquires raw materials and railroad components (mainly railroad axles, bearings, wheels, and casts) from Amsted Maxion Fundição e Equipamentos Ferroviários S.A. and Amsted Rail Brasil Equipamentos Ferroviários S.A., a subsidiary of Amsted Industries, Inc.

The sublease of the industrial R$1.0 million per year ended December 31,2021, storage and administrative area is also carried out for Amsted Rail Brasil Equipamentos Ferroviários S.A.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

9. Related parties (Continued)

9.3. Shared services agreement

On May 6, 2015, the Company and Amsted Maxion Fundição e Equipamentos Ferroviários S.A., entered into an agreement that regulates the sharing of the management infrastructure comprising, but not limited to, employees, technicians, contractors, equipment, and materials (back office) aimed at reducing costs and expenses. On December 3, 2019, an amendment was made to the agreement changing the departments covered, and the said amendment covers the sharing of expenses in the following corporate sectors: Information Technology (IT), Sales and Marketing. The expenses related to this agreement are recorded under "General and administrative expenses".

R$	2021	2020
Shared Service amount	**2,861**	2,855

10. Property, plant and equipment

R$	Average annual depreciation rate - %	2021 Cost	2021 Accumulated depreciation	2021 Net	2020 Net
Buildings and improvements	5.6%	**8,780**	**(4,535)**	**4,245**	4,893
Machinery and equipment	11.0%	**63,899**	**(32,855)**	**31,044**	26,210
Tooling	11.0%	**437**	**(274)**	**163**	219
Molds	18.0%	**30,800**	**(16,529)**	**14,271**	16,562
Furniture and fixtures	7.0%	**5,140**	**(2,706)**	**2,434**	2,481
Vehicles	22.2%	**445**	**(356)**	**89**	-
IT equipment	31.5%	**5,478**	**(4,467)**	**1,011**	1,050
Other property, plant and equipment	2.3%	**130**	**(98)**	**32**	41
Construction in progress	0.0%	**10,703**	**-**	**10,703**	8,499
Total		**125,812**	**(61,820)**	**63,992**	59,955

10.1. Variations in cost - 2021

R$	2020 Cost	2021 Additions	2021 Write-offs	2021 Transfers	2021 Cost
Buildings and improvements	8,483	**296**	**-**	**-**	**8,779**
Machinery and equipment	56,067	**10,049**	**(2,087)**	**(128)**	**63,901**
Tooling	626	**48**	**(19)**	**(217)**	**438**
Molds	32,496	**1,847**	**(2,886)**	**(657)**	**30,800**
Furniture and fixtures	5,006	**471**	**(338)**	**-**	**5,139**
Vehicles	-	**-**	**-**	**445**	**445**
IT equipment	5,145	**343**	**(11)**	**-**	**5,477**
Other property, plant and equipment	131	**-**	**-**	**-**	**131**
Construction in progress (*)	8,498	**15,633**	**-**	**(13,429)**	**10,702**
Total	116,452	**28,687**	**(5,341)**	**(13,986)**	**125,812**

(*) The values of fixed assets in progress refer to the construction of railcar production lines and the renovation of the substation, which will be completed in 2022.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

10. Property, plant and equipment (Continued)

10.2. Variations in depreciation - 2021

	2020		2021		
R$	Accumulated depreciation	Additions	Write-offs	Transfers	Accumulated depreciation
Buildings and improvements	(3,590)	**(945)**	**-**	**-**	**(4,535)**
Machinery and equipment	(29,858)	**(4,947)**	**1,950**	**-**	**(32,855)**
Tooling	(407)	**114**	**19**	**-**	**(274)**
Molds	(15,934)	**(2,819)**	**2,224**	**-**	**(16,529)**
Furniture and fixtures	(2,525)	**(477)**	**296**	**-**	**(2,706)**
Vehicles	-	**-**	**-**	**(356)**	**(356)**
IT equipment	(4,095)	**(381)**	**9**	**-**	**(4,467)**
Other property, plant and equipment	(89)	**(9)**	**-**	**-**	**(98)**
Construction in progress	-	**-**	**-**	**-**	**-**
Total	(56,498)	**(9,464)**	**4,498**	**(356)**	**(61,820)**

10.3. Variations in cost - 2020

	2019		2020		
R$	Cost	Additions	Write-offs	Transfers	Cost
Buildings and improvements	7,581	902	-	-	8,483
Machinery and equipment	50,922	5,640	(438)	(57)	56,067
Tooling	614	12	-	-	626
Molds	31,051	2,266	-	(821)	32,496
Furniture and fixtures	4,850	96	(7)	67	5,006
IT equipment	4,944	268	(35)	(33)	5,145
Other property, plant and equipment	90	41	-	-	131
Construction in progress (*)	5,415	12,380	-	(9,297)	8,498
Cargo railcars (**)	21,024	-	-	(21,024)	-
Total	126,491	21,605	(480)	(31,165)	116,452

(*) The values of fixed assets in progress refer to the construction of railcar production lines, which will be completed in 2021.

(**) The transfer refers to the sale of wagons that were leased to the customer.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

10. Property, plant and equipment (Continued)

10.4. Variations in depreciation - 2020

	2019	2020			
R$	**Accumulated depreciation**	**Additions**	**Write-offs**	**Transfers**	**Accumulated depreciation**
Buildings and improvements	(2,797)	(793)	-	-	(3,590)
Machinery and equipment	(26,121)	(4,068)	332	-	(29,858)
Tooling	(367)	(40)	-	-	(407)
Molds	(13,833)	(2,101)	-	-	(15,934)
Furniture and fixtures	(2,112)	(418)	5	-	(2,525)
IT equipment	(3,686)	(410)	1	-	(4,095)
Other property, plant and equipment	(87)	(2)	-	-	(89)
Construction in progress	-	-	-	-	-
Total	(49,003)	(7,832)	338	-	(56,498)

11. Borrowings, financing and debentures

R$	Index	Annual effective interest rate (%)	Last maturity date	2021	2020
Working capital	CDI+4.19%	6.17%	8/10/2021	**-**	10,081
Working capital	CDI+3.98%	13.49%	3/22/2022	**2,676**	8,006
Working capital	CDI+4.56%	14.13%	2/25/2022	**2,754**	16,510
Working capital	CDI+4.147%	6.13%	6/29/2021	**-**	10,005
Working capital	CDI+4.079%	6.06%	8/10/2021	**-**	10,030
Working capital	CDI+3.722025%	5.69%	10/08/2021	**-**	7,102
Working capital	CDI+3.580653%	5.55%	9/27/2021	**-**	8,074
Working capital	CDI+4.17%	6.15%	7/16/2021	**-**	12,339
Working capital	CDI+4.18%	6.16%	7/29/2021	**-**	8,196
NCE	CDI +1.90%	3.84%	7/06/2021	**-**	5,013
NCE	CDI + 1.66%	12.75%	7/06/2021	**5,045**	-
NCE Banco	CDI + 3.04%	5.00%	7/15/2021	**-**	8,336
NCE Banco	132.75% CDI	2.53%	2/26/2021	**-**	2,487
NCE Banco	CDI + 4.18%	6.16%	8/26/2021	**-**	5,611
Debentures	CDI+2.96%	12.38%	7/16/2024	**61,313**	-
Finame	6.05%	6.05%	10/15/2023	**258**	730
Finame	11.00%	11.00%	12/15/2022	**235**	420
Finame	6.65%	6.65%	12/15/2023	**149**	446
Finame	5.10%	5.10%	12/15/2024	**145**	962
Finame	4.95%	4.95%	11/17/2025	**668**	-
Finame	6.05%	6.05%	10/15/2023	**215**	-
Finame	6.65%	6.65%	12/15/2023	**149**	-
Intercompany financing	CDI	9.15%	2/10/2022	**79,468**	-
Intercompany financing	110% CDI	110.00%	1/30/2021	**-**	86,577
Total				**153,075**	200,925
Current liabilities				**113,958**	193,725
Noncurrent liabilities				**39,117**	7,200
Total				**153,075**	200,925

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

11. Borrowings, financing and debentures (Continued)

Settlement schedule	R$
2022	-
2023	364
2024	38,257
2025	496
Total	39,117

At the end of 2021, the Company did not have any outstanding confirming balance/reverse factoring risk in its statement of financial position balances.

<u>Variations in borrowings, financing and debentures</u>

R$	2021	2020
Balances at December 31	**200,925**	257,655
Borrowing, financing and debentures taken out	**136,103**	209,566
Accrued interest	**10,237**	10,006
Principal repayment	**(185,935)**	(262,685)
Payment of interest	**(8,255)**	(13,276)
Exchange rate changes on translation	**-**	(341)
Balances at December 31	**153,075**	200,925

No assets or other instruments are pledged as collateral in all of the Company's credit operations.

Debentures

The debentures issued by the Company are 1st issuance (CVM Instruction No. 476) of simple, registered, book-entry, unsecured debentures, in a single series

The debentures were subscribed at the unit par value paid in one lump sum in local currency upon subscription, with interest being amortized on a quarterly basis.

Detailed information is as follows:

Debentures	Category	Principal amount upon issuance	Issuance date	Final maturity	Finance charges	Amount as at 12/31/2021
1st issuance	Simple	60,000	07/16/2021	7/16/2024	CDI+2.96%	**61,313**

The main objective of this issue was to lengthen the Company's debt profile. The Debentures does not have to comply with financial ratios covenants, however, Company has to comply to certain restriction, such as default on any financial debt equal or greater than R$4.000, among other restrictions.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

12. Trade payables

R$	2021	2020
Domestic	**27,209**	68,397
Related parties (Note 9)	**40,434**	26,594
Total	**67,643**	94,991

13. Payroll and related taxes

R$	2021	2020
Related taxes	**5,035**	4,119
Accrued vacation pay	**8,807**	9,490
Profit sharing	**8,610**	7,041
Provision due to INSS preliminary injunction	**2,498**	-
Other	**-**	40
Total	**24,950**	20,690

14. Provision for tax, civil and labor risks

The Company is a party to lawsuits and administrative proceedings before various courts and governmental bodies, arising in the normal course of business and involving tax, civil, labor and other matters.

Management, based on information from its legal counsel, analyzed ongoing proceedings, and as regards labor lawsuits, based on past experience regarding the amounts claimed, has recognized a provision in an amount considered sufficient to cover probable losses on ongoing proceedings, as follows:

R$	2021	2020
Labor lawsuits	**19,454**	7,335
Tax lawsuits - Federal	**3,172**	2,486
Civil lawsuits	**225**	225
Total	**22,851**	10,046

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

14. Provision for tax, civil and labor risks (Continued)

Variations during the year

R$	Balance at 2020	Additions	Monetary restatements	Reversals	Write-offs	Balance at 2021
Labor lawsuits	7,335	**18,221**	**2,647**	**(233)**	**(8,516)**	**19,454**
Tax lawsuits - Federal	2,486	**676**	**10**	**-**	**-**	**3,172**
Civil lawsuits	225	**-**	**-**	**-**	**-**	**225**
Total	10,046	**18,897**	**2,657**	**(233)**	**(8,516)**	**22,851**

R$	Balance at 2019	Additions	Monetary restatements	Reversals	Write-offs	Balance at 2020
Labor lawsuits	10,752	4,930	716	-	(9,063)	7,335
Tax lawsuits - Federal	2,486	-	-	-	-	2,486
Civil lawsuits	225	-	-	-	-	225
Total	13,463	4,930	716	-	(9,063)	10,046

The following is a summary of the lawsuits to which the Company is a party, broken down by type:

Labor lawsuits

As at December 31, 2021, the Company was a party to 468 labor lawsuits (554 at December 31, 2020). The main claims in these lawsuits refer to occupational illnesses, accidents, health hazard and hazardous duty premiums, overtime, salary parity and severance pay, among others, and there are no lawsuits whose amounts are individually relevant.

The total amount under litigation is R$76,065 (R$86,475 at December 31, 2020) for which a provision in the amount of R$19,454 (R$7,335 at December 31, 2020) was recognized based on historical information representing the best estimate of probable losses.

The increase in the provision from 2020 to 2021 was due to the increase in adjudged cases; with the pandemic in 2020 the number of adjudged cases was reduced, and they were resumed in 2021.

There are other lawsuits whose likelihood of loss was assessed by the Company's legal counsel as remote, for which no provision was recognized since accounting practices adopted in Brazil do not require their recognition or disclosure.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

14. Provision for tax, civil and labor risks (Continued)

Possible risks

The Company is a party to several ongoing tax and civil lawsuits, whose likelihood of loss, based on the Company's estimates and its legal counsel's opinion, is assessed as possible; therefore, no provisions were recorded.

As at December 31, 2021, tax lawsuits amounted to R$3,172 (R$2,486 as at December 31, 2020), whereas civil lawsuits amounted to R$225 (R$225 as at December 31, 2020).

Escrow deposits

These represent restricted assets of the Company and are related to amounts deposited and held by the courts until a final decision of the related litigation is reached.

As at December 31, 2021, the balance of R$7,614 (R$9,596 as at December 31, 2020) refers to escrow deposits related to labor, tax and civil lawsuits. These deposits, which do not involve current obligations, were necessary to proceed with the lawsuits. Based on management's and its legal counsel's opinion, the likelihood of loss is not considered probable and, therefore, no provision for tax, civil and labor risks was recognized.

15. Equity

15.1. Capital

As at December 31, 2021 and 2020, subscribed and paid-in capital amounts to R$87,707.

	Country	Number of shares	Equity interest %	Total R$
Amsted Maxion Fundição e Equipamentos Ferroviários S.A.	Brazil	19,330,272	40.0%	19,330
Greenbrier do Brasil Participações Ltda	Brazil	28,995,406	60.0%	68,377
Total		48,325,678	100.0%	87,707

15.2. Equity adjustments

These are recorded as a result of revaluation of PPE items (deemed cost) based on appraisal reports prepared by independent valuation experts. The corresponding income tax and social contribution are classified in noncurrent liabilities and are realized upon depreciation or write-off of the revalued assets matched against accumulated losses, net of taxes.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

15. Equity (Continued)

15.3. Earnings per share

Basic and diluted earnings per share was calculated by means of the profit or loss for the year attributable to the Company's shareholders and the weighted average number of common shares outstanding, as follows:

R$	2021	2020
Earnings attributable to owners of the Company	**30,487**	5,011
Weighted average number of shares	**48,326**	48,326
Earnings per share - basic and diluted - R$	**0.63086**	0.10369

The Company does not have dilutive instruments; therefore, the basic earnings per share is equal to the diluted earnings per share.

16. Net sales revenue

R$	2021	2020
Gross sales revenue:		
Product sales	**933,392**	719,093
Services rendered	**12,252**	13,063
Deductions:		
Taxes on sales and services	**(131,523)**	(31,962)
Returns and cancelations in the year	**(2,437)**	(12,658)
Net sales revenue	**811,684**	687,536

A substantial portion of the Company's sales is carried out in accordance with the incoterms categories known as Freight On Board (FOB), under which the Company is responsible for making goods available for pickup at its location and the customer assumes full responsibility for the collection (both financially and in terms of safeguarding the assets). At this time, control over goods is transferred to the customer and, consequently, revenue is recognized.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

17. Finance income (costs)

R$	2021	2020
Finance income:		
Discounts obtained and interest receivable	**6,259**	2,951
Total	**6,259**	2,951

Due to the recognition of a portion of the amount related to favorable decisions in lawsuits claimed regarding the exclusion of ICMS from the PIS/COFINS tax base in 2021, a financial gain of R$0.7 million was recorded.

R$	2021	2020
Finance costs:		
Interest payable and finance charges	**(13,403)**	(11,501)
Interest on lease liabilities	**(2,010)**	(2,711)
Tax on Financial Transactions (IOF)	**(156)**	(85)
Other	**(3)**	(2)
Total	**(15,572)**	(14,299)

18. Foreign exchange differences, net

R$	2021	2020
Foreign exchange gains on foreign currency-denominated assets and liabilities	**114**	6,471
Foreign exchange losses on foreign currency-denominated assets and liabilities	**(48)**	(6,036)
Total	**66**	435

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

19. Costs and expenses by nature

R$	2021	2020
Raw material	**(509,479)**	(421,037)
Salaries, charges and benefits	**(145,970)**	(140,445)
Supplies and maintenance	**(30,876)**	(23,458)
Depreciation	**(9,072)**	(8,619)
Outsourced services	**(10,775)**	(9,934)
Freight	**(560)**	(18,803)
Amortization of right of use	**(13,474)**	(10,712)
Warranties	**(5,148)**	(3,497)
Electric energy	**(2,936)**	(2,578)
Transportation and communication	**(1,595)**	(1,426)
Commissions	**(2)**	(1,259)
Other costs	**(18,747)**	(19,130)
Total	**(748,634)**	(660,898)

R$	2021	2020
Cost of sales and services	**(718,641)**	(615,833)
Selling expenses	**(9,126)**	(26,469)
General and administrative expenses	**(14,550)**	(14,874)
Management fees	**(6,317)**	(3,722)
Total	**(748,634)**	(660,898)

20. Other operating income (expenses), net

R$	2021	2020
Other income:		
Technical cooperation agreement	**303**	303
Income from exclusion of ICMS from PIS and COFINS base	**2,486**	-
Total other income	**2,789**	303

R$	2021	2020
Other expenses:		
Contingencies and legal costs	**(6,315)**	(5,284)
Project Formare (Fundação Iochpe)	**(57)**	(113)
Municipal Property Tax (IPTU)	**(401)**	(421)
Federal and state taxes	**(254)**	(72)
Trade association dues	**(35)**	(155)
Audit	**(182)**	(191)
Covid	**(2,146)**	(1,365)
Other	**(1,564)**	(753)
Total other expenses	**(10,954)**	(8,354)

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

20. Other operating income (expenses), net (Continued)

R$	2021	2020
Total other operating income (expenses), net	**(8,165)**	(8,051)

On May 13, 2021, the full bench of the Federal Supreme Court of Brazil ("STF") judged the request for amendment of judgment filed by the Federal Government and concluded that the exclusion of ICMS from the PIS and COFINS tax base is valid from March 15, 2017, date on which the thesis of general resonance was set in the judgment of Extraordinary Appeal No. 574706. The STF judges also clarified that the ICMS that is not included in the tax base of these contributions is that recorded in the invoice. This decision was the basis for the recognition, in December, of the PIS and COFINS credits for the period from 2015 to 2017 related to the lawsuit on behalf of the Company, which was corroborated by the final and unappealable decision on the lawsuit that took place in September 2021. The effects of the decision were determined with the support of external tax advisors and resulted in the recognition in December 2021 of R$3,207, of which R$2,486 under "Other operating income (expenses)" and R$721 under "Finance income".

21. Right of use and lease liabilities

	Rent	Vehicles	Total
Assets with finite useful lives			
Balances at January 1, 2020	28,111	-	28,111
Additions	52,289	-	52,289
Write-offs	-	-	-
Depreciation	(15,766)	-	(15,766)
Transfers	-	-	-
Balances at December 31, 2020	64,634	-	64,634
Additions		**1,177**	**1,177**
Write-offs	**(30,442)**	**(566)**	**(31,008)**
Depreciation	**(13,474)**	**(184)**	**(13,658)**
Transfers			**-**
Balances at December 31, 2021	**20,718**	**427**	**21,145**

	2021	2020
Lease liability		
Balance as at January 1	**65,606**	28,095
Additions		52,609
Write-offs	**(35,000)**	
Principal repayment	**(13,839)**	(17,399)
Interest payment	**(389)**	(411)
Accrued interest	**7,168**	2,711
Balances at December 31	**23,546**	65,606
Current	**16,003**	12,395
Noncurrent	**7,543**	53,211

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

21. Right of use and lease liabilities (Continued)

Payment schedule	2021
2022	**16,003**
2023	**7,543**
Total	**23,546**

On September 16, 2021, the Company signed the 8th addendum with Savoy Imobiliária Construtora (main lease agreement for its industrial plant) in which from January 1, 2022 the monthly rent will increase to the amount of R$1,165, maturing on June 14, 2023.

22. Risk management and financial instruments

22.1. General considerations and policies

The Company’s main financial liabilities other than derivatives refer to borrowings, trade payables and other accounts payable. The main purpose of these financial liabilities is to finance the Company’s operations. The Company’s main financial assets include accounts receivable, cash and cash equivalents that result directly from its operations. The Company also holds investments in debt and equity instruments.

The Company is exposed to market risk, credit risk and liquidity risk. The Company’s top management supervises risk management. A Administração da companhia conta com o suporte de um comitê de riscos financeiros.

The Board of Directors reviews and sets policies for the management of each of these risks, which are summarized below, based on the consolidated financial statements (considering the low exposure existing in the individual financial statements).

22.2. Classification of financial instruments by category

R$	Note	2021	2020
Financial assets at amortized cost			
(Cash and cash equivalents)	4	**90,184**	81,564
Trade receivables (include due from related parties)	5	**23,117**	125,303
Escrow deposits	14	**7,614**	9,596
Other receivables		**4,011**	12,393
Total		**124,926**	228,856

R$	Note	2021	2020
Financial liabilities at amortized cost			
(Borrowings, financing and debentures)	11	**153,075**	200,925
Trade payables (include due to related parties)	12	**67,643**	94,991
Lease liabilities	21	**23,546**	65,606
Other payables		**38,469**	13,129
Subtotal		**282,733**	374,651

22. Risk management and financial instruments (Continued)

22.3. Fair values

The Company adopts hierarchy rules to measure the fair value of its financial instruments, according to technical pronouncement CPC 40/IFRS 7 - Financial Instruments: Disclosure, for financial instruments measured in the statement of financial position, which requires the disclosure of fair value measurements based on the following hierarchy level:

- Level 1 - Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Other inputs, except for those included in Level 1, where prices are quoted (unadjusted) for similar assets or liabilities, either directly (as prices) or indirectly (that is, derived from prices) in inactive markets, or other available inputs or that may be confirmed by market information for substantially all terms of the assets and liabilities.
- Level 3 - Available inputs, due to little or no market activity, that are not significant for the definition of fair value of assets and liabilities (unobservable inputs).

A market is considered active if quoted prices are readily and regularly available from a stock exchange or regulatory agency, among others, and those prices represent actual market transactions that occur regularly on a purely arm’s-length basis. Therefore, the fair value of the financial instruments traded in active markets is based on market values, quoted at the reporting dates, being included in Level 1.

The fair value of financial instruments not traded in active markets (e.g., over-the-counter derivatives) is determined using valuation techniques.

In the case of the Company, the financial instruments disclosed in the statements of financial position, such as bank checking accounts, short-term investments, short-term trade receivables and trade payables are presented at values close to market.

These valuation techniques make maximum use of market inputs and rely as little as possible on Company-specific estimates.

22. Risk management and financial instruments (Continued)

22.3. Fair values (Continued)

If all material inputs required for measuring the fair value of an instrument are obtained in the market, the instrument is included in Level 2. If the information is provided by the Company's internal data, the instrument will be included in Level 3.

As at December 31, 2021, the Company had no financial instruments stated at fair value.

22.4. Financial risk management

The operations of the Company are subject to the following risk factors:

22.4.1. Credit risk

Arises from the possibility of the Company incurring losses as a result of default by its counterparties or financial institutions that are depositaries of funds or financial investments. To mitigate this risk, the Company adopts the procedure of analyzing the financial position of its counterparties, as well as establishing credit limits, and constantly monitoring its balances. Concerning the financial institutions, the Company only conducts transactions with financial institutions highly rated by credit rating agencies.

Almost all revenues are allocated between the railway and mining logistics operators. The Company's management believes that the allowances recognized are sufficient to cover potential default, and there are no differences between the fair value and the carrying amounts of these allowances (see the allowance for doubtful debts amount in Note 5).

In addition, a significant portion of its purchases is made with related parties, as described in Note 9.

22.4.2. Liquidity risk

Effectively managing liquidity risk implies maintaining sufficient cash and securities, funds available through committed credit facilities and the ability to settle market positions. Due to the active nature of the Company's business, the Treasury area is flexible in raising funds through the maintenance of committed credit facilities.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

22. Risk management and financial instruments (Continued)

22.4. Financial risk management (Continued)

22.4.2. Liquidity risk (Continued)

Management monitors the Company's liquidity level considering the expected cash flow against unused credit facilities and cash and cash equivalents. This forecast considers the Company's debt financing plans, fulfillment with internal asset/liability ratio goals and, when applicable, external regulatory or legal requirements (e.g., currency restrictions). Through its Risk Management Policy, the Company establishes a minimum cash limit and debt management financial indicators.

The table below illustrates the Company's nonderivative financial liabilities, by maturity ranges, corresponding to the remaining period in the statement of financial position through the contractual maturity date:

	2021		**2020**	
R$	**Up to 1 year**	**1-2 years**	**Up to 1 year**	**1-2 years**
Borrowings, financing, and debentures	**113,958**	**39,117**	193,725	7,200
Trade payables (include due to related parties	**67,643**	**-**	94,991	-
Lease liabilities	**16,003**	**7,543**	12,395	53,211
Other payables	**38,469**	**-**	12,949	180
Total	**236,073**	**46,660**	314,060	60,591

22.4.3. Steel product price fluctuation risk

A significant part of the Company's operations depends on its ability to purchase steel products at competitive prices. If raw material prices increase significantly, and the Company is unable to pass on the price increase on to products or to reduce operating costs to offset such increase, the operating margin will be lower.

Currently, the Company is striving to enter into long-term agreements with suppliers and customers so that exposure to fluctuations has the lesser impact possible.

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

22. Risk management and financial instruments (Continued)

22.4. Financial risk management (Continued)

22.4.4. Interest rate risk

Arises from the possibility of the Company incurring gains or losses due to fluctuations in the interest rates applied to its financial assets and financial liabilities. To mitigate this risk, the Company tries to diversify its borrowings into fixed and floating rates.

	2021		2020	
R$	**Index**	**R$**	**Index**	**R$**
Short-term investments	**CDI**	**89,922**	CDI	81,327
Borrowings, financing and debentures (includes intercompany)	**CDI**	**153,075**	CDI	198,367

22.4.5. Sensitivity analysis to interest rate fluctuations

Financial instruments, including derivatives, are exposed to fair value changes due to fluctuations in interest rates (CDI). The sensitivity analyses of the financial instruments are shown below:

i) *Selection of risks*

The Company selected as the market risk that could have a higher impact on the value of financial instruments held by it the interest rate (CDI).

ii) *Selection of scenarios*

The possible and remote scenarios consider fluctuations of 25% and 50%, respectively, in CDI interest rates against the closing quotations as at December 31, 2021:

R$		**Scenarios**	
Short-term investments - CDI	**Probable**	**Possible -25%**	**Remote -50%**
CDI at December 31, 2021	4.41%	3.31%	2.20%
Carrying amount considering the estimated finance income	3,965	2,973	1,982
Effect - loss	-	(992)	(1,983)

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

22. Risk management and financial instruments (Continued)

22.4. Financial risk management (Continued)

22.4.5. Sensitivity analysis to interest rate fluctuations (Continued)

ii) *Selection of scenarios* (Continued)

R$	Scenarios		
Borrowings and financing - CDI	Probable	Possible -25%	Remote -50%
CDI at December 31, 2020	6.64%	8.30%	9.96%
Carrying amount considering the estimated finance costs	10,160	12,705	15,246
Effect - loss	-	(2,545)	(5,086)

For the sensitivity analysis to foreign exchange exposure as at December 31, 2021, the Company has not considered it as there was no balance in the year.

23. Capital management

It is the Management's policy to sustain a solid capital basis to ensure the confidence of investors, creditors and the market and to maintain the business' future development. The Executive Board monitors the returns on capital, defined by the Company as the operating activities' results divided by total equity. The Executive Board also monitors the level of dividends distributed to common shareholders.

The Company's management seeks to strike a balance between the highest possible returns with more appropriate financing levels and the advantages and security afforded by a sound capital position.

The debt-to-equity ratio at the end of each year is as follows:

R$	2021	2020
Total borrowings, financing and debentures (Include lease liabilities)	**176,621**	266,531
(-) Cash and cash equivalents	**(90,184)**	(81,564)
Net debt	**86,437**	184,967
Total equity	**74,679**	44,192
Net debt-to-equity ratio	**86.4%**	23.9%

(Amounts expressed in thousands of Brazilian reais - R$, unless otherwise stated)

24. Insurance coverage

The Company has an insurance policy that considers mainly the risk concentration and its materiality, according to the type of its activities and advice of the insurance brokers. Insurance coverage as at December 31 is as follows:

R$	2021	2020
Loss of profits	**181,611**	171,998
Buildings	**167,781**	167,781
Property damage	**157,528**	140,359
D&O insurance	**36,366**	34,548
Leases	**6,737**	6,737
Civil liability	**12,600**	13,600
Total	**562,623**	535,023

25. Authorization for issuance of the financial statements

These financial statements were approved by the Company's Executive Board and authorized for disclosure and issue at the meeting held on March 22, 2022.