Financial Statements

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

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

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

Financial statements

December 31, 2021

Contents

São Paulo Corporate Towers
Av. Presidente Juscelino Kubitschek, 1.909
6º ao 10º andar - Vila Nova Conceição
04543-011 - São Paulo – SP - Brasil

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

A free translation from Portuguese into English of Independent Auditor's 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
Amsted Maxion Fundição e Equipamentos Ferroviários S.A.
Cruzeiro - SP

Opinion

We have audited the financial statements of Amsted Maxion Fundição e Equipamentos 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 Amsted Maxion Fundição e Equipamentos 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.

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.

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.

Building a better working world

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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.

São Paulo, March 22, 2022.

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

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

Amsted Maxion Fundição e Equipamentos 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	**27,415**	8,690
Trade receivables	5	**42,411**	31,571
Inventories	6	**62,628**	40,993
Taxes recoverable	7	**42,744**	17,974
Prepaid expenses		**730**	918
Other receivables		**1,040**	3,002
		176,968	103,148
Noncurrent assets			
Trade receivables	5	**6,441**	8,400
Taxes recoverable	7	**65,726**	18,295
Escrow deposits	15	**57,252**	56,905
Deferred income tax and social contribution	8.a	**41,261**	37,632
Investments in associates	10	**105,143**	97,344
Right of use	23	**339**	348
Property, plant and equipment	11	**78,078**	83,575
		354,240	302,499
Total assets		**531,208**	405,647

	Note	2021	2020
Liabilities and equity			
Current liabilities			
Borrowings and financing	12	**84,340**	88,898
Trade payables	13	**62,550**	33,387
Taxes payable		**4,167**	926
Payroll and related taxes	14	**17,034**	14,043
Lease liabilities	23	**185**	133
Advances from customers		**2,498**	54
Dividends payable	16.c	**15,026**	119
Royalties payable	9	**969**	443
Other payables		**20,121**	6,359
		206,890	144,362
Noncurrent liabilities			
Borrowings and financing	12	**29,430**	23,285
Trade payables	13	**5,734**	20,414
Lease liabilities	23	**108**	41
Provision for tax, civil and labor risks	15	**60,193**	55,511
Other payables		**3,179**	350
		98,644	99,601
Equity			
Capital	16.a	**153,683**	153,683
Legal reserve		**4,422**	24
Equity adjustments	16.b	**6,769**	7,644
Income reserve		**60,800**	-
Retained earnings		**-**	333
		225,674	161,684
Total liabilities and equity		**531,208**	405,647

See accompanying notes.

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

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

	Note	2021	2020
Net revenue	17	**486,010**	362,798
Cost of sales and services	20	**(410,275)**	(302,320)
Gross profit		**75,735**	60,478
Operating income (expenses)			
Selling expenses	20	**(17,446)**	(30,761)
General and administrative expenses	20	**(14,542)**	(12,298)
Management fees	20	**(3,881)**	(2,204)
Equity pickup	10	**7,799**	(2,987)
Other operating expenses, net	21	**11,778**	(3,150)
Operating income (loss) before Finance income (costs)		**59,443**	9,078
Finance income	18	**45,317**	730
Finance costs	18	**(9,987)**	(7,379)
Foreign exchange differences, net	19	**2,331**	(4,477)
Operating (income) loss before income tax and social contribution		**97,104**	(2,048)
Income tax and social contribution			
Current	8.b	**(13,641)**	(3,363)
Deferred	8.b	**3,629**	4,742
Profit (loss) for the year		**87,092**	(669)
Earnings (loss) per share - basic and diluted - R$	16.d	**0.00524**	(0.00004)

See accompanying notes.

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

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

	2021	2020
Profit (loss) for the year	**87,092**	(669)
Other comprehensive income (loss)	**-**	-
Total comprehensive income (loss) for the year	**87,092**	(669)

See accompanying notes.

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

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

	Note	Capital	Legal reserve	Income reserve	Equity adjustments	Retained earnings (accumulated losses)	Total
Balances at December 31, 2019 (restated)		261,201	3,564	-	8,789	(111,082)	162,472
Capital reduction	16,a	(107,518)	-	-	-	107,518	-
Income reserve absorbed	16,a	-	(3,564)	-	-	3,564	-
Realization of deemed cost, net of tax effects		-	-	-	(1,145)	1,145	-
Setup of legal reserve		-	24	-	-	(24)	-
Dividends		-	-	-	-	(119)	(119)
Loss for the year		-	-	-	-	(669)	(669)
Balances at December 31, 2020		153,683	24	-	7,644	333	161,684
Retained earnings		**-**	**-**	**333**	**-**	**(333)**	**-**
Realization of deemed cost, net of tax effects		**-**	**-**	**-**	**(988)**	**988**	**-**
Write-off of deemed cost, net of tax effects		**-**	**-**	**-**	**113**	**(113)**	**-**
Dividends allocated to reserve				**119**			**119**
Profit for the year		**-**	**-**	**-**	**-**	**87,092**	**87,092**
Allocation of profits	16.c						**-**
Setup of legal reserve		**-**	**4,398**	**-**	**-**	**(4,398)**	**-**
Income reserve		**-**	**-**	**61,577**	**-**	**(61,577)**	**-**
interest on equity (withholding taxes)				**(1,229)**			**(1,229)**
Interest on equity (imputed as dividends)						**(6,966)**	**(6,966)**
Mandatory minimum dividends		**-**	**-**		**-**	**(15,026)**	**(15,026)**
Balances at December 31, 2021		**153,683**	**4,422**	**60,800**	**6,769**	**-**	**225,674**

See accompanying notes.

Amsted Maxion Fundição e Equipamentos Ferroviários S.A.

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

	Note	2021	2020
Cash flows from operating activities			
Profit (loss) for the year		**87,092**	(669)
Adjustments to reconcile net income (loss) for the year to cash from (used in) operating activities:			
Depreciation	20	**10,274**	10,157
Amortization of right of use	23	**186**	155
Deferred income tax and social contribution	8	**(3,629)**	(4,742)
Income tax and social contribution		**13,641**	-
Interest on borrowings and financing	12	**7,834**	4,433
Interest on borrowings and financing - related parties	12	**-**	1,762
Interest on lease liabilities	23	**41**	32
Residual value of property, plant and equipment items written off	11	**(1,631)**	(87)
Residual cost of right of use derecognized	23	**(173)**	-
Equity pickup	10	**(12,453)**	(1,668)
Equity pickup - Amortization	10, 21	**4,654**	4,655
Allowance for inventory losses	6	**(1,472)**	(21)
Allowance for doubtful debts	5	**-**	(148)
Exchange differences on borrowings and financing	12	**41**	3,451
Exchange differences on borrowings and financing - related parties	12	**-**	6,361
Provision for tax, civil, and labor risks, net of reversals	15	**4,584**	446
Income from exclusion of ICMS from the PIS and Cofins tax base	7	**(79,865)**	-
Other impacts		**701**	94
Decrease (increase) in assets:			
Trade receivables		**(8,881)**	(10,867)
Inventories		**(20,163)**	(1,061)
Taxes recoverable		**7,644**	5,686
Appeal escrow deposits		**1,405**	2,427
Other receivables and other assets		**2,159**	(1,431)
(Decrease) increase in liabilities:			
Trade payables		**14,483**	32,503
Advances from customers		**2,444**	(3,127)
Payroll and related taxes		**2,991**	3,482
Other payables and other liabilities		**9,634**	1,931
Cash from operating activities		**41,541**	53,754
Income tax payments	8	**-**	(3,363)
Payments of labor and tax lawsuits	15	**(1,653)**	(470)
Payment of interest on leases	23	**(40)**	(34)
Payment of interest on borrowings and financing	12	**(6,668)**	(4,771)
Payment of interest on borrowings and financing - related parties	12	**-**	(2,278)
Cash from operating activities		**33,180**	42,838
Cash flows from investing activities			
Purchase of property, plant and equipment		**(6,408)**	(10,800)
Cash used in investing activities		**(6,408)**	(10,800)
Cash flows from financing activities			
Payment of Interest on equity	16	**(8,195)**	-
Borrowings and financing taken out	12	**34,284**	48,289
Repayment of lease liabilities	23	**(232)**	(183)
Repayment of borrowings and financing	12	**(33,904)**	(43,037)
Repayment of borrowings and financing - related parties	12	**-**	(29,234)
Cash used in financing activities		**(8,047)**	(24,165)
Increase in cash and cash equivalents		**18,725**	7,873
Cash and cash equivalents at beginning of year		**8,690**	817
Cash and cash equivalents at end of year		**27,415**	8,690
Increase in cash and cash equivalents		**18,725**	7,873

See accompanying notes.

1. Operations

1.1. General information

Amsted Maxion Fundição e Equipamentos Ferroviários S.A. (“Company”) is a privately-held corporation with head offices at Rua Dr. Othon Barcellos, 77, in the city of Cruzeiro, State of São Paulo.

The Company is engaged in the manufacturing and sale of railroad wheels, steel casting components for railcars and the spare part market, remanufacturing, repair and refurbishment of railroad components and railcars and steel casting components for the industrial market through its plant located in the city of Cruzeiro, in the State of São Paulo.

The Company is jointly managed by three shareholders: Amsted Rail Brasil Equipamentos Ferroviários Ltda. holding 51.00% stake (Parent), Greenbrier do Brasil Participações Ltda. holding 29.50% stake (shareholder) and Iochpe Maxion S.A. holding 19.50% stake (shareholder).

1.2. Operational plan and actions implemented by the Company’s management

In 2021, the Company achieved a better-than-expected result at the operational level, even with all the challenges related to Covid-19, the sales volume for railway and industrial items, with a robust volume in exports, which are favorably affected by the exchange. The volume of Industrial items was above the operational plan by approximately 20%, impacted by the increase in demand in the construction market and the resumption of production with the reduction of the impacts of Covid-19. Rail items had volume as expected in the operational plan, with volumes above the plan for castings and wheels for new railcars, mitigating the drop in aftermarket volumes in the year. In 2021, the Company recorded tax credits related to State VAT (ICMS) exclusion from the Contribution Taxes on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) base after a favorable decision from Brazil’s Federal Supreme Court (STF).

The Company achieved a positive production performance, ending the year with a ton produced 13% higher than expected in the operational plan in the railway and industrial castings line and at the same level of the operational plan in number of wheels. Due to the higher expected volume, mainly of industrial items where the man-hour per ton is higher than in the railway sector, the Company hired employees on a temporary basis to meet this demand. Investments were focused on increasing machining capacity in both lines and had the expected return, increasing productivity and consequently improving cost absorption.

1. Operations (Continued)

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

In 2021, the Company faced a major challenge related to the increase in the cost of raw materials, with a concentration on steel scrap, which is the main input in the production of castings. The increase vis-à-vis 2020 reached about 130% and affected the cost of production, and consequently the margins in the first quarter. However, the Company's commercial team was successful in the negotiations and the cost increases were partially passed on, and at the beginning of the second six-month period the Company recovered margin and exceeded the result expected in the operational plan. Further to the success in commercial negotiations, the operating team had a consistent year, achieving productivity above what was planned and with a scrapping rate at the lowest historical level in some months of the year, also mitigating cost increases and improving the absorption of fixed costs. The Company faced a strong increase in cost and lack of availability of containers in the last six-month period, with impacts on inventory and also on deliveries to export customers. The Logistics team sought several alternatives to mitigate this impact, but availability started to improve only in the last two months of the year.

The Company's financial performance was higher than that projected in the operational plan, with a reduction of the net debt by 33%, in addition to an improvement in net cash generation and working capital. The focus on the recovery of taxes was another favorable factor for the performance in 2021, with state and federal taxes used to reduce cash outflow during the year.

The actions taken by management to improve revenues and increase liquidity include:

(a) Focus on the Company's main objectives through the 4DX methodology with all hierarchical levels, creating an involvement and synergy in the actions of all areas of the Company aiming at cost reduction, productivity improvement, cash generation and increase in sales volume.

(b) Implementation of MES (Manufacturing Execution System) in various equipment items of the operation, allowing monitoring and data collection so that preventive actions or process improvements could be made with greater accuracy.

(c) Use of the Tableau system to compile the data collected from the sensors installed in the equipment and also in the administrative area with the creation of various dashboards and information to support decision-making.

(d) Implementation of a parametric formula for passing on cost increases to customers, reducing the impact of increases in raw materials and other fixed costs and accelerating the process of passing on costs without affecting the margin.

1. **Operations** (Continued)

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

(e) Reorganization of the product mix, upon increase of the volume of medium-sized railway items, railroad wheels and higher volume of parts for different machinery in the industrial market. Focus on training and awareness of all employees in relation to the safety culture; by means of a consultancy, maturity in terms of safety in the work environment was identified and the actions that took place during the year were defined, significantly reducing the indicators of incidents in the last six-month period of 2021.

(f) Expansion of the limit and use of financing to suppliers with extension of payment terms, helping to achieve the lowest number of working capital days in the Company's history.

(g) Expansion of firm orders, creating consistency and predictability in the production and purchasing process, allowing inventory and cost reduction.

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. The evolution was 3.33%, compared to October figures — and there was an expansion of 15.4%, compared to January 2021, 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.

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.

1. Operations (Continued)

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

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.

The Ministry of Infrastructure' planning, through the Investment Partnership Program (PPI), provides for the anticipated renewal of MRS and VLI for the 1st half of 2022, in addition to the auction of Ferrogrão. The construction of the West-East Integration Railway (FICO), expected to be delivered in 2025, was included as consideration for the concession amount in the advanced extension of EFVM (Vale).

In general, the government's investments in the railway will amount to R$69.82 billion, of which R$33.32 billion in the renewal of concessions, R$28.5 billion in new concessions and R$8 billion in privatization.

For the rail export market, year 2021 proved to be challenging due to the economic and political impacts of the coronavirus pandemic, especially for commodities that had reduced consumption. Speaking specifically of Argentina, our main market in South America, the figures showed a reduction of around 35%, but even so, the participation not only in Argentina but in the other South American markets continued to be representative in market share, ensuring the export volumes within the business plan.

Regarding the Mauritania railway wheel export market, during the year we managed to maintain supply levels, overcoming the challenges facing a global scenario of unavailability of containers and ships, initiated by the problem in the Suez canal and aggravated by the pandemic and the action of the Chinese market.

Considering the industrial casting segment, the yellow line machinery market (earth moving) has reason to celebrate, even in a year marked by economic uncertainties and the continuing health crisis. A study conducted by the Associação Brasileira de Tecnologia para Construção e Mineração (Sobratema) of the Brazilian Construction Equipment Market estimates a 39% increase in the sale of these equipment items in 2021 compared to 2020, reaching 31.2 thousand units sold against 22.5 thousand units sold in the previous year. This is the fourth increase in a row and the number of machines sold is very close to the best year in the sector, achieved in 2013, when more than 33,400 units were sold. The result shows an upward curve of recovery in this segment, which has potential for expansion with infrastructure concessions, the legal framework for sanitation, the growth of agribusiness and mining, and the continuity of residential, commercial and industrial works.

1. Operations (Continued)

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

With all equipment showing positive data, the study points out that total sales of construction machinery are expected to grow 44% in 2021 compared to 2020, reaching 49,300 units sold this year against 34,200 units the previous year.

For 2022, sales are estimated to grow by 12% in the yellow line machinery segment and 15% for the entire construction equipment sector.

The Company is optimistic about the possible demand arising from the renewal of current concessions, new concessions and railway authorizations, in addition to the increase in the yellow line market, construction equipment and the promising scenario for exports, forecasting revenue of R$506 million in 2022 (in the segments of railway wheels; railway and industrial castings) of which 50% are already in signed contracts.

In year 2021, the Company generated free cash flow, making it possible to distribute interest on equity (IOE) in the gross amount of R$8,195 to its shareholders. The Company has working capital deficit of R$34,621 (R$41,214 at December 31, 2020), which can be settled through credit lines available with financial institutions in Brazil, and if necessary, through a financial contribution from its shareholders.

With the measures and scenarios presented, management did not identify issues that could affect the Company's continuity of business operations.

1.3. COVID-19

Over the first six-month period of 2021, Covid-19 had a strong impact on operations with a high rate of absenteeism at the plant, especially with employees in quarantine due to contact with people who had the Covid condition confirmed or with symptoms awaiting confirmation of exams. The Company has spared no efforts to raise awareness and provide all types of protection available to its employees, with several campaigns, providing 70% alcohol-based solution, masks and carrying out electrostatic disinfection in common areas of the plant. In the second six-month period, with vaccination at a faster pace and reaching 100% of all employees in September, the number of cases and suspicions began to decline, reaching zero positive cases between September and the end of December among the Company employees.

1. Operations (Continued)

1.3. COVID-19 (Continued)

Since the beginning of the pandemic, the Company has directed employees who were able to perform their function remotely to the home office system, so as to reduce the flow of people in the plant, as well as restricting face-to-face meetings, travel, customer and supplier visits. With the reduction of new cases in the second half of the year, and with a greater number of employees vaccinated with the second dose, the Company chose to make the work system more flexible, with the employee being able to choose to continue with home office, face-to-face or a hybrid system, the latter being adopted by most employees in the administrative and support areas as of October.

The Company had specific impacts in relation to the supply of materials that were treated through specific actions defined in meetings held three times a week with the management of all areas, but without impacting the continuity of the operations.

2. Basis of preparation of the financial statements

a) 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.

b) 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.

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

b) Basis of measurement Continued)

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).

c) 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.

d) Use of estimates and judgments

In applying the accounting policies described in Note 3, management must make judgments and prepare estimates regarding the book value of assets and liabilities 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.

Areas that involved estimates and judgments are disclosed as follows:

- Note 5 - Expected credit loss.
- Note 6 - Allowance for inventory losses.
- Note 8 - Deferred income tax and social contribution.

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

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

d) Use of estimates and judgments (Continued)

- Note 15 - 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 other 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. The adoption of these Standards and Interpretations had no material impact on the disclosures or amounts disclosed in these financial statements.

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 is not yet applicable.

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 into Current and Non-Current Effective as of January 1, 2023; early adoption permitted.	The Company did not identify material impacts on its financial statements.
Amendments to IFRS 3	Reference to the 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 from 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, with no defined date as yet.	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

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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

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.

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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

e) Inventories (Continued)

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) Investments in associates

An associate is an entity over which the Company has significant influence and which does not configure as a subsidiary or joint venture. Significant influence is the power to participate in decisions about the operating and financial policies of the investee, without exerting individual or joint control over these policies.

The income, expenses, assets and liabilities of associates are included in these financial statements under the equity method, except when the investment, or part of the investment, is classified as held for sale, in which case it is recognized in accordance with CPC 31 - Noncurrent Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the statement of financial position at cost and subsequently adjusted to recognize the Company's interest in profit or loss and other comprehensive income of the associate.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

g) Property, plant and equipment

g.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.

Gains from and losses on disposal of a PPE item are computed by comparing the disposal amount with the book value of PPE, and are recognized net under Other operating income/(expenses) in P&L.

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.

g.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.

g.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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

g) Property, plant and equipment (Continued)

g.3) *Depreciation* (Continued)

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 estimated useful lives are disclosed in Note 11.

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.

h) Impairment testing

h.1) *Fixed assets*

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. Value in use equals the discounted cash flows (before taxes) derived from the asset’s continuing use. When the residual value of the asset exceeds its recoverable amount, an impairment loss is recognized.

For impairment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGUs).

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

h) Impairment testing (Continued)

h.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.

i) Provisions

i.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 15.

j) Taxation

j.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 and 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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

j) Taxation (Continued)

j.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.

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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

k) Earnings (loss) per share

Basic earnings (loss) per share are calculated by means of profit (loss) for the year attributable to controlling and non-controlling interests of the Company and the weighted average of common shares outstanding in the respective year. Diluted earnings (loss) per share are calculated by means of the average number of shares outstanding, adjusted by instruments potentially convertible into shares, with diluting effect, in the reported years.

l) Leases

l.1) *Lessee*

The Company assesses whether a contract is or contains a lease at the commencement of the agreement. The Company recognizes a right-of-use asset and corresponding lease liability for all lease agreements where the Company is the lessee, except for short-term leases (with lease terms of no more than 12 months) and low-value asset leases (such as tablets and personal computers, small items of office furniture and telephones).

For these leases, the Company recognizes operating lease payments as operating expenses on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of lease payments that are not paid at the inception date, discounted by applying the implicit lease rate. If such rate is not readily determinable, the Company uses its incremental borrowing rate.

The lease liability is presented in a separate line of the statement of financial position, and is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payment made. The Company remeasures the lease liability (and makes a corresponding adjustment to the respective right-of-use asset) whenever:

- The lease term is changed or there is any significant event or change in circumstances that results in a change in the assessment of the exercise of the call option.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

l) Leases (Continued)

l.1) *Lessee* (Continued)

- Lease payments are changed due to changes in the index or rate or there is a change in the expected payment of the residual guaranteed value. The lease contract is modified and the change in the lease is not accounted for as a separate lease.

The Company did not make these adjustments in the reporting periods. The right-of-use assets include the initial measurement of the corresponding lease liability and lease payments made on or before the inception date, less potential lease incentives received and initial direct costs.

These assets are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses.

Whenever the Company assumes an obligation with respect to the costs necessary to disassemble and remove a leased asset, restore the place where the asset is located or return the corresponding asset to the condition required in accordance with the lease terms and conditions, the allowance is recognized and measured pursuant to IAS 37 (CPC 25).

Right-of-use assets are disclosed in a separate line in the statement of financial position. The Company applies IAS 36 (CPC 01 (R1)) to determine whether the right-of-use asset is impaired and account for potential impairment losses identified as described in the impairment policy.

Variable rents that do not depend on an index or rate are not part of the measurement of the lease liability and right-of-use asset. The corresponding payments are recognized as expense in the period in which the event or condition that gave rise to these payments occurs and are recorded in line item “Other expenses” in profit or loss.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

m) Financial instruments

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.

Financial assets

i) *Amortized cost*

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) *Fair value through profit or loss*

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.

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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

m) Financial instruments (Continued)

Financial assets (Continued)

ii) *Fair value through profit or loss* (Continued)

Subsequent measurement

Assets are subsequently measured as follows:

i) Amortized cost

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.

ii) 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.

iii) 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.

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

m) Financial instruments (Continued)

Financial assets (Continued)

ii) *Fair value through profit or loss* (Continued)

Subsequent measurement (Continued)

(iii) Impairment of financial assets (Continued)

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.

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.

Financial liabilities

Classification

Company financial liabilities are classified into:

i) Amortized cost, comprised of trade payables, and borrowings and financing

Initial recognition

Financial liabilities are initially recognized at fair value plus transaction costs (in the case of borrowings and financing, and accounts payable). Company financial liabilities are accounts payable, borrowings and financing. The Company engaged in no transactions involving derivative financial instruments.

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

3. Significant accounting policies (Continued)

3.3. Other accounting policies (Continued)

m) Financial instruments (Continued)

Financial liabilities (Continued)

Classification (Continued)

i) Amortized cost, comprised of trade payables, and borrowings and financing (Continued)

Subsequent measurement

Liabilities are subsequently measured as follows:

i) Amortized cost

Liabilities classified as amortized cost are accounted for using the effective interest rate method, whereby gains and losses are recorded in P&L upon write-off of the liabilities and recognition of amortization.

ii) Fair value through profit or loss

Liabilities classified as fair value through profit or loss are accounted for by recognizing gains and losses in P&L for the period.

4. Cash and cash equivalents

	2021	**2020**
Cash and banks	**11,671**	1,670
Highly liquid short-term investments	**15,744**	7,020
Total	**27,415**	8,690

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 98.3% (rate calculated by the simple average) of the variation of the Interbank Deposit Certificate - CDI (98.0% at December 31, 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.

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

5. Trade receivables

a) Breakdown

	2021	2020
In Brazil	**11,088**	9,698
Abroad	**22,559**	19,667
Related parties (Note 9)	**15,759**	11,160
Expected credit loss	**(554)**	(554)
Total	**48,852**	39,971
Current assets	**42,411**	31,571
Noncurrent assets	**6,441**	8,400

b) Breakdown by maturity

	2021	2020
Falling due	**39,794**	36,787
Overdue:		
1 to 30 days	**4,973**	3,076
31 to 60 days	**2,973**	107
61 to 90 days	**341**	1
91 to 180 days	**771**	-
Above 181 days	**554**	554
Total	**49,406**	40,525

Changes in expected credit loss is as follows:

	2021	2020
Balance at beginning of period/year	**(554)**	(702)
Reversals	**-**	218
Additions	**-**	(70)
Balance at end of year	**(554)**	(554)

6. Inventories

	2021	2020
Finished products	**6,061**	4,811
Work in progress	**15,010**	10,052
Raw materials	**6,977**	3,216
Ancillary materials	**18,074**	15,572
Advances to suppliers	**11,876**	6,202
Imports in transit	**4,667**	2,649
Provision for losses	**(37)**	(1,509)
Total	**62,628**	40,993

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

6. Inventories (Continued)

Changes in provision for inventory losses is as under:

	2021	2020
Balance at beginning of period/year	**(1,509)**	(1,530)
Reversals	**1,581**	1,456
Additions	**(109)**	(1,435)
Balance at end of year	**(37)**	(1,509)

7. Taxes recoverable

	2021	2020
State Value Added Tax (State VAT (ICMS)) (*)	**30,441**	25,654
Contribution on Gross Revenue for Social Security Financing (COFINS) (**)	**56,074**	2,704
Contribution on Gross Revenue for Social Integration Program (PIS) (**)	**18,694**	843
Corporate Income Tax (IRPJ)	**600**	5,473
Tax Reintegration Regime for Exporting Companies (REINTEGRA)	**653**	439
Federal Value Added Tax (Federal VAT (IPI))	**1,828**	965
Other	**180**	191
Total	**108,470**	36,269
Current assets	**42,744**	17,974
Noncurrent assets	**65,726**	18,295

(*) The Company obtained the release of part of the ICMS credit with the São Paulo State Finance Department. R$1,520 was released in August 2021 and R$4,994 in November 2020. These credits are being used to pay suppliers.

(**) 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 of the PIS and COFINS credits for the period from 2004 to 2017 related to the lawsuit on behalf of the Company, which was corroborated by the final and unappealable decision on the lawsuit. The effects of the decision were determined with the support of external tax advisors and resulted in the recognition of R$36,040 in November 2021 under “Other operating income (expenses)” and R$43,825 under “Finance income”. In the year ended December 31, 2021 the Company, has already recovered through tax offsetting an amount of R$26,747, with related federal taxes, for more details regarding to the non-cash transactions refer to note 26.

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

8. Income tax and social contribution

a) Deferred taxes

	2021	2020
Provision for tax, civil and labor risks	**20,466**	18,874
Allowance for inventory losses	**12**	513
Expected credit loss	**188**	188
Provision for warranties	**2,153**	973
Profit sharing	**2,200**	1,637
Other	**5,395**	1,990
Income and social contribution tax losses	**78,117**	93,577
Allowance for expected credit losses	**(30,643)**	(40,911)
Deemed cost of property, plant and equipment	**(3,487)**	(3,938)
Appreciation of investment measured at fair value	**(25,518)**	(27,100)
Difference in depreciation criterion	**(7,622)**	(8,171)
Total deferred income tax and social contribution assets, net	**41,261**	37,632

Based on taxable profit projections approved by management bodies, the Company expects to recover tax credits arising from income and social contribution tax losses in the following years:

Year	R$
2022	2,228
2023	4,161
2024	6,198
2025	7,490
2026	8,230
2027 and thereafter	12,954
Total	41,261

The estimated recoverability of tax credits was based on the taxable profit projections, considering several financial and business assumptions, which are being implemented according to the plans deployed by management, as described in Note 1. Accordingly, the Company's management understands that the recovery of tax credits is probable.

b) Reconciliation of statutory income tax rates to the effective tax rates

The reconciliation of credits (expenses), calculated by applying the combined tax rates, and the income tax and social contribution amounts recorded in the statement of profit and loss is as follows:

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

8. Income tax and social contribution (Continued)

b) Reconciliation of statutory income tax rates to the effective tax rates (Continued)

	2021	2020
Profit (loss) before income tax and social contribution	**97,104**	(2,048)
Combined rate - %	**34%**	34%
Income tax and social contribution (expense) credit		
Combined rate - %	**(33,015)**	696
Finance income on interest on tax credits (*)	**14,971**	-
Equity pickup	**4,234**	567
Interest on equity	**2,786**	-
Other permanent impacts	**1,012**	(116)
Realization of (allowance for) expected credit losses	**-**	232
Income tax and social contribution in profit or loss	**(10,012)**	1,379
Current	**(13,641)**	(3,363)
Deferred	**3,629**	4,742
	11%	67%

(*) On September 24, 2021, the Federal Supreme Court (STF), upon judging the Appeal to SF (RE) No. 1.063.187, with recognized general resonance, ruled that the IRPJ and CSLL tax levy on amounts received as adjusted by reference to the Selic benchmark interest rate, as a result of tax amounts unduly paid is unconstitutional. In August 4, 2021, the Company filed a petition for a writ of mandamus for recognition of non-levy of IRPJ and CSLL on the amounts deriving from monetary adjustment of tax refund by reason of its indemnification nature. In view of the likelihood of a decision in favor of the Company due to referred to STF decision, and based on ICPC 22 (Uncertainties over Income Tax Treatments), did not subject to taxation by the IRPJ and CSLL the amounts related to the SELIC rate, applied on amounts received by way of repetition of undue payment or tax compensation, in judicial and administrative proceedings and subsequent to the distribution of the action. The amounts in this regard collected prior to the distribution of the action will only be object of refund/compensation requests after the final decision has been made (definitive end of the discussion).

9. Related parties

(a) The amounts referring to the compensation of key management personnel, pursuant to the bylaws, are as follows:

	2021	2020
Key management personnel (salaries and benefits)	**3,881**	2,204

(b) 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 and 2020, as well as the transactions that impacted profit or loss for the years then ended, regarding the transactions with related parties are as follows:

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

9. Related parties (Continued)

	2021				
	Assets	**Liabilities**		**Profit or loss**	
	Trade receivables	**Trade payables**	**Patent royalties**	**Sales**	**Purchases**
Iochpe-Maxion S.A.(Shraholder) R$- (i-ii)	**797**	**8,108**	**-**	**-**	**62,255**
Amsted Rail Company, Inc.(Related party)- US$	**-**	**49**	**969**	**5,581**	**83**
Amsted Rail Brasil Equip.Ferrov.Ltda.(Controlling entity) - R$	**-**	**130**	**-**	**257**	**410**
Greenbrier Maxion Equip.e Serv.Ferroviários S.A. (Related party)- R$(iii)	**14,962**	**154**	**-**	**164,767**	**188**
Total	**15,759**	**8,441**	**969**	**170,605**	**62,936**

	2020				
	Assets		**Liabilities**	**Profit or loss**	
	Trade receivables	**Trade payables**	**Patent royalties**	**Sales**	**Purchases**
Iochpe-Maxion S.A.(Shareholder) R$- (i-ii)	2	3,450	-	-	38,718
Amsted Rail Company, Inc.(Related party)- US$	-	-	443	35,341	-
Amsted Rail Brasil Equip.Ferrov.Ltda.(Controlling entity) - R$	-	11	-	30	23
Greenbrier Maxion Equip.e Serv.Ferroviários S.A. (Related party)- R$(iii)	11,158	135	-	99,639	3,686
Total	11,160	3,596	443	135,010	42,427

(i) The Company purchases scrap from its shareholder Iochpe-Maxion S.A.

(ii) On February 29, 2000, the Company and shareholder Iochpe-Maxion S.A., in order to reduce costs and expenses, executed an agreement to regulate the sharing of infrastructure and facilities located at the Cruzeiro plant, in the State of São Paulo, considering that the plants are nearby and located in the same industrial complex. Each party is responsible for the cost of maintenance and management of their own facilities and both bear together the costs of any investments intended for increasing or developing the production capacity of the facilities when the project is of mutual interest. The agreement is effective for 25 years. Infrastructure and facility expenses related to this agreement, recorded in line item “General and administrative income (expenses)”, amounted to a credit R$2,549 for the year ended December 31, 2021 (expense R$698 as at December 31, 2020).

(iii) On May 6, 2015, the Company and its associate Greenbrier Maxion Equipamentos e Serviços 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. This agreement covers sharing the expenses of the following corporate functions: Executive Board, IT, Legal, Sales and Marketing. The expenses on infrastructure and facilities covered by this agreement, recognized as other operating income, totaled R$2,861 for the year ended December 31, 2021 (R$2,855 as at December 31, 2020).

(c) The Company purchases raw materials and rail components from the jointly-owned parent Amsted Rail Brasil Equipamentos Ferroviários Ltda. and its associate Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. Shared services agreement

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

10. Investments in associates

a) Variations

Investee Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A. is a privately-held company engaged in the manufacturing, tooling, assembly, distribution, and sale of any type of railroad equipment, as well as import and export transactions.

	Balance as at 12/31/2020	Amortization/ write-offs	Equity Pickup Book value	Equity Pickup	Balance as at 12/31/2021
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.	17,434	**-**	**12,453**	**12,453**	**29,887**
Appreciation	110,250	**-**	**-**	**-**	**110,250**
(-) Amortization of appreciation	(30,340)	**(4,654)**	**-**	**(4,654)**	**(34,994)**
Total, net	97,344	**(4,654)**	**12,453**	**7,799**	**105,143**

	Balance as at 12/31/2019	Amortization/ write-offs	Equity Pickup Book value	Equity Pickup	Balance as at 12/31/2020
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.	15,766	-	1,668	1,668	17,434
Appreciation	110,250	-	-	-	110,250
(-) Amortization of appreciation	(25,685)	(4,655)	-	(4,655)	(30,340)
Total, net	100,331	(4,655)	1,668	(2,987)	97,344

	2020	Amortization of appreciation	2021
Future earnings	64,977	**-**	**64,977**
Customer portfolio	10,277	**(4,425)**	**5,852**
Trademark	4,367	**-**	**4,367**
Property, plant and equipment	289	**(229)**	**60**
Total	79,910	**(4,654)**	**75,256**

In the year ended December 31, 2021, the Company did not find any indicators that the carrying amounts of some of its assets could be higher than their recoverable amounts; thus, no allowance for impairment was recognized in the financial statements.

10. Investments in associates (Continued)

b) Information on the associate

	2021							
	Number of shares (in thousands)	Equity interest (%)	Assets	Liabilities	Capital	Equity	Net revenue	Profit for the year
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.	**48,326**	**40.0**	**425,951**	**351,272**	**87,707**	**74,679**	**811,684**	**30,487**

	2020							
	Number of shares (in thousands	Equity interest (%)	Assets	Liabilities	Capital	Equity	Net revenue	Profit for the year
Greenbrier Maxion Equipamentos e Serviços Ferroviários S.A.	48,326	40.0	488,781	444,589	87,707	44,192	687,536	5,011

11. Property, plant and equipment

	Average annual	2021			2020
	depreciation rate - %	Cost	Accumulated depreciation	Net	Net
Buildings and improvements	5.55	**53,513**	**(27,742)**	**25,771**	26,340
Machinery and equipment	11	**165,759**	**(126,482)**	**39,277**	44,720
Molds	18	**34,146**	**(31,813)**	**2,333**	2,492
Furniture and fixtures	7	**4,600**	**(2,478)**	**2,122**	2,373
IT equipment	31.5	**6,088**	**(4,557)**	**1,531**	1,512
Other property, plant and equipment	2.25	**34**	**(20)**	**14**	18
Land	-	**875**	**-**	**875**	875
Construction in progress	-	**4,557**	**-**	**4,557**	3,557
Machinery spare parts	-	**2,425**	**(827)**	**1,598**	1,598
Total		**271,997**	**(193,919)**	**78,078**	83,575

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

11. Property, plant and equipment (Continued)

Variations in cost - 2021

	2020	2021			
	Cost	Additions	Write-offs	Transfers	Cost
Buildings and improvements	**53,146**	**-**	**-**	**367**	**53,513**
Machinery and equipment	**169,974**	**-**	**(7,995)**	**3,780**	**165,759**
Molds	**33,808**	**-**	**(306)**	**644**	**34,146**
Furniture and fixtures	**4,539**	**-**	**(3)**	**64**	**4,600**
IT equipment	**5,537**	**-**	**(2)**	**553**	**6,088**
Other property, plant and equipment	**34**	**-**	**-**	**-**	**34**
Land	**875**	**-**	**-**	**-**	**875**
Construction in progress (*)	**3,557**	**6,408**	**-**	**(5,408)**	**4,557**
Machinery spare parts	**2,425**	**-**	**-**	**-**	**2,425**
Total	**273,895**	**6,408**	**(8,306)**	**-**	**271,997**

(*) Balance reclassified to Right of use, according to the practical expedient set out in CPC 06 (R2).

Variations in depreciation - 2021

	2020	2021			
	Accumulated depreciation	Additions	Write-offs	Transfers	Accumulated depreciation
Buildings and improvements	**(26,716)**	**(1,026)**	**-**	**-**	**(27,742)**
Machinery and equipment	**(125,254)**	**(7,596)**	**6,368**	**-**	**(126,482)**
Molds	**(31,316)**	**(799)**	**302**	**-**	**(31,813)**
Furniture and fixtures	**(2,166)**	**(315)**	**3**	**-**	**(2,478)**
IT equipment	**(4,025)**	**(534)**	**2**	**-**	**(4,557)**
Other property, plant and equipment	**(16)**	**(4)**	**-**	**-**	**(20)**
Machinery spare parts	**(827)**	**-**	**-**	**-**	**(827)**
Total	**(190,320)**	**(10,274)**	**6,675**	**-**	**(193,919)**

Variations in cost - 2020

	2019	2020			
	Cost	Additions	Write-offs	Transfers	Cost
Buildings and improvements	53,075	-	-	71	53,146
Machinery and equipment	158,115	1,228	-	10,631	169,974
Molds	33,596	-	-	212	33,808
Furniture and fixtures	2,855	-	-	1,684	4,539
IT equipment	4,904	-	-	633	5,537
Other property, plant and equipment	15	-	-	19	34
Land	875	-	-	-	875
Construction in progress (*)	7,496	9,572	-	(13,511)	3,557
Machinery spare parts	2,425	-	-	-	2,425
Total	263,356	10,800	-	(261)	273,895

(*) Balance reclassified to Right of use, according to the practical expedient set out in CPC 06 (R2)

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

11. Property, plant and equipment (Continued)

Variations in depreciation - 2020

	2019	2020			
	Accumulated depreciation	Additions	Write-offs	Transfers	Accumulated depreciation
Buildings and improvements	(25,769)	(1,031)	84	-	(26,716)
Machinery and equipment	(118,143)	(7,114)	3	-	(125,254)
Molds	(30,038)	(1,278)	-	-	(31,316)
Furniture and fixtures	(1,955)	(211)	-	-	(2,166)
IT equipment	(3,504)	(521)	-	-	(4,025)
Other property, plant and equipment	(14)	(2)	-	-	(16)
Machinery spare parts	(827)	-	-	-	(827)
Total	(180,250)	(10,157)	87	-	(190,320)

In the year ended December 31, 2021, the Company did not find any indicators that the carrying amounts of some of its assets could be higher than their recoverable amounts; thus, no allowance for impairment was recognized in the financial statements.

12. Borrowings and financing

	Index	Annual effective interest rate (%)	2021	2020
Local currency:				
NCE	130.0% CDI	5.75	**15,051**	35,026
NCE	CDI+4.46%	6.44	**-**	4,503
NCE	CDI+4.18%	8.60	**8,025**	-
NCE	CDI+3.88%	8.30	**6,059**	-
NCE	CDI+3.70%	8.12	**15,158**	-
NCE	CDI+2.78%	7.20	**10,032**	10,015
NCE	CDI+2.70%	4.65	**-**	6,018
NCE	CDI+2.25%	6.67	**29,229**	8,037
NCE	CDI+1.95%	3.89	**-**	3,504
NCE	CDI+1.25%	3.17	**-**	20,198
ACC	-	6.10	**-**	2,155
CONFIRMING	-	13.42	**16,852**	1,067
FINAME	TLP+4.02%	8.12	**201**	298
FINAME	TLP+3.82%	7.92	**184**	272
WORKING CAPITAL	CDI+4.15%	6.13	**-**	2,008
WORKING CAPITAL	CDI+3.98%	8.40	**3,006**	9,002
WORKING CAPITA	CDI+3.70%	8.12	**9,973**	10,080
Total			**113,770**	112,183
Current liabilities			**84,340**	88,898
Noncurrent liabilities			**29,430**	23,285

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

12. Borrowings and financing (Continued)

Variations in borrowings and financing

	2021	2020
Balances at December 31	**112,183**	127,207
Borrowings	**34,284**	48,289
Accrued interest	**7,834**	6,195
Principal repayment	**(33,904)**	(72,271)
Interest payment	**(6,668)**	(7,049)
Exchange fluctuation	**41**	9,812
Balances at December 31	**113,770**	112,183

The amounts recorded in noncurrent liabilities mature as follows:

2023	29,229
2024	201
Total	29,430

13. Trade payables

	2021	2020
Domestic	**59,843**	50,205
Related parties (Note 9)	**8,441**	3,596
Total	**68,284**	53,801
Current	**62,550**	33,387
Noncurrent(i)	**5,734**	20,414

(i) The noncurrent portion is related to the wagon warranty in 2015, which was recognized last year. The outstanding balance of the warranty is R$12.142 and R$5,734 as of December 31, 2021 related to current and noncurrent trade payables respectively (R$5,046 and R$20,414, as of related to current and noncurrent trade payables respectively December 31, 2020).

14. Payroll and related taxes

	2021	2020
Related taxes	**3,082**	2,791
Accrued vacation pay	**7,480**	6,437
Profit sharing	**6,472**	4,815
Total	**17,034**	14,043

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

15. Provision for labor, tax and civil 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:

	2021	2020
Tax lawsuits:		
Federal	**54,227**	48,251
Labor lawsuits	**4,589**	5,886
Severance pay fund (FGTS) - 10% additional	**1,354**	1,354
Civil lawsuits	**23**	20
	60,193	55,511
Escrow deposits	**(50,891)**	(49,140)
Total	**9,302**	6,371

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

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

The variations in the years are as follows:

	Balance at 2020	Additions	Payments	Reversals	Adjustments	Balance at 2021
Tax lawsuits:						
Federal	48,251	**5,097**	**-**	**(369)**	**1,248**	**54,227**
Labor lawsuits	5,886	**1,141**	**(1,653)**	**(785)**	**-**	**4,589**
Severance Pay Fund (FGTS) - 10% Additional	1,354	**-**	**-**	**-**	**-**	**1,354**
Civil lawsuits	20	**3**	**-**	**-**	**-**	**23**
Total	55,511	**6,241**	**(1,653)**	**(1,154)**	**1,248**	**60,193**
Escrow deposits	(49,140)	**(492)**	**-**		**(1,259)**	**(50,891)**

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

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

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

Proceedings of a tax nature

	2021			2020		
	Provision	Related escrow deposits	Liabilities, net	Provision	Related escrow deposits	Liabilities, net
PIS/COFINS (a)	**26,754**	**26,743**	**11**	25,852	25,803	49
Severance pay fund (FGTS) - 10% additional (b)	**1,354**	**1,354**	**-**	1,354	1,354	-
National Institute of Social Security (INSS) (c)	**22,783**	**22,794**	**(11)**	22,001	21,983	18
Total	**50,891**	**50,891**	**-**	49,207	49,140	67

(a) Legal disputes challenging the payment of contributions on: (i) agents' commissions and royalties paid abroad

(b) Legal disputes challenging the collection of the severance pay fund (FGTS) 10% additional on employment contract terminations.

(c) Legal disputes challenging the collection of social security tax (INSS) on 1/3 vacation premium, leaves and Occupational Accident Insurance (SAT), as well as charges on paid prior notice.

Labor lawsuits

As at December 31, 2021, the Company was a party to 76 labor lawsuits (77 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$17,097 (R$17,360 at December 31, 2020) for which a provision in the amount of R$4,589 (R$5,886 at December 31, 2020) was recognized based on the Company's internal policy, representing the best estimate of probable losses.

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.

Tax and civil lawsuits

The Company is a party to ongoing tax and civil lawsuits that are not provided for because they involve a likelihood of loss classified by management and its legal counsel as possible. As at December 31, 2021, these lawsuits totaled approximately R$130,537 (R$R$150,025 as at December 31, 2020).

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

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

Tax and civil lawsuits (Continued)

The main lawsuit whose likelihood of loss is assessed as possible is described below:

- Tax assessment notice due to the alleged nonpayment of ICMS in Cruzeiro unit, in the amount of R$113,037 as at December 31, 2021 (R$111,399 in 2020).

Appeal 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.0se 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 and 2020, the balances basically refer to escrow deposits related to labor and tax 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.

	2021	2020
Appeal escrow deposits:		
Federal	**5,713**	5,556
Labor	**648**	2,209
Total appeal escrow deposits	**6,361**	7,765
Related escrow deposits to provision	**50,891**	49,140
Total escrow deposits	**57,252**	56,905

16. Equity

a) Capital

The subscribed and paid-in capital of R$153,683 as at December 31, 2021 and 2020 is represented by 16,635,854,860 registered common shares, without par value.

On December 18, 2020, it was decided that the legal reserve would be used to absorb accumulated losses in the amount of R$3,564, and on the same date, the capital decrease was approved to offset accumulated losses in the amount of R$107,518.

16. **Equity** (Continued)

b) Equity adjustments

Recognized as a result of the revaluations of items of property, plant and equipment (deemed cost) based on a valuation report prepared by independent valuers. The balance at December 31, 2021 amounts to R$6,769 (R$7,644 in December 31, 2020). The corresponding income tax and social contribution are classified in noncurrent liabilities and are realized through depreciation or disposal of the revalued assets against tax loss carryforwards, net of taxes.

c) Allocation of profit

The net income for the year, determined in accordance with article 191 of Law No. 6404/76, will be allocated as follows: (i) 5% to the legal reserve, which cannot exceed 20% of capital; (ii) 25% for distribution as mandatory dividends; and (iii) the remaining 70%, which is not allocated to the investment and working capital reserve or retained as defined in the capital budget approved by the Annual Shareholders' Meeting (ASM), will be allocated as supplementary dividends to the shareholders.

On November 30, 2021, the Board of Directors approved payment of interest on equity ("IOE") in the gross amount of R$8,195 equivalent to R$0.000492604 per common share, corresponding to the net amount of R$6,967, or R$0.000418714 per common share, already deducted from the withholding tax (IRRF), respectively. The IOE was paid in full on December 30, 2021.

As decided by the Board of Directors on that date, the IOE will be imputed to the mandatory dividend for the fiscal year 2021 pursuant to Article 36 of the Company's bylaws. The payment of remaining mandatory dividends in the amount of R$15,026 to its shareholders, proportionately to their interest, shall be subject to discussion at the next shareholders' meeting.

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

16. Equity (Continued)

c) Allocation of profit (Continued)

	31/12/2021
Profit for the year	**87,092**
Realization of deemed cost, net of tax effect	**875**
Total to distribute	**87,967**
Allocation of profit:	
(-) Legal Reserve (5%)	**4,398**
(-) Statutory reserve for investment and working capital reserve (70%)	**61,577**
(-) Mandatory minimum dividends (25%)	**21,992**
( )Interest on equity imputed to the minimum mandatory dividends, net of taxes	**6,966**
(-)Mandatory minimum dividends (remaining balance)	**15,026**
Proposed dividends	**15,026**
Interest on equity	**8,195**
Total distributed	**23,221**
Total distribution	**26.4%**

d) Earnings (Loss) per share

Basic and diluted earnings (loss) 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 shares outstanding, as follows:

	2021	2020
Earnings (loss) attributable to owners of the Company	**87,092**	(669)
Weighted average number of shares	**16,635,855**	16,635,855
Earnings (loss) per share - basic and diluted - R$	**0.00524**	(0.00004)

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

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

17. Net revenue

	2021	2020
Gross sales revenue:		
Product sales	**537,158**	394,966
Services rendered	**251**	2,169
Deductions:		
Taxes on sales and services	**(48,303)**	(33,365)
Returns and cancelations in the year	**(3,096)**	(972)
Net sales and services revenue	**486,010**	362,798

18. Finance income (costs)

	2021	2020
Finance income:		
Finance income on PIS and COFINS credits (i)	**43,825**	-
Discounts obtained and interest receivable	**505**	716
Other	**987**	14
Total	**45,317**	730
Finance costs:		
Interest and finance charges on borrowings and financing	**(9,570)**	(6,988)
Tax on Financial Transactions (IOF)	**(16)**	(22)
Other	**(401)**	(369)
Total	**(9,987)**	(7,379)

(i) As described in Note 7, item (**).

19. Foreign exchange differences, net

	2021	2020
Foreign exchange gains	**7,262**	14,321
Foreign exchange losses	**(4,931)**	(18,798)
Total	**2,331**	(4,477)

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

20. Cost and expenses by nature

	2021	2020
Raw materials	**(181,419)**	(102,302)
Salaries, charges and benefits	**(103,847)**	(98,858)
Supplies and maintenance	**(88,073)**	(70,819)
Electric energy	**(22,441)**	(18,817)
Depreciation	**(10,274)**	(10,157)
Amortization of right of use	**(186)**	(155)
Outsourced services	**(10,163)**	(10,287)
Freight	**(7,630)**	(6,201)
Transportation and communication	**(826)**	(939)
Management fees	**(3,881)**	(2,204)
Commissions and royalties	**(4,101)**	(3,059)
Product warranties	**(1,610)**	(17,541)
Other	**(11,693)**	(6,244)
Total	**(446,144)**	(347,583)
Classified as:		
Cost of sales and services	**(410,275)**	(302,320)
Selling expenses	**(17,446)**	(30,761)
General and administrative expenses	**(14,542)**	(12,298)
Management fees	**(3,881)**	(2,204)
Total	**(446,144)**	(347,583)

21. Other operating income (expenses), net

	2021	2020
Other income:		
Income from exclusion of ICMS from the PIS and COFINS tax base (i)	**36,040**	1,292
Other income	**443**	232
	36,483	1,524
Other expenses:		
Federal and state taxes	**(7,797)**	(1,024)
Plate corrosion	**(7,257)**	-
Success fees	**(4,966)**	-
Tax and labor contingencies	**(1,479)**	(1,916)
Trade association dues	**(423)**	(439)
Covid-19	**(297)**	(535)
Municipal Property Tax (IPTU)	**(232)**	(192)
Fines	**(103)**	(5)
Project Formare	**(41)**	(48)
Other expenses	**(2,110)**	(515)
	(24,705)	(4,674)
Total other operating income (expenses), net	**11,778**	(3,150)

(i) As described in Note 7, item (**).

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

22. Risk and financial instrument management

a) General considerations and policies

The Company enters into transactions involving financial instruments, when applicable, all of which recorded in equity accounts, which are intended to meet its operating and financial needs. These instruments are represented by short-term investments and borrowings and financing.

These financial instruments are managed based on policies, strategies, and internal control systems seeking to ensure liquidity, profitability and security.

The policy on taking out financial instruments for hedging purposes is also approved by the Board of Directors of the Company’s parent company and joint parent companies, and subsequently analyzed periodically in relation to the exposure to the risk that management intends to hedge (foreign exchange exposure). The Company does not make any speculative investments in derivatives or in any other risk assets. Gains and losses on these transactions are consistent with the policies and strategies defined by the Company's management.

The estimated realizable value of the Company's financial assets and financial liabilities has been determined based on available market information and appropriate valuation methodologies. Judgments have been required to interpret market inputs in order to develop the most appropriate realizable value estimates. Therefore, the estimates provided below are not necessarily indicative of the amounts that could be realized in a current exchange market. The use of different market methodologies may have a material effect on the estimated realizable values.

Derivative financial instruments: in the years ended December 31, 2021 and 2020, the Company did not enter into derivative transactions.

Classification of financial instruments by category

	Note	2021	2020
Financial assets			
Amortized cost:			
Cash and cash equivalents	4	**27,415**	8,690
Trade receivables	5	**48,852**	39,971
Appeal escrow deposits	15	**57,252**	56,905
Other receivables		**1,040**	3,002
Total		**134,559**	108,568
Financial liabilities			
Amortized cost:			
Borrowings and financing and lease liabilities	12 and 23	**114,063**	112,357
Trade payables (include due to related parties)	13	**68,284**	53,801
Royalties payable	9	**969**	443
Advances from customers		**2,498**	54
Other payables		**23,300**	6,709
Total		**209,114**	173,364

22. Risk and financial instrument management (Continued)

b) Fair values

The Company adopts hierarchy rules to measure the fair value of its financial instruments, according to accounting 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.

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.

22. Risk and financial instrument management (Continued)

c) Financial risk management

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

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 and off-road carmakers. 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 sales is made with related parties, as described in Note 9.

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.

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.

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

22. Risk and financial instrument management (Continued)

c) Financial risk management (Continued)

Liquidity risk (Continued)

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	
	Up to 1 year	**1-2 years**	**Up to 1 year**	**1-2 years**
Borrowings and financing (Include lease liabilities)	**84,525**	**29,538**	89,031	23,326
Trade payables (include due to related parties)	**62,550**	**5,734**	33,387	20,414
Royalties payable	**969**	**-**	443	-
Other payables	**20,121**	**3,179**	6,359	350
Total	**168,165**	**38,451**	129,220	44,090

Risk of fluctuation in steel and aluminum prices

A significant part of the Company's operations depends on their ability to purchase steel and aluminum at competitive prices. If the price of steel and aluminum increases 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. However, a significant portion of the Company's agreements entered into with Brazilian and foreign customers provide for adjustments methods to offset part of this risk.

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	
	Index	**R$**	**Index**	**R$**
Short-term investments	**CDI**	**15,744**	CDI	7,020
Borrowings and financing	**CDI**	**96,533**	CDI	108,391
Borrowings and financing	**TLP**	**385**	TLP	570

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

22. Risk and financial instrument management (Continued)

c) Financial risk management (Continued)

Foreign currency risk

This risk arises from the possible fluctuation in the exchange rates of foreign currencies used by the Company for the acquisition of raw materials, sale of products, and financial instruments the entities enter into, in addition to foreign-currency-denominated payables and receivables. The Company has a specific policy on hedge transactions in order to mitigate these risks. The main assets and liabilities exposed to foreign exchange risks are:

	2021		2020	
	US$	**R$**	**US$**	**R$**
Trade receivables	**4,042**	**22,559**	3,785	19,667
Trade payables	**(9)**	**(48)**	-	-
Royalties payable	**(174)**	**(969)**	(85)	(443)
Net exposure	**3,859**	**21,542**	3,700	19,224

Sensitivity analysis to foreign exchange and interest rate fluctuations

Financial instruments are exposed to fair value changes due to fluctuations in exchange rates and CDI and TLP rates. The sensitivity analyses of the financial instruments to these variables 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 as the interest rate risk CDI rates and U.S. dollar/Brazilian real exchange rate.

ii) *Selection of scenarios*

The following table considers three risk scenarios for the currency indexes of these financial liabilities, and the Company adopted the probable scenario. In addition to the probable scenario, two additional scenarios are shown, with stresses of 25% and 50% in the risk variables as at December 31, 2021.

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

22. Risk and financial instrument management (Continued)

c) Financial risk management (Continued)

Sensitivity analysis to foreign exchange and interest rate fluctuation (Continued)

ii) *Selection of scenarios* (Continued)

Management did not consider the sensitivity analysis for the probable scenario, with reference to the depreciation of the Brazilian real against the US dollar, because it understands that this scenario substantially reflects the exchange rate changes already recognized in the financial statements for the year ended December 31, 2021.

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

	Scenarios		
Short-term investments - CDI	**Probable**	**Possible -25%**	**Remote -50%**
At December 31, 2021	**4.35%**	**3.26%**	**2.17%**
Short-term investments - 98.3% of CDI - R$15,744	**685**	**513**	**342**
Effect - loss	**-**	**(172)**	**(343)**

	Scenarios		
Borrowings and financing - CDI	**Probable**	**Possible +25%**	**Remote +50%**
At December 31, 2021	**7.65%**	**9.56%**	**11.47%**
CDI-indexed borrowings (average spread)- R$96,533	**7,383**	**9,229**	**11,075**
Effect - loss	**-**	**(1,846)**	**(3,692)**

	Scenarios		
Borrowings and financing - TLP	**Probable**	**Possible -25%**	**Remote -50%**
At December 31, 2021	8.02%	10.03%	12.03%
TLP-indexed borrowings - R$385	31	39	46
Effect - loss	-	(8)	(15)

For the sensitivity analysis to foreign exchange exposure as at December 31, 2021, the Company used the foreign exchange exposure balances reported in item “Foreign exchange risk”.

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

22. Risk and financial instrument management (Continued)

c) Financial risk management (Continued)

Sensitivity analysis to foreign exchange and interest rate fluctuation (Continued)

ii) *Selection of scenarios* (Continued)

Considering these foreign currency exposures as at December 31, 2021, the sensitivity analysis of outstanding position is as follows:

Company risk	Gains	
	Possible scenario	Remote scenario
Increase in U.S. dollar rate	5,384	10,767

The possible scenario considers a 25% appreciation of the U.S. dollar against the Brazilian real over the exchange rate as at December 31, 2021, R$5.5805/US$1.00, i.e., R$6.9756/US$1.00 and the remote scenario considers a 50% appreciation (R$8.3707/US$1.00).

Management did not consider the sensitivity analysis for the probable scenario because it understands that this scenario substantially reflects the exchange rate changes already recognized in the financial statements for the year ended December 31, 2021.

23. Right of use and lease liabilities

Variations are summarized below:

Right-of-use assets	2021	2020
Opening balance	**348**	105
Additions	**350**	137
Write-offs	**(173)**	-
Balance transferred from construction in progress to right of use	**-**	261
Depreciation balance in the period	**(186)**	(155)
Closing balance	**339**	348
Lease liability		
Opening balance	**174**	222
Additions	**350**	137
Principal repayment	**(232)**	(183)
Interest payment	**(40)**	(34)
Accrued interest	**41**	32
Closing balance	**293**	174

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

23. Right of use and lease liabilities (Continued)

Payment schedule is as follows:

	R$
2022	185
2023	108
Total	293

24. 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. This aims at reaching a rate of return commensurate with its cost of capital, which is reviewed annually using the Weighted Average Cost of Capital (WACC) approach.

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

	2021	2020
Total borrowings and financing (Include lease liabilities)	**114,063**	112,357
(-) Cash and cash equivalents	**(27,415)**	(8,690)
Net debt	**86,648**	103,667
Total equity	**220,674**	161,684
Net debt-to-equity ratio	**39.3%**	64.1%

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

25. Insurance coverage

The Company has an insurance policy that considers mainly the risk concentration and its materiality, providing it with a level of insurance coverage considered sufficient by management according to the type of its activities and advice of the insurance brokers. Insurance coverage as at December 31, 2021 and 2020 is as follows:

	2021	2020
Loss of profits	**133,601**	115,774
Property damage	**154,620**	151,064
D&O insurance	**23,636**	25,452
Civil liability	**7,100**	6,400

26. Non-cash Transactions

In the year ended December 31, 2021, the Company had the following transaction with does not involved cash:

- Income tax and social contribution offset with Pis and Cofins credits in the amount of R$10,384
- Other tax payable (IRRF, CIDE, Pis, Cofins and Social Contribution) offset with Pis and Cofins credits in the amount of R$16,363
- New leasing contracts in the amount of R$350

27. 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.